

SOLITARIO EXPLORATION & ROYALTY CORP.
Form 10-Q
May 06, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2010

OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number **001-39278**

SOLITARIO EXPLORATION & ROYALTY CORP.
(Exact name of registrant as specified in its charter)

Colorado

84-1285791

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

4251 Kipling St. Suite 390, Wheat Ridge, CO

80033

(Address of principal executive offices)

(Zip Code)

(303) 534-1030

Registrant's telephone number, including area code

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES

NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES

NO

Indicate by check mark whether the registrant is a large accelerated filer, accelerated filer, a non-accelerated filer or a smaller reporting company. See the definition of "accelerated filer", "large accelerated filer" and

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"smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

There were 29,750,242 shares of \$0.01 par value common stock outstanding as of May 5, 2010.

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PART I - FINANCIAL INFORMATIONItem 1. Financial StatementsSOLITARIO EXPLORATION & ROYALTY CORP.
CONSOLIDATED BALANCE SHEETS

(in thousands of U.S. dollars, except share and per share amounts)	March 31, <u>2010</u> (unaudited)	December 31, <u>2009</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 249	\$ 1,946
Investments in marketable equity securities, at fair value	4,273	4,600
Prepaid expenses and other	<u>208</u>	<u>196</u>
Total current assets	4,730	6,742
Mineral properties, net	2,739	2,739
Investments in marketable equity securities, at fair value	13,917	15,006
Other assets	<u>195</u>	<u>154</u>
Total assets	<u>\$21,581</u>	<u>\$24,641</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 120	\$ 269
Derivative instruments fair value	4	53
Current taxes payable	20	385
Deferred income taxes	1,472	1,567
Other	<u>150</u>	<u>150</u>
Total current liabilities	1,766	2,424
	5,007	5,555
Deferred income taxes	271	262
Stock option liability	1,286	1,286

Deferred noncontrolling shareholder payments

Commitments and contingencies

Equity:

Solitario shareholders' equity:

Preferred stock, \$0.01 par value, authorized 10,000,000 shares (none issued and outstanding at March 31, 2010 and December 31, 2009)	-	-
Common stock, \$0.01 par value, authorized 50,000,000 shares (29,750,242 shares issued and outstanding at March 31, 2010 and December 31, 2009)	297	297
Additional paid-in capital	35,611	35,611
Accumulated deficit	(33,835)	(32,930)
Accumulated other comprehensive income	<u>10,834</u>	<u>11,722</u>
Total Solitario shareholder's equity	12,907	14,700
Noncontrolling interest	<u>344</u>	<u>414</u>
Total shareholders' equity	<u>13,251</u>	<u>15,114</u>
Total liabilities and shareholders' equity	<u>\$21,581</u>	<u>\$24,641</u>

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See Notes to Unaudited Condensed Consolidated Financial Statements<PAGE>

SOLITARIO EXPLORATION & ROYALTY CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
Unaudited)

(in thousands except per share amounts)

	Three months ended	
	<u>March 31,</u>	
	<u>2010</u>	<u>2009</u>
Costs, expenses and other:		
Exploration expense	\$ 775	\$ 681
Depreciation and amortization	24	23
General and administrative	478	514
Asset write downs	-	10
(Gain) on derivative instruments	(112)	(527)
	<u>(53)</u>	<u>(48)</u>
Interest and dividend income	<u>(22)</u>	<u>-</u>
(Gain) on sale of assets)		
Loss before income taxes	(1,090)	(653)
Income tax benefit (expense)	<u>115</u>	<u>(84)</u>

Net loss	(975)	(737)
Less net loss attributable to noncontrolling interest	<u>70</u>	<u>66</u>
Net loss attributable to Solitario shareholders	\$ <u>(905)</u>	\$ <u>(671)</u>
Loss per common share attributable to Solitario shareholders:		
Basic and diluted	\$ <u>(0.03)</u>	\$ <u>(0.02)</u>
Weighted average shares outstanding:		
Basic and diluted	<u>29,750</u>	<u>29,750</u>

See Notes to Unaudited Condensed Consolidated Financial Statements

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SOLITARIO EXPLORATION & ROYALTY CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands of U.S. dollars)

Three months ended

	<u>March 31,</u>	
	<u>2010</u>	<u>2009</u>
Operating activities:		
Net loss	\$ (905)	\$ (671)
Adjustments to reconcile net loss to net cash used in operating activities:		
Unrealized gain on derivative instruments	(112)	(527)
Depreciation and amortization	24	23
Employee stock option expense (benefit)	9	(121)
Asset write down	-	10
Deferred income tax (benefit) expense	(115)	84
(Gain) on sale of assets	(22)	-
Noncontrolling interest	(70)	(66)
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(11)	(7)
Accounts payable and other current liabilities	<u>(514)</u>	<u>13</u>
Net cash used in operating activities	(1,716)	(1,262)

Investing activities:		
Additions to other assets	(3)	(2)
Sale of derivative instrument, net	-	21
Proceeds from sale of other assets	<u>22</u>	<u>-</u>
Net cash provided by investing activities	<u>19</u>	<u>19</u>
Financing activities:		
Deferred noncontrolling shareholder payment	<u>-</u>	101
Net cash provided by financing activities	<u>-</u>	<u>101</u>
Net (decrease) increase in cash and cash equivalents	(1,697)	(1,142)
Cash and cash equivalents, beginning of period	<u>1,946</u>	<u>1,942</u>
Cash and cash equivalents, end of period	\$ <u>249</u>	\$ <u>800</u>

See Notes to Unaudited Condensed Consolidated Financial Statements

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Business and Significant Accounting Policies

Business

Solitario Exploration & Royalty Corp. ("Solitario") is an exploration stage company with a focus on the acquisition of precious and base metal properties with exploration potential and the development or purchase of royalty interests. Solitario acquires and holds a portfolio of exploration properties for future sale, joint venture or to create a royalty prior to the establishment of proven and probable reserves. Although its mineral properties may be developed in the future through a joint venture, Solitario has never developed a mineral property and Solitario does not anticipate developing any currently owned mineral properties on its own in the future. Solitario may also evaluate mineral properties to potentially buy a royalty. At March 31, 2010, Solitario's mineral properties are located in Mexico, Brazil, Bolivia and Peru. Solitario was incorporated in the state of Colorado on November 15, 1984 as a wholly-owned subsidiary of Crown Resources Corporation ("Crown") and has been actively involved in minerals exploration since 1993.

The accompanying interim condensed consolidated financial statements of Solitario for the three months ended March 31, 2010 and 2009 are unaudited and are prepared in accordance with accounting principles generally accepted in the United States of America. They do not include all disclosures required by generally accepted accounting principles for annual financial statements, but in the opinion of management, include all adjustments, consisting only of normal recurring items, necessary for a fair presentation. Interim results are not necessarily indicative of results, which may be achieved in the future or for the full year ending December 31, 2010.

These financial statements should be read in conjunction with the financial statements and notes thereto which are included in Solitario's Annual Report for the year ended December 31, 2009. The accounting policies set forth in those annual financial statements are the same as the accounting policies utilized in the preparation of these financial statements, except as modified for appropriate interim financial statement presentation.

Recent developments

On April 28, 2010, Solitario signed a definitive venture agreement with Compania De Minas Buenaventura S.A.A. ("Buenaventura") on Solitario's Pachuca Real silver-gold project in central Mexico. The Pachuca Real project encompasses approximately 31,300 hectares of mineral rights in and around the Pachuca silver-gold mining district. The agreement calls for a firm work commitment by Buenaventura of \$2.0 million over the first 18 months. Work commitments over the entire 4.5 years total \$12.0 million. Buenaventura will earn a 51% interest in the project upon the completion of \$12.0 million in expenditures. Buenaventura will have the right to earn an additional 14% (total 65%) interest by completing a positive feasibility study for the project. During the feasibility stage, Buenaventura is required to spend a minimum of \$5.0 million annually until such time as the positive feasibility study is completed. Buenaventura has the right to terminate the agreement at anytime following its firm initial work commitment. Upon completion of the feasibility study, Solitario will have the option to self-finance its 35%-participating interest in the project, or to have Buenaventura fund Solitario's portion of construction costs at Libor + 3%. If Solitario elects to have Buenaventura fund its portion of construction costs, then Solitario's participating interest will be 30% and Buenaventura's interest will be 70%.

On March 9, 2010 Solitario signed a letter agreement with Regent Holdings, Ltd. ("Regent"), related to Solitario's Mercurio property, located in Brazil, whereby Regent has agreed to pay to Solitario \$1,000,000 over the next four years, in the amounts of \$50,000, \$100,000, \$200,000 and \$650,000 beginning March 15, 2011 and on each anniversary of that date through March 15, 2014, and invest in minimum expenditure amounts totaling \$900,000 over the same period. Upon the final payment Regent will own Mercurio and Solitario will retain a net smelter royalty of 1.5% on all ounces of gold produced at Mercurio up to 2 million ounces and Solitario will retain a net smelter royalty of 2.0% on all ounces of gold produced at Mercurio over 2 million ounces. Regent may terminate the agreement at any time after six months from the date of signing the agreement. Regent will be responsible for all payments to keep the Mercurio claims in good standing during the period of the agreement.

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Solitario has a significant investment in Kinross Gold Corporation ("Kinross") at March 31, 2010, which consists of 1,050,000 shares of Kinross common stock. As of March 31, 2010, 550,000 of these shares are not subject to the Kinross Collar, discussed below under "Derivative instruments." During the three months ended March 31, 2010 Solitario did not sell any Kinross common shares. Subsequent to March 31, 2010, on April 14, 2010, a tranche of the Kinross Collar due on that date expired, and 400,000 shares under the Kinross Collar were released. No shares were delivered to UBS under the Kinross Collar and no cash was paid or received upon termination of that tranche of the Kinross Collar. Subsequent to March 31, 2010, Solitario sold 30,000 shares of Kinross for proceeds of \$541,000. As of May 5, 2010, the 920,000 Kinross shares not subject to the Kinross Collar, discussed below, have a value of approximately \$16.2 million based upon the market price of \$17.69 per Kinross share. Any significant fluctuation in the market value of Kinross common shares could have a material impact on Solitario's liquidity and capital resources.

Employee stock compensation plans

Solitario accounts for its stock options under the provisions of ASC 718 Compensation-Stock Compensation. Pursuant to ASC 718 Solitario classifies its stock options as liabilities as they are priced in Canadian dollars and Solitario's functional currency is United States dollars. Solitario records a liability for the fair value of the vested

portion of outstanding options based upon a Black-Scholes option pricing model. This model requires the input of subjective assumptions, including a risk free interest rate, the contractual term, the exchange rate between the United States dollar and the Canadian dollar, a zero dividend yield, a zero forfeiture rate, and an expected volatility based upon the historical volatility of Solitario's common stock on the Toronto Stock Exchange (the "TSX") over the period corresponding to the expected life of the options. These estimates involve inherent uncertainties and the application of management judgment. As a result, if other assumptions had been used, Solitario's recorded stock-based compensation expense could have been materially different from that reported.

Solitario's outstanding options on the date of grant have a five year term, and vest 25% on date of grant and 25% on each anniversary date. Solitario recognizes stock option compensation expense (benefit) for the change in fair value of vested options. Solitario records stock option liability for the vested fair value of each option grant on the measurement date by multiplying the estimated fair value determined using the Black-Scholes model by a vesting percentage, with 25% recognized immediately, and the remaining 75% recognized over three years on a straight line basis.

Solitario granted 519,000 options during 2009. The options were granted on May 19, 2009, with a grant date fair value of \$339,000, based upon a Black-Scholes pricing model resulting in a weighted average grant date fair value of \$0.65 per share.

At March 31, 2010 and December 31, 2009, the fair value of outstanding options granted under the Solitario Resources Corporation 2006 Stock Option Incentive Plan (the "2006 Plan") was determined utilizing the following assumptions and a Canadian dollar to United States dollar exchange rate of 0.98112 and 0.9529, respectively.

Fair Value at March 31, 2010

Grant Date	5/19/09
Plan	2006 Plan
Option price (Cdn\$)	\$1.55
Options outstanding	519,000
Expected life	4.1 yrs
Expected volatility	58%
Risk free interest rate	2.3%
Weighted average fair value	\$1.14
Portion of vesting at measurement date	45.8%
Fair value of outstanding vested options	\$271,000

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Fair Value at December 31, 2009

Grant Date	5/19/09
Plan	2006 Plan
Option price (Cdn\$)	\$1.55
Options outstanding	519,000
Expected Life	4.4 yrs
Expected volatility	57%
Risk free interest rate	2.2%
Weighted average fair value	\$1.27

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Portion of vesting at measurement date 39.5%
 Fair value of outstanding vested options \$262,000

During the three months ended March 31, 2010 and 2009, Solitario recognized \$9,000 in stock option compensation expense and \$121,000 in stock option compensation benefit, respectively. There were no new options granted during the first three months of 2010.

The following table summarizes the activity for stock options outstanding under the 2006 Plan as of March 31, 2010, with exercise prices equal to the stock price, as defined, on the date of grant and no restrictions on exercisability after vesting:

	Shares issuable on outstanding options	Weighted average exercise Price (Cdn\$)	Weighted average remaining contractual term in years	Aggregate intrinsic value(1)
2006 Plan				
Outstanding, beginning of year	519,000	\$1.55		
Granted	-			
Exercised	-			
Forfeited	<u>-</u>			
Outstanding at March 31, 2010	<u>519,000</u>	\$1.55	<u>4.1</u>	<u>\$280,000</u>
Exercisable at March 31, 2010	<u>129,750</u>	\$1.55	<u>4.1</u>	<u>\$ 70,000</u>

(1)The intrinsic value at March 31, 2010 based upon the quoted market price of Cdn\$2.10 per share for our common stock on the TSX and an exchange ratio of 0.98112 Canadian dollars per United States dollar.

Earnings per share

The calculation of basic and diluted earnings and loss per share is based on the weighted average number of common shares outstanding during the three months ended March 31, 2010 and 2009.

Solitario's potentially dilutive shares are related to outstanding common stock options. Diluted earnings per common share consider the impact of these potentially dilutive shares, except in periods of a loss because their inclusion would have an anti-dilutive effect. It also excludes those periods when the option exercise price exceeds the weighted average market price of a share of our common stock during the period. Approximately 519,000 and 2,135,000, respectively, of potential common shares were excluded from the calculation of diluted loss per share for the three months ended March 31, 2010 and 2009 because the effects were anti-dilutive.

