ELEMENT LIFESTYLE RETIREMENT INC.

(FORMERLY "SONOMA RESOURCES INC.")

Consolidated Financial Statements

Years Ended May 31, 2016 and May 31, 2015

Management's Responsibility for Financial Reporting

To the Shareholders of Element Lifestyle Retirement Inc. (formerly "Sonoma Resources Inc."):

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP is appointed by the shareholders to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

September 12, 2016

Director

Director

Independent Auditors' Report

To the shareholders of Element Lifestyle Retirement Inc. (formerly "Sonoma Resources Inc."):

We have audited the consolidated financial statements of Element Lifestyle Retirement Inc. (formerly "Sonoma Resources Inc."), which comprise the consolidated statements of financial position as at May 31, 2016 and May 31, 2015, and the consolidated statements of loss and other comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Element Lifestyle Retirement Inc. as at May 31, 2016, May 31, 2015 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Vancouver, British Columbia

September 12, 2016

MNP LLP
Chartered Professional Accountants

ELEMENT LIFESTYLE RETIREMENT INC.
(FORMERLY "SONOMA RESOURCES INC.")
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Canadian dollars)

As at May 31		**2016**		2015
ASSETS				
Current				
Cash	$	**3,737,092**	$	751,165
Accounts receivable *(Note 4)*		**-**		43,750
Advance to employees *(Note 9)*		**664**		-
GST receivable		**13,105**		-
Prepaid Expenses		**870**		870
		3,751,731		795,785
Property and Equipment *(Note 5)*		**79,399**		99,179
Deferred income tax asset *(Note 8)*		**-**		131,850
Total Assets	$	**3,831,130**	$	1,026,814
LIABILITIES				
Current				
Accounts payable and accrued liabilities *(Note 6)*	$	**108,470**	$	156,842
Deferred revenue (*Note 9*)		**500,000**		-
Due to related parties (*Note 9*)		**-**		200,000
GST payable		**-**		52,366
		608,470		409,208
SHAREHOLDERS' EQUITY				
Common shares		**5,972,500**		500,000
Preferred shares		**-**		515,000
Share issurance costs *(Note 7)*		**(225,482)**		(30,000)
Reserve - Options *(Note 7)*		**88,893**		-
Reserve - Warrants *(Note 7)*		**24,656**		-
Deficit		**(2,637,907)**		(367,394)
		3,222,660		617,606
Total liabilities and shareholders' equity	$	**3,831,130**	$	1,026,814

On behalf of the Board

"Don Ho" Director

"Bo Jun Diao" Director

See accompanying notes to the consolidated financial statements

ELEMENT LIFESTYLE RETIREMENT INC.
(FORMERLY "SONOMA RESOURCES INC.")
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Canadian dollars)

For the years ended May 31		**2016**		2015
REVENUE				
Consulting fees	$	**1,143,391**	$	1,629,167
EXPENSES				
Amortization		**42,490**		20,230
Consulting fees		**150,683**		38,117
General & administration		**51,770**		128,569
Insurance		**12,145**		1,475
Marketing and promotion		**119,085**		116,002
Property investigations and consulting		**163,080**		-
Professional fees		**142,500**		85,420
Rent		**75,517**		40,997
Salaries, subcontract and benefits		**1,293,025**		1,228,102
Share-based payments		**88,893**		-
Telephone & Utilities		**18,494**		10,210
Travel		**154,621**		72,662
		2,312,303		1,741,784
LOSS FROM OPERATIONS		**1,168,912**		112,617
OTHER INCOME AND EXPENSES				
Interest income		**2,617**		-
Transaction costs (*Note 14*)		**(972,368)**		-
LOSS BEFORE INCOME TAXES		**(2,138,663)**		(112,617)
Income taxes				
Deferred (*Note 8*)		**131,850**		(31,376)
LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	$	**(2,270,513)**	$	(81,241)
Basic and Diluted Loss per Common Share	$	**(0.06)**	$	(1.23)
Weighted Average Number of Shares Outstanding		**38,471,580**		65,853

See accompanying notes to the consolidated financial statements

ELEMENT LIFESTYLE RETIREMENT INC.
(FORMERLY "SONOMA RESOURCES INC.")
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Canadian dollars)

