

**ELEMENT LIFESTYLE RETIREMENT INC.**  
**MANAGEMENT'S DISCUSSION**  
**AND ANALYSIS**

For the year ended May 31, 2018

Dated as of September 21, 2018

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## **ELEMENT LIFESTYLE RETIREMENT INC.**

### **Management's Discussion and Analysis For the Year Ended May 31, 2018**

The Management Discussion and Analysis ("MD&A") of Element Lifestyle Retirement Inc. ("Element" or the "Company"), has been prepared by management as of September 21, 2018 and provides information that management believes is relevant to assessing and understanding the financial condition of the Company and the results of its operation and cash flows for the year ended May 31, 2018. This MD&A provides information on the operations of the Company and should be read in conjunction with the audited consolidated financial statements and accompanying notes of the Company for the years ended May 31, 2018 and 2017.

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

#### **1. Corporate Background**

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

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 Element Lifestyle Retirement (Hong Kong) Limited (formerly known as Team Host Development Ltd.) ("Element (Hong Kong)"). Element (Hong Kong) was incorporated in Hong Kong under the Companies Ordinance (Chapter 622 of the laws of Hong Kong) on February 23, 2017 and is a wholly-owned subsidiary of the Company. Element (Hong Kong) was incorporated to explore opportunities in Hong Kong and China. On July 28, 2018, the Company incorporated a wholly-owned subsidiary, Element Lifestyle (Vic Harbour West) Inc., which is established for the purposes of developing and operating the Aquara project (formerly Bayview project). During February and March 2018, Element (Hong Kong) invested \$292,628 in an associate company, Tian Yuan Jia (Beijing) Retirement Ltd., in China for 30% of ownership. As at May 31, 2018, the Company's management performed an impairment test and wrote off the investment as it was determined the recoverable amount of the investment is less than its carrying amount. The impairment loss of \$292,628 is reflected in the consolidated income statement.

The Company is a listed issuer on the TSX Venture Exchange ("TSXV") and its common shares trade under the symbol "ELM".

#### **2. Core Business**

Element is a retirement living specialist that exists to improve quality of life for seniors and their families. Collectively, Element's leadership team has well over 100 years' experience in real estate and master-planned community development, with specialization in hospitality management, and retirement community development and operations. The Company has comprehensive development expertise and is a vertically integrated organization that operates the communities that it develops under management contracts for terms of twenty years or longer.

Element's vibrant intergenerational aging-in-place model encompasses a seamless transition for older adults from independence to assisted living to complex care, while integrating both accommodation and activities for all ages. This enables older adults and their families to have peace of mind with the availability of adaptive personalized support services in a purpose-built community that will accommodate residents' changing needs. The Company is changing the perception and experience of aging with its innovative model.

### 3. Principal Services

Element's key objective is providing two primary types of services to its client companies: (a) development services and (b) management services.

#### (a) Development Services

The Company's development consulting services include property selection, assembly and acquisition; building and community design; municipal approval and land entitlement processes; financing; marketing, sales and leasing, and construction project management.

The development stage of a seniors' residence project is critical to the success, reputation and long-term sustainability of the business. When a residence has an optimal blend of suite mixture, layout and design, the business operates more effectively and efficiently. Purpose-built design can contribute greatly to overall resident and family satisfaction which in turn may contribute to reduced vacancy and increased profitability.

#### (b) Management Services

The Company can also provide expertise in day-to-day operations that ensure growth, profitability and retention. With its extensive expertise, Element is skilled in addressing every aspect of the daily operations of a seniors' living community, with services tailored to meet a resident needs. Once the development stage is completed, Element will be providing long-term management of the facilities. The Company manages the administration, operation and financing of retirement communities and physical facilities. Under its model, Element will provide care and supportive services, activities programming and extensive amenities for various lifestyles, from Independent Living, Assisted Living, Complex Care to End-of-Life Care. The model aims to enable holistic wellness (mind, body & spiritual) and quality of life for seniors.

In summary, the Company oversees the entire development process and commits for the long term to manage ongoing operations and administration once development is completed. This vertically integrated concept is unique and sets the Company apart from other retirement operators in the industry.

#### **Continuum of Lifestyles (Adaptive, Customized Support and Care)**

Underpinning all of these services is the concept of client needs and service. The Company customizes its services to the unique preferences and objectives of residents of local 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 this mandate.

Element will emphasize that the "Continuum of Lifestyles" model of retirement living brings a positive impact to the way older adults experience their hard-earned, work-optional later years of life. Element's retirement communities are not merely places where care services are administered in a hospital-like environment; rather, they embody the intimacy and warmth of home, along with carefree living that inspires a sense of pride, dignity and passion for life through intergenerational activities, services and accommodations resembling those typically found in exclusive clubhouses and resorts.

