

ELEMENT LIFESTYLE RETIREMENT INC.

Consolidated Financial Statements

Years Ended May 31, 2020 and 2019

ELEMENT LIFESTYLE RETIREMENT INC.

INDEX	Page
MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING	1
INDEPENDENT AUDITORS’ REPORT	2
FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	3
Consolidated Statements of Loss and Comprehensive Loss	4
Consolidated Statements of Changes in Equity	5
Consolidated Statements of Cash Flows	6
Notes to the Consolidated Financial Statements	7 – 26

Management's Responsibility for Financial Reporting

To the Shareholders of Element Lifestyle Retirement 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 22, 2020

“Michael Diao”

Director

“John Gilbert”

Director

Independent Auditor's Report

To the Shareholders of Element Lifestyle Retirement Inc.:

Opinion

We have audited the consolidated financial statements of Element Lifestyle Retirement Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at May 31, 2020 and May 31, 2019, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at May 31, 2020 and May 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that as at May 31, 2020, the Company has a deficit of \$9,136,026. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Ron Miller.

Vancouver, British Columbia

September 22, 2020

MNP LLP

Chartered Professional Accountants

ELEMENT LIFESTYLE RETIREMENT INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)
(Exhibit I)

As at	May 31, 2020	May 31, 2019
ASSETS		
Current		
Cash	\$ 335,908	\$ 2,474,440
Other receivables (Note 5)	123,581	148,730
Note receivable (Note 6)	704,247	704,247
Prepaid expenses	14,053	17,208
Due from related parties (Note 14)	1,892,474	1,765,732
	<u>3,070,263</u>	<u>5,110,357</u>
Long term investment	19	19
Property and equipment (Note 7)	283,018	258,209
Trade-marks (Note 8)	27,147	21,876
Total assets	<u>\$ 3,380,447</u>	<u>\$ 5,390,461</u>
LIABILITIES		
Current		
Accounts payable & other payables (Note 9)	\$ 186,845	\$ 163,483
Customer deposit	10,000	10,000
Lease liabilities - current (Note 10)	79,795	-
	<u>276,640</u>	<u>173,483</u>
Convertible debentures (Note 11)	1,975,552	1,776,122
Lease liabilities - long term (Note 10)	48,400	-
Total liabilities	<u>2,300,592</u>	<u>1,949,605</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 12)	9,166,702	9,166,702
Share issuance costs (Note 12)	(260,385)	(260,385)
Reserve - options (Note 12)	144,311	144,311
Reserve - warrants (Note 12)	-	444,820
Equity component of convertible debentures (Note 11)	677,998	677,998
Contributed surplus (Note 12)	487,255	42,435
Deficit (Exhibit III)	(9,136,026)	(6,775,025)
	<u>1,079,855</u>	<u>3,440,856</u>
Total liabilities and shareholders' equity	<u>\$ 3,380,447</u>	<u>\$ 5,390,461</u>

On behalf of the Board

"Michael Diao" Director

"John Gilbert" Director

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

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

For the years ended	May 31, 2020	May 31, 2019
REVENUE		
Consulting fees	\$ -	\$ 948,956
Management fees	120,000	-
	120,000	948,956
EXPENSES		
Accretion expense <i>(Note 12)</i>	199,430	121,639
Amortization	196,899	111,633
Consulting fees	152,005	291,799
General & administration	182,355	219,441
Interest expense	178,051	117,136
Marketing and promotion	96,046	118,710
Professional fees	103,839	136,640
Rent	56,839	136,762
Salaries, wages and benefits	1,301,726	1,671,677
Subcontractors	49,880	-
Travel	62,031	82,261
	2,579,101	3,007,698
LOSS FROM OPERATIONS	(2,459,101)	(2,058,742)
OTHER INCOME		
Other income <i>(Note 13)</i>	98,100	285,096
Gain on disposition of capital asset	-	351,378
	98,100	636,474
LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	\$ (2,361,001)	\$ (1,422,268)
Basic and diluted loss per common share	\$ (0.03)	\$ (0.02)
Weighted average number of shares outstanding	70,478,299	69,481,039

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

ELEMENT LIFESTYLE RETIREMENT INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended
(Expressed in Canadian dollars)
(Exhibit III)

