# ELEMENT LIFESTYLE RETIREMENT INC.

## (FORMERLY "SONOMA RESOURCES INC.")

### Consolidated Financial Statements

### Years Ended May 31, 2017 and 2016

**ELEMENT LIFESTYLE RETIREMENT INC.**

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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 25, 2017

| | |
|---|---|
| "Don Ho"<br>Director | "Stanley Kwok"<br>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, 2017 and May 31, 2016, 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 Consolidated 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, 2017, May 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Vancouver, British Columbia

September 25, 2017

MNP LLP

Chartered Professional Accountants

**ELEMENT LIFESTYLE RETIREMENT INC.**
**(FORMERLY "SONOMA RESOURCES INC.")**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
*(Expressed in Canadian dollars)*
*(Exhibit I)*

| **As at** | | **May 31, 2017** | | May 31, 2016 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current** | | | | |
| Cash | $ | **4,244,764** | $ | 3,737,092 |
| Trade & other receivables (*Note 4* ) | | **143** | | 13,769 |
| Prepaid expenses | | **5,905** | | 870 |
| | | **4,250,812** | | 3,751,731 |
| Property and equipment (*Note 5* ) | | **421,194** | | 79,399 |
| Bayview property acquisition (*Note 6* ) | | **56,819** | | - |
| Trade-marks (*Note 7* ) | | **14,338** | | - |
| **Total assets** | $ | **4,743,163** | $ | 3,831,130 |
| **LIABILITIES** | | | | |
| **Current** | | | | |
| Trade & other payables (*Note 8* ) | $ | **101,483** | $ | 108,470 |
| Deferred revenue (*Note 12* ) | | **1,860,404** | | 500,000 |
| | | **1,961,887** | | 608,470 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital *(Note 9)* | | **6,682,300** | | 5,972,500 |
| Subscriptions received in advance *(Note 10)* | | **580,000** | | - |
| Share issuance costs *(Note 9)* | | **(225,482)** | | (225,482) |
| Reserve - options (*Note 9* ) | | **109,541** | | 88,893 |
| Reserve - warrants (*Note 9* ) | | **-** | | 24,656 |
| Contributed surplus (*Note 9* ) | | **24,656** | | - |
| Deficit *(Exhibit III)* | | **(4,389,739)** | | (2,637,907) |
| | | **2,781,276** | | 3,222,660 |
| **Total liabilities and shareholders' equity** | $ | **4,743,163** | $ | 3,831,130 |

*On behalf of the Board*

*"Don Ho"* Director

*"Stanley Kwok"* Director

See accompanying notes to the consolidated financial statements

**ELEMENT LIFESTYLE RETIREMENT INC.**
**(FORMERLY "SONOMA RESOURCES INC.")**
**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**
*(Expressed in Canadian dollars)*
*(Exhibit II)*

| For the years ended | | May 31, 2017 | | May 31, 2016 |
|---|---|---|---|---|
| **REVENUE** | | | | |
| Consulting fees | $ | **585,329** | $ | 1,143,391 |
| **EXPENSES** | | | | |
| Amortization | | **65,356** | | 42,490 |
| Consulting fees | | **215,188** | | 150,683 |
| General & administration | | **193,838** | | 82,409 |
| Marketing and promotion | | **55,497** | | 119,085 |
| Professional fees | | **132,363** | | 142,500 |
| Property investigations and consulting | | **-** | | 163,080 |
| Rent | | **123,833** | | 75,517 |
| Salaries, wages and benefits | | **1,400,798** | | 1,293,025 |
| Share-based payments | | **20,648** | | 88,893 |
| Travel | | **126,232** | | 154,621 |
| | | **2,333,753** | | 2,312,303 |
| **LOSS FROM OPERATIONS** | | **(1,748,424)** | | (1,168,912) |
| **OTHER INCOME** | | | | |
| Other income (loss) | | **(3,408)** | | 2,617 |
| Transaction costs - reverse takeover | | **-** | | (972,368) |
| | | **(3,408)** | | (969,751) |
| Provision for recovery of income taxes | | | | |
| Deferred | | **-** | | 131,850 |
| **LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD** | $ | **(1,751,832)** | $ | (2,270,513) |
| **Basic and diluted loss per common share** | $ | **(0.03)** | $ | (0.06) |
| **Weighted average number of shares outstanding** | | **55,413,339** | | 38,471,580 |

