

INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF

Element Lifestyle Retirement Inc.

(Formerly “Sonoma Resources Inc.”)

For the Three and Nine Months ended February 28, 2017

NOTICE TO READERS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accomplished by a notice indicating that the interim financial statements have not been reviewed by an auditor. The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The unaudited interim consolidated financial statements have been prepared using accounting policies in compliance with International Financial Reporting Standards for the preparation of the interim consolidated financial statements and are in accordance with IAS 34 – Interim Financial Reporting. The Company's independent auditor has not performed a review of these unaudited interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

ELEMENT LIFESTYLE RETIREMENT INC.

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ELEMENT LIFESTYLE RETIREMENT INC.
(FORMERLY “SONOMA RESOURCES INC.”)
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited – Expressed in Canadian dollars)
(Exhibit I)

	February 28, 2017	May 31, 2016
ASSETS		
Current		
Cash	\$ 2,401,720	\$ 3,737,092
Trade & other receivables <i>(Note 5)</i>	20,892	13,769
Prepaid expenses	8,053	870
	<u>2,430,665</u>	<u>3,751,731</u>
Capital assets	<u>343,963</u>	<u>79,399</u>
Total assets	<u>\$ 2,774,628</u>	<u>\$ 3,831,130</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 131,804	\$ 108,470
Deferred revenue	-	500,000
	<u>131,804</u>	<u>608,470</u>
SHAREHOLDERS' EQUITY		
Common shares <i>(Note 8)</i>	6,682,300	5,972,500
Share issuance costs <i>(Note 8)</i>	(225,482)	(225,482)
Reserve - options <i>(Note 8)</i>	109,541	88,893
Reserve - warrants <i>(Note 8)</i>	-	24,656
Contributed surplus <i>(Note 8)</i>	24,656	-
Deficit <i>(Exhibit III)</i>	(3,948,191)	(2,637,907)
	<u>2,642,824</u>	<u>3,222,660</u>
Total liabilities and shareholders' equity	<u>\$ 2,774,628</u>	<u>\$ 3,831,130</u>

On behalf of the Board

_____ Director

_____ Director

ELEMENT LIFESTYLE RETIREMENT INC.
(FORMERLY “SONOMA RESOURCES INC.”)
INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHESIVE LOSS
(Unaudited – Expressed in Canadian dollars)
(Exhibit II)

	Three Months Ended		Nine Months Ended	
	Feb 28, 2017	Feb 29, 2016	Feb 28, 2017	Feb 29, 2016
REVENUE				
Consulting fees	\$ -	\$ 1,000,000	\$ 500,000	\$ 1,143,389
EXPENSES				
Advertising and promotion	20,881	15,145	45,975	55,288
Amortization	61,550	10,454	125,247	29,356
Consulting fees	20,473	21,285	118,389	99,840
General & administration	58,802	65,512	152,957	144,467
Property investigations and consulting	-	40,833	-	163,080
Professional fees	15,476	28,852	81,747	53,053
Rent	30,990	17,654	92,716	52,732
Salaries, wages and benefits	384,155	290,028	1,039,967	899,531
Subcontract fees	29,212	36,500	54,212	44,514
Travel	25,796	21,183	97,645	122,936
	647,335	547,446	1,808,855	1,664,797
OTHER INCOME				
Other income (loss)	(1,429)	-	(1,429)	2,617
Transaction costs - Reverse Take Over	-	(972,368)	-	(972,368)
	(1,429)	(972,368)	(1,429)	(969,751)
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	\$ (648,764)	\$ (519,814)	\$ (1,310,284)	\$ (1,491,159)
Basic and diluted loss per common share	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.04)
Weighted average number of shares outstanding	55,832,188	52,782,384	55,272,188	33,559,113

ELEMENT LIFESTYLE RETIREMENT INC.
(FORMERLY “SONOMA RESOURCES INC.”)
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited – Expressed in Canadian dollars)
(Exhibit III)