	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, 2018	68,478,299 \$	8,766,702 \$	444,820 \$	42,435 \$	677,998 \$	144,311 \$	(257,635) \$	(5,352,757) \$	4,465,874
Shares issued - private placement	2,000,000	400,000	-	-	-	-	-	-	400,000
Share issuance cost	-	-	-	-	-	-	(2,750)	-	(2,750)
Comprehensive loss for the year	-	-	-	-	-	-	-	(1,422,268)	(1,422,268)
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 (<i>Note 13</i>)	-	-	(444,820)	444,820	-	-	-	-	-
Comprehensive loss for the year	-	-	-	-	-	-	-	(2,361,001)	(2,361,001)
Balance, May 31, 2020	70,478,299 \$	9,166,702 \$	- \$	487,255 \$	677,998 \$	144,311 \$	(260,385) \$	(9,136,026) \$	1,079,855

Supplemental disclosure with respect to shareholders' equity (Note 12)

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

For the years ended	May 31, 2020	May 31, 2019
CASH FLOWS USED IN OPERATING ACTIVITIES		
Loss for the year	\$ (2,361,001)	\$ (1,422,268)
Items not affecting cash:		
Gain on disposition of capital assets	-	(351,378)
Other income (loss)	-	(271,055)
Amortization	196,899	111,633
Accretion expense (Note 11)	199,430	121,639
Interest expense (Note 10)	8,051	-
Changes in non-cash working capital:		
Other receivables	25,152	(122,625)
Prepaid expenses	3,155	(1,308)
Accounts payable & other payables	23,360	(422,721)
	<u>(1,904,954)</u>	<u>(2,358,083)</u>
CASH FLOWS USED IN INVESTING ACTIVITIES		
Long term investment	-	(19)
Purchase of property and equipment	(17,564)	(38,161)
Sale/(Purchase) of property under development	-	2,985,480
Trade-marks	(5,272)	(3,035)
	<u>(22,836)</u>	<u>2,944,265</u>
CASH FLOWS USED IN FINANCING ACTIVITIES		
Due from related party	(126,742)	-
Issuance of common shares, net of costs	-	397,250
Repayment of other long-term liabilities	(84,000)	-
	<u>(210,742)</u>	<u>397,250</u>
CHANGE IN CASH DURING THE YEAR	(2,138,532)	993,432
CASH, BEGINNING OF THE YEAR	2,474,440	1,481,008
CASH, END OF THE YEAR	\$ 335,908	\$ 2,474,440

ELEMENT LIFESTYLE RETIREMENT INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended May 31, 2020 and 2019
(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”) 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.

Going concern

As of May 31, 2020, the Company reported a deficit of \$9,136,026 (2019: \$6,775,025). The Company has experienced operating losses and negative operating cash flows since inception and has no assurance that sufficient financing will be available to continue in operation for the foreseeable future. These consolidated financial statements have been prepared on a going concern basis which presumes the realization of assets and discharge of liabilities for the foreseeable future. The operations of the Company have primarily been funded by the issuance of common shares, convertible debt and consulting income. Continued operations of the Company are dependent on the Company’s ability to obtain public equity financing by the issuance of share capital, generate profitable operations in the future or secure additional debt financing. Management’s plans in this regard is to secure additional funds through future equity financings, the issuance of additional debt, or the sale of Limited Company’s, none of which may be available or may not be available on reasonable terms. These factors may cast significant doubt on the Company’s ability to continue as a going concern. Accordingly, the financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities, contingent obligations and commitments other than in the normal course of business and at amounts different from those in the consolidated financial statements.

ELEMENT LIFESTYLE RETIREMENT INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended May 31, 2020 and 2019
(All dollar amounts expressed in Canadian dollars)

At the end of this fiscal year, a global outbreak of COVID-19 (coronavirus) has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence.

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 and authorized for issue by the Board of Directors on September 22, 2020.

3. ADOPTION OF NEW AND REVISED STANDARDS AND CHANGE IN ACCOUNTING POLICIES

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.

ELEMENT LIFESTYLE RETIREMENT INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended May 31, 2020 and 2019
(All dollar amounts expressed in Canadian dollars)

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

ELEMENT LIFESTYLE RETIREMENT INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended May 31, 2020 and 2019
(All dollar amounts expressed in Canadian dollars)

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.