See accompanying notes to the consolidated financial statements

**ELEMENT LIFESTYLE RETIREMENT INC.**
**(FORMERLY "SONOMA RESOURCES INC.")**
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
*(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 issurance 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 9)* | 17,300,000 | 4,325,000 | - | - | - | - | - | - | - | 4,325,000 |
| Shares of Sonoma - Reverse takeover | 3,902,188 | 632,500 | - | - | - | - | - | - | - | 632,500 |
| Warrants (*Note 9* ) | - | - | - | - | 24,656 | - | - | - | - | 24,656 |
| Options (*Note 9* ) | - | - | - | - | - | - | 88,893 | - | - | 88,893 |
| Comprehensive income (loss) for the period | - | - | - | - | - | - | - | - | (2,270,513) | (2,270,513) |
| Balance, May 31, 2016 | 53,102,188 | $ 5,972,500 | - | $ - | $ 24,656 | $ - | $ 88,893 | $ (225,482) | $ (2,637,907) | $ 3,222,660 |

| | Common shares outstanding | Paid-in capital | Preferred shares outstanding | Paid-in capital | Warrants | Contributed surplus | Stock-based compensation reserve | Share issurance 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 9)* | 2,730,000 | 709,800 | - | - | - | - | - | - | - | 709,800 |
| Subscriptions received in advance (*Note 10* ) | | 580,000 | - | - | - | - | - | - | - | 580,000 |
| Warrants (*Note 9* ) | | | - | - | (24,656) | 24,656 | | - | - | - |
| Options (*Note 9* ) | - | - | - | - | - | - | 20,648 | - | - | 20,648 |
| Comprehensive income (loss) for the period | - | - | - | - | - | - | - | - | (1,751,832) | (1,751,832) |
| Balance, May 31, 2017 | 55,832,188 | $ 7,262,300 | - | $ - | $ - | $ 24,656 | $ 109,541 | $ (225,482) | $ (4,389,739) | $ 2,781,276 |

See accompanying notes to the consolidated financial statements

**ELEMENT LIFESTYLE RETIREMENT INC.**
**(FORMERLY "SONOMA RESOURCES INC.")**
**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**
*(Expressed in Canadian dollars)*
*(Exhibit IV)*

| For the years ended | | May 31, 2017 | | May 31, 2016 |
|---|---|---|---|---|
| **CASH FLOWS USED IN OPERATING ACTIVITIES** | | | | |
| Loss for the period | $ | **(1,751,832)** | $ | (2,270,513) |
| Items not affecting cash: | | | | |
| Amortization | | **65,356** | | 42,490 |
| Share-based payments | | **20,648** | | 88,893 |
| Fair value of Sonoma's shares | | **-** | | 632,500 |
| Deferred income tax expense | | **-** | | 131,850 |
| Loss on disposition of equipment | | **3,408** | | - |
| Changes in non-cash working capital: | | | | |
| Trade & other receivables | | **13,627** | | (22,385) |
| Prepaid expenses | | **(5,035)** | | - |
| Trade & other payables | | **(6,987)** | | (48,372) |
| Deferred revenue | | **1,360,404** | | 500,000 |
| | | **(300,411)** | | (945,537) |
| **CASH FLOWS USED IN INVESTING ACTIVITIES** | | | | |
| Bayview acqusition | | **(56,819)** | | - |
| Trade-marks | | **(14,338)** | | |
| Purchase of property and equipment | | **(410,560)** | | (22,710) |
| | | **(481,717)** | | (22,710) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Due from related party | | **-** | | (200,000) |
| Subscriptions received in advance | | **580,000** | | - |
| Issuance of common shares | | **709,800** | | 4,325,000 |
| Share issuance costs | | **-** | | (170,826) |
| | | **1,289,800** | | 3,954,174 |
| **CHANGE IN CASH DURING THE PERIOD** | | **507,672** | | 2,985,927 |
| **CASH, BEGINNING OF THE PERIOD** | | **3,737,092** | | 751,165 |
| **CASH, END OF THE PERIOD** | $ | **4,244,764** | $ | 3,737,092 |

See accompanying notes to the consolidated financial statements

## 1. NATURE OF OPERATIONS AND GOING CONCERN

### Nature of operations

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 Element Lifestyle Retirement (Hong Kong) Ltd. (formerly "Team Host Development Ltd.").

