

SOLSTICE GOLD CORP.  
FINANCIAL STATEMENTS

For the Years Ended June 30, 2020 and 2019  
(Expressed in Canadian Dollars)

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## Independent Auditor's Report

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To the Shareholders of Solstice Gold Corp.

### Opinion

We have audited the financial statements of Solstice Gold Corp. (the "Company") which comprise the statements of financial position as at June 30, 2020 and 2019 and the statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2020 and 2019 and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards ("IFRS").

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that at June 30, 2020, the Company had no source of operating revenues, had not yet achieved profitable operations, and expects to incur further losses in the development of its business. As stated in Note 1, these conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt upon the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis for the year ended June 30, 2020.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with the audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis for the year ended June 30, 2020 prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for the assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.



## Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Mark Zastre.

*BDO Canada LLP*

Chartered Professional Accountants

Vancouver, Canada  
October 28, 2020

SOLSTICE GOLD CORP.  
 Statements of Financial Position  
 (Expressed in Canadian Dollars)

	Notes		June 30, 2020		June 30, 2019
<b>ASSETS</b>					
Cash	3d	\$	1,820,423	\$	3,484,029
Amounts receivable			30,916		36,264
Prepaid expenses			22,625		21,765
			1,873,964		3,542,058
Exploration and Evaluation	6		15,201,951		12,865,867
<b>Total Assets</b>		\$	<b>17,075,915</b>	\$	<b>16,407,925</b>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	10	\$	117,509	\$	234,253
			117,509		234,253
CEBA Loan	5		30,000		-
Deferred tax liability	7, 9		470,507		470,507
<b>Total liabilities</b>		\$	<b>618,016</b>	\$	<b>704,760</b>
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	4, 8	\$	17,816,589	\$	16,644,818
Reserves	4, 8		2,233,985		1,970,240
Deficit			(3,592,675)		(2,911,893)
<b>Total shareholders' equity</b>			<b>16,457,899</b>		<b>15,703,165</b>
<b>Total Liabilities and Shareholders' Equity</b>		\$	<b>17,075,915</b>	\$	<b>16,407,925</b>

Subsequent events (Note 14)

Approved and authorized by the Board on October 28, 2020

/ David Adamson  
 David Adamson

/ Michael Leskovec  
 Michael Leskovec

The accompanying notes are an integral part of these financial statements

SOLSTICE GOLD CORP.  
Statements of Comprehensive Loss  
(Expressed in Canadian Dollars)

	Notes	Year ended June 30, 2020	Year ended June 30, 2019
<b>EXPENSES</b>			
Consulting fees	10a	\$ 64,500	\$ 66,000
Insurance		26,065	28,978
Salaries	10a	321,318	413,988
Marketing expenses		33,556	67,738
Office expenses		19,840	49,765
Professional fees		96,480	95,075
Share-based compensation	8d, 10a	124,940	102,900
Transfer agent and filing fees		25,369	35,667
Travel		9,392	8,625
		(721,460)	(868,736)
<b>OTHER INCOME (LOSS)</b>			
Interest income		30,678	107,277
Government Assistance		10,000	-
Loss before income taxes		(680,782)	(761,459)
Deferred income tax recovery (expense)	7	-	28,298
Net loss and comprehensive loss for the year		\$ (680,782)	\$ (733,161)
Basic and fully diluted loss per share		\$ (0.01)	\$ (0.01)
Weighted average number of shares outstanding - basic and fully diluted		71,172,593	69,101,267

The accompanying notes are an integral part of these financial statements

SOLSTICE GOLD CORP.  
 Statements of Cash Flows  
 (Expressed in Canadian Dollars)

