

*CONSOLIDATED FINANCIAL STATEMENTS OF*

**Element Lifestyle Retirement Inc.**

(Formerly “Sonoma Resources Inc.”)

For the Three Months ended August 31, 2016

(Unaudited)

## **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 interim financial statements, they must be accomplished by a notice indicating that the interim financial statements have not been reviewed by an auditor. The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The unaudited consolidated interim financial statements have been prepared using accounting policies in compliance with International Financial Reporting Standards for the preparation of the consolidated interim financial statements and are in accordance with IAS 34 – Interim Financial Reporting. The Company's independent auditor has not performed a review of these unaudited consolidated interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**ELEMENT LIFESTYLE RETIREMENT INC.**  
**(FORMERLY “SONOMA RESOURCES INC.”)**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
*(Unaudited – See Notice To Reader)*  
*(Canadian dollars)*

	<b>August 31,</b>	May 31,
	<b>2016</b>	2016
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 3,813,689	\$ 3,737,092
Advance to employees <i>(Note 9)</i>	5,639	664
GST receivable	15,270	13,105
Prepaid expenses	17,476	870
	<b>3,852,074</b>	3,751,731
Capital assets	132,202	79,399
<b>Total Assets</b>	<b>\$ 3,984,276</b>	<b>\$ 3,831,130</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 91,910	\$ 108,470
Deferred revenue <i>(Note 9)</i>	500,000	500,000
	<b>591,910</b>	608,470
<b>SHAREHOLDERS' EQUITY</b>		
Common shares <i>(Note 7)</i>	6,682,300	5,972,500
Share issuance costs <i>(Note 7)</i>	(225,482)	(225,482)
Reserve - Options <i>(Note 7)</i>	88,893	88,893
Reserve - Warrants <i>(Note 7)</i>	24,656	24,656
Deficit	(3,178,0001)	(2,637,907)
	<b>3,392,366</b>	3,222,660
<b>Total liabilities and shareholders' equity</b>	<b>\$ 3,984,276</b>	<b>\$ 3,831,130</b>

*On behalf of the Board*

“Don Ho” Director

“Bo Jun Diao” Director

See accompanying notes to the consolidated interim financial statements

**ELEMENT LIFESTYLE RETIREMENT INC.**  
**(FORMERLY “SONOMA RESOURCES INC.”)**  
**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHESIVE LOSS**  
*(Unaudited – See Notice To Reader)*  
*(Canadian dollars)*

<b>For the three months ended August 31</b>	<b>2016</b>	<b>2015</b>
<b>REVENUE</b>		
Consulting fees	\$ -	\$ 100,889
<b>EXPENSES</b>		
Advertising and promotion	<b>15,194</b>	29,451
Amortization	<b>24,059</b>	9,356
Consulting fees	<b>36,644</b>	10,500
Insurance	-	4,055
Meals and Entertainment	<b>7,581</b>	3,605
General & administration	<b>35,580</b>	7,347
Professional fees	<b>9,912</b>	19,268
Rent	<b>30,990</b>	17,584
Salaries and wages	<b>340,537</b>	316,013
Telephone & utilities	<b>11,230</b>	3,599
Travel	<b>28,367</b>	58,527
	<b>540,094</b>	479,305
<b>LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD</b>	<b>\$ 540,094</b>	<b>\$ 378,416</b>
<b>Basic and Diluted Loss per Common Share</b>	<b>\$ 0.01</b>	<b>\$ 5.75</b>
<b>Weighted Average Number of Shares Outstanding</b>	<b>54,170,449</b>	<b>65,853</b>

See accompanying notes to the consolidated interim financial statements

**ELEMENT LIFESTYLE RETIREMENT INC.**  
**(FORMERLY “SONOMA RESOURCES INC.”)**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
*(Unaudited – See Notice To Reader)*  
*(Canadian dollars)*

	Common shares outstanding	Paid-in capital	Preferred shares outstanding	Paid-in capital	Warrants	Stock-based compensation reserve	Share insurance costs	Deficit	Total
		\$		\$			\$	\$	\$
Balance as of May 31, 2015	24,000,000	500,000	7,900,000	515,000	-	-	(30,000)	(367,394)	617,606
Share insurance cost	-	-	-	-	-	-	(9,901)	-	(9,901)
Comprehensive Income (Loss) for the period	-	-	-	-	-	-	-	(378,416)	(378,416)
Balance as of August 31, 2015	24,000,000	500,000	7,900,000	515,000	-	-	(39,901)	(745,810)	229,289

