SOLITARIO RESOURCES CORPORATION

2005 Annual Report

2005

PROJECTS

Gold Projects
- ■ Tapajos, Brazil
- ■ Libertad, Peru

Silver Projects
- ▼ Pachuca Real, Mexico
- ▼ Titicayo, Bolivia

Base Metal Projects
- ● Bongará, Peru
- ● Triunfo, Bolivia

Royalties
- ▲ Yanacocha, Peru

PGM Projects
- ◆ Pedra Branca, Brazil

Strategic Alliance
- ★ Newmont Mining

MESSAGE

Letter to Shareholders,

Even though gold has recently caught the attention of many investors, 2005 was a watershed year for the metals commodity complex in general. Gold, silver, platinum, palladium, zinc, lead and copper all reached multi-year highs during 2005 and extended these gains into 2006. The chart below presents the 2005 price performance for these commodities.

Commodity	Price Dec. 31, 2004	Price Dec. 31, 2005	Gain	Gain in Percent
Gold (oz.)	$ 436.00	$ 513.00	$ 77.00	+ 18%
Silver (oz.)	$ 6.82	$ 8.83	$ 2.01	+ 30%
Platinum (oz.)	$ 860.00	$ 965.00	$ 105.00	+ 12%
Palladium (oz.)	$ 184.00	$ 258.00	$ 74.00	+ 40%
Zinc (lb.)	$ 0.55	$ 0.85	$ 0.30	+ 55%
Lead (lb.)	$ 0.43	$ 0.51	$ 0.08	+ 20%
Copper (lb.)	$ 1.48	$ 2.08	$ 0.60	+ 41%

Unless otherwise noted, all figures in this report are in US$'s.

This bullish commodity market intensified competition from other exploration companies to acquire quality projects. Nevertheless, we were able to nearly double the size of our property portfolio to 170,000 hectares (420,000 acres) during 2005 and early 2006. This does not include the 61,000 hectares (approximately 150,000 acres) of royalty property we control in the Yanacocha mining district of Peru. The bottom line reveals that Solitario has built a solid diversified asset base during the past several years.

In 2005, we focused on gold by signing the Newmont Mining Strategic Alliance agreement to explore for gold in Peru and by our acquisition of Tapajos region gold projects in Brazil. More recently, we strengthened our silver exposure by staking the Pachuca Real silver-gold project in Mexico and signing an option agreement on the Titicayo silver project in Bolivia. We continue with our priority commitment to gold with the recent acquisitions of the Pau d'Arco and Lua projects in the Tapajos region of Brazil.

We are planning the most active drilling campaign in Solitario's history for 2006. Current plans call for 10,000 meters of drilling on nine different projects. The chart below shows the projects that we believe have a high probability of being drill tested in 2006.

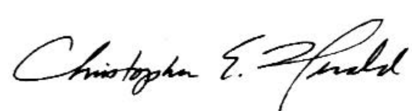
Commodity	Project Name	Project Description	Country
Gold	Mercurio	2nd round of drilling	Brazil
	Pau d'Arco	Initial drilling	Brazil
	Cisne	Initial drilling	Brazil
	Libertad	Initial drilling	Peru
Silver	Pachuca Real	Initial drilling	Mexico
	Titicayo	Initial drilling	Bolivia
PGM	Pedra Branca	Deposit definition	Brazil
Zinc-Lead	Bongará	Deposit definition	Peru
Gold-Silver/ Lead-Zinc	Triunfo	Initial drilling	Bolivia

On the financial side of the equation, Solitario completed a Cdn$4.59 million private placement with Newmont Mining Corporation of Canada Limited, an affiliate company of Newmont Mining, in February of 2005 in conjunction with the signing of the Newmont Strategic Alliance agreement. We also received a dividend of $1,275,000 in mid-2005 from a $0.21 per share dividend paid by Crown Resources Corporation on our 6.07 million shares of Crown.

More importantly, as a result of Solitario's ownership of Crown shares, we will be entitled to receive 1.94 million shares of Kinross Gold Corporation, the seventh largest gold producer in the world, upon the completion of the Kinross-Crown merger, which is expected around mid-year 2006. The Kinross shares represent the future financial foundation for funding Solitario's exploration efforts for years to come.

With this backdrop of high metal prices, aggressive drilling plans and a solid financial footing, 2006 has the potential to be the most exciting year in Solitario's history. We look forward to sharing with you the results of our various programs during the upcoming year.

Sincerely,



Christopher E. Herald
President & Chief Executive Officer

BRAZIL

We utilize portable drill rigs in the Tapajos region to allow access to remote drill sites and to reduce costs.

Much of our work still involves "old fashioned" prospecting - a combination of science, art and bushwacking.

To better define drill targets, power augers are used to sample saprolite soils up to 10 meters deep.

Tapajos Gold Projects

Solitario has conducted an aggressive evaluation/acquisition program of gold prospects in the Tapajos region of northern Brazil for the past two years. We made field evaluations of more than a hundred prospects during this period. This effort paid off in 2005 with the initial drill testing of the 8,000-hectare Mercurio project where we intersected strong gold mineralization in multiple core holes.

Mercurio highlights include core holes SB-04 that intersected 12.1 meters grading 12.2 grams per tonne ("g/t") gold, SB-08 that intersected 3.0 meters of 6.48 g/t gold and SB-12 that intersected 4.1 meters grading 5.29 g/t gold. In total, nine of the 12 holes drilled on the Mercurio project intersected strong gold mineralization. A second round of core drilling in 2006 is currently in the planning stage for Mercurio. Significant 2005 Mercurio drilling results are provided in the table below:

Mercurio Drill Hole Assay Results

Prospect Name	Hole Number	From Meters	To Meters	Interval Meters / Feet	Gold Grade g/t
Patoa	**SB-01**	**16.8**	**24.4**	**6.6 / 21.7**	**1.18**
		57.6	**60.10**	**2.5 / 8.10**	**2.09**
		68.6	**71.7**	**3.1 / 10.3**	**1.94**
		82.3	**93.1**	**10.8 / 35.3**	**1.27**
	SB-02	**63.2**	**67.9**	**4.7 / 15.5**	**2.43**
	SB-04	**13.7**	**35.6**	**21.9 / 71.7**	**6.97**
	including	**13.7**	**25.9**	**12.2 / 40.0**	**12.22**
		60.2	**70.2**	**10.0 / 32.8**	**0.97**
West Patoa	**SB-06**	**19.8**	**35.1**	**15.3 / 50.2**	**0.86**
	including	**21.4**	**24.4**	**3.0 / 9.9**	**2.03**
		146.3	**152.4**	**6.1 / 20.0**	**1.26**
Colonia	**SB-08**	**47.3**	**65.6**	**18.3 / 60.0**	**1.89**
	including	**50.3**	**53.3**	**3.0 / 9.8**	**6.48**
	SB-09	**60.9**	**67.7**	**6.8 / 22.3**	**1.79**
South Patoa	**SB-10**	**36.8**	**42.7**	**4.4 / 14.4**	**4.72**
Tucanarei	**SB-11**	**32.0**	**36.5**	**4.5 / 14.8**	**3.36**
	SB-12	**39.6**	**56.1**	**16.5 / 54.1**	**1.94**
	including	**46.5**	**50.6**	**4.1 / 13.4**	**5.29**

No estimate of true width of mineralized intercepts shown above

Other Tapajos Projects

We are enthusiastic about the potential of the newly acquired Cisne and Pau d'Arco gold properties. At Cisne, we have defined a strong (+100 parts per billion) geochemical gold anomaly that is 700 meters long and 150 meters wide. Results from a limited trenching program returned gold values of 1.50 g/t over 32 meters, 2.53 g/t over 12 meters and 0.93 g/t over 13 meters. During 2006, we will conduct geologic mapping, geochemical sampling and geophysical surveying to assist us in further defining drill targets. Depending upon the results of this work, drilling may occur in the second half of 2006.

Small-scale surface miners successfully extracted gold from saprolite soils over a nearly continuous length of 1.5 kilometers on our recently optioned Pau d'Arco property. The gold grade in this surface mine was reportedly one of the highest in the entire Tapajos region. This property is near drill-ready and we anticipate a drilling program beginning around mid-2006.

BRAZIL

Pedra Branca

Anglo Platinum completed important new scoping level work during 2005 that contributed to its decision to fund a new Phase III $1.25 million exploration/pre-feasibility work program on Solitario's Pedra Branca platinum-palladium ("PGM") project in Brazil. This $1.25 million work commitment covers a one-year period. Solitario and Anglo Platinum must negotiate and sign a definitive operating agreement before this phase of work begins. We hope to have this agreement signed by early summer.

Mining of saprolite soils by small-scale surface miners on our newly acquired Pau d'Arco project has left a linear series of lakes over a length of 1.5 kilometers.

During the past two years, Anglo Platinum funded two drilling campaigns totaling $1.0 million. The results of this work, and previous drilling by Solitario, define near-surface PGM-mineralization in four different deposits. Drilling and scoping work conducted to date indicate potentially economic mineralization at the Esbarro, Curiu, Santa Amaro and Trapia I deposits. Mineralization in all four deposits occurs at shallow depths within chromitiferous ultramafic rocks, similar to the prolific PGM-producing Bushveld Complex in South Africa.

More recently, Anglo Platinum completed internal preliminary conceptual assessments including metallurgical testing that supports continued investment in exploration at Pedra Branca. A considerable amount of additional exploration and pre-feasibility work will be required before the decision is made whether or not to conduct a feasibility study.

An aggressive drilling program to add new resources and discover new mineralized PGM-bearing bodies will be undertaken in the second-half of 2006 at Pedra Branca.

Anglo Platinum can earn a 51% interest in Pedra Branca by spending a total of $7.0 million on exploration and development over a five-year period (from the Agreement's inception) of which Anglo Platinum has funded approximately $1.0 million in the above mentioned drilling campaigns. Anglo Platinum can earn a further 14% interest (to a total 65% interest) by completing a bankable feasibility study and arranging 100% project financing.

Highlights of the Phase II drilling program are provided below.

