ELEMENT LIFESTYLE RETIREMENT INC.
Management's Discussion and Analysis
For the Nine Months Ended February 29, 2016

This management discussion and analysis is dated March 31, 2016. The following is a discussion of the consolidated interim financial condition and operations of Element Lifestyle Retirement Inc. ("Element" or the "Company") for the nine months ended February 29, 2016 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 interim financial statements and accompanying notes of the Company for the nine months ended February 29, 2016.

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

Element Lifestyle Retirement Inc. was incorporated under the Business Corporations Act (British Columbia) on June 12, 2013 under the name "Care Pacific Management Inc." and subsequently changed its name to its current name "Element Lifestyle Retirement Inc." on September 3, 2014. Sonoma Resources Inc. ("Sonoma") and Element entered into an agreement on August 28, 2015 whereby Sonoma was to acquire all of the issued and outstanding shares of Element by way of the issuance of 31,900,000 common shares of Sonoma to the shareholders of Element. The shares were exchanged on the basis of one common share of Sonoma at a deemed price of $0.25 per share for every one common share and one preferred share of Element.

On December 2, 2015, The Company and its securityholders completed a Share Exchange Agreement with Sonoma , a public company listed on TSX Venture Exchange (the "Exchange"), pursuant to which the securityholders transferred all of their common shares and preferred shares of the Company 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 Exchange. The ongoing entity has adopted the name Element Lifestyle Retirement Inc. on December 2, 2015 and resumed Trading in 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 Lifestyles Retirement Inc. Therefore, the comparative information is of Element as of February 28, 2015.

In connection with the Reverse Take-over Transaction, the Company completed a brokered and non-brokered private placement financing (the "Concurrent Financing") of an aggregate of 17,300,000 common shares at a price of $0.25 per Concurrent Financing shares for aggregate proceeds of approximately $4,325,000.

Description of the Business

Element is an innovative management services company that provides development expertise to build world 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

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 may involve the participation in ownership of real estate assets, and as such Element will be providing services to retirement communities partially owned by Element as well as retirement communities owned by third parties. Element's strategy for growth is to minimize risk and capital expenditure by developing less under its ownership, and instead offering its development expertise to third party owners and other operators.

<u>Development Services</u>

The development stage is critical to a residential community's success, reputation and long-term sustainability. When a residence has an optimal blend of suite mixture, layout and design, the business operates effectively and efficiently, residents and families are happier, and in turn there is stronger resident retention and more referrals to support steady, maximum occupancy levels.

In the future with access to enough capital, Element will review the economics of developing or acquiring its own residences, at which time its products will be, in addition to management consulting services, real estate, both for sale and for rent. Under its integrative Continuum of Lifestyles model, Element will provide care and supportive services, activities programming and extensive amenities for various lifestyles, from Independent Living, Assisted Living, Memory Care to End-of-Life Care. The model aims to enable holistic wellness and quality of life for seniors, regardless of their state of physical or mental health.

<u>Management services</u>

Element's experience in day-to-day operations facilitates growth, profitability and retention. The management team is skilled at addressing all aspects of the daily management of a seniors living community. Element will also generate long-term revenue through development consulting contracts, which may be tied to operations management consulting contracts. Under these contracts, third party owners of new seniors living communities would retain Element's services as development consultants on the merits of its expertise and experience in the specialized field of developing seniors living communities. In essence, the development contract is negotiated together with an operations management contract, with the operations management contract being triggered upon the completion of the development contract.

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, BC and such centralization ensures that the Company-wide policies and procedures are maintained, and allows community-based personnel to focus solely on resident care.

<u>Customized Care</u>

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 Parkinson's 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.

Business Highlights

Revenue for the nine-month period ended February 29, 2016 was $1,143,389 compared to $1,572,917 which decreased by 27.3%. The decrease of revenue was expected and is due to the fact that with only two active projects and revenue based on milestones it will be inconsistent from period to period.

Revenue for the three-month period ended February 29, 2016 was $1,000,000 compared to $543,750 which represents an increase of 84%.

The decrease in revenue from the nine month period 2015 to 2016 is due to timing on milestones on Oasis and Opal and the increase in revenue for the three month period 2015 to 2016 is again based on timing on milestones on Oasis and Opal.

Element is currently engaged in the development of two retirement communities, "OPAL by Element" and "OASIS by Element", both projects with investors and funding already in place.

<u>OPAL Project</u>
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 unitsThis was all disclosed in the filing statement.

<u>OASIS Project</u>

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.

Construction of Phase 1 is expected to commence in 2017 and to be completed by early 2020

Overall Performance

The following discussion of the Company's financial performance is based on the consolidated financial statements for the nine months ended February 29, 2016 and February 28, 2015.

As of February 29, 2016, the Company had a cash and cash equivalents balance of $4,248,903 (May 31, 2015 - $751,165), accounts receivable of nil (May 31, 2015 – 43,750) and other current assets of $5,494 (May 31, 2015 - $870), and total current assets of $4,254,396 (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.

There was no significant change in non-current assets which were $208,193 at February 29, 2016 (May 31, 2015 – 231,029). The difference was due to amortization.