Derivative instruments

On October 12, 2007 Solitario entered into a Zero-Premium Equity Collar (the "Kinross Collar") pursuant to a Master Agreement for Equity Collars and a Pledge and Security Agreement with UBS AG, London, England, an Affiliate of UBS Securities LLC (collectively "UBS"). Under the terms of the Kinross Collar Solitario pledged 900,000 shares of Kinross common shares to be sold (or delivered back to Solitario with any differences settled in cash). As of March 31, 2010 the Kinross Collar consists of two tranches priced at (i) 400,000 shares due on April 13,

2010 for a lower threshold price of \$13.69 per share (the "Floor Price") and an upper threshold price of \$24.34 per share; and (ii) 100,000 shares due on April 12, 2011 for the Floor Price and an upper threshold price of \$27.50 per share. On April 13, 2010, 400,000 shares under the Kinross Collar were released upon the expiration of the tranche of the Kinross Collar that expired on that date. No shares were delivered to UBS under the Kinross Collar and no cash was paid or received upon termination of that tranche of the Kinross Collar.

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Solitario has not designated the Kinross Collar as hedging instruments as described in ASC 815 Derivatives and Hedging and any changes in the fair market value of the Kinross Collar are recognized in the statement of operations in the period of the change. As of March 31, 2010 and December 31, 2009, Solitario recorded \$83,000 and \$9,000, respectively, for the fair market value of the Kinross Collar. As of March 31, 2010, \$2,000 is recorded as a derivative instrument in current assets and \$81,000 is recorded in other assets and as of December 31, 2010, \$11,000 is recorded as a derivative instrument in current liabilities and \$20,000 is recorded in other assets. Solitario recorded an unrealized gain of \$74,000 and \$532,000 during the three months ending March 31, 2010 and 2009, respectively, in gain on derivative instruments for the change in the fair market value of the Kinross Collar.

On November 13, 2009, Solitario sold a covered call option covering 40,000 shares of Kinross with a strike price of \$22.00 expiring on May 22, 2010 (the "May 10 Kinross Call") for \$76,000. As of March 31, 2010 and December 31, 2009 Solitario has recorded a liability for the May 10 Kinross Call of \$4,000 and \$42,000, respectively and Solitario recorded a gain on derivative instrument of \$38,000 during the three months ended March 31, 2010 related to the May 10 Kinross Call.

On December 10, 2008, Solitario sold two covered call options covering 50,000 shares of Kinross each (the "February 09 Kinross Calls") for \$104,000 cash and recorded a derivative instrument liability of \$116,000 as of December 31, 2008. The options expired unexercised in February 2009 and Solitario recognized a gain on derivative instrument of \$116,000 during the three months ended March 31, 2009.

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

The following table provides a detail of the location and amount of the fair values of Solitario's derivative instruments presented in the condensed consolidated balance sheet as of March 31, 2010 and December 31, 2009:

<u>(thousands)</u>	<u>Derivative Instruments</u>		
	<u>Balance Sheet Location</u>	<u>March 31, 2010</u>	<u>December 31, 2009</u>
Derivatives not designated as hedging instruments under ASC 815			
	Current assets	\$ 2	\$ -
Kinross Collar	Current liabilities	-	11
Kinross Collar	Long-term other assets	81	20
Kinross Collar	Long-term liabilities	-	-
Kinross Collar			

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May 10 Kinross Call	Current liabilities	4	42
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The following amounts are included in gain on derivative instruments in the condensed consolidated statement of operations for the three months ended March 31, 2010 and 2009:

	<u>March 31, 2010</u>	<u>March 31, 2009</u>
<u>(thousands)</u>		
Derivatives not designated as hedging instruments under ASC 815	<u>gain</u>	<u>gain</u>
Kinross Collar	\$ 74	\$ 411
May 09 Kinross Call	38	-
February 09 Kinross Call	<u>-</u>	<u>116</u>
Total derivatives	\$ <u>112</u>	\$ <u>527</u>
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Fair Value

Effective January 1, 2008, Solitario adopted ASC 820, "Fair Value Measurements." ASC 820 establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820 also requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows:

Level 1

: quoted prices in active markets for identical assets or liabilities;

Level 2: quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or**Level 3:** Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement. During the three months ended March 31, 2010 and 2009, there were no reclassification in financial assets or liabilities between Level 1, 2 or 3 categories.

The following is a listing of Solitario's financial assets and liabilities required to be measured at fair value on a recurring basis and where they are classified within the hierarchy as of March 31, 2010:

<u>(thousands)</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Marketable equity securities	\$18,190	-	-	\$18,190
Kinross Collar derivative instrument	-	83	-	83
Liabilities				
May 10 Kinross Call derivative instrument	4	-	-	4

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The following is a listing of Solitario's financial assets and liabilities required to be measured at fair value on a recurring basis and where they are classified within the hierarchy as of December 31, 2009:

(thousands)	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Marketable equity securities	\$19,606	-	-	\$19,606
Kinross Collar derivative instrument	-	20	-	20
Liabilities				
Kinross Collar derivative instrument	-	11	-	11
May 10 Kinross Calls derivative instrument	42	-	-	42
Marketable equity securities:				

At March 31, 2010 and December 31, 2009 the fair value of Solitario's marketable equity securities are based upon quoted market prices.

Kinross Collar:

The Kinross Collar between Solitario and UBS is a contractual hedge that is not traded on any public exchange. Solitario determines the fair value of the Kinross Collar using a Black-Scholes model using inputs, including the price of a share of Kinross common stock, volatility of Kinross common stock price that are readily available from public markets, and discount rates that include an assessment of performance risk, therefore, they are classified as Level 2 inputs. See Derivative instruments above.

Covered call options:

The May 10 Kinross Calls at March 31, 2010 and December 31, 2009 are exchange traded options and fair values are based upon quoted market prices. See Derivative instruments above.

During the three months ended March 31, 2010, Solitario did not change any of the valuation techniques used to measure its financial assets and liabilities at fair value.

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Marketable equity securities

Solitario's investments in marketable equity securities are classified as available-for-sale and are carried at fair value, which is based upon quoted prices of the securities owned. The cost of marketable equity securities sold is determined by the specific identification method. Changes in market value are recorded in accumulated other comprehensive income within shareholders' equity, unless a decline in market value is considered other than temporary, in which case the decline is recognized as a loss in the consolidated statement of operations. Solitario had marketable equity securities with fair values of \$18,190,000 and \$19,606,000, respectively, and cost of \$1,035,000, at March 31, 2010 and December 31, 2009. Solitario has accumulated other comprehensive income for unrealized holding gains of \$17,154,000 and \$18,571,000, respectively, net of deferred taxes of \$6,320,000 and \$6,849,000, respectively, at March 31, 2010 and December 31, 2009 related to our marketable equity securities. Solitario did not sell any Kinross common stock during the three months ended March 31, 2010 and March 31, 2009. Solitario has classified \$4,273,000 and \$4,600,000, respectively, of marketable equity securities as current, as of March 31, 2010 and December 31, 2009, which represents Solitario's estimate of the portion of marketable equity securities that will be liquidated within one year.

The following table represents changes in marketable equity securities.

(in thousands)	Three months ended	
	<u>2010</u>	<u>2009</u>
Gross cash proceeds	\$ -	\$ -
Cost	<u>-</u>	<u>-</u>
Gross gain on sale included in earnings during the period	<u>-</u>	<u>-</u>
Unrealized holding gain (loss) arising during the period included		
in other comprehensive income, net of tax of \$528 and \$230.	(888)	(387)
<u>Revenue Recognition</u>		

Solitario records any proceeds from parties earning an interest in subsidiaries as deferred noncontrolling shareholder payments until the party earns an interest in the subsidiary. Upon earning an initial or subsequent interest in the subsidiary by the other party, Solitario records noncontrolling interest equal to the earned percentage interest in the net book value of the subsidiary and any difference between the proceeds recorded in deferred noncontrolling interest is recorded as additional paid-in-capital. In the event the parties do not earn either an initial interest or a subsequent interest in the subsidiary, Solitario records any payments included in deferred noncontrolling shareholder payments to the statement of operations. During the three months ended March 31, 2010 Solitario did not receive any deferred noncontrolling shareholder payments from Anglo Platinum Limited ("Anglo"). During the three months ended March 31, 2009, Solitario received \$101,000 in deferred noncontrolling shareholder payments from Anglo. Solitario has recorded deferred noncontrolling shareholder payments of \$1,286,000 as of March 31, 2010 and December 31, 2009. Solitario records delay rental payments as revenue in the period received. There were no delay rental payments received during the three months ended March 31, 2010 or 2009. Any payments received for the sale of property interests are recorded as a reduction of the related property's capitalized cost. Proceeds which exceed the capitalized cost of the property are recognized as revenue.

Recent Accounting Pronouncements

In April 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-13, "Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades" ("ASU 2010-13"). ASU 2010-13 addresses the classification of a share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. FASB Accounting Standards Codification ("ASC") Topic 718 was amended to clarify that a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trade shall not be considered to contain a market, performance or service condition. Therefore, such an award is not to be classified as a liability if it otherwise qualifies for equity classification. The amendments in ASU 2010-13 are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010, with early application permitted. Solitario is currently evaluating the impact ASU 2010-13 will have on its financial statements.

In January 2010, ASC guidance for fair value measurements and disclosure was updated to require additional disclosures related to transfers in and out of level 1 and 2 fair value measurements and enhanced detail in the level 3 reconciliation. The guidance was amended to clarify the level of disaggregation required for assets and liabilities and the disclosures required for inputs and valuation techniques used to measure the fair value of assets and liabilities that fall in either level 2 or level 3. The updated guidance was effective for Solitario's fiscal year beginning January 1, 2010, with the exception of the level 3 disaggregation, which is effective for Solitario's fiscal year beginning January 1, 2011. The adoption had no impact on the Solitario's condensed consolidated financial position, results of operations or cash flows. See the discussion of Solitario's assets and liabilities measured at fair value above under "Fair Value."

2. Comprehensive loss

The following represents comprehensive loss and its components:

(in thousands)	<u>Three months ended</u> <u>March 31,</u>	
	<u>2010</u>	<u>2009</u>
Net loss attributable to Solitario shareholders	\$ (905)	\$ (671)
Unrealized loss on marketable equity securities, net of related tax effects	<u>(888)</u>	<u>(387)</u>
Comprehensive loss) \$(<u>1,793</u>)	\$(<u>1,058</u>)

3. Exploration Expense

The following items comprised exploration expense:

(in thousands)	<u>Three months ended</u> <u>March 31,</u>	
	<u>2010</u>	<u>2009</u>
Geologic and field expenses	\$ 660	\$ 371
Administrative	<u>115</u>	<u>310</u>
Total exploration costs	\$ <u>775</u>	\$ <u>681</u>

4. Income Taxes

Solitario accounts for income taxes in accordance with ASC 740, "Accounting for Income Taxes." Under ASC 740, income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related to certain income and expenses recognized in different periods for financial and income tax reporting purposes. Deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes are also recognized for operating losses and tax credits that are available to offset future taxable income and income taxes, respectively. A valuation allowance is provided if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Primarily as a result of increases in the value of Solitario's holdings of Kinross common stock recognized as other comprehensive income, Solitario estimated that its deferred tax liabilities exceeded its realizable deferred tax assets by \$6,479,000 and \$7,122,000 at March 31, 2010 and December 31, 2009.

During the first quarter of 2010, Solitario recorded \$115,000 deferred tax benefit in the statement of operations and recorded a deferred tax benefit of \$528,000 to other comprehensive income related to net unrealized losses of \$1,416,000 on marketable equity securities. During the first quarter of 2009, Solitario recorded \$84,000 deferred tax expense in the statement of operations and recorded a deferred tax benefit of \$230,000 to other comprehensive income related to net unrealized losses of \$617,000 on marketable equity securities.

5. Financial Market Risk

Approximately \$196,000 of Solitario's \$249,000 cash as of March 31, 2010 is held in accounts, both in United States financial institutions and foreign banks that are not insured by the Federal Deposit Insurance Corporation. These funds may be subject to risk if the financial institutions where these funds are on deposit fail. At March 31, 2010, \$53,000 of our cash is held in a United States Bank, \$72,000 and \$60,000, respectively, are held in the United States in money market funds managed by UBS and Black Rock Financial Advisors. The balance of our cash is held in foreign banks in Canada, Brazil, Peru and Mexico.

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Solitario's Kinross Collar is subject to certain counterparty risk if, on the date that shares subject to the Kinross Collar are due, the price of Kinross common stock is below the Floor Price and UBS is unable to pay the differential between the market price and the Floor Price. See a discussion of the Kinross Collar under "Derivative instruments," above.

6. Stockholder's Equity and Noncontrolling Interest

The following provides a reconciliation of the beginning and ending balances of Solitario Shareholder's equity and Anglo's noncontrolling interest in our consolidated subsidiary Pedra Branca Mineracao, Ltd. ("PBM"), which was owned 30% by Anglo for the three months ended March 31, 2010 and 2009. PBM has no debt or other guarantee obligations as of March 31, 2010 and 2009.

(thousands)	March 31, 2010		March 31, 2009	
	Total Solitario Shareholders' <u>Equity</u>	Non- controlling <u>Interest</u>	Total Solitario Shareholders' <u>Equity</u>	Non- Controlling <u>Interest</u>
Beginning balance	\$14,700	\$414	\$17,218	\$833
Comprehensive income:				
Net loss	(905)	(70)	(671)	(67)
Net unrealized loss on marketable equity securities (net of tax of \$528 and \$230)	<u>(888)</u>	<u>—</u>	<u>(387)</u>	<u>—</u>
Comprehensive loss	<u>(1,793)</u>	<u>(70)</u>	<u>(1,058)</u>	<u>(67)</u>
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Ending balance	\$ <u>12.907</u>	\$ <u>344</u>	\$ <u>16.160</u>	\$ <u>766</u>
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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the information contained in the consolidated financial statements of Solitario for the years ended December 31, 2009, 2008 and 2007, and Management's Discussion and Analysis contained in Solitario's Annual Report on Form 10-K for the year ended December 31, 2009. Solitario's financial condition and results of operations are not necessarily indicative of what may be expected in future periods. Unless otherwise indicated, all references to dollars are to U.S. dollars.

(a). Business Overview and Summary

We are an exploration stage company with a focus on the acquisition of precious and base metal properties with exploration potential and the development or purchase of royalty interests. We acquire and hold a portfolio of exploration properties for future sale, joint venture, or to create a royalty prior to the establishment of proven and probable reserves. Although our mineral properties may be developed in the future through a joint venture, we have never developed a mineral property and we do not anticipate developing any currently owned mineral properties on our own in the future. We may also evaluate mineral properties to potentially buy a royalty. At March 31, 2010 we had 15 exploration properties in Mexico, Brazil, Bolivia and Peru. We also have an interest in our Yanacocha and La Tola royalty properties in Peru.

