

ELEMENT LIFESTYLE RETIREMENT INC.

Management's Discussion and Analysis For the Year Ended May 31, 2016

This management discussion and analysis is dated September 12, 2016. The following is a discussion of the financial condition and operations of Element Lifestyle Retirement Inc. ("Element" or the "Company") for the years ended May 31, 2016, and May 31, 2015 and of certain factors that the Company believes may affect its prospective financial condition, cash flows and results of operations. This discussion and analysis should be read in conjunction with the audited consolidated financial statements and accompanying notes of the Company for the years ended May 31, 2016 and May 31, 2015.

The Company's audited consolidated financial statements and the notes thereto have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are reported in Canadian dollars. References to notes are to notes of the audited consolidated financial statements unless otherwise stated.

Cautionary Note Regarding Forward Looking Statements

Certain statements contained in this MD&A constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks set forth below.

Overview

Narrative Description of the Business

Element is a management services company that provides development expertise to build work class senior retirement communities. Element is involved in all aspects of the design, development, marketing, management and ownership of luxury seniors residences (Element does not currently own any real estate assets). Element will then provide long-term management of these communities so that retirees experience a high-class standard of care regardless of their level of need. Element's plan is to *focus on providing specialized development expertise and flexible, innovative management services for senior retirement communities.*

Principal Services

Element is providing two primary types of services to its client companies, **development services and management services**. A key aspect of Element's medium term and long term business plan will involve the ownership of real estate assets, and as such Element will be providing services to retirement communities owned by Element or partially owned by Element as well as retirement communities owned by third parties. As a services company, Element may or may not have a significant ownership interest in the real estate assets they are developing or managing. It is also important to understand that Element has two types of clients. Firstly, the client is the owner of the real estate assets under development or management. Element has a contractual relationship with this client and is responsible for ensuring that these assets are enhanced, maintained and managed in a professional manner. Whether at the development stage or management stage, the owners of these assets are looking to ensure that their capital is efficiently managed and that only appropriate business risk is taken on. Secondly, the client is the underlying retiree who will be resident in these communities. It is Element's responsibility, as the manager of the community, that the retiree is getting all the services that they expect and that they retiree enjoys a superior service experience.

Development services

The development stage of a senior residence project is critical to the success, reputation and long-term sustainability of the business. Element customizes its development services and can advise on or manage any of the following areas:

- Demographic and market research of neighbourhoods
- Property acquisition
- Business analysis and recommendations
- Community design
- Rezoning processes
- Construction processes
- Sales, marketing and public relations
- Community launch management
- Stabilization management

Management services

The Company can also provide expertise in day-to-day operations that ensure growth, profitability and retention. With its extensive knowledge and expertise, Element is skilled at addressing every aspect of the daily running of a senior living community, with services tailored to meet a community's individual needs. Management has developed a framework of standard operating procedures to offer professional services in the following areas:

- Federal and provincial regulatory compliance
- Quality assurance, audit programs and accreditation
- Human resources management
- Personal and clinical care management
- Sales and marketing
- Business administration and accounting
- Culinary and dining management
- Housekeeping and environmental services
- Asset management and maintenance
- Wellness services
- Activities and recreational programming
- Transportation services

The Company is a management company that arranges the administration, operation and financing of retirement communities and facilities. Element maintains many of its financial, administrative and operational functions at its corporate headquarters in Vancouver, B.C. and such centralization ensures that the Company-wide policies and procedures are maintained, and allows community-based personnel to focus solely on resident care.

Customized Care

Underpinning all these services is the concept of customer needs and customer service. The Company customizes its services to the unique vision, needs and objectives of individual senior communities where they can choose from a comprehensive package or select individual services that best meet their needs. Management recognizes that the Company's success, reputation and continued business relationships depend on the success of these facilities.

Element will emphasize the "Continuum of Lifestyles" model of retirement living brings a positive impact to the way seniors experience their later years of life. The modern retirement community is not merely a place where care services are administered in a hospital-like environment; rather, it embodies luxurious and carefree living that inspires a sense of pride, dignity and passion for life through activities, services and accommodations resembling those found in five-star resorts.

Independent Living Lifestyle – is designed to meet the needs of seniors who are able to live independently and want the freedom and privacy of their own separate suite, along with the security, comfort and social activities of a Seniors Residence.

Assisted Living Lifestyle – is designed to meet the needs of seniors who seek housing with supportive care and services including assistance with daily activities.

Complex Care (Memory Care) – Complex Care serves seniors with chronic debilitating medical conditions such as Alzheimer and Parkinsons disease. It is staffed 24 hours a day by professional nurses who attend to complex care needs. This lifestyle caters to those residents whose care needs exceed those provided under the highest level of service package offered under Assisted Living.

Corporate history

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 security holders of Element Lifestyle Retirement Inc. (“Element”), a private company was incorporated under the Business Corporations Act (British Columbia) on June 12, 2013. Pursuant to which the Element security holders transferred all of their common shares and preferred shares in exchange for common shares of Sonoma on a 1:1 ratio.

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Element Lifestyle Management Inc. (formerly known as Element Lifestyle Retirement Inc.) and Team Host Development Ltd.

Team Host Development Limited was incorporated in Hong Kong under the Companies Ordinance (Chapter 622 of the laws of Hong Kong) on February 23, 2016. Team Host Development Limited is a wholly owned subsidiary of the Company. Team Host is currently inactive and was incorporated to explore opportunities in Hong Kong and China.

Business Highlights

Revenue for the year ended May 31, 2016 was \$1,143,391 compared to \$1,629,167 which represents a decreased by 29.9%. For the first few years that Element is business, and until Element has received ongoing management contracts, revenue will be inconsistent. To-date, Element received fees for management services and development services in 2015, in 2016, Element only received development fees. The development fees will vary depending on what milestones in the development stage that Element has attained. The decrease in revenue from the year ended 2016 to 2015 is due to timing on milestones on Oasis project and Opal project.