	Notes	Year Ended June 30, 2020	Year Ended June 30, 2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss for the year		\$ (680,782)	\$ (733,161)
Items not involving cash:			
Share-based compensation	8d	124,940	102,900
Flow-through share premium liability		-	(45,677)
Deferred income tax impact on flow through shares		-	17,379
Government Grant Income		(10,000)	-
Net changes in non-cash working capital items			
Amounts receivable		5,348	108,090
Prepaid expenses		(860)	16,748
Accounts payable and accrued liabilities		(116,744)	(1,108,756)
Net cash used in operating activities		(678,098)	(1,642,477)
<b>CASH FLOWS FROM INVESTING ACTIVITY</b>			
Exploration and evaluation	6	(2,197,279)	(2,327,471)
Net cash used in investing activities		(2,197,279)	(2,327,471)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issuance of common shares		1,198,787	-
Proceeds from warrants exercised		-	415,848
Share issuance costs		(27,016)	-
Proceeds from CEBA Loan	5	40,000	-
Net cash provided by financing activities		1,211,771	415,848
Change in cash during the year		(1,663,606)	(3,554,100)
Cash, beginning of year		3,484,029	7,038,129
Cash, end of year		\$ 1,820,423	\$ 3,484,029

Supplemental Information

Stock based compensation capitalized to mineral properties	\$	138,805	361,708
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The accompanying notes are an integral part of these financial statements

SOLSTICE GOLD CORP.  
 Statements of Changes in Shareholders' Equity  
 (Expressed in Canadian Dollars)

	Notes	Share Capital		Reserves	Deficit	Total
		Number	Amount			
Balance at June 30, 2018		66,762,584	\$ 16,228,970	\$ 1,505,632	\$ (2,178,732)	\$ 15,555,870
Warrant Exercises	8c	2,772,322	415,848	-	-	415,848
Share-based compensation	8d	-	-	464,608	-	464,608
Net loss for the year		-	-	-	(733,161)	(733,161)
Balance at June 30, 2019		69,534,906	\$ 16,644,818	\$ 1,970,240	\$ (2,911,893)	\$ 15,703,165
Share-based compensation	8d	-	-	263,745	-	263,745
Share issuance	8b	29,969,666	1,198,787	-	-	1,198,787
Share issuance costs		-	(27,016)	-	-	(27,016)
Net loss for the year		-	-	-	(680,782)	(680,782)
Balance at June 30, 2020		99,504,572	\$ 17,816,589	\$ 2,233,985	\$ (3,592,675)	\$ 16,457,899

The accompanying notes are an integral part of these financial statements

## 1. NATURE AND GOING CONCERN

Solstice Gold Corp, formerly Dunnedin Gold Inc., (“Solstice” or the “Company”) was incorporated in the Province of British Columbia on June 8, 2017. The Company’s registered and records office is located at Suite 1600 925 West Georgia Street Vancouver BC V6C 3L2. On September 18, 2017, the Company changed its name to Solstice Gold Corp. The Company is carrying out exploration of mineral resource properties in Nunavut, Canada.

On May 14, 2018, Solstice began trading on the TSX Venture Exchange under the symbol “SGC”.

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to a going concern, which assumes that the Company will be able to meet its obligations. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At June 30, 2020, the Company had no source of operating revenues, had not yet achieved profitable operations, and expects to incur further losses in the development of its business. In addition, the COVID-19 pandemic could have a material adverse impact on the Company’s results of operations, cash flows and liquidity. All of these matters cast significant doubt about the Company’s ability to continue as a going concern.

## 2. BASIS OF PREPARATION

### Statement of compliance

The financial statements of the Company for the year ended June 30, 2020 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) by management, reviewed by the Audit Committee, and approved and authorized for issue by the Board of Directors on October 28, 2020.

### Basis of measurement

These audited financial statements have been prepared on a going concern basis, under the historical cost convention, and have been prepared using the accrual basis of accounting except for cash flow information. The statement of cash flows shows the changes in cash arising during the period from operating activities, investing activities and financing activities.

The cash flows from operating activities are determined by using the indirect method. Net loss is therefore adjusted by non-cash items, such as deferred tax expenses (recoveries), stock-based compensation, write-down of exploration and evaluation assets, flow-through share premium, as well as changes from amounts receivable, prepaid expenses, and accounts payable and accrued liabilities. The cash flows from investing and financing activities are determined by using the direct method.