	Common shares outstanding	Paid-in capital	Preferred shares outsanding	Paid-in capital	Warrants	Stock-based compensation reserve	Share issurance costs	Deficit	Total
		$		$			$	$	$
Balance as of May 31, 2014	100	10	-	-	-	-	-	(286,153)	(286,143)
Common shares issued	23,999,900	499,990	-	-	-	-	-	-	499,990
Preferred shares Class A	-	-	5,500,000	275,000	-	-	-	-	275,000
Preferred shares Class B	-	-	2,400,000	240,000	-	-	-	-	240,000
Share issuance cost	-	-	-	-	-	-	(30,000)	-	(30,000)
Comprehensive Loss for the year	-	-	-	-	-	-	-	(81,241)	(81,241)
Balance as of May 31, 2015	24,000,000	500,000	7,900,000	515,000	-	-	(30,000)	(367,394)	617,606

	Common shares outstanding	Paid-in capital	Preferred shares outsanding	Paid-in capital	Warrants	Stock-based compensation reserve	Share issurance costs	Deficit	Total
		$		$			$	$	$
Balance as of May 31, 2015	24,000,000	500,000	7,900,000	515,000	-	-	(30,000)	(367,394)	617,606
Preferred shares exchanged to Common shares	7,900,000	515,000	(7,900,000)	(515,000)	-	-	-	-	-
Shares issued pursuant to Private Placement *(Note 7)*	17,300,000	4,325,000	-	-	-	-	-	-	4,325,000
Shares of Sonoma at the RTO date *(Note 14)*	3,902,188	632,500	-	-	-	-	-	-	632,500
Warrants fair value *(Note 7)*	-	-	-	-	24,656	-	-	-	24,656
Issuance of options - Directors *(Note 7)*	-	-	-	-	-	88,893	-	-	88,893
Share issuance cost *(Note 7)*	-	-	-	-	-	-	(195,482)	-	(195,482)
Comprehensive Loss for the year	-	-	-	-	-	-	-	(2,270,513)	(2,270,513)
Balance as of May 31, 2016	53,102,188	5,972,500	-	-	24,656	88,893	(225,482)	(2,637,907)	3,222,660

See accompanying notes to the consolidated financial statements

ELEMENT LIFESTYLE RETIREMENT INC.
(FORMERLY "SONOMA RESOURCES INC.")
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Canadian dollars)

For the years ended May 31	2016	2015
OPERATING ACTIVITIES		
Loss for the year	$ (2,270,513)	$ (81,241)
Items not affecting cash:		
Amortization	42,490	20,230
Share-based payments *(Note 7)*	88,893	-
Fair value of Sonoma *(Note 14)*	632,500	-
Deferred income tax expense (recovery)	131,850	(31,376)
Net changes in non-cash working capital:		
Accounts receivable	43,750	(43,750)
Advance to employees	(664)	52,500
Prepaid expenses	-	11,255
GST receivables	(65,471)	61,277
Accounts payable and accrued liabilities	(48,372)	101,430
Deferred revenue	500,000	-
	(945,537)	90,325
INVESTING ACTIVITIES		
Purchase of equipment	(22,710)	(117,995)
	(22,710)	(117,995)
FINANCING ACTIVITIES		
Due from (to) related parties	(200,000)	197,097
Shareholder loans	-	(499,990)
Issuance of common shares	4,325,000	499,990
Issuance of preferred shares	-	515,000
Share issuance costs	(170,826)	(30,000)
	3,954,174	682,097
CHANGE IN CASH DURING THE YEAR	**2,985,927**	**654,427**
CASH, BEGINNING OF YEAR	751,165	96,738
CASH, END OF YEAR	$ **3,737,092**	$ **751,165**

See accompanying notes to the consolidated financial statements

1. ORGANIZATION

Element Lifestyle Retirement Inc. (the "Company" or "ELM") (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 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 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 consolidated 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 Team Host Development Ltd., , which was established in Hong Kong during the year ended May 31, 2016.

These consolidated 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 were not appropriate for these financial statements then adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses and the statement of financial position classifications used.

As of May 31, 2016, the Company reported a deficit of $2,637,907 (2015: $367,394) and a working capital surplus of $3,143,261 (2015: $386,577).