(b). Recent Developments

On April 28, 2010, we signed a definitive venture agreement with Compania De Minas Buenaventura S.A.A ("Buenaventura") on Solitario's Pachuca Real silver-gold project in central Mexico. The Pachuca Real project encompasses approximately 31,300 hectares of mineral rights in and around the Pachuca silver-gold mining district. The agreement calls for a firm work commitment by Buenaventura of \$2.0 million over the first 18 months. Work commitments over the entire 4.5 years total \$12.0 million. Buenaventura will earn a 51% interest in the project upon the completion of \$12.0 million in expenditures. Buenaventura will have the right to earn an additional 14% (total 65%) by completing a positive feasibility study for the project. During the feasibility stage, Buenaventura is required to spend a minimum of \$5.0 million annually until such time as the positive feasibility study is completed. Buenaventura has the right to terminate the agreement at anytime following its firm initial work commitment. Upon completion of the feasibility study, we will have the option to self-finance our 35%-participating interest in the project, or to have Buenaventura fund our portion of construction costs at Libor + 3%. If we elect to have Buenaventura fund our portion of construction costs, then our participating interest will be 30% and Buenaventura interest will be 70%.

On March 9, 2010 we signed a letter agreement with Regent Holdings, Ltd. ("Regent"), related to Solitario's Mercurio project located in Brazil, whereby Regent has agreed to pay to Solitario \$1,000,000 over the next four years, in the amounts of \$50,000, \$100,000, \$200,000 and \$650,000 beginning March 15, 2011 and on each anniversary of that date through March 15, 2014, and invest in minimum expenditure amounts totaling \$900,000 over the same period. Upon the final payment Regent will own Mercurio and we will retain a net smelter royalty of 1.5% on all ounces of gold produced at Mercurio up to 2 million ounces and will retain a net smelter royalty of 2.0% on all ounces of gold over 2 million ounces. Regent may terminate the agreement at any time after six months from the date of signing the agreement. Regent will be responsible for all payments to keep the Mercurio claims in good standing during the period of the agreement.

We have a significant investment in Kinross Gold Corporation ("Kinross") at March 31, 2010, which consists of 1,050,000 shares of Kinross common stock. As of March 31, 2010, 550,000 of these shares are not subject to the Kinross Collar, discussed below. During the three months ended March 31, 2010 we did not sell any shares of Kinross. Subsequent to March 31, 2010, we sold 30,000 shares of Kinross for proceeds of 541,000. Subsequent to March 31, 2010, on April 14, 2010, a tranche of the Kinross Collar due on that date expired, and 400,000 shares under the Kinross Collar were released. No shares were delivered to UBS under the Kinross Collar and no cash was paid or received under the termination of that tranche of the Kinross Collar. As of May 5, 2010, the 920,000 Kinross shares not subject to the Kinross Collar, discussed below, have a value of approximately \$16.2 million based upon the market price of \$17.69 per Kinross share. Any significant fluctuation in the market value of Kinross common shares could have a material impact on Solitario's liquidity and capital resources.

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(c). Results of Operations

Comparison of the quarter ended March 31, 2010 to the quarter ended March 31, 2009

We had a net loss of \$905,000 or \$0.03 per basic and diluted share for the three months ended March 31, 2010 compared to a loss of \$671,000 or \$0.02 per basic and diluted share for the first three months ended March 31, 2009. As explained in more detail below, the primary reason for the increase in the loss in the first three months of 2010 compared to the loss in the first three months of 2009 was from a reduction in the unrealized gain on derivative instruments to \$112,000 during the three months ended March 31, 2010 compared to an unrealized gain of \$527,000 during the three months ended March 31, 2009, primarily related to a smaller reduction in the estimated liability related to our Kinross Collar during the three months ended March 31, 2010 compared to the three months ended March 31, 2009. In addition, we recorded stock-option compensation expense of \$9,000 included in general and administrative costs during the three months ended March 31, 2010 related to an increase in our estimated stock option liability compared to stock-option compensation benefit of \$121,000 during the first three months of 2009. These items were mitigated by an increase in our exploration expense during the three months ended March 31, 2010 to \$775,000 compared to exploration expense of \$681,000 during the first three months of 2009. In addition there was a reduction in our non-stock option general and administrative costs to \$469,000 during the three months ended March 31, 2010 compared to non-stock option general and administrative costs of \$635,000 during the first three months of 2009. There were no sales of Kinross stock during the three months ended March 31, 2010 or 2009. Additionally as a result of an increase in our pre-tax loss during the three months ended March 31, 2010 compared to the three months ended March 31, 2009, we recorded income tax benefit of \$115,000 during the first quarter of 2010 compared to an income tax expense of \$84,000 during the first quarter of 2009. Each of these items is discussed in more detail below.

Our net exploration expense increased to \$775,000 during the first quarter of 2010 compared to \$681,000 in the first quarter of 2009. During 2010 we significantly increased our exploration efforts in Mexico by drilling our La Noria project in Mexico and pre-drilling expenditures on our Palmira project in Mexico. In addition we increased our exploration activity on our Pedra Branca, Cajatambo, El Sello and Espanola projects during the three months ended March 31, 2010 compared to the three months ended March 31, 2009. We also slightly increased our reconnaissance efforts during the three months ended March 31, 2010 compared to the first quarter 2009. The price of an ounce of gold has fluctuated significantly during 2009 and 2010, but has been trending upward during this period and has been trading between approximately \$1,075 and \$1,150 during the first three months of 2010, compared to an average price of approximately \$972 per ounce of gold for 2009. Accordingly, we have selectively increased our exploration efforts to capitalize on the recent increase in commodity prices. We anticipate our future exploration activities will continue to follow the broad commodity pricing but will be most affected by the property-by-property results of our exploration efforts and assumed potential of our currently owned properties and any properties we may acquire. We anticipate continuing to acquire mineral properties, either through staking, joint venture or lease, in Latin America during 2010

and our 2010 exploration expenditure budget is approximately \$4,705,000. This budget includes approximately \$1,428,000 for the Pedra Branca project, which has been budgeted to be funded by deferred noncontrolling shareholder contributions from Anglo.

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Exploration expense (in thousands) by project for the three months ended March 31, 2010 and 2009 consisted of the following:

<u>Project Name</u>	<u>March 31,</u> <u>2010</u>	<u>March 31</u> <u>2009</u>
Pedra Branca, net	\$ 193	\$ 171
La Noria	118	-
Palmira	73	-
Cajatambo	28	5
El Sello	19	-
Espanola	16	5
Mercurio	13	17
Pachuca	8	27
La Promessa	5	23
Excelsior	3	-
Chonta	2	99
Newmont Strategic Alliance	1	28
Paria Cruz	1	-
Triunfo	1	-
Bongara	1	-
Purica	-	31
Cerro Azul	-	19
Reconnaissance	<u>293</u>	<u>256</u>
Total exploration expense	<u>\$775</u>	<u>\$681</u>

General and administrative costs, excluding stock option compensation costs discussed below, were \$469,000 during the first quarter of 2010 compared to \$635,000 in the first quarter of 2009. As part of a goal of reducing our administrative costs, we made an effort to reduce our non-exploration administrative costs during 2009 and 2010. The effect of this effort has been a reduction of our administrative overhead including salary costs, office costs and banking and insurance costs. A portion of these costs were absorbed in our exploration administrative costs. The following components of general and administrative costs include a decrease as part of this goal, including: (i) salary and benefit costs being reduced to \$247,000 during the first three months of 2010 compared to \$358,000 during the first three months of 2009; (ii) reductions in office and insurance costs to \$33,000 during the first three months of 2010 compared to \$46,000 during the first three months of 2009; and (iii) bank and currency exchange losses were reduced to \$16,000 during 2010 compared to \$24,000 during the first quarter of 2009. Legal and accounting expense also decreased to \$56,000 during the first three months of 2010 compared to \$102,000 in the first three months of 2009 as a result of incurring legal and accounting costs during 2009 related to a restatement of our prior year financial statements during the first quarter of 2009, and we did not incur the same level of costs during 2010. Offsetting these reductions in expenses was an increase in our travel and shareholder services expenses to \$116,000 during the first quarter of 2010 as compared to \$105,000 during the first quarter of 2009. We anticipate our full year general and administrative costs will be reduced during 2010 compared to 2009 primarily as a result of the administrative reductions discussed above.

We account for our employee stock options under the provisions of ASC 718, which requires the expensing of the grant date fair value of options over the term of their vesting. We estimate the fair values of the options granted using a Black-Scholes option pricing model. During the three months ended March 31, 2010, we recognized a stock-based compensation expense of \$9,000 as part of general and administrative expense compared to a stock compensation benefit of \$121,000 recognized during the three months ended March 31, 2009. See Stock compensation plans in Note 1 to the condensed consolidated financial statements.

During the three months ended March 31, 2010 and March 31, 2009 we did not sell any shares of Kinross and accordingly did not record any gain on sale. We anticipate we will sell additional shares of Kinross during the remainder of 2010 to fund our ongoing expenditures for exploration and general and administrative costs. See also "Liquidity and Capital Resources," below.

During the three months ended March 31, 2010, depreciation and amortization expense was \$24,000 compared to \$23,000 in the first quarter of 2009. We do not expect a significant change in our depreciation and amortization costs during the remainder of 2010 as compared to 2009.

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During the first quarter of 2010, we recorded interest and dividend income of \$53,000 compared to interest and dividend income of \$48,000 during the same period in 2009. The increase was a result of an increase in dividends received during 2010 compared to 2009. Kinross declared a \$0.04 per share dividend in March of 2010 and 2009, which resulted in \$52,000 in dividend income during the three months ended March 31, 2010 compared to dividend income of \$46,000 during the three months ended March 31, 2009.

We regularly perform evaluations of our mineral property assets to assess the recoverability of our investments in these assets. All long-lived assets are reviewed for impairment whenever events or circumstances change which indicate the carrying amount of an asset may not be recoverable utilizing guidelines based upon future net cash flows from the asset as well as our estimates of the geological potential of early stage mineral property and its related value for future sale, joint venture or development by us or others. During the three months ended March 31, 2010 we recorded no property impairments. During the three months ended March 31, 2009 we recorded an asset write-down of \$10,000 related to our Purica project in Mexico.

We recorded a deferred tax benefit of \$115,000 during the first quarter of 2010 compared to an expense of \$84,000 during the first quarter of 2009. The tax expense is primarily related to higher United States administrative expenses, discussed above, during the three months ended March 31, 2010 compared to the three months ended March 31, 2009. As of December 31, 2009, we have utilized all of our United States net operating loss carryforwards. We anticipate having currently payable income taxes during 2010 as a result of the assumption that the proceeds of expected sales of Kinross shares will be in excess of our anticipated United States general and administrative costs, for the full year of 2010. 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.

(d). Liquidity and Capital Resources

Investment in Marketable Equity Securities

Our marketable equity securities are classified as available-for-sale and are carried at fair value, which is based upon market quotes of the underlying securities. At March 31, 2010 and December 31, 2009, we owned 1,050,000 shares of Kinross common stock. At March 31, 2010, 500,000 of these 1,050,000 shares are subject to the Kinross Collar and another 40,000 shares are subject to the May 10 Kinross Call. In addition we own other marketable equity securities with a fair value of \$245,000 and \$286,000 as of March 31, 2010 and December 31, 2009, respectively. At March 31, 2010 we have classified \$13,917,000 of our marketable equity securities as a long-term asset. Any change in the market value of the shares of Kinross common stock could have a material impact on our liquidity and capital resources. The share price of Kinross common stock has varied from a high of \$23.91 per share to a low of \$14.89 per share during the 52 weeks ended March 31, 2010.

Hedge of the Investment in Kinross

On October 12, 2007 we entered into a Zero-Premium Equity Collar (the "Kinross Collar") pursuant to a Master Agreement for Equity Collars and a Pledge and Security Agreement with UBS whereby we pledged 900,000 shares of Kinross Gold Corporation ("Kinross") common shares to be sold (or delivered back to us with any differences settled in cash). The prices under the Kinross Collar as of March 31, 2010 are (i) 400,000 shares due on April 13, 2010 for a lower threshold price of \$13.69 per share (the "Floor Price") and an upper threshold price of \$24.34 per share; and (ii) 100,000 shares due on April 12, 2011 for no less than the Floor Price and an upper threshold price of no more than \$27.50 per share. Kinross' quoted closing price was \$16.37 per share on October 12, 2007, the date of the initiation of the Kinross Collar. On April 13, 2010, the second tranche of the Kinross Collar expired and 400,000 shares under the Kinross Collar were released. No shares were delivered to UBS under the Kinross Collar and no cash was paid or received upon the termination of this tranche of the Kinross Collar. As of May 5, 2010, 100,000 shares of Kinross common stock remain subject to the Kinross Collar.

The business purpose of the Kinross Collar is to provide downside price protection of the Floor Price on approximately 500,000 shares of the total shares we own as of March 31, 2010, in the event Kinross stock were to drop significantly from the price on the date Solitario entered into the Kinross Collar. In consideration for obtaining this price protection, Solitario has given up the upside appreciation above the upper threshold prices discussed above during the term of the respective tranches.

On November 13, 2009, we sold a covered call option covering 40,000 shares of Kinross with a strike price of \$22.00 expiring on May 22, 2010 (the "May 10 Kinross Call") for \$76,000. As of March 31, 2010 and December 31, 2009 Solitario has recorded a liability for the May 10 Kinross Call of \$4,000 and \$42,000, respectively and Solitario recorded a gain on derivative instrument of \$38,000 during the three months ended March 31, 2010 related to the May 10 Kinross Call.

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On December 10, 2008, we sold two covered call options covering 50,000 shares of Kinross each (the "February 09 Kinross Calls"). We recorded a gain on derivative instrument of \$116,000 for the change in fair value on the February 09 Kinross Calls during the three months ended March 31, 2009.

We have not adopted any further plans to replace the expiring Kinross Collar with a similar instrument to hedge our investment in Kinross. However we will continue to evaluate potential of selling covered calls to provide additional cash flow on planned sales of Kinross over the next year. In addition we plan to evaluate other methods of financing our operations in addition to the outright sale of our holdings of Kinross to include (i) hedging, similar to the Kinross Collar, (ii) forward sales of Kinross shares and (iii) the issuance of debt secured by our holdings of Kinross shares. The implementation of these strategies, if at all, will depend on a number of factors, including our cash flow requirements, the impacts of current and future taxes, and market conditions, none of which we can predict at this

time.