### Going concern

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 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.

The Company has experienced operating losses and negative operating cash flows since inception and has no assurances that sufficient financing will be available to continue in operation for the foreseeable future. Ongoing operations are dependent on the Company's ability to obtain public equity financing by the issuance of shares capital, generate profitable operations in the future or secure debt financing.

As of May 31, 2017, the Company reported a deficit of $4,389,739 (2016: $2,637,907) and a working capital surplus of $2,288,925 (2016: $3,143,261).

## 2. STATEMENT 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 25, 2017.

## 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.
- Element Lifestyle Retirement (Hong Kong) 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 |
| Trade & other receivables | Loan and receivables |
| Trade & other payables | 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.

*Trade & other receivables*

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

*Trade & other payables*

Trade & other payables are classified as other financial liabilities. Trade & other payables 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.

**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 along with consulting and management fees associated with the operation of retirement homes.

*Consulting and project management fees revenue*

Fees generated from consulting services regarding developing senior retirement communities and private residential development is recognized when the services are rendered.

*Consulting service revenue*

The Company will earn a consulting fee based on a percentage of gross revenues of the operations for consulting services regarding managing retirement homes for third parties. Revenue is recognized when the services are rendered.

*Management services revenue*

The Company will earn 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 | 5 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 statements 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 statements 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 and 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 statements 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 statements of financial position.

(iii) The estimated useful lives of furniture and computer equipment which are included in the statements of financial position and the related depreciation included in the statements of comprehensive income (loss).

(iv) The provision for income taxes which is included in the statements of comprehensive income (loss) and composition and quantification of deferred income tax assets included in the statements 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 liabilities in interim financial reports. The amendment is effective for annual periods beginning on or after January 1, 2015. The adoption of this amendment had no impact on the Financial Statements for the year ended May 31, 2017.

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 July 1, 2014. The adoption of this amendment had no impact on the Financial Statements for the year ended May 31, 2017.

c) 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 January 1, 2016. The adoption of this amendment had no impact on the Financial Statements for the year ended May 31, 2017.

d) 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 January 1, 2016. The adoption of this amendment had no impact on the Financial Statements for the year ended May 31, 2017.

e) IAS 16, Property, Plant and Equipment

Amendments to IAS 16 Property, Plant and Equipment clarifies acceptable methods of depreciation and amortization. The amendments are effective for annual periods beginning on or after January 1, 2016. The adoption of this amendment had no impact on the Financial Statements for the year ended May 31, 2017.

f) 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 January 1, 2016. The adoption of this amendment had no impact on the Financial Statement for the year ended May 31, 2017.

g) 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 January 1, 2016, with early adoption permitted. The Company continues to assess this new standard, but does not expect it to have a significant impact. The adoption of this amendment had no impact on the Financial Statements for the year ended May 31, 2017.

**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 January 1, 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 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.

c) IFRS 15, Revenue from Contracts with Customers (IFRS 15)

IFRS 15 is effective for years commencing on or after January 1, 2018, 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.

d) IFRS 2 – Share-based Payment

On June 30, 2016, the IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share based payments, share-based payment transactions with a net settlement feature for withholding tax obligations, and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments apply for annual periods beginning on or after January 1, 2018. The Company intends to adopt the amendments to IFRS 2 in its consolidated Financial Statements for the annual period beginning on June 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

**(All dollar amounts expressed in Canadian dollars)**

## 4. TRADE & OTHER RECEIVABLES

| | | **May 31, 2017** | | May 31, 2016 |
|---|---|---|---|---|
| Advance to employees | $ | - | $ | 664 |
| GST receivable | | - | | 13,105 |
| Other receivable | | **143** | | - |
| | $ | **143** | $ | 13,769 |

No allowance for doubtful accounts has been deemed necessary.

