# ELEMENT LIFESTYLE RETIREMENT INC.

## Unaudited Condensed Consolidated Interim Financial Statements

## Three Months Ended August 31, 2019 and 2018

## 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.**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
*(Expressed in Canadian dollars)*

| As at | | Aug 31, 2019 | | May 31, 2019 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current** | | | | |
| Cash | $ | **1,777,996** | $ | 2,474,440 |
| Other receivables (*Note 5*) | | **86,184** | | 148,730 |
| Note receivable | | **704,247** | | 704,247 |
| Prepaid expenses | | **17,350** | | 17,208 |
| Due from related parties | | **1,914,430** | | 1,765,732 |
| **Total current assets** | | **4,500,207** | | 5,110,357 |
| Long term investment | | **19** | | 19 |
| Property and equipment (*Note 6*) | | **500,693** | | 258,209 |
| Trade-marks (*Note 7*) | | **23,863** | | 21,876 |
| **Total assets** | $ | **5,024,782** | $ | 5,390,461 |
| **LIABILITIES** | | | | |
| **Current** | | | | |
| Accounts payables and accrued liabilities (*Note 8*) | $ | **116,156** | $ | 163,483 |
| Customer deposit | | **10,000** | | 10,000 |
| Lease liabilities- current *(Note 10)* | | **124,467** | | - |
| **Total current liabilities** | | **250,623** | | 173,483 |
| **Long term liabilities** | | | | |
| Convertible debentures (*Note 9*) | | **1,824,007** | | 1,776,122 |
| Lease liabilities - long term *(Note 10)* | | **141,127** | | - |
| **Total long term liabilities** | | **1,965,134** | | 1,776,122 |
| **Total liabilities** | | **2,215,757** | | 1,949,605 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital | | **9,166,702** | | 9,166,702 |
| Share issuance costs | | **(260,385)** | | (260,385) |
| Reserve - options | | **144,311** | | 144,311 |
| Reserve - warrants (*Note 11*) | | **-** | | 444,820 |
| Equity component of convertible debentures | | **677,998** | | 677,998 |
| Contributed surplus | | **487,255** | | 42,435 |
| Deficit | | **(7,406,856)** | | (6,775,025) |
| **Total shareholders' equity** | | **2,809,025** | | 3,440,856 |
| **Total liabilities and shareholders' equity** | $ | **5,024,782** | $ | 5,390,461 |

*On behalf of the Board*

*"Don Ho"* Director

*"John Gilbert"* Director



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

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

| For the three months ended August 31 | 2019 | 2018 |
|---|---|---|
| REVENUE | | |
| Consulting fees | $ - | $ 1,144,051 |
| EXPENSES | | |
| Accretion expense | 47,886 | - |
| Amortization | 48,089 | 25,598 |
| Consulting fees | 42,761 | 68,514 |
| General & administration | 55,597 | 87,495 |
| Interest expense | 46,714 | - |
| Marketing and promotion | 24,757 | 29,862 |
| Professional fees | 6,364 | 45,823 |
| Rent | 14,263 | 33,733 |
| Salaries, wages and benefits | 372,477 | 365,534 |
| Travel | 20,289 | 13,876 |
| | 679,197 | 670,435 |
| INCOME/(LOSS) FROM OPERATIONS | (679,197) | 473,616 |
| OTHER INCOME | | |
| Other income | 47,850 | 3,201 |
| INCOME/(LOSS) BEFORE INCOME TAXES | (631,347) | 476,817 |
| Provision for recovery of income taxes | | |
| Deferred | - | - |
| INCOME/(LOSS) AND COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD | $ (631,347) | $ 476,817 |
| Basic and diluted income/(loss) per common share | $ (0.01) | $ 0.01 |
| Basic and diluted weighted average number of shares outstanding | 70,478,299 | 68,478,299 |

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

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

| | Common shares outstanding | Paid-in capital | Warrants | Contributed surplus | Equity component of conertible debenture | Stock-based compensation reserve | Share issuance costs | Deficit | Total |
|---|---|---|---|---|---|---|---|---|---|
| Balance, May 31, 2018 | 68,478,299 | $ 8,766,702 | $ 444,820 | $ 42,435 | $ 677,998 | $ 144,311 | $ (257,635) | $ (5,352,757) | $ 4,465,874 |
| Subscriptions received in advance | - | 400,000 | – | - | - | – | - | - | 400,000 |
| Comprehensive income (loss) for the period | - | - | – | - | - | - | - | (631,347) | (631,347) |
| Balance, Aug 31, 2018 | 68,478,299 | $ 9,166,702 | $ 444,820 | $ 42,435 | $ 677,998 | $ 144,311 | $ (257,635) | $ (5,984,104) | $ 4,234,527 |