Element is currently engaged in the development of two retirement communities, “OPAL by Element” and “OASIS by Element”. Both OPAL and OASIS are owned by related parties see “Transactions with Related Parties”

OPAL Project, Element is the development and operations consultant to Opal Retirement Inc. and as such is managing the development of the Opal Project to its completion. The Opal Project consists of plans for a lifestyle retirement community to be constructed, which will be comprised of approximately 142,000 square feet with 43 seniors residential condominium units (these units will be available for sale to seniors), 56 seniors rental units, and 30 seniors Complex Care units. An amendment to zoning was officially enacted on April 5, 2016. The Development Permit (DP) is expected to be issued by mid-September 2016. The Discovery Sales Centre at City Square will be ready before the end of September 2016.

OASIS Project, OASIS by Element is a master-planned community on 17 acres of land in the Township of Langley, conveniently located across from the Langley Events Centre. It is the first property in the Township’s Official Community Plan that supports high-density development. The development is expected to be completed in phases

and to consist of approximately 721,000 square feet of gross floor area for residential use with 835 residential units and 26,000 square feet of gross floor area for commercial use. The rezoning application was submitted to the Township of Langley on January 15, 2016. Comments from the Township of Langley were received on June 16, 2016. Revision to the application in response to the Township's comments are planned to be resubmitted by October 2016. The project is proceeding as planned.

Overall Performance

The following discussion of the Company's financial performance is based on the consolidated annual financial statements for the years ended May 31, 2016, and year ended May 31, 2015.

The annual statements of financial position as of May 31, 2016 indicate a cash and cash equivalents balance of \$3,737,092 (May 31, 2015 - \$751,165), accounts receivable of nil (May 31, 2015 - 43,750) and other current assets of \$14,639 (May 31, 2015 - \$870), and total current assets of \$3,751,731 (May 31, 2015 - \$795,785). The increase in total current assets was mainly due to the concurrent financing carried out with the completion of the RTO transaction. The company believes, that along with forecasted earnings and cash flow from operations, it will have sufficient cash resources to finance the company through its intended course of action and expansion over the next 24 months.

The non-current assets consist of property and equipment \$79,399 (2015 - \$99,179) and Deferred income tax of nil in 2016 (May 31, 2015 - \$131,850). The difference in property and equipment was due to some modest additions and amortization. Deferred income tax asset was written off to nil in the current year.

Current liabilities at May 31, 2016 total \$608,470 (May 31, 2015 - \$409,208), the increase is due to several factors, firstly the company received \$500,000 related to Opal project and this is recorded as Deferred Revenue. This was offset by an overall decrease in accounts payable and the payment of \$200,000 that was owed to a related party and the payment of GST. The net effect is a 48.7% increase in current liabilities.

Long-term debt is nil.

Shareholders' equity is comprised of common shares of \$5,972,500 (May 31, 2015 - \$ 500,000), Preferred shares of \$nil (May 31, 2015 - \$515,000), share issuance costs of \$225,482 (May 31, 2015 - \$30,000), retained earnings (deficit) of \$(2,637,907) (May 31, 2015 - \$(367,394)), and for a net of \$3,222,660 (May 31, 2015 - \$617,606). Stock based compensation reserve of \$88,893 and warrant reserve of \$24,656 reflect the fact that both stock options and warrants were issued in the last year. The common share reflect the fact that all the preferred shares were converted to common and the concurrent financing was also common. Balance of the share capital changes reflect the fact that an RTO occurred. The company raised \$4,325,000 during the year.

Working capital, which is comprised of current assets less current liabilities, is \$3,143,261 at May 31, 2016 as compared to \$386,577 at May 31, 2015. Management believes that there is sufficient working capital to maintain the Company's day-to-day operations.

For the year ended May 31, 2016, the Company reported a net loss of \$(2,270,513) \$(0.06) basic and diluted income per share based on a weighted average of 38,471,580 common shares compared to a net loss of \$(81,241) \$(1.23) basic and diluted income per share based on a weighted average of 65,853 common shares during the year ended May 31, 2015. However, of the \$2,270,513 loss for the period, \$972,368 of this loss relates to listing expenses. This expense was created to account for the portion of Element given up to the previous shareholders of Sonoma on the RTO.

The Company's share capital at September 14, 2016 is as follows:

Common shares, issued and outstanding	55,832,188
Warrants	558,152
Stock Options	1,000,000

Selected Annual Information

The following table sets out selected results of operations of Element for the years ended May 31, 2016, and period ended May 31, 2015.

	For the year ended May 31, 2016 (\$)	For the year ended May 31, 2015 (\$)	For the period ended May 31, 2014 (\$)
Revenues	1,143,391	1,629,167	nil
Expenses	2,312,303 ⁽¹⁾	1,741,784	386,627
Income (loss) from continuing operations	(1,168,912)	(112,617)	(386,627)
Deferred Tax expense (recovery)	131,850	(31,376)	(100,474)
Net Income (Loss)	(2,270,513)	(81,241)	(286,153)
Total Assets	3,831,130	1,026,814	272,162
Total Liabilities	608,470	409,208	558,305
Basic and Diluted Income (Loss) per share	(0.06)	(1.23)	(2,861)

⁽¹⁾ Excluding transaction costs of \$972,368.

For further financial information, please refer to the annual audited financial statements.

The Company commenced development activities in the year ended May 31, 2015. Both the Opal project and the Oasis project have progressed. Offsetting this increase in revenue was the fact the company increased its operating staff to a full compliment to take on all operations. Hence the operating expenses increase.