A breakdown of the various Continuum of Lifestyles available is noted as follows:

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

**Complex Care** – serves seniors that require higher levels of care and who have lost their independence. Care plans are carefully created in collaboration with the residents' care provider team to ensure the resident can enjoy activities of daily living in a safe and caring manner. It is staffed 24 hours a day/7 days per week by licensed nurses and care workers.

The Company takes the Continuum of Lifestyles model to the next level: the incorporation of intergenerational living so that not only seniors stay together, but all generations of family and community can be integrated in activities and programming, including child care and education involving seniors. This concept brings families together, creating the ability for seniors, their children, and grandchildren to all live and interact within the same community if they choose to. This model builds community and a quality of life that is unparalleled in the industry and enhances the lives of seniors and their families.

#### **4. Business Highlights**

Revenue for the year ended May 31, 2018 was \$1,809,995 compared to \$585,329 for the same period in the previous fiscal year. Development fees have varied depending on the development stage milestones that were achieved by the Company. Revenues from on-going management fees will materialize once contracts have been solidified with the completion of managed development projects. The Company is currently engaged in the development of two seniors' retirement communities, "OPAL by Element" ("Opal") and "OASIS by Element" ("Oasis"). Both Opal and Oasis are owned by related parties (see "Related Party Transactions").

##### 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 44 seniors' residential condominium units, 56 seniors' rental units and 30 seniors' Licenced Care units. An amendment to zoning was officially enacted on April 5, 2016 and the Development Permit (DP) was issued on September 12, 2016. The Discovery Sales Centre at City Square was officially opened October 15, 2016. The demolition permit was issued on December 22, 2016 and the excavation permit was issued on February 2, 2017. As at September 14, 2018, 41 condominiums have been sold (93%) and 56 rental units have been reserved with refundable deposit (100% reserved), and an interest list is building on Licenced Care suites. Construction completion is anticipated in Spring 2019.

##### Oasis Project

The project 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 for the 17 acres of land and the development permit application for the first 20-storey lifestyle retirement community with 70 seniors' residential condominium units, 84 seniors' rental units and 42 seniors' licenced care units were submitted to the Township of Langley and third reading was given by council on February 5, 2018. It is anticipated that final reading will be given in Summer 2019. The project is proceeding as planned.

##### Aquara Project

The AQUARA Project is located 2 minutes' walk from Victoria Harbour's waterfront boardwalk and new Victoria International Marina, and 5 minutes' drive to Downtown Victoria. It is part of a master planned community, which includes several existing highrise residential towers. Over the next years, this vibrant, progressive neighbourhood will see the development of a cultural hub, a hotel, retail stores, trails and parks. AQUARA is a five-storey concrete development consisting of approximately 153,000 square feet of gross floor area with ~160 units with a mixture of condo, rental and licenced care units. The development permit application was submitted in February 2018. Excavation has commenced in July 2018 and construction is anticipated to commence in Spring 2019.

## 5. Future Business Opportunities

The management team continues to explore numerous business opportunities. The Company has made a significant investment in its people and strongly believes that this key asset is very important when building its corporate brand and engaging with prospective future business partners. The Company believes that it is critically important to have a strong operational team to not only properly investigate future business opportunities but also to ensure that development designs meet operational needs when projects are transitioned to long-term management contracts.

The Company is confident that it has sufficient cash and human resources to implement its robust management model and will raise additional monies, if required.

## 6. Financial Highlights

The following discussion of the Company's financial performance is based on the consolidated annual financial statements for the years ended May 31, 2018 and 2017.

The consolidated statements of financial position as of May 31, 2018 indicated a cash and cash equivalents balance of \$1,439,300 (2017 - \$4,244,764), other receivables of \$26,394 (2017 - \$143), prepaid expenses of \$15,900 (2017 - \$5,905), due from related parties of \$14,314 (2017 - \$nil) and total current assets of \$1,495,617 (2017 - \$4,250,812). The decrease in total current assets was mainly due to payments made for acquisition and continuing development of Aquara project (formerly Bayview project).

Non-current assets consisted of property and equipment \$331,681 (2017 - \$421,194), Property under development of \$8,261,053 (2017 - \$56,819) and Trade-marks of \$18,841 (2017 - \$14,338). The decrease in property and equipment was due to annual amortization on property and equipment. Property under development which is Aquara project consisted of land cost of \$6,934,693 (2017 - \$nil), Finance and due diligence fees of \$733,640 (2017 - \$nil), architectural, other professional fees and marketing costs of \$391,286 (2017 - \$6,819), and prepaid expenditures of \$201,434 (2017 - \$50,000).

