ELEMENT LIFESTYLE RETIREMENT INC.

Unaudited Condensed Consolidated Interim Financial Statements

Three and Six Months Ended November 30, 2017 and 2016

NOTICE TO READERS

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

ELEMENT LIFESTYLE RETIREMENT INC.

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FINANCIAL STATEMENTS

ELEMENT LIFESTYLE RETIREMENT INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited - See Notice To Reader)
(Expressed in Canadian dollars)

		Nov 30, 2017		May 31, 2017
ASSETS				
Current				
Cash *(Note 5)*	$	**3,812,306**	$	4,244,764
Account receivables		**-**		143
Prepaid expenses		**7,429**		5,905
		3,819,735		4,250,812
Property and equipment (*Note 6*)		**382,240**		421,194
Property under development (*Note 7*)		**7,179,631**		56,819
Trade-marks (*Note 8*)		**15,232**		14,338
Total assets	$	**11,396,838**	$	4,743,163
LIABILITIES				
Current				
Account payables and accrued liabilities (*Note 9*)	$	**116,965**	$	101,483
Deferred revenue (*Note 13*)		**430,361**		1,860,404
Mortgage loan *(Note 10)*		**3,500,000**		-
		4,047,326		1,961,887
Convertible debentures (*Note 11*)		**1,514,081**		-
		5,561,407		1,961,887
SHAREHOLDERS' EQUITY				
Share capital *(Note 12)*		**8,766,702**		6,682,300
Subscriptions received in advance		**-**		580,000
Share issuance costs *(Note 12)*		**(257,635)**		(225,482)
Reserve - options (*Note 12*)		**144,311**		109,541
Reserve - warrants (*Note 12*)		**444,820**		-
Equity component of convertible debentures (*Note 11*)		**677,998**		-
Contributed surplus (*Note 12*)		**42,435**		24,656
Deficit		**(3,983,200)**		(4,389,739)
		5,835,431		2,781,276
Total liabilities and shareholders' equity	$	**11,396,838**	$	4,743,163

On behalf of the Board

"Don Ho" Director

"John Gilbert" Director

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

ELEMENT LIFESTYLE RETIREMENT INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
(Unaudited - See Notice To Reader)
(Expressed in Canadian dollars)

	Three Months Ended		Six Months Ended	
	Nov 30, 2017	Nov 30, 2016	**Nov 30, 2017**	Nov 30, 2016
REVENUE				
Consulting fees	$ **678,297**	$ 500,000	$ **1,361,946**	$ 500,000
EXPENSES				
Advertising and promotion	**22,811**	10,900	**38,805**	26,094
Amortization	**26,081**	39,637	**51,053**	63,697
Compensation expense	**52,549**	-	**52,549**	-
Consulting fees	**23,125**	61,272	**40,400**	97,916
General & administration	**44,449**	38,765	**73,805**	93,156
Interest expenses	**83,675**	-	**84,638**	-
Professional fees	**35,280**	57,096	**36,223**	66,271
Rent	**31,550**	30,736	**62,956**	61,726
Salaries, wages and benefits	**348,094**	327,881	**720,234**	655,811
Subcontract fees	**-**	12,500	**-**	25,000
Travel	**28,702**	43,480	**51,384**	71,847
	696,316	622,267	**1,212,047**	1,161,518
OTHER INCOME				
Other income (loss)	**2,076**	-	**4,128**	-
INCOME (LOSS) BEFORE INCOME TAXES	**(15,942)**	(122,267)	**154,027**	(661,518)
INCOME TAXES				
Deferred income tax recovery	**-**	-	**252,512**	-
INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	$ **(15,942)**	$ (122,267)	$ **406,539**	$ (661,518)
Basic and diluted loss per common share	$ **(0.000)**	$ (0.002)	$ **0.006**	$ (0.012)
Weighted average number of shares outstanding	**68,478,299**	55,832,188	**66,405,166**	54,996,778

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

ELEMENT LIFESTYLE RETIREMENT INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
(Unaudited - See Notice To Reader)
(Expressed in Canadian dollars - Unaudited)