### Critical judgments in applying accounting policies

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the year. Actual results could differ from these estimates.



## 2. BASIS OF PREPARATION (continued)

These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below:

### Recovery of Capitalized Exploration and Evaluation Expenditure

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the profit or loss in the period the new information becomes available.

### Title to Mineral Property Interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

### Application of accounting for Plan of Arrangement

Determination of whether a set of assets acquired and liabilities assumed constitute the acquisition of a business or asset requires the Company to make certain judgments as to whether the assets acquired, and liabilities assumed constitute a business as defined in IFRS 3 – Business Combinations. The Plan of Arrangement (Note 1) was considered an acquisition of assets and the Company concluded that Fair Value accounting under IFRS 2 was appropriate. See note 4.

Determining Fair Value for the assets acquired required significant judgment. The Company determined the Fair Value of the Shares issued as consideration for the acquisition of the Kahuna property was the most reliable measure.

## 2. BASIS OF PREPARATION (continued)

### Share-based compensation

The Company determines the fair value of share options granted using the Black-Scholes option pricing model. This option pricing model requires the development of market-based subjective inputs, including the risk-free interest rate, expected price volatility and expected life of the option. Changes in these inputs and the underlying assumption used to develop them can materially affect the fair value estimate

The preparation of these financial statements requires management to make judgments regarding the going concern of the Company as discussed in Note 1.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

### a. Foreign currencies

The financial statements for the Company are prepared using its functional currencies. Functional currency is the currency of the primary economic environment in which an entity operates. The functional and presentation currency of the Company are both Canadian dollars.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions.

At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary assets and liabilities that are measured at historical cost are translated by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated by using the exchange rate in effect at the date the value is determined, and the related translation differences are recognized in the statement of operations or other comprehensive loss consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

All gains and losses on translation of foreign currency transactions are charged to the statement of comprehensive loss.

### Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVTOCI") or amortized cost. The Company determines the classification of financial assets at initial recognition.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### b. Financial instruments

##### (i) Financial assets at FVTPL

Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in profit or loss. Equity instruments that are held for trading and all equity derivative instruments are classified as FVTPL. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets held at FVTPL are included in profit or loss in the period in which they arise.

##### (ii) Financial assets at FVTOCI

Financial assets carried at FVTOCI are initially recorded at fair value plus transaction costs with all subsequent changes in fair value recognized in other comprehensive income (loss). For investments in equity instruments that are not held for trading, the Company can make an irrevocable election (on an instrument-by-instrument bases) at initial recognition to classify them as FVTOCI. On the disposal of the investment, the cumulative change in fair value remains in other comprehensive income (loss) and is not recycled to profit or loss.

##### (iii) Amortized cost

Financial assets are classified at amortized cost if the objective of the business model is to hold the financial asset for the collection of contractual cash flows, and the asset's contractual cash flows are comprised solely of payments of principal and interest. The Company's accounts receivable are recorded at amortized cost as they meet the required criteria. A provision is recorded based on the expected credit losses for the financial asset and reflects changes in the expected credit losses at each reporting period.

#### Financial liabilities

Financial liabilities are initially recorded at fair value and subsequently measured at amortized cost, unless they are required to be measured at FVTPL (such as derivatives) or the Company has opted to measure at FVTPL. The Company's financial liabilities include trade and other payables which are classified at amortized cost.

#### c. Cash

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value. As at June 30, 2020, the cash and cash equivalents consist of \$1,820,423 (2019 – 3,484,029). \$17,250 (2019 – \$17,250) of the cash balance relates to restricted cash to support a letter of credit that the company has filed with the Kivalliq Inuit Association.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### d. Exploration and Evaluation

Pre-exploration costs are expensed in the period in which they are incurred.

Once the legal right to explore a property has been acquired, all costs related to the acquisition, exploration and evaluation of mineral properties are capitalized by property. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they occur.