Year-to-Date

Revenue for the year ended May 31, 2016 was \$1,143,391 compared to \$1,629,167 in the period ended May 31, 2015. The decrease in revenue of \$487,776 (29.9 %) is attributable to the milestone based revenue model during the development stage. The 2016 period is comprised of primarily of \$1,000,000 from filing the rezoning application for the Oasis project.

Cost of Sales / Gross Margin

As a service provider the company does not have cost of goods sold.

Operating expenses were \$2,312,303 for the year ended May 31, 2016 compared to \$1,741,784 for the period ended May 31, 2015. The most significant changes were in the following areas:

- **Consulting fees.** – increased to \$150,683 (May 31, 2015 - \$38,117), these consulting fees included consulting for the going public process and strategic advice.
- **General and Administrative** – decreased to \$51,770 (May 31, 2015 - \$128,569), the decrease in general and administrative cost was primarily due to decrease in website costs and office expenses as the prior year contained significant costs associated with starting up business.
- **Marketing and Promotion** – increased marginally to \$119,085 (May 31, 2015 - \$116,002). There was no significant change in cost in this category. Advertising increases were offset by decreases in conferences and overall the change was minimal.
- **Property investigation and consulting** - of \$163,080 (May 31, 2015 – nil) related to due diligence and reviews of potential projects that the company considering acquiring during the year.
- **Professional fees** - of \$142,500 (May 31, 2015 - \$85,420), includes legal fees incurred during property investigations.
- **Rent** - of \$75,517 (May 31, 2015 - \$40,977), the difference relates two factors. In the current year the office space as increased in April 2016 resulting in higher rent. In the prior year the rent was for only for a half year period.
- **Salaries, subcontract and benefits** - total to \$1,293,025 (May 31, 2015 - \$1,228,102). Salaries and wages are consistent with the prior year. During the year the company continued to develop its work force so that it has the required talent and expertise to manage and operate retirement homes as the company implements its business model.
- **Share-based payments** – increased to \$88,983 (May 31, 2015 – nil) the increase in this area was due to stock based compensation expenses that arose from the recently issues stock options.(See Note 7(d))
- **Travel** – increased to \$154,621 (May 31, 2015 - \$72,662). This increase of \$81,959 was attributable to due diligence on various projects and the costs associated with attending the Listing Ceremony in Toronto. Travel is expected to remain high in the future as the Company continues to search for viable development and management opportunities many of which are outside of Canada.

Overall, operating expenses increased by \$570,519. The main increase was primarily attributed to consulting fees, travel, salaries and share-based payments. Many of the increases to expenses are not expected to reoccur or are non-cash expenses such as share-based payments, consulting fees, property investigation costs and professional fees associated with property investigation.

Net loss was \$2,270,513 for the year ended May 31, 2016 compared to a net loss of \$81,241 for the year ended May 31, 2015, however, the loss from operations was only \$1,168,912. The increase in the net loss was mainly due to several factors, 1) a decrease in revenue (discussed above), 2) an increase in expenses (discussed above) and 3) a net expense after allocating the purchase price to the assets and liabilities of Sonoma (\$972,386) This is a non-recurring expense which a significant portion (\$632,500) was a non-cash item.

Summary of Quarterly Results

The following table presents unaudited selected financial information for each of the last eight quarters:

	May 31, 2016	Feb 29, 2016	Nov 30, 2015	Aug 31, 2015	May 31, 2015	Feb. 28, 2015	Nov. 30, 2014	Aug. 31, 2014
Revenue	\$nil	\$1,000,000	\$42,500	\$100,891	\$56,250	\$543,750	\$529,167	\$500,000
Income (loss) from continuing operations	\$(643,169)	\$408,715	\$(556,044)	\$(378,414)	\$(519,192)	\$146,683	\$37,962	\$222,513
Net Income (loss)	(648,254)	(790,910)	(553,427)	(277,922)	(429,495)	146,683	37,962	164,192
Basic and diluted earnings (loss) per share	(0.013)	(0.015)	(4.83)	(4.22)	(0.016)	1,466.83	(373.79)	1,642.92

Financing Activities

For the year ended May 31, 2016, the company issued 17,300,000 shares as part of its going public process to raise \$4,325,000. In addition the Company converted 7,900,000 preference into common shares for a conversion value of \$515,000.

On July 27, 2016 the Company completed a private placement by issuing 2,730,000 common shares at a price of \$0.26 for gross proceeds of \$709,800.

Liquidity

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Working capital, which is comprised of current assets less current liabilities, is \$3,143,261 at May 31, 2016 compared to \$386,577 at May 31, 2015. An additional \$709,800 was raised after year end. The Company is focused on generating sales revenue and is not currently pursuing additional sources of financing. Management believes that there is sufficient working capital to maintain the Company's day-to-day operations.

Cash from operating activities during the year ended May 31, 2016, was \$(945,537) (May 31, 2015 - \$90,325). The decrease was primarily because of the loss in the period (off set by some significant non cash item such as listing expenses and deferred tax recovery), the payment of the accounts payables and the offset of \$500,000 recorded as deferred revenue.

Cash from investing activities during the year ended May 31, 2016 was \$(22,710) (May 31, 2015 - \$(117,995)). The decrease was due to the purchase of capital assets in both periods.

Cash provided by financing activities during the period year ended May 31, 2016 was \$3,954,174 (May 31, 2015 – \$682,097). The increase was mainly because of the completion of a brokered and non-brokered private placement in connection to the completion of the Reverse Take Over and the repayment of \$200,000 to related parties.

The following tables detail the remaining contractual maturities at the respective reporting dates of the Company’s non-derivative financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Company can be required to pay:

<i>Contractual Obligations</i>	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	\$	\$	\$	\$	\$
Accounts payable and other payable	108,470	108,470	-	-	-
				-	-
Total contractual obligations	108,470	108,470	-	-	-

Commitments

On October 6, 2014, the Company entered into a contract for leased premises with a company controlled by a certain director. Lease payments recognized as an expense during the year ended May 31, 2016 totalled \$75,517 (2015: \$40,997). The future minimum lease payments are \$133,018 for 2017 and \$72,052 for 2018.