Current liabilities, at May 31, 2018, were \$4,086,202 (2017 - \$1,961,887). The increase was primarily due to short-term \$3.5 million mortgage loan relating to the acquisition of Aquara project. Further details are noted in Subsequent events.

Long-term liability is the convertible debentures. On August 29, 2017, the Company issued convertible debentures of \$2,510,000. The convertible debentures are compound financial instruments, consisting of a debt instrument and an equity conversion feature. At the date of issue, \$1,538,801 was attributed to the liability component of the convertible debenture and \$971,199 was attributed to the equity component based on the discounted cash flow using the market interest rate of 18%. As at May 31, 2018, the balance of convertible debentures is \$1,596,824.

Shareholders' equity was comprised of common shares of \$8,766,702 (2017 - \$6,682,300), share issuance costs of \$257,635 (2017 - \$225,482), Stock-based compensation reserve of \$144,311 (2017 - \$109,541), warrants reserve of \$444,820 (2017 - \$nil), contributed surplus of \$42,435 (2017 - \$24,656), and retained earnings (deficit) of \$(5,475,249) (2017 - \$(4,389,739)), a net of \$4,343,382 (2017 - \$2,781,276).

Working capital, was negative \$2,590,585 at May 31, 2018, as compared to positive \$2,288,925 for the same period in 2017. The decrease of \$4,879,510 was mainly due to the payments of acquisition and continuing development of Aquara project incurred during the year.

For the year ended May 31, 2018, the Company reported a net loss of \$963,018 compared to a net loss of \$1,751,832 for the same period in the prior year. Basic and diluted loss per share based on a weighted average of 67,438,893 common shares was a loss of \$0.01 for the year ended May 31, 2018 compared to a loss of \$0.03, which was based on 55,413,339 common shares, last year.

The Company's share capital, as of May 31, 2018, was as follows:

|                                       |            |
|---------------------------------------|------------|
| Common shares, issued and outstanding | 68,478,299 |
| Stock options                         | 1,360,000  |

## **7. Subsequent Events**

Effective August 22, 2018, the Company's \$3.5 million mortgage which originally matured on September 1, 2018, was renewed with another 12 months term at the RBC prime lending rate plus 2%, but, not less than 5.7%. The estimated interest only monthly payment is \$16,625 but, is subject to changes with the RBC prime lending rate. The mortgage prepayment option is closed for the first 6 months and open for repayment in full during the last 6 months.

On July 13, 2018, the Company announced a non-brokered private placement of 9,000,000 shares at a price of \$0.20 per share for gross proceeds of \$1,800,000. As at September 21, 2018, the Company received \$400,000 proceeds from certain directors.

## **8. Outlook and Strategy**

The Company's key strategic priorities are:

- completing construction in the first quarter of calendar year 2019 regarding the OPAL Project, in the core of Vancouver's vibrant Cambie Village;
- taking the Company's award-winning 17-acre master-planned project, OASIS in Langley, through to fourth reading and receiving development permit anticipated in calendar year 2019;
- commencing Aquara project development activities, without delay, on the proposed \$74.5 million project located on 1.96 acres along the harbourside of Victoria at Bayview Place that will comprise approximately 160 elegantly accommodated units. The project completion is anticipated for the fourth quarter of calendar year 2020; and
- adding at least one significant property in British Columbia, that is owned by the Company, in the next eighteen months to the Company's portfolio to be developed and operated under its intergenerational aging-in-place model.

The Company's directors and management believe that these priorities are formulating a solid foundation for Element Lifestyle Retirement Inc., and its shareholders, as it continues working towards building a prosperous, well-respected and long-term seniors' retirement development and management services organization.

Management believes that the Company is well-positioned for both organic and external growth, supported by favourable demographics of a growing seniors' population, the strong demand for seniors' services and keeping in mind the operational and regulatory challenges to the seniors' living sector.

## 9. Selected Annual Information

The following table summarizes selected results of operations for the years ended May 31, 2018, 2017 and 2016.

|                                           | For the year ended<br>May 31, 2018 | For the year ended<br>May 31, 2017 | For the year ended<br>May 31, 2016 |
|-------------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Revenues                                  | \$1,809,995                        | \$585,329                          | \$1,143,391                        |
| Expenses                                  | 2,754,227                          | 2,333,753                          | 2,312,303 <sup>(1)</sup>           |
| Income (loss) from operations             | (944,232)                          | (1,748,424)                        | (1,168,912)                        |
| Net income (loss)                         | (963,018)                          | (1,751,832)                        | (2,270,513)                        |
| Total assets                              | 10,148,900                         | 4,743,163                          | 3,831,130                          |
| Total liabilities                         | 5,683,026                          | 1,961,887                          | 608,470                            |
| Basic and diluted income (loss) per share | (0.01)                             | (0.03)                             | (0.06)                             |

<sup>(1)</sup> Excluding transaction costs of \$972,368.