Impacts on 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.

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 Right of Use Assets (see Note 8), and lease liabilities are recognized in Lease liabilities (see Note 11).

4. 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, and is owned 100% by the Company.
- Element Lifestyle (Vic Harbour West) Inc., which was incorporated in British Columbia, and is owned 100% by the Company.
- Element Lifestyle Retirement (Hong Kong) Ltd., which was incorporated in Hong Kong, and is 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 on consolidation.

ELEMENT LIFESTYLE RETIREMENT INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended May 31, 2020 and 2019
(All dollar amounts expressed in Canadian dollars)

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.

Borrowing Costs

Borrowing costs are incurred that are attributable to acquiring and developing properties and constructing new facilities (qualifying assets) are capitalized and included in the carrying amounts of qualifying assets until those qualifying assets are ready for their intended use. Capitalization commences on the date that expenditures for the qualifying asset are being incurred, borrowing costs are being incurred by the Company and activities that are necessary to prepare the qualifying asset for its intended use are being undertaken. All other borrowing costs are expensed in the period in which they are incurred.

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value, and their subsequent measurement is dependent on their classification. 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.

The classification and measurement of financial assets consists of the following categories: (i) measured at amortized cost, (ii) fair value through profit and loss ("FVTPL"), and (iii) fair value through other comprehensive income ("FVTOCI"). Financial assets classified at amortized cost are measured using the effective interest method. Financial assets classified as FVTPL are measured at fair value with gains and losses recognized in the statement of net income except for gains and losses pertaining to impairment or foreign exchange recognized through net income.

The classification and measurement of financial liabilities consists of the following categories: (i) measured at amortized cost and (ii) FVTPL. Financial liabilities classified at amortized cost are measured using the effective interest method. Financial liabilities classified as FVTPL are measured at fair value with changes in fair value

ELEMENT LIFESTYLE RETIREMENT INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended May 31, 2020 and 2019
(All dollar amounts expressed in Canadian dollars)

attributable to changes in the credit risk of the liability presented in other comprehensive income, and the remaining amount of change in fair value presented in the statement of net income.

The Company made the following classifications:

	Classification	Classification
Financial Assets		
Cash	FVTPL	Amortized cost
Other receivables	Loans and receivables	Amortized cost
Note receivable	Loans and receivables	Amortized cost
Financial Liabilities		
Accounts payable & other payables	Other liabilities	Amortized cost
Lease liabilities	Other liabilities	Amortized cost
Convertible debentures	Not applicable	Amortized cost

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, other receivable, note receivable, accounts payable and accrued liabilities, lease liabilities and convertible debentures.

Cash

Cash includes deposits held with Canadian chartered banks. Cash is measured at amortized cost. Interest earned is recorded in the statements of operations and comprehensive loss.

Other receivables

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

Note receivable

Note receivable is initially recorded at fair value and subsequently measured at amortized cost, which approximates fair value due to the short-term nature of the instrument.

ELEMENT LIFESTYLE RETIREMENT INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended May 31, 2020 and 2019
(All dollar amounts expressed in Canadian dollars)

Account payables and accrued liabilities

Account payables and accrued liabilities are initially recorded at fair value and subsequently measured at amortized cost, which approximates fair value due to the short-term nature of the instruments.

Lease liabilities

Lease liabilities are initially recorded at fair value and subsequently measured at amortized cost, which approximates fair value due to the short-term nature of the instruments.

Convertible debentures

Convertible debentures are compound financial instruments which are accounted for separately by their components: a financial liability and an equity instrument. The financial liability, which represents the obligation to pay coupon interest on convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance.

The identification of convertible notes components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management.

The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based on a number of assumptions, including contractual cash flows, discount rates and the presence of any derivative financial instruments.

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 improvements	5 - 8 years straight-line method

ELEMENT LIFESTYLE RETIREMENT INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended May 31, 2020 and 2019
(All dollar amounts expressed in Canadian dollars)

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 loss.

Intangible asset

Intangible assets are recorded at cost less any accumulated amortization and accumulated impairment losses.

Impairment for intangible assets with finite lives is tested if there is any indication of impairment.