Capital Resources

The Company’s objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

Management defines capital as the Company’s shareholders’ equity. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable profitable growth. The Company is not subject to externally imposed capital requirements.

Off Balance Sheet Arrangements

To the best of management’s knowledge, there are no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company.

Transactions with Related Parties

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. Certain of these entities transacted with the Company during the reporting period.

Relationship with Opal Development Limited Partnership

Opal Retirement Inc. is a wholly owned subsidiary of Care Pacific and the owner of the Opal project. The following Principal Element Shareholders are the shareholders of Care Pacific: Grand Vision Development Ltd., Kefei Investments Ltd. and Royal West Pacific Holdings Inc. Bo Jun (Michael) Diao, the Chief Executive Officer and director of Element, is the President and a director of Care Pacific, the sole director and officer of Opal Retirement Inc. and the sole director and shareholder of Royal West Pacific Holdings Inc. Hua Min Chen, the sole director and

shareholder of Grand Vision Development Ltd. is also the Chairman and a director of Care Pacific, and Ke fei Deng, the sole director and shareholder of Kefei Investments Ltd., is a director of Care Pacific.

Relationship with Maple Gardens

Maple Gardens is a wholly owned subsidiary of Care Pacific and the owner of the Oasis project. The following Principal Element Shareholders are the shareholders of Care Pacific: Grand Vision Development Ltd., Kefei Investments Ltd. and Royal West Pacific Holdings Inc. Bo Jun (Michael) Diao, the Chief Executive Officer and director of Element, is the President and a director of Care Pacific, the sole director and officer of Maple Gardens, and the sole director and shareholder of Royal West Pacific Holdings Inc. Hua Min Chen, the sole director and shareholder of Grand Vision Development Ltd. is also the Chairman and a director of Care Pacific, and Ke fei Deng, the sole director and shareholder of Kefei Investments Ltd., is a director of Care Pacific.

Transaction with Opal Retirement Inc.

During the year ended May 31, 2015, Element received a loan of \$200,000 (the “Loan”) from Care Pacific (Opal Retirement Inc.) Inc. The Loan was unsecured and due on demand without interest bearing. During the year ended May 31, 2016, the company repaid the loan of \$200,000 to Care Pacific and the outstanding balance is nil at year end.

For the year ended May 31, 2016 the company also received an additional \$500,000 for the Opal project which is recorded as Deferred Revenue.

Transactions with Maple Gardens (Oasis Project)

During the year ended May 31, 2016 the company received consulting fees of \$1,000,000 for services rendered on the Oasis Project.

Transactions with City Group Holdings Ltd.

City Group Holdings Ltd. (“City Group”) is a holding company owned by Don Ho, the President of Element. City Group is also an Element shareholder. On October 6, 2014, Element and City Group entered into a rental agreement for office space with a three year term commencing on December 16, 2014 for monthly rent of \$5,921 plus GST. This lease was amended effective May 1, 2016 to increase the rent to \$10,557 plus GST to reflect the increase in office space Element is occupying. During the year ended May 31, 2016, Element paid rent in the amount of \$75,517 (May 31, 2015 - \$40,997) to City Group.

Transactions with the Independent Directors

During the year ended May 31, 2016 each of the independent Directors received \$5,000 for a total of \$20,000. For the year ended May 31, 2016, ACC Consulting a controlled by Adrian Chan a director received a fee of \$32,375 for providing consulting services related to corporate development. (May 31, 2015 – nil)

Transactions with senior officers and directors and compensation paid to senior officers and directors

(a) During the year ended May 31, 2016, Key management compensation was as follows

	May 31, 2016	May 31, 2015
Salaries and bonus		
President	\$ 203,308	\$ 219,423
CEO	108,500	88,814
COO	143,660	308,974
CFO	-	-
VP, Leadership and people development	125,961	52,885
VP, Project development	104,855	104,487
Executive vice president	121,431	42,308
VP, Marketing and corporate relations	88,781	88,814
	<u>896,496</u>	<u>905,705</u>
Taxable benefit		
President	\$ 7,745	\$ 9,982
CEO	7,604	6,328
COO	53,501	10,569
CFO	-	-
VP, Leadership and people development	8,284	3,291
VP, Project development	7,134	6,765
Executive vice president	3,957	2,740
VP, Marketing and corporate relations	6,225	6,162
	<u>94,450</u>	<u>45,837</u>
Total	<u>\$ 990,946</u>	<u>\$ 951,542</u>

Consulting fee paid to the CFO totaled to \$46,666 for year ended May 31, 2016 (May 31, 2015 – nil). Consulting fee paid to one of the Directors totaled to \$32,375 for the year ended May 31, 2016 (May 31, 2015 – nil).

Share-based payment for stock options issued to Directors totaled to \$88,893 for the year ended May 31, 2016 (May 31, 2015 – nil).

At May 31, 2016, Element had advanced \$664 to a senior officer for travel expenses.

Fourth Quarter – 3 months ended May 31, 2016

Revenue for the fourth quarter was nil as mentioned earlier development revenue is earned on a milestone basis and quarterly revenue can be very modest if no milestones are met in the quarter. No significant variations in expenses incurred in this quarter. The company continues to build the team that will provide the key services. Building the Element Brand has been a priority and the Company has increased advertising in this respect. Element continues efforts to grow the business in China and is conducting due diligence on various opportunities.

Critical Accounting Estimates and Changes in Accounting Policies

All significant critical accounting estimates are fully disclosed in Note 3 of the consolidated audited financial statements for the years ended May 31, 2016, and 2015.