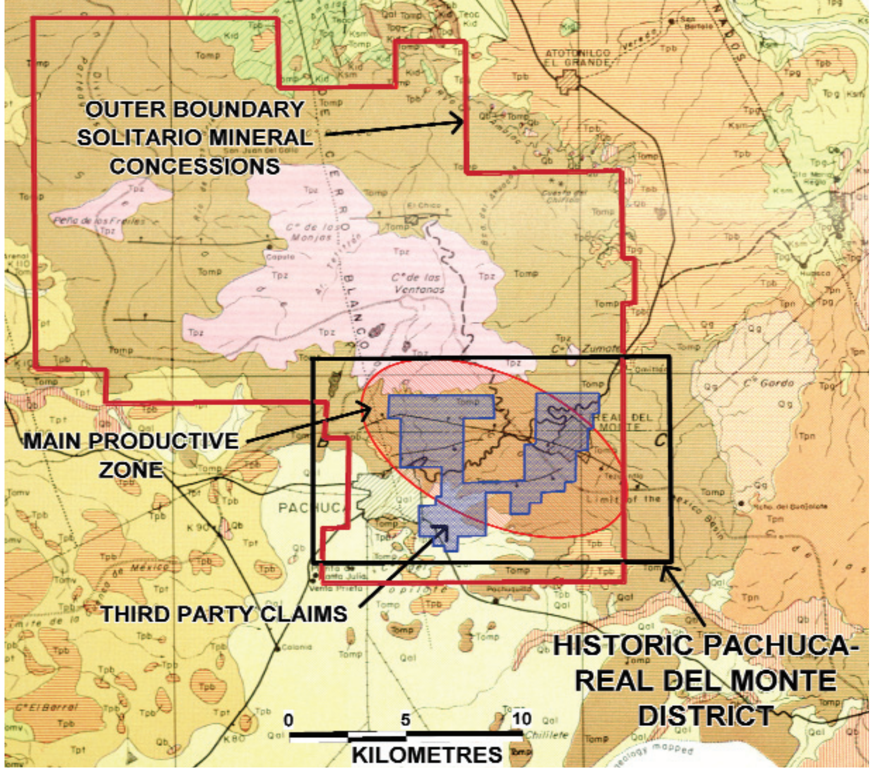
Phase II Pedra Branca Drill Hole Assay Results

Prospect Name	Hole Number	From Meters	To Meters	Interval Meters / Feet	Pt g/t	Pd g/t	PGM (+gold)
Esbarro	ES-35	4.8	8.1	3.3 / 10.8	4.72	7.11	11.87
		20.0	26.6	6.6 / 21.6	0.65	1.46	2.11
		32.0	36.0	4.0 / 13.1	0.33	0.56	1.01
	ES-36	3.1	6.1	3.0 / 9.8	2.33	4.47	6.81
	ES-38	1.6	23.0	21.4 / 70.2	0.68	0.66	1.36
Curiu	CU-14	28.5	54.6	26.1 / 85.6	0.53	1.18	1.79
		58.0	60.0	2.0 / 6.6	0.14	1.02	1.28
	CU-15	1.1	28.0	26.9 / 88.2	1.13	1.92	3.17
	Incl.	1.1	12.0	10.9 / 35.8	2.21	3.45	5.85
	CU-16	1.2	12.0	10.8 / 35.4	1.57	2.05	3.91
	CU-18	0.5	30.5	30.0 / 98.4	0.96	1.43	2.45
	including	0.5	8.0	7.5 / 24.6	2.60	3.65	6.45
		45.0	46.7	1.7 / 5.6	0.72	1.52	2.27
Santa Amaro	SA-08	0.6	14.0	13.4 / 44.0	0.26	0.62	0.91
		37.7	39.1	1.5 / 4.8	2.68	3.00	5.76
		59.4	142.0	82.7 / 271.1	0.60	0.84	1.45
	including	108.0	120.0	12.0 / 39.4	1.66	1.41	3.08
	SA-09	1.8	34.0	32.2 / 105.6	0.82	0.76	1.61
		74.0	78.0	4.0 / 13.1	1.28	1.92	3.33
Trapia I	TU-04	81.2	122.6	41.4 / 135.8	0.33	0.73	1.08
	TU-06	70.0	128.0	58.0 / 190.2	0.52	1.05	1.72

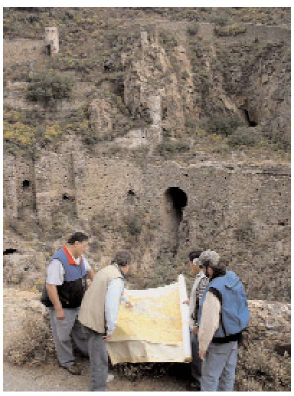
Drill intervals were calculated utilizing a 0.7 g/t PGM+gold cutoff. Mineralized intervals in the table are all thought to be within 90% of true width, except for the Santa Amaro drill holes, where the geometry of mineralization is not yet well enough understood to estimate true width.

The occurrence of PGM-mineralization is extremely rare; the Pedra Branca project is considered one of the best PGM-projects in South America.

MEXICO



Our initial exploration efforts at Pachuca will focus on the northwestern part of our huge property block where persistent silver-bearing structures have been traced for over 10 kilometers.



Pachuca's historic mine workings date back over 500 years; interestingly, 80% of the district's 1.4 billion ounces of silver were produced in the last hundred years.

Our field crews scour the countryside sampling rocks to give us clues about possible silver mineralization hidden beneath the surface.

Pachuca Real

Great progress was made in 2005 in identifying and acquiring a portfolio of quality early stage silver-gold and gold projects in Mexico. The centerpiece of this effort was the acquisition of 46,350-hectare (114,500 acres) Pachuca Real silver-gold project (see above map) in the state of Hidalgo in central Mexico. An old adage in precious metal exploration is that the best place to find gold and silver is to look right next to where it was found previously. We believe this applies to our Pachuca Real project.

The historic Pachuca mining district has been one of the most prolific silver districts in the world with substantial gold production. Past production totals at least 1.4 billion ounces of silver and just over 7.0 million ounces of gold. Much of this production occured in "bonanza ore shoots" where grades exceeded 1,000 gpt silver and 5 gpt gold. Solitario's property encompasses about 35 percent of the historic district, but more importantly, covers over 90% of the potential extensions of the district to the north and northwest.

Our Pachuca Real property has an interesting ownership and exploration history. The Mexican government held the concessions from 1947 to the early 1990's, whereupon the concessions were sold to a Mexican company and held by that same company until 2005. Exploration during the past 58 years was restricted to mainly surface work with a very limited amount of drilling. Initial surface work conducted by Solitario substantiates a number of mineralized structures identified by the Servicio Geológico Mexicano ("SGM") that are geologically very similar to those mined in the old district.

The footprint of mineralization in the historic Pachuca district is approximately 15 kilometers long and 10 kilometers wide. Surface work conducted over the years by SGM, and confirmed by our work, indicates a similar scale of mineralization occurs on Solitario controlled property to the north and northwest of the historic district.

Our plans for 2006 include an intensive surface exploration program consisting of geologic mapping and geochemical sampling. We are optimistic that this work will generate a number of strong drill targets that we could drill-test in the second half of 2006.

Other Projects

Three other early-stage exploration projects are held under an option to purchase a 100% interest in any or all of the properties. These include the Concepcion del Oro gold project, the Las Purismas gold project and the Tortugas gold projects. Solitario also controls a 100% interest in the 10,000-hectare Zinda gold property. We have completed a first-pass exploration program on these four projects and plan on conducting additional surface work. Depending on results, one or more of these projects could be drilled in late 2006.

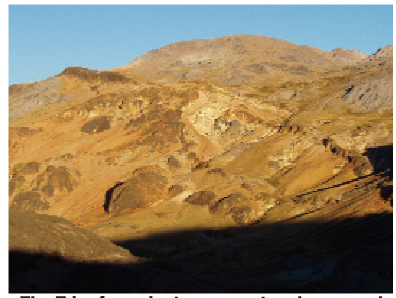
BOLIVIA

Triunfo

The Triunfo polymetallic (gold-silver-lead-zinc) project is located about 35 kilometers east of the capital city of La Paz, Bolivia, and is held under option with a private Bolivian party. Exposed mineralization occurs as a structurally controlled zone of veins and veinlets up to 80 meters wide and at least 400 meters long. The eastern and western limits along strike and southern limit of width are covered by shallow talus, and are potentially open to expansion. No drilling has ever been conducted on the property.

Closely spaced sulfide-rich veinlets ranging from 1 mm to 50 cm wide occur primarily parallel to the overall trend of the mineralized zone, but irregularly oriented veinlets also crosscut the zone at oblique angles. Solitario's systematic channel sampling program of the outcropping areas indicates a consistently mineralized zone. Sampling of an old tunnel crossing part of the trend of mineralization supports the observed consistency of mineralization at surface. The tunnel returned an average grade of 0.43 gpt Au, 24.5 gpt Ag, 0.67% Pb and 0.29% Zn over its entire 55 meters. An IP-Resisitivity geophysical survey we conducted in 2004 shows a wider and longer trend of chargeability than indicated by outcropping mineralization, suggesting a larger size potential.

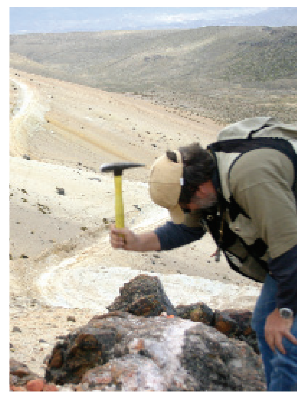
We are planning an initial three-hole core drilling program to test this large low-grade polymetallic system in mid-2006.



The Triunfo project represents a large-scale target that is ready for drill testing.

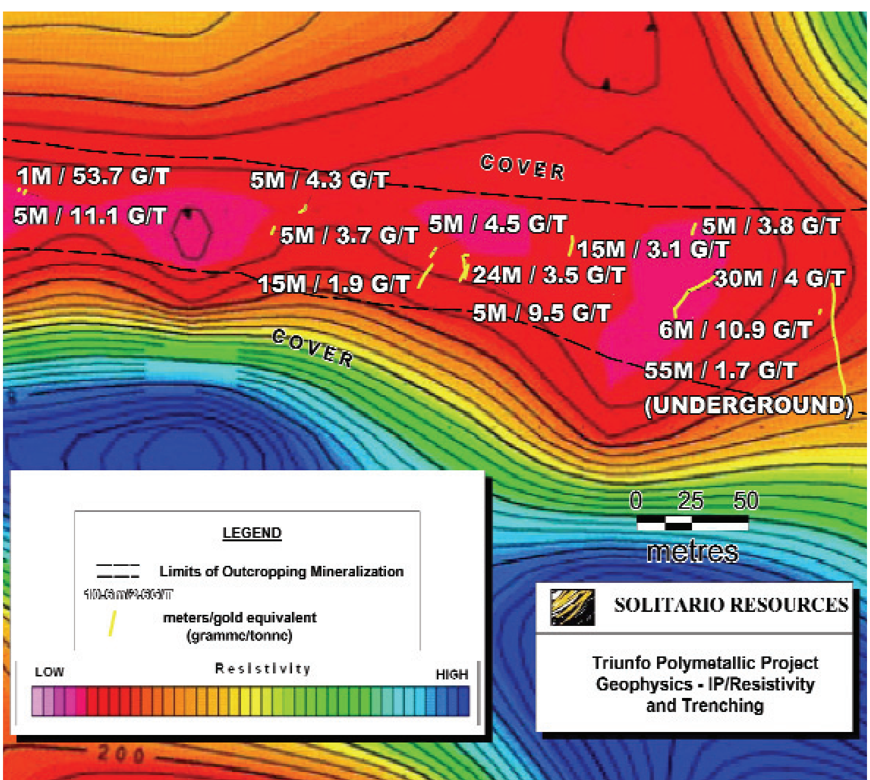
Titicayo

The Titicayo silver prospect is located 175 kilometers south of La Paz and is held under an option agreement with a private Bolivian party A mineralized structural zone has been traced on surface for nearly one kilometer in length and 10 to 20 meters in width. The zone is covered by younger unmineralized volcanics on each end and is consequently open to expansion. Our geologists have interpreted the exposed surface mineralization to be "high level," meaning that the best grades could reside at depth. We also hope to drill at Titicayo sometime in mid-2006.