Current liabilities at May 31, 2015 total $549,469 (May 31, 2014 - $409,208), the increase is due to several factors, firstly the company received $500,000 related to Opal project which has not yet been earned 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. The net effect is a 34% increase in current liabilities.

Long-term debt is nil.

Shareholders' equity is comprised of common shares of $6,315,547 (May 31, 2015 -$ 500,000), Preferred shares of $nil (May 31, 2014 -$515,000), share issuance costs of $298,534 (May 31, 2015 - $30,000), retained earnings (deficit) of $(2,129,650) (May 31, 2014 -$(367,394)), and for a net of $3,913,120 (May 31, 2014 - $617,606). 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.

Working capital, which is comprised of current assets less current liabilities, is $3,704,927 at February 29, 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.

During the nine months ended February 29, 2016, the Company reported a net loss of $(1,762,256) ($(0.0525) basic and diluted income per share based on 33,559,113 common shares) compared to a net income of $408,955 $(4,089) basic and diluted income per share based on 100 common shares) during the nine months ended February 28, 2015. However, of the $1,762,256 loss for the period, $1,199,625 of this loss relates to a listing expense. This expense was created to account for the portion of Element given up to the previous shareholders of Sonoma on the RTO.

<u>Nine Months ended February 29, 2016</u>

Revenues

The revenue for the nine-months ended February 29, 2016 was $1,143,389 compared to $1,572,917 for the same period ended February 28, 2015. The decrease was due to the milestone based revenue model during the development stage.

Expenses

Operating expenses were $1,708,636 for the nine months ended February 29, 2016 compared to $1,163,962 for the period ended February 28, 2015. The most significant changes were in the following areas:

- Expenses for the nine month period include consulting fees of $99,840 (February 28, 2015 - $175), these consulting fees included consulting for the going public process and strategic advice.

- Filing fees of $50,429 (February 28, 2015 – nil) these fees were paid to the TSXV in connection with the listing process.

- Property investigation and consulting of $163,080 (February 28, 2015 – nil) was related to due diligence and a deposit on a property acquisition that was abandoned and all costs incurred were forfeit.

- Professional fees of $96,892 (February 28, 2015 - $53,476), includes legal fees incurred for Ontario project the Company abandoned.

- Rent of $52,732 (February 28, 2015 - $23,224), the difference relates to the fact the current period is for nine months at the Yaletown location while the prior period was for rent at a different location outside the downtown core.

- Salaries and benefits and subcontracts is essentially the same category of $944,045 (February 28, 2015 - $896,999), the increase in this area was due to severance pay to two previous management members.

- Website costs of $1,427 (February 28, 2015 - $46,705), the company's website and mutli-media presentations were set up in the period ended February 28, 2015.

- Travel of $122,936 (February 28, 2015 - $41,552). Significant 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.

Other expenses

- Transaction costs of the RTO $1,199,625 (February 28, 2015 – nil) represent the fair value of consideration paid for Sonoma plus the liabilities of Sonoma and legal fees. This is a one-time only expense that arose as a result of the RTO transaction.

<u>Three Months ended February 29, 2016</u>

Revenues

The revenue for the three-months ended February 29, 2016 was $1,000,000 compared to $543,750 for the same period ended February 28, 2015. The decrease was due to the milestone based revenue model during the development stage.

Expenses

Operating expenses were $591,285 for the three months ended February 29, 2016 compared to $397,067 for the period ended February 28, 2015. The following are the most significant

- Insurance Expenses for the three months of $12,790 (February 28, 2015 - $1,475), the additional insurance was due to the company's status as a public company.

- Hiring Expenses of $16,965 (February 28, 2015 – nil) the Company is recruiting for several key positions.

- Property investigation and consulting of $40,833 (February 28, 2015 – nil) was related to due diligence reports and costs on an Ontario project the Company abandoned.

- Professional fees of $72,691 (February 28, 2015 - $1,860), includes legal fees incurred for Ontario project the Company abandoned.

Other expenses

- Transaction costs of the RTO were discussed above and were a one-time only expense.

Net Loss for the nine month period ended February 29, 2016

Net loss was $1,762,256 for the nine month period ended February 29, 2016 compared to a net income of $408,955 for the period ended February 28, 2015. The net loss was mainly due to the fact that as explained earlier the Company's revenue is milestone based and can be inconsistent where the expenses are mostly fixed and thus inconsistences can arise. As more projects are brought on line and we shift to management fees which will be more consistent our income will be more consistent. Again, $1,199,625 of the net loss for the period is the estimated listing expense which assigns an expense to the value of Element given up to the previous shareholders of Sonoma pursuant to the RTO. This expense is not expected to repeat in the future.