2. BASIS OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements were approved by the Board of Directors for issue on September 12, 2016.

3. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

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

Basis of consolidation
These consolidated 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.
- Team Host Development Ltd., which was incorporated in Hong Kong, 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 consolidated financial statements from the date that control commences until the date that control ceases. All significant intercompany transactions and balances have been eliminated.

The following accounting policies have been applied consistently to all periods presented in the consolidated financial statements.

Foreign currency
These consolidated financial statements are presented in Canadian dollars, which is the functional and presentation currency of the parent. Each entity determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The parent and its subsidiaries use the Canadian dollar as their functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the end of reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates. Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

Financial instruments
Financial assets and financial liabilities are initially recognized at fair value, and their subsequent measurement is dependent on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments.

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the rights to receive the contractual cash flows are transferred in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

A financial liability is derecognized when the Company's contractual obligations are discharged, cancelled or expired.

Financial instruments are comprised of cash, accounts receivables, advance to employees, accounts payable and accrued liabilities, due to related parties. The Company made the following classifications:

Cash	Loan and receivables
Accounts receivable	Loan and receivables
Advance to employees	Loan and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Due to related party	Other financial liabilities

Cash
Cash includes deposits held with Canadian chartered banks. Cash is classified as loans and receivables and is accounted for at amortized cost, which approximates fair value. Interest earned is recorded in the statements of operations and comprehensive loss.

Accounts receivable and Advance to employees
Accounts receivable and advance to employees are classified as loans and receivables. Accounts receivable and advance to employees are initially recorded at fair value and subsequently measured at amortized cost. The carrying value of accounts receivable and advance to employees, after consideration of the provision for doubtful accounts, approximate their fair value due to the short-term maturity of these instruments.

Accounts payable and accrued liabilities
Accounts payable and accrued liabilities are classified as other financial liabilities. Accounts payable and accrued liabilities are initially recorded at fair value and subsequently measured at amortized cost, which approximates fair value due to the short-term nature of the instruments.

Due to related party
Due to related party is initially recorded at fair value and is subsequently measured at amortized cost using the effective interest method, and is classified as other financial liabilities.

Cash and cash equivalents
Cash and cash equivalents consist of cash on hand, deposits in banks and highly liquid investments with an original maturity of three months or less.

Revenue recognition
Revenue includes amounts earned from providing consulting and project management services for developing senior retirement communities together with private residential development, and consulting fees and management fees associated with the operation of retirement homes.

Consulting and project management fees revenue
Consulting fees pay for consulting services in developing senior retirement communities and private residential development. Revenue is recognized when the service is rendered and the milestones agreed by the Company and the customer are achieved.

Consulting service revenue
The Company earns a consulting fee based on a percentage of gross revenues of the operations for consulting services on managing retirement homes for third parties. Revenue is recognized when the services are rendered.

Management services revenue
The Company earns a management fee based on a percentage of gross revenues of the operations for managing retirement homes for third parties. Revenue is recognized when the services are rendered.

Property and equipment
Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are capitalized to the asset's carrying amount or recognized as a separate asset, as appropriate, when it is probable that future economic benefits associated with the cost will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repair and maintenance costs are charged to net income (loss) during the period in which they are incurred.

The Company records depreciation at rates designed to depreciate the cost of the property and equipment less the estimated residual value over the estimated useful lives. The annual depreciation rates and method is as follow:

Computer equipment	55% declining balance method
Computer software	100% declining balance method
Furniture and fixture	20% declining balance method
Leasehold improvement	3 years straight-line method

The Company allocates the initial cost of an item of equipment to its significant components and depreciates separately each such component. Residual values, method of depreciation and useful lives of the assets are reviewed at least annually and adjusted if appropriate. Gains and losses on disposals of property and equipment are included in net income (loss).

Impairment of non-financial assets
The Company reviews the carrying amounts of its equipment at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss. Non-financial assets, other than goodwill, that have been impaired are reviewed for possible reversal of the impairment at each reporting date.

Impairment of financial assets
Financial assets are reviewed at each statement of financial position date to assess whether there is objective evidence that indicates an impairment of a financial asset. If such evidence exists, Element recognizes an impairment loss measured at the excess of the carrying amount over the fair value of the asset, which is reflected in net income (loss).