Intangible assets with finite useful lives are amortized over their estimated useful lives using the following methods and rate:

	Useful life
Trademark	20 years

Amortization begins when assets become available for use. The estimated life, amortization method, and rate are reviewed at the end of each reporting period, with the effect of any changes in estimates being accounted for on a prospective basis.

Revenue

The Company's accounting policy for revenue recognition under IFRS 15 is to follow a five-step model to determine the amount and timing of revenue to be recognized:

1. Identifying the contract with a customer
2. Identifying the performance obligations within the contract
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied.

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 fee revenue

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

ELEMENT LIFESTYLE RETIREMENT INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended May 31, 2020 and 2019
(All dollar amounts expressed in Canadian dollars)

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.

The Company recognizes revenue in an amount that reflects the consideration that the Company expects to receive taking into account any variation that may result from rights of return. If the Company is not certain the revenue is collectable, no revenue will be recognized even the services have rendered. The pattern and timing of revenue recognition under the new standard is consistent with prior year practice.

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.

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.

ELEMENT LIFESTYLE RETIREMENT INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended May 31, 2020 and 2019
(All dollar amounts expressed in Canadian dollars)

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.

ELEMENT LIFESTYLE RETIREMENT INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended May 31, 2020 and 2019
(All dollar amounts expressed in Canadian dollars)

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 other receivables and note receivable which are 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 loss.
- (iv) The provision for income taxes which is included in the statements of comprehensive loss and composition and quantification of deferred income tax assets included in the statements of financial position.
- (v) The identification of convertible notes components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.
- (vi) Leased capital assets - On interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The capitalization of leased capital assets affects the initial recognition of right of use assets and lease liabilities and the subsequent recognition of interest on the lease liabilities. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

ELEMENT LIFESTYLE RETIREMENT INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended May 31, 2020 and 2019
(All dollar amounts expressed in Canadian dollars)

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.

5. OTHER RECEIVABLES

	May 31, 2020	May 31, 2019
Accounts receivable	\$ 21,000	\$ -
Other receivables	91,364	73,909
GST receivable	11,217	74,821
	\$ 123,581	\$ 148,730

The Other receivables included interest receivable of \$91,321 (2019: \$37,158) from the note receivable for the outstanding period since October 1, 2018.

As of May 31, 2020, management has determined that all receivables are collectible and no allowance for doubtful accounts is necessary.

6. NOTE RECEIVABLE

The note receivable of \$704,247 is a promissory note with the interest rate at Royal Bank of Canada Prime Rate plus four percent (4%). Payment in full of the principal amount plus interest is due on demand. It is not secured (Note 15).

7. PROPERTY AND EQUIPMENT

Property and equipment for the years ended May 31, 2020 and 2019 were as follows:

ELEMENT LIFESTYLE RETIREMENT INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended May 31, 2020 and 2019
(All dollar amounts expressed in Canadian dollars)

ELEMENT LIFESTYLE RETIREMENT INC.

	Furniture & fixtures	Computer equipment	Computer software	Leasehold improvement	Right-of-use assets	Total
Cost						
May 31, 2019	\$ 60,786	\$ 66,884	\$ 9,627	\$ 459,217	\$ -	\$ 597,194
Additions	-	10,496	7,068	-	204,144	221,708
May 31, 2020	60,786	77,380	16,695	459,217	204,144	818,902
Accumulated amortization						
May 31, 2019	30,504	33,364	9,177	265,259	-	338,985
Additions	6,056	21,322	3,984	86,512	79,024	196,899
May 31, 2020	36,560	54,686	13,161	351,771	79,024	535,884
Net book value						
May 31, 2019	\$ 30,282	\$ 33,520	\$ 7,518	\$ 193,958	\$ -	\$ 258,209
May 31, 2020	\$ 24,226	\$ 22,694	\$ 3,533	\$ 107,446	\$ 125,121	\$ 283,018

8. TRADE-MARKS

As at May 31, 2020, the Company had incurred legal fees of \$27,146 (2019: \$21,876) regarding three trade-marks: Opal by Element, Opal by Oasis and Opal by Aquara.