	Common shares outstanding	Paid-in capital	Preferred shares outstanding	Paid-in capital	Warrants	Stock-based compensation reserve	Share insurance costs	Deficit	Total
		\$		\$			\$	\$	\$
Balance as of May 31, 2016	53,102,188	5,972,500	-	-	24,656	88,893	(225,482)	(2,637,907)	3,222,660
Shares issued pursuant to Private Placement <i>(Note 7)</i>	2,730,000	709,800	-	-	-	-	-	-	709,800
Comprehensive Income (Loss) for the period	-	-	-	-	-	-	-	(540,094)	(540,094)
Balance as of August 31, 2016	55,832,188	6,682,300	-	-	24,656	88,893	(225,482)	(3,178,001)	3,392,366

See accompanying notes to the consolidated interim financial statements

**ELEMENT LIFESTYLE RETIREMENT INC.**  
**(FORMERLY “SONOMA RESOURCES INC.”)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(Unaudited – See Notice To Reader)*  
*(Canadian dollars)*

<b>For the three months ended August 31</b>	<b>2016</b>	<b>2015</b>
<b>OPERATING ACTIVITIES</b>		
Income (Loss) for the period	\$ (540,094)	\$ (378,416)
Items not affecting cash:		
Amortization	24,059	9,356
Changes in non-cash working capital:		
Accounts receivable	-	(11,150)
Other accounts receivable	-	(31,397)
Advance	(4,975)	-
Prepaid expenses	(16,606)	-
Tax Receivables	(2,164)	(46,536)
Accounts payable and accrued liabilities	(16,560)	(19,054)
	<b>(556,340)</b>	<b>(477,197)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of capital assets	(76,863)	(1,326)
	<b>(76,863)</b>	<b>(1,326)</b>
<b>FINANCING ACTIVITIES</b>		
Due from related party	-	40,678
Issuance of common shares	709,800	-
Share issuance costs	-	(9,901)
	<b>709,800</b>	<b>30,777</b>
<b>CHANGE IN CASH DURING THE PERIOD</b>	<b>76,597</b>	<b>(447,746)</b>
<b>CASH, BEGINNING OF THE PERIOD</b>	<b>3,737,092</b>	<b>751,165</b>
<b>CASH, END OF THE PERIOD</b>	<b>\$ 3,813,689</b>	<b>\$ 303,419</b>

See accompanying notes to the consolidated interim financial statements

**ELEMENT LIFESTYLE RETIREMENT INC.**  
**(FORMERLY “SONOMA RESOURCES INC.”)**  
**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED AUGUST 31, 2016**

*(Unaudited – see Notice To Reader)*

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**1. NATURE AND CONTINUANCE 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 unaudited 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.) and Team Host Development Ltd., which was established in Hong Kong during the year ended May 31, 2016.

These unaudited 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 operations for the foreseeable future and be able to realize assets and satisfy liabilities in the normal course of business. If the going concern assumption were not appropriate for these financial statements then adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses and the statement of financial position classifications used.

As of August 31, 2016 and May 31, 2016, the Company reported the following:

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	<b>August 31, 2016</b>	<b>May 31, 2016</b>
Net loss for the period	<b>\$ 540,094</b>	\$ 2,270,513
Deficit	<b>3,178,001</b>	2,637,907
Working capital	<b>3,260,163</b>	3,143,261

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**ELEMENT LIFESTYLE RETIREMENT INC.**  
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**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED AUGUST 31, 2016**

*(Unaudited – see Notice To Reader)*

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**2. STATEMENT OF COMPLIANCE**

These unaudited consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements, including International Accounting Standards 34, Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”). The accounting policies applied in the preparation of these unaudited consolidated interim financial statements are consistent with those applied and disclosed in the Company’s audited financial statements for the year ended May 31, 2016, except as noted below. These unaudited consolidated interim financial statements should be read in conjunction with the Company’s audited financial statements for the year ended May 31, 2016, which have been prepared in accordance with IFRS as issued by the IASB. These consolidated interim financial statements were authorized for issue by the Audit Committee on October 28, 2016.

**3. BASIS OF PRESENTATION**

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

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

In preparing these 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, 2016.

The significant judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those applied to the annual audited financial statements for the year ended May 31, 2016.

**5. FINANCIAL INSTRUMENTS**

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 data

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

	Level 1	Level 2	Level 3	August 31, 2016	May 31, 2015
Financial Assets:					
Cash	\$ 3,813,689	-	-	\$ 3,813,689	\$ 3,737,092

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

*Credit Risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company’s concentrations of credit risks consist principally of cash, accounts receivable and advance to employees. To minimize the credit risk on cash the Company places the instrument with a high credit quality financial institution. The Company assesses collectability of specific accounts receivable and also assesses the requirement for a provision based on historical experience.