Where the Company has entered into option agreements to acquire interests in mineral properties that provide for periodic payments or periodic share issuances, amounts unpaid and unissued are not recorded as liabilities since they are payable and issuable entirely at the Company's option. Option payments are recorded as mineral property costs when the payments are made and the share issuances are recorded as mineral property costs using the fair market value of the Company's common shares at the date the counterparty's performance is complete or the issuance date, whichever is more determinable.

When a project has been established as commercially viable and technically feasible, related development costs are capitalized into Development Costs. This includes costs incurred in preparing the site for mining operations. Capitalization ceases when the mine is capable of commercial production, with the exception of development costs which give rise to a future benefit.

#### e. Impairment of non-financial assets

At each date of the statement of financial position, the Company's carrying amounts of its assets are reviewed to determine whether there is any indication that those assets maybe impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e. Impairment of non-financial assets (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

f. Provisions, contingent liabilities and assets

General provisions, contingent liabilities and assets

Provisions are recognized when the Company has a present legal or constructive obligation that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized, unless it was assumed in the course of a business combination. In a business combination, contingent liabilities arising from present obligations are recognized in the course of the allocation of the purchase price to the assets and liabilities acquired in the business combination. They are subsequently measured at the higher amount of a comparable provision as described above and the amount initially recognized, less any amortization.

Possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets.

Restoration and environmental rehabilitation provisions

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. The Company is required to record the estimated present value of future cash flows associated with site reclamation as a liability when the liability is incurred and increase the carrying value of the related assets for that amount. The obligations recognized are statutory, contractual or legal obligations. The liability is accreted over time for changes in the fair value of the liability through charges to accretion, which is included in the statement of comprehensive loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

f. Provisions, contingent liabilities and assets (continued)

General provisions, contingent liabilities and assets (continued)

Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight-line method. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses.

The Company has no material restoration, rehabilitation and environmental costs to date.

g. Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in the statement of comprehensive loss except to the extent that it relates to items recognized in other comprehensive income(loss) or directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, no deferred tax asset is recognized.

h. Share Capital

Share capital represents the amount received on the issue of shares, less issuance costs. Deficit includes all current and prior year losses.

Flow-through common shares

Canadian tax legislation permits a company to issue flow-through common shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Share Capital (continued)

Flow-through common shares (continued)

Upon issuance of flow-through common shares, the fair value of the common shares is recorded as an increase in share capital. Any difference (premium) between the amounts recognized in share capital and the amount paid by the investor is recognized as a flow-through share premium liability and is reversed into earnings through deferred income tax expense at the time the flow-through expenditures have been incurred, net of share issuance costs.

To the extent that the Company has deferred tax assets that were not recognized in previous periods, a deferred tax recovery is recorded as an offsetting recovery in profit or loss.

i. Loss per share

Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is computed similar to basic loss per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

j. Share-based payments

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of comprehensive loss/income over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive loss/income over the remaining vesting period.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of comprehensive loss/income, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### j. Share-based payments (continued)

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

All equity-settled share-based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

#### k. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources, services or obligations between related parties.

#### l. Application of new and revised standards

##### New standards, interpretations and amendments

The following are new standards, interpretations and amendments, which have been applied in these financial statements.

##### IFRS 3 – Business Combinations

Effective for annual periods beginning on or after January 1, 2020, the IASB has amended the definition of a business to confirm that a business must include inputs and a process and clarified that the process must be substantive and that the inputs and process must together significantly contribute to creating outputs. Furthermore, the amendment narrows the definition of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than providing dividends or other economic benefits directly to investors or lowering costs. The Company has considered the amendment and assessed that it will have no material impact on adoption.



#### 4. KAHUNA PROPERTY LAND TRANSFER AND RIGHTS AGREEMENT

Letter Agreement between Kodiak Copper Corp. (Formerly Dunnedin Ventures Inc.) and Solstice Gold Corp.

Pursuant to the Arrangement, Kodiak Copper Corp. and Solstice entered into the Kahuna Property Land Transfer and Rights Agreement (the "Agreement") which set out the terms to which Kodiak Copper Corp. transferred mineral claims located in Nunavut, Canada (approximately 26 kilometres northeast of Rankin Inlet) to Solstice.

