

ELEMENT LIFESTYLE RETIREMENT INC.

Unaudited Condensed Consolidated Interim Financial Statements

Three Months Ended August 31, 2018 and 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 condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the condensed consolidated interim financial statements have not been reviewed by an auditor. The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The unaudited condensed consolidated interim financial statements have been prepared using accounting policies in compliance with International Financial Reporting Standards for the preparation of unaudited condensed consolidated interim financial statements and are in accordance with International Accounting Standard 34 – Interim Financial Reporting. The Company's independent auditor has not performed a review of these unaudited condensed consolidated interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

ELEMENT LIFESTYLE RETIREMENT INC.

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ELEMENT LIFESTYLE RETIREMENT INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

As at	Aug 31, 2018	May 31, 2018
ASSETS		
Current		
Cash (Note 5)	\$ 1,613,182	\$ 1,439,300
Other receivables (Note 6)	19,482	26,103
Prepaid expenses	21,746	15,900
Due from related parties	-	14,314
Total current assets	1,654,410	1,495,617
Restricted cash (Note 5)		41,708
Property and equipment (Note 7)	309,581	331,681
Property under development (Note 8)	8,674,891	8,261,053
Trade-marks (Note 9)	20,003	18,841
Total assets	\$ 10,658,885	\$ 10,148,900
LIABILITIES		
Current		
Accounts payables and accrued liabilities (Note 10)	\$ 143,239	\$ 586,202
Due to related parties (Note 14)	33,079	-
Mortgage loan (Note 11)	3,500,000	3,500,000
Total current liabilities	3,676,318	4,086,202
Long term liabilities		
Convertible debentures (Note 12)	1,639,876	1,596,824
SHAREHOLDERS' EQUITY		
Share capital	8,766,702	8,766,702
Subscriptions received in advance (Note 13)	400,000	-
Share issuance costs	(257,635)	(257,635)
Reserve - options (Note 13)	144,311	144,311
Reserve - warrants (Note 13)	444,820	444,820
Equity component of convertible debentures (Note 12)	677,998	677,998
Contributed surplus	42,435	42,435
Deficit	(4,875,940)	(5,352,757)
Total shareholders' equity	5,342,691	4,465,874
Total liabilities and shareholders' equity	\$ 10,658,885	\$ 10,148,900

On behalf of the Board

_____ Director

_____ Director

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

ELEMENT LIFESTYLE RETIREMENT INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Expressed in Canadian dollars)

For the three months ended August 31	2018	2017
REVENUE		
Consulting fees	\$ 1,144,051	\$ 683,649
EXPENSES		
Amortization	25,598	24,972
Consulting fees	68,514	17,275
General & administration	87,495	30,746
Marketing and promotion	29,862	15,994
Professional fees	45,823	96
Rent	33,733	31,406
Salaries, wages and benefits	365,534	372,560
Travel	13,876	22,682
	670,435	515,731
INCOME FROM OPERATIONS	473,616	167,918
OTHER INCOME		
Other income	3,201	2,050
INCOME BEFORE INCOME TAXES	476,817	169,968
Provision for recovery of income taxes		
Deferred	-	252,512
INCOME AND COMPREHENSIVE INCOME FOR THE PERIOD	\$ 476,817	\$ 422,480
Basic and diluted loss per common share	\$ 0.01	\$ 0.01
Basic and diluted weighted average number of shares outstanding	68,478,299	64,354,567

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

ELEMENT LIFESTYLE RETIREMENT INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian dollars)

	Common shares outstanding	Paid-in capital	Warrants	Contributed surplus	Equity component of convertible debenture	Stock-based compensation reserve	Share issuance costs	Deficit	Total
Balance, May 31, 2017	55,832,188 \$	7,262,300 \$	- \$	24,656 \$	- \$	109,541 \$	(225,482) \$	(4,389,739) \$	2,781,276
Shares issued - private placement	12,646,111	2,084,402	-	-	-	-	-	-	2,084,402
Subscriptions received in advance	-	(580,000)	-	-	-	-	-	-	(580,000)
Equity component of convertible debenture	-	-	-	-	677,998	-	-	-	677,998
Share issuance cost	-	-	-	-	-	-	(32,153)	-	(32,153)
Warrants	-	-	444,820	-	-	-	-	-	444,820
Comprehensive income (loss) for the period	-	-	-	-	-	-	-	422,480	422,480
Balance, Aug 31, 2017	68,478,299 \$	8,766,702 \$	444,820 \$	24,656 \$	677,998 \$	109,541 \$	(257,635) \$	(3,967,259) \$	5,798,823