Financial Instruments and Other Instruments

Classification of Financial Instruments:

Fair Value of financial instruments

As at May 31, 2016, the Company's financial instruments consisted of cash, accounts receivable, advance to employees, accounts payable and accrued liabilities, due to related party and deferred revenue. The fair values of cash, accounts receivable, advance to employees, accounts payable and accrued liabilities, due to related party and deferred revenue approximate their carrying values because of their current nature.

Element 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
Financial Assets:			
Cash	\$ 3,737,092	-	-

Credit Risk

Financial instruments that potentially subject Element to concentrations of credit risks consist principally of cash, accounts receivable and advance to employees. To minimize the credit risk on cash Element places the instrument with a high credit quality financial institution. Element 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 Element may encounter difficulties in meeting its obligations associated with financial liabilities and commitments. The Company has successfully financed through the private placement for the amount of \$4,325,000 (including share issuance costs).

Risks and Uncertainties

The following risk factors apply to the company's overall business whether Element is under a management contract as operator only or whether Element is managing a retirement communities that it has an ownership interest in.

General Business Risks

The Company is subject to general business risks and to risks inherent in the seniors housing industry and the ownership of real property. These risks arise from a wide range of factors including: changes in varying levels of demand for retirement living and related services; fluctuation in occupancy levels; the inability to maintain or increase rents; increases in commodity costs, utility, energy and other operating costs; increases in the construction costs; changes in the availability of and cost of labour; possible future changes in labour relations; competition from or the oversupply of other similar properties; increases in home care support; changes in neighbourhood or location

conditions and general economic conditions; the recurring need for renovation, refurbishment and improvement of properties; changes in regulations, trends, technology and service requirements in the seniors housing industry;

health-related risks; disease outbreak and control risks; the imposition of increased taxes or new taxes; changes in cash flow, liquidity and interest rates; the availability of financing for development; changes in the availability and cost of money for long-term financing which may render refinancing of mortgages difficult or unattractive; operating or capital needs; the potential impact of a prolonged recession; a downturn or change in demographics; changes in critical accounting policies; and the ability of the Company to secure management contracts. In addition, the potential for reduced revenue growth exists in the event that the Company is unable to maintain its managed properties at a level that meets the expectation of its residents thus affecting the corresponding occupancy levels within these properties. Moreover, there is no assurance that expected demographic trends will continue or that the occupancy levels achieved to-date at the Company's properties and expected in the future will continue to be achieved. Any one of, or a combination of, these factors may adversely affect the cash available to, or the financial position, of Element.

Real Property Ownership and Lack of Diversity

As mentioned earlier Element's medium and long-term business plan involves the acquisition of real estate. Real property investments are subject to a degree of risk which could have a material adverse effect on the business, results of operations and financial position of the Company. They are affected by various factors including changes in general economic conditions (such as the availability of mortgage funds) and in local conditions (such as an oversupply of space or a reduction in demand for real estate in the area); the attractiveness of the properties to residents; competition from other available space; and various other factors. In addition, fluctuations in interest rates may affect the Company. By specializing in one segment of the real estate industry (seniors rental residences), the Company is exposed to adverse effects on that segment of the real estate market and does not benefit from the diversification of its portfolio by type of property. If properties do not generate revenues sufficient to meet operating expenses, debt service and capital expenditures, the Company's results from operations could be adversely affected. The performance of the economy in each of the areas in which the properties are located affects occupancy, market rental rates and expenses. These factors consequently can have an impact on revenues from the properties and their underlying values. The financial results and labour decisions of major local employers may also have an impact on the revenues from and value of certain properties. Certain significant expenditures involved in real property investments, including real estate/property taxes, maintenance costs, mortgage payments, insurance costs and related charges represent liabilities which must be met throughout the period of ownership of real property regardless of whether the property is producing any income. Some of the expenditures are variable, and beyond the control of the Company. If the Company is unable to meet mortgage payments on any property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or sale or the lender's exercise of other remedies. Costs may also be incurred in making improvements or repairs to property required by a new resident and income may be lost as a result of any prolonged delay in attracting suitable residents to the vacant space as a result. There is a real possibility that the Company may experience inadequate or negative cash flow on a property as a result of escalating operating costs or declining revenue.

Liquidity of Real Estate Investments

Real property investments are relatively illiquid. This illiquidity will tend to limit the ability of the Company to vary its portfolio promptly in response to changed economic or investment conditions. There is a risk that the Company would not be able to sell its assets or that it may realize sale proceeds of less than the current book value of its communities.

Continued Growth

In addition to the general economic environment, the Company's growth prospects are essentially dependent on its ability to: successfully acquire new management contracts, successfully acquire ownership interests in newly targeted retirement residences; obtain approvals and construction financing for properties currently in pre-

development and to successfully complete the construction and lease-up of the development; to find acquisition opportunities or new development opportunities in locations that meet Element's stringent criteria; and improve the financial performance of Element's existing communities. There is a risk that even should economic conditions remain the same or improve, the Company may not be able to achieve growth. The ability to grow may require the issuance of additional common shares and the ability to do so may not always be a viable capital-raising option. Furthermore, timing differences may occur between the issuance of additional common shares and the time the proceeds may be used to invest in new properties. Depending on the duration of this timing difference, this may be dilutive. Element expects that it will have opportunities to acquire properties which will be accretive and enable it to increase cash flow through improved management and operations, but there can be no assurance that will be the case.