## 5. PROPERTY AND EQUIPMENT

Property and equipment for the years ended May 31, 2017 and 2016 were as follows:

| | | Funiture & fixtures | | Computer equipment | | Computer software | | Leasehold improvement | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | | |
| May 31, 2016 | $ | 23,222 | $ | 17,946 | $ | 8,196 | $ | 93,291 | $ | 142,655 |
| Additions | | 37,564 | | 6,538 | | 531 | | 365,926 | | 410,559 |
| Disposal | | - | | (8,491) | | - | | - | | (8,491) |
| May 31, 2017 | | 60,786 | | 15,993 | | 8,727 | | 459,217 | | 544,723 |
| **Accumulated amortization** | | | | | | | | | | |
| May 31, 2016 | | 6,338 | | 10,336 | | 4,267 | | 42,315 | | 63,256 |
| Additions | | 7,133 | | 4,109 | | 4,194 | | 49,920 | | 65,356 |
| Disposal | | - | | (5,083) | | - | | - | | (5,083) |
| May 31, 2017 | | 13,471 | | 9,362 | | 8,461 | | 92,235 | | 123,529 |
| **Net book value** | | | | | | | | | | |
| May 31, 2016 | | 16,884 | | 7,610 | | 3,929 | | 50,976 | | 79,399 |
| May 31, 2017 | $ | 47,315 | $ | 6,631 | $ | 266 | $ | 366,982 | $ | 421,194 |

## 6. BAYVIEW PROPERTY ACQUISITION

As at May 31, 2017, the Company paid a deposit of $50,000 and $6,819 regarding legal fees for a total of $56,819 regarding the Bayview property acquisition. Further details regarding the acquisition are noted below in Subsequent Events.

**(All dollar amounts expressed in Canadian dollars)**

## 7. TRADE-MARKS

As at May 31, 2017, the Company incurred legal fees of $14,338 regarding three trade-marks.

## 8. TRADE & OTHER PAYABLES

| | | **May 31, 2017** | | May 31, 2016 |
|---|---|---|---|---|
| Trade & other payables | $ | **76,745** | $ | 71,527 |
| Other accounts payable | | **-** | | 28,967 |
| GST payable | | **1,852** | | - |
| Salaries and benefits payable | | **22,886** | | 7,976 |
| | $ | **101,483** | $ | 108,470 |

## 9. 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 had a fair value of $24,656 which was 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.

On July 27, 2016, the Company completed a non-brokered equity 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 May 31, 2017, a total 17,820,000 of the RTO Shares were held in escrow and subject to resale restrictions, including a 1.5 year escrow restriction.

**(All dollar amounts expressed in Canadian dollars)**

**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 May 31, 2017 and 2016 is presented below:

| | | May 31, 2017 | | May 31, 2016 |
|---|---|---|---|---|
| | Number of warrants | Weighted Average Exercise Price | Number of warrants | 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 May 31, 2017 and 2016:

(All dollar amounts expressed in Canadian dollars)

| | | May 31, 2017 | | May 31, 2016 |
|---|---|---|---|---|
| | Number of options | Weighted Average Exercise Price | Number of options | Weighted Average Exercise Price |
| Balance – Beginning of Year | 1,000,000 | $ 0.25 | - | $ - |
| Granted | 160,000(2) | 0.25 | 1,000,000(1) | 0.25 |
| Balance – End of the Period | 1,160,000(3) | $ 0.25 | 1,000,000 | $ 0.25 |

(1) Stock options granted on May 26, 2016 vested immediately, are exercisable at $0.25 per option, expire on May 26, 2021 and had a total fair value of $88,893 at the date of grant.

(2) 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.

(3) Exercisable and outstanding as at May 31, 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 4.13 years.

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 % |

## 10. SUBSCRIPTIONS RECEIVED IN ADVANCE

The Company received monies in advance from investors regarding a non-brokered equity private placement which completed on June 30, 2017. Further details are noted below in Subsequent Events.