	Common shares outstanding	Paid-in capital	Warrants	Contributed surplus	Equity component of convertible debenture	Stock-based compensation reserve	Share issuance costs	Deficit	Total
Balance, May 31, 2016	53,102,188	$ 5,972,500	$ 24,656	$ -	$ -	$ 88,893	$ (225,482)	$ (2,637,907)	$ 3,222,660
Shares issued - private placement *(Note 12)*	2,730,000	709,800	-	-	-	-	-	-	709,800
Comprehensive loss for the period	-	-	-	-	-	-	-	(661,518)	(661,518)
Balance, Nov 30, 2016	55,832,188	$ 6,682,300	$ 24,656	$ -	$ -	$ 88,893	$ (225,482)	$ (3,299,425)	$ 3,270,942

	Common shares outstanding	Paid-in capital	Warrants	Contributed surplus	Equity component of convertible debenture	Stock-based compensation reserve	Share issuance costs	Deficit	Total
Balance, May 31, 2017	55,832,188	$ 7,262,300	$ -	$ 24,656	$ -	$ 109,541	$ (225,482)	$ (4,389,739)	$ 2,781,276
Shares issued - private placement *(Note 12)*	12,646,111	1,504,402	-	-	-	-	-	-	1,504,402
Equity component of convertible debenture *(Note 11)*	-	-	-	-	677,998	-	-	-	677,998
Share issuance cost (Note 12)	-	-	-	-	-	-	(32,153)	-	(32,153)
Warrants (*Note 12*)	-	-	444,820	-	-	-	-	-	444,820
Options (*Note 12*)	-	-	-	-	-	52,549	-	-	52,549
Expired options (*Note 9*)	-	-	-	17,779	-	(17,779)	-	-	-
Comprehensive income for the period	-	-	-	-	-	-	-	406,539	406,539
Balance, Nov 30, 2017	68,478,299	$ 8,766,702	$ 444,820	$ 42,435	$ 677,998	$ 144,311	$ (257,635)	$ (3,983,200)	$ 5,835,431

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

ELEMENT LIFESTYLE RETIREMENT INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited - See Notice To Reader)
(Expressed in Canadian dollars)

	Three Months Ended		Six Months Ended	
	Nov 30, 2017	Nov 30, 2016	**Nov 30, 2017**	Nov 30, 2016
CASH FLOWS USED IN OPERATING ACTIVITIES				
Income (loss) for the period	$ **(15,942)**	$ (122,267)	$ **406,539**	$ (661,518)
Items not affecting cash:				
Amortization	**26,081**	39,637	**51,053**	63,697
Accretion expenses	**39,749**	-	**39,749**	-
Deferred income tax expenses	**-**	-	**(252,512)**	-
Share-based payment - stock options	**52,549**	-	**52,549**	-
Changes in non-cash working capital:				
Account receivables	**5,422**	4,051	**143**	(924)
Prepaid expenses	**937**	10,006	**(1,524)**	(6,600)
Account payables and accrued liabilities	**(28,813)**	(16,018)	**15,482**	(34,741)
Deferred revenue	**(712,212)**	(500,000)	**(1,430,043)**	(500,000)
	(632,229)	**(584,589)**	**(1,118,564)**	**(1,140,086)**
CASH FLOWS USED IN INVESTING ACTIVITIES				
Purchase of property and equipment	**(12,099)**	(148,322)	**(12,099)**	(226,028)
Purchase of property under development	**(142,792)**	-	**(7,122,812)**	-
Purchase of trade-marks	**(252)**	-	**(894)**	-
	(155,143)	(148,322)	**(7,135,805)**	(226,028)
CASH FLOWS USED IN FINANCING ACTIVITIES				
Due from related party	**-**	(12,307)	**-**	(12,307)
Issuance of common shares, net of costs	**-**	-	**1,472,249**	709,800
Issuance of warrants	**-**	-	**444,820**	-
Issuance of convertible debentures	**-**	-	**2,404,841**	-
Proceeds from mortgage loan	**-**	-	**3,500,000**	-
	-	(12,307)	**7,821,910**	697,493
CHANGE IN CASH DURING THE PERIOD	**(787,371)**	(745,218)	**(432,458)**	(668,621)
CASH, BEGINNING OF THE PERIOD	**4,599,677**	3,813,689	**4,244,764**	3,737,092
CASH, END OF THE PERIOD	$ **3,812,306**	$ 3,068,471	$ **3,812,306**	$ 3,068,471

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

(All dollar amounts expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Nature of operations

Element Lifestyle Retirement Inc. (the "Company" or "ELM") (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 adopted the name Element Lifestyle Retirement Inc. on December 2, 2015 and resumed trading of the common shares of the Company on the TSXV, under the new name and symbol (ELM) on December 4, 2015. The former Element Lifestyle Retirement Inc. has been identified for accounting purposes as the acquirer, now a wholly-owned subsidiary of the Company, has changed its name to Element Lifestyle Management Inc. and accordingly the entity is considered to be a continuation of Element Lifestyle Retirement Inc.