Acquisition and Development Risk

The Company will continue to seek and advance new developments, both corporately and jointly with third parties, with experienced industry participants and capital participants; however, new developments increase the risk that projected financial returns may not be achieved and that cost overruns or start-up losses may require further equity injections. In addition, any adverse impact from new developments will reduce the availability of capital from affected investors in co-tenancies for future developments. The Company evaluates each development separately including an extensive supply and demand analysis and establishing capital participants, to ensure certain criteria have been met. The Company attempts to reduce its development risk by entering into co-tenancy agreements with other investors, and the Company attempts to reduce future investments by relying upon its co-tenancy participants to provide the majority of capital required to develop new Element branded Residences. However, in such instances the ability of co-owners to fund their share of existing debt (including mezzanine debt and completion loans) and guarantees, and/or fund additional capital requirements adds to the Company's risk (see "RISKS AND UNCERTAINTIES – *Reliance on Ability of Co-owners to Meet Their Obligations*" below). The Company is also subject to growth restrictions if it is unable to attract equity investors to enter into new co-tenancy agreements when new opportunities are identified.

The success of Element's business acquisition activities, whether carried out solely or with co-owners, will be determined by numerous factors, including the ability of the Company to identify suitable acquisition targets, competition for acquisition opportunities, purchase price, ability to obtain adequate financing related to such acquisitions on reasonable terms, financial performance of the business after acquisition, and the ability of the Company to effectively integrate and operate the acquired businesses. Acquired businesses may not meet financial or operational expectations due to unexpected costs associated with the acquisition, as well as the general investment risks inherent in any real estate investment or business acquisition, including the existence of unexpected or undisclosed liabilities and the risk that Element's recourse against third parties may not be adequate to mitigate such liabilities entirely. Moreover, new acquisitions may require significant management attention or capital expenditures that would otherwise be allocated to existing businesses. Any failure by the Company to identify suitable candidates for acquisition or operate the acquired businesses effectively may have an adverse effect on the business, results of operations or financial conditions of the Company.

Acquisitions, sales and development agreements entered into with third parties may be subject to unknown, unexpected or undisclosed liabilities which could have a material adverse impact on operations and financial results of Element. Representations and warranties given by such third parties to Element may not adequately protect against these liabilities and any recourse against third parties may be limited by the financial capacity of such third parties.

In addition, the letters of intent and purchase or sales agreements entered into with third parties with respect to such acquisitions or sales, as applicable, are generally subject to certain closing conditions, and in some cases, the granting of regulatory approvals. Such acquisitions or sales may not be completed due to the failure to satisfy closing conditions or the failure to receive required regulatory approvals and certain funds paid by Element may not be recoverable.

Reliance on Ability of Co-owners to Meet Their Obligations

In situations where the Company is, developing assets with co-owners there exists a risk that co-owners may not be able to meet their ongoing obligations. The Company may provides advances, mezzanine financing, completion loans and guarantees on the indebtedness of certain co-owners in excess of the Company's proportionate interest in such projects. Until a new development is leased-up, the Company faces risks that are significantly higher than its pro rata ownership share. If the Company's guarantee is called upon, or the mezzanine and/or completion loan debt cannot be repaid through refinancing and there is insufficient equity in the property, and the co-owners are unable to fund their proportionate share of the indebtedness, the Company may be unable to recover the amount paid in excess of its proportionate interest. The Company may remedy such an event by acquiring such defaulting co-owners' interests at below cost, however the Company would have to fund such co-owners' share of the mezzanine debt, completion loan and/or guarantee. The Company may also be exposed to adverse developments, including a possible change in control, in the business and affairs of its co-owner partners, which could have a significant impact on the Company's interests in the project or affect the value of its interests, cause the Company to incur additional costs, impact upon the Company's ability to dispose of its interests in the project, or compel the Company to purchase the balance of the project.

Market Risk

Market risk is the risk of an adverse financial impact due to a change in market conditions, such as interest rates and equity prices that will affect the Company's income or the value of its holdings of financial instruments. The Company may buy derivative instruments in the ordinary course of business, and also may incur financial liabilities, in order to manage potential market risks. The Company is exposed to market risk as a result of its variable rate mortgages payable and any demand operating loan.

While the Company does not currently have any long-term debt, there can be no assurance that as fixed term debt matures, renewal interest rates will not significantly impact future net income and cash flow.

Global Economic Financial Conditions

Adverse changes to the economic and financial conditions in Canada and globally could impact Element's ability to execute upon its operating, growth and financing strategies, which in turn could have a material adverse impact on Element's business, profitability and financial position. Global financial conditions may negatively impact access to public financing and may impact the Company's ability to obtain future financing on favourable terms. If such increased levels of volatility and market turmoil return, the Company's operations could be adversely impacted and the trading price of Element's common shares (once listed) could be affected.

Liquidity Risk

Liquidity risk arises from the possibility of not having sufficient debt and equity capital available to the Company to fund its growth program and re-finance or meet its payment obligations as they arise. The Company's principal liquidity needs arise from or may arise from working capital requirements, debt servicing and repayment obligations, planned funding of maintenance, and possible property acquisition funding requirements.

Tax Risks

The Company is subject to various taxes including, but not limited to, Canadian income tax, goods and services tax ("GST"), harmonized sales tax ("HST"), land transfer tax and payroll tax, and its tax filings will be subject to audit by various taxation authorities. While the Company intends to base its tax filings and compliance on the advice of its tax advisors, there can be no assurance that its tax filing positions will never be challenged by a relevant taxation authority resulting in a greater than anticipated tax liability.

Geographic Concentration

A substantial portion of the business and operations of Element's is conducted in British Columbia. The market value of these properties and the income generated from them could be negatively affected by changes in local and regional economic conditions.

Competition

The seniors housing industry is highly competitive. Numerous other companies, developers, managers and owners of seniors housing residences compete with Element in seeking residents. Competition for residents is based primarily on convenience of location, quality of the residence, reputation of the operator/brand, rental rates and the range and quality of food, and the services and amenities offered. Competition for residents and prospective residents for Element's communities could adversely affect occupancies and Element's ability to attract residents and the rents which may be charged could affect Element's revenues, its ability to meet its debt obligations.