The increase in revenues was primarily attributable to the change from milestone-based revenue model to percentage of gross revenue method. Operating costs increased as the Company hired experienced staff to compliment its operations and convertible debentures related accretion expenses incurred during the year.

## 10. Summary of Quarterly Results

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

|                                             | Three Months Ended |                  |                  |                  |                 |                  |                  |                  |
|---------------------------------------------|--------------------|------------------|------------------|------------------|-----------------|------------------|------------------|------------------|
|                                             | May 31,<br>2018    | Feb. 28,<br>2018 | Nov. 30,<br>2017 | Aug. 31,<br>2017 | May 31,<br>2017 | Feb. 28,<br>2017 | Nov. 30,<br>2016 | Aug. 31,<br>2016 |
| Revenue                                     | \$ 176,003         | \$ 272,046       | \$ 678,297       | \$ 683,649       | \$ 85,329       | \$ -             | \$ 500,000       | \$ -             |
| Income (loss) from continuing operations    | (677,358)          | (539,266)        | (18,018)         | 167,918          | (438,728)       | (647,335)        | (122,267)        | (540,094)        |
| Net Income (loss)                           | (855,332)          | (636,716)        | (15,942)         | 422,480          | (442,136)       | (648,764)        | (122,267)        | (540,094)        |
| Basic and diluted earnings (loss) per share | (0.02)             | (0.01)           | 0.00             | 0.01             | (0.01)          | (0.01)           | 0.00             | (0.01)           |



## 11. Financial Results for the Year Ended May 31, 2018

Revenues for the year ended May 31, 2018 were \$1,809,995 compared to \$585,329 for the previous year. The increase in revenues was primarily attributable to the change from milestone-based revenue model to percentage of gross revenue method.

Operating expenses were \$2,754,227 for the year ended May 31, 2018 compared to \$2,333,753 for the same period last year. Noteworthy variances were in the following areas:

- **Consulting fees**— decreased to \$159,485 (2017 - \$215,188) due to the reduction of consulting services related to operations.
- **General and administrative** – decreased to \$169,432 (2017 - \$193,838). The decreased costs were primarily due to cost control on telecommunications, filing fees, insurance, office, web-site, and repairs and maintenance.
- **Professional fees** - increased to \$168,974 (2017 - \$132,363) mainly due to legal fees related Aquara project.
- **Salaries, wages and benefits** - increased to \$1,815,736 (2017 - \$1,400,798). Costs increased since the Company continued to develop its work force so that it has the required expertise to manage and operate retirement homes as it continues to implement its robust business model.
- **Share-based payments** – increased to \$52,549 due to issuing new options to two executive officers during the year.
- **Travel** – decreased to \$89,864 (2017 - \$126,232). The decrease was mainly attributable to reduced travel to China regarding seeking new business opportunities.

Overall, operating expenses for the year increased by \$420,474 or 18%. The increase was primarily attributed to professional fees and salaries.

Net loss from operations was \$944,232 for the year ended May 31, 2018, compared to a net loss of \$1,748,424 for the previous year. The decrease in the net loss from operations was mainly due to the increase in revenues.

## 12. Financing Activities

On July 4, 2017, the Company completed an oversubscribed non-brokered private placement (the “Offering”) of 12,646,111 units (the “Units”) at a price of \$0.20 per share for gross proceeds of \$2,529,222. Each Unit consists of one common share in the capital of the Company (a “Share”) and one half of one transferable common share purchase warrant (each whole common share purchase warrant, a “Warrant”). Each whole Warrant is exercisable to acquire one Share at an exercise price of Cdn\$0.30 per Share until June 30, 2019 which is 24 months from the date of issuance, subject to the following acceleration right. If, at any time after the date that is 4 months and one day after the date of issuance of the Warrants, the closing price of the Company’s common shares on the TSX Venture Exchange is at or above Cdn\$0.50 per share for a period of 21 consecutive trading days (the “Triggering Event”), in which event the Company may, within 10 days of the Triggering Event, accelerate the expiry date of the Warrants by giving notice thereof to the holders of the Warrants, by way of news release, and in such case the Warrants will expire on the first Business Day after the day that is 30 days after the date on which such notice is given by the Company announcing the Triggering Event. A finder’s fee was paid to Haywood Securities Inc., an arm’s length party, of Cdn\$350, regarding the Offering.