Working Capital

We had working capital of \$2,964,000 at March 31, 2010 compared to working capital of \$4,318,000 as of December 31, 2009. Our working capital at March 31, 2010 consists of our cash and cash equivalents and marketable equity securities, primarily consisting of the current portion of our investment in 1,050,000 shares of Kinross common stock of \$4,273,000, less related current deferred taxes of \$1,472,000. In addition, at March 31, 2010 we have recorded \$4,000 as a current liability for the estimated fair value of the April 10 Kinross Call and have recorded \$2,000 as a current asset for the estimated fair value of the portion of the Kinross Collar due on April 13, 2010, discussed above. We intend to liquidate a portion of our Kinross shares over the next three years, subject to the Kinross Collar discussed above, 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 and have forecasted the sale of 250,000 shares of Kinross during 2010 for expected proceeds of \$4,750,000. During the first three months of 2010, we did not sell any Kinross shares. Subsequent to March 31, 2010, we sold 30,000 shares of Kinross common stock for proceeds of \$541,000. 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. In addition, we anticipate that proceeds from sale of Kinross shares in excess of our United States tax deductible expenses, which consist primarily of our general and administrative costs, will create a current tax liability. We have forecast that a portion of any proceeds from the sale of our Kinross shares in the future will be used to pay these taxes.

Cash and cash equivalents were \$249,000 as of March 31, 2010 compared to \$1,946,000 at December 31, 2009. As of March 31, 2010, our cash balances along with our investment in marketable equity securities not subject to the Kinross Collar are considered adequate to fund our expected expenditures over the next year. The nature of the mining business requires significant sources of capital to fund exploration, development and operation of mining projects. We will need additional resources if we choose to develop on our own any mineral deposits we have. We anticipate that we would finance these activities through the use of joint venture arrangements, the issuance of debt or equity, the sale of interests in our properties or the sale of our shares of Kinross common stock. There can be no assurance that such sources of funds will be available on terms acceptable to us, if at all.

Stock-Based Compensation Plans

During the first three months of 2010, no options were exercised from the 2006 Plan. During 2009, we granted 519,000 options from the 2006 Plan. The options have a five year term, vest 25% on date of grant and 25% on each of the next three anniversary dates and have an exercise price of Cdm\$1.55 per share. During the fourth quarter of 2009, in connection with an amendment to our offer to acquire Metallic Ventures, certain of our Officers, Directors, and employees agreed to voluntarily cancel 1,935,000 previously granted options concurrently with the signing of the amendment. The activity for stock options outstanding under the 2006 Plan as of March 31, 2010 and 2009 can be found in Note 1, to the Unaudited Condensed Consolidated Financial Statements, under the title "Stock compensation plans."

We do not anticipate any significant additional exercises of options from the 2006 Plan during the remainder of 2010. None of our outstanding options from the 2006 Plan expire during 2010. The stock option liabilities of \$271,000 and \$262,000, respectively, as of March 31, 2010 and December 31, 2009 do not affect working capital or require the use of cash for settlement. Any increase or decrease in the fair value of our stock option liability is charged or credited to stock option compensation expense, including forfeitures and expirations. Upon exercise of any option, the fair value on the date of exercise is transferred to additional paid-in-capital.

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Deferred noncontrolling shareholder payments

We record any proceeds from parties earning an interest in subsidiaries as deferred noncontrolling shareholder payments until the party earns an interest in the subsidiary. Upon earning an initial or subsequent interest in the subsidiary, we record noncontrolling interest equal to the earned percentage interest in the net book value of the subsidiary and any difference between the proceeds and the noncontrolling interest as additional paid-in-capital. In the event the parties do not earn either an initial interest or a subsequent interest in the subsidiary, we record any payments remaining in deferred noncontrolling shareholder payments to the statement of operations. We have recorded \$1,286,000 as deferred noncontrolling shareholder payments as of March 31, 2010 and December 31, 2009. We did not receive and deferred noncontrolling shareholder payments during the three months ended March 31, 2010. We received \$101,000 of deferred noncontrolling shareholder payments from Anglo during the three months ended March 31, 2009. Anglo did not earn any additional interest in our Pedra Branca Project during the three months ended March 31, 2010 and 2009. Any additional funds from Anglo will be recorded as deferred noncontrolling shareholder payments until such time as Anglo earns any additional interest in PBM. See Joint Ventures, Royalty and Strategic Alliance Properties below.

(e). Cash Flows

Net cash used in operations during the first quarter of 2010 increased to \$1,716,000 compared to \$1,262,000 for the first quarter of 2009 primarily as a result of an increased use of cash from the reduction of outstanding payables of \$514,000 during the three months ended March 31, 2010 compared to an increase in payables of \$13,000 during the three months ended March 31, 2009. In addition we had an increase in exploration expense to \$775,000 in the three months ended March 31, 2010 compared to \$681,000 in the three months ended March 31, 2009. The large reduction in payables in 2010 primarily related to a payment of previously accrued United States federal and Colorado state taxes of \$366,000 during the three months ended March 31, 2010. We also had a net increase in prepaid expenses and other current assets of \$11,000 during the first quarter of 2010, compared to an increase in prepaid expenses and other current assets of \$7,000 during the first quarter of 2009. These increases were mitigated by a decrease in non-stock option compensation general and administrative costs to \$469,000 for the three months ended March 31, 2010 compared to non-stock option compensation general and administrative costs of \$635,000 during the three months ended March 31, 2009. See Results of Operations discussed above for further explanation of these variances.

We provided \$19,000 in cash from investing activities during the three months ended March 31, 2010 and 2009, primarily related to the proceeds from the sale of other assets of \$22,000 during the first quarter of 2010 and from the sale of a derivative instrument for \$21,000 during the three months ended March 31, 2009. We also acquired additional furniture and fixtures of \$3,000 during 2010 compared to \$2,000 in 2009.

Net cash provided from financing activities for the three months ended March 31, 2009 related to the receipt of \$101,000 from Anglo as a deferred noncontrolling shareholder payment and there was no similar item during the three months ended March 31, 2010.

(f) Off-balance sheet arrangements

As of March 31, 2010 and December 31, 2009 we have no off-balance sheet obligations.

(g) Exploration Activities, Environmental Compliance and Contractual Obligations

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. In 2010 we estimate our full-year mineral property rental and option payments to be approximately \$390,000. Approximately \$95,000 of these payments is reimbursable to us by our joint venture partners. In addition, we may be required to make further payments in the future if we elect to exercise our options under those agreements.

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Environmental Compliance

We are subject to various federal, state and local environmental laws and regulations in the countries where we operate. We are required to obtain permits in advance of completing certain of our exploration activities, to monitor and report on certain activities to appropriate authorities, and to perform remediation of environmental disturbance as a result of certain of our activities. However the nature of our activities of review, acquisition and exploration of properties prior to the establishment of reserves, which may include mappALIGN="LEFT">

Pursuant to the Corporation's Corporate Governance Guidelines, the Board undertook its annual review of director independence in February 2005. During this review, the Board considered transactions and relationships between each director or any member of his immediate family and the Corporation and its subsidiaries and affiliates, including relationships, if any, reported under Certain Relationships and Related Transactions. The Board also examined transactions and relationships between directors or their affiliates and members of the Corporation's senior management or their affiliates. As provided in the Corporate Governance Guidelines, the purpose of this review was to determine whether any such relationships or transactions were inconsistent with a determination that the director is independent.

As a result of this review, the Board affirmatively determined that David J. Christensen, John E. Clute, Ted Crumley, Charles L. McAlpine, George R. Nethercutt, Jr., Jorge E. Ordoñez C. and Dr. Anthony P. Taylor are independent. Mr. Phillips S. Baker, Jr. is considered an inside director because of his employment as President and Chief Executive Officer of the Corporation. Mr. Brown is considered a non-independent outside director as a result of being the father-in-law of Michael H. Callahan, the Corporation's Vice President Corporate Development, and having held the position of Chief Executive Officer within the last three years.

The full text of the Corporate Governance Guidelines can be found in the Investor Relations Corporate Governance section of the Corporation's website at www.hecla-mining.com, or by writing to us at Hecla Mining Company, 6500 N. Mineral Drive, Suite 200, Coeur d'Alene, Idaho 83815-9408, Attention: Investor Relations.

Selection of Nominees for the Board of Directors

Pursuant to the Corporation's Corporate Governance Guidelines, the Board will have a majority of directors who meet the criteria for independence required by the New York Stock Exchange. The Corporate Governance and Directors Nominating Committee is responsible for reviewing with the Board, on an annual basis, the requisite skills and characteristics that the Board seeks in board members as well as the composition of the Board as a whole, including an annual evaluation of whether members qualify as independent under applicable standards. This evaluation will include the consideration of independence, diversity, age, skills, experience, and industry backgrounds in the context of the needs of the Board and the Corporation, as well as the ability of members (and candidates for membership) to devote sufficient time to perform their duties in an effective manner. Directors are expected to exemplify the highest standards of personal and professional integrity and to constructively challenge management through their active participation and questioning. Directors are expected to immediately inform the Board

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of any material changes in their circumstances or relationships that may impact their designation by the Board as independent.

The Corporate Governance and Directors Nominating Committee believes that nominees for election to the Board should also possess certain minimum qualifications and attributes. The nominee: (1) must exhibit strong personal integrity, character and ethics, and a commitment to ethical business and accounting practices; (2) must not serve on more than two other public company boards; (3) must not be involved in ongoing litigation with the Corporation or be employed by an entity that is engaged in such litigation; and (4) must not be the subject of any ongoing criminal investigations in the jurisdiction of the United States or any state thereof, including investigations for fraud or financial misconduct.

The Corporate Governance and Directors Nominating Committee will consider persons recommended by shareholders as nominees for election as directors. The Corporation's By-Laws provide that any shareholder who is entitled to vote for the election of directors at a meeting called for such purpose may nominate persons for election to the Board by following the procedures set forth below in the section titled, Provisions of the Corporation's By-Laws with Respect to Shareholder Proposals and Nominations for Election as Directors. Shareholders who wish to submit a proposed nominee to the Corporate Governance and Directors Nominating Committee should send written notice to the Corporate Governance and Directors Nominating Committee Chairman, c/o Michael B. White, Corporate Secretary, Hecla Mining Company, 6500 N. Mineral Drive, Suite 200, Coeur d'Alene, Idaho 83815-9408, within the time period set forth below in the section titled, Provisions of the Corporation's By-Laws with Respect to Shareholder Proposals and Nominations for Election as Directors. Such notification should set forth all information relating to such nominee required to be disclosed in solicitations of proxies for elections of directors pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the Exchange Act), including the nominee's written consent to being named in the Proxy Statement as a nominee and to serving as a director if elected; the name and address of the shareholder or beneficial owner making the nomination or on whose behalf the nomination is being made; and the class and number of shares of the Corporation owned beneficially and of record by such shareholder or beneficial owner. The Corporate Governance and Directors Nominating Committee will consider shareholder nominees on the same terms as nominees selected by the Corporate Governance and Directors Nominating Committee.

Independent Director Sessions

The independent directors meet separately from the other directors in regularly scheduled meetings, without the presence of management directors or executive officers of the Corporation, except to the extent the independent directors request the attendance of any executive officers. In May 2004, the independent members of the Board appointed Mr. David J. Christensen to preside over the meetings of the independent directors. Mr. Christensen is an independent director as defined in the New York Stock Exchange listing standards. As presiding director, Mr. Christensen's duties include chairing independent director sessions of the Board, conferring with the Corporation's Chairman of the Board and Chief Executive Officer on board meeting schedules, agendas and other matters, facilitating the flow of information to the Board and any other duties assigned by the independent members of the Board.

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Board Meetings During 2004

It is the Corporation's policy that all directors are expected, absent compelling circumstances, to prepare for, attend and participate in all board and applicable committee meetings and each annual meeting of the shareholders. Our Board held five meetings during fiscal year 2004. Each of our directors attended all of the meetings of our Board and all of the meetings of the committees of the Board upon which each served during our fiscal year 2004, except Mr. Jorge E. Ordoñez C., who did not attend two Board meetings and Mr. Ted Crumley, who was unable to attend one Board meeting.

Code of Business Conduct and Ethics

The Corporation has adopted a Code of Business Conduct and Ethics, which applies to all directors, officers and employees. In addition, the Corporation has adopted a Code of Ethics that applies to its Chief Executive Officer (our principal executive officer), Chief Financial Officer (our principal financial officer) and principal accounting officer or controller. The text of both documents can be found in the Investor Relations section of our website at www.hecla-mining.com under Corporate Governance. A copy of both documents may also be obtained by writing to us at Hecla Mining Company, 6500 N. Mineral Drive, Suite 200, Coeur d'Alene, Idaho 83815-9408, Attn: Investor Relations.

Director Communications

Shareholders or other interested parties wishing to communicate with the presiding director or with the non-management directors as a group, may do so by delivering or mailing the communication in writing to: Presiding Director, c/o Corporate Secretary, Hecla Mining Company, 6500 N. Mineral Drive, Suite 200, Coeur d'Alene, Idaho 83815-9408. Concerns relating to accounting, internal controls or auditing matters are

immediately brought to the attention of the Corporation's internal auditor and handled in accordance with procedures established by the Audit Committee with respect to such matters. From time to time, the Board may change the process by means of which shareholders may communicate with the Board or its members. Please refer to the Corporation's website at www.hecla-mining.com for any changes in this process.

AUDIT COMMITTEE REPORT

Membership and Role of the Audit Committee

The Audit Committee consists of Messrs. Charles L. McAlpine (Chairman), David J. Christensen, and Jorge E. Ordoñez C. Mr. Joe Coors, Jr. resigned from the Board on February 4, 2005, to pursue other matters. At the time of Mr. Coors' resignation, he was a member of the Audit Committee. Each member of the Audit Committee satisfies the definition of independent director as established in the New York Stock Exchange listing standards and Securities and Exchange Commission rules. In addition, each member of the Audit Committee is financially literate and the Board has determined that each member of the Audit Committee qualifies as an audit committee financial expert as defined by Securities and Exchange Commission rules.