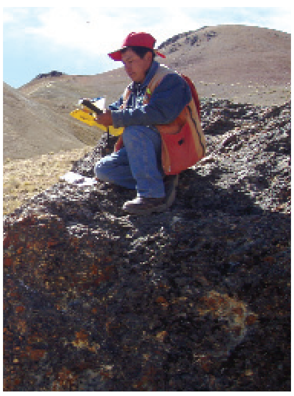
Detailed rock chip sampling at Triunfo revealed significant concentrations of gold, silver, zinc and lead both on surface and in a mining tunnel.

The Titicayo silver-bearing vein system is at least one-kilometer long and 10 to 20 meters wide.



PERU

The smaller ridge in the foreground is the exposed portion of the Libertad vein.



Outcrops of the Libertad vein were geologically mapped in detail to reveal subtle clues to where high-grade gold mineralization may be located in the subsurface.

Traces of the Libertad vein can be seen hundreds of meters away from outcrops in frost-heaved soils in the high-altitude "altiplano" of southern Peru.

Strategic Alliance with Newmont

In early 2005, Solitario signed a Strategic Alliance agreement with Newmont Overseas Exploration Limited ("Newmont"), a subsidiary of Newmont Mining Corporation, the world's second largest gold producer. Newmont also agreed to provide, through its affiliate company Newmont Mining Corporation of Canada Limited, a Cdn$4.59 million private placement into Solitario to fund Strategic Alliance exploration. This is proving to be an exciting opportunity for Solitario to expand its grassroots exploration program in South America and to utilize Newmont's extensive South American database and advanced exploration technology. The Strategic Alliance demonstrates Newmont's confidence in our experienced and successful South American exploration team.

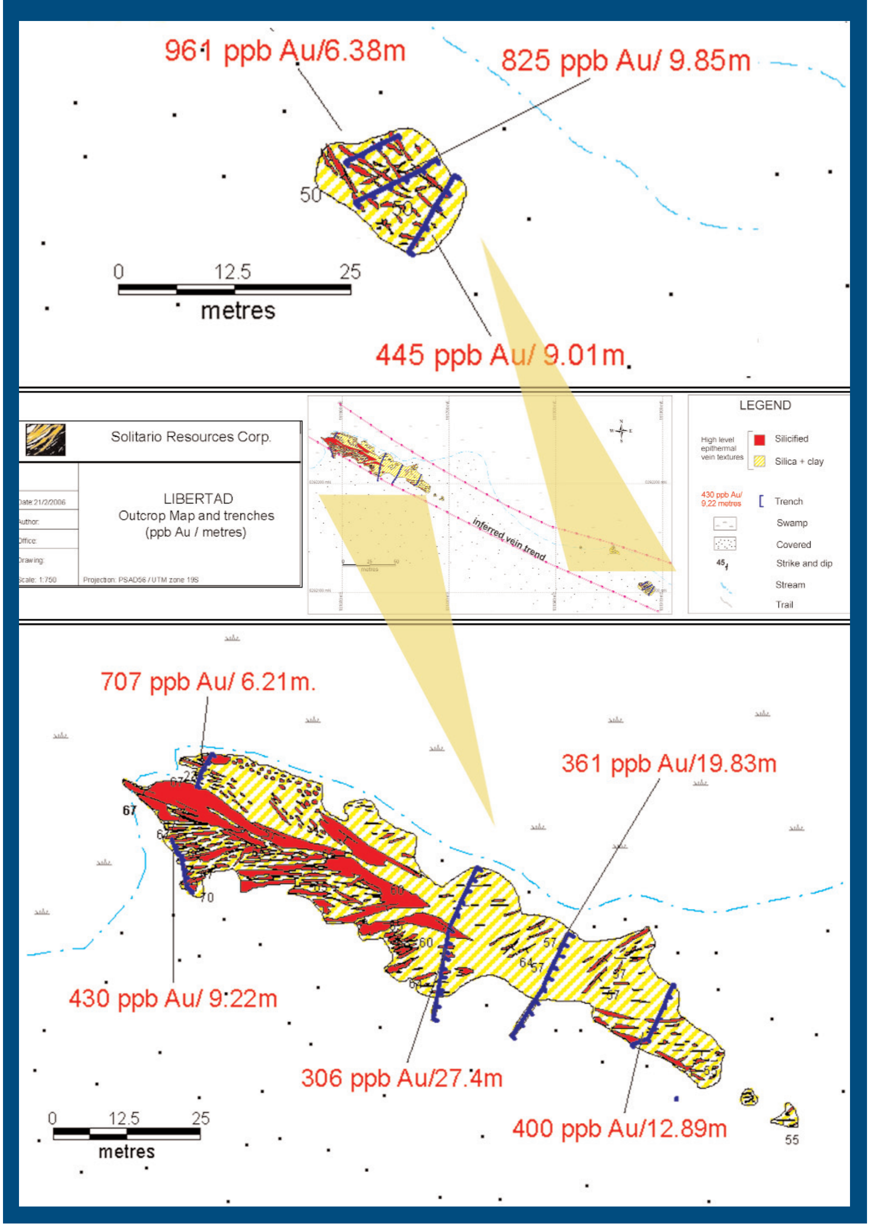
Since signing the Strategic Alliance with Newmont, we have accelerated our grassroots exploration program in Peru. The current Strategic Alliance area consists of 10,000-square kilometers in southern Peru. Newmont has provided valuable technical data, guidance and technology to assist Solitario in its efforts to explore for gold within the Strategic Alliance area.

Under the terms of the Strategic Alliance agreement, Solitario will own 100% of any property acquired ("Alliance Property") within the Strategic Alliance area, subject to a maximum sliding scale net smelter return royalty of 2% in favor of Newmont, depending on the processing method. Newmont retains the right to joint venture any Alliance Property after Solitario has expended a minimum of US$400,000 on such property and completed a minimum drilling program. If Newmont elects to joint venture an Alliance Property, it can earn a 51% interest by spending 200% of the costs Solitario had incurred on the property. Newmont can elect to earn a further 24% interest (to 75%) by taking the Alliance Property through a bankable feasibility study and providing 100% project financing for construction. Solitario would repay its 25% share of project costs after feasibility through production cash flow. In addition to Newmont's right to joint venture Alliance Properties, Newmont has the Right of First Offer to joint venture other Solitario projects in South America.

Libertad

Our first Alliance Property is the Libertad project in southern Peru. A geologic map with the results of chip-channel geochemical sampling is provided on the next page. The Libertad mineralized zone has been traced on surface for nearly 400 meters and averages about 25 meters wide. The mineralization is covered by soil and gravels along both sides of its strike extensions.

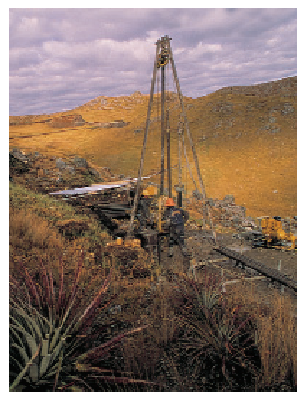
The zone is characterized by quartz veins, silicification and clay alteration. Geochemical sampling indicates fairly consistent gold mineralization averaging slightly less than one-gram per tonne. The most intriguing aspect of the Libertad mineralization is that the geologic textures suggest that we may be at the top of a significant gold system that could be much higher grade at depth.



PERU

Our current plans call for a detailed geophysical survey over the main zone and suspected on-strike extensions. Following analysis of the results of the geophysical survey, we expect to drill the property in the second half of 2006.

The Libertad vein is covered by swampy areas in two directions, suggesting the length of the vein could be considerably longer than our geologic mapping indicates.



This view is the first hole Solitario drilled on our Yanacocha property in 1994. During the next several years, we expect Newmont will accelerate its exploration program on Solitario's royalty property.

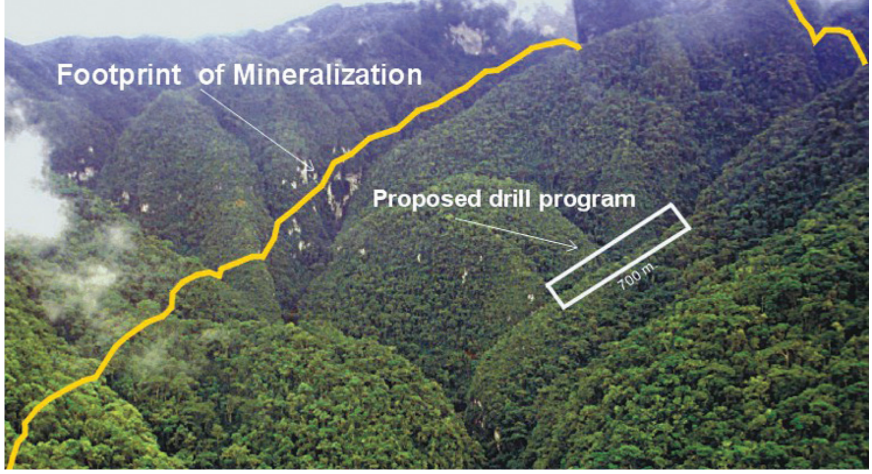
Yanacocha Royalty

Solitario owns a net smelter return royalty ("NSR-Royalty") on approximately 61,000 hectares (150,000 acres) of mineral rights situated immediately north of Newmont-Buenaventura's Minera Yanacocha gold mine, South America's largest gold mine. The NSR-Royalty is indexed to the gold price and processing method that is utilized to produce gold and various other metals. For heap leach ores, at today's prices (+$500/oz. gold), the NSR-Royalty for gold is 2.75%. For ores that are milled, in a non-flotation mill at today's gold price, the NSR-royalty for gold would be 2.0%.

Even after mining over 20 million ounces of gold at the nearby Yanacocha mine during the past 12 years, Newmont geologists are still finding new areas of anomalous gold mineralization at surface.