On July 13, 2017, the Company entered into a commitment letter with Addenda Capital Inc. (the “Lender”) pursuant to which the Lender has agreed to advance an aggregate of \$3,500,000 to Element or a subsidiary of Element (the “Loan”), which proceeds were used by the Company to fund a portion of the Aquara project land. The Loan was

secured by security to be granted by the Company, including a first mortgage on the Land. The Loan have an initial term of 12 months (the “Term”), with an option to renew for an additional term of one or two years, provided the Loan is not in default. The Loan was closed for the Term with no right for the Company to prepay the Loan in whole or in part for the first nine months of the Term. Interest accrued on the Loan at a rate equal to the Royal Bank of Canada Prime Lending Rate plus 2%, calculated and compounded monthly, but in any event not less than 4.7%. Under the terms of the Loan, an amount of \$164,500 was held back by the Lender from the proceeds advanced to the Company, which amount was used to pay the monthly interest payments due to the Lender to be paid on the first day of each month following the month in which the Loan is advanced. On August 30, 2017, the mortgage loan was advanced as partial consideration of the acquisition of the Lands. The term of the loan is 12 months with an annual interest rate of 4.95% with a maturity date of September 1, 2018.

On August 29, 2017, the Company closed its non-brokered private placement financing raising aggregate gross proceeds of \$2,510,000 (the “Private Placement”) through the issuance of unsecured convertible debentures (the “Debentures”). Each Debenture has an issue price of Cdn\$100; matures five years after the date of issuance on August 29, 2022 (the “Maturity Date”); bears interest at 7% per annum, payable on January 1 and July 1 of each year while outstanding, which interest, subject to regulatory approval, may at the option of the Company be settled in common shares. Each Debenture is convertible into common shares in the capital of the Company at the option of the holder at a price of Cdn\$0.30 per common share (the “Conversion Price”), which is equivalent to 3,333 common shares for each Cdn\$1,000 principal amount of Debentures, subject to adjustment in certain circumstances. The Company may redeem the Debentures in cash on or after July 1, 2019, in whole or in part from time to time, upon required prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest, if any, provided that the weighted average trading price of the Company’s common shares for the 20 consecutive trading days ending five trading days prior to the date of the redemption notice must be at least 125% of the Conversion Price. Additionally, after July 1, 2019, the Company has the option, to repay the principal amount of the Debentures in common shares, provided certain circumstances are met, including, but not limited to, no event of default has occurred and is continuing at such time and the weighted average trading price of the Company’s common shares for the 20 consecutive trading days ending five trading days prior to the date of the redemption notice or maturity date (as the case may be) is at least 150% of the Conversion Price. The Debentures, and any common shares issued upon conversion of the Debentures prior to December 30, 2018, will be subject to a four-month hold period expiring on December 30, 2018. A finders’ fee of \$60,000 was paid in cash to Royal Westwood Holdings Ltd., a finder at arm’s length to the Company in connection with the Private Placement. The proceeds from the Private Placement were used as partial consideration for the acquisition of the Lands.

### **13. Liquidity**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Working capital was negative \$2,590,585 as of May 31, 2018, compared to positive \$2,288,925 at May 31, 2017. Management believes that the Company has the ability to raise enough funds for its day-to-day operations.

Cash used in operating activities during the year ended May 31, 2018, was \$2,178,461 (2017 - \$300,411). The increase was primarily due to a substantial decrease of deferred revenue \$(1,860,404) (2017 - \$1,360,404)) that was recorded in the revenue in the current year.

Cash used in investing activities during the year ended May 31, 2018 was \$8,393,181 (2017 - \$481,717). The increase was due to the acquisition and continuing development of Aquara project and the investment in Tian Yuan Jian (Beijing), an associate company in China.

Cash provided by financing activities during the period year ended May 31, 2018 was \$7,807,596 (2017 – \$1,289,800). The increase was primarily due to the completion of a non-brokered equity private placement and convertible debentures and mortgage loan during the year. \$2,529,222 was raised through an equity private placement, \$2,510,000 raised through a convertible debenture private placement and \$3,500,000 advanced regarding a mortgage loan from Addenda Capital Inc..

