

NOTICE OF MATERIAL EVENTS

Name of Issuer: Illinois Finance Authority

Name of Bond Issue: \$137,145,000
Illinois Finance Authority
Revenue Bonds (Sedgebrook, Inc. Facility)
Series 2007 A and Variable Rate Demand Series 2007 B

CUSIPs: See attached list

Name of Obligated Person: Sedgebrook, Inc.

Date of Issuance: August 17, 2007

Notice of Potential Events of Default

Sedgebrook, Inc. (the "Corporation") received a letter dated August 20, 2009 (the "Notice") from M&T Bank, the Trustee under the Trust Indenture for the Series 2007 A Bonds and the Series 2007 B Bonds (collectively, the "Bonds"), advising that the Trustee had not received the following payments due on August 15, 2009: (i) an installment of principal of \$76,250.00 required by Section 3.02(d)(ii) of the Loan Agreement for the Bonds (the "Loan Agreement") and by Section 4.06 of the Trust Indenture for the Bonds (the "Indenture") and (ii) an installment of interest of \$480,381.35 required by Section 3.02(d)(i) of the Loan Agreement and Section 4.06 of the Indenture. The Corporation received a subsequent letter from the Trustee dated August 24, 2009 (the "Corrected Notice") stating that such failure will constitute an Event of Default under Section 9.01(b) of the Loan Agreement and Section 7.01(e) of the Indenture if the installments are not paid to the Trustee within thirty (30) days of the date of the Corrected Notice.

The Notice also recites that certain mechanic's lien claims (the "Claims"), totaling over \$1.6 million, that have been filed against the Corporation, the Trustee and others, constitute violations of Section 3.12 of the Mortgage (as defined in the Indenture) and Section 8.13 of the Loan Agreement and that the failure of the Corporation, Lincolnshire Campus, LLC ("Lincolnshire") and any other applicable party, as the case may be, to discharge the Claims or cause the Claims to meet the requirements of Permitted Encumbrances (as defined in the Loan Agreement) within thirty (30) days will constitute Events of Defaults under the Loan Agreement, the Mortgage and the Indenture.

The occurrence of and continuation of an Event of Default under the Loan Agreement and the Indenture, unless waived, gives the Trustee the right to exercise various remedies, including but not limited to the right to accelerate the Series 2007 A Bonds and declare them to be immediately due and payable. The Trustee is required to accelerate the Bonds upon the written request of the owners of not less than 25% of the outstanding Bonds unless the owners of not less than 50% of the Bonds direct the Trustee not to accelerate the maturity of the Bonds. Notably, Sovereign Bank (the "Bank") now holds all of the outstanding Series 2007 B Bonds, which constitute over 25% of the outstanding Bonds.

As noted in the Corporation's disclosure filing dated July 29, 2009, the Corporation's auditing firm, PricewaterhouseCoopers LLP, issued a Report of Independent Auditors (the "Report") on July 20, 2009 stating that it is unable to express an opinion on the Corporation's financial statements for the year ended December 31, 2008 and that the Corporation's recurring operating losses, negative cash flows from operations and negative asset position raise substantial doubt about the Corporation's ability to continue as a going concern. A copy of the complete Report, including financial statements and accompanying notes, is attached to the July 29, 2009 disclosure filing.

The Corporation's failure to provide audited financial statements to Sovereign Bank (the "Bank") in accordance with the terms of the Letter of Credit Agreement (the "Letter of Credit Agreement") supporting the 2007 Series B Bonds caused an event of default to occur under the Letter of Credit Agreement (an "LOC Event of Default"). A second waiver provided by the Bank with respect to the Corporation's failure to provide audited financial statements in accordance with the terms of the Letter Credit Agreement expired on July 10, 2009 and the Bank has not extended the waiver. As a result, an LOC Event of Default exists and is continuing. In addition to triggering events of default under the other Letter of Credit Documents (as defined in the Indenture), an LOC Event of Default constitutes an event of default under the Mortgage granted by the Corporation and Lincolnshire to the Trustee, which in turn triggers an event of default under the Loan Agreement and the Indenture, all of which have the effect of causing events of default under certain of the other Bond Documents (as defined in the Indenture).

Pursuant to the mandatory tender discussed below, the Series 2007 B Bonds have been tendered to and are now held by the Bank pursuant to a draw under the Letter of Credit. The occurrence of and continuation of an LOC Event of Default, unless waived, gives the Bank the right to take various remedial steps set forth in Section 13.2 of the Letter of Credit Agreement, which steps include, but are not limited to, demanding that the Trustee exercise remedies under the Indenture and directing the Trustee to accelerate the maturity of the Series 2007 Bonds, subject to the provisions of the Indenture.