Newmont conducted extensive surface exploration work and a limited three-hole drilling program on our NSR-Royalty property in 2005. Drill hole CHI-001 intersected 13.5 meters grading 2.5 gpt gold, 76 gpt silver and 0.8% lead (drill depths: 202-215.5 meters). CHI-002 intersected 3.3 meters grading 23 g/t silver (drill depths: 9-12.3 meters), and CHI-03 was barren. Newmont plans to continue its surface exploration and drilling programs on Solitario's royalty property for 2006.

PERU



With zinc prices hovering near $1.00 pound, we are planning a robust 20-hole drilling program for 2006.

Bongará

In 2006 we plan to re-initiate drilling on our 100%-owned high-grade, zinc-lead Bongará project in northern Peru. We discovered Bongará in 1996 and joint ventured it with Cominco Ltd. in early 1997. Cominco drilled 80 core holes in Bongará's Florida Canyon deposit between 1997 and 2000 (see the chart below for drilling highlights). This drilling program defined a well-mineralized carbonate-hosted zone approximately two-kilometers by two-kilometers in dimension. As successful as this drilling was, however, low zinc prices in 2001 (about $0.45 per pound) resulted in Cominco terminating its option to earn an interest after spending approximately $15.7 million on the project.

Bongará Drill Hole Assay Results

Hole Number	From Meters	To Meters	Interval Meters / Feet	Percent Zinc	Percent Lead
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

Bongará is a high-grade zinc-lead deposit that could be one of the world's largest new zinc discoveries.

Since 2000, we continued to maintain the core property position at Bongará while awaiting zinc prices more in line with historical norms. Today, with zinc prices over $1.00 per pound (and lead at about $0.55) it is time to advance this exceptional high-grade zinc property.

We are currently permitting a twenty-hole infill drilling program with the objective of delineating a three-million tonne resource averaging 11% zinc and 2% lead. We believe that if this program's goals are achieved, a comprehensive feasibility-stage program augmented with surface and underground access to the deposit will be justified. The proposed program of infill drilling focuses on a small area approximately 200 by 700 meters in size representing about five percent of the known extent of mineralization.

44 out of 80 core holes drilled in a four-square kilometer area of Florida Canyon intersected strong zinc mineralization.

The specific target of this drill program consists of two stratiform layers of mineralization, the Milagros and Karen zones. Based on previous drilling results, and assuming only strata-bound mineralization is intersected, expected zinc + lead grades for the Milagros and Karen zones in the target area are 15% and 11%, respectively, over corresponding mining thicknesses of 5.6 m and 7.4 m (minimum mining height assumed to be 4 m).

While we plan additional drilling at Bongará, a number of zinc producing companies have expressed an interest in possible joint ventures on the project. If a favorable agreement can be negotiated, we would consider this alternative, as long as a firm 2006 drilling commitment is made.

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

Business Overview and Summary

We are a precious and base metals exploration company with exploration mineral interests in Peru, Mexico, Bolivia and Brazil. We are conducting exploration activities in all of those countries. We were incorporated in the state of Colorado on November 15, 1984 as a wholly owned subsidiary of Crown Resource Corp. of Colorado ("CRCC"). CRCC is a wholly-owned subsidiary of Crown Resources Corporation ("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 36,004 shares as of March 15, 2006, 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 we received $1,275,000 from a dividend Crown paid in July of 2005 of $0.21 per share and 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.

We have a significant investment in Crown at December 31, 2005, which consists of 6,071,626 shares of Crown common stock or approximately 13.2% 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 at an exchange rate (as amended) of 0.32 shares of Kinross common stock for each share of Crown common stock. This merger has been extended five times and we have no control over whether the merger will be completed. Assuming the pending merger between Kinross and Crown is completed, we have estimated that as of March 15, 2006 our holdings of Crown common stock would convert into shares of Kinross common stock with a value of approximately $19.1 million based upon the exchange ratio of 0.32 shares of Kinross common stock for each share of Crown common stock and Kinross' closing market price of $9.81 per share. A significant fluctuation in the market value of Kinross common shares could have a material impact on our investment in Crown, the market price of our common stock and our liquidity and capital resources.

Our principal expertise is in identifying mineral properties with promising mineral potential, acquiring these mineral properties and exploring them to an advanced stage. Currently we have no mineral properties in development. We currently own 10 mineral property projects under exploration and we own our Yanacocha royalty interest. Our goal is to discover economic deposits on our mineral properties and advance these deposits, either on our own or through joint ventures, up to the development stage (development activities include, among other things, the completion of a feasibility study, 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 properties 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, although the value of our gold-bearing mineral interests increases, it becomes more difficult and expensive to locate and acquire new gold-bearing mineral properties with potential to have economic deposits.

The potential sale, joint venture or development of our mineral properties will occur, if at all, on an infrequent basis. Accordingly, while we conduct exploration activities, 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, or the sale of our interest in a property 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.

Recent Developments

On July 26, 2005, Solitario received $1,275,000 from a dividend of $0.21 per share on its 6,071,626 shares of Crown.

During the fourth quarter of 2005, we decided to withdraw from our agreement on the Odin project, which was acquired in the third quarter of 2005 after completing initial exploration activities, including drilling of the project. We recorded a $2,000 impairment related to the Odin project.

During the third quarter of 2005, Solitario completed the acquisition of seven new exploration projects. Solitario capitalized $7,000 for initial staking and concession costs paid to the government on two projects in Peru which are subject to the Strategic Alliance (see discussion of the Strategic Alliance below), $12,000 for initial lease and option payments on two projects in Brazil and $33,000 for initial lease and option payments on three projects (with a total of six separate properties) in Mexico. Solitario will conduct exploration activities on these newly acquired properties during 2006. Any additional costs incurred for subsequent lease payments or exploration activities will be expensed as incurred.

MD&A

The La Tola project, located in Southern Peru, had previously been the subject of a joint venture between Solitario and Newmont Peru, Limited ("Newmont Peru"). On June 22, 2005, Newmont Peru informed Solitario that it had elected to terminate its option to earn an interest in the La Tola project and Solitario recorded an $18,000 impairment related to the La Tola project.

Also in June 2005, Solitario completed its initial 1,220-meter drilling commitment on the Windy Peak gold project in Nevada, USA. After reviewing the results of this program, on June 28, 2005 Solitario elected to terminate its option to earn an interest from Silverthorn Exploration, Inc., a private Nevada corporation, and recorded a $10,000 impairment related to the Windy Peak project.

On November 17, 2004, we signed a Letter of Intent to form a strategic alliance with Newmont Overseas Exploration Limited ("Newmont Exploration"), to explore for gold in South America. Included in the Letter of Intent was a commitment from Newmont Mining Corporation of Canada, Limited ("Newmont Canada") 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 $3,773,000 over the next four years on gold exploration in regions ("Alliance Projects") that are mutually agreed upon by Newmont Exploration and us. The first Alliance Project area is located in southern Peru and is approximately 10,000 square kilometers in size. If we acquire properties within Alliance Project areas and meet certain minimum exploration expenditures, Newmont Exploration 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 Exploration 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 Exploration 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. As of December 31, 2005, we have expended $335,000 of the total commitment of $3,773,000.

Concurrent with the signing of the strategic alliance Letter of Intent, was the signing of a second Letter of Intent by us and Newmont Peru, 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 Newmont Peru to a long-term US$4.0 million work commitment on Solitario's royalty property and provides Solitario access to Newmont Peru's 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 Canada's 2.7 million-share purchase of Solitario common stock and the Yanacocha NSR-royalty amendment and work commitment agreements with Newmont Peru. The terms of the definitive agreement were the same as those within the two Letters of Intent.

Results of Operations

Comparison of the year ended December 31, 2005 to the year ended December 31, 2004

We had net loss of $2,080,000 or $0.08 per basic and diluted share for the year ended December 31, 2005 compared to net loss of $2,925,000 or $0.12 per basic and diluted share for the year ended December 31, 2004. As explained in more detail below, the primary reason for the decrease in net loss during 2005 compared to the net loss during 2004 was the receipt of a dividend from Crown during 2005 of $1,275,000, and the recognition of a $1,704,000 unrealized loss on derivative instruments primarily related to our holdings of Crown warrants during 2004 while only recording a $20,000 unrecorded loss on derivative instruments in 2005. However these decreases were partially mitigated by an increase in exploration expense to $2,072,000 in 2005 from $1,088,000 in 2004. Finally we recorded deferred tax expense of $257,000 during 2005, primarily related to the Crown dividend, compared to a deferred tax benefit of $935,000 during 2004 primarily as a result of our pre-tax loss of $3,860,000.

During the year ended December 31, 2005 we recorded an unrealized loss on derivative instruments of $20,000 related to our holdings of TNR Gold Corp. ("TNR") warrants compared to an unrealized loss of $1,704,000 during 2004 primarily related to our Crown warrants. Because we exercised our Crown warrants on July 12, 2004 there were no unrealized gains or losses related to our Crown warrants recorded during 2005. The Crown warrants represented the right to receive 2,057,143 Crown shares, were exercisable into Crown shares at any time prior to October 2006 at exercise prices between $0.60 and $0.75 per share 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 2005 we recorded interest income of $52,000 compared to interest income of $193,000 during the same period in 2004. The interest income recorded during 2005 consisted of payments on cash and cash equivalent deposit accounts. During 2004 we recorded interest of $192,000 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. If the Crown and Kinross merger is completed, we expect our interest income will be comparable in 2006 as we convert Kinross stock into cash as needed to fund our planned exploration activities.

Our net exploration expense increased to $2,072,000 during 2005 compared to $1,088,000 in 2004. During 2005 we focused our exploration efforts on reconnaissance exploration in Peru, Brazil and Mexico, portions of which led to the addition of certain exploration projects, discussed above. Additionally, we increased our exploration activities associated with the Strategic Alliance upon the signing of the Alliance Agreement in January 2005, discussed above under "Recent Developments." Accordingly, our gross exploration costs increased to $2,172,000 in 2005 from $1,499,000 in 2004. The exploration expenses were offset by joint venture reimbursements by Anglo Platinum on our Pedra Branca project of $100,000 during 2005 and $411,000 during 2004. In addition to our work at Pedra Branca the increase in our gross exploration costs primarily consisted of drilling, sampling and exploration in our Alliance Project areas 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 or reduce our interests in three properties during 2005; La Tola in Peru, Windy Peak in Nevada and Odin in Brazil. We acquired seven projects during 2005 and we anticipate continuing to acquire mineral properties, either through staking, joint venture or lease, in Latin America during 2006 and have budgeted our related net exploration expenditure to be approximately $3,307,000 for 2006. The primary factors in our decision to increase exploration expenditures in 2006 relate to the increase in capital resources expected from the anticipated completion of the Crown-Kinross merger, the completion of the Strategic Alliance and related private placement in January 2005 and increased exploration opportunities in Brazil and Mexico. This budget is subject to reduction, should the Crown - Kinross transaction be delayed or not completed in 2006.