**(All dollar amounts expressed in Canadian dollars)**

## 11. 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 May 31, 2017 and 2016:

| | May 31, 2017 | May 31, 2016 |
|---|---|---|
| Net loss before tax | $ (1,751,832) | $ (2,138,663) |
| Statutory tax rate | 26.00% | 26.00% |
| Expected income tax recovery | (455,476) | (556,051) |
| Non-deductible items | 11,943 | 279,040 |
| Change in Deferred tax asset not recognized | 443,533 | 408,861 |
| Total income taxe expense (recovery) | $ - | $ 131,850 |
| | | |
| Current tax expense (recovery) | $ - | $ - |
| Deferred tax expense (recovery) | - | 131,850 |
| | $ - | $ 131,850 |

The deferred tax assets and liabilities are as follows:

| | | |
|---|---|---|
| Deferred tax assets (liabilities) | | |
| Non capital loss carry forwards - Canada | $ 3,728 | $ - |
| Trade-marks | (3,728) | - |
| Net deferred tax assets (liabilities) | $ - | $ - |

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their corresponding values for tax purposes. The unrecognized deductible temporary differences are as follows:

| | May 31, 2017 | May 31, 2016 |
|---|---|---|
| Non capital loss carryforwards - Canada | $ 3,447,968 | $ 1,714,264 |
| Non capital loss carryforwards - Hong Kong | 7,278 | 2,954 |
| Share issuance cost | 309,121 | 411,018 |
| Property and equipment | 68,767 | - |
| Donations | 1,000 | - |
| Total unrecognized deductible temporary differences | $ 3,834,134 | $ 2,128,236 |

As at May 31, 2017, the Company has not recognized a deferred tax asset in respect of non-capital loss carryforwards of approximately $3,447,968 (2016: $4,459,730) which may be applied directly to the Company's taxable income to offset future tax liabilities for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

(All dollar amounts expressed in Canadian dollars)

| **Canadian** | | |
|---|---|---|
| Expiry | | Total |
| 2034 | | 372,086 |
| 2035 | | 96,684 |
| 2036 | | 1,231,159 |
| 2037 | | 1,748,039 |
| TOTAL | $ | 3,447,968 |

As at May 31, 2017, the Company has not recognized a deferred tax asset in respect of net operating loss carryforwards of approximately $7,278 (2016: $2,954) which may be carried forward to apply against future year income for Hong Kong income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

| **Hong Kong** | | |
|---|---|---|
| Expiry | | Total |
| 2021 | $ | 2,954 |
| 2022 | | 4,324 |
| TOTAL | $ | 7,278 |

## 12. RELATED PARTY TRANSACTIONS

During the year ended May 31, 2017, the Company received consulting fees of $585,329 (2016: $500,000) from companies controlled by a certain director.

During the year ended May 31, 2017, the Company received consulting fees of $1,860,404 (2016: $nil) from a company controlled by a certain director which was recorded, as at May 31, 2017, as deferred revenue.

During the year ended May 31, 2017, the Company paid subcontract fees $53,523 (2016: $79,042) to companies controlled by certain officers and consulting fees of $67,000 (2016: $nil) to companies controlled by certain independent directors. In addition, the Company paid rent of $123,833 (2016: $75,517) to a company controlled by a certain director.

During the year ended May 31, 2017, the Company incurred director fees of $46,376 (2016: $20,000) regarding the Company's independent 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.

(All dollar amounts expressed in Canadian dollars)

## 13. KEY MANAGEMENT COMPENSATION

Key management includes the Company's directors (executive and non-executive) and senior officers consisting of the President; Chief Executive Officer; Chief Financial Officer; Chief Operating Officer; Vice President, Operations; Vice President, Development; and Vice President, Marketing & Corporation Relations. The compensation paid or payable to key management personnel during the years ended May 31, 2017 and 2016 was as follows:

| | | **2017** | | 2016 |
|---|---|---|---|---|
| Salaries and short-term employee benefits | **$** | **896,310** | $ | 990,946 |
| Consulting fees | | **53,523** | | 79,042 |
| Share-based payments | | **20,648** | | 88,893 |
| Total | **$** | **970,481** | $ | 1,158,881 |