Engagement of Chief Restructuring Officer Services and Financial Adviser

The Corporation has engaged Healthcare Management Partners LLC for chief restructuring officer services. Michael Morgan, a Managing Director at Healthcare Management Partners LLC, will serve as Chief Restructuring Officer of the Corporation and David White, a Director at Healthcare Management Partners LLC, will serve as a Vice President of the Corporation. Mr. Morgan and Mr. White will lead the Corporation's review of alternatives in an effort to restructure the Corporation's indebtedness and provide for a sustainable source of working capital. One of their first assignments will be the preparation of cash flow projections for the next 12 months.

The Corporation also has engaged Herbert J. Sims & Co., Inc., an investment banking firm with significant expertise and experience in the senior living industry, to assist the Corporation with Bondholder communications and outreach.

As part of its restructuring effort, the Corporation anticipates approaching the Trustee and holders of the Bonds in order to obtain a forbearance period that provides the Corporation with the time and flexibility to pursue a restructuring. There can be no assurance that the Corporation will obtain such an agreement on acceptable terms or at all or that the restructuring efforts will be successful.

Mandatory Tender of Series 2007 B Bonds

On July 6, 2009, the Trustee gave notice of a mandatory tender of the Series 2007 B Bonds in accordance with the Bond Documents five (5) business days' in advance of the termination of the Confirming Letter of Credit (as defined in the Indenture) for the Series 2007 B Bonds. On August 10, 2009, the Trustee executed the mandatory tender by drawing on the Letter of Credit for the Series 2007 B Bonds. As a result of the mandatory tender and the failure to replace the Confirming Letter of Credit, all of the Series 2007 B Bonds are owned and held by the Bank.

Retention of Initial Entrance Fees

Under the Loan Agreement, the Corporation is required to deliver to the Trustee the initial entrance fees (the "Initial Entrance Fees") received upon the initial occupancy of a residential unit at the Corporation's continuing care retirement community (the "Facility") for deposit into a construction account controlled by the Trustee (the "Construction Account"). The funds in the Construction Account are to be disbursed by the Trustee first to replenish certain reserve accounts as required by the Indenture. If the reserve deposit requirements have been met, the Trustee then shall pay out of the Construction Account the remaining balance, if any, directly to the Corporation. The Corporation then is required to use such remaining balance, *first*, to pay amounts currently due and payable by the Corporation under the Bond Documents (as defined in the Indenture), including debt service on the Bonds, *second*, to repay any outstanding loans under the Line of Credit pursuant to which Lincolnshire is obligated to make working capital loans to the Corporation from time to time, *third*, to pay Total Operating Expenses (as defined in the Indenture) currently due, to the extent Total Operating Expenses for the current month exceed estimated Total Operating Revenues (as defined in the Indenture) for the current month, and *fourth*, to make a loan to Lincolnshire, the owner of the Facility, pursuant to the Community Loan Agreement, or, to the extent that Lincolnshire has notified the Corporation that it does not want an advance of such Initial Entrance Fees under the Community Loan Agreement, to make other deposits or payments pursuant to the provisions of the Indenture. As noted in the Corporation's June 5, 2009 and June 23, 2009 disclosure filings, due to current economic conditions, the amount of Initial Entrance Fees available to the Corporation has been significantly below anticipated levels, which has resulted in working capital deficits. The Corporation is no longer receiving working capital advances from Lincolnshire or its parent company, Erickson Retirement Communities, LLC ("Erickson"), and the Corporation does not know when, if ever, Erickson will resume working capital advances. As a result of the Corporation's working capital situation, it has begun to retain the Initial Entrance Fees rather than depositing such fees with the Trustee as required by the Indenture and the other Bond Documents.

Notice of Bondholder Call

The Corporation intends to host a conference call to discuss its financial situation and preliminary restructuring efforts live on Friday, September 11, 2009 at 3:00 p.m. EDT and will file a disclosure notice on the Electronic Municipal Market Access (EMMA) system on or about September 8, 2009 in order to provide dial-in information for the call, instructions on how to access any materials to be provided prior to or during the call, information regarding availability of replays of the conference call and other relevant information. Questions may be directed to Rod Rolett at Herbert J. Sims & Co., Inc. at (203) 418-9003.

Date: August 27, 2009

SEDGEBROOK, INC.

