Mosaic Capital Corporation

Condensed Interim Consolidated Financial Statements

For the Three Months Ended March 31, 2017 and 2016

(unaudited)

MOSAIC CAPITAL CORPORATION

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2017 and 2016

Contents

Mosaic Capital Corporation
Condensed Interim Consolidated Statements of Financial Position
(Unaudited)
(in thousands of Canadian dollars)

	Notes	March 31, 2017	December 31, 2016
Assets		$	$
Current assets			
Cash and cash equivalents		21,053	24,938
Accounts receivable		66,587	66,954
Inventories		8,249	7,615
Deposits and prepaid expenses		1,545	1,818
Income taxes recoverable		508	494
		97,942	101,819
Non-current assets			
Property held for development		985	985
Income-producing properties		11,635	11,683
Loan receivable		168	173
Investment in joint venture		3,382	3,495
Property, plant & equipment		28,013	26,835
Employee share purchase plan		180	201
Goodwill and other intangible assets		129,239	130,739
		173,602	174,111
		271,544	275,930
Liabilities			
Current liabilities			
Operating loans	13	2,182	2,211
Credit facility	12	-	24,500
Accounts payable & accrued liabilities		32,277	36,700
Dividends payable		1,068	1,085
Deferred contract revenue	5	3,665	4,457
Current portion of contingent consideration		971	971
Current portion of notes payable		5,398	8,745
		45,561	78,669
Non-current liabilities			
5% Debentures	2e, 7	46,633	-
Common share warrants	2e, 8	21,418	-
Notes payable		9,565	9,483
Convertible debentures	6	11,250	13,162
Deferred income tax liability		3,602	3,902
Contingent consideration		2,164	2,164
Security deposits		32	47
		94,664	28,758
		140,225	107,427
Shareholders' Equity			
Common shares	9	34,195	17,853
10% Preferred securities	9	-	102,161
6% Preferred securities	2e, 9	82,395	-
Series "A" shares	9	-	570
Private yield securities	9	-	23,922
Warrants - private yield securities	9	-	1,887
Contributed surplus	9	1,447	1,652
Convertible debentures	6	794	1,164
Non-controlling interests		43,389	43,051
Deficit		(30,901)	(23,757)
		131,319	168,503
		271,544	275,930

Commitments and contingent liabilities (Note 19)
Subsequent event (Note 20)

See accompanying notes to the condensed interim consolidated financial statements.

Mosaic Capital Corporation
Condensed Interim Consolidated Statements of Income and Comprehensive Income
For the Three Months Ended March 31, 2017 and 2016
(Unaudited)
(in thousands of Canadian dollars, except for per share amounts)

	Notes	2017 $	2016 $
Revenue	14	58,109	40,244
Operating expenses		52,915	35,292
Income from operations		5,194	4,952
Accretion expense		49	-
Amortization of income-producing properties		49	49
Amortization of property, plant & equipment		1,417	940
Amortization of intangible assets		1,531	686
Equity-based compensation		(205)	102
Foreign exchange loss		4	-
Loss (gain) on sale of property, plant & equipment		129	(29)
		2,974	1,748
Income before finance		2,220	3,204
Finance income	16	39	89
Finance expense	16	(1,023)	(132)
		(984)	(43)
Share of joint venture income (loss)		184	(53)
Fair value adjustment on common share warrants	8	(863)	-
Income from continuing operations before income taxes		557	3,108
Income tax expense (recovery)			
Current		41	407
Deferred		(494)	(183)
		(453)	224
Net income from continuing operations		1,010	2,884
Net income and comprehensive income		1,010	2,884
Net income and comprehensive income attributable to:			
Shareholders		60	2,004
Non-controlling interests		950	880
		1,010	2,884
Earnings per share:			
Net loss per common share from continuing operations			
Basic	10	(0.27)	(0.15)
Diluted	10	(0.27)	(0.15)
Net loss per common share			
Basic	10	(0.27)	(0.15)
Diluted	10	(0.27)	(0.15)

See accompanying notes to the condensed interim consolidated financial statements.

Mosaic Capital Corporation
Condensed Interim Consolidated Statements of Changes in Equity
For the Three Months Ended March 31, 2017 and 2016
(Unaudited)
(in thousands)