	Common shares outstanding	Paid-in capital	Warrants	Contributed surplus	Equity component of convertible debenture	Stock-based compensation reserve	Share issuance costs	Deficit	Total
Balance, May 31, 2018	68,478,299 \$	8,766,702 \$	444,820 \$	42,435 \$	677,998 \$	144,311 \$	(257,635) \$	(5,352,757) \$	4,465,874
Subscriptions received in advance <i>(Note 13)</i>	-	400,000	-	-	-	-	-	-	400,000
Comprehensive income (loss) for the period	-	-	-	-	-	-	-	476,817	476,817
Balance, Aug 31, 2018	68,478,299 \$	9,166,702 \$	444,820 \$	42,435 \$	677,998 \$	144,311 \$	(257,635) \$	(4,875,940) \$	5,342,691

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

ELEMENT LIFESTYLE RETIREMENT INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)

For the three months ended August 31	2018	2017
CASH FLOWS USED IN OPERATING ACTIVITIES		
Income for the period	\$ 476,817	\$ 422,480
Items not affecting cash:		
Amortization	25,598	24,972
Deferred income tax	-	(252,512)
Changes in non-cash working capital:		
Other receivables	6,621	(5,279)
Prepaid expenses	(5,846)	(2,461)
Accounts payables and accrued liabilities	(442,963)	(41,105)
Deferred revenue	-	(717,831)
Total cash used in operating activities	60,227	(571,736)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchase of property and equipment	(3,498)	-
Purchase of property under development	(370,786)	(6,980,020)
Trade-marks	(1,162)	(642)
Total cash used in investing activities	(375,446)	(6,980,662)
CASH FLOWS USED IN FINANCING ACTIVITIES		
Due from related party	47,393	-
Subscriptions received in advance	400,000	-
Issuance of common shares, net of costs	-	1,472,249
Issuance of warrants	-	444,820
Issuance of convertible debentures	-	2,490,242
Proceeds from mortgage loan	-	3,500,000
Total cash used in financing activities	447,393	7,907,311
CHANGE IN CASH DURING THE PERIOD	132,174	354,913
CASH, BEGINNING OF THE PERIOD	1,481,008	4,244,764
CASH, END OF THE PERIOD	\$ 1,613,182	\$ 4,599,677

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

ELEMENT LIFESTYLE RETIREMENT INC.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL
STATEMENTS
For the three months ended August 31, 2018 and 2017
(All dollar amounts expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Nature of operations

Element Lifestyle Retirement Inc. (the “Company” or “ELM”) was incorporated under the British Columbia Company Act on May 31, 2007. 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 shares 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 development management services for senior retirement communities. The head office and principal address of the Company is located at 1147 Homer Street, Vancouver, BC, V6B 2Y1.

These unaudited condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiaries, Element Lifestyle Management Inc., Element Lifestyle Retirement (Hong Kong) Ltd. , and Element Lifestyle (Vic Harbour West) Inc.

These unaudited condensed 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 operation 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 unaudited condensed consolidated interim 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 August 31, 2018 and May 31, 2018, the Company reported the following:

	Aug 31, 2018	May 31, 2018
Deficit	\$ 4,875,940	\$ 5,352,757
Working capital	\$ (2,021,908)	\$ (2,590,585)

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2. STATEMENT OF COMPLIANCE

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 – Interim Financial Reporting under International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”). These condensed consolidated interim financial statements follow the same accounting policies and methods of application as the most recent annual consolidated financial statements of the Company. These condensed consolidated interim financial statements do not contain all of the information required for full annual financial statements. Accordingly, these unaudited condensed consolidated interim financial statements should be read in conjunction with the Company’s May 31, 2018, annual consolidated financial statements, which were prepared in accordance with IFRS as issued by the IASB.

The unaudited condensed consolidated interim financial statements were approved by the Board of Directors for issue on Oct 25, 2018.

3. BASIS OF PRESENTATION

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

Basis of consolidation

These unaudited condensed consolidated interim financial statements incorporate the financial statements of the Company and the entities controlled by the Company, which consist of:

- Element Lifestyle Management Inc., which was incorporated in British Columbia – owned 100% by the Company.
- Element Lifestyle Retirement (Hong Kong) Ltd., which was incorporated in Hong Kong – owned 100% by the Company.
- Element Lifestyle (Vic Harbour West) Inc., which was incorporated in British Columbia – owned 100% by the Company.

Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the unaudited condensed consolidated interim financial statements from the date that control commences until the date that control ceases. All significant intercompany transactions and balances have been eliminated.

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

In preparing these condensed 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, 2018.

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, 2018.

5. CASH

	Aug 31, 2018	May 31, 2018
Cash	\$ 1,389,036	\$ 1,439,300
Cash under restriction	224,146	41,708
	\$ 1,613,182	\$ 1,481,008

\$224,146 held in escrow for interest payments on mortgage loan (note 11).