	Trademarks	Total
Cost		
May 31, 2019	\$ 21,877	\$ 21,877
Additions	5,270	5,270
May 31, 2020	27,147	27,147

9. ACCOUNT PAYABLES & OTHER PAYABLES

	May 31, 2020	May 31, 2019
Accounts payable and accrued liabilities	\$ 98,230	\$ 68,591
Interest payable	73,210	73,214
Salaries and benefits payable	15,405	21,678
	\$ 186,845	\$ 163,483

10. LEASE LIABILITIES

A continuity of lease liabilities for the year ended May 31, 2020, is as follows:

As at June 1, 2019	\$ 204,144
Lease additions	-
Lease payments	(84,000)
Interest expense on lease liabilities	8,051
As at May 31, 2020	\$ 128,195

ELEMENT LIFESTYLE RETIREMENT INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended May 31, 2020 and 2019
(All dollar amounts expressed in Canadian dollars)

Lease liability - current	\$	79,795
Lease liability - long term		48,400
Total lease liabilities at May 31, 2020	\$	128,195

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		49,000
Total undiscounted lease liabilities at May 31, 2020	\$	133,000

11. 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 May 31, 2020 and 2019:

	May 31, 2020	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	501,220	301,790
Loan portion of convertible loan	\$ 1,975,552	\$ 1,776,122

	May 31, 2020	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

12. SHARE CAPITAL

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

Issued or allotted and fully paid:

a) Common shares

During the year ended May 31, 2020, the Company did not issue any new shares.

b) Warrants

A summary of activity and changes in warrants during the year ended May 31, 2020 and 2019 is presented below:

ELEMENT LIFESTYLE RETIREMENT INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended May 31, 2020 and 2019
(All dollar amounts expressed in Canadian dollars)

	Number of warrants	Weighted Average Exercise Price
Balance – May 31, 2019	6,323,055	\$ 0.30
Expired – June 30, 2019	(6,323,055)	(0.30)
Balance – May 31, 2020	-	\$ -

c) Stock-based compensation reserve

The following table reflects the stock-based compensation options issued and outstanding as at May 31, 2020 and 2019:

	Number of options	Weighted Average Exercise Price
Balance – May 31, 2019 and 2020	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 May 31, 2020, the weighted average remaining contractual life of the options issued and outstanding is 1.47 years.

13. OTHER INCOME

The following table reflects other income during the year ended May 31, 2020 and 2019:

	May 31, 2020	May 31, 2019
Interest income	\$ 98,100	\$ 51,636
Income from the land sale	-	233,460
Other income	\$ 98,100	\$ 285,096

14. 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, 2020 and 2019:

ELEMENT LIFESTYLE RETIREMENT INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended May 31, 2020 and 2019
(All dollar amounts expressed in Canadian dollars)

	2020	2019
	\$	\$
Net loss before tax	(2,361,001)	(1,422,268)
Statutory tax rate	27.0%	27.0%
Expected income tax (recovery)	(637,470)	(384,012)
Non-deductible items	(84,993)	11,068
Change in deferred tax assets not recognized	722,463	372,944
Total income tax expense (recovery)	-	-

The statutory tax rate increased from 26.4% to 27% due to an increase in the BC corporate tax rate on June 1, 2018.

	2020	2019
	\$	\$
Current tax expense (recovery)	-	-
Deferred tax expense (recovery)	-	-
Total income tax expense (recovery)	-	-

The deferred tax assets and liabilities are as follows:

Deferred tax assets (liabilities)	2020	2019
	\$	\$
Non capital loss carry forwards - Canada	151,631	204,054
Convertible debenture	(144,301)	(198,147)
Intangible assets	(7,330)	(5,907)
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:

	2020	2019
	\$	\$
Non capital loss carryforwards - Canada	7,935,115	4,887,169
Net operating loss carry forwards - Hong Kong	16,901	13,327
Share issuance cost	117,768	184,021
Property and equipment	537,270	105,869
Donations	1,000	1,000
Total unrecognized deductible temporary differences	8,608,055	5,191,387

ELEMENT LIFESTYLE RETIREMENT INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended May 31, 2020 and 2019
(All dollar amounts expressed in Canadian dollars)

As at May 31, 2020 the Company has not recognized a deferred tax asset in respect of non capital loss carryforwards of approximately (2019: \$5,791,475) which may be carried forward to apply against future year income for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

Canada	
Expiry	\$
2034	386,423
2035	96,684
2036	1,231,159
2037	1,737,064
2038	873,659
2039	1,466,486
2020	2,143,640
TOTAL	7,935,115

As at May 31, 2020 the Company has not recognized a deferred tax asset in respect of net operating loss carryforwards of approximately \$16,901 (2019: \$13,327) which may be carried forward indefinitely to apply against future year income for Hong Kong income tax purposes, the amount of operating loss carryforwards subject to the final determination by taxation authorities.