	Common shares outstanding	Paid-in capital	Preferred shares outstanding	Paid-in capital	Warrants	Contributed surplus	Stock-based compensation reserve	Share insurance costs	Deficit	Total
Balance, May 31, 2015	24,000,000 \$	500,000	7,900,000 \$	515,000 \$	- \$	- \$	- \$	(30,000) \$	(367,394) \$	617,606
Share issuance cost	-	-	-	-	-	-	-	(195,482)	-	(195,482)
Preferred shares	7,900,000	515,000	(7,900,000)	(515,000)	-	-	-	-	-	-
Shares issued - private placement (Note 8)	17,300,000	4,325,000	-	-	-	-	-	-	-	4,325,000
Shares of Sonoma - Reverse Take Over	3,902,188	632,500	-	-	-	-	-	-	-	632,500
Warrants (Note 8)	-	-	-	-	24,656	-	-	-	-	24,656
Comprehensive income (loss) for the period	-	-	-	-	-	-	-	-	(1,491,160)	(1,491,160)
Balance, Feb 29, 2016	53,102,188 \$	5,972,500	- \$	- \$	24,656 \$	- \$	- \$	(225,482) \$	(1,858,554) \$	3,913,120

	Common shares outstanding	Paid-in capital	Preferred shares outstanding	Paid-in capital	Warrants	Contributed surplus	Stock-based compensation reserve	Share insurance costs	Deficit	Total
Balance, May 31, 2016	53,102,188 \$	5,972,500	- \$	- \$	24,656 \$	- \$	88,893 \$	(225,482) \$	(2,637,907) \$	3,222,660
Shares issued - private placement (Note 8)	2,730,000	709,800	-	-	-	-	-	-	-	709,800
Warrants (Note 8)	-	-	-	-	(24,656)	24,656	-	-	-	-
Options (Note 8)	-	-	-	-	-	-	20,648	-	-	20,648
Comprehensive income (loss) for the period	-	-	-	-	-	-	-	-	(1,310,284)	(1,310,284)
Balance, Feb 28, 2017	55,832,188 \$	6,682,300	- \$	- \$	- \$	24,656 \$	109,541 \$	(225,482) \$	(3,948,191) \$	2,642,824

ELEMENT LIFESTYLE RETIREMENT INC.
(FORMERLY “SONOMA RESOURCES INC.”)
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited – Expressed in Canadian dollars)
(Exhibit IV)

	Three Months Ended		Nine Months Ended	
	Feb 28, 2017	Feb 29, 2016	Feb 28, 2017	Feb 29, 2016
CASH FLOWS USED IN OPERATING ACTIVITIES				
Loss for the period	\$ (648,764)	\$ (519,814)	\$ (1,310,284)	\$ (1,491,159)
Items not affecting cash:				
Amortization	61,550	10,454	125,247	29,356
Share-based payments <i>(Note 8)</i>	20,648	-	20,648	-
Fair value of Sonoma's shares	-	632,500	-	632,500
Changes in non-cash working capital:				
Trade & other receivables	1,508	92,594	(7,123)	(5,860)
Prepaid expenses	(584)	27,500	(7,183)	-
Accounts payable and accrued liabilities	62,675	(65,603)	23,335	(114,753)
Deferred revenue	-	-	(500,000)	500,000
	(502,967)	177,631	(1,655,360)	(449,916)
CASH FLOWS USED IN INVESTING ACTIVITIES				
Purchase of capital assets	(163,784)	(3,257)	(389,812)	(6,520)
	(163,784)	(3,257)	(389,812)	(6,520)
CASH FLOWS USED IN FINANCING ACTIVITIES				
Due from related party	-	(196,976)	-	(200,000)
Issuance of common shares	-	4,325,000	709,800	4,325,000
Share issuance costs	-	(155,992)	-	(170,826)
	-	3,972,032	709,800	3,954,174
CHANGE IN CASH DURING THE PERIOD	(666,751)	4,146,406	(1,335,372)	3,497,738
CASH, BEGINNING OF THE PERIOD	3,068,471	102,497	3,737,092	751,165
CASH, END OF THE PERIOD	\$ 2,401,720	\$ 4,248,903	\$ 2,401,720	\$ 4,248,903