The Audit Committee's principal functions are to assist the Board in fulfilling its oversight responsibilities, and to specifically review: (i) the integrity of the Corporation's financial statements; (ii) the independent auditor's qualifications and independence; (iii) the performance of the Corporation's system of internal audit function and the independent auditor; and (iv) the Corporation's compliance with laws and regulations, including disclosure controls and procedures. During 2004, the Audit Committee worked with management, the Corporation's internal auditors and the Corporation's independent auditors to address Sarbanes-Oxley Section 404 internal control requirements. The Audit Committee also appoints the Corporation's independent auditors. The Audit Committee met three times in 2004. Additionally, the Chairman met with the Corporation's independent auditors to review the quarterly financial statements throughout the year.

The Board adopted a written charter for the Audit Committee on February 25, 2004, and operated under that charter during the 2004 fiscal year. You can obtain a copy of the charter in the Investor Relations section of www.hecla-mining.com under Corporate Governance or by writing to us at Hecla Mining Company, 6500 N. Mineral Drive, Suite 200, Coeur d'Alene, Idaho 83815-9408, Attention: Investor Relations.

Review of the Corporation's Audited Financial Statements for the Fiscal Year Ended December 31, 2004

The Audit Committee has reviewed and discussed the audited financial statements of the Corporation for the fiscal year ended December 31, 2004, with the Corporation's management. The Audit Committee has discussed with BDO Seidman, LLP, the Corporation's independent auditor, matters required to be discussed by Statement of Auditing Standards No. 61 (Communications with Audit Committees), as amended.

The Audit Committee has also received written disclosures and a letter from BDO Seidman, LLP, required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and the Audit Committee has discussed the independence of BDO Seidman, LLP, with that firm.

Based on the Audit Committee's review and discussions noted above, the Audit Committee recommended to the Board that the Corporation's audited financial statements be included in the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, for filing with the Securities and Exchange Commission.

Appointment of Auditors

The Audit Committee has appointed the firm of BDO Seidman, LLP, as the Corporation's independent auditor for fiscal year 2005. BDO Seidman, LLP, has served as the Corporation's independent auditor since 2001. Representatives of BDO Seidman, LLP, are expected to be present at the Annual Meeting with the opportunity to make statements and respond to appropriate questions from shareholders present at the meeting. Under the Sarbanes-Oxley Act of 2002, the Audit Committee has the sole authority to appoint the independent auditors for the Corporation. Therefore, the Corporation is not submitting the selection of BDO Seidman, LLP, to our shareholders for ratification.

March 14, 2005

Charles L. McAlpine, Chairman
David J. Christensen
Jorge E. Ordoñez C.

AUDIT FEES**Audit and Non-Audit Fees**

The following table represents fees for professional audit services rendered by BDO Seidman, LLP, for the audit of the Corporation's annual financial statements for the years ended December 31, 2004, and December 31, 2003, and fees for other services rendered by BDO Seidman, LLP, during those periods.

	<u>2004</u>	<u>2003</u>
Audit Fees	\$ 513,650	\$ 234,885
Audit Related Fees	77,313	72,050
Tax Fees	41,024	27,503
All Other Fees	-0-	-0-
Total	\$ 631,987	\$ 334,438

Audit Fees. Annual audit fees relate to services rendered in connection with the annual audit of the Corporation's consolidated financial statements, quarterly reviews of financial statements included in the Corporation's quarterly reports on Form 10-Q, and fees for SEC registration statement services. The increase in annual audit fees for 2004 from 2003 resulted from BDO Seidman's review of the Corporation's internal control procedures under the Sarbanes-Oxley rules.

Audit Related Fees. Audit related fees consisted principally of fees for audits of financial statements of employee benefit plans, as well as due diligence services for potential acquisitions and consultation on accounting standards or transactions.

Tax Fees. Tax services consisted of fees for tax consultation and tax compliance services, which included preparation of tax returns for our Venezuelan and Mexican subsidiaries, tax planning and miscellaneous tax research.

All Other Fees. There were no other fees.

The Audit Committee considers whether the provision of these services is compatible with maintaining BDO Seidman's independence, and has determined such services for fiscal years 2004 and 2003 were compatible. All of the fees were pre-approved. None of the fees above were approved pursuant to the *de minimis* exception to the pre-approval requirements. All of the services described above were approved by the Audit Committee pursuant to paragraph (c)(7)(i)(B) of Rule 2-01 of Regulation S-X under the Exchange Act, to the extent that rule was applicable during fiscal years 2004 and 2003.

Policy on Audit Committee Pre-Approval of Audit and Non-Audit Services of Independent Auditor

The Audit Committee is responsible for appointing, setting compensation and overseeing the work of the independent auditor. The Audit Committee has established a policy regarding pre-approval of all audit and non-audit services provided by the independent auditor. On an ongoing basis, management communicates specific projects and categories of services for which advance approval of the Audit Committee is requested. The Audit Committee reviews these requests and advises management if the Audit Committee approves the engagement of the independent auditor for specific projects. On a periodic basis, management reports to the Audit Committee regarding the actual spending for such projects and services compared to the approved amounts. The Audit Committee may also delegate the ability to pre-approve audit and permitted non-audit services to a subcommittee consisting of one or more Audit Committee members, provided that any such pre-approvals are reported on at a subsequent Audit Committee meeting.

COMPENSATION OF DIRECTORS

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Directors who are employees of the Corporation receive no additional compensation for their services as directors. During 2004, each nonemployee member of the Board was paid the following: (i) a retainer of \$3,000 per calendar quarter; (ii) \$2,000 for each director's meeting attended; and (iii) \$1,000 for attending any meeting of any Committee of the Board. The Corporation reimburses all reasonable expenses incurred by both employee and nonemployee directors in connection with such meetings.

In light of the additional duties and responsibilities associated with serving on the Board and each of the committees, effective January 1, 2005, the directors' fees were increased as follows: (i) a retainer of \$5,000 per calendar quarter; (ii) \$3,000 for each director's meeting attended; and (iii) an additional \$1,000 per meeting to the chairman of each committee.

In March 1995, the Corporation adopted the Hecla Mining Company Stock Plan for Nonemployee Directors (the Director's Stock Plan), which became effective following shareholder approval on May 5, 1995. The Director's Stock Plan was amended July 18, 2002, and February 25, 2004. The Director's Stock Plan terminates July 17, 2012, and is subject to termination by the Board at any time. During 2004, each nonemployee member of the Board was credited with 1,950 shares of the Corporation's Common Stock under the terms of the Director's Stock Plan. These shares are held in a grantor trust, the assets of which are subject to the claims of the Corporation's creditors, until delivered under the terms of the plan. Delivery of the shares from the trust occurs upon the earliest of: (i) death or disability; (ii) retirement from the Board; (iii) a cessation of the director's service for any other reason; (iv) a Change in Control of the Corporation (as defined); or (v) at the election of the director at any time, provided, however, that shares must be held in the trust for at least two years prior to delivery. Subject to certain restrictions, directors may elect delivery of the shares on such date or in annual installments thereafter over 5, 10 or 15 years. The maximum number of shares of Common Stock which may be credited pursuant to the Stock Plan for Nonemployee Directors is 1,000,000. See Amendment to Stock Plan for Nonemployee Directors for a description of the Stock Plan for Nonemployee Directors.

COMPENSATION OF EXECUTIVE OFFICERS

Report of the Compensation Committee on Executive Compensation

Overall Policy

The Compensation Committee is charged with considering specific information and making recommendations to the full Board with respect to compensation matters. Only the independent members of the Board approve all compensation matters for the Corporation's Chief Executive Officer. Certain stock-based compensation matters for the Corporation's executive officers rest in the sole discretion of the Compensation Committee. The Compensation Committee is comprised of three independent directors who are appointed annually by the Corporation's Board. The Compensation Committee's consideration and recommendations regarding executive compensation are guided by a number of factors including overall corporate performance and total return to shareholders. The overall objectives of the Corporation's executive compensation package are: to attract and retain the best possible executive talent; to motivate the Corporation's executives to achieve goals consistent with the Corporation's business strategy; to provide an alignment between executive and shareholder interests through stock-based plans; and finally, to provide a compensation package that recognizes an executive's individual contributions in addition to the Corporation's overall business results.

The Compensation Committee periodically reviews the Corporation's executive compensation program. The Compensation Committee met four times in 2004 to consider various components of the executive compensation program. In making recommendations concerning executive compensation, the Committee reviews reports published by independent compensation consultants assessing compensation programs and reviews the Corporation's executive compensation, corporate performance, stock price appreciation and total return to shareholders against a peer group of public corporations made up of the Corporation's competitors for executive talent. Because most executive skills and expertise are transferable between industries and

business segments, the Compensation Committee believes the Corporation's competitors for executive talent are not limited to those companies included in the peer group established for comparing shareholder returns. Thus, the Corporation's peer group used for compensation analysis includes, but is not limited to, the peer group identified in the Performance Graph shown on page 19. The Compensation Committee periodically reviews the correlation between the Corporation's performance and its executive compensation in the context of, and in comparison to, the compensation programs of other companies.

The Compensation Committee recommends compensation levels and programs for the Chief Executive Officer to the independent members of the Board and recommends compensation levels and programs for all Vice Presidents (executive officers as used in this report) to the full Board.

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The key elements of the Corporation's executive compensation consist of base salary, annual cash/stock performance payments and long-term performance programs, including stock-based grants. The Compensation Committee's policies with respect to each of these elements, including the basis for the compensation awarded to Mr. Baker, are discussed below. In addition, while the elements of compensation described below are considered separately, the Compensation Committee takes into account the full compensation package afforded by the Corporation to each individual executive, including deferred compensation, pension benefits, supplemental retirement benefits, severance plans, insurance and other benefits, as well as the elements described below. While the Committee takes into consideration all the performance and other factors listed below in setting base salaries, the Committee's deliberations are essentially subjective, and no set quantitative formula determines the base salary level of any of the executive officers. The Corporation adopted a short-term performance payment plan in 1994, which utilizes performance against both quantitative and qualitative targets to determine an executive's eligibility for annual performance payments in addition to base salary. In 2003, the Corporation also adopted a long-term performance plan, which provides for performance payments to executive officers if certain performance targets are met or exceeded over multiple periods.

The Committee analyzed the potential impact on the Corporation's executive compensation program of Section 162(m) of the Internal Revenue Code and the regulations thereunder, which generally disallow deductions for compensation in excess of \$1 million per year to the five most highly compensated executives of a public company. Based upon its analysis, the Committee expects that all compensation payable pursuant to its compensation program now in effect will be deductible.

Base Salaries

Base salaries for new executive officers are initially determined by evaluating the responsibilities of the position held and the experience of the individual, and by reference to the competitive marketplace for executive talent, including a comparison to base salaries for comparable positions at other companies including those in the peer group.

Annual salary adjustments, which are made in May of each year for a 12-month period from June 1 to May 31, are determined by evaluating the performance of the Corporation and of each executive officer, and also taking into account new responsibilities for any particular executive officer. In the case of executive officers who are responsible for a particular business unit, such unit's financial, operating, cost containment and productivity results are also considered by the Committee. The Compensation Committee, where appropriate, also considers other corporate performance measures, including changes in productivity, cost control, safety, environmental awareness and improvements in relations with government officials, regulators, suppliers and employees. The Compensation Committee places a premium on cost containment and productivity for gold, silver and other commodities produced by the Corporation, because the prices for these commodities are established by international markets. Base salaries for certain executive officers were increased commencing June 1, 2004, based upon the considerations described above.

Although the Compensation Committee was satisfied with Mr. Baker's individual performance, based upon a comparison of base salaries of chief executive officers of the new peer group companies and the performance of the Common Stock, the Board did not increase Mr. Baker's base salary in 2004. For 2004, Mr. Baker's annual salary was \$325,000.

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In May 2003, the Compensation Committee set the compensation for Mr. Brown's continuing services from June 1, 2003, through May 31, 2004, at \$25,000 per month. The monthly payment was paid in shares of the Corporation's Common Stock at the end of each month determined by dividing the average closing price of the Corporation's Common Stock for each month of service into the \$25,000 amount. During 2004, Mr. Brown continued his duties as Chairman of the Board. In May 2004, the Compensation Committee set the compensation for Mr. Brown's continuing services from June 1, 2004, through May 31, 2005, at \$8,333.33 per month. The monthly payment is to be paid in shares of the Corporation's Common Stock at the end of each month determined by dividing the average closing price of the Corporation's Common Stock for each month of service into the \$8,333.33 amount. Mr. Brown was credited with 26,680 shares of the Corporation's Common Stock from January 1, 2004, through December 31, 2004, under the terms of the Key Employee Deferred Compensation Plan.

Annual Performance Payment

In 1994, the Corporation adopted a short-term performance payment plan based on the recommendation of the Compensation Committee. Under the plan, executive officers (seven in 2004) were eligible for annual cash payments based upon a formula established in the plan covering the calendar year 2004 and generally described below. The Compensation Committee, based on recommendations of the Corporation's senior management, established targeted quantitative and qualitative goals for corporate performance. For 2004, corporate performance quantitative goals included total gold and silver production, production costs per ounce for silver and gold, cost containment, environmental costs, capital expenditures and resource development goals. Corporate qualitative goals included, among other goals, a successful investor relations program, acquisitions, positive stock performance and completion of a preferred stock exchange.

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The Chief Executive Officer's performance payment for 2004 was based solely on corporate performance. The other executive officers' performance payments were based 60% upon corporate performance with 40% based upon individual performance. A performance payment pool was targeted based on the annual cash and stock-based salary equal to 60% for the Chief Executive Officer and 40% for each Vice President.

The Board reviews with management performance on a quarterly basis. At the Compensation Committee meeting following the performance year, the actual performance results are compared against the targeted quantitative and qualitative performance goals. The Compensation Committee reviews and recommends individual performance payments for all eligible executives to the Board, and in case of the Chief Executive Officer, to the independent members of the Board. For 2004, the Compensation Committee recommended to the Board and the Board approved the payment of annual performance bonuses in cash to all non-CEO executives. Some executives elected to defer their bonus compensation pursuant to the Key Employee Deferred Compensation Plan. For 2004, Mr. Phillips S. Baker, Jr., the Corporation's President and Chief Executive Officer, the independent members of the Board approved a bonus payment comprised of \$102,000 in cash. For the named executive officers, the amounts are set forth in the Summary Compensation Table under Annual Compensation Bonus.

Long-Term Performance Plan

The Corporation's long-term performance payment plan is comprised of successive multiple year plans, which are established annually. The plans establish certain performance targets, which include increased production levels, increased mineral reserves and resources and cash flow with metals prices being fixed for the period. At the end of each period, performance is reviewed against the plan targets. The first performance period set at three-years under the long-term performance payment plan will end in 2005, and thus no payments were made to executive officers under this plan in 2004.