	Notes	Number of Common Shares	Common Shares	Number of Preferred Securities	Preferred Securities	Number of Series "A" Shares	Series "A" Shares	Number of Private Yield Securities	Private Yield Securities	Number of Warrants - Private Yield Securities	Warrants - Private Yield Securities	Contributed Surplus	Convertible debentures	Total Capital	Non-Controlling Interests	Deficit	Total Equity
			$		$		$		$		$	$	$	$	$	$	$
Balance at January 1, 2016		8,359	17,609	10,488	102,120	88	570	27	23,922	27	1,887	2,124	-	148,232	27,447	(12,750)	162,929
Preferred securities and common shares cancelled		(54)	(147)	(25)	(148)	-	-	-	-	-	-	-		(295)	-	-	(295)
Restricted security unit issuances		28	323	-	-	-	-	-	-	-	-	-		323	-	-	323
Distributions to non-controlling interests		-	-	-	-	-	-	-	-	-	-	-		-	(862)	-	(862)
Dividends declared on preferred securites		-	-	-	-	-	-	-	-	-	-	-		-	-	(2,620)	(2,620)
Dividends declared on series "A" shares		-	-	-	-	-	-	-	-	-	-	-		-	-	(22)	(22)
Dividends declared on common shares		-	-	-	-	-	-	-	-	-	-	-		-	-	(863)	(863)
Distributions declared on private yield securities		-	-	-	-	-	-	-	-	-	-	-		-	-	(613)	(613)
Equity-based compensation		-	-	-	-	-	-	-	-	-	-	(260)		(260)	-	-	(260)
Net income and comprehensive income		-	-	-	-	-	-	-	-	-	-	-		-	880	2,004	2,884
Balance at March 31, 2016		8,333	17,785	10,463	101,972	88	570	27	23,922	27	1,887	1,864	-	148,000	27,465	(14,864)	160,601
Balance at January 1, 2017		8,346	17,853	10,477	102,161	88	570	27	23,922	27	1,887	1,652	1,164	149,209	43,051	(23,757)	168,503
Redemptions and retractions	9	-	-	(10,477)	(102,161)	(88)	(570)	(27)	(23,922)	(27)	(1,887)	-	-	(128,540)	-	(3,626)	(132,166)
Issue of 6% preferred securities	9	-	-	10,000	82,672	-	-	-	-	-	-	-	-	82,672	-	-	82,672
Issue of common shares	9	1,550	15,193	-	-	-	-	-	-	-	-	-	-	15,193	-	-	15,193
Convertible debenture conversions	6	262	2,172	-	-	-	-	-	-	-	-	-	(176)	1,996	-	-	1,996
Deferred tax adjustment													(194)	(194)			(194)
Restricted security unit purchases		(30)	(300)	-	-	-	-	-	-	-	-	-	-	(300)	-	-	(300)
Security transaction costs		-	(723)	-	(277)	-	-	-	-	-	-	-	-	(1,000)	-	-	(1,000)
Distributions to non-controlling interests		-	-	-	-	-	-	-	-	-	-	-	-	-	(612)	-	(612)
Dividends declared on 10% preferred securites	9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,148)	(1,148)
Dividends declared on 6% preferred securites	9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,068)	(1,068)
Dividends declared on common shares	9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,093)	(1,093)
Distributions declared on private yield securities	9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(269)	(269)
Equity-based compensation		-	-	-	-	-	-	-	-	-	-	(205)	-	(205)	-	-	(205)
Net income and comprehensive income		-	-	-	-	-	-	-	-	-	-	-	-	-	950	60	1,010
Balance at March 31, 2017		10,128	34,195	10,000	82,395	-	-	-	-	-	-	1,447	794	118,831	43,389	(30,901)	131,319

See accompanying notes to the condensed interim consolidated financial statements.

Mosaic Capital Corporation
Condensed Interim Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2017 and 2016
(Unaudited)
(in thousands of Canadian dollars)

	Notes	2017	2016
		$	$
Operating activities			
Income (loss) for the period attributable to shareholders		60	2,004
Adjustments for:			
Accretion expense		49	-
Amortization of income-producing properties		49	49
Amortization of property, plant & equipment		1,417	940
Amortization of intangible assets		1,531	686
Equity-based compensation		(205)	102
Deferred income tax expense (recovery)		(494)	(183)
Share of joint venture (income) loss		(184)	53
Fair value adjustment on common share warrants		863	-
Loss (gain) on sale of property, plant & equipment		129	(29)
Foreign exchange loss		4	-
Non-controlling interests		950	880
Cash provided prior to changes in non-cash working capital		4,169	4,502
Changes in non-cash working capital	17	(5,591)	566
		(1,422)	5,068
Investing activities			
Purchase of intangible assets		(45)	(4)
Purchase of property, plant & equipment		(1,349)	(580)
Distributions received from joint venture		298	-
Proceeds on disposal of property, plant & equipment		101	90
Employee share purchase plan		21	67
		(974)	(427)
Financing activities			
Repayment of credit facility	12	(24,500)	-
Repayment of operating loans		(29)	-
Proceeds from subscription privileges	9	15,193	-
Proceeds received from issuance of 6% preferred securities	9	100,000	-
Proceeds received from issuance of 5% debentures	7	50,000	-
Redemption of 10% preferred securities	9	(105,894)	-
Redemption of series "A" shares	9	(893)	-
Retraction of private yield securities	9	(26,789)	-
Distributions paid to non-controlling interests		(612)	(862)
Dividends paid to 10% preferred security holders		(1,833)	(2,048)
Dividends paid to 10% preferred security holders for DRIP		(189)	(576)
Dividends paid to 6% preferred security holders		(1,068)	-
Dividends paid to series "A" shareholders		(7)	(22)
Security deposits		(15)	-
Dividends paid to common shareholders		(1,093)	(863)
Distributions paid to private yield security holders		(473)	(613)
Security transaction costs		(1,140)	-
Restricted security unit purchases		(300)	(295)
Repayment of notes payable		(1,847)	(1,260)
		(1,489)	(6,539)
(Decrease) in cash and cash equivalents		(3,885)	(1,898)
Cash and cash equivalents, beginning of period		24,938	39,854
Cash and cash equivalents, end of period		21,053	37,956

	2017	2016
Supplementary cash flow information:		
Interest received	39	89
Interest paid	664	132
Income taxes paid	54	330

See accompanying notes to the condensed interim consolidated financial statements.