We had $29,000 of depreciation and amortization expense during 2005 compared to $119,000 in 2004. During 2004, depreciation and amortization expense up to April 2004 included $117,000 of amortization of mineral interests. 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 which included depreciation on additions of $126,000 during 2005 for computers, trucks and other equipment, which replaced much of our previous equipment most of which had become fully depreciated by the end of 2004. We anticipate our 2006 depreciation and amortization costs will be similar to our 2005 amount.

General and administrative costs were $576,000 during 2005 compared to $629,000 in 2004. The largest change in general and administrative costs related to a decrease in legal and accounting costs, which decreased to $122,000 during 2005 compared to $303,000 in 2004. The primary reason for the increased cost in 2004 is related to 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 we recorded currency gains of $62,000 during 2005 compared to currency gains of $30,000 primarily related to currency gains on our larger 2005 Canadian cash deposits as well as a result of a general decline in the United States dollar relative to our deposits in Latin America during 2005 compared to 2004. These decreases were offset by increased administrative and staff costs in Latin America to $123,000 in 2005 compared to $102,000 in 2004 as well as increased staff and travel costs with the increase in exploration activity during 2005 compared to 2004. We also increased our costs for shareholder relations and printing and distribution of our annual report to $131,000 in 2005 from $93,000 in 2004. 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 $423,000 during 2005 compared to $390,000 in 2004. The increase in management fees is related to increased managerial time spent by Crown on our activities during 2005 compared to 2004. 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 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 a decrease in the value of its TNR warrants as of December 31, 2005 of $20,000 to loss on derivative instruments in the consolidated statement of operations compared to an increase of $38,000 recorded to gain on derivative instruments in 2004.

During 2005, we recorded income tax expense of $257,000 compared to an income tax benefit of $935,000 during 2004. The increase in net tax expense is related to the expected United States taxable income, including the $1,275,000 Crown dividend during 2005, described above, as well as a reduction in the non-deductible gain on derivative instrument from $1,704,000 in 2004 compared to $20,000 in 2005. In addition we provide a valuation allowance for our foreign net operating losses, which are primarily related to our exploration activities in Peru, Mexico, Bolivia and Brazil. We anticipate we will continue to provide a valuation allowance for these net operating losses until we are in a net tax liability position with regards to those countries where we operate or until it is more likely than not that we will be able to realize those net operating losses in the future.

During 2004, we sold an investment in marketable equity securities for $16,000, and recorded a gain on such sale of $14,000. We also exchanged 500,000 shares of TNR common stock for 500,000 shares of TNR common stock that could not 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. There were no similar items during 2005.

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 2005 we recorded $30,000 of property impairments, related to our La Pampa, Windy Peak and Odin projects, compared to $64,000 of mineral property impairments during 2004, related to our San Pablo, Legacy Ridge, La Pampa, and Sapalache projects.

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.

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.

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 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.

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 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.

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 is related to an increase in 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.

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 on derivative instruments in the consolidated statement of operations.

Included in asset write-downs during 2004 were $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 2003. However during 2003 we wrote down an investment in marketable equity securities for an other than temporary decline of $26,000.

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 $4,189,000 at December 31, 2005 compared to working capital of $3,245,000 as of December 31, 2004. Our working capital at December 31, 2005 consists of our cash and equivalents and marketable equity securities, primarily consisting of the current portion of our investment in 6,071,626 shares of Crown common stock of $3,491,000, less related deferred taxes of $1,476,000.

On July 26, 2005, we received $1,275,000 from a dividend of $0.21 per share on its 6,071,626 shares of Crown.

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, 2005 and 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. The Crown shares are recorded at their fair market value of $13,965,000 and $12,143,000 at December 31, 2005 and December 31, 2004, respectively. In addition we own other marketable equity securities with a fair value of $94,000 and $112,000 as of December 31, 2005 and December 31, 2004, respectively. At December 31, 2005, we have classified $10,568,000 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 stockholders' equity. During the year ended December 31, 2005, we recorded a gain in other comprehensive income on marketable equity securities of $1,804,000, less related deferred tax expense of $704,000. 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. 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. There were no similar transactions in 2005. 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 $2.34 per share to a low of $1.37 per share during the year ended December 31, 2005.

Assuming the pending merger between Kinross and Crown is completed, we have estimated that as of March 15, 2006 our holdings of Crown common stock would convert into shares of Kinross common stock with a value of approximately $19.1 million based upon the exchange ratio of 0.32 shares of Kinross common stock for each share of Crown common stock and Kinross' closing market price of $9.81 per 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 the first quarter of 2007.

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, Solitario estimated that its deferred tax liabilities exceeded its realizable deferred tax assets by $3,582,000 at December 31, 2005.

On January 18, 2005, pursuant to a Stock Purchase Agreement, we agreed to sell to Newmont Canada 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 $3,773,000. 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 Canada received restricted stock in the offering. We have used a portion of the proceeds of this offering to perform exploration as contemplated under an Alliance Agreement with Newmont Exploration and will continue to do so during 2006.

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 Crown-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 Crown-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 the year ended December 31, 2005 decreased to $1,572,000 compared to $2,209,000 for 2004 primarily as a result of the $1,275,000 Crown dividend received during the third quarter of 2005, which was offset by increased exploration expense related to increased exploration activities during 2004. In addition, during 2005 we recorded net receipt of our joint venture receivable of $299,000.

Net cash (used in) provided from investing activities decreased from cash provided by investing activities of $27,000 during the year ended December 31, 2004, primarily from the collection of our note receivable of $112,000, to cash used in investing activities of $178,000 during the year ended December 31, 2005, resulting from additions for mineral properties and other assets.

Net cash provided from financing activities was $3,794,000 during the year ended December 31, 2005 compared to $985,000 during 2004 primarily due to the issuance of 2,700,000 shares of our common stock to Newmont Canada (approximately 9.9% equity interest) for net proceeds of $3,773,000 pursuant to the Private Placement. See "Recent Developments" above. The remaining cash provided in 2005 and all of the cash provided in 2004 related to cash payments from the exercise of 32,500 and 1,121,000, respectively, of our stock options.

Contractual Obligations

As of December 31, 2005, 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 these payments are not fixed obligations since we can 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 $378,000 for 2006 if we elect to continue with our participation in all of our properties and do not take on additional contractual obligations. Approximately $37,000 of these annual payments are reimbursable to us by our joint venture partners. We may be required to make further payments in the future if we elect to exercise our options under those contracts. Our existing mineral property agreement at the El Triunfo Property commits us to exploration expenditures of $200,000 in 2006 in order to maintain our option to purchase.

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 $3,582,000. 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.

Joint Ventures

On January 18, 2005, we signed a Strategic Alliance Agreement with Newmont Exploration, 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 Exploration. Concurrent with the signing of the Alliance Agreement, Newmont Canada purchased 2.7 million shares of Solitario (approximately 9.9% equity interest) for Cdn$4,590,000. As part of the Alliance Agreement we are committed to spend $3,773,000 over the four years from the date of the Alliance Agreement on gold exploration in regions ("Alliance Projects") that are mutually agreed upon by Newmont Exploration and us. We have spent $335,000 as of December 31, 2005 of this commitment. If we acquire properties within Alliance Project areas and meet certain minimum exploration expenditures, Newmont Exploration 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 Exploration 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 Exploration 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 Newmont Peru, 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 Newmont Peru to a long-term US$4.0 million work commitment on Solitario's royalty property and provides Solitario access to Newmont Peru's 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. To earn an 80% interest in the property, the WP Agreement called for us to make payments to Silverthorn of $100,000 and spend $5,300,000 on exploration and development over a five-year period. On June 28, 2005, Solitario elected to terminate its option to earn an interest from Silverthorn and recorded a $10,000 impairment related to the Windy Peak project.

On January 28, 2003, we entered into an agreement with Anglo American Platinum Corporation, Ltd. ("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. In November 2005 Anglo Platinum notified Solitario of its election to proceed with the next $1.25 million in exploration over a one-year period. Before proceeding with this commitment Solitario and Anglo Platinum must negotiate and sign a definitive operating agreement by May 16, 2006. Should this agreement fail to be signed or if Anglo Platinum declines to continue for some other reason, Solitario will retain 100% of the Pedra Branca Project. We have recorded a joint venture receivable from Anglo Platinum related to the Pedra Branca Project of $299,000 at December 31, 2004, which was paid during 2005.

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 2005 mineral property rental and option payments were approximately $243,000. In 2006 we estimate mineral property rental and option payments to be approximately $379,000. Approximately $37,000 of these annual payments are reimbursable to us by our joint venture partners.

Critical Accounting Estimates

Mineral properties, net

We classify our interest in mineral properties as Mineral Properties, net (tangible assets) pursuant to Emerging Issues Task Force ("EITF") 04-2. 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 $30,000 and $64,000 write-down of our mineral properties during the years ended December 31, 2005 and 2004, respectively. 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 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, 2005, we have recorded unrealized holding gains of $9,922,000, net of deferred taxes of $3,792,000, related to our marketable equity securities. During 2003 we wrote down an investment in marketable equity securities for an other than temporary decline of $26,000. There were no similar items in 2004 or 2005.

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, 2005, 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 value of our TNR warrants of $20,000 for the year ended December 31, 2005. 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 fair value of our Crown warrants of $5,438,000 for the year ended December 31, 2003, and an increase in the value of our TNR warrants of $38,000 for the year ended December 31, 2004.

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 30 days. Management service fees incurred by us were $423,000, $390,000, and $351,000 for the years ended December 31, 2005, 2004 and 2003, 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. As of December 31, 2005, we own warrants for the purchase of 500,000 shares of TNR, which we received in exchange for TNR shares during 2004. The TNR warrants are recorded at fair market value based upon quoted prices and classified as derivative instruments. We recorded a loss on derivative instruments of $20,000 and $38,000 for the decrease in the value of our warrants during the years ended December 31, 2005 and 2004, respectively. There were no gains and losses recorded for the fair value of the TNR warrants in 2003. 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 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 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, 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 had a conversion price of $0.2916 per share and the second Senior Note of $650,000 had 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 an increase in the value of TNR warrants of $20,000 and $38,000 for the years ended December 31, 2005 and 2004, respectively. 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 the Crown warrants of $5,438,000 for the year ended December 31, 2003. 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, 2005, the Signing Shareholders collectively held 16,443,548 shares or 35.7% of the 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, 2005, 18,639,640 shares of Crown common stock were subject to the stockholder and voting agreement, representing approximately 40.5% of the outstanding shares of Crown common stock entitled to vote at the Crown special meeting.