## 14. COMMITMENTS

On January 1, 2017, the Company amended the existing lease contract for office premises with a company controlled by a certain director. Total future minimum lease payments under the contract are as follows:

| | | |
|---|---|---|
| 2018 | $ | 124,467 |
| 2019 | | 124,467 |
| 2020 | | 124,467 |
| 2021 | | 124,467 |
| 2022 | | 72,604 |
| Total | $ | 570,472 |

## 15. FINANCIAL INSTRUMENTS

Fair value of financial instruments

As at May 31, 2017, the Company's financial instruments consisted of cash, trade & other receivables and trade & other payables. The fair values of trade & other receivables and trade & other payables 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 | 2017 | 2016 |
|---|---|---|---|---|---|
| Financial Assets: | | | | | |
| Cash | $ 4,244,764 | $ - | $ - | $ 4,244,764 | $ 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, 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.

*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 trade & other payables.

*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, 2017, the Company's revenues and expenses were recorded 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.

## 16. 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.

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.

## 17. SUBSEQUENT EVENTS

On July 4, 2017, the Company completed an oversubscribed non-brokered private placement (the "Offering") of 12,646,111 units (the "Units") at a price of $0.20 per share for gross proceeds of $2,529,222. Each Unit consists of one common share in the capital of the Company (a "Share") and one half of one transferable common share purchase warrant (each whole common share purchase warrant, a "Warrant"). Each whole Warrant is exercisable to acquire one Share at an exercise price of $0.30 per Share until June 30, 2019 subject to an acceleration clause. A finder's fee was paid to Haywood Securities Inc., an arm's length party, of Cdn$350, in connection with the Offering. The proceeds are to fund a portion of a 1.96 acre property along the harbourside of Victoria at Bayview Place, British Columbia (the "Lands").

On July 13, 2017, the Company entered into a commitment letter with Addenda Capital Inc. (the "Lender") pursuant to which the Lender has agreed to advance $3,500,000 to fund a portion of the $6.7 million purchase price of the Lands. On August 30, 2017, the mortgage loan was advanced as partial consideration of the acquisition. The term of the loan is 12 months with an annual interest rate of 4.95% with a maturity date of September 1, 2018.

On July 28, 2017, the Company incorporated a wholly-owned subsidiary, Element Lifestyle (Vic Harbour West) Inc., which is established for the purposes of developing and operating the Bayview project.

On August 29, 2017, the Company closed its non-brokered private placement financing raising aggregate gross proceeds of $2,510,000 (the "Private Placement") through the issuance of unsecured convertible debentures (the "Debentures"). Each Debenture has an issue price of $100; matures five years after the date of issuance on August 29, 2022 (the "Maturity Date"); bears interest at 7% per annum, payable on January 1 and July 1 of each year while outstanding, which interest, subject to regulatory approval, may at the option of the Company be settled in common shares. Each Debenture is convertible into common shares in the capital of the Company at the option of the holder at a price of $0.30 per common share (the "Conversion Price"), which is equivalent to 3,333 common shares for each $1,000 principal amount of Debentures. The Debentures, and any common shares issued upon conversion of the Debentures prior to December 30, 2017, will be subject to a four-month hold period expiring on December 30, 2017. A finders' fee of $60,000 is payable in cash to Royal Westwood Holdings Ltd., a finder at arm's length to the Company in connection with the Private Placement. The proceeds from the Private Placement have been used as partial consideration for the acquisition of the Lands.

On August 29, 2017, Element completed the purchase of the Lands pursuant to the terms of an amended offer to purchase agreement (the "Agreement") with Focus Equities Inc. ("Focus Equities"). Under the terms of the Agreement, the Company agreed to pay to Focus Equities $6.7 million for the Lands. An aggregate of $300,000 had been paid to Focus Equities in deposits against the purchase price, $4.7 million was paid on closing and the balance of $1.7 million is held in trust by the Company's counsel, which will be released and paid to Focus Equities when Focus Equities has completed certain excavation work on the Lands. Furthermore, upon commencement of the excavation work on the Lands by Focus Equities, the Company will deposit $1.8 million plus GST in trust with the Company's counsel, to be drawn and paid to Focus Equities on a monthly basis, as work progresses.