(in thousands of Canadian dollars, except per unit amounts)

1. REPORTING ENTITY

Mosaic Capital Corporation ("Mosaic" or the "Company") was incorporated under the *Business Corporations Act* (Alberta) on February 11, 2011. The address of the Company's registered office is 400, 2424 – 4th Street SW Calgary, Alberta T2S 2T4. Mosaic is a Calgary-based investment company that owns a portfolio of established businesses. The Company continues to acquire and invest in businesses across a range of industries and geographies.

Products and services are provided through the Company's subsidiaries in four business segments: Infrastructure, Energy, Diversified and Real Estate.

As at March 31, 2017, Mosaic owns and controls the following significant subsidiaries through which it conducts operations:

	Ownership interest	
Significant Subsidiaries	March 31, 2017	Dec. 31, 2016
Printing Unlimited L.P. ("Printing Unlimited")	100.00%	100.00%
Allied Cathodic Services L.P. ("Allied Cathodic")	80.00%	80.00%
Remote Waste L.P. ("Remote Waste")	95.40%	95.40%
Ambassador Mechanical L.P. ("Ambassador")	75.00%	75.00%
Kendall's Supply Ltd. ("Kendall's Supply")	89.00%	89.00%
Industrial Scaffold Services L.P. ("Industrial Scaffold")	67.50%	67.50%
Place-Crete Systems L.P. ("Place-Crete")	75.00%	75.00%
South East Construction L.P. ("SECLP")	75.00%	75.00%
Mackow Industries L.P. ("Mackow")	80.00%	80.00%
Bassi Construction L.P. ("Bassi")	70.00%	70.00%
First West Properties L.P. ("FWPLP")	100.00%	100.00%

In addition, the Company has a 50% interest in First West Developments L.P. ("FWDLP"), a joint venture with Harbour Equity Capital Corp. ("Harbour Equity") for the development of the Parker Industrial Park near Regina, Saskatchewan.

The common shares and convertible debentures of Mosaic are listed on the TSX Venture Exchange and trade under the symbols "M" and "M.DB" respectively.

2. BASIS OF PREPARATION

a. Statement of compliance

These unaudited condensed interim consolidated financial statements ("Interim Financial Statements") have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting and include the accounts of Mosaic and its subsidiaries. All intercompany balances and transactions including revenue and expenses were eliminated. They do not include all information required for annual financial statements and should, therefore, be read in conjunction with the audited consolidated financial statements of the Company as at and for the year ended December 31, 2016.

The Interim Financial Statements were approved by the board of directors of Mosaic on May 15, 2017.

b. Basis of measurement

The Interim Financial Statements have been prepared on a going-concern basis, under the historical cost convention, except as otherwise noted.

c. Functional and presentation currency

The Canadian dollar is the Company's functional currency and as such, the Interim Financial Statements are presented in Canadian dollars.

d. Use of estimates and judgments

The preparation of the Interim Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the carrying amounts of assets, liabilities, revenues and expenses and disclosures of contingent assets and liabilities. Actual results may differ from these estimates and the differences could be material. Estimates, judgments and assumptions are reviewed on a continuous basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods.

In preparing the Interim Financial Statements, the significant judgements made by Mosaic's management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the audited consolidated financial statements as at and for the year ended December 31, 2016.

e. Fairfax transaction

On January 26, 2017, Mosaic announced the private placement (the "Offering") to Fairfax Financial Holdings Limited and certain of its subsidiaries (collectively "Fairfax") of: (i) $100,000 aggregate principal amount of 6% senior preferred securities (the "6% Preferred Securities") (see Note 9); (ii) $50,000 aggregate principal amount of 5% senior secured debentures (the "5% Debentures") (see Note 7); and (iii) common share purchase warrants (the “Warrants”) entitling Fairfax to acquire up to 17,026 common shares of Mosaic at a price of $8.81 per common share until January 26, 2024 (see Note 8). If the Warrants are fully exercised for cash, Fairfax would own approximately 59% of the issued and outstanding common shares of Mosaic. Fairfax has the option to exercise the Warrants on a cashless basis whereby it can elect to be issued a number of common shares calculated as the number of Warrants (17,026,106) multiplied by the common share market value at time of exercise minus the Warrant strike price ($8.81 per Warrant), divided by the common share market value at time of exercise. Prior to the Offering, Fairfax did not own or exercise control over any securities of Mosaic. In connection with the Offering, Mosaic redeemed the 10% preferred securities and series A preferred shares (the "series A shares") and retracted the private yield securities.