As of December 31, 2005, we own 6,071,626 shares of Crown common stock or approximately 13.2% 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, 2005, the fair market value of these shares was $13,965,000.

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 us.

Recent Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140" ("SFAS No. 155"). SFAS No. 155 resolves issues addressed in SFAS No. 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets." SFAS No. 155 will become effective for the first fiscal year after September 15, 2006. The impact of SFAS No. 155 will depend on the nature and extent of any new derivative instruments entered into after the effective date. We have not yet determined what effect, if any, the adoption of SFAS No. 155 will have on our financial position, results of operations or cash flows.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS No. 154") which replaces Accounting Principles Board Opinion No. 20, "Accounting Changes" ("Opinion No. 20") and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS No. 154 requires retrospective application to prior period application of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 defines "retrospective application" as the application of a different accounting principle to prior accounting periods as if that principle had always been used or as the adjustment of previously issued financial statements to reflect a change in the reporting entity and SFAS No. 154 defines "restatement" as the revising of previously issued financial statements to reflect the correction of an error. SFAS No. 154 carries forward without change the guidance in Opinion No. 20 for reporting the correction of an error in previously issued financial statements and changes in accounting estimate. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 31, 2005. We have not yet adopted SFAS No. 154 and we have not determined what effect, if any, its adoption will have on our consolidated financial position or results of operations or cash flows.

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 is 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 ("Opinion 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 December 15, 2005. We adopted SFAS No. 123R, as revised, on January 1, 2006 and we estimate we will recognize non-cash option expense of $3,000 during 2006 as a result of adoption of SFAS 123R.

REPORTS

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

We have audited the consolidated balance sheets of Solitario Resources Corporation (a Colorado corporation) as of December 31, 2005 and 2004, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2005. 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Solitario Resources Corporation as of December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for the each of the two years in the period ending December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

Ehrhardt Keefe Steiner & Hottman PC

Ehrhardt Keefe Steiner & Hottman P.C.
March 10, 2006
Denver, Colorado

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

We have audited the accompanying consolidated statements of operations, stockholders' equity, and cash flows of Solitario Resources Corporation and subsidiaries (the "Company") for the year ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the results of operations and cash flows of Solitario Resources Corporation and subsidiaries for the year ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Deloitte & Touche, LLP
Denver, Colorado
March 10, 2004

STATEMENTS

Consolidated Balance Sheets

(in thousands except share and per share amounts)	December 31, 2005	December 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	$ 2,120	$ 76
Joint venture receivable	—	299
Investments in marketable equity securities, at fair value	3,491	3,036
Investment in derivative instruments, at fair value	18	38
Prepaid expenses and other	36	17
Total current assets	5,665	3,466
Mineral properties, net	2,675	2,653
Investments in marketable equity securities, at fair value	10,568	9,219
Other assets	129	32
Total assets	$ 19,037	$ 15,370
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 69	$ 142
Due to Crown Resources Corporation	45	79
Deferred income taxes	1,362	—
Total current liabilities	1,476	221
Deferred income taxes	2,220	2,633
Commitments and contingencies (Notes 2 and 6)		
Stockholders' equity:		
Preferred stock, $0.01 par value, authorized 10,000,000 shares (none issued and outstanding at December 31, 2005 and 2004)	—	—
Common stock, $0.01 par value, authorized, 50,000,000 shares (27,459,492 and 24,726,992 shares issued and outstanding at December 31, 2005 and 2004, respectively)	275	247
Additional paid - in capital	25,909	22,132
Accumulated deficit	(16,973)	(14,893)
Accumulated other comprehensive income	6,130	5,030
Total stockholders' equity	15,341	12,516
Total liabilities and stockholders' equity	$ 19,037	$ 15,370

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 per share amounts)	For the year ended December 31, 2005	2004	2003
Costs, expenses and other:			
Exploration expense, net	$ 2,072	$ 1,088	$ 418
Depreciation and amortization	29	119	488
General and administrative	576	629	404
Management fees to Crown	423	390	351
Unrealized loss (gain) on derivative instruments	20	1,704	(5,438)
Asset write - downs	30	64	26
Loss on sale of assets	—	59	—
Dividend income from Crown	(1,275)	—	—
Interest and other (net)	(52)	(193)	(272)
(Loss) income before income taxes	(1,823)	(3,860)	4,023
Income tax (expense) benefit	(257)	935	(669)
Net (loss) income	$ (2,080)	$ (2,925)	$ 3,354
Basic and diluted (loss) earnings per common share	$ (0.08)	$ (0.12)	$ 0.14
Basic and diluted weighted average shares outstanding	27,311	25,190	23,638

See Notes to Consolidated Financial Statements.

STATEMENTS

Consolidated Statements of Stockholders' Equity

(in thousands except share amounts)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2002	23,407,134	$ 234	$ 21,189	$ (15,322)	$ 176	$ 6,277
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
Balance at December 31, 2003	24,923,134	249	22,498	(11,968)	1,155	11,934
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
Balance at December 31, 2004	24,726,992	247	22,132	(14,893)	5,030	12,516
Shares issued:						
Cash	2,700,000	27	3,746	—	—	3,773
Option exercise	32,500	1	20	—	—	21
Deferred taxes on option exercises			11			11
Comprehensive loss:						
Net loss	—	—	—	(2,080)	—	(2,080)
Net unrealized gain on marketable equity securities (net of tax of $704)	—	—	—	—	1,100	1,100
Comprehensive loss	—	—	—	—	—	(980)
Balance at December 31, 2005	27,459,492	$ 275	$ 25,909	$ (16,973)	$ 6,130	$ 15,341

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(in thousands)	For the year ended December 31, 2005	2004	2003
Operating activities:			
Net (loss) income	$ (2,080)	$ (2,925)	$ 3,354
Adjustments:			
Unrealized loss (gain) on derivative instruments	20	1,704	(5,438)
Depreciation and amortization	29	119	488
Asset write-downs	30	64	—
Deferred income taxes	257	(935)	669
Loss on asset and equity security sales	—	59	—
Interest income received in stock	—	(142)	(207)
Interest income from amortization of note discount	—	(12)	(22)
Other	—	—	26
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	279	(284)	(6)
Accounts payable	(73)	89	27
Due to Crown Resources Corporation	(34)	54	(48)
Net cash used in operating activities	(1,572)	(2,209)	(1,157)
Investing activities:			
Additions to mineral interests and other	(52)	(76)	(10)
Other assets	(126)	(25)	—
Proceeds from sale of marketable equity securities	—	16	—
Collection on note receivable	—	112	111
Investment in Crown Resources Corporation promissory notes and warrants	—	—	(400)
Net cash (used in) provided by investing activities	(178)	27	(299)
Financing activities:			
Issuance of common stock	3,794	985	1,324
Net cash provided by financing activities	3,794	985	1,324
Net increase (decrease) in cash and cash equivalents	2,044	(1,197)	(132)
Cash and cash equivalents, beginning of year	76	1,273	1,405
Cash and cash equivalents, end of year	$ 2,120	$ 76	$ 1,273
Supplemental disclosure of cash flow information:			
Deferred taxes on stock option exercises charged to additional paid—in capital	$ 11	$ 188	—
Treasury stock received in spin—off from Crown Resources Corporation as treasury stock	—	$ 1,541	—
Cancellation of treasury stock	—	$ (1,541)	—
Non - cash proceeds on the sale of marketable equity securities	—	$ 57	—
Conversion of Crown notes receivable to shares of Crown common stock	—	—	$ 400

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 12/31/05, 04 AND 03

1. Business and Summary of Significant Accounting Policies:

Business and company formation

Solitario Resources Corporation ("Solitario" or the "Company") engages principally in the acquisition and exploration of mineral interests. At December 31, 2005, Solitario's mineral interests are located in Brazil, Bolivia, Peru and Mexico. 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 December 31, 2005, we have 27,459,492 common 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 36,004 shares as of March 15, 2006, 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 we received a dividend of $1,275,000 on July 26, 2005 from a $0.21 per share dividend paid by Crown and, 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.

Solitario has a significant investment in Crown at December 31, 2005, which consists of 6,071,626 shares of Crown common stock or approximately 13.2% of the outstanding Crown common shares. Crown announced in November 2003 that it had executed an acquisition agreement, whereby Kinross Gold Corporation ("Kinross") will acquire all of the outstanding shares of Crown at an exchange rate of 0.32 shares of Kinross common stock for each share of Crown common stock. This merger has been extended five times and Solitario has no control over whether the merger will be completed. Assuming the pending merger between Kinross and Crown is completed, Solitario has estimated that as of March 15, 2006 its holdings of Crown common stock would convert into shares of Kinross common stock with a value of approximately $19.1 million based upon the exchange ratio of 0.32 shares of Kinross common stock for each share of Crown common stock and Kinross' closing market price of $9.81 per share. A significant fluctuation in the market value of Kinross common shares could have a material impact on Solitario's investment in Crown, the market price of its common stock and its liquidity and capital resources.

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 recoverability of mineral properties and their future exploration potential, the ability of Solitario to realize its deferred tax assets and the fair value of Solitario's investment in Crown shares included in marketable equity securities.

Cash equivalents

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

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 Properties, net to Mineral interests, net* in its consolidated balance sheets and ceased amortizing exploration stage mineral property interests prior to the commencement of production. Solitario recorded $117,000 and $466,000 of amortization of its mineral property interests for the years ended December 31, 2004 and 2003.

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 years ended December 31, 2005 and 2004, Solitario recorded impairments of $30,000 and $64,000 of its mineral properties, respectively. There were no mineral property impairments in 2003.

Solitario's net capitalized mineral properties of $2,675,000 and $2,653,000 at December 31, 2005 and 2004, respectively, related to gross land, leasehold and acquisition costs of $3,698,000 and $3,676,000 at December 31, 2005 and 2004, respectively, less accumulated amortization of $1,023,000 at December 31, 2005 and 2004. 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, 2005 Solitario owns warrants for the purchase of 500,000 shares of TNR Gold Corp. ("TNR"), which it received during 2004. The TNR warrants are recorded at fair market value based upon quoted prices and discounts and classified as derivative instruments. Solitario recorded an decrease in the value of its TNR warrants of $20,000 for the year ended December 31, 2005 and recorded an increase of $38,000 for the year ended December 31, 2004. 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 fair value of the warrants of $5,438,000 for the year ended December 31, 2003.

Marketable equity securities

Solitario's investments in marketable equity securities are classified as available-for-sale and are carried at fair value, which is based upon quoted prices of the securities owned. The cost of marketable equity securities sold is determined by the specific identification method. Changes in market value are recorded in accumulated other comprehensive income within 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 $14,059,000 and $12,255,000, respectively, and cost of $4,137,000 at December 31, 2005 and 2004. Solitario has recorded other comprehensive income for unrealized holding gains of $9,922,000 and $8,118,000, respectively, net of deferred taxes of $3,792,000 and $3,088,000, respectively, at December 31, 2005 and 2004 related to our marketable equity securities. During 2003 we wrote down an investment in marketable equity securities for an other than temporary decline of $26,000. There were no similar items in 2004 or 2005.