15. RELATED PARTY TRANSACTIONS

During the year ended May 31, 2020, the Company:

- (a) received consulting fees of \$120,000 (2019: \$878,956) from companies controlled by a director;
- (b) paid subcontractor fees \$31,250 (2019: \$12,833) to companies controlled by certain officers;
- (c) paid office lease liabilities and related expenses of \$140,839 (2019: \$136,762) to a company controlled by a director;
- (d) incurred director fees of \$36,000 (2019: \$32,000) regarding the Company's independent directors.
- (e) accrued \$54,163 (2019: \$37,158) of interest receivables on the promissory note issued from Aquara LP for the year (Note 7).
- (f) paid \$165,804 (2019: \$1,666,383) of development costs and fundraising costs on behalf of Aquara LP.
- (g) received \$500,000 (2019: \$nil) of repayment from Aquara LP for the development costs and fundraising costs paid on behalf of Aquara LP.

As at May 31, 2020, \$30,764 (2019: \$9,782) was receivable from a certain director who is also an employee of the Company for travel expenses and \$332,461 (2019: \$107,873) was payable from the companies controlled by certain directors.

ELEMENT LIFESTYLE RETIREMENT INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended May 31, 2020 and 2019
(All dollar amounts expressed in Canadian dollars)

As at May 31, 2020, \$1,529,249 (2019: \$1,863,831) was receivable from Aquara LP for the development costs and fundraising costs paid on behalf of Aquara project. \$704,247 (2019: \$704,247) of note receivable and \$91,321 (2019:\$37,158) of interest receivable were outstanding from Aquara LP.

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.

16. KEY MANAGEMENT COMPENSATION

The compensation paid or payable to key management personnel during the years ended May 31, 2020 and 2019 were as follows:

	2020	2019
Salaries and short-term employee benefits	\$ 754,149	\$ 1,227,977
Consulting fees	31,250	12,833
Total	\$ 785,399	\$ 1,240,810

17. FINANCIAL INSTRUMENTS

Fair value of financial instruments

As at May 31, 2020, the Company's financial instruments consisted of cash, other receivables except GST receivable, note receivable, due from related parties, account payables and accrued liabilities, customer deposit, convertible debentures and lease liabilities. The fair values of other receivables, note receivable, due from related parties, and account payables and other payables, and customer deposit 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 data

ELEMENT LIFESTYLE RETIREMENT INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended May 31, 2020 and 2019
(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	May 31, 2020	May 31, 2019
Financial Assets:					
Cash	\$ 335,908	\$ -	\$ -	\$ 335,908	\$ 2,474,440
Other receivables	123,581	-	-	123,581	111,572
Note receivable	704,247	-	-	704,247	704,247
Due from related parties	1,892,474	-	-	1,892,474	1,765,732
Total financial assets	\$ 3,056,210	\$ -	\$ -	\$ 3,056,210	\$ 3,290,259
Financial Liabilities:					
Accounts payable and accrued liabilities	\$ 186,845	\$ -	\$ -	\$ 186,845	\$ 163,483
Customer deposit	10,000	-	-	10,000	10,000
Convertible debentures	-	-	1,975,552	1,975,552	1,776,122
Lease liabilities	-	-	128,195	128,195	128,195
Total financial liabilities	\$ 196,845	\$ -	\$ 2,103,747	\$ 2,300,592	\$ 2,077,800

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, other receivables and notes receivable. 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 note 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 manages 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.

ELEMENT LIFESTYLE RETIREMENT INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended May 31, 2020 and 2019
(All dollar amounts expressed in Canadian dollars)

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, 2020, 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.

18. 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 available to 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.

19. SUBSEQUENT EVENT

The Company subleased part of its office to a third party commencing on July 1, 2020 to December 31, 2022 with a monthly lease payment of \$5,000. The original office lease will expire on December 31, 2022.