The 5% Debentures, 6% Preferred Securities and Warrants are financial instruments and were recorded at fair value upon issue. The valuation of these three instruments was based on a residual value methodology whereby the 5% Debentures and 6% Preferred Securities were valued first as they were most readily valued. Mosaic used discount rates of 6.3% and 7.3%, respectively, in arriving at the fair value for the 5% Debentures of $46,633 and $82,395 for the 6% Preferred Securities, net of transaction costs. These discount rates are considered to be reasonable in the circumstances taking into consideration the implied fair value of the Warrants using the residual value methodology. Accordingly, the Warrants were valued as $20,555 calculated as the total proceeds of the Offering ($150,000) minus the fair value of the 5% Debenture and the 6% Preferred Securities.

As Mosaic may issue a variable number of common shares under the cashless exercise, the Warrants fail to meet the definition of equity and must instead be classified as a derivative liability and measured at fair value with changes in fair value recognized in the consolidated statements of income and comprehensive income at each reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES

The Interim Financial Statements have been prepared using the same accounting policies, and methods of computation as the most recent annual audited consolidated financial statements.

Future accounting standards

IFRS 9 – Financial Instruments: Classification and Measurement

IFRS 9 was issued in November 2009 and is intended to replace IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

A finalized version of IFRS 9 was issued in July 2014 to include impairment requirements for financial assets and limited amendments to the classification and measurement requirements by introducing a fair value through other comprehensive income measurement category for certain simple debt instruments. This standard must be applied for accounting periods beginning on or after January 1, 2018, with earlier adoption permitted. Mosaic plans to adopt the new standard on the required effective date, and is currently assessing the effect of IFRS 9 on its financial results and financial position. Changes, if any, are not expected to be material.

IFRS 15- Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, establishing a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 supersedes the current revenue recognition guidance including IAS 18 – Revenue and IAS 11 – Construction Contracts, as well as the related interpretation when it becomes effective. Under IFRS 15, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity is required to recognize revenue when the performance obligation is satisfied. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. Mosaic is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 16 – Leases

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 - Leases. An entity applies IFRS 16 for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted if

IFRS 15 has also been applied. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. Mosaic is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

4. FAIR VALUE

To the extent possible, the Company uses data from observable markets to measure the fair value of an asset or liability. Fair value measurements are established based on a hierarchy into three levels that categorizes the inputs to valuation techniques.

Level 1 - Fair value measurement based on unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 - Fair value measurement using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Fair value measurement using inputs that are not based on observable market data.

The fair value of accounts receivable, accounts payable & accrued liabilities, dividends payable and operating loans approximates their carrying value due to their short term to maturity. In management's opinion, the carrying value of notes payable reflect their estimated fair values as their interest rates approximate market rates available to the Company.

Cash and cash equivalents are measured at fair value using Level 1 inputs. The Company currently has no material financial instruments measured at fair value using Level 2 inputs. The contingent consideration issued by the Company as part of the proceeds on business combinations is measured at fair value using Level 3 inputs. Fair value is determined by applying probability adjusted key scenarios to the terms of the contingent consideration as set out in the related purchase agreements.

There were no changes in the fair value of Mosaic's Level 3 financial instruments for the period ended March 31, 2017.

The Company's policy is to recognize transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfer. There were no such transfers during the period.

5. CONTRACTS

Costs incurred and earned revenue, net of billings, on uncompleted contracts is presented in the Financial Statements under the following captions:

(in thousands of Canadian dollars, except per unit amounts)

	Three months ended March 31, 2017	Three months ended March 31, 2016
	$	$
Earned revenue on projects to date (included in revenue)	39,947	30,148
Less: billings on projects to date	(43,013)	(34,512)
Net financial position	(3,066)	(4,364)
	As at March 31,	
Reported as:		
Costs in excess of billings (work in progress)	599	552
Deferred contract revenue	(3,665)	(4,916)
	(3,066)	(4,364)

Work in progress is included in inventories.

Statement of income amounts related to these contracts are as follows:

	Three months ended March 31, 2017	Three months ended March 31, 2016
	$	$
Contract revenue (included in revenue)	39,947	30,148
Contract expense (included in operating expenses)	(31,362)	(22,502)
Contract profit	8,585	7,646

6. CONVERTIBLE DEBENTURES

During the three months ended March 31, 2017, the holders of the convertible debentures converted 2,362,000 convertible debentures into 262,433 Mosaic common shares.

Debt component	
December 31, 2015	-
Issuance, net of transaction costs	$ 13,110
Amortization of transaction costs	22
Accretion	30
December 31, 2016	13,162
Amortization of transaction costs	35
Accretion	49
Conversion to common shares	(1,996)
March 31, 2017	11,250
Equity component	
December 31, 2015	-
Issuance, net of allocated transaction costs and deferred tax	1,164
December 31, 2016	1,164
Deferred tax adjustment	(194)
Conversion to common shares	(176)
March 31, 2017	$ 794

The amount recorded for accrued interest related to the convertible debentures as of March 31, 2017 was $358 (March 31, 2016 - $nil).