The following table represents changes in marketable equity securities:

	2005	2004	2003
Gross cash proceeds	$ –	$ 16,000	$ –
Gross non-cash proceeds	–	57,000	–
Cost	–	132,000	–
Gross gain on sale included in earnings during the period	–	14,000	–
Gross loss on sale included in earnings during the period	–	(73,000)	–
Write-down of marketable equity securities	–	–	(26,000)
Unrealized holding gain arising during the period included in other comprehensive income, net of tax	1,100,000	3,864,000	953,000
Reclassification adjustment for net losses included in earnings during the period, net of tax	–	39,000	26,000

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 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, 2005, 2004 and 2003. Potentially dilutive shares related to outstanding common stock options of 2,240,000, 2,273,000, and 3,488,000 for the years ended December 31, 2005, 2004 and 2003, respectively, were excluded from the calculation of diluted earnings (loss) per share because the effects were anti-dilutive.

NOTES

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, 2005, 2004 and 2003 as a result of variable plan accounting. As of December 31, 2005 and 2004, there were no remaining options that are subject to variable plan accounting. The Plan had a ten-year duration and terminated during 2004. No further options may be granted pursuant to the Plan as of December 31, 2005.

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 2005 and 2004, the following assumptions were used for 2003: risk-free interest rate of 3.31%; dividend yield of 0 percent; volatility factor of the expected market price of Solitario's common stock of 65%; and a weighted average expected life of the options of 3.9. The weighted average fair value of the options granted was estimated at $0.28 per share in 2003.

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)	2005	2004	2003
Net income (loss), as reported	$ (2,080)	$ (2,925)	$ 3,354
Deduct total stock-based compensation expense determined under fair value based method for all rewards, net of related tax effects	(8)	(24)	(54)
Pro forma net income (loss)	$ (2,088)	$ (2,949)	$ 3,300
Earnings (loss) per share:			
Basic and diluted as reported	$ (0.08)	$ (0.12)	$ 0.14
Basic and diluted pro forma	$ (0.08)	$ (0.12)	$ 0.14

Segment reporting

Solitario operates in one business segment, minerals exploration. At December 31, 2005, all of Solitario's operations are located in Peru, Bolivia, Brazil and Mexico as further described in Note 2 to these consolidated financial statements.

Included in the consolidated balance sheet at December 31, 2005 and 2004 are total assets of $2,944,000 and $2,716,000, respectively, related to Solitario's foreign operations, located in Bolivia, Brazil, Peru and Mexico. Included in mineral properties, net in the consolidated balance sheet at December 31, 2005 and 2004 are net capitalized costs related to the Pedra Branca Property, located in Brazil, of $2,568,000. We are not aware of any foreign exchange restrictions on Solitario's subsidiaries located in foreign countries.

Recent accounting pronouncements

In February 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140" ("SFAS No. 155"). SFAS No. 155 resolves issues addressed in SFAS No. 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets." SFAS No. 155 will become effective for the first fiscal year after September 15, 2006. The impact of SFAS No. 155 will depend on the nature and extent of any new derivative instruments entered into after the effective date. Solitario has not yet determined what effect if any, the adoption of SFAS No. 155 will have on its financial position, results of operations or cash flows.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS No. 154") which replaces Accounting Principles Board Opinion No. 20, "Accounting Changes" ("Opinion No. 20") and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS No. 154 requires retrospective application to prior period application of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 defines "retrospective application" as the application of a different accounting principle to prior accounting periods as if that principle had always been used or as the adjustment of previously issued financial statements to reflect a change in the reporting entity and SFAS No. 154 defines "restatement" as the revising of previously issued financial statements to reflect the correction of an error. SFAS No. 154 carries forward without change the guidance in Opinion No. 20 for reporting the correction of an error in previously issued financial statements and changes in accounting estimate. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 31, 2005. Solitario has not yet adopted SFAS No. 154 and has not determined what effect, if any, its adoption will have on Solitario's consolidated financial position or results of operations or cash flows.

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 is 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 ("Opinion 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 December 15, 2005. Solitario adopted SFAS No. 123R, as revised, on January 1, 2006 and estimates it will recognize non-cash option expense of $3,000 during 2006 as a result of adoption of SFAS 123R.

2. Mineral Properties:

Solitario's mineral properties consist of use rights related to exploration stage properties, and the value of such assets is primarily driven by the nature and amount of economic mineral ore believed to be contained, or potentially contained, in such properties. The amounts capitalized as mineral properties include concession and lease or option acquisition costs. Capitalized costs related to a mineral property represent its fair value at the time it was acquired, 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, 2005	December 31, 2004
Mineral interests	$ 3,698	$ 3,676
Accumulated amortization	(1,023)	(1,023)
Net mineral interests	$ 2,675	$ 2,653

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 and 2003 was $117,000 and $466,000, 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 13,300 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 2,200 hectares subject to an additional $6.00 per hectare surcharge as the concessions are more than 10 years old.

<u>Bongará</u>

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.

<u>Yanacocha</u>

On April 26, 2000, Solitario completed a transaction with an affiliate of Newmont Mining Corporation ("Newmont Peru") 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. The NSR royalty applies to any commercial production on exploration concessions covering approximately 60,000 hectares. In January 2005, Solitario and Newmont Peru 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 Peru, through its subsidiaries and affiliates, also agreed to a $4.0 million work commitment on Solitario's royalty property over the next eight years.

<u>La Tola Gold Property</u>

In October 2003, we acquired the La Tola project in southern Peru to explore for gold and possibly silver. The project is located in southern Peru and originally consisted of 14 concessions totaling 11,030 hectares. In April 2004, Solitario signed a Letter Agreement with Newmont Peru, whereby Newmont Peru could earn a 51% interest in the La Tola property by completing $7.0 million of exploration over four years and an additional 14% interest by completing a feasibility study and by arranging 100% project financing. On June 22, 2005, Newmont Peru informed Solitario that it had elected to terminate its option to earn an interest in the La Tola project and Solitario recorded an $18,000 impairment related to the La Tola project. Solitario retains six claims covering 4,700 hectares. Solitario is evaluating what additional work, if any, to conduct at the La Tola Property.

<u>Newmont Strategic Alliance</u>

On January 18, 2005, Solitario signed a Strategic Alliance Agreement with Newmont Overseas Exploration Limited ("Newmont Exploration"), a subsidiary of Newmont Mining Corporation, to explore for gold in South America. Concurrent with the signing of the Alliance Agreement, Newmont Mining Corporation of Canada, Limited ("Newmont Canada") purchased 2.7 million shares of Solitario common stock (or approximately 9.9% of Solitario's issued and outstanding shares) for Cdn$4,590,000 or $3,773,000. Solitario has 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 Exploration and Solitario. The first two Alliance Project areas are located in southern Peru and total approximately 10,000 square kilometers in size. If Solitario acquires properties within Alliance Project areas and meets certain minimum exploration expenditures, Newmont Exploration 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 Exploration 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 Exploration also has a right of first offer on any non-alliance Solitario property, acquired after the signing of the Alliance Agreement, that Solitario may elect to sell an interest in, or joint venture. As of December 31, 2005, we have expended $335,000 of the total commitment of $3,773,000.

Two properties were acquired within the Alliance Project area during 2005. The Libertad Gold property is located in the Arequipa Department of southern Peru approximately 100 kilometers from the city of Arequipa. Two claims owned by Solitario, comprising 1,400 hectares are located along a local unpaved road that is open year round. In September 2005 Solitario staked two claims at the Pillune Property totaling 1,200 hectares in the Arequipa Department of southern Peru. Solitario paid $8,000 in acquisition costs for these two Alliance properties.

NOTES

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 47 concessions totaling 45,365 hectares 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, Solitario signed the First Amendment to the 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 its second ten-month work commitment. In November 2005 Anglo Platinum notified Solitario of its election to proceed with the next $1.25 million in exploration over a one-year period. Before proceeding with this commitment Solitario and Anglo Platinum must negotiate and sign a definitive operating agreement by May 16, 2006. Should this agreement fail to be signed or if Anglo Platinum declines to continue for some other reason, Solitario will retain 100% of the Pedra Branca Project.

Other Brazil projects

The Mercurio Gold project is located in Para State in northern Brazil approximately 250 km south of the town of Itaituba. It consists of 173 claims covering 16,200 hectares. An agreement dated March 14, 2005, with the underlying claim and surface rights holder provides for transfer of a 100% interest of the mineral estate to Solitario and payment of approximately $350,000 over a period of 60 months. The owner retains a 1.5% net smelter return that is subject to purchase by Solitario for approximately $1,000,000.

In June of 2005 Solitario signed an agreement with the operator to acquire a 100% interest in the Odin gold property in the state of Para, Brazil. This agreement provided for payments to the operator of $276,000 over a period of four years. The operator would have maintained a 1% royalty on gold production subject to a buyout of $1,000,000. Four holes were drilled on the property. In December 2005, Solitario decided to withdraw from the agreement and Solitario has recorded a $2,000 impairment for the property.

Bolivia

Triunfo

In August 2003, Solitario 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 $170,000 over a four-year period to the underlying owners. The first, second and third payments to the owners of $10,000, $12,500 and $12,500, 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.

Mexico

In September 2005, Solitario signed an agreement with a private Mexican mineral concession holder to option a 100% interest in the 918 hectare Pozos gold property near the city of San Luís de la Paz in the state of Guanajuato, Mexico. As of December 31, 2005, Solitario is conducting surface exploration work to determine if a future drilling program is warranted.

In September 2005, Solitario signed an agreement with a private Mexican mineral concession holder allowing Solitario to enter into lease options on four separate properties located throughout central Mexico. The Concepcion del Oro gold property is located near the city of Mazapil in the state of Zacatecas and consists of 35 concessions totaling approximately 1,420 hectares. The Hedionda gold property is located near the city of Allende in the state of Guanajuato and consists of six concessions totaling 620 hectares. The Las Tortugas gold property is located near the city of Chiquilistlan in the state of Jalisco and consists of four concessions totaling 400 hectares. The Las Purismas gold property is located near the city of Tepic in the state of Navarit and consists of six concessions totaling 600 hectares. At the end of the six-month period, Solitario may elect to option any or all of the four properties. Solitario is evaluating which, if any of these properties we will elect to option. Additionally, this agreement provides for payments to the same Mexican National in the case that certain property were acquired within the Pachuca District of Hidalgo State. The El Cura claim of 13,600 hectares was acquired subject to this provision.