Summary of Quarterly Results

The following table presents unaudited selected financial information for each of the last eight quarters for fiscal year 2015 and 2014:

	Feb. 29, 2016	**Nov. 30, 2015**	**Aug. 31, 2015**	**May 31, 2015**	**Feb. 28, 2015**	**Nov. 30, 2014**	**Aug. 31, 2014**	**May 31, 2014**
Revenue	$1,000,000	$42,500	$100,889	$56,250	$543,750	$529,167	$500,000	$Nil
Income (Loss) from continuing operations	$408,715	$(318,319)	$(277,922)	$(377,500)	$146,683	$(24,996)	$164,192	$(207,925)
Net income (loss)	(790,910)	(318,319)	(277,922)	(377,500)	146,683	(24,996)	164,192	(207,925)
Basic and diluted earnings (loss) per share	(0.015)	(4.83)	(4.22)	(0.016)	1,466.83	(249.96)	1,942.85	(2,079.25)

A significant amount of revenue to date is development consulting fees which are payed on a milestone basis. This results in quarterly revenue which can be inconsistent from quarter to quarter depending on how many milestones are completed each quarter. As the company shifts to management services as its main revenue source the quarterly revenue will become more consistent and comparable since management fees will be consistent and predictable month to month. Management contracts are expected to be long term in nature and could be for a long as 20 years.

Financing Activities

In connection with the Reverse Take-over Transaction, on December 3, 2015 the Company completed a brokered and non-brokered private placement financing (the "Concurrent Financing") of an aggregate of 17,300,000 common shares at a price of $0.25 per Concurrent Financing shares for aggregate proceeds of approximately $4,325,000.

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 $3,704,927 at February 29, 2016 compared to a working capital position of $386,577 at May 31, 2015. The Company is focused on generating new development contracts and is not at this time actively pursuing additional sources of financing. The concurrent financing completed in December coupled with revenue from current contacts that have been signed will be sufficient to meet the company's needs. Management believes that there is sufficient working capital to maintain the Company's day-to-day operations for at least one year.

Cash from operating activities during the period ended February 29, 2016, was $(352,208) (February 28, 2015 - $353,682). The decrease was primarily because of the loss in the period, the payment of the accounts payables and the offset of$500,000 recorded as deferred revenue.

Cash from investing activities during the period ended February 29, 2016 was $(6,520) (February 28, 2015 - $(101,449)). The decrease was due to the purchase of capital assets in both periods.

Cash provided by financing activities during the period ended February 29, 2016 was $3,856,534 (February 28, 2015 – $35,333). 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:

Contractual Obligations	**Payments Due by Period**				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	$	$	$	$	$
Accounts payable and other payable	42,089	42,089	-	-	-
GST payable	7,380	7,380	-	-	-
Deferred Revenue	500,000	500,000	-	-	-
Total contractual obligations	549,469	549,469	-	-	-

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 Company has advances from related parties for working capital purposes and therefore net earnings generated from operations give priority to the repayment of debt and then available for reinvestment in the Company. 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. As at May 31, 2015, there was an outstanding balance of $200,000. As of February 29, 2016 the loan had been paid off. 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 nine month period ended February 29, 2016 the company Element 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.

During the nine months ended February 29, 2016, Element paid rent in the amount of $52,732 to City Group.

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

(a) During the nine months ended February 29, 2016, Element related parties the following compensation:

Compensation	February 29, 2016	February 28, 2015
Don Ho	$157,918	$172,235
Michael Diao (CEO)	$74,564	$70,616
Candy Ho (VP)	$66,243	$70,495
Wendy Ho (VP)	$78,246	$82,487
Amanda List	$97,142	$104,886
RSJ Consulting	$34,200	Nil
ACC Consulting	$19,175	Nil
Frank Lo	$212,778	22,909
Total:	$740,266	$523,628

(1) ACC Consulting is controlled by Adrian Chan a director.
(2) RSJ Consulting is controlled by Robert Kang, CFO.

At February 29, 2016, Element had advanced $1,000 to a senior officer for travel expenses.

Critical Accounting Estimates and Changes in Accounting Policies

All significant critical accounting estimates are fully disclosed in Note 4 of the consolidated financial statements for the nine months years ended February 29, 2016. Please also refer to the audited financial statements dated May 31, 2015.

Financial Instruments and Other Instruments

Classification of Financial Instruments:

a. Fair Value of financial instruments

As at February 29, 2016, Element's financial instruments consisted of cash, accounts receivable, advance to employees, accounts payable and accrued liabilities, deferred revenue.

The fair values of cash, accounts receivable, advance to employees, accounts payable and accrued liabilities, due to related party and shareholder loans 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 date

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

b. 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.

c. Liquidity Risk

Liquidity risk is the risk Element may encounter difficulties in meeting its obligations associated with financial liabilities and commitments.

Element has successfully financed through issuing preferred shares in the amount of $515,000. In addition, existing shareholders converted shareholder loan of $499,990 into share capital.

Outstanding Share Data

Authorized: Unlimited common voting shares without nominal or par value

Issued:	53,102,188	Common shares issued and outstanding
	560,000	warrants outstanding

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.

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 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.

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 and Ontario. 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

When the Company acts as a manager, revenue will be dependent on occupancy at each complex. The Company currently, and for the foreseeable future, expects to rely primarily on the 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 owner'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 property owner 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).

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.

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.

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.

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.

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.

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.

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.