7. 5% DEBENTURES

On January 26, 2017, as part of the Offering, Mosaic issued $50,000 of 5% Debentures with a face value of $1 per 5% Debenture. The 5% Debentures bear interest at a rate of 5% per annum, mature on January 26, 2024, are not redeemable before maturity and are secured by a security interest on all the assets of Mosaic and certain of its subsidiaries, subject only to the first priority security interest of Mosaic's Canadian financial institution. Mosaic incurred $139 in transaction costs.

The 5% Debentures contains a financial covenant that total debt to gross EBITDA will not exceed 2.50 : 1.00 without prior written consent. Total debt is defined to include consolidated bank debt, convertible debentures, capital lease obligations, equipment financing obligations, vendor take-back notes and other commercial notes, all to the extent they rank in priority to the 5% Debentures. Gross EBITDA is defined as gross earnings before interest, taxes, depreciation and amortization.

Mosaic is in compliance with this covenant as at March 31, 2017.

8. COMMON SHARE WARRANTS

On January 26, 2017, as part of the Offering, Mosaic issued Warrants entitling Fairfax to acquire up to 17,026,000 comon shares of Mosaic at a price of $8.81 per common share until January 26, 2024.

The Warrants will be fair-valued as at each reporting period. A change in the inputs utilized to calculate the fair value such as the Company's share price, volatility, remaining life and interest rate can have a material impact on the reported loss and comprehensive loss for the period. In determining the fair value of the Warrants, the Company used the Black-Scholes option pricing model with the following assumptions: average volatility rate; market price as at the reporting date; risk-free interest rate; and the remaining expected life of the warrant. The inputs used in the Black-Scholes model are taken from observable market data.

In determining the fair value of the Warrants as at March 31, 2017, the Company used the Black-Scholes option pricing model with the following assumptions: weighted average volatility rate of 30%; risk-free interest rate of 1.50%; marketability discount of 50%; and expected life of seven years. The value of $21,418 was established on March 31, 2017 and the Warrants will be subsequently revalued at the end of each reporting period utilizing the Black-Scholes option pricing model. This revaluation as of March 31, 2017 resulted in a loss on fair value adjustment of $863.

The marketability discount is a significant management judgment which reflects, among other things, the dilutive nature of the potential cashless exercise of the Warrants. The marketability discount is an unobservable input that is significant to the fair value measurement of the Warrants and therefore the fair value measurement is categorised within Level 3 of the fair value hierarchy.

9. EQUITY

(i) Preferred securities

a) 10% preferred securities

On February 10, 2017, Mosaic redeemed all outstanding 10% preferred securities for a cash payment of $10.1096 per each 10% preferred security for an aggegate redemption cost of approximately $105,900.

b) 6% Preferred Securities

Mosaic is authorized to issue an unlimited number of 6% Preferred Securities. On January 26, 2017, as part of the Offering, Mosaic issued $100,000 of 6% Preferred Securities. The 6% Preferred Securities bear interest at a rate of 6% per annum and are unsecured obligations of Mosaic subordinate to all liabilities of Mosaic, excluding obligations specifically subordinated to the 6% Preferred Securities. The 6% Preferred Securities rank senior to Mosaic's existing 7% convertible unsecured senior subordinated debentures. Mosaic incurred $277 in transaction costs.

The 6% Preferred Securities are not redeemable by Mosaic before January 26, 2022 (the "Call Date"). After the Call Date, the 6% Preferred Securities may be redeemed at the option of Mosaic at a price per 6% Preferred Security equal to the greater of: (i) $10; and (ii) the ten-day volume weighted average trading price of the 6% Preferred Securities.

(ii) Private Yield Securities and Warrants

On February 10, 2017, Mosaic retracted all outstanding private yield securities for a cash payment of $1 per each private yield security for an aggegate retraction cost of approximately $26,800. All outstanding warrants to purchase private yield securities expired in accordance with their terms.

(iii) Subscription Privileges

On March 3, 2017, Mosaic issued 2,551,000 subscription privileges for gross proceeds of $15,193. The subscription privileges entitled the holders to subscribe for up to 2,551,000 common shares of Mosaic at a subscription price of $9.80 per share. Mosaic issued a total of 1,550,000 common shares of upon closing of the offering

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(in thousands of Canadian dollars, except per unit amounts)

10. EARNINGS PER SHARE ("EPS")

EPS is calculated as follows:

	Three months ended March 31, 2017	Three months ended March 31, 2016
Net income from continuing operations	**$ 1,010**	**$ 2,884**
Less: Non-controlling interests	(950)	(880)
Less: 10% Preferred security dividends declared	(1,148)	(2,620)
Less: 6% Preferred security dividends declared	(1,068)	-
Less: Private yield securities distributions declared	(269)	(613)
Less: Series "A" share dividends declared	-	(22)
Loss from continuing operations for common shareholders	(2,425)	(1,251)
Weighted average number of common shares	8,935	8,360
Basic EPS from continuing operations	**(0.27)**	**(0.15)**
Weighted average number of common shares	8,935	8,360
Basic EPS	**(0.27)**	**(0.15)**
Average number of shares for options	-	-
Average number of shares for RSUs	-	-
Diluted average number of common shares	8,935	8,360
Diluted EPS from continuing operations	**(0.27)**	**(0.15)**
Diluted EPS	**(0.27)**	**(0.15)**

As at March 31, 2017, there were 395,690 options (March 31, 2016 – 96,250), 296,422 RSUs (March 31, 2016 –230,526), 17,026,106 warrants (March 31, 2016 – nil) and 1,473,778 common shares issuable upon conversion of convertible debentures considered anti-dilutive.

A dividend of $0.105 per common share was paid on March 31, 2017 (March 31, 2016 - $0.10).

11. SEGMENTED INFORMATION

Mosaic's reportable business segments include strategic business units that offer different products and services but share similar economic characteristics and/or operate in similar geographic locations and represent those components of the Company that are evaluated regularly by the chief operating decision maker in assessing performance and allocating resources. The Company's chief operating decision maker is a group of executive directors and a director at large.

Mosaic has four reportable business segments:

- Infrastructure consists of the business operations conducted through Ambassador, Place-Crete, SECLP and Bassi.
- Energy consists of the business operations conducted through Allied Cathodic and Remote Waste.
- Diversified consists of the business operations conducted through Industrial Scaffold, Kendall's Supply, Printing Unlimited and Mackow.
- Real Estate consists of a portfolio of income-producing commercial and industrial real estate assets in Fort McMurray, Alberta and Regina, Estevan and Saskatoon, Saskatchewan conducted through FWPLP and its 50% interest in FWDLP.

"Corporate" as used in the following segment tables is not a separate segment and is only presented to reconcile to the consolidated results. It consists of expenses incurred at the Company's head office. Mosaic evaluates each segment's performance based on operating income. Mosaic's method of calculating operating income may differ from that of other corporations and therefore may not be comparable to measures utilized by them.

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Mosaic Capital Corporation
Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended March 31, 2017 and 2016
(Unaudited)
(in thousands of Canadian dollars, except per unit amounts)