6. OTHER RECEIVABLES

	Aug 31, 2018	May 31, 2018
GST receivable	\$ 16,785	\$ 26,104
Other receivables	2,697	290
	\$ 19,482	\$ 26,394

As of August 31, 2018, management has determined that all receivables are collectible and no allowance for doubtful accounts is necessary.

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7. PROPERTY AND EQUIPMENT

Property and equipment for the three months ended August 31, 2018 and year ended May 31, 2018 were as follows:

	Furniture & fixtures	Computer equipment	Leasehold improvement	Total
Cost				
May 31, 2018	60,786	30,303	459,217	550,306
Additions	-	3,498	-	3,498
August 31, 2018	60,786	33,801	459,217	553,804
Accumulated amortization				
May 31, 2018	22,934	16,944	178,747	218,625
Additions	1,893	2,077	21,628	25,598
August 31, 2018	24,827	19,021	200,375	244,223
Net book value				
May 31, 2018	\$ 37,852	\$ 13,359	\$ 280,470	\$ 331,681
August 31, 2018	\$ 35,959	\$ 14,780	\$ 258,842	\$ 309,581

8. PROPERTY UNDER DEVELOPMENT

The Company's property under development at August 31, 2018 and May 31, 2018 consists of the following:

	Aug 31, 2018	May 31, 2018
Land	\$ 6,934,693	\$ 6,934,693
Finance and due diligence fees	690,891	391,286
Architectural, other professional fees and marketing costs	788,274	733,640
Prepaid	261,033	201,434
	\$ 8,674,891	\$ 8,261,053

Costs for the property under development were not subject to amortization for the three months ended August 31, 2018 or for the year ended May 31, 2018.

9. TRADE-MARKS

As at August 31, 2018, the Company had incurred legal fees of \$20,003 (2017 - \$14,338) regarding three trade-marks.

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10. ACCOUNT PAYABLES

	Aug 31, 2018	May 31, 2018
Accounts payables	\$ 89,385	\$ 185,221
Interest payable	29,286	73,210
Salaries and benefits payable	24,569	327,771
	\$ 143,239	\$ 586,202

11. MORTGAGE LOAN

Effective August 22, 2018, the Company's \$3.5 million mortgage which originally matured on September 1, 2018, was renewed for another 12 month term at the RBC prime lending rate plus 2%, but, not less than 5.7%. The estimated interest only monthly payment is \$16,625 but, is subject to changes with the RBC prime lending rate. The interest payment of 12 months was held in escrow. As at August 31, 2018, the remaining balance of interest payments under escrow is in the amount of \$224,146, see note 5.

12. CONVERTIBLE DEBENTURES

On August 29, 2017, the Company issued \$2,510,000 in unsecured convertible debentures (the "Debentures"). The Debentures bear interest at 7% per annum with a term of 5 years. Each Debenture is convertible into common shares of the Company at a price of \$0.30 per share.

The following table summarizes the Company's convertible debentures as at August 31, 2018 and May 31, 2018:

	Aug 31, 2018	May 31, 2018
Issued	\$ 2,510,000	\$ 2,510,000
Equity portion of convertible loan - Gross	(971,199)	(971,199)
Financing fees	(64,469)	(64,469)
Accretion expense	165,544	122,492
Loan portion of convertible loan	\$ 1,639,876	\$ 1,596,824

	Aug 31, 2018	May 31, 2018
Equity portion of convertible loan - Gross	\$ 971,199	\$ 971,199
Equity portion of financing cost	(40,689)	(40,689)
Deferred tax related to conversion feature	(252,512)	(252,512)
Equity portion of convertible loan - net	\$ 677,998	\$ 677,998

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13. SHARE CAPITAL

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

Issued or allotted and fully paid:

a) Common shares

On July 13, 2018, the Company announced a non-brokered private placement of 9,000,000 common shares at a price of \$0.20 per share for gross proceeds of \$1,800,000. As at August 31, 2018, the Company received \$400,000 proceeds from certain directors.

b) Escrow Shares

As at August 31, 2018, a total 8,910,000 common shares were held in escrow and are subject to resale restriction until December 2, 2018.

c) Warrants

A summary of activity and changes in warrants during the period ended August 31, 2018 and 2017 is presented below:

	Number of warrants	Weighted Average Exercise Price
Balance – May 31, 2018	6,323,055	\$ 0.30
Granted	-	-
Balance – August 31, 2018	6,323,055 ^(*)	\$ 0.30

(*) Exercisable at a price of \$0.30 per share until June 30, 2019, granted on June 30, 2017.

d) Stock-based compensation reserve

The following table reflects the stock-based compensation options issued and outstanding as at August 31, 2018 and 2017:

	Number of options	Weighted Average Exercise Price
Balance – May 31, 2018	1,360,000	\$ 0.25
Granted	-	-
Balance – August 31, 2018	1,360,000 ^(*)	0.25

(*) 800,000 stock options expire on May 26, 2021, 160,000 stock options expire on February 24, 2022 and 400,000 stock options expire on September 28, 2022.