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Stock-Based Grants

The Corporation uses two current stock-based compensation plans, which are intended to give the Corporation a competitive advantage in attracting, retaining and motivating its officers and key employees, and provide incentives more directly linked to the performance of the Corporation's businesses and increases in shareholder value.

In May 1995, the shareholders of the Corporation approved the Corporation's 1995 Stock Incentive Plan, which provides for a variety of stock-based grants to the Corporation's officers and key employees, including the individuals whose compensation is detailed in this Proxy Statement. Stock options granted in 2004 to the five named executive officers are also summarized in the Summary Compensation Table under Long-Term Compensation Awards Securities Underlying Options.

In 2004, Mr. Baker was granted nonstatutory stock options to purchase 120,000 shares of Common Stock at the market price of the Common Stock on the date of the grant under the 1995 Stock Incentive Plan. As of December 31, 2004, Mr. Baker owned 128,609 shares of Common Stock and held options to purchase an additional 420,000 shares under the 1995 Stock Incentive Plan. In addition, as of December 31, 2004, Mr. Baker held 306,327 stock options under the Corporation's Key Employee Deferred Compensation Plan.

The Key Employee Deferred Compensation Plan (Plan) was approved by the shareholders in July 2002 and permits each participant to defer eligible compensation and/or cash incentive compensation that is payable in the form of shares of the Corporation's Common Stock, in cash, or in the form of discounted stock options, to the date or dates selected by the participant or on such other date or dates specified in the Plan. Amounts deferred by the five named executives in 2004 are summarized in the Deferred 2004 Compensation Table and under Long-Term Compensation Awards Securities Underlying Options in the Summary Compensation Table.

During 2004, the Corporation had the 1987 Nonstatutory Stock Option Plan (the 1987 Plan) which was approved by the shareholders in 1987 and provided that stock options may be granted to the Corporation's officers and key employees, including the individuals whose compensation is detailed in this Proxy Statement. The right to grant options under this plan expired in February 1997. All options previously granted under the 1987 Plan were granted at the fair market value of the stock on the date of the grant. All outstanding options granted under the 1987 Plan expired on February 11, 2005.

Conclusion

The Corporation's executive compensation is comprised of base salary, annual cash/stock performance payments and long-term performance programs, including stock-based grants. The Compensation Committee intends to continue the policy of relating a portion of executive compensation to corporate performance, including stock-based remuneration, which aligns the executive officers with shareholders, recognizing

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that the ups and downs of the business cycle, from time to time, may result in an imbalance for a particular period. The Compensation Committee adjusts for factors such as these, which are beyond an executive's control, by exercising its qualitative judgment rather than employing strict quantitative formulas.

March 14, 2005

Ted Crumley, Chairman
John E. Clute
Charles L. McAlpine

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COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The members of the Compensation Committee are set forth in the preceding section. There are no members of the Compensation Committee who were officers or employees of the Corporation or any of its subsidiaries during the fiscal year; formerly were officers of the Corporation or any of its subsidiaries; or had any relationship otherwise requiring disclosure under the proxy rules promulgated by the Securities and Exchange Commission.

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL SHAREHOLDER RETURN¹ DECEMBER 1999 THROUGH DECEMBER 2004

Hecla Mining, S&P 500, S&P 500 Gold Index, and Peer Group²

<u>Date</u>	<u>Hecla Mining</u>	<u>S&P 500</u>	<u>S&P 500 Gold Index</u>	<u>Peer Group</u>
December 1999	\$100.00	\$100.00	\$100.00	\$100.00
December 2000	\$ 32.00	\$ 90.89	\$ 82.35	\$ 56.57
December 2001	\$ 60.16	\$ 80.14	\$ 93.46	\$ 87.07
December 2002	\$323.84	\$ 62.47	\$118.26	\$161.42
December 2003	\$530.56	\$ 80.35	\$198.98	\$275.14
December 2004	\$373.12	\$ 89.07	\$182.70	\$249.23

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- ¹ Total shareholder return assuming \$100 invested on December 31, 1999, and reinvestment of dividends on quarterly basis.
² Peer Group: Agnico-Eagle Mines Ltd., Bema Gold Corporation, Cambior, Inc., Coeur d Alene Mines Corp., Pan American Silver Corp.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

To the knowledge of the Corporation, as of March 10, 2005, the only beneficial owner (as such term is defined in Rule 13d-3 under the Exchange Act) of more than five percent (5%) of the Corporation's Common Stock entitled to vote at the Annual Meeting is shown in the table below:

<u>Title of Class</u>	<u>Name & Address of Beneficial Owner</u>	<u>Amount & Nature of Beneficial Ownership⁽¹⁾</u>	<u>Percent of Class</u>
Common	Royce & Associates, LLC 1414 Avenue of the Americas New York, NY 10019	17,077,300	14.42%

- (1) Security ownership information for the beneficial owner is taken from statements filed with the Securities and Exchange Commission pursuant to Sections 13(d), (f) and (g) of the Exchange Act, and information made known to the Corporation.

The following table presents certain information regarding the number and percentage of the shares of Common Stock and Preferred Stock beneficially owned by each current director, director nominee and executive officer of the Corporation and by all current directors and executive officers as a group, as of March 10, 2005. On that date, all of such persons together beneficially owned an aggregate of approximately 2.1% of the outstanding shares of the Corporation's Common Stock and less than 1% of the outstanding shares of the Corporation's Preferred Stock. Except as otherwise indicated, the directors, nominees and officers have sole voting and investment power with respect to the shares beneficially owned by them.

Beneficial Ownership Table

<u>Name of Beneficial Owner</u>	<u>Title of Class</u>	<u>Shares Beneficially Owned</u>		
		<u>Number</u>	<u>Nature</u>	<u>Percentage⁽¹⁾</u>
Ian Atkinson Vice President Exploration and Strategy		-0-	Direct	
		40,000	Vested Options ⁽²⁾	
		-0-	KEDCP Options ⁽³⁾	
	Common	40,000		*
Phillips S. Baker, Jr. President and Chief Executive	Preferred	-0-		*
		128,609	Direct	
		420,000		

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		<u>Shares Beneficially Owned</u>		
Officer			306,327	Vested Options ⁽²⁾ KEDCP Options ⁽³⁾
	Common	854,936		*
	Preferred	-0-		*
Arthur Brown Chairman		155,520	615,000	Direct ⁽⁴⁾ Vested Options ⁽²⁾
		60,100		KEDCP Stock ⁽⁵⁾
	Common	830,620		*
	Preferred	-0-		*
Michael H. Callahan Vice President Corporate Development		33,131	35,000	Direct ⁽⁶⁾ Vested Options ⁽²⁾
		76,240		KEDCP Options ⁽³⁾
	Common	144,371		*
	Preferred	-0-		*

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<u>Name of Beneficial Owner</u>	<u>Title of Class</u>	<u>Shares Beneficially Owned</u>		
		<u>Number</u>	<u>Nature</u>	<u>Percentage⁽¹⁾</u>
Ronald W. Clayton Vice President North American Operations		-0-	35,000	Direct Vested Options ⁽²⁾ KEDCP Options ⁽³⁾
	Common	53,367		*
	Preferred	-0-		*
David J. Christensen Director		12,368	1,950	Direct Indirect ⁽⁷⁾
	Common	14,318		*
	Preferred	-0-		*
John E. Clute Director		300	22,463	Direct Indirect ⁽⁷⁾
	Common	22,763		*
	Preferred	-0-		*
Ted Crumley Director		4,000	22,002	Direct Indirect ⁽⁷⁾
	Common	26,002		*
	Preferred	-0-		*
Thomas F. Fudge, Jr. Vice President Operations		32,889	130,500	Direct Vested Options ⁽²⁾
	Common	163,389		*
	Preferred	-0-		*
Charles L. McAlpine Director		2,000	22,463	Direct Indirect ⁽⁷⁾
	Common	24,463		*
	Preferred	-0-		*
David S. Miller Nominee for Preferred	Common	21,945		Direct ⁽¹¹⁾ *

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		Shares Beneficially Owned		
Director ⁽¹²⁾	Preferred	6,825	Direct	4.3%
Thomas G. Miller				
Nominee for Preferred	Common	7,074	Direct ⁽¹¹⁾	*
Director ⁽¹²⁾	Preferred	2,200	Direct	1.4%
George R. Nethercutt, Jr.	Common	-0-		*
Director	Preferred	-0-		*
Jorge E. Ordoñez C.	Common	22,463	Indirect ⁽⁷⁾	*
Director	Preferred	-0-		*
Dr. Anthony P. Taylor		7,822	Direct ⁽⁸⁾⁽¹¹⁾	
Director		15,463	Indirect ⁽⁷⁾	
	Common	23,285		*
	Preferred	100	Direct	*
Vicki Veltkamp		15,495	Direct ⁽⁹⁾	
Vice President Investor		113,500	Vested Options ⁽²⁾	
and Public Relations		11,260	KEDCP Options ⁽³⁾	
	Common	140,255		*
	Preferred	-0-		*

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Name of Beneficial Owner	Title of Class	Shares Beneficially Owned		
		Number	Nature	Percentage ⁽¹⁾
Lewis E. Walde		21,579	Direct ⁽¹⁰⁾	
Vice President and Chief		110,500	Vested Options ⁽²⁾	
Financial Officer		30,000	KEDCP Options ⁽³⁾	
	Common	162,079		*
	Preferred	-0-		*
All current directors and executive officers as a group (15 persons)	Common	2,544,774		2.1%
	Preferred	100		*

- * Represents holdings of less than one percent.
- (1) Percent of class is calculated based upon 118,393,842 shares of the Corporation's Common Stock outstanding as of March 10, 2005, and 157,816 shares of the Series B Cumulative Convertible Preferred Stock outstanding as of March 10, 2005.
- (2) Vested Options are options that may be exercised as of March 10, 2005.
- (3) KEDCP Options are options purchased under the Key Employee Deferred Compensation Plan as of March 10, 2005.
- (4) Consists of 6,175 shares held jointly with Mr. Brown's spouse.
- (5) KEDCP Stock consists of share units acquired by Mr. Brown under the Key Employee Deferred Compensation Plan. See Compensation of Executive Officer *Base Salaries*.
- (6) Consists of 32,931 shares held jointly with Mr. Callahan's spouse.
- (7) Shares credited to each nonemployee director, all of which are held indirectly in trust pursuant to the Corporation's Stock Plan for Nonemployee Directors. Each director disclaims beneficial ownership of all shares held in trust under the stock plan. See Compensation of Directors.
- (8) Consists of 7,500 common shares and 100 preferred shares.
- (9) All 15,495 shares are held jointly with Ms. Veltkamp's spouse.
- (10) All 21,579 shares are held jointly with Mr. Walde's spouse.
- (11) The number of common shares Messrs. D. Miller, T. Miller and Taylor are deemed to own include the number of shares of Common Stock issuable upon conversion of the shares of Preferred Stock they own. Under the Certificate of Designations of Preferred Stock, each share of Preferred Stock is convertible at the option of the holder at any time, into 3.2154 shares of Common Stock.

(12) Not currently a director.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Corporation's directors, executive officers and holders of more than 10% of the Corporation's Common Stock to file with the Securities and Exchange Commission reports regarding their ownership and changes in their ownership of the Corporation's stock. These persons are required by the Securities and Exchange Commission to furnish the Corporation with copies of all Section 16(a) forms they file.

Based solely on the Corporation's review of copies of such forms, or written representations from certain reporting persons that no such forms were required, we believe that during the fiscal year ended December 31, 2004, all filing requirements applicable to the Corporation's officers, directors and greater than 10% owners of the Corporation's Common Stock were satisfied.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Corporation is not aware of any related party transactions that would require disclosure.

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COMPENSATION TABLES**Compensation for 2004**

The following table sets forth information regarding the aggregate compensation for the fiscal years ended December 31, 2002, 2003 and 2004, paid or accrued for: (i) the President and Chief Executive Officer of the Corporation; and (ii) the four other most highly paid executive officers of the Corporation.

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation ⁽¹⁾			Long-Term Compensation Awards	All Other Compensation ⁽⁴⁾
		Salary ⁽²⁾	Bonus ⁽²⁾	Other Annual Compensation ⁽³⁾	Securities Underlying Options	
Phillips S. Baker, Jr. President and Chief Executive Officer	2004	\$ 325,000	\$ 102,000	\$ -0-	326,327 ⁽⁵⁾	\$ 3,000
	2003	\$ 313,542	\$ 214,500	\$ 424,137	340,000	\$ 3,000
	2002	\$ 259,500	\$ 400,000	\$ -0-	150,000	\$ 201,000
Michael H. Callahan ⁽⁶⁾ Vice President Corporate Development	2004	\$ 146,667	\$ 44,000	\$ 117,603	99,926 ⁽⁷⁾	\$ 2,566
	2003	\$ 132,708	\$ 71,280	\$ 340,516	121,314	\$ 2,083
	2002	\$ 123,751	\$ 104,000	\$ 58,267	85,000	\$ 2,295
Ronald W. Clayton Vice President North American Operations	2004	\$ 144,583	\$ 41,000	\$ 107,652	44,749 ⁽⁸⁾	\$ 3,192
	2003	\$ 124,801	\$ 63,960	\$ 425,840	125,192	\$ 1,862
	2002	\$ 27,090	\$ 26,000	\$ -0-	85,000	\$ 24
Thomas F. Fudge, Jr. Vice President Operations	2004	\$ 172,917	\$ 23,000	\$ 575,966	40,000	\$ 3,295
	2003	\$ 160,833	\$ 67,592	\$ 295,838	114,000	\$ 3,201
	2002	\$ 150,000	\$ 120,000	\$ -0-	85,000	\$ 132,811
Lewis E. Walde	2004	\$ 146,667	\$ 32,000	\$ -0-	65,000 ⁽⁹⁾	\$ 2,525

					Long-Term Compensation Awards	
Vice President and	2003	\$ 122,292	\$ 57,240	\$ 497,220	110,000	\$ 2,438
Chief Financial Officer	2002	\$ 110,000	\$ 88,000	\$ 6,982	85,000	\$ 110,547

- (1) The annual compensation set forth in the table is based upon salaries of the Chief Executive Officer and other named executives established in May of each year for June 1 to May 31. This table reflects compensation paid to, or earned by, the executive officers during the fiscal year ending December 31 of each year.
- (2) Portions of the named executives Salary and Bonus were deferred into the Key Employee Deferred Compensation Plan. See Deferred 2004 Compensation Table.