On January 31, 2018, upon execution of the Agreement, Kodiak Copper Corp. transferred to Solstice:

- a) 100% title and rights to the Transferred Claims (715 km<sup>2</sup>)(specifically identified in the Agreement);
- b) A 50% undivided interest in and to certain Border Claims (Solstice Portion: 91 km<sup>2</sup>) (specifically identified in the Agreement); and
- c) Ownership of all technical, economic, geological, and other information and data concerning the Transferred Claims, and the portion of each of the Border Claims over which Solstice has Primary Development Rights ("PDR") (as defined in the Agreement).

In each case, the Agreement is free and clear of any and all mortgages, charges, pledges, liens, licences, privileges, security interests, royalties, encumbrances, claims or rights or interest attaching to or affecting property, whether recorded or unrecorded, and whether arising by agreement, statute or otherwise under applicable laws (each an "Encumbrance"), apart from the gross overriding royalties ("GORs") and the net smelter return royalties ("NSRs") which are held by the original property vendors.

In consideration for the Transferred Claims and \$1,300,000 in cash, Solstice issued 34,418,850 common shares, 6,536,359 warrants and 2,361,659 stock options to Kodiak Copper Corp.

Upon execution of the Agreement, Kodiak Copper Corp. granted to Solstice PDR in respect of the Transferred Claims (806 km<sup>2</sup>) and Secondary Development Rights ("SDR") in respect of the Remaining Claims (858 km<sup>2</sup>) (other than Transferred or Border Claims) and Solstice granted PDR's in respect of the Remaining Claims and SDR's in respect of the Transferred Claims. Border claims are also split into PDR and SDR depending on geographic location.

PDR means the rights of the holder of a mineral claim or other mining right, to amongst other things, conduct exploration, development, and mining on such mineral claims. SDR means having the right to access the mineral claims for the purpose of inspecting the mineral claims and existing work being undertaken on the claims and to propose work to the PDR holder which work may proceed only with the consent of the PDR holder. SDR's terminate on a claim or claims when a PDR holder commences a feasibility study, completes a feasibility study or commences commercial production on the claim or claims.

In all cases of the Agreement, mining rights of Kodiak Copper Corp. shall be limited to diamonds, gemstones and all minerals found within kimberlitic rocks and mining rights of the Company shall exclude all other minerals and metalloids. Mineral claims & rights under the Agreement may be transferred to third parties provided they are bound by the Agreement.

85% of claims are subject to a 4% NSR. This can be reduced to 2% by a \$4 million payment at anytime up until production.

## 5. CEBA LOAN

The Canada Emergency Business Account (“CEBA”) Loan is an interest free loan to assist with cash flow needs and is provided by the Government of Canada. If this loan is repaid in full by December 31, 2022, 25% of the amount loaned under CEBA is forgiven. The CEBA loan is non-interest bearing and is unsecured. As management intends to repay this loan before December 31, 2022 it has recorded the 25% forgiveness as government assistance.

## 6. EXPLORATION AND EVALUATION ASSETS

Summary of the mineral project costs for the twelve months ended as at June 30, 2020:

### Kahuna Property

	Note	As at June 30, 2019	Additions	As at June 30, 2020
Acquisition Costs -Plan of Arrangement	4	\$ 8,343,233	\$ -	8,343,233
Geological expense, salaries, and project management	10	2,538,473	1,672,812	4,211,285
Aircraft charter		473,014	393,362	866,376
Exploration support		621,976	121,628	743,604
Fuel		179,260	20,761	200,021
Travel		219,830	85,252	305,082
Property acquisition and maintenance		437,059	36,989	474,048
Other		53,022	5,280	58,302
<b>Acquisition &amp; Exploration costs</b>		<b>\$ 12,865,867</b>	<b>\$2,336,084</b>	<b>\$ 15,201,951</b>

## 7. FLOW THROUGH SHARE OFFERING

On January 31, 2018, the Company completed a non-brokered private placement of 5,809,333 flow-through common shares at a price of \$0.30 per share for gross proceeds of \$1,742,800. A premium of \$0.05 per share was received for the flow through shares and accordingly the Company recorded the \$290,467 flow through share premium liability.