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*Liquidity Risk*

Liquidity risk is the risk the Company may encounter difficulties in meeting its obligations associated with financial liabilities and commitments. The Company is exposed to this risk mainly in respect of its accounts payable and accrued liabilities.

*Market Risk*

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

*Currency risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. For the period ended August 31, 2016, the Company’s revenues and expenses are in Canadian dollars. The company only had nominal amount of investment in its Hong Kong subsidiary. As a result, the Company is not exposed to significant currency risk.

*Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to significant interest rate risk.

**6. INCOME TAXES**

Total income tax recovery for the years can be reconciled to the statements of loss and comprehensive loss as follows:

	<u>Three months ended August 31, 2016</u>	<u>Three months ended August 31, 2015</u>
Income (Loss) before recovery of income taxes	\$ (540,094)	\$ (378,416)
Statutory tax rate	<u>26%</u>	<u>26%</u>
Expected income tax expenses (recovery)	( 140,425)	(98,389)
Non-deductible items	986	469
Financing costs	-	(2,574)
Change in Deferred tax asset not recognized	<u>139,439</u>	<u>100,494</u>
Total income tax expense (recovery)	<u>\$ 0</u>	<u>\$ 0</u>

**7. SHARE CAPITAL**

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

Issued or allotted and fully paid:

a) Common shares

On August 27, 2015, the Company issued 31,900,000 common shares in the capital of the Company (the “RTO Shares”) to exchange all of the issued and outstanding securities of Element. Concurrent with the closing of the Transaction, the Company completed a private placement of 17,300,000 shares (the “Financing Shares”) at \$0.25 per share for gross proceeds of \$4,325,000 (the “Financing”).

The Company paid the Agent, at the closing of the transaction, a \$140,000 cash commission and granted 558,152 Agent’s Warrants. Each Agent’s Warrant will be exercisable to acquire one additional share for a term of 12 months from the closing of the Private Placement at a price of \$0.25 per share. The Agent’s warrants have a fair value of \$24,656

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which added to share issuance costs. In addition, the Company paid share issuance costs of \$170,826, which included agent and administration fees, corporate finance fees, legal and filing fees.

On July 27, 2016, the Company completed a non-brokered private placement of 2,730,000 common shares at a price of \$0.26 per share to raise gross proceeds of \$709,800.

b) Escrow Shares

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

c) Warrants

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

	2016	Weighted Average Exercise Price	2015	Weighted Average Exercise Price
Balance – Beginning of Year	558,152 <sup>(1)</sup>	0.25	-	-
Granted	-	-	-	-
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.

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

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

The weighted average fair value of the warrants granted and outstanding as at August 31, 2016 is \$0.04 per warrant, and the weighted average remaining contractual life of the warrants outstanding at August 31, 2016 is 0.26 years.

d) Stock-based compensation reserve

(i) Options issued to Directors

On May 26, 2016, the Company granted a total of 1,000,000 options to its directors and management to acquire common shares of the Company for a period of five years at an exercise price of \$0.25 per share. All options vested immediately.

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The following table reflects the stock-based compensation options issued and outstanding as at August 31, 2016 and 2015:

	2016	Weighted Average Exercise Price	2015	Weighted Average Exercise Price
Balance – Beginning of Year	1,000,000	0.25	-	-
Granted	-	-	-	-
Balance – End of the Period	1,000,000 <sup>(1)</sup>	0.25	-	-

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

The weighted average fair value of the options granted is \$0.09 per option, and the weighted average remaining contractual life of the options issued and outstanding is 4.74 years.

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

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

**8. KEY MANAGEMENT COMPENSATION**

The remuneration of key management is set out below in aggregate for each of the categories specified in IAS 24, Related Party Disclosures.

	August 31, 2016	August 31, 2015
Salaries and short-term employee benefits	\$ 204,069	\$ 219,288
Total	\$ 204,069	\$ 219,288

**9. RELATED PARTY TRANSACTIONS**

For the three months ended August 31, 2016, the Company paid subcontract fees of \$12,500 (2015: \$nil) and consulting fees of \$nil (2015: \$10500) to a certain key executive. In addition, the Company paid the rent of \$30,990 (2015: \$17,584) to a company controlled by one of the key executives and directors.

As at August 31, 2016, \$500,000 (2015: \$nil) of deferred revenue carried forward from prior year was still outstanding and it was earned and recognized as revenue in September 2016.

During the three months ended August 31, 2016, the Company incurred director fees of \$12,000 (2015: \$nil) to the Company’s independent directors.

As at August 31, 2016, \$5,639 was included in advances to employees which is due from a certain director.