Share capital
Common shares are classified as shareholders' equity. Transaction costs directly attributable to the issuance of shares are recognized as a reduction from shareholders' equity.

Share-based payments
Share-based payments to employees are measured at the fair value of the instruments issued and are amortized over the vesting periods using a graded attribution approach. Share-based payments to non-employees are measured at the fair value of the goods or services received or at the fair value of the equity instruments issued (if it is determined the fair value of the goods or services cannot be reliably measured), and are recorded at the date the goods or services are received. If and when the stock options or warrants are ultimately exercised, the applicable amounts of reserves are transferred to share capital.

The fair value of the options is measured at grant date, using the Black-Scholes option pricing model and is recognized during the period that the employees earn the options. The fair value is recognized as an expense with a corresponding increase in equity. The amount recognized as expense is adjusted to reflect the number of share options expected to vest. Forfeitures of stock options are accounted for as incurred.

Income taxes
Income tax expense comprises current and deferred tax. Income tax is recognized in the consolidated statement of comprehensive income (loss) except to the extent it relates to items recognized or directly in equity.

Current tax
Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax
Deferred taxes are the taxes expected to be payable or recoverable on the difference between the carrying amounts of assets in the consolidated statement of financial position and their corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities:
- are generally recognized for all taxable temporary differences;
- are recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future; and
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets:
- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of an asset to be recovered.

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. Parties are also considered to be related if they are subject to common control, 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 or obligations between related parties.

Significant accounting judgments and estimates
The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amount of revenue and expenses during the reporting year.

The Company bases its estimates and assumptions on current facts, historical experience, and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. These estimates require the extensive use of judgment about the nature, cost and timing of the work to be completed, and may change with future changes to costs, environmental laws and regulations and remediation practices. The actual results experienced by the Company may differ materially and adversely from the Company's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

(i) The timing of significant risks of ownership has been transferred in the revenue transactions.
(ii) The recoverability of the accounts receivable which is recorded in the statement of financial position.
(iii) The estimated useful lives of furniture and computer equipment which are included in the statement of financial position and the related depreciation included in the statement of comprehensive income (loss).
(iv) The provision for income taxes which is included in the statement of comprehensive income (loss) and composition and quantification of deferred income tax assets included in the statement of financial position.
(v) The measurement of share-based compensation

Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the profit or (loss) attributable to the common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is calculated based on the weighted average number of common shares outstanding during the year, plus the effects of dilutive common share equivalents. This calculation requires that the dilutive effect of outstanding options and warrants issued be calculated using the treasury stock method. The treasury stock method assumes that all common share equivalents have been exercised at the beginning of the year (or at the time of issuance, if later), and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of common shares during the year.

The calculation of diluted loss per share excludes the effects of various conversions and exercises of options and warrants that would be anti-dilutive.

Recently adopted accounting standards

a) IFRS 7, Non-current assets held for sale and discontinued operations (amended standard)

In September 2014, the IASB issued amendments to IFRS 7, Financial Instruments: Disclosures (IFRS 7). The amendments in IFRS 7 are to be applied retrospectively, with earlier application permitted. The amendments to IFRS 7 clarify the disclosure required for any continuing involvement in a transferred asset that has been derecognized. The amendments also provide guidance on disclosures regarding the offsetting of financial assets and financial liabilities in interim financial reports. The amendment is effective for annual periods beginning on or after 1 January 2015. Adoption of the standard had no material impact on these Financial Statements.

b) IAS 24, Related party transactions

IAs 24 was amended to revise the definition of related party to include an entity that provides key management personnel services to the reporting entity or its parent and to clarify the related party disclosure requirements. This amendment is effective for fiscal years beginning on or after 1 July 2014. Adoption of the standard had no material impact on these Financial Statements.