A deferred tax liability of \$470,507 (2018 - \$453,128) has been recognized for the forgone tax deductions that the Company has renounced in connection with its flow through share offering.

As at June 30, 2020, the Company has fulfilled 100% of its commitment to incur expenditures in relation to flow through share financing.

8. SHARE CAPITAL

a. Authorized and outstanding

The Company is authorized to issue an unlimited number of common shares. At June 30, 2020, there are 99,504,572 common shares outstanding for a share capital amount of \$17,816,589.

b. Share issuances

On June 10, 2020 the company closed a private placement for gross proceeds of \$1,198,787. The Company issued a total of 29,969,666 units at a price of \$0.04 per unit. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each full warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.06 for a period of 36 months from the closing of the private placement.

During the year ended June 30, 2018, concurrent with completion of the Arrangement, Solstice issued 34,418,850 common shares, 6,536,359 warrants and 2,361,659 options to Kodiak Copper Corp. shareholders as part of the consideration for the Transferred Claims.

8. SHARE CAPITAL (continued)

c. Warrants

	Number of Warrants	Weighted Average Exercise Price
Balance as at June 30, 2018	20,440,281	\$0.32
Granted	-	-
Exercised	(2,772,322)	\$0.15
Expired	(359,002)	\$0.15
Balance as at June 30, 2019	17,308,957	\$0.35
Granted	29,969,666	\$0.06
Exercised	-	-
Expired	(3,405,035)	\$0.34
Balance as at June 30, 2020	43,873,588	\$0.15

Expiry Date	Number of Warrants	Exercise Price	Weighted Average Remaining Life in Years
July 31, 2020	636,722 <sup>2</sup>	\$0.30	0.08
January 31, 2021	13,267,200 <sup>1</sup>	\$0.35	0.59
June 10, 2023	29,969,666	\$0.06	2.95
	43,873,588	\$0.15	2.19

All warrants were exercisable as at June 30, 2020

<sup>1</sup> On July 2, 2019 the Company announced that it would extend the exercise period of these share purchase warrants by six months. Each of the warrants is exercisable for one common share of the Company at price of \$0.35. The exercise price of the Warrants remains unchanged with this extension. These warrants were originally issued pursuant to a private placement completed by Solstice on January 31, 2018.

<sup>2</sup> 636,722 warrants expired subsequent to year-end.

d. Options

On the 10<sup>th</sup> June, 2020 1,500,000 stock options were granted to the Chairman of the Board, these options are exercisable at \$0.06 per share for a period of five years from the date of grant. Also on the 10<sup>th</sup> June, 2020 1,150,000 options were granted to the President of the Company, these options are also exercisable at \$0.06 per share for a period of five years from the date of grant. All of the options granted on the 10<sup>th</sup> June, 2020 vest immediately.

On September 1<sup>st</sup>, 2018, 1,100,000 stock options were granted to the newly appointed Vice President Exploration, exercisable at \$0.25 per share for a period of seven years. 50% of the stock options vested on issuance, with the balance vesting in equal six-month tranches over a two year period.

The amount of share-based compensation related to employee stock options for the year ended June 30, 2020 was \$263,745 (2019 -\$464,408). \$124,940 (2019 -\$102,900) was charged to the Statement of Operations and \$138,805 (2019 -\$361,708) was charged to Exploration and Evaluation Assets.

8. SHARE CAPITAL (continued)

d. Options - (continued)

The fair value of the options was estimated at the grant date based on the Black-Scholes option-pricing model, using the following assumptions:

	June 10, 2020
Expected dividend yield	0%
Weighted average risk-free interest rate	0.38%
Weighted average expected life	5 year
Weighted average expected volatility	151%
Weighted average fair value of options granted	\$0.04980

	September 1, 2018
Expected dividend yield	0%
Weighted average risk-free interest rate	2.17%
Weighted average expected life	7 year
Weighted average expected volatility	196%
Weighted average fair value of options granted	\$0.1980

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted.

Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. The Company uses the Black-Scholes option pricing model to estimate the fair value of options granted. This estimate requires determining the most appropriate inputs for the Black-Scholes model including the expected life of the share option, volatility and dividend yield.

The expected life of the share option was based on the full term of the instrument as at the time of issuance there was not sufficient historical data to suggest a more appropriate term. The risk free interest rate is based on a treasury instrument whose term is consistent with the expected term of the stock options. We have not paid and do not anticipate paying cash dividends on our shares of common stock in the foreseeable future; therefore, the expected dividend yield is assumed to be zero.

SOLSTICE GOLD CORP.  
Notes to the Financial Statements  
June 30, 2020  
(Expressed in Canadian Dollars)

8. SHARE CAPITAL (continued)

d. Options - (continued)

	Number of Options	Weighted Average Exercise Price
Balance as at June 30, 2018	7,651,659	\$ 0.225
Granted	1,100,000	\$ 0.25
Exercised	-	-
Expired	(50,000)	\$ 0.19
Balance as at June 30, 2019	8,701,659	\$ 0.23
Granted	2,615,000	\$ 0.06
Exercised	-	-
Expired	(1,008,330)	\$ 0.17
Balance as at June 30, 2020	10,308,329	\$ 0.192

Expiry Date	Number of Options	Exercise Price	Weighted Average Remaining Life in Years
August 4, 2021	66,666 **	\$0.15	1.10
September 6, 2021	1,166,663 **	\$0.19	1.19
October 4, 2021	50,000 **	\$0.19	1.26
January 18, 2022	420,000 **	\$0.21	1.55
January 15, 2025	4,490,000	\$0.25	4.55
June 10, 2025	2,615,000	\$0.06	4.95
June 19, 2025	400,000	\$0.25	4.97
September 1, 2025	1,100,000	\$0.25	5.18
	10,308,329	\$0.19	4.19

\*\* Options transferred from Kodiak Copper Corp. as per Plan of Arrangement.

At June 30, 2020 10,239,579 (2019 – 7,976,919) options were exercisable.

## 9. INCOME TAX

### a. Income tax recovery provision

The reconciliation of income tax provision computed at statutory rates to the reported income tax provision is:

	2020	2019
Loss before income taxes	\$ (680,782)	\$ (761,459)
Canadian federal and provincial rates	27%	27%
Expected income tax recovery	(183,811)	(205,594)
Increase (decrease in income tax recovery resulting from)		
Non-deductible items	33,734	27,783
Share issuance costs	(7,294)	(19,395)
Flow through premium liability	(-)	(45,677)
Impact of over / under provision in prior year	46,000	
Increase / (decrease) in unrecognized tax asset	111,363	214,585
Income tax expense / (recovery)	\$ (-)	\$ (28,298)

### b. Unrecognized deferred tax assets

Deferred income tax assets are only recognized to the extent that the realization of tax benefits is determined to be probable. As at June 30, 2020, the Company has not recognized the benefit of the following deductible temporary differences:

	2020	2019
Non-capital losses carried forward	\$ 639,000	\$ 460,000
Exploration and evaluation costs	2,900,000	2,946,000
Capital assets	4,000	-
Share issue costs	45,000	58,000
	\$ 3,588,000	\$ 3,464,000

### c. Tax losses

The Company has accumulated non-capital losses of approximately \$2,366,667 (\$1,704,000 June 30, 2019) in Canada, which may be carried forward to reduce taxable income of future years. The non-capital losses will, if unused, expire between 2039 and 2041.

## 10. RELATED PARTY TRANSACTIONS

Related parties include key management, the Board of Directors, close family members, and enterprises which are controlled by these individuals as well as certain persons performing similar functions.

### Key Management and Consulting Agreements

On June 10, 2020 the Company entered into amended employment and consulting agreements with key management and consultants that materially reduced or eliminated any potential future change in control payments.