Deferred 2004 Compensation Table

Name	Salary	Bonus	Total Deferred Compensation
Phillips S. Baker, Jr.	\$ 80,500	\$ 61,200	\$ 141,700
Michael H. Callahan	\$ 18,000	\$ 22,000	\$ 40,000
Ronald W. Clayton	\$ 5,741	\$ -0-	\$ 5,741
Thomas F. Fudge, Jr.	\$ -0-	\$ -0-	\$ -0-
Lewis E. Walde	\$ 18,000	\$ 11,000	\$ 29,000

- (3) Other Annual Compensation for the last fiscal year includes an economic gain on stock option exercises for Messrs. Baker, Callahan, Clayton, Fudge and Walde as follows: \$-0-, \$117,603, \$107,652, \$575,966 and \$-0-, for each named executive, respectively.

- (4) All Other Compensation for the last fiscal year includes the following for Messrs. Baker, Callahan, Clayton, Fudge and Walde: (i) matching contributions under the Corporation's Capital Accumulation Plan of \$3,075, \$2,452, \$3,026, \$3,075 and \$2,422, for each named executive, respectively; and (ii) the dollar value benefit of premium payments for term life insurance coverage of \$-0-, \$114, \$166, \$220 and \$103, for each named executive, respectively.
- (5) In 2004, Mr. Baker purchased 206,327 stock options with funds deferred under the Key Employee Deferred Compensation Plan in 2002, in accordance with the terms of such plan. The remaining 120,000 stock options were granted under the 1995 Stock Incentive Plan during 2004.
- (6) Michael H. Callahan is the son-in-law of Arthur Brown, the Chairman of the Board.
- (7) In 2004, Mr. Callahan purchased 64,926 stock options with funds deferred under the Key Employee Deferred Compensation Plan in 2002 and 2003, respectively, in accordance with the terms of such plan. The remaining 35,000 stock options were granted under the 1995 Stock Incentive Plan during 2004.
- (8) In 2004, Mr. Clayton purchased 9,749 stock options with funds deferred under the Key Employee Deferred Compensation Plan in 2003 and 2004, in accordance with the terms of such plan. The remaining 35,000 stock options were granted under the 1995 Stock Incentive Plan during 2004.
- (9) In 2004, Mr. Walde purchased 30,000 stock options with funds deferred under the Key Employee Deferred Compensation Plan in 2003 and 2004, in accordance with the terms of such plan. The remaining 35,000 stock options were granted under the 1995 Stock Incentive Plan during 2004.

Option Grants in Last Fiscal Year

Individual Grants	Potential Realizable Value at Assumed Annual Rate of Stock Price Appreciation for Option Term⁽³⁾

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rate of Stock Price Appreciation for Option Term ⁽³⁾	
	Number of Securities Underlying Options Granted	% of Total Options Granted to Hecla Employees in Fiscal Year	Exercise or Base Price: \$/Share	Expiration Date	5%	10%
Phillips S. Baker, Jr.	206,327 ⁽²⁾	18.00%	\$ 6.543	2/23/11	\$ 760,645	\$ 1,573,058
	120,000 ⁽¹⁾	10.47%	\$ 5.995	5/06/09	\$ 198,768	\$ 439,200
Michael H. Callahan	35,000 ⁽¹⁾	3.05%	\$ 5.995	5/06/09	\$ 57,974	\$ 128,100
	37,251 ⁽²⁾	3.25%	\$ 6.543	2/23/11	\$ 137,330	\$ 284,005
	27,675 ⁽²⁾	2.41%	\$ 4.878	5/14/11	\$ 76,068	\$ 157,305
Ronald W. Clayton	35,000 ⁽¹⁾	3.05%	\$ 5.995	5/06/09	\$ 57,974	\$ 128,100
	2,102 ⁽²⁾	0.18%	\$ 6.543	2/23/11	\$ 7,749	\$ 16,026
	2,414 ⁽²⁾	0.21%	\$ 4.878	5/14/11	\$ 6,635	\$ 13,721
	2,949 ⁽²⁾	0.26%	\$ 4.635	8/13/11	\$ 7,702	\$ 15,928
Thomas F. Fudge, Jr.	2,284 ⁽²⁾	0.20%	\$ 6.156	11/15/11	\$ 7,922	\$ 16,383
	40,000 ⁽¹⁾	3.49%	\$ 5.995	5/06/09	\$ 66,256	\$ 146,400
Lewis E. Walde	35,000 ⁽¹⁾	3.05%	\$ 5.995	5/06/09	\$ 57,974	\$ 128,100
	4,000 ⁽²⁾	0.35%	\$ 6.543	2/23/11	\$ 14,746	\$ 30,496
	20,000 ⁽²⁾	1.74%	\$ 4.878	5/14/11	\$ 54,972	\$ 113,680
	6,000 ⁽²⁾	0.52%	\$ 4.635	8/13/11	\$ 15,670	\$ 32,406

- (1) All options were granted on May 6, 2004, under the 1995 Stock Incentive Plan, with an exercise price equal to the fair market value of the Common Stock on the date of grant. These options vested immediately and there were no tax offset bonuses accompanying these options.
- (2) Stock options purchased by the individuals with funds deferred under the Key Employee Deferred Compensation Plan in accordance with the terms of such plan.

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- (3) The potential realizable value shown in the table represents the maximum gain if held for the full term at each of the assumed annual appreciation rates. Gains, if any, are dependent upon the actual performance of the Common Stock and the timing of any sale of the Common Stock received upon exercising the options.

**Total Options Exercised in 2004
and Fiscal Year-End Option Values**

The following table shows information concerning the exercise of stock options during fiscal year 2004 by each of the named executive officers and the value (stock price less exercise price) of the remaining stock options held by those executive officers at fiscal year-end, using the average (\$5.88) of the high and low trading price of the Corporation's Common Stock on December 31, 2004.

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options Held at 12/31/04		Value of Unexercised In-The-Money Options at 12/31/04	
			Exercisable (#)	Unexercisable (#)	Exercisable (\$)	Unexercisable (\$)

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	Number of Securities Underlying Unexercised Options Held at 12/31/04				Value of Unexercised In-The-Money Options at 12/31/04	
Phillips S. Baker, Jr.	-0-	-0-	726,327 ⁽¹⁾	-0-	703,275	-0-
Michael H. Callahan	48,334	117,603	111,240 ⁽²⁾	-0-	53,017	-0-
Ronald W. Clayton	40,000	107,652	47,209 ⁽³⁾	5,233 ⁽⁴⁾	2,419	3,672
Thomas F. Fudge, Jr.	101,400	575,966	130,500	-0-	63,190	-0-
Lewis E. Walde	-0-	-0-	134,500 ⁽⁵⁾	6,000 ⁽⁶⁾	74,710	7,470

- (1) Includes 306,327 stock options purchased by Mr. Baker under the Key Employee Deferred Compensation Plan.
(2) Includes 76,240 stock options purchased by Mr. Callahan under the Key Employee Deferred Compensation Plan.
(3) Includes 12,209 stock options purchased by Mr. Clayton under the Key Employee Deferred Compensation Plan.
(4) Stock Options purchased by Mr. Clayton under the Key Employee Deferred Compensation Plan.
(5) Includes 24,000 stock options purchased by Mr. Walde under the Key Employee Deferred Compensation Plan.
(6) Stock Options purchased by Mr. Walde under the Key Employee Deferred Compensation Plan.

Long-Term Incentive Plans Awards in Last Fiscal Year

Name	Number of Shares, Units or Other Rights (#)	Performance or Other Period until Maturation or Payout	Estimated Future Payouts under Non-Stock Price-Based Plans		
			Threshold (\$)	Target (\$)	Maximum (\$)
Phillips S. Baker, Jr.	3,700	12/31/06	-0-	370,000	740,000
Michael H. Callahan	1,200	12/31/06	-0-	120,000	240,000
Ronald W. Clayton	1,200	12/31/06	-0-	120,000	240,000
Thomas F. Fudge, Jr.	1,320	12/31/06	-0-	132,000	264,000
Lewis E. Walde	1,200	12/31/06	-0-	120,000	240,000

The Board assigns performance units at the beginning of each multi-year plan period. Such units are initially assigned a nominal dollar value of \$100 each. The ultimate dollar value of each unit upon payment to an officer (the terminal dollar value) is dependent upon the Corporation attaining certain corporate performance targets approved by the Board. Performance unit terminal dollar value can range from \$0 to \$200 depending upon the percentage of targets actually achieved. Plan participation eligibility requirements are established by the Compensation Committee and is restricted to those officers and senior managers who can directly affect the Corporation's achievement of the targeted corporate performance.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of December 31, 2004, regarding our compensation plans (including individual compensation arrangements) under which equity securities are authorized for issuance:

	Number of Securities To Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans
Equity Compensation Plans Approved by Security Holders:			
1987 and 1995 Stock Incentive Plans	2,412,668	\$ 5.37	5,071,360
Stock Plan for Nonemployee Directors	111,884	N/A	843,946
Key Employee Deferred Compensation Plan	798,672	\$ 5.46	5,149,728
Equity Compensation Plans Not Approved by Security Holders			
Total	3,323,224	\$ 5.39	11,065,034

OTHER BENEFITS

Retirement Plan

The officers of the Corporation participate in the Hecla Mining Company Qualified Retirement Plan (the Retirement Plan), which covers substantially all employees of the Corporation, except for certain hourly employees who are covered by separate plans. Contributions to the Retirement Plan, and the related expense or income, are based on general actuarial calculations and, accordingly, no portion of the Corporation's contributions, and related expenses or income, is specifically attributable to the Corporation's officers. The Corporation was not required to make a contribution for 2004. The Corporation also has an unfunded Supplemental Retirement Benefit Plan adopted in November 1985 (the

Supplemental Plan) under which the amount of any benefits not payable under the Retirement Plan by reason of the limitations imposed by the Internal Revenue Code and/or the Employee Retirement Income Security Act, as amended (the Acts), and the loss, if any, due to a deferral of salary made under the Corporation's Executive Deferral Plan and/or the Capital Accumulation Plan will be paid out of the general funds of the Corporation to any employee who may be adversely affected. Under the Acts, the current maximum annual pension benefit payable by the Retirement Plan to any employee is \$165,000 subject to specified adjustments and is calculated using earnings not in excess of \$205,000. Upon reaching the normal retirement age of 65, each participant is eligible to receive annual retirement benefits in monthly installments for life equal to, for each year of credited service, 1% of final average annual earnings (defined as the highest average earnings of such employee for any 36 consecutive calendar months during the final 120 calendar months of service) up to the applicable covered compensation level (which level is based on the Social Security maximum taxable wage base) and 1.75% of the difference, if any, between final average annual earnings and the applicable covered compensation level. The Retirement Plan and Supplemental Plan define earnings for purposes of the plans to be a wage or salary for services of employees inclusive of any bonus or special pay including gain sharing programs, contract miners' bonus pay and the equivalent.

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The following table shows estimated aggregate annual benefits under the Retirement Plan and the Supplemental Plan payable upon retirement to a participant who retires in 2004 at age 65 having the years of service and final average annual earnings as specified. The table assumes Social Security covered compensation levels as in effect on January 1, 2004.

Estimated Annual Retirement Benefits

Final Average Annual Earnings	Years of Credited Service						
	5	10	15	20	25	30	35
\$100,000	\$ 7,014	\$14,029	\$ 21,043	\$ 28,057	\$ 35,072	\$ 42,086	\$ 49,100
125,000	9,202	18,404	27,606	36,807	46,009	55,211	64,413
150,000	11,389	22,779	34,168	45,557	56,947	68,336	79,725
175,000	13,577	27,154	40,731	54,307	67,884	81,461	95,038
200,000	15,764	31,529	47,293	63,057	78,822	94,586	110,350
225,000	17,952	35,904	53,856	71,807	89,759	107,711	125,663

Years of Credited Service

250,000	20,139	40,279	60,418	80,557	100,697	120,836	140,975
275,000	22,327	44,654	66,981	89,307	111,634	133,961	156,288
300,000	24,514	49,029	73,543	98,057	122,572	147,086	171,600
325,000	26,702	53,404	80,106	106,807	133,509	160,211	186,913
350,000	28,889	57,779	86,668	115,557	144,447	173,336	202,225
375,000	31,077	62,154	93,231	124,307	155,384	186,461	217,538
400,000	33,264	66,529	99,793	133,057	166,322	199,586	232,850
425,000	35,452	70,904	106,356	141,807	177,259	212,711	248,163
450,000	37,639	75,279	112,918	150,557	188,197	225,836	263,475
475,000	39,827	79,654	119,481	159,307	199,134	238,961	278,788
500,000	42,014	84,029	126,043	168,057	210,072	252,086	294,100
525,000	44,202	88,404	132,606	176,807	221,009	265,211	309,413

Benefits listed in the pension table are not subject to any deduction for Social Security or other offset amounts. As of December 31, 2004, the following executive officers have completed the indicated number of full years of credited service: P. Baker, 3 years; M. Callahan, 12 years; R. Clayton, 15 years; T. Fudge, 11 years; and L. Walde, 13 years.

Employment Agreements, Termination of Employment Arrangement and Other Management Arrangements

The Corporation has employment agreements (collectively, the Agreements) with Messrs. Baker, Callahan, Clayton, Fudge and Walde (collectively, the Executives), and individually, an Executive).

The Agreements were recommended to the Board by the Compensation Committee and were approved by the Board on the basis of such recommendation. The Agreements, which are substantially identical except for compensation provisions, provide that each of the Executives shall serve in such executive position as the Board may direct. The Agreements become effective only upon a Change of Control of the Corporation (the Effective Date). The term of employment under the Agreements is two years from the Effective Date. The Agreements have a Change in Control period of three years, and this period is automatically renewed for an additional year in June of each year unless the Corporation gives notice of nonrenewal 60 days prior to the renewal date. Under the Agreements, a Change of Control of the Corporation is deemed to occur if a person (including a group under Section 13d-3 of the Exchange Act becomes the beneficial owner of 20% or more of the voting power of the Corporation or if, as the result of a tender offer, merger, proxy fight or similar transaction, the persons who were previously directors of the Corporation cease to constitute a majority of the Board. The Agreements are intended to ensure that, in the event of a Change of Control, each Executive will continue to receive payments and other benefits equivalent to those he was receiving at the time of a Change of Control for the duration of the term of the Agreement. The Agreements also provide, among other things, that should an Executive's employment be terminated either (a) by the Executive for good reason or (b) by the Corporation (other than for cause or disability) after the Effective Date of the Agreement, he would receive

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from the Corporation a lump-sum defined amount generally equivalent to two times the aggregate of his then annual base salary rate and his highest annual bonus for the three years prior to the Effective Date. The Executives would also be entitled to lump-sum payments representing the difference in pension and supplemental retirement benefits to which they would be entitled on: (i) the date of actual termination, and (ii) the end of the two-year employment period under the Agreements. The Corporation would also maintain such Executive's participation in all benefit plans and programs (or provide equivalent benefits if such continued participation was not possible under the terms of such plans and programs). An Executive whose employment has terminated would not be required to seek other employment in order to receive the defined benefits. The Agreements also provide that under certain circumstances the Corporation will make an additional gross-up payment if necessary to place the Executive in the same after-tax position as if no excise tax were imposed by the Internal Revenue Code. Pursuant to the Agreements between the Corporation and each of its named executive officers, if a Change of Control occurred and the named executive officers were each terminated as of December 31, 2004, the Executives would be entitled to the following estimated cash payments pursuant to the Agreements: Mr. Baker, \$1,450,000; Mr. Callahan, \$518,000; Mr. Clayton, \$437,000; Mr. Fudge, \$580,000 and Mr. Walde, \$486,000. These dollar amounts do not include amounts which would have otherwise been payable to each Executive if the Executive had terminated employment on the day prior to a Change of Control.