| | Common shares outstanding | Paid-in capital | Warrants | Contributed surplus | Equity component of conertible debenture | Stock-based compensation reserve | Share issuance costs | Deficit | Total |
|---|---|---|---|---|---|---|---|---|---|
| Balance, May 31, 2019 | 70,478,299 | $ 9,166,702 | $ 444,820 | $ 42,435 | $ 677,998 | $ 144,311 | $ (260,385) | $ (6,775,025) | $ 3,440,856 |
| Expired warrants (*Note 11*) | - | - - | (444,820) | 444,820 | - | - | - | - | - |
| Comprehensive income (loss) for the period | - | - | – | - | - | - | - | (631,347) | (631,347) |
| Balance, Aug 31, 2019 | 70,478,299 | $ 9,166,702 | $ - | $ 487,255 | $ 677,998 | $ 144,311 | $ (260,385) | $ (7,406,372) | $ 2,809,509 |

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

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

| For the three months ended August 31 | 2019 | 2018 |
|---|---|---|
| CASH FLOWS USED IN OPERATING ACTIVITIES | | |
| Income/(Loss) for the period | $ (631,347) | $ 476,817 |
| Items not affecting cash: | | |
| Amortization | 48,089 | 25,598 |
| Accretion expense | 47,886 | - |
| Interest expense | 2,363 | |
| Changes in non-cash working capital: | | |
| Other receivables | 62,547 | 6,621 |
| Prepaid expenses | (143) | (5,846) |
| Accounts payables and accrued liabilities | (47,329) | (442,963) |
| Total cash (used)/generated in operating activities | (517,934) | 60,227 |
| CASH FLOWS USED IN INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (6,826) | (3,498) |
| Purchase of property under development | - | (370,786) |
| Trade-marks | (1,986) | (1,162) |
| Total cash used in investing activities | (8,812) | (375,446) |
| CASH FLOWS USED IN FINANCING ACTIVITIES | | |
| Due from related party | (148,698) | 47,393 |
| Repayment of other long-term liabilities | (21,000) | - |
| Subscriptions received in advance | - | 400,000 |
| Total cash (used)/received in financing activities | (169,698) | 447,393 |
| CHANGE IN CASH DURING THE PERIOD | (696,444) | 132,174 |
| CASH, BEGINNING OF THE PERIOD | 2,474,440 | 1,481,008 |
| CASH, END OF THE PERIOD | $ 1,777,996 | $ 1,613,182 |

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

**1. NATURE OF OPERATIONS AND GOING CONCERN**

**Nature of operations**

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

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

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

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

## 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"). Except for the adoption of IFRS 16, Leases ("IFRS 16"), as described in Note 4 to these condensed interim consolidated financial statements, these condensed interim consolidated financial statements have been prepared on a basis consistent with the accounting policies disclosed in the May 31, 2019 audited annual consolidated financial statements. 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, 2019, 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 October 24, 2019.

## 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.

## 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, 2019.

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, 2019.

The Company has adopted the following new or amended IFRS standards for the interim and annual periods beginning on June 1, 2019.

**Adoption of IFRS 16, Leases and resulting changes to lease accounting policy**

On June 1, 2019 the Company adopted IFRS 16 using the modified retrospective approach. Therefore, the comparative information has not been restated and continues to be reported under IAS 17, Leases ("IAS 17") and IFRIC 4, Determining Whether an Arrangement Contains a Lease ("IFRIC 4").

**(a) Lease accounting policy applicable from June 1, 2019**

*Definition of a lease*

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys this right the Company assesses whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset;

- The Company has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and

- The Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

At inception or reassessment of a contract that contains lease and non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

*Accounting as a lessee under IFRS 16*

The Company recognizes a right-of-use asset and lease liability on the consolidated statements of financial position at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of its useful life or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise (a) fixed payments, including in-substance fixed payments; (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; (c) amounts expected to be payable under a residual value guarantee; and (d) the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the consolidated statements of operations if the carrying amount of the right-of-use asset has been reduced to $nil.

**(b) Transition to IFRS 16**

*Practical expedients*

On transition to IFRS 16, the Company elected to apply the practical expedient to make the assessment of which transactions represent leases. The Company applied IFRS 16 only to contracts that were previously identified as leases under IAS 17 and IFRIC 4. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into, or changed, on or after June 1, 2019.