ELEMENT LIFESTYLE RETIREMENT INC.
(FORMERLY “SONOMA RESOURCES INC.”)
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED FEBRUARY 28, 2017
(Unaudited – Expressed in Canadian dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

Element Lifestyle Retirement Inc. (the “Company”) (formerly “Sonoma Resources Inc.” “Sonoma”) was incorporated under the British Columbia Company Act on May 31, 2007. On December 2, 2015, the Company completed a Share Exchange Agreement with the shareholders of Element Lifestyle Retirement Inc. (“Element”), a private company which was incorporated under the Business Corporations Act (British Columbia) on June 12, 2013. Pursuant to which the Element shareholders transferred all of their common and preferred shares in exchange for common shares of Sonoma on a 1:1 ratio. The transaction resulted in the former Element shareholders owning approximately 60% of the issued and outstanding common shares of the resulting issuer, and therefore constituted a Reverse Takeover (the “RTO”) under the policies of the TSXV Exchange. The ongoing entity has adopted the name Element Lifestyle Retirement Inc. on December 2, 2015 and resumed trading of the common shares of the Company on the TSXV, under the new name and symbol (ELM) on December 4, 2015. The former Element Lifestyle Retirement Inc. has been identified for accounting purposes as the acquirer, now a wholly-owned subsidiary of the Company, has changed its name to Element Lifestyle Management Inc. and accordingly the entity is considered to be a continuation of Element Lifestyle Retirement Inc.

The Company provides specialized development expertise and flexible, innovative management services for senior retirement communities. The head office of the Company is located at 1147 Homer Street, Vancouver, BC, V6B 2Y1.

These unaudited consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiaries, Element Lifestyle Management Inc. (formerly known as Element Lifestyle Retirement Inc.) and Element Lifestyle Retirement (Hong Kong) Ltd. (formerly “Team Host Development Ltd.”), which was established in Hong Kong during the year ended May 31, 2016.

These unaudited consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will continue in operations for the foreseeable future and be able to realize assets and satisfy liabilities in the normal course of business. If the going concern assumption was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses and the statements of financial position classifications used.

As of February 28, 2017 and May 31, 2016, the Company reported the following:

	February 28, 2017	May 31, 2016
Net loss for the period	\$ 1,310,284	\$ 2,270,513
Deficit	3,948,191	2,637,907
Working capital	2,298,861	3,143,261

2. STATEMENT OF COMPLIANCE

These unaudited consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements, including International Accounting Standards 34, Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”). The accounting policies applied in the preparation of these unaudited consolidated interim financial statements are consistent with those applied and disclosed in the Company’s audited financial statements for the year ended May 31, 2016, except as noted below. These unaudited consolidated interim financial statements should be read in conjunction with the Company’s audited financial statements for the year ended May 31, 2016. These consolidated interim financial statements were authorized for issue by the Board of Directors on April 25, 2017.

3. BASIS OF PRESENTATION

These unaudited consolidated interim financial statements have been prepared using the historical cost convention, except for derivatives, which are measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

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(Unaudited – Expressed in Canadian dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATION UNCERTAINTY

In preparing these consolidated interim financial statements, the accounting policies utilized are consistent with those utilized in the preparation of the annual audited financial statements for the year ended May 31, 2016.

The significant judgments made by management in applying the Company’s accounting policies and the key sources of estimating uncertainty were the same as those applied to the annual audited financial statements for the year ended May 31, 2016.