Competition for acquisitions of real properties can be intense and some competitors may have the ability or inclination to acquire properties at a higher price or on terms less favourable than those that the Company may be prepared to accept. An increased availability of investment funds in real estate, an increase in interest in real property investment or a decrease in interest rates may increase competition for real property investments and may increase purchase prices, reducing the yields on such investments or make it more difficult for the Company and its partners to locate and purchase suitable properties.

In addition to industry competition, the providing of in-home care services to seniors is enabling more and more seniors to remain in their homes for longer periods of time, thereby potentially eliminating or reducing their potential lengths of residency within retirement communities.

Element competes with various health care service providers and the hospitality operators in attracting and retaining skilled and qualified personnel to manage and operate the Company's communities. A shortage of trained and qualified personnel may require the Company to enhance wage and benefits packages in order to compete. No assurance can be given that labour costs will not increase, or that if they do increase, they can be matched by corresponding increases in rental and management revenue.

Reliance on Attracting Seniors with Sufficient Resources to Pay

The Company currently, and for the foreseeable future, expects to rely primarily on its residents' ability to pay rents and purchase services from their own or familial financial resources. Generally, only seniors with income or assets meeting or exceeding the comparable median in the region where the Company's properties are located can afford the Company's services. Inflation or other circumstances that adversely affect the ability of seniors to pay for the Company's services could have an adverse effect on the Company. Volatility in the residential real estate market generally, and in the economy as a whole, may affect the ability of potential residents to realize proceeds from the sale of a principal residence, or to generate income, which would otherwise allow them to be able to afford to live in a retirement community. If the Company encounters difficulty in attracting seniors with adequate resources to pay for its services, its business, operating results and financial condition could be adversely affected. It is important to note that revenues in the seniors housing industry are not immune from economic factors (notably interest rates on retirees' savings, the ability of seniors to sell their existing residences and the value they will realize from such sales, and concerns about the funding of pension plans).

Reliance on Rentals and Rental Increases

Upon the move-out of any resident, there can be no assurance that the resident will be replaced or that a new resident will pay the same or greater rent. The failure to achieve rentals and maintain or increase rents may have an adverse effect on the financial condition of the Company.

Reliance on Attracting Co-owners

The Company may rely upon co-owner participants to provide the majority of the equity capital required to develop new Element Residences. These co-tenancy participants enter into long term management contracts with the Company for the management of the property that will be developed or operated. There is no guarantee that the

Company will be able to attract co-tenancy participants to provide the majority of the equity capital required for new developments. As well, there is no guarantee that the Company will be able to continue to obtain additional long-term management contracts.

Operational Risks

The Company is exposed to all of the operational risks inherent in managing and owning independent living and assisted living rental retirement properties for seniors. There is no assurance that the Company's policies and procedures to address these operational risks will be adequate or effective. The Company maintains insurance to cover some of these risks. See "RISKS AND UNCERTAINTIES – Risks Related to Element and the Industry – *Liability and Insurance*" below.

Damage from Fire or Other Calamities

The Company's ability to sustain or grow its business is heavily dependent on efficient and uninterrupted operations at its communities. Power failures or disruptions, the breakdown, failure or substandard performance of equipment, the improper installation of equipment and the destruction of buildings, equipment and other facilities due to natural disasters such as hurricanes, fire or earthquakes would severely affect its ability to continue operations. While it does maintain certain insurance policies covering losses due to fire, lightning and explosions, there can be no assurance its coverage would be adequate to compensate Element for the actual cost of replacing such buildings, equipment and infrastructure nor can there be an assurance that such events would not have a material adverse effect on its business, financial condition, results of operations or prospects. Even if losses were covered by insurance, damage to the Element brand could be substantial.

Liability and Insurance

The Company's business entails an inherent risk of liability, including with respect to injury or death of its residents. Management expects that from time to time the Company may be subject to lawsuits as a result of the nature of its business. The Company maintains general and professional liability, business interruption and property insurance policies in amounts and with such coverage and deductibles as deemed appropriate, based on the nature and risks of the business, historical experience and industry standards. However, certain types of losses are either uninsurable or not economically insurable. There can be no assurance that claims in excess of the Company's insurance coverage or claims not covered by its insurance will not arise or that the liability coverage will continue to be available on acceptable terms. A successful claim against the Company not covered by, or in excess of, its insurance could have a material adverse effect on the Company's business, operating results and financial condition. Claims against the Company, regardless of their merit or eventual outcome, also may have a material adverse effect on the Company's ability to attract residents or expand its business, and will require management to devote attention and resources to addressing such claims. There exists a risk that the insurance companies from which insurance is purchased may become insolvent and unable to fulfill their obligations to defend, pay or reimburse the Company when that obligation becomes due. The Company's policies are renewable periodically and the Company must negotiate acceptable terms for coverage upon renewal, exposing the Company to the volatility of the insurance markets, including the possibility of rate increases, and the Company cannot be sure to obtain insurance in the future at acceptable levels.

Litigation and Other Disputes May Adversely Affect the Company's Assets and Share Price

In the normal course of the Company's operations, whether directly or indirectly, it may become involved in, named as a party to or the subject of, various legal proceedings, including regulatory proceedings, tax proceedings, termination of employment and legal actions relating to personal injuries, property damage, property taxes, land rights, the environment and contract disputes. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty and may be determined in a manner that is materially adverse to the Company and as a result, could materially adversely affect the business, results of operations and financial condition of the Company. Even if the Company prevails in any such legal proceeding, the proceedings could be costly and time-consuming and may divert the attention of management and key personnel from the Company's business

operations, which could materially adversely affect the business, results of operations and financial condition of the Company and its ability to pay dividends on its common shares.