Accounting standards issued but not yet effective

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company is currently assessing the impact, if any, that these standards might have on its Financial Statements.

a) IFRS 9, Financial Instruments

In July 2014, the IASB issued IFRS 9, Financial Instruments (IFRS 9). IFRS 9 replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset or liability. It also introduces additional changes relating to financial liabilities and aligns hedge accounting more closely with risk management. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption of the new standard permitted. The Company does not intend to early adopt IFRS 9. The extent of the impact of adoption of IFRS 9 has not yet been determined.

b) IFRS 10, Consolidated financial statements (amended standard)

In September 2014, the IASB issued amendments to IFRS 10, Consolidated Financial Statements and IAS 28, Investments in Associates and Joint Ventures. The amendments provide clarification on the recognition of gains or losses upon the sale or contribution of assets between an investor and its associate or joint venture. This amendment is effective for fiscal years beginning on or after 1 January 2016.

c) IFRS 11, Joint arrangements (amended standard)

In May 2014, the IASB issued amendments to IFRS 11, Joint Arrangements (IFRS 11). The amendments in IFRS 11 are to be applied prospectively. The amendments clarify the accounting for the acquisition of interests in joint operations and require the acquirer to apply the principles of business combinations accounting in IFRS 3, Business Combinations. This amendment is effective for fiscal years beginning on or after 1 January 2016.

d) IFRS 16, Leases

IFRS 16 - Leases will replace IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, but earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. The Company is assessing the impact of this new standard, if any, on the financial statements.

e) IAS 34, Interim financial reporting (amended standard)

In September 2014, the IASB issued amendments to IAS 34, Interim Financial Reporting (IAS 34). The amendments to IAS 34 are to be applied retrospectively, with earlier application permitted. The amendments provide additional guidance on interim disclosures and whether they are provided in the interim financial statements or incorporated by cross-reference between the interim financial statements and other financial disclosures. This amendment is effective for fiscal years beginning on or after 1 January 2016.

f) IAS 38, Intangible assets (amended standard)

Amendments to IAS 38 provide clarification of acceptable methods of depreciation and amortization. The amendments were issued in May 2014 and apply to annual reporting periods beginning on or after 1 January 2016, with early adoption permitted. The Company continues to assess this new standard, but does not expect it to have a significant impact.

g) IFRS 15, Revenue from Contracts with Customers (“IFRS 15”)

IFRS 15 is effective for years commencing on or after January 1, 2017, and replaces IAS 11, Construction Contracts; IAS 18, Revenue; IFRIC 13, Customer Loyalty Programmes; IFRIC 15, Agreements for the Construction of Real Estate; IFRIC 18, Transfer of Assets from Customers; and Standing Interpretations Committee (“SIC”) 31, Revenue – Barter Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

4. ACCOUNTS RECEIVABLE

There was no outstanding balance as at May 31, 2016 (2015: $43,750). No allowance for doubtful accounts has been deemed necessary.

5. PROPERTY AND EQUIPMENT

	Funiture & fixture	Computer	Computer software	Leasehold improvement	Total
Cost	$	$	$	$	$
May 31, 2015	22,310	12,667	339	84,629	119,945
Additions	912	5,280	7,857	8,662	22,710
Disposal					
May 31, 2016	23,222	17,947	8,196	93,291	142,655
Accumulated amortization					
May 31, 2015	2,231	4,261	169	14,105	20,766
Additions	4,107	6,075	4,098	28,210	42,490
Disposal					
May 31, 2016	6,338	10,336	4,267	42,315	63,256
Net book value					
May 31, 2015	20,079	8,406	170	70,524	99,179
May 31, 2016	16,884	7,611	3,929	50,976	79,399

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	May 31, 2016	May 31, 2015
Trade accounts payable and accrued liabilities	$ 71,527	$ 52,500
Other accounts payable	28,967	11,245
Salary and benefits payable	7,976	93,097
	$ 108,470	$ 156,842

7. 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. Each Agent's Warrant will be exercisable to acquire one additional share for a term of 12 months from the closing of the Private Placement at a price of $0.25 per share. The Agent's warrants have a fair value of $24,656 which added to share 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.

b) Escrow Shares

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

c) Warrants

558,152 warrants were granted and issued on December 2, 2015 with the expiring date on December 2, 2016. A summary of activity and changes in Warrants during the fiscal year ended May 31, 2016 and May 31, 2015 is presented below:

	2016	Weighted Average Exercise Price	2015	Weighted Average Exercise Price
Balance – Beginning of Year	-	$ -	-	$ -
Granted	558,152[(1)]	0.25	-	-
Balance – End of Year	558,152	$ 0.25	-	$ -