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

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

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

As of November 30, 2017 and May 31, 2017, the Company reported the following:

		Nov 30, 2017		May 31, 2017
Deficit	$	**(3,983,200)**	$	(4,389,739)
Working capital	$	**(227,591)**	$	2,288,925

2. STATEMENT OF COMPLIANCE

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 – Interim Financial Reporting under International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). These condensed consolidated interim financial statements follow the same accounting policies and methods of application as the most recent annual consolidated financial statements of the Company. These condensed consolidated interim financial statements do not contain all of the information required for full annual financial statements. Accordingly, these unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's May 31, 2017, annual consolidated financial statements, which were prepared in accordance with IFRS as issued by the IASB.

The unaudited condensed consolidated interim financial statements were approved by the Board of Directors for issue on January 24, 2018.

3. BASIS OF PRESENTATION

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

Basis of consolidation

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

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

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

(All dollar amounts expressed in Canadian dollars)

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

In preparing these condensed consolidated interim financial statements, the accounting policies utilized are consistent with those utilized in the preparation of the annual audited financial statements for the year ended May 31, 2017.

The significant judgments made by management in applying the Company's accounting policies and the key sources of estimating uncertainty were the same as those applied to the annual audited financial statements for the year ended May 31, 2017.

5. CASH

	November 30, 2017	May 31, 2017
Cash	$ **3,677,410**	$ 4,244,764
Cash under restriction	**134,896**	-
	$ **3,812,306**	$ 4,244,764

$134,896 held in escrow for interest payments on mortgage loan (note 10).

6. PROPERTY AND EQUIPMENT

Property and equipment for the three and six months ended November 30, 2017 and year ended May 31, 2017 were as follows:

	Funiture & fixtures	Computer equipment	Computer software	Leasehold improvement	Total
Cost					
May 31, 2017	$ 60,786	$ 15,993	$ 8,727	$ 459,217	$ 544,723
Additions	-	12,099	-	-	12,099
November 30, 2017	60,786	28,092	8,727	459,217	556,822
Accumulated amortization					
May 31, 2017	13,471	9,362	8,461	92,235	123,529
Additions	4,732	2,933	132	43,256	51,053
November 30, 2017	18,203	12,295	8,593	135,491	174,582
Net book value					
May 31, 2017	47,315	6,631	266	366,982	421,194
November 30, 2017	$ 42,583	$ 15,797	$ 134	$ 323,726	$ 382,240

(All dollar amounts expressed in Canadian dollars)

7. PROPERTY UNDER DEVELOPMENT

The Company's property under development had a carrying value at November 30, 2017 of $7,179,631 (May 31, 2017: $56,819). Property under development consists of a 1.96-acre property (the "Lands") along the harbourside of Victoria, British Columbia at Bayview Place (the "Bayview project"). 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, 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 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.

Property under development consists of the following:

	November 30, 2017	May 31, 2017
Land	$ **6,941,233**	$ -
Finance and due diligence fees	**143,617**	-
Architectural, environmental, and other professional fees	**94,781**	6,819
Deposit	**-**	50,000
	$ **7,179,631**	$ 56,819

Costs for the property under development were not subject to amortization for the six months ended November 30, 2017 or for the year ended May 31, 2017.

8. TRADE-MARKS

As at November 30, 2017, the Company had incurred legal fees of $15,232 regarding three trade-marks.