In August 2005, Solitario received title to the Zinda concession near the city of Morelia in the state of Michoacan, Mexico. Solitario paid $5,000 in concession fees (plus tax) to the Mexican government for the 10,000-hectare concession. As of December 31, 2005, Solitario is conducting surface exploration work to determine if a future drilling program is warranted.

United States

Windy Peak Gold-Silver Project, Nevada

On July 12, 2004, Solitario 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. To earn an 80% interest in the property, the WP Agreement called for Solitario to make payments to Silverthorn of $100,000 and spend $5,300,000 on exploration and development over a five-year period. On June 28, 2005, Solitario elected to terminate its option to earn an interest from Silverthorn and recorded a $10,000 impairment related to the Windy Peak project.

Exploration expense

The following items comprised exploration expense:

(in thousands)	2005	2004	2003
Geologic, drilling and assay	$ 923	$ 770	$ 488
Field expenses	727	479	237
Administrative	522	250	150
Joint venture reimbursement	(100)	(411)	(457)
Total exploration expense	$ 2,072	$ 1,088	$ 418

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 30 days. Management service fees incurred by Solitario were $423,000, $390,000, and $351,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

On July 28, 2004, Solitario exchanged 500,000 shares of TNR Gold Corp. ("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 at the fair market value on July 28, 2004 of $57,000 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, 2005, Solitario owns warrants for the purchase of 500,000 shares of TNR, which it received in exchange for TNR shares during 2004. The TNR warrants are recorded at fair market value based upon quoted prices and classified as derivative instruments. Solitario recorded a loss on derivative instruments of $20,000 and $38,000 for the increase in the value of its warrants during the years ended December 31, 2005 and 2004, respectively. There were no gains and losses recorded for the fair value of the TNR warrants in 2003. 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 had a conversion price of $0.2916 per share and the second Senior Note of $650,000 had 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 decrease in the value of TNR warrants of $20,000 and $38,000 for the years ended December 31, 2005 and 2004, respectively. Solitario 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 the Crown warrants of $5,438,000 for the year ended December 31, 2003. 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 term. The Voting Agreement terminates on June 25, 2006. As of December 31, 2005, the Signing Shareholders collectively held 16,443,548 shares or 35.7% of the 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, 2005, 18,639,640 shares of Crown common stock were subject to the stockholder and voting agreement, representing approximately 40.5% of the outstanding shares of Crown common stock entitled to vote at the Crown special meeting.

As of December 31, 2005, Solitario owns 6,071,626 shares of Crown common stock or approximately 13.2% 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, 2005, the fair market value of these shares was $13,965,000.

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)	2005	2004	2003
Deferred:			
United States	$ 31	$ (645)	$ 2,207
Foreign	-	(51)	(164)
Operating loss and credit carryovers:			
United States	226	(290)	(1,538)
Foreign	-	51	164
Income tax expense (benefit)	$ 257	$ (935)	$ 669

Consolidated income (loss) before income taxes includes losses from foreign operations of $2,476,000, $1,457,000, and $1,092,000 in 2005, 2004 and 2003, respectively. During 2005 and 2004, Solitario recognized income tax deductions of $28,000 and $483,000, respectively, from the exercise of nonqualified stock options. Stockholders' equity has been credited in the amount of $11,000 and $188,000, respectively, for the income tax benefit of these deductions. During 2005, 2004 and 2003, Solitario recognized other comprehensive income related to unrealized gains on marketable equity securities of $1,804,000, $6,356,000 and $1,586,000, respectively. Other comprehensive income has been charged $704,000, $2,481,000 and $607,000, respectively, for the income tax expense associated with these gains.

The net deferred tax assets/liabilities in the December 31, 2005 and 2004 consolidated balance sheets include the following components:

(in thousands)	2005	2004
Deferred tax assets:		
Net operating loss (NOL) carryovers	$ 5,516	$ 5,101
Capital loss carryovers	-	21
Royalty	1,560	1,560
Other	55	26
Valuation allowance	(4,363)	(3,754)
Total deferred tax assets	2,768	2,954
Deferred tax liabilities:		
Unrealized gain on derivative securities	1,599	1,551
Exploration costs	870	870
Unrealized gains on marketable equity securities	3,869	3,166
Other	12	-
Total deferred tax liabilities	6,350	5,587
Net deferred tax liabilities	$ 3,582	$ 2,633

At December 31, 2005, Solitario has classified $1,362,000 of its deferred tax liability as current, related to the current portion of its investment in Crown common stock.

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

(in thousands)	2005	2004	2003
Expected income tax expense (benefit)	$ (620)	$ (1,310)	$ 1,368
Non-deductible foreign expenses	202	72	(60)
Foreign tax rate differences	25	7	1
State income tax	33	(122)	338
Expiration of loss carryovers	-	-	542
Change in valuation allowance	609	422	(1,530)
Other	8	(4)	10
Income tax expense (benefit)	$ 257	$ (935)	$ 669

During 2005 and 2004, the valuation allowance was increased by $609,000 and 422,000, respectively, 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, 2005, Solitario has unused US Net Operating Loss ("NOL") carryovers of $4,726,000 which begin to expire commencing in 2010. Solitario also has foreign NOL carryovers at December 31, 2005 of $10,863,000 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 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 $13,965,000 and $12,143,000 at December 31, 2005 and 2004, respectively. The fair value of the TNR shares was $94,000 and $112,000 at December 31, 2005 and 2004, respectively.

The fair value of the TNR warrants was $18,000 and $38,000 at December 31, 2005 and 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.

6. Commitments and Contingencies:

In acquiring its interests in mineral claims and leases, Solitario has entered into lease agreements, which may be canceled at its option without penalty. Solitario is required to make minimum rental and option payments in order to maintain its interests in certain claims and leases. See Note 2. Solitario estimates its 2006 mineral property rental and option payments to be approximately $378,500. If Solitario's current joint venture partners elect to continue funding their respective joint ventures throughout the remainder of 2006, Solitario would be reimbursed for approximately $37,500 of those costs. Solitario's mineral property agreement at the El Triunfo Property in Bolivia commits us to exploration expenditures of $200,000 in 2006 in order to maintain our option to purchase.

Solitario has committed to spend $3,773,000 over the next four years on gold exploration in regions (“Alliance Projects”) that are mutually agreed upon by Newmont Exploration and Solitario. As of December 31, 2005, we have expended $335,000 of the total commitment of $3,773,000.

Solitario has entered into certain month-to-month office leases for its field offices in Peru and Brazil. The total rent expense for these offices during 2005, 2004 and 2003 was approximately $36,000, $29,000, and $17,000, 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 $27,000 in 2006. Crown paid approximately $30,000 for rent expense under this lease in 2005. Should the Crown – Kinross merger 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, 2005, 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, 2005 is as follows:

	2005		2004		2003	
	Options	Weighted Average Exercise Price (Cdn$)	Options	Weighted Average Exercise Price (Cdn$)	Options	Weighted Average Exercise Price (Cdn$)
Outstanding, beginning of year	2,272,500	0.82	3,488,500	0.95	3,372,000	0.96
Granted	–	–	–	–	192,500	0.77
Exercised	(32,500)	0.75	(1,121,000)	1.17	(16,000)	1.16
Expired	–	–	(95,000)	1.25	(60,000)	1.16
Outstanding, end of year	2,240,000	0.82	2,272,500	0.82	3,488,500	0.95
Exercisable, end of year	2,219,375	0.83	2,073,750	0.83	3,019,125	0.97

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 2005, 2004 or 2003 as a result of variable accounting for the repriced options. As of December 31, 2005 all repriced options have expired.

The following table summarizes Solitario's stock options as of December 31, 2005:

	Options Outstanding			Options Exercisable	
Exercise Price Cdn$	Number	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price Cdn$	Number Exercisable	Weighted Average Exercise Price Cdn$
0.65	50,000	2.1	0.65	50,000	0.65
0.73	1,075,000	1.2	0.73	1,075,000	0.73
0.81	135,000	2.6	0.81	114,375	0.81
0.94	980,000	0.1	0.94	980,000	0.94
Total	2,240,000	0.8		2,219,375	

NOTES

8. Stockholders' Equity:

Because Solitario owned 6,071,626 shares of Crown, 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. 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 2005 options for 32,500 shares of Solitario common stock were exercised for proceeds of $21,000.

9. Selected Quarterly Financial Data (Unaudited):

(in thousands)	2005			
	March 31,	June 30,	Sept. 30,[1]	Dec. 31,
Net income (loss)	$ (413)	$ (711)	$ 38	$ (994)
Earnings (loss) per share:				
Basic	$ (0.02)	$ (0.03)	$ 0.00	$ (0.04)
Diluted	$ (0.02)	$ (0.03)	$ 0.00	$ (0.04)
Weighted shares outstanding:				
Basic	26,887	27,429	27,433	27,456
Diluted	26,887	27,429	28,611	27,456

(in thousands)	2004			
	March 31,	June 30,	Sept. 30,[2]	Dec. 31,
Net income (loss)	$ (946)	$ (1,861)	$ 228	$ (346)
Earnings (loss) per share:				
Basic	$ (0.04)	$ (0.07)	$ 0.01	$ (0.01)
Diluted	$ (0.04)	$ (0.07)	$ 0.01	$ (0.01)
Weighted shares outstanding:				
Basic	25,133	25,722	25,228	24,693
Diluted	25,133	25,722	26,346	24,693

(1) Solitario reported net income during the third quarter of 2005 primarily related to the Crown dividend payment of $1,275,000 received on July 26, 2005.

(2) 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's net deferred tax liabilities to exceed its deferred tax assets at September 30, 2004. This allowed Solitario to recognize a 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.

10. Subsequent Events:

On February 24, 2006 Crown and Kinross amended the Merger Agreement to (i) extend the date on which either party may terminate the Merger Agreement if the merger contemplated therein has not closed (the "Termination Date") from March 31, 2006 to December 31, 2006, (ii) removed the valuation collar on the transaction, which had previously capped the transaction value at $110 million and (iii) reduced the exchange ratio to 0.32 shares from the previous exchange ratio of 0.34 shares of Kinross common stock for each share of Crown common stock.

During the first quarter of 2006, holders exercised options granted under the Solitario Resources Corporation 1994 Stock Option Plan for 980,000 shares of Solitario common stock at an exercise price of Cdn$0.94 per share and 50,000 shares of Solitario common stock at an exercise price of Cdn$0.65 per share, respectively.

INFORMATION

Corporate Offices

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

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

Notice of Annual Meeting

The Annual Meeting of Shareholders will be at 10 a.m. MDT on Tuesday, June 27, 2006 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

Designed & Produced by Pite Creative – www.pitecreative.com

Solitario Resources Corporation

4251 Kipling Street, Suite 390
Wheat Ridge, Colorado 80033
www.solitarioresources.com
Toronto Stock Exchange: SLR

2005