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

The fair value of share purchase warrants granted pursuant to the private placement was estimated to be $24,656 using the Black-Scholes Option Pricing Model with the following assumptions:

	2016	2015
Risk free interest rate	0.48%	-
Expected dividend yield	0.00%	-
Expected stock price volatility	44%	-
Expected option life in years	1	-
Expected forfeiture rate	100 %	-

The weighted average fair value of the warrants granted and outstanding as at May 31, 2016 is $0.04 per warrant, and the weighted average remaining contractual life of the warrants outstanding at May 31, 2016 is 0.51 years.

d) Stock-based compensation reserve

(i) Options issued to Directors

On May 26, 2016, the Company granted a total of 1,000,000 options to its directors and management 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 May 31, 2016:

	2016	Weighted Average Exercise Price	2015	Weighted Average Exercise Price
Balance – Beginning of Year	-	$ -	-	$ -
Granted	1,000,000	0.25	-	-
Balance – End of Year	1,000,000[(1)]	$ 0.25	-	$ -

(1) Exercisable and outstanding as at May 31, 2016

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 4.99 years.

The fair value of share purchase options granted on May 26, 2016 was estimated to be $88,893 using the Black-Scholes Option Pricing Model with the following assumptions:

	2016	2015
Risk free interest rate	0.55%	-
Expected dividend yield	0.00%	-
Expected stock price volatility	59%	-
Expected option life in years	5	-
Expected forfeiture rate	100 %	-

8. INCOME TAXES

The following table reconciles the expected income tax expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the consolidated statements of operations and comprehensive loss for the years ended 2016 and 2015:

	2016	2015
Income (Loss) Before Taxes	(2,138,665)	(112,617)
Statutory tax rate	26.00%	26.00%
Expected income tax (recovery)	(556,051)	(29,280)
Non-deductible items	279,040	5,704
Acquisition of assets	(713,821)	-
Share Issuance cost	(144,200)	(7,800)
Change in Deferred tax asset not recognized	1,266,882	-
Total income taxe expense (recovery)	131,850	(31,376)
Current tax expense (recovery)	-	-
Deferred tax expense (recovery)	131,850	(31,376)
	131,850	(31,376)
	-	-

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values. Deferred tax assets (liabilities) at May 31, 2016 and 2015 are comprised of the following:

Canada		2016	2015
	Non capital loss carryforwards	1,159,530	125,610
	Exploration and evaluation assets	-	-
	Cumulative Eligible Capital	-	-
	Property and equipment	-	-
	Financing Costs	106,865	6,240
		1,266,395	131,850
	Deferred tax asset not recognized	1,266,395	-
	Net Deferred tax asset (liability)	-	131,850

Hong Kong

	2016	2015
Net Operating loss carryforwards	487	-
Deferred tax asset not recognized	487	-
Net Deferred tax asset	-	-

The Company has non capital loss carryforwards of approximately $4,459,730 (2015: $483,107) which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

	Total
2028	1,206
2029	5,994
2030	117,530
2031	179,111
2032	363,161
2033	376,725
2034	1,964,071
2034	172,406
2035	1,033,769
2036	245,757
	4,459,730

$2,745,466 of non-capital loss carry forwards expiring prior to 2036 is subject to additional restrictions.

9. RELATED PARTY TRANSACTIONS

During the year ended May 31, 2016, the Company received consulting fees of $1,000,000 (2015: $1,500,000) from companies controlled by a certain director.

During the year ended May 31, 2016, the Company received consulting fees of $500,000 (2015: $nil) from a company controlled by a certain director and it is recorded as deferred revenue as at May 31, 2016.

During the year ended May 31, 2016, the Company paid subcontract fees and consulting fees of $79,042 (2015: $84,500) to companies controlled by certain directors. In addition, the Company paid rent of $75,517 (2015: $40,997) to a director or a company controlled by that director.

During the year ended May 31, 2016, the Company incurred director fees of $20,000 (2015: $nil) to the Company's independent directors and $12,000 is included in accrued liabilities as at May 31, 2016 (2015: $nil).

During the year ended May 31, 2016, the Company repaid a loan of $200,000 (2015: $nil) to a company controlled by a certain director.

As at May 31, 2016, $664 was included in advances to employees which is due from a certain director.

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.