The following table details 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 will be required to pay:

| <i>Contractual Obligations</i> | <b>Payments Due by Period</b> |                  |            |              |               |
|--------------------------------|-------------------------------|------------------|------------|--------------|---------------|
|                                | Total                         | Less than 1 year | 1-3 years  | 4-5 years    | After 5 years |
| Account payables               | \$ 586,202                    | \$ 586,202       | \$ -       | \$ -         | \$ -          |
| Mortgage loan                  | 3,500,000                     | 3,500,000        | -          | -            | -             |
| Convertible debentures         | 3,300,650                     | 175,700          | 351,400    | 2,773,550    | -             |
| Total contractual obligations  | \$ 7,386,852                  | \$ 4,261,902     | \$ 351,400 | \$ 2,773,550 | \$ -          |

#### **14. Commitments**

On January 1, 2018, the Company entered into a five-year contract for leased premises with a company controlled by a certain director. Lease payments recognized as an expense during the year ended May 31, 2018 totalled \$125,983 (2017 - \$123,833). The future minimum lease payments are \$126,026 for years 2019 to 2021, and \$73,514 for 2022.

#### **15. 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.

#### **16. Off-Balance Sheet Arrangements**

At the date of this MD&A, to the best of management's knowledge, there were 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.

#### **17. Related Party Transactions**

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 Retirement Inc. and Opal Development Limited Partnership***

Opal Retirement Inc. (“Opal Retirement”) is a wholly owned subsidiary of Care Pacific Holdings Ltd. (“Care Pacific”) and the owner of the Opal Project. Opal Development Limited Partnership (“Opal Development LP”) is a wholly owned subsidiary of Opal Retirement. The following principal Element shareholders are the shareholders of Care Pacific: Grand Vision Development Ltd., Kefei Investments Ltd. and Royal West Pacific Holdings Inc. Mr. 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 and the sole director and shareholder of Royal West Pacific Holdings Inc. Messrs. Hua Min Chen, Hua Jie Chen and Hong Chao Chen are shareholders of Grand Vision Development Ltd. (“Grand Vision”). Mr. Bo Jun (Michael) Diao is the sole director of Grand Vision and is also the chairman and a director of Care Pacific. Mr. Ke Fei Deng is the sole shareholder and director along with Ms. Mei Deng of Kefei Investments Ltd. Mr. Ke Fei Deng is also a director of Care Pacific.

#### ***Relationship with Care Pacific (Maple Gardens) Inc. (“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. Mr. 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. Regarding ownership and directorship of Grand Vision Development Ltd. and Kefei Investments Inc., please see above.

#### ***Relationship with Tian Yuan Jia (Beijing) Retirement Ltd.***

Element (Hong Kong) invested \$292,628 in an associate company, Tian Yuan Jia (Beijing) Retirement Ltd., in China for 30% of ownership. Tian Yuan Jia (Beijing) operates primarily in China and its principal business activities are management services for senior retirement communities, restaurant, hotel, cultural related activities, management consulting, and education consulting. As at May 31, 2018, the Company’s management performed an impairment test and wrote off the investment as it was determined the recoverable amount of the investment is less than its carrying amount. The impairment loss of \$292,628 is reflected in the consolidated income statement.

#### ***Transactions with Opal Retirement Inc. and Opal Development LP (Opal Project)***

During the year ended May 31, 2018, \$917,118 (2017 - \$nil) of deferred revenue carried forward from the prior year was recognized as revenue and \$80,375 (2017 - \$85,329) of revenue received from Opal Development LP was recognized during the year. As at May 31, 2018, Opal Development LP was owing Element \$2,314 for construction topping event expenses paid on behalf of Opal Development LP.

#### ***Transactions with Maple Gardens (Oasis Project)***

During the year ended May 31, 2018, \$812,502 (2017 - \$nil) of deferred revenue carried forward from the prior year was recognized as revenue. As at May 31, 2018, Maple Gardens was owing Element \$12,000 for the legal fees paid on behalf of Maple Gardens.

#### ***Transactions with City Group Holdings Ltd.***

City Group Holdings Ltd. (“City Group”) is a holding company owned by Mr. 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 (1,322 sq. ft.) with a three-year term commencing on December 16, 2014 for monthly rent of \$5,930 plus GST. This lease was amended effective May 1, 2016 to increase the rent to \$10,321 plus GST to reflect the increase in office space Element is occupying (2,307 sq. ft.) The lease was amended again effective January 1, 2017 to extend the lease term to five years from 2017 to 2021. During the year ended May 31, 2018, Element paid rent in the amount of \$125,983 (2017 - \$123,833) to City Group. On June 30, 2017, City Group subscribed 300,000 common shares for the total proceeds of \$60,000 through a non-brokered equity private placement.

### ***Transactions with the Independent Directors***

During the year ended May 31, 2018, the Company incurred \$36,000 (2017 - \$46,376) in director fees. In addition, the Company paid consulting fees of \$nil (2017 - \$67,000) to a certain independent director during the year ended May 31, 2018.