AMENDMENT TO STOCK PLAN FOR NONEMPLOYEE DIRECTORS

Introduction

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Common shareholders are being asked to consider and vote on a proposal to amend the Corporation's Stock Plan for Nonemployee Directors (the Directors Stock Plan) to change the number of shares of Common Stock to be credited to each nonemployee director annually from the number of shares that results from dividing \$10,000 by the average closing price for the Corporation's Common Stock on the New York Stock Exchange for the prior calendar year, to the number of shares that results from dividing \$24,000 by the average closing price for the Corporation's Common Stock on the New York Stock Exchange for the prior calendar year. The amendment to the Directors Stock Plan was approved by the Board on December 13, 2004, subject to shareholder approval. The Board believes it is in the best interest of the Corporation to have a determinable value to the credited shares so that the Corporation can continue to attract and retain qualified persons to serve as directors. The Directors Stock Plan was originally adopted in March 1995 and became effective following shareholder approval on May 5, 1995.

Description of the Directors Stock Plan

The following is a summary of the principal features of the Directors Stock Plan, as amended as described above. The summary, however, does not purport to be a complete description of all the provisions of the Directors Stock Plan. Any shareholder who wishes to obtain a copy of the plan may do so by written request to the Secretary of the Corporation.

The Directors Stock Plan, as amended, provides that each nonemployee member of the Board will be credited annually on May 30 with shares of the Corporation's Common Stock (the Stock Retainer) in addition to the current annual cash retainer paid to such directors. It is anticipated that following the shareholders meeting, there will be seven nonemployee directors on the Corporation's Board. Nonemployee directors are members of the Corporation's Board who are not full-time employees of the Corporation or any subsidiary. Under the amended plan, on May 30 in each year, each nonemployee director will be credited a number of shares of the Corporation's Common Stock determined by dividing \$24,000 by the average closing price for the Corporation's Common Stock on the New York Stock Exchange for the prior calendar year. Prior to the amendment, nonemployee directors were credited a number of shares of the Corporation's Common Stock determined by dividing \$10,000 by the average closing price for the Corporation's Common Stock on the New York Stock Exchange for the prior calendar year. Nonemployee directors who join the Board after

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May 30 of any year will be credited with a pro rata grant of shares when they join the Board. Stock Retainer shares may not be sold until at least six months following the date they are credited.

The maximum number of shares of Common Stock which may be granted pursuant to the Directors Stock Plan is 1,000,000, subject to adjustment. In the event of any change in the Common Stock by reason of any stock dividend, split, combination of shares, exchange of shares, warrants or rights offering to purchase Common Stock at a price below its fair market value, reclassification, recapitalization, merger, consolidation or other change in capitalization, appropriate adjustment shall be made by the Plan Committee (as defined below) in the number and kind of shares subject to the plan and any other relevant provisions of the plan, whose determination shall be binding and conclusive on all persons.

Under the Directors Stock Plan, the Stock Retainers will be delivered to a director on or beginning on the earlier to occur of: (i) the death of the director; (ii) the disability of the director preventing continued service on the Board; (iii) the retirement of the director from service; (iv) a cessation of a director's service to the Corporation for any reason other than (i) through (iii) above; (v) a Change in Control in the Corporation (as defined in the Directors Stock Plan); or (vi) at anytime upon the election of any director, provided that the amount credited to the director under the Directors Stock Plan is held at least 24 months prior to delivery. Subject to certain restrictions, directors may elect to receive the Stock Retainers on such date or in annual installments thereafter over 5, 10 or 15 years. Upon delivery, a director will receive the Stock Retainers plus dividends or other distributions with respect to the Stock Retainers, plus interest at a rate equal to the Corporation's cost of funds on all such distributions other than stock of the Corporation.

The Corporation may contribute all Stock Retainers to a trust, to be held together with any dividends and distributions with respect thereto, until they are delivered in accordance with the terms of the Directors Stock Plan and the nonemployee directors' elections thereunder. The assets of the trust will remain subject to the claims of the Corporation's creditors.

The Directors Stock Plan shall be administered by a committee consisting of the Chief Executive Officer, the Treasurer, the Controller and the General Counsel of the Corporation (the Plan Committee), which will have full authority to construe and interpret the Directors Stock Plan, to establish, amend and rescind rules and regulations relating to the Directors Stock Plan, and to take all such actions and make all such determinations in connection with the Directors Stock Plan as the Plan Committee may deem necessary or desirable.

The Board may from time to time make such amendments to the Directors Stock Plan as it may deem proper and in the best interest of the Corporation without further approval of the Corporation's shareholders, provided that, to the extent required to qualify transactions under the Directors Stock Plan for exemption under Rule 16b-3, no amendment to the Directors Stock Plan will be adopted without further approval of the Corporation's shareholders in the manner prescribed in the Directors Stock Plan. In addition, the Directors Stock Plan may not be amended without shareholder approval to the extent such approval is otherwise required by law or agreement. In addition, the Board may terminate the Directors Stock Plan at any time.

Receipt of Plan Benefits

If the amendment is approved, on May 30, 2005, each of the seven nonemployee directors could receive 3,599 shares of Common Stock under the plan (calculated by dividing \$24,000 by \$6.6685, the average closing price for the Common Stock in 2004), which aggregates to 25,193 shares for the group of nonemployee directors. None of the executive officers named in the chart under the heading Summary Compensation Table is eligible to participate in the Directors Stock Plan, nor are other officers or employees.

Federal Income Tax Consequences

The following discussion is intended only as a brief summary of the federal income tax rules relevant to the Stock Retainer. The laws governing the tax aspects of awards are highly technical, and such laws are subject to change.

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A nonemployee director will not recognize taxable income upon the crediting of a Stock Retainer, but will recognize taxable compensation income upon the later of: (i) receipt of a Stock Retainer; and, (ii) if the nonemployee director is then subject to the six-month, short-swing profit recovery provisions of Section 16(b) of the Exchange Act, six months thereafter, unless such nonemployee director elects to be taxed upon receipt. Any such election (a Section 83(b) election) must be made and filed with the IRS within 30 days after grant in accordance with the regulations under Section 83(b) of the Internal Revenue Code. The amount of income will equal the fair market value of the Common Stock received, measured on the date the nonemployee director recognizes the compensation income. Dividends and other distributions that are made with respect to Stock Retainers prior to delivery will also be taxed as compensation income to the nonemployee directors when received by them, as will any interest paid thereon. The Corporation, in computing its federal income tax, will generally be entitled to compensation deductions at the same times and in the same amounts as the nonemployee directors recognize taxable compensation income.

Vote Required for Approval

Adoption of the proposed amendment to the Stock Plan for Nonemployee Directors will require the affirmative vote of the holders of a majority of the shares of Common Stock present at the meeting.

The Board of Directors recommends the shareholders vote FOR the amendment to the Stock Plan for Nonemployee Directors.

PROVISIONS OF THE CORPORATION'S BY-LAWS WITH RESPECT TO SHAREHOLDER PROPOSALS AND NOMINATIONS FOR ELECTION AS DIRECTORS

The Corporation's By-Laws establish procedures governing the eligibility of nominees for election to the Board of the Corporation and the proposal of business to be considered by the shareholders at an Annual Meeting of Shareholders. For nominations or other business to be properly brought before an Annual Meeting of Shareholders by a shareholder, the shareholder must have given timely notice thereof in writing to the Corporate Secretary of the Corporation. To be timely, a shareholder's notice shall be delivered to the Corporate Secretary of the Corporation at the principal executive offices of the Corporation not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year's Annual Meeting of Shareholders; *provided, however*, that in the event the date of the Annual Meeting of Shareholders is advanced by more than 30 days or delayed by more than 60 days from such anniversary date, notice by the shareholder to be timely must be so delivered not earlier than the 120th day prior to such Annual Meeting of Shareholders and not later than the close of business on the later of the 90th day prior to such Annual Meeting of Shareholders or the 10th day following the day on which public announcement of the date of such meeting is first made. Adjournment of a meeting shall not commence a new time period for giving a shareholder's notice as described above. Such shareholder's notice shall set forth: (a) as to each person whom the shareholder proposes to nominate for election or re-election as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Exchange Act, as amended, and Rule 14a-11 thereunder, including such person's written consent to being named in the Proxy Statement as a nominee and to serve as a director if elected; (b) as to any other business that the shareholder proposes to bring before the meeting, who has not otherwise complied with the rules and regulations under

the Exchange Act for the inclusion of a shareholder proposal in the Corporation's proxy materials, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such shareholder and the beneficial owner, if any, on whose behalf the proposal is made; and, (c) as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made: (1) the name and address of such shareholder, as they appear on the Corporation's books, and of such beneficial owner; and, (2) the class and number of shares of the Corporation which are owned beneficially and of record by such shareholder and such beneficial owner. The chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in

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the By-Laws and, if any proposed nomination or business is not in compliance with the By-Laws, to declare that such defective proposal shall be disregarded. The foregoing time limits also apply in determining whether notice is timely for purposes of rules adopted by the Securities and Exchange Commission relating to the exercise of discretionary voting authority.

SHAREHOLDER PROPOSALS FOR 2006 ANNUAL MEETING

The Corporation will review shareholder proposals intended to be included in the Corporation's proxy materials for the 2006 Annual Meeting of Shareholders which are received by the Corporation at its principal executive offices no later than December 2, 2005, subject to the By-Law provision discussed above. Such proposals must be submitted in writing and should be sent to the attention of the Corporate Secretary of the Corporation. The Corporation will comply with Rule 14a-8 of the Exchange Act with respect to any proposal that meets its requirements.

ANNUAL REPORT

The Corporation's Annual Report to Shareholders, consisting of the Corporation's Form 10-K for the year ended December 31, 2004, and other information, is being mailed to shareholders with this Proxy Statement. Shareholders of record may obtain a copy of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 (the Form 10-K), without cost by: (i) written request to Attn: Investor Relations; or (ii) requesting a copy through the Corporation's website at www.hecla-mining.com under Investor Relations and then selecting Information Request. In addition, a shareholder may also view the Annual Report on the Corporation's website. The Annual Report on Form 10-K is not part of the proxy solicitation materials for the Annual Meeting.

OTHER BUSINESS

As of the date of this Proxy Statement, the Board is not aware of any matters that will be presented for action at the Annual Meeting other than those described above. However, should other business properly be brought before the Annual Meeting, the proxies will be voted thereon at the discretion of the persons acting thereunder.

By Order of the Board of Directors

Michael B. White
Corporate Secretary

March 29, 2005

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DRIVING DIRECTIONS

From the Spokane, Washington/Coeur d'Alene, Idaho, area via Interstate 90

Follow Interstate 90 East to Wallace, Idaho

Take Exit #61, towards Wallace

Turn right on S. Frontage Rd.

Turn left on I-90

Turn right on Cedar St.

Elk's Temple is on the right-hand side
Telephone Number: (208) 753-4255

PROXY FOR SERIES B CUMULATIVE CONVERTIBLE PREFERRED STOCK

HECLA MINING COMPANY

**6500 N. Mineral Drive, Suite 200
Coeur d'Alene, Idaho 83815-9408**

ADJOURNED ANNUAL MEETING OF SHAREHOLDERS

June 1, 2005

PROXY SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned, revoking any previous proxies, hereby appoints ARTHUR BROWN and MICHAEL B. WHITE, and each of them, proxies of the undersigned, with full power of substitution, to attend the Corporation's Adjourned Annual Meeting of Shareholders on June 1, 2005, and any adjournments or postponements thereof, and there to vote the undersigned's shares of Series B Cumulative Convertible Preferred Stock of the Corporation on the following matters as described in the Board of Directors Proxy Statement, as Supplemented, for such meeting, a copy of which has been received by the undersigned.

(Continued and to be signed on the reverse side)

ADJOURNED ANNUAL MEETING OF SHAREHOLDERS OF

HECLA MINING COMPANY

June 1, 2005

PROXY FOR SERIES B CUMULATIVE CONVERTIBLE PREFERRED STOCK

PROXY VOTING INSTRUCTIONS

**Please mark, date, sign and mail your proxy card in the envelope
provided as soon as possible.**

COMPANY NUMBER

ACCOUNT NUMBER



Please detach along perforated line and mail in the envelope provided

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THE BOARD OF DIRECTORS RECOMMENDS A VOTE
FOR THE ELECTION OF DAVID J. CHRISTENSEN AND DR. ANTHONY P. TAYLOR FOR DIRECTORS LISTED IN ITEM 1.
PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS
SHOW HERE x

1. ELECTION OF DIRECTORS:

This Proxy will be voted as specified. If no specification is made, this Proxy will be voted FOR the election of David J. Christensen and Dr. Anthony P. Taylor.

NOMINEES:

FOR THE NOMINEES LISTED

David J. Christenson
Dr. Anthony P. Taylor

PLEASE MARK, SIGN, DATE AND PROMPTLY RETURN THE PROXY CARD USING THE ENCLOSED ENVELOPE.

WITHHOLD AUTHORITY FOR THE NOMINEES LISTED

FOR ALL EXCEPT (See instructions below)

INSTRUCTION: To withhold authority to vote for any individual nominee(s), mark **FOR ALL EXCEPT** and write the nominee name(s) below:

2. In the discretion of the proxies, on such other matters as may properly come before the adjourned meeting or any further postponement(s) or adjournment(s) thereof.

To change the address on your account, please check the box at the right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method.

Signature of Shareholder

Date:

Signature of Shareholder

Date:

Note: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.