	Infrastructure as at		Energy as at		Diversified as at		Real Estate as at		Corporate as at		Consolidated as at	
	Mar. 31, 2017	Dec 31, 2016	Mar. 31, 2017	Dec 31, 2016	Mar. 31, 2017	Dec 31, 2016	Mar. 31, 2017	Dec 31, 2016	Mar. 31, 2017	Dec 31, 2016	Mar. 31, 2017	Dec 31, 2016
Assets	$	$	$	$	$	$	$	$	$	$	$	$
Current assets												
Cash and cash equivalents	7,372	14,241	1,413	893	7,095	7,396	172	578	5,001	1,830	21,053	24,938
Accounts receivable	53,884	54,781	2,608	2,525	9,610	9,396	82	30	403	222	66,587	66,954
Inventories	4,359	4,250	514	541	3,376	2,824	-	-	-	-	8,249	7,615
Deposits and prepaid expenses	531	599	127	151	770	597	-	5	117	466	1,545	1,818
Income taxes recoverable	(245)	(245)	-	-	753	739	-	-	-	-	508	494
	65,901	73,626	4,662	4,110	21,604	20,952	254	613	5,521	2,518	97,942	101,819
Non-current assets												
Property held for development	-	-	-	-	-	-	985	985	-	-	985	985
Income-producing properties	-	-	-	-	-	-	11,635	11,683	-	-	11,635	11,683
Loan receivable	(32)	(34)	(1,490)	(985)	29	35	-	-	1,661	1,157	168	173
Investments	-	-	-	-	4,240	4,336	-	-	(4,240)	(4,336)	-	-
Investment in joint venture	-	-	-	-	-	-	3,382	3,495	-	-	3,382	3,495
Property, plant and equipment	11,664	10,962	8,164	7,750	8,102	8,059	-	-	83	64	28,013	26,835
Employee share purchase plan	-	-	-	-	-	-	-	-	180	201	180	201
Goodwill and other intangible assets	60,777	61,590	4,997	5,089	47,044	47,625	31	45	16,390	16,390	129,239	130,739
	72,409	72,518	11,671	11,854	59,415	60,055	16,033	16,208	14,074	13,476	173,602	174,111
	138,310	146,144	16,333	15,964	81,019	81,007	16,287	16,821	19,595	15,994	271,544	275,930
Liabilities												
Current liabilities												
Operating loans	-	-	-	-	-	-	2,182	2,211	-	-	2,182	2,211
Credit facility	-	-	-	-	-	-	-	-	-	24,500	-	24,500
Accounts payable and accrued liabilities	23,978	30,335	926	794	6,187	3,796	50	62	1,136	1,713	32,277	36,700
Dividends payable	-	-	-	-	-	-	-	-	1,068	1,085	1,068	1,085
Deferred contract revenue	3,665	4,457	-	-	-	-	-	-	-	-	3,665	4,457
Due to (from) inter-company	24	4	(9)	(8)	3,577	3,595	(11,527)	(11,527)	7,935	7,936	-	-
Current portion of contingent consideration	133	133	-	-	838	838	-	-	-	-	971	971
Current portion of notes payable	986	3,866	325	164	1,876	2,532	18	16	2,193	2,167	5,398	8,745
	28,786	38,795	1,242	950	12,478	10,761	(9,277)	(9,238)	12,332	37,401	45,561	78,669
Non-current liabilities												
5% Debentures	-	-	-	-	-	-	-	-	46,633	-	46,633	-
Warrants	-	-	-	-	-	-	-	-	21,418	-	21,418	-
Notes payable	554	449	839	338	693	653	420	426	7,059	7,617	9,565	9,483
Convertible debentures	-	-	-	-	-	-	-	-	11,250	13,162	11,250	13,162
Deferred income tax liability	4,099	3,775	569	537	8,170	8,308	441	435	(9,677)	(9,153)	3,602	3,902
Contingent consideration	1,461	1,461	-	-	703	703	-	-	-	-	2,164	2,164
Security deposits	-	-	-	-	-	-	32	47	-	-	32	47
	6,114	5,685	1,408	875	9,566	9,664	893	908	76,683	11,626	94,664	28,758
	34,900	44,480	2,650	1,825	22,044	20,425	(8,384)	(8,330)	89,015	49,027	140,225	107,427
Shareholders' Equity												
Common shares	3,568	3,568	-	-	99,206	101,106	18,316	18,864	(86,895)	(105,685)	34,195	17,853
10% Preferred securities	-	-	-	-	-	-	-	-	-	102,161	-	102,161
6% Preferred securities	-	-	-	-	-	-	-	-	82,395	-	82,395	-
Series "A" shares	-	-	-	-	-	-	-	-	-	570	-	570
Private yield securities	-	-	-	-	-	-	-	-	-	23,922	-	23,922
Warrants - private yield securities	-	-	-	-	-	-	-	-	-	1,887	-	1,887
Preferred trust units	-	-	-	-	32,877	32,877	-	-	(32,877)	(32,877)	-	-
Contributed surplus	-	-	-	-	-	-	(958)	(958)	2,405	2,610	1,447	1,652
Convertible debentures	-	-	-	-	-	-	-	-	794	1,164	794	1,164
Non-controlling interests	28,372	27,767	(278)	(175)	15,295	15,459	-	-	-	-	43,389	43,051
Retained earnings (deficit)	71,470	70,329	13,961	14,314	(88,403)	(88,860)	7,313	7,245	(35,242)	(26,785)	(30,901)	(23,757)
	103,410	101,664	13,683	14,139	58,975	60,582	24,671	25,151	(69,420)	(33,033)	131,319	168,503
	138,310	146,144	16,333	15,964	81,019	81,007	16,287	16,821	19,595	15,994	271,544	275,930

Mosaic Capital Corporation

Notes to the Condensed Interim Consolidated Financial Statements

For the Three Months Ended March 31, 2017 and 2016

(Unaudited)

(in thousands of Canadian dollars, except per unit amounts)

	Infrastructure		Energy		Diversified		Real Estate		Corporate		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	$	$	$	$	$	$	$	$	$	$	$	$
Revenue	39,947	30,879	2,510	1,716	15,486	7,354	166	295	-	-	58,109	40,244
Operating expenses	36,439	26,221	1,941	1,529	12,328	6,446	204	100	2,003	996	52,915	35,292
Income (loss) from operations	3,508	4,658	569	187	3,158	908	(38)	195	(2,003)	(996)	5,194	4,952
Accretion expense	-	-	-	-	-	-	-	-	49	-	49	-
Amortization of income-producing properties	-	-	-	-	-	-	49	49	-	-	49	49
Amortization of property, plant & equipment	611	557	384	157	416	221	-	-	6	5	1,417	940
Amortization of intangible assets	814	269	92	138	621	277	-	-	4	2	1,531	686
Securities-based compensation	-	-	-	-	-	-	-	-	(205)	102	(205)	102
Foreign exchange loss	-	-	-	-	4	-	-	-	-	-	4	-
Loss (gain) on sale of property, plant & equipment	14	(6)	(8)	(12)	123	(11)	-	-	-	-	129	(29)
	1,439	820	468	283	1,164	487	49	49	(146)	109	2,974	1,748
Income (loss) before finance	2,069	3,838	101	(96)	1,994	421	(87)	146	(1,857)	(1,105)	2,220	3,204
Finance income	20	87	-	1	-	-	-	-	19	1	39	89
Finance expense	(50)	(28)	(26)	(34)	(36)	(69)	(26)	(25)	(885)	24	(1,023)	(132)
	(30)	59	(26)	(33)	(36)	(69)	(26)	(25)	(866)	25	(984)	(43)
Share of joint venture income (loss)	-	-	-	-	-	-	184	(53)	-	-	184	(53)
Fair value adjustment on common share warrants	-	-	-	-	-	-	-	-	(863)	-	(863)	-
Income (loss) from continuing operations before taxes	2,039	3,897	75	(129)	1,958	352	71	68	(3,586)	(1,080)	557	3,108
Income tax expense (recovery)												
Current	-	322	-	-	41	82	-	3	-	-	41	407
Deferred	324	(1,945)	32	531	(138)	39	6	15	(718)	1,177	(494)	(183)
	324	(1,623)	32	531	(97)	121	6	18	(718)	1,177	(453)	224
Net income (loss) from continuing operations	1,715	5,520	43	(660)	2,055	231	65	50	(2,868)	(2,257)	1,010	2,884
Net income (loss) and comprehensive income (loss)	1,715	5,520	43	(660)	2,055	231	65	50	(2,868)	(2,257)	1,010	2,884
Net Income (loss) and comprehensive ncome (loss) attributable to:												
Shareholders	1,111	4,635	46	(621)	1,706	197	65	50	(2,868)	(2,257)	60	2,004
Non-controlling interests	604	885	(3)	(39)	349	34	-	-	-	-	950	880
	1,715	5,520	43	(660)	2,055	231	65	50	(2,868)	(2,257)	1,010	2,884