Dependence on Executives and Other Personnel

The Company's success depends heavily on its ability to attract, retain and motivate key management and operating personnel. As Element expands its portfolio of retirement residences, it will require more skilled, qualified personnel. Recruiting personnel for the retirement industry is highly competitive. Element's failure to attract or retain qualified personnel could have a material adverse effect on its business. See "RISKS AND UNCERTAINTIES – *Competition*" above.

Additionally, Element is dependent on the services of key executives, and a small number of other highly skilled and experienced executives and personnel. The loss of technical knowledge, management expertise, and knowledge of operations of one or more members of the Company's executive management could result in a diversion of management resources, as the remaining members of management would need to cover the duties of any executive officer who leaves the Company and would need to spend time usually reserved for managing the business to spend time to search for, hire and train new members of the management team. The loss of some or all of the Company's executives could negatively affect the Company's ability to develop and execute its business strategy, which could adversely affect the Company's business and financial results. Additionally, Element's inability to attract and retain additional highly skilled employees may adversely affect its business and future operations.

Changes in the Regulatory Environment

Laws periodically change and regulatory bodies may impose licensing requirements for certain facilities, health standards or services, change the terms of licences or impose more stringent environmental laws and regulations in the future. Inspections may identify deficiencies in the Company's operations. Changes in the law and regulations and inspections could have an adverse effect on the Company's operations and financial condition.

Personal Information

As a custodian of a large amount of personal information and personal health information relating to Element's employees and its residents, the Company is exposed to the legal and reputational risk of the loss, misuse or theft of any such information. Element mitigates this risk by deploying appropriate technology and training for its employees relating to the safeguarding of such information.

Risks Related to a Public Company and Common Shares

Volatile market price for common shares

The market price for common shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control, including the following:

- actual or anticipated fluctuations in the Company's quarterly results of operations;
- changes in estimates of future results of operations by Element or securities research analysts;
- changes in the economic performance or market valuations of other companies that investors deem comparable to the Company;
- addition or departure of the Company's executive officers and other key personnel;
- release or other transfer restrictions on outstanding common shares;
- sales or perceived sales of additional common shares;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors;
- news reports relating to trends, concerns or competitive developments, regulatory changes and other related issues in the Company's industry or target markets;
- conditions in the seniors housing industry and real estate industry generally;

- interest rates;
- the market for similar securities;
- general economic conditions in the financial markets;
- the Company's dividend practice; and
- the Company's financial condition, performance, creditworthiness and prospects.

Financial markets can have significant price and volume fluctuations that can affect the market prices of equity securities of companies and that may be unrelated to the operating performance, underlying asset values or prospects of the companies. Accordingly, the market price of the Company's common shares may decline even if the Company's operating results, underlying asset values or prospects have not changed.

Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of the Company's environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in the common shares by those institutions, which could adversely affect the trading price of the common shares. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility continue, the Company's operations and the trading price of the common shares may be adversely affected.

Financial Markets

Uncertainty in the stock and credit markets may materially adversely affect the Company's ability to access additional financing for the continuation of the Company's operations and other purposes, including obtaining any renewals of existing financing on commercially reasonable terms, which may materially adversely affect the Company's business. Uncertainty over whether the economy will be materially adversely affected by inflation, deflation or stagflation and the systematic impact of increased unemployment, volatile energy costs, geopolitical issues and availability and cost of credit may contribute to increased market volatility and weakened business and consumer confidence. The future state of the financial markets may cause the Company to seek alternative sources of potentially less attractive financing, and may require the Company to adjust its business plan accordingly. This may also make it more difficult or costly for the Company to raise capital, including through the issuance of equity securities. The current conservative nature of the financial markets may have a material adverse effect on the market value of the Common Shares and the business, results of operations and financial condition of the Company.

Dilution and Future Sales of Common Shares

The Company's articles permit the issuance of an unlimited number of common shares and an unlimited number of preferred shares, and shareholders will have no pre-emptive rights in connection with such further issuances. The directors of the Company have the discretion to determine the price and the terms of issue of further issuances of common shares and preferred shares.

Disclosure Controls and Internal Controls Over Financial Reporting

Element's business could be adversely impacted if there are deficiencies in disclosure controls and procedures or internal controls over financial reporting. The design and effectiveness of Element's disclosure controls and procedures and internal controls over financial reporting may not prevent all errors, misstatements or misrepresentations. While management continues to review the effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting, it cannot assure that Element's disclosure controls and procedures or internal control over financial reporting will be effective in accomplishing all control objectives all of the time. Deficiencies, particularly material weaknesses, in internal control over financial reporting which may occur in the future could result in misstatements of the Company's results of operations, restatements of Element's financial statements, a decline in share price, or otherwise materially adversely affect Element's business, reputation, results of operation, financial condition or liquidity.

Future Sales of Common Shares by Directors and Executive Officers

Subject to compliance with applicable securities laws, officers and directors and their affiliates may sell some or all of their common shares in the future. No prediction can be made as to the effect, if any, such future sales of common shares will have on the market price of the common shares prevailing from time to time. However, the future sale of a substantial number of common shares by the Company's officers and directors and their affiliates, or the perception that such sales could occur, could adversely affect prevailing market prices for the common shares.

Conflicts of Interest

Certain of the directors and officers of the Company are also directors, officers and/or shareholders of other companies. Such associations may give rise to conflicts of interest from time to time. The directors of the Company are required by law to act honestly and in good faith with a view to uphold the best interests of the Company and to disclose any interest that they may have in any project or opportunity of the Company. If a conflict of interest arises at a meeting of the Board, any director in a conflict must disclose his interest and abstain from voting on such matter. In determining whether or not the company will participate in any project or opportunity, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at the time.