The Company used the following additional practical expedients:

- Applied a single discount rate to a portfolio of leases with similar characteristics;

- Applied the exemption not to recognize right-of-use assets and lease liabilities for short-term leases with terms less than 12 months and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line or other systematic basis over the lease term;

*Impacts on consolidated financial statements*

On transition to IFRS 16, the Company elected to measure the right-of-use assets at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. As at June 1, 2019, the Company recognized $204,144 of right-of-use assets, and $204,144 of lease liabilities, with a nil impact on deficit. The transition to IFRS 16 did not have a material impact on the Company's results of operations or liquidity.

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

When measuring lease liabilities, the Company used its incremental borrowing rate at June 1, 2019, which was 4.95%. Right-of-use assets are recognized in Property, plant and equipment (see Note 6), and lease liabilities are recognized in Lease liabilities (see Note 10)

## 5. OTHER RECEIVABLES

| | | Aug 31, 2019 | | May 31, 2019 |
|---|---|---|---|---|
| GST receivable | $ | 34,913 | $ | 74,821 |
| Other receivables | | 51,271 | | 73,909 |
| | $ | 86,184 | $ | 148,730 |

As of August 31, 2019, management has determined that all receivables are collectible and no allowance for doubtful accounts is necessary.

## 6. PROPERTY AND EQUIPMENT

Property and equipment for the three months ended August 31, 2019 and year ended May 31, 2019 were as follows:

| ELEMENT LIFESTYLE RETIREMENT INC. | Funiture & fixtures | Computer equipment | Computer software | Leasehold improvement | Right-of-use assets | Total |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| May 31, 2019 | $ 60,786 | $ 66,884 | $ 9,627 | $ 459,897 | $ - | $ 597,194 |
| Additions | - | 6,826 | - | - | | 6,826 |
| IFRS 16 adoption | - | - | - | - | 204,144 | 204,144 |
| August 31, 2019 | 60,786 | 73,710 | 9,627 | 459,897 | 204,144 | 808,164 |
| Accumulated amortization | | | | | | |
| May 31, 2019 | 30,504 | 33,364 | 9,177 | 265,940 | - | 338,985 |
| Additions | 1,514 | 5,078 | 113 | 21,628 | 19,756 | 48,089 |
| August 31, 2019 | 32,018 | 38,442 | 9,290 | 287,568 | 19,756 | 387,074 |
| Net book value | | | | | | |
| May 31, 2019 | $ 30,282 | $ 33,520 | $ 450 | $ 193,957 | $ - | $ 258,209 |
| August 31, 2019 | $ 28,768 | $ 35,268 | $ 337 | $ 172,329 | $ 184,388 | $ 421,090 |

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

## 7. TRADE-MARKS

As at August 31, 2019, the Company had incurred legal fees of $23,863 (2018 - $21,876) regarding three trade-marks.

## 8. ACCOUNT PAYABLES

| | | Aug 31, 2019 | | May 31, 2019 |
|---|---|---|---|---|
| Accounts payables | $ | 64,840 | $ | 68,591 |
| Interest payable | | 29,290 | | 73,214 |
| Salaries and benefits payable | | 22,026 | | 21,678 |
| | $ | 116,156 | $ | 163,483 |

## 9. CONVERTIBLE DEBENTURES

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

The following table summarizes the Company's convertible debentures as at August 31, 2019 and May 31, 2019:

| | | Aug 31, 2019 | | May 31, 2019 |
|---|---|---|---|---|
| Issued | $ | 2,510,000 | $ | 2,510,000 |
| Equity portion of convertible loan - Gross | | (971,199) | | (971,199) |
| Financing fees | | (64,469) | | (64,469) |
| Accretion expense | | 349,675 | | 301,790 |
| Loan portion of convertible loan | $ | 1,824,007 | $ | 1,776,122 |

| | | Aug 31, 2019 | | May 31, 2019 |
|---|---|---|---|---|
| Equity portion of convertible loan - Gross | $ | 971,199 | $ | 971,199 |
| Equity portion of financing cost | | (40,689) | | (40,689) |
| Deferred tax related to conversion feature | | (252,512) | | (252,512) |
| Equity portion of convertible loan - net | $ | 677,998 | $ | 677,998 |

*(All dollar amounts expressed in Canadian dollars)*

## 10. Lease liabilities

A continuity of lease liabilities for the three months ended August 31, 2019, is as follows:

| | |
|---|---|
| As at June 1, 2019 | 204,144 |
| Lease additions | - |
| Lease payments | (21,000) |
| Interest expense on lease liabilities | 2,363 |
| As at August 31, 2019 | 185,507 |

The maturity analysis of the undiscounted contractual balances of the lease liabilities is as follows:

| | |
|---|---|
| Less than one year | 84,000 |
| One to five years | 112,000 |
| Total undiscounted lease liabilities at August 31, 2019 | 196,000 |

## 11. SHARE CAPITAL

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

**Issued or allotted and fully paid:**

**a) Common shares**

During the period ended August 31, 2019, the Company did not issue any new shares.