(All dollar amounts expressed in Canadian dollars)

9. ACCOUNT PAYABLES

		November 30, 2017		May 31, 2017
Account payables and accrued liabilities	$	**52,202**	$	76,745
Salaries and benefits payable		**19,834**		22,886
Interest payable		**44,889**		-
GST payable		**40**		1,852
	$	**116,965**	$	101,483

10. MORTGAGE LOAN

On August 29, 2017, the Company advanced $3,500,000 to fund a portion of the purchase price of the Lands on which the Company's Bayview project is being developed (Note 7) from Addenda Capital Inc. (the "Lender). It consists of a first mortgage loan with a term of 12 months maturing September 1, 2018, and bearing interest at an annual rate of 4.95%. The interest payment of 12 months was held in escrow. As at November 30, 2017, the remaining balance of interest payments under escrow is in the amount of $134,896, see note 5. The mortgage is secured by a conventional first mortgage charge, a first general security agreement as collateral security on all architectural drawings, permits, and deposits, a general assignment of leases and rents, and an assignment of all insurance policies. The conditions of the mortgage loan include adequate hazard insurance as well as $5,000,000 in either comprehensive or commercial general liability insurance.

11. CONVERTIBLE DEBENTURES

On August 29, 2017, the Company closed a 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 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, are subject to a four-month hold period expiring on December 30, 2017.

The Company may redeem the debentures in cash on or after July 1, 2019, in whole or in part from time to time, upon required prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest, if any, provided that the weighted average trading price of the Company's common shares for the 20 consecutive trading days ending five trading days prior to the date of the redemption notice must be at least 125 per cent of the conversion price.

(All dollar amounts expressed in Canadian dollars)

Additionally, after July 1, 2019, the Company has the option to repay the principal amount of the debentures in common shares provided certain circumstances are met, including, but not limited to, no event of default has occurred and is continuing at such time and the weighted average trading price of the Company's common shares for the 20 consecutive trading days ending five trading days prior to the date of the redemption notice or maturity date (as the case may be) is at least 150 per cent of the conversion price.

The convertible debentures are compound financial instruments, consisting of a debt instrument and an equity conversion feature. At the date of issue, $1,538,801 was attributed to the liability component of the convertible debenture and $971,199 was attributed to the equity component based on the discounted cash flow using the market interest rate of 18%. The following table summarizes the Company's convertible debentures as at November 30, 2017:

		Liability component		Equity component
Convertible debentures proceeds	$	1,538,801	$	971,199
Issuance costs		(64,469)		(40,689)
Accretion expense		39,749		-
Deferred tax impact on equity component		-		(252,512)
Balance, Nov 30, 2017	$	1,514,081	$	677,998

12. SHARE CAPITAL

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

Issued or allotted and fully paid:

a) Common shares

On June 30, 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, of which $580,000 was received in the year ended May 31, 2017. 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 $350, in connection with the Offering, and other share issuance costs of $31,803 were incurred with respect to the Offering. The acceleration clause states that if at any time after the date that is four months and one day after the date of issuance of the warrants, the closing price of the Company's common shares on the TSX Venture Exchange (or such other stock exchange on which the common shares may be traded from time to time) is at or above 50 cents per share for a period of 21 consecutive trading days, the Company may, within 10 days of the triggering event, accelerate the expiry date of the warrants by giving notice thereof to the holders of the warrants, by way of news release, and in such case, the warrants will expire on the first business day after the day that is 30 days after the date on which such notice is given by the Company announcing the triggering event.

(All dollar amounts expressed in Canadian dollars)

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 November 30, 2017, a total 13,365,000 of the RTO Shares were held in escrow and subject to resale restrictions, including one year escrow restriction.

c) Warrants

6,323,055 warrants were granted and issued on June 30, 2017 with an expiring date of June 30, 2019, pursuant to a private placement, and subject to an acceleration clause as described in Note 12 (a) above.

A summary of activity and changes in warrants during the period ended November 30, 2017 and 2016 is presented below:

	Number of warrants	Weighted Average Exercise Price
Balance – May 31, 2016	558,152	$ 0.25
Expired	(558,152)	(0.25)
Balance – May 31, 2017	-	$ -
Granted	6,323,055(1)	0.30
Balance – November 30, 2017	6,323,055	$ 0.30

(1) Exercisable at a price of $0.30 per share until June 30, 2019, granted pursuant to a private placement, and subject to an acceleration clause as described in Note 12 (a) above.

(All dollar amounts expressed in Canadian dollars)

The fair value of share purchase warrants granted pursuant to the private placement was estimated to be $444,820 using the Black-Scholes Option Pricing Model with the following assumptions:

	2017
Risk free interest rate	1.10%
Expected dividend yield	0.00%
Expected stock price volatility	98%
Expected option life in years	2
Expected forfeiture rate	0 %

d) Stock-based compensation reserve

On September 15, 2017, 200,000 stock options with an exercise price of $0.25 expired. The correspondent value of $17,779 was transferred to Contributed surplus.