### ***Transactions with Directors and other related parties***

On June 30, 2017, certain directors and related parties subscribed 1,288,611 common shares for the total proceeds of \$277,722.20 through a non-brokered equity private placement.

### ***Transactions with Tian Yuan Jia (Beijing) Retirement Ltd.***

During the year ended May 31, 2018, the company invested \$292,628 to acquire 30% of ownership in an associate company, Tian Yuan Jia (Beijing) Retirement Ltd. ("Tian Yuan Jia"), in China through its wholly owned Hong Kong subsidiary, Element Lifestyle Retirement (Hong Kong) Ltd.

### ***Key Management Personnel Compensation and Transactions with Directors and Senior Officers***

Key management personnel included the Company's key employees consisting of the President; the Chief Executive Officer; the Chief Financial Officer; the Chief Operating Officer; Vice-President, Leadership and People Development; Vice-President, Project Development; Vice-President, Operations and Vice-President, Marketing and Corporate Relations. Compensation of key management personnel for the year ended May 31, 2018 consisted of salaries, consulting fees and short-term benefits of \$1,466,921 (2017 - \$970,481).

## **18. Fourth Quarter – Three Months Ended May 31, 2018**

The Company incurred a net loss of \$855,332 for the three months ended May 31, 2018, compared to a net loss of \$442,136 for the same period in the prior year. Basic and diluted loss per share based on a weighted average of 68,478,299 common shares was \$0.01 for the quarter ended May 31, 2018, compared to a loss of \$0.01 for the same period last year which was based on 55,832,188 common shares.

Revenue for the fourth quarter was \$176,003 (2017 - \$85,329). Operating expenses were \$853,362 for the fourth quarter ended May 31, 2018 compared to \$524,057 for the same period last year. Operating expenses increased mainly due to the increase in salaries and accretion expenses in the fourth quarter.

## **19. Accounting standards issued but not yet effective**

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company is currently assessing the impact, if any, that these standards might have on its Financial Statements.

### **a) IFRS 9, Financial Instruments**

In July 2014, the IASB issued IFRS 9, Financial Instruments (IFRS 9). IFRS 9 replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset or liability. It also introduces additional changes relating to financial liabilities and aligns hedge accounting more closely with risk management. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption of the new standard permitted. The Company does not intend to early adopt IFRS 9. The extent of the impact of adoption of IFRS 9 has not yet been determined.

b) IFRS 16, Leases

IFRS 16 - Leases will replace IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, but earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. The Company is assessing the impact of this new standard, if any, on the Financial Statements.

c) IFRS 15, Revenue from Contracts with Customers (IFRS 15)

IFRS 15 is effective for years commencing on or after January 1, 2018, and replaces IAS 11, Construction Contracts; IAS 18, Revenue; IFRIC 13, Customer Loyalty Programmes; IFRIC 15, Agreements for the Construction of Real Estate; IFRIC 18, Transfer of Assets from Customers; and Standing Interpretations Committee ("SIC") 31, Revenue – Barter Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

d) IFRS 2 – Share-based Payment

On June 30, 2017, the IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share based payments, share-based payment transactions with a net settlement feature for withholding tax obligations, and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments apply for annual periods beginning on or after January 1, 2018. The Company intends to adopt the amendments to IFRS 2 in its consolidated Financial Statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

## 20. Corporate Governance

The Company's Board of Directors and its committees adhere to recommended corporate governance guidelines for public companies listed on the TSXV to ensure transparency and accountability to shareholders. The current Board of Directors is comprised of five individuals, two of whom are independent of management as they are neither executive officers nor employees of the Company. The Audit Committee is currently comprised of three directors, two of which are independent of management.

The Audit Committee's role is to ensure the integrity of the Company's reported financial results through its review of the interim and audited annual consolidated Financial Statements prior to their submission to the Board of Directors for approval. The Audit Committee meets with management quarterly to review the Financials Statements along with the MD&A, and to discuss financial, operating and other relevant matters.

## 21. Disclosure of Share Data as of September 21, 2018

The Company's share capital at September 21, 2018 was as follows:

|                                       |            |
|---------------------------------------|------------|
| Common shares, issued and outstanding | 68,478,300 |
| Stock options                         | 1,360,000  |

## 22. Financial Instruments

Classification of Financial Instruments:

### Fair Value of financial instruments

As at May 31, 2018, the Company's financial instruments consisted of cash, other receivables, accounts payables and accrued liabilities, mortgage loan and convertible debentures. The fair values of other receivables, accounts payables and accrued liabilities, mortgage loan 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 and liabilities measured at fair value by level within the fair value hierarchy as follows:

|                                          | Level 1 |           | Level 2 |   | Level 3 |           | 2018         | 2017         |
|------------------------------------------|---------|-----------|---------|---|---------|-----------|--------------|--------------|
| Financial Assets:                        |         |           |         |   |         |           |              |              |
| Cash                                     | \$      | 1,481,008 | \$      | - | \$      | -         | \$ 1,481,008 | \$ 4,244,764 |
| Other accounts receivable                |         | 26,394    |         | - |         | -         | 26,394       | 143          |
| Total financial assets                   | \$      | 1,507,402 | \$      |   | \$      |           | \$ 1,507,402 | \$ 4,244,907 |
| Financial Liabilities:                   |         |           |         |   |         |           |              |              |
| Accounts payable and accrued liabilities | \$      | 586,202   | \$      | - | \$      | -         | \$ 586,202   | \$ 101,483   |
| Mortgage loan                            |         | 3,500,000 |         | - |         | -         | 3,500,000    | -            |
| Convertible debentures                   |         | -         |         | - |         | 1,596,824 | 1,596,824    | -            |
| Total financial liabilities              | \$      | 4,086,202 | \$      | - | \$      | 1,596,824 | \$ 5,683,026 | \$ 101,483   |

### Credit Risk

Financial instruments that potentially subject Element to concentrations of credit risks consist principally of cash, and trade & other receivables. The Company considers the risk of loss relating to cash to be low because these instruments are held only with highly-rated financial institutions. Element assesses the requirement for a provision based on historical experience.

### Liquidity Risk

Liquidity risk is the risk that Element may encounter difficulties in meeting its obligations associated with financial liabilities and commitments. The Company has successfully financed its operations through private placements when additional capital is necessary. The Company raised \$2,529,222 through an equity private placement, \$2,510,000 was raised through a convertible debentures private placement and finally, \$3,500,000 was financed via a mortgage loan by Addenda Capital Inc.

## 23. 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 community 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 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 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 to 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 provide 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 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.

### ***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 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), 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.

## ***24. Disclosure Controls and Internal Controls Over Financial Reporting***

The Company'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 the Company'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 the Company'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 the Company's financial statements, a decline in share price, or otherwise materially adversely affect the Company's business, reputation, results of operation, financial condition or liquidity.

Readers are cautioned that the Company is not required to certify the design and evaluation of its disclosure controls and procedures and internal controls over financial reporting and has not completed such an evaluation. The inherent limitations on the ability of the Company's certifying officers to design and implement on a cost-effective basis disclosure controls, procedures and internal controls over financial reporting for the Company may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

## **25. *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.

## **26. *Conflicts of Interest***

The Company's directors and officers may serve as directors or officers, or may be associated with, other reporting companies, or have significant shareholdings in other public companies. To the extent that such other companies may participate in business or asset acquisitions, dispositions, or ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding terms respecting the transaction. If a conflict of interest arises, the Company will follow the provisions of the Business Corporations Act (BC) ("Corporations Act") dealing with any conflict of interest. These provisions state that where a director has such a conflict, that director must, at a meeting of the Company's directors, disclose his or her interest and refrain from voting on the matter unless otherwise permitted by the Corporations Act. In accordance with the laws of the Province of British Columbia, the directors and officers of the Company are required to act honestly, in good faith and in the best interests of the Company.

## **27. *Cautionary Note Regarding Forward-Looking Information***

The Company's financial statements and this accompanying MD&A contain statements that constitute "forward-looking statements" involve a number of risks and uncertainties. As a consequence, actual results might differ materially from results forecasted or suggested in these forward-looking statements. Some of these risks and uncertainties are identified under the heading "RISKS AND UNCERTAINTIES" in this MD&A. Additional information regarding these factors and other important factors that could cause results to differ materially may be referred to as part of particular forward-looking statements. The forward-looking statements are qualified in their entirety by reference to the important factors discussed under the heading "RISKS AND UNCERTAINTIES" and to those that may be discussed as part of particular forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that 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 the forward-looking statements. Factors that could cause the actual results to differ include market prices, continued availability of capital and financing, inability to obtain required regulatory approvals and general market conditions. These statements are based on a number of assumptions, including assumptions regarding general market conditions, the timing and receipt of regulatory approvals, the ability of the Company and other relevant parties to satisfy regulatory requirements, the availability of financing for proposed transactions and programs on reasonable terms and the ability of third-party service providers to deliver services in a timely manner. Forward-looking statements contained herein are made as of the date of this MD&A and the Company disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise, except as may be required by law. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

**28. Approval**

The Board of Directors of the Company have approved the disclosure contained in this MD&A.

**29. Additional Information**

Additional information related to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.elementliving.com](http://www.elementliving.com).