**b) Escrow Shares**

On December 2, 2018, a total 8,910,000 common shares were released from escrow. As a result, no shares are subject to resale restriction.

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

**c) Warrants**

On June 30, 2019, the company's 6,323,055 warrants expired and there is no warrants outstanding after the expiry.

**d) Stock-based compensation reserve**

The following table reflects the stock-based compensation options issued and outstanding as at August 31, 2019 and 2018:

| | Number of options | Weighted Average Exercise Price |
|---|---|---|
| Balance – May 31, 2019 | 1,360,000 | $ 0.25 |
| Granted | - | - |
| Balance – August 31, 2019 | 1,360,000(*) | 0.25 |

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

As of August 31, 2019, the weighted average remaining contractual life of the options issued and outstanding is 2.22 years.

## 12. RELATED PARTY TRANSACTIONS

During the period ended August 31, 2019, the Company:

(a) paid rent of $35,263 (2018: $33,733) to a company controlled by a director;

(b) incurred director fees of $6,000 (2018: $6,000) regarding the Company's independent directors;

(c) received reimbursement of $441,442 from Aquara for development costs paid for Aquara LP;

(d) accrued $14,112 (2018: $nil) of interest receivable on the promissory note issued from Aquara LP;

(e) paid $87,143 (2018: $nil) for expenses on behalf of a company controlled by a director; and

(f) loaned $500,000 (2018: $nil) to a company controlled by a director.

(All dollar amounts expressed in Canadian dollars)

As at August 31, 2019, $12,781 (2018: $nil) was receivable from a certain director for travel expenses and $479,270 (2018: $nil) was receivable from the companies controlled by certain directors.

As at August 31, 2019, $1,422,379 (2018: $nil) was receivable from Aquara LP for the development costs and fundraising costs paid on behalf of Aquara project.

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.

## 13. KEY MANAGEMENT COMPENSATION

The compensation paid or payable to key management personnel during the three months ended August 31, 2019 and 2018 were as follows:

| | | Aug 31, 2019 | | Aug 31, 2018 |
|---|---|---|---|---|
| Salaries and short-term employee benefits | $ | 214,958 | $ | 252,560 |
| Consulting fees | | - | | 3,500 |
| Total | $ | 214,958 | $ | 256,060 |

## 14. FINANCIAL INSTRUMENTS

Fair value of financial instruments

As at August 31, 2019, the Company’s financial instruments consisted of cash, other receivables, account payables and accrued liabilities, mortgage loan and convertible debentures. The fair values of other receivables, account payables and accrued liabilities, and mortgage loan approximate their carrying values because of their current nature.

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

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, and

Level 3 – Inputs that are not based on observable market date

(All dollar amounts expressed in Canadian dollars)

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 | August 31, 2019 | May 31, 2019 |
|---|---|---|---|---|---|
| Financial Assets | | | | | |
| Cash | $ 1,777,996 | $ - | $ - | $ 1,777,996 | $ 2,474,440 |
| Other receivables | 86,184 | - | - | 86,184 | 148,730 |
| Note receivable | 704,247 | - | - | 704,247 | 704,247 |
| Total financial assets | $ 2,568,427 | $ - | $ - | $ 2,568,427 | $ 3,327,417 |
| Financial Liabilities | | | | | |
| Accounts payable and accrued liabilities | $ 116,156 | $ - | $ - | $ 116,156 | $ 163,483 |
| Mortgage loan | - | - | - | - | - |
| Convertible debentures | - | - | 1,824,007 | 1,824,007 | 1,776,122 |
| Lease liabilities | - | - | 185,507 | 185,507 | - |
| Total Financial liabilities | $ 116,156 | $ - | $ 2,009,514 | $ 2,125,670 | $ 1,939,605 |

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 the risk of repaying $2.5 million convertible debentures if not converted. The Company manages its liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

*Market Risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Company is not exposed to significant currency risk and interest rate risk.

*Currency risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. For the period ended August 31, 2019, the Company's revenues and expenses were recorded in Canadian dollars. Management has determined that the Company is not exposed to significant currency risk because most transactions are in Canadian dollars.

*Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to significant interest rate risk as the Company's mortgage loan and debentures are all at fixed interest rates.

## 15. CAPITAL MANAGEMENT

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

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

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

## 16. SUBSEQUENT EVENT

There were no subsequent events that need disclosure.