(in thousands of Canadian dollars, except per unit amounts)

12. CREDIT FACILITY

Mosaic

On January 24, 2017, Mosaic entered into a new $35,000 revolving three-year credit facility agreement with a Canadian financial institution (the "2017 Credit Facility"), bearing interest at rates ranging from prime plus 0.50% - 1.50%. The 2017 Credit Facility replaced a pre-existing three-year $25,000 revolving credit facility agreement with that same financial institution which had been executed on May 20, 2014 (the "2014 Credit Facility") and subsequently amended August 2 and September 19, 2016, bearing interest rates ranging from prime plus 0.50% - 1.25%.

The 2017 Credit Facility is secured by general security agreements granted by Mosaic and certain of its subsidiaries together with an assignment of securities that Mosaic holds in certain subsidiaries as well as guarantees granted by certain of Mosaic's subsidiaries.

The 2017 Credit Facility contains quarterly financial covenants that Mosaic will not at any time, without prior written consent, breach the following restrictions:

(i) Total Debt[1] to Gross EBITDA[5] not to exceed 3.00 : 1.00;

(ii) Net Funded Debt[2] to EBITDA[3] not to exceed 2.00 : 1.00;

(iii) Fixed Charge Coverage Ratio (EBITDA divided by Fixed Charges[4)] to be not less than 1.10 : 1.00

(iv) Specified individual subsidiaries' net funded debt to individual subsidiaries' Gross EBITDA not to exceed 1.00 : 1.00; and

(v) Specified subsidiaries' aggregate net funded debt to subsidiaries' aggregate Gross EBITDA not to exceed 0.50 : 1.00.

1. *Total Debt is defined to include consolidated bank debt, convertible debentures, capital lease obligations, equipment financing obligations, vendor take-back notes and other commercial notes.*

2. *Net Funded Debt is Total Debt minus consolidated cash balances.*

3. *EBITDA defined as Mosaic's share of consolidated adjusted earnings before interest, taxes, depreciation and amortization, minus portion attributable to minority interests.*

4. *Fixed Charges defined to include scheduled payments on debt obligations plus distributions to security holders of Mosaic. For Q4'16 through Q4'17, the calculation of Fixed Charges to be reduced by consolidated cash balances.*

5. *Gross EBITDA is EBITDA including portion attributable to minority interests. EBITDA is defined as earnings before interest, taxes, depreciation and amortization.*

As at March 31, 2017, Mosaic's compliance with these covenants is as follows:

		Covenant	As Calculated	
Consolidated:	Net funded debt : EBITDA	2.00 : 1.00	0.37 : 1.00	Compliant
Consolidated:	Total Debt : Gross EBITDA	3.00 : 1.00	0.96 : 1.00	Compliant
Consolidated:	Fixed Charge Coverage Ratio	1.10 : 1.00	1.15 : 1.00	Compliant

(in thousands of Canadian dollars, except per unit amounts)

Subsidiary net funded debt : Subsidiary EBITDA - Individual subsidiaries - Subsidiaries in aggregate	 1.00 : 1.00 0.50 : 1.00	 0.17 : 1.00	 All compliant Compliant

13. OPERATING LOANS

Mosaic's subsidiaries have facilities available to finance ongoing operations. Each entity is in compliance with the relevant covenants as of March 31, 2017.

14. REVENUE

	Three months ended March 31,	
	2017	2016
	$	$
Contract revenue	39,947	29,736
Sale of goods	10,429	2,514
Rendering of services	7,567	7,699
Revenue related to income-producing properties	166	295
Total revenue	58,109	40,244

15. COMPENSATION

The aggregate consolidