

## 2019 LETTER TO SHAREHOLDERS



Florida Canyon Zinc Project, Peru



Lik Zinc Project, Alaska



**SOLITARIO**  
ZINC CORP.

### Dear Shareholder,

2018 was a transitional year for the development of Solitario Zinc's two primary assets: Florida Canyon in Peru and the Lik Property in Alaska. Florida Canyon was advanced to the doorstep of the most aggressive drilling program in its history and field work at Lik identified a potential new area of interest that warrants a significant follow-up surface exploration program in 2019.

We fully appreciate how difficult 2018 was for all junior mining resource companies as well as their shareholders. Solitario was no exception. But instead of crawling into a shell, we actively encouraged and participated with our two world-class partners, Teck Resources and Nexa Resources, to undertake and fund meaningful new programs. We were successful in this endeavor and anticipate very active work programs and news flow on both of our projects for the remainder of 2019.

### Florida Canyon Zinc Project, Peru (39% Solitario Zinc - 61% Nexa Resources)

Based upon the results of the NI-43-101 compliant 2017 Preliminary Economic Assessment, and the 2018 comprehensive re-interpretation of Florida Canyon mineralization it became clear that a focused and expanded drilling program would likely add significant resources to the existing resource base. Armed with new technical insight gained through relogging of all 487 previously drilled holes (117,000 meters), a drilling program was developed consisting of approximately 40 core holes totaling 17,000 meters. Nexa completed the necessary permitting for the program in mid-2018 and signed an important new 39-month community agreement in October of 2018. Drilling commenced with two helicopter-supported core rigs in November but was suspended in December upon the onset of the rainy season. Drilling will resume in early May with three core rigs operating.

We believe this aggressive and highly prospective drilling program will significantly upgrade the deposit and look forward to a steady stream of positive results throughout much of 2019. In addition to drilling, Nexa is also funding a significant road building program that will upgrade 25 kilometers of previously constructed road, add another five kilometers that will complete access to mineralized areas, and construct first-ever road access to important community centers within the project area.

The drilling program represents the culmination of an intensive two-year effort to provide necessary data to better define the geometry of Florida Canyon mineralization and the potential scale of the project, which we believe is significantly larger than is currently delineated.

Potential additions to the existing resource base would likely have a significant positive impact on project economics. We are very pleased with the support of the local communities, as evidenced by the new community agreement which ensures employment opportunities and provides for construction of road access to community centers.

Finally, an unexpected surprise occurred in late-2018 with the discovery of two new surface zinc occurrences located about four kilometers south of the Florida Canyon drilling footprint, and only about a kilometer from a paved road. These new Tingo and Shillac prospects both occur in exactly the same stratigraphic horizon as that found at the known Florida Canyon mineralized system. Not a single drill hole tests the four-kilometer trend between the new surface prospects and the currently defined Florida Canyon deposit.

The Florida Canyon Project is held in a joint venture between Solitario (39%) and Nexa Resources (61%) ("Nexa") NYSE: NEXA; TSX: NEXA), the world's fourth largest zinc miner. Nexa can earn a 70% interest in the Florida Canyon project by continuing to fund all project expenditures and committing to place the project into production based upon a positive feasibility study. After earning 70%, and at the request of Solitario, Nexa has further agreed to finance Solitario's 30% participating interest for construction through a project loan. Solitario will repay the loan facility through 50% of its net cash flow distributions from production. To accelerate the development of the Florida Canyon project, Solitario and Nexa have agreed to jointly fund, 30%-70% respectively, the cost for the 2018/2019 drilling program. Funding that Solitario contributes towards this drilling program will be fully credited towards repayment of the construction loan facility that Nexa provides to Solitario for project construction.

### Lik Zinc Project, Alaska (50% Solitario Zinc - 50% Teck Resources)

The 2018 Lik exploration program was the first field season during which our partner, Teck Resources, managed operations on the Lik joint venture property. We consider this important as Teck has been operating in the Red Dog zinc district for nearly 40 years where their institutional knowledge provides a high level of expertise. The 2018 program consisted of:

- Geologic mapping and geochemical sampling over the Lik deposit and potential extensions to the northeast.
- A ground gravity geophysical survey over prospective stratigraphy, mainly on the eastern half of the property.
- Recovery of nineteen previously drilled core holes for geologic and geotechnical logging.

Reconnaissance geologic mapping and geochemical sampling in 2018 identified the presence of geochemically anomalous pyritic shales approximately one-mile northeast of the current Lik deposit. These anomalous shales are within the same stratigraphic rock units that host Red Dog district mineralization and occur within an area that is coincident with a newly identified gravity high that may represent the presence of buried zinc-sulfide mineralization. But the gravity high could also be associated with overlying carbonate rocks or complicated by topographic effects. This potential new target and nearby terrain, informally called “North Area Prospect,” will be the primary focus of work for 2019.

Objectives for the 2019 Lik exploration program include:

- Follow-up geologic mapping and geochemical sampling in the newly identified North Area Prospect.
- Establish a geochemical model of Lik mineralization to provide valuable information to vector in on new drill targets.
- Complete selective relogging of historic drill core from the Lik deposit to better understand its geologic characteristics.

The 2019 Lik exploration program will be jointly funded by Teck and Solitario and managed by Teck. The program began in April and field work will be completed by the end of September. The Lik high-grade zinc project located in northwestern Alaska is an advanced exploration joint venture with Teck American Incorporated, a wholly owned subsidiary of Teck Resources Limited (TSX: TECK.A and TECK.B, NYSE: TECK), the world’s third largest zinc miner. Teck is the owner/operator of the nearby Red Dog zinc mine. Red Dog is one of the largest, highest grade and lowest cost zinc mines in the world.

#### **Review of Sale of Non-Core Royalty Properties**

Solitario sold all four of its non-producing mineral royalties during the past 12 months in two separate transactions. Combined, Solitario received approximately \$687,000 in cash and a convertible note valued at approximately \$263,000, for a total of \$950,000. Three of the royalty properties were very early-stage exploration properties that had limited drilling and no identified resources. The fourth property, Pedra Branca in Brazil, had an announced JORC-compliant resource, but is likely many years away from production. We believe that monetizing these royalty positions now was financially prudent.

The first royalty transaction occurred in April 2018 when Solitario sold its royalty interest in the non-producing Yanacocha property to a wholly owned subsidiary of Newmont Mining Corporation (“Newmont”) for approximately \$502,000 in cash. The Yanacocha Royalty covered 43 concessions totaling 36,052 hectares. Newmont owns the underlying mineral concessions covered by the royalty. None of the concessions covered by the Yanacocha Royalty have any reported reserves or resources.

The second transaction was completed in January 2019 when Solitario sold two royalties and an option to purchase a third royalty to SilverStream SEZC (“SilverStream”), a private Cayman Island royalty company. Solitario received \$185,000 in cash and \$263,000 in a one-year 5% convertible note as payment for the royalties and option. The note is convertible into SilverStream stock should SilverStream complete an IPO before the end of the one-year term. The royalties cover the 125,000-acre polymetallic Pedra Branca project in Brazil and Solitario’s 3,880-acre Mexico royalty portfolio. The purchase option covers Solitario’s 16,500-acre Montana royalty portfolio.

#### **G&A Cost Reduction Initiative**

The overall health of the mining industry, and particularly the junior segment of the sector, has been under stress for a protracted period of time. Even though Solitario had ample financial resources with nearly \$12 million in cash and marketable securities at the end of 2018, we undertook an effort to identify General and Administrative expenditures that could be reduced or eliminated. Over \$250,000 in annual cost reductions were identified. These ranged from salary and benefit reductions for all officers and employees, to elimination of certain corporate functions and recurring corporate costs such as outside consulting. These cost reductions were implemented at the first of the year.

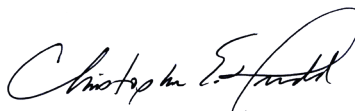
We believe that this is what responsible management does in the face of a challenging market environment and highlights that when management and directors own significant equity positions in their company, their decisions and actions are more directly aligned with the company’s shareholders.

#### **Final Remarks**

The zinc metal market remained tight throughout 2018 and thus far in 2019. We believe the supply/demand fundamentals will remain constructive to support zinc pricing above historical norms for the foreseeable future. Warehouse inventories of surplus zinc remain at historic lows. New zinc supplies have been limited to a few zinc mine expansions and a couple of medium-sized new mines coming into production. Zinc consumption remains stable to slightly growing. Even though the world economy has been decelerating during the past year, all major world economies are now implementing stimulus policies to create higher growth. If these policies are successful, it will undoubtedly have a positive impact on zinc prices.

As I began in this year’s Letter to our Shareholders, we at Solitario fully appreciate how difficult 2018 was for junior mining resource companies, Solitario and our shareholders. However, we actively encouraged and participated with our two world-class partners, Teck Resources and Nexa Resources, to undertake and fund meaningful new programs for 2019 and were successful in this effort. We anticipate very active work programs on both of our flagship projects for the remainder of 2019 and expect positive news flow as work advances, especially at Florida Canyon. Meanwhile, we continue to seek new opportunities that have the potential to increase shareholder value, but we remain very selective in this endeavor.

Sincerely,

  
Christopher E. Herald  
President and  
Chief Executive Officer