#### a. Directors and Executive Management Compensation was as follows:

	Year ended June 30,	Year ended June 30,
	2020	2019
Salary related compensation	\$ 295,711	\$ 402,942
Project related fees and compensation	164,885	212,944
Share-based compensation	263,745	464,608
	<u>\$ 724,341</u>	<u>\$ 1,080,494</u>

\$138,805 of share-based compensation costs (2019 - \$ 361,708) relates to geological evaluation expense and has been coded to evaluation and exploration assets.

#### b. Directors and Executive Management Transactions

The aggregate value of transactions and outstanding balances relating to entities over which directors and executive management have control or significant influence for the year ended June 30, 2020 were as follows:

Payee	Nature of Transactions	Related Party	Amount	Owing as at June 30, 2020
Rimini Exploration & Consulting Ltd.	Consulting Services	Former Vice President Exploration	\$ 174,053	\$ -
Rimini Exploration & Consulting Ltd *	Exploration Costs	Former Vice President Exploration	\$ 258,684	\$ 1,449
			<u>\$ 432,737</u>	<u>\$ 1,449</u>



## 10. RELATED PARTY TRANSACTIONS (continued)

The aggregate value of transactions and outstanding balances relating to entities over which directors and executive management have control or significant influence for the year ended June 30, 2019 were as follows:

Payee	Nature of Transactions	Related Party	Amount	Owing as at June 30, 2019
Rimini Exploration & Consulting Ltd	Consulting Services	Former Vice President Exploration	\$ 175,000	\$ 19,775
Rimini Exploration & Consulting Ltd*	Exploration Costs	Former Vice President Exploration	\$ 275,483	\$ 93,144
North Face Software Ltd*.	Exploration Services	Former Vice President Exploration	\$ 24,500	\$ -
			\$ 475,983	\$ 112,919

\*Rimini Exploration & Consulting Ltd. ("Rimini") is a Company that Solstice's Vice President Exploration has a significant interest in. Rimini is contracted with Solstice to carry out part of the Company's programs.

\*North Face Software Ltd is a Company that Solstice's former Vice President Exploration has a significant interest in. North Face Software was contracted with Solstice to provide the former Vice President of Exploration's services.

## 11. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of exploration and evaluation assets. The capital structure of the Company consists of equity, comprising issued capital, (See Note 12). Financial Instruments – Interest Rate Risk) and deficit. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not exposed to externally imposed capital requirements.

## 12. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, deposits, and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

## 12. FINANCIAL INSTRUMENTS (continued)

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following summarizes fair value hierarchy under which the Company's financial instruments are valued:

- Level 1 – fair values based on unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – fair values based on inputs that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – fair values based on inputs for the asset or liability that are not based on observable market data.

As at June 30, 2020 and 2019 no financial instruments were measured at fair value. No transfer occurred between the levels during the year.

As at the reporting date the Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, and liquidity risk.

### Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations to the Company. The Company's cash is held with Canadian Chartered Banks. The Company believes it has no significant credit risk.

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company plans to have sufficient capital in order to meet short term business requirements, after taking into account cash flows from operations and the Company's holdings of cash.

### Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates, and commodity and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing return. As at June 30, 2020, the Company is exposed to minimum market risk.

### Interest rate risk

Is the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. In May of 2020 the Company received the \$40,000 interest free Canada Emergency Business Account (CEBA) loan. The program is operated by the Government of Canada. If the loan balance is paid on or before December 31, 2022, there will be loan forgiveness of 25% or \$10,000. All receivable and payable balances as at June 30, 2020 are current and as such, are not subject to interest.

### 13. SEGMENTED INFORMATION

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. All of the Company's operations are within the mineral exploration sector in Canada. The Company operates in a single reportable operating segment.

### 14. SUBSEQUENT EVENTS

On July 10, 2020 the Company's board of directors approved the issuance of 250,000 employee stock options to a member of management exercisable at \$0.09 per share. The options have a five year term and vest over a period of eighteen months.