5. TRADE & OTHER RECEIVABLES

	February 28, 2017	May 31, 2016
Advance to employees <i>(Note 10)</i>	\$ 2,909	\$ 664
GST receivable	5,740	13,105
Due from related party <i>(Note 10)</i>	12,243	-
	\$ 20,892	\$ 13,769

The Company expects full recovery of Trade accounts receivables and value added taxes receivable, and consequently has not recorded any allowance against these receivables. At February 28, 2017, there were no receivables past due. All amounts included in Trade & other receivables were timing related and are expected to be paid within one year.

6. FINANCIAL INSTRUMENTS

The Company classifies its fair value measurements in accordance with the three-level fair value hierarchy as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The following table sets forth Element’s financial assets measured at fair value by level within the fair value hierarchy as follows:

	Level 1	Level 2	Level 3	February 28, 2017	May 31, 2016
Financial Assets:					
Cash	\$ 2,401,720	-	-	\$ 2,401,720	\$ 3,737,092

The Company’s financial instruments are exposed to risks that are summarized below:

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company’s concentrations of credit risks consist principally of cash and advance to employees. To minimize the credit risk on cash the Company places the instrument with a high credit quality financial institution. The Company assesses the requirement for a provision based on historical experience.

Liquidity Risk

Liquidity risk is the risk the Company may encounter difficulties in meeting its obligations associated with financial liabilities and commitments. The Company’s approach to managing liquidity is to ensure, as far as possible, that it will

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have sufficient liquidity to meet its liabilities when due, under both normal & stressed conditions without increasing losses or risking harm to the Company’s reputation.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. For the period ended February 28, 2017, the Company’s revenues and expenses are in Canadian dollars. The Company is not exposed to significant currency risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to significant interest rate risk.

7. INCOME TAXES

Income tax recovery for the period ended February 28, 2017 and February 29, 2016 is summarized as follows:

	Three months ended		Nine months ended	
	Feb 28, 2017	Feb 29, 2016	Feb 28, 2017	Feb 29, 2016
Loss before recovery of income taxes	\$ (648,764)	\$ (519,814)	\$ (1,310,284)	\$ (1,491,159)
Statutory tax rate	26%	26%	26%	26%
Expected income tax recovery	(168,679)	(135,152)	(340,674)	(387,701)
Non-deductible items	1,047	1,311	2,996	2,307
Share issuance cost	-	(50,796)	-	(50,796)
Change in deferred tax asset not recognized	167,632	184,637	337,678	436,190
Total income tax expense (recovery)	\$ -	\$ -	\$ -	\$ -

As at February 28, 2017, the Company had non-capital loss carry forwards of approximately \$4,797,408 (February 29, 2016 - \$919,297) which may be applied directly to the Company’s taxable income to offset future liabilities for Canadian tax purposes, subject to the final determination by taxation authorities.

8. SHARE CAPITAL

Authorized: unlimited number of common shares with no par value.

Issued or allotted and fully paid:

a) Common shares

On August 27, 2015, the Company issued 31,900,000 common shares in the capital of the Company (the “RTO Shares”) to exchange all of the issued and outstanding securities of Element. Concurrent with the closing of the Transaction, the Company completed a private placement of 17,300,000 shares (the “Financing Shares”) at \$0.25 per share for gross proceeds of \$4,325,000 (the “Financing”).

The Company paid the Agent, at the closing of the transaction, a \$140,000 cash commission and granted 558,152 agent’s warrants which expired on December 2, 2016. The agent’s warrants had a fair value of \$24,656 which was added to share

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issuance costs. In addition, the Company paid share issuance costs of \$170,826, which included agent and administration fees, corporate finance fees, legal and filing fees.