10. KEY MANAGEMENT COMPENSATION

Key management includes directors (executive and non-executive) and senior officers of the Company. The compensation paid or payable to key management personnel during the years ended May 31 is as follows:

	May 31, 2016	May 31, 2015
Salaries and short-term employee benefits	$ 990,946	$ 951,542
Consulting fees	79,042	84,500
Share-based payments	88,893	-
Total	$ 1,158,881	$ 1,036,042

11. COMMITMENT

On October 6, 2014, the Company entered into a contract for leased premises with a company controlled by a certain director. Lease payments recognized as an expense during the year ended May 31, 2016 totalled $75,517 (2015: $40,997). Total future minimum lease payments under the contract are as follows:

2017	$ 133,018
2018	72,052
Total	$ 205,070

The Company is committed to providing project management and consulting services to related companies. The contracts enable the Company to earn up to $12,000,000 over the period of the projects' development and constructions.

12. FINANCIAL INSTRUMENTS

Fair value of financial instruments

As at May 31, 2016, the Company's financial instruments consisted of cash, accounts receivable, advance to employees, accounts payable and accrued liabilities and due to related parties. The fair values of accounts receivable, advance to employees, accounts payable and accrued liabilities and due to related parties 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
Financial Assets:				
Cash	$	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, accounts receivable 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 collectability of specific accounts receivable and also 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 is exposed to this risk mainly in respect of its accounts payable and accrued liabilities.

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 year ended May 31, 2016, the Company's revenues and expenses are in Canadian dollars. The company only had nominal amount of investment in its Hong Kong subsidiary. As a result, 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.

13. CAPITAL MANAGEMENT

The Company defines its capital as the total of its shareholder loans and shareholders' equity less 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 transaction basis and depend on such things as the Company's needs and market and economic conditions at the time of the transaction.

14. REVERSE TAKEOVER TRANSACTION ("RTO")

Effective August 27, 2015, Sonoma acquired 100% of the issued and outstanding shares of Element in exchange for 31,900,000 common shares issued by Sonoma. As a result of this share issuance, the former shareholders of Element obtained 60% of the post-consolidation common shares of Sonoma and, consequently, control of Sonoma.

Accordingly, the Company has accounted for the acquisition as a reverse takeover, and no goodwill or intangible asset representing the stock exchange listing has been recorded. Therefore, for accounting purposes, Element, the legal subsidiary, has been treated as the accounting acquirer, and Sonoma, the legal parent, has been treated as the accounting acquiree in these consolidated financial statements. As Element was deemed to be the acquirer for accounting purposes, its assets, liabilities, and operations since incorporation are included in these consolidated financial statements at their historical carrying values. Sonoma's results of operations have been included from December 2, 2015, the date of completion of the acquisition.

These consolidated financial statements have been prepared on the basis the acquisition constituted the issuance of shares by Element as consideration for Sonoma's net assets. The transaction has been accounted for in accordance with IFRS 2, Share Based Payments as Sonoma did not meet the definition of a business under IFRS 3, Business Combinations. The acquisition was recorded by the Company as transaction costs which reflects the difference between the fair value of the Element's common shares issued to the Sonoma shareholders less the fair value of the assets of Southbridge acquired.

For the purposes of accounting for the reverse takeover, the percentage of ownership of the pre-acquisition shareholders of Sonoma in the combined entity upon completion of the acquisition was determined to be 7.35% (which represents 3,902,188 common shares out of total 53,102,188 common shares of the Company outstanding upon closing of the acquisition). As a result, the fair value of consideration received by pre-acquisition shareholders of Sonoma amounts to $632,500.

The excess of the fair value of the consideration received by the pre-acquisition shareholders of Sonoma over the fair value of the identifiable net assets of Sonoma on the closing date of the acquisition was calculated as follows:

Fair value of consideration received by the pre-acquisition shareholders of Sonoma	$	632,500
Identifiable net assets of Sonoma acquired by Element:		
GST receivable		15,696
Accounts payable and accrued liabilities		(15,047)
Due to Element		(74,727)
Total fair value of identifiable net assets acquired by Element:	$	(74,078)
		706,578
Legal and filing fees		265,790
Total transaction costs	$	972,368

15. SUBSEQUENT EVENTS

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.