On September 28, 2017, the Company granted 400,000 stock options to two officers with an exercise price of $0.25 and an expiry date of September 28, 2022.

The following table reflects the stock-based compensation options issued and outstanding as at November 30, 2017 and 2016:

	Number of options	Weighted Average Exercise Price
Balance – May 31, 2016	1,000,000	$ 0.25
Granted	160,000	0.25
Balance – May 31, 2017	1,160,000	$ 0.25
Granted	400,000(1)	0.25
Expired	(200,000)(2)	0.25
Balance – November 30, 2017	1,360,000(3)	0.25

(1) On September 28, 2017, the Company granted 400,000 stock options to two officers with an exercise price of $0.25 and an expiry date of September 28, 2022.
(2) On September 15, 2017, 200,000 stock options with an exercise price of $0.25 expired.
(3) 800,000 stock options expire on May 26, 2021, 160,000 stock options expire on February 24, 2022 and 400,000 stock options expire on September 28, 2022.

The weighted average fair value of the options granted is $0.08 per option, and the weighted average remaining contractual life of the options issued and outstanding is 3.97 years.

The fair value of share purchase options granted on September 28, 2017 was estimated to be $52,549 using the Black-Scholes Option Pricing Model with the following assumptions:

	2017
Risk free interest rate	1.78%
Expected dividend yield	0.00%
Expected stock price volatility	105%
Expected option life in years	5
Expected forfeiture rate	0%

(All dollar amounts expressed in Canadian dollars)

13. RELATED PARTY TRANSACTIONS

During the three months and six ended November 30, 2017, the Company received consulting fees of $678,297 and $1,361,946 respectively (2016: $500,000 and $500,000 respectively) from companies controlled by a certain director.

As at November 30, 2017, the Company had deferred revenue of $430,361 and $(May 31, 2017: $1,860,404) which was received from companies controlled by a certain director.

For the three months and six months ended November 30, 2017, the Company paid subcontract fees of $Nil and $Nil respectively (2016: $12,500 and $25,000 respectively) to a certain key executive. In addition, the Company paid rent of $31,550 and $62,956 respectively (2016: $30,736 and $61,726 respectively) to a company controlled by a certain director.

During the three months and six months ended November 30, 2017, the Company incurred directors' fees of $10,000 and $16,000 respectively (2016: $14,333 and $26,376 respectively) regarding the Company's independent directors.

These transactions are in the normal course of business and have been valued in these unaudited condensed consolidated interim financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties.

14. KEY MANAGEMENT COMPENSATION

The compensation paid or payable to key management personnel during the three and six months ended November 30, 2017 and 2016 were as follows:

	Three Months Ended		Six Months Ended	
	Nov 30, 2017	Nov 30, 2016	**Nov 30, 2017**	Nov 30, 2016
Salaries and short-term employee benefits	**$ 337,079**	$ 227,428	**$ 612,020**	$ 443,997
Total	**$ 337,079**	$ 227,428	**$ 612,020**	$ 443,997

15. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

As at November 30, 2017, the Company's financial instruments consisted of cash, account receivables, account payables and accrued liabilities, mortgage loan, and convertible debentures. The fair values of account receivables and account payables and accrued liabilities approximate their carrying values because of their current nature. Mortgage loan and convertible debentures are carried at amortized cost.

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 illustrates the Company's financial assets as at November 30, 2017 measured at fair value by level within the fair value hierarchy as follows:

	Level 1	Level 2	Level 3	November 30, 2017	May 31, 2017
Financial Assets:					
Cash	$ 3,812,306	$ -	$ -	$ 3,812,306	$ 4,244,764

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

Credit Risk
Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's concentrations of credit risks consist principally of cash and account receivables. To minimize the credit risk on cash, the Company places the instruments 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 account payables and accrued liabilities and mortgage loan.

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 price risk.

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. For the three months ended November 30, 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 given that the mortgage loan and convertible debentures bear interest at fixed rates.

16. CAPITAL MANAGEMENT

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

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

The Company's financial strategy is designed to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions. In order to maintain or adjust its capital structure, the Company has issued additional shares, a mortgage loan, and convertible debentures. 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.