On July 27, 2016, the Company completed a non-brokered private placement of 2,730,000 common shares at a price of \$0.26 per share to raise gross proceeds of \$709,800.

b) Escrow Shares

As at November 30, 2016, a total 31,900,000 of the RTO Shares were held in escrow and subject to resale restrictions, including a 3-year escrow restriction.

c) Warrants

558,152 warrants granted and issued on December 2, 2015 expired on December 2, 2016. \$24,656 was transferred to Contributed surplus. A summary of activity and changes in warrants during the period ended February 28, 2017 and February 29, 2016 is presented below:

	Feb 28, 2017	Weighted Average Exercise Price	Feb 29, 2016	Weighted Average Exercise Price
Balance – Beginning of Year	558,152 ⁽¹⁾	\$ 0.25	-	\$ -
Granted	-	-	558,152 ⁽¹⁾	0.25
Expired	(558,152)	(0.25)	-	-
Balance – End of Period	-	\$ -	558,152	\$ 0.25

(1) Exercisable at a price of \$0.25 per share until December 2, 2016, granted pursuant to private placement.

d) Stock-based compensation reserve

(i) Options issued to directors and senior officers

On February 24, 2017, the Company granted a total of 160,000 options to certain senior officers to acquire common shares of the Company for a period of five years at an exercise price of \$0.25 per share. All options vested immediately.

The following table reflects the stock-based compensation options issued and outstanding as at February 28, 2017 and February 29, 2016:

	Feb 28, 2017	Weighted Average Exercise Price	Feb 29, 2016	Weighted Average Exercise Price
Balance – Beginning of Year	1,000,000	\$ 0.25	-	\$ -
Granted	160,000 ⁽¹⁾	0.25	-	-
Balance – End of the Period	1,160,000 ⁽²⁾	\$ 0.25	-	\$ -

(1) Stock options granted on February 24, 2017 vested immediately, are exercisable at \$0.25 per option, expire on February 24, 2022 and had a total fair value of \$20,648 at the date of grant.

(2) Exercisable and outstanding as at February 28, 2017.

The weighted average fair value of the options granted is \$0.09 per option, and the weighted average remaining contractual life of the options issued and outstanding is 4.35 years.

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The fair value of share purchase options granted on February 24, 2017 was estimated to be \$20,648 using the Black-Scholes Option Pricing Model with the following assumptions:

	2017
Risk free interest rate	0.48%
Expected dividend yield	0.00%
Expected stock price volatility	104%
Expected option life in years	5
Expected forfeiture rate	100 %

9. KEY MANAGEMENT COMPENSATION

Key management includes the Company’s directors and key employees. Compensation for the three and nine months ended February 28, 2017 and February 29, 2016 was as follows:

	Three Months Ended		Nine Months Ended	
	Feb 28, 2017	Feb 29, 2016	Feb 28, 2017	Feb 29, 2016
Salaries and short-term employee benefits	\$ 241,940	\$ 224,250	\$ 685,937	\$ 831,938
Total	\$ 241,940	\$ 224,250	\$ 685,937	\$ 831,938

10. RELATED PARTY TRANSACTIONS

For the three months ended February 28, 2017, the Company paid subcontract fees of \$28,512 (2016 - \$12,500) to a certain key executive and consulting fees of \$nil (2016 - \$15,375) to a certain director. In addition, the Company paid rent of \$30,990 (2016 - \$17,654) to a company controlled by one of the key executives and directors.

During the three months ended February 28, 2017, the Company paid director fees of \$10,000 (2016 - \$nil) to the Company’s independent directors.

As at February 28, 2017, \$2,909 (2016 - \$1,000) in advances to employees is due from a certain director.

As at February 28, 2017, there was \$12,243 (2016 - \$nil) owing from the company controlled by the members of the same group of shareholders.

11. SUBSEQUENT EVENTS

On April 28, 2017, the Company announced that it has entered into an agreement to acquire a 1.96 acres commercial property located along the harbourside of Victoria at Bayview Place, British Columbia (the “Lands”) with a view to developing and subsequently operating an inter-generational aging-in-place community on the Lands. The purchase price for the Lands of \$6.7 million, subject to closing adjustments, will be paid in cash and is expected to be funded by a combination of an equity/debt financing.