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As of August 31, 2018, 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 3.22 years.

14. RELATED PARTY TRANSACTIONS

During the period ended August 31, 2018, the Company:

- (a) received consulting fees of \$1,144,051 (2017: \$683,649) from companies controlled by a director;
- (b) paid rent of \$33,733 (2017: \$31,406) to a company controlled by a director; and
- (c) incurred director fees of \$6,000 (2017: \$6,000) regarding the Company's independent directors.
- (d) received \$400,000 proceeds from certain directors for the non-brokered private placement announced on July 13, 2018, see note 13(a).

As at August 31, 2018, \$2,697 was receivable from a certain director for travel expenses and \$33,079 was payable to the companies controlled by certain directors.

These transactions are in the normal course of business and have been valued in these consolidated financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties. The amounts due to related parties are unsecured, non-interest bearing, and have no specific terms of repayment.

15. KEY MANAGEMENT COMPENSATION

The compensation paid or payable to key management personnel during the three months ended August 31, 2018 and 2017 were as follows:

	Aug 31, 2018	Aug 31, 2017
Salaries and short-term employee benefits	\$ 252,560	\$ 280,941
Consulting fees	3,500	-
Total	\$ 256,060	\$ 280,941

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16. FINANCIAL INSTRUMENTS

Fair value of financial instruments

As at August 31, 2018, the Company's financial instruments consisted of cash, other receivables, account payables and accrued liabilities, mortgage loan and convertible debentures. The fair values of other receivables, account payables and accrued liabilities, and mortgage loan approximate their carrying values because of their current nature.

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 date

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

	Level 1	Level 2	Level 3	Aug 31, 2018	May 31, 2018
Financial Assets:					
Cash	\$ 1,613,182	\$ -	\$ -	\$ 1,613,182	\$ 1,439,300
Other receivables	19,482	-	-	19,482	26,103
Total financial assets	\$ 1,632,664	\$ -	\$ -	\$ 1,632,664	\$ 1,465,403
Financial Liabilities:					
Accounts payable and accrued liabilities	\$ 143,239	\$ -	\$ -	\$ 143,239	\$ 586,202
Mortgage loan	3,500,000	-	-	3,500,000	3,500,000
Convertible debentures	-	-	1,639,876	1,639,876	1,596,824
Total financial liabilities	\$ 3,643,239	\$ -	\$ 1,639,876	\$ 5,283,115	\$ 5,683,026

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, trade & other receivables and advances to employees. To minimize the credit risk on cash, the Company places the instrument with a high credit quality financial institution. The Company assesses collectability of specific accounts receivable and also, assesses the requirement for a provision based on historical experience.

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Liquidity Risk

Liquidity risk is the risk the Company may encounter difficulties in meeting its obligations associated with financial liabilities and commitments. The Company is exposed to the risk of repaying \$3.5 million short term mortgage loan which was subsequently renewed for another 12 month period. The Company manages its liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

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. The Company is not exposed to significant currency risk and interest rate 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 August 31, 2018, the Company's revenues and expenses were recorded in Canadian dollars. Management has determined that the Company is not exposed to significant currency risk because most transactions are in Canadian dollars.

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 as the Company's mortgage loan and debentures are all at fixed interest rates.

17. CAPITAL MANAGEMENT

The Company defines its capital as items included in shareholders' equity and debt, net of cash.

The Company's objectives when managing capital are to: (i) maintain a capital structure that provides financing options to the Company for accessing capital, on commercially reasonable terms, without exceeding its debt capacity, or taking on undue risks; (ii) maintain financial flexibility in order to preserve its ability to meet financial obligations; and (iii) deploy capital to provide an appropriate investment return to its shareholders.

The Company's financial strategy is designed to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions. In order to maintain or adjust its capital structure, the Company has issued additional shares. The Company's financing and refinancing decisions are made on a specific

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transaction basis and depend on such things as the Company's needs and market and economic conditions at the time of the transaction.

The Company manages capital through its operating and financial budgeting and forecasting processes on a regular basis. The Company reviews its working capital and forecasts its future cash flows, based on actual and forecasted operating results and other investing and financing activities. This information along with possible alternatives are reviewed by management and the Board of Directors of the Company on a regular basis to ensure the best mix of capital resources meet the Company's needs. The Company makes strategic and financial adjustments according to market conditions in an effort to meet its objectives given the Company's operating and financial performance and the current outlook for the business and for the industry in general.

18. SUBSEQUENT EVENT

Sell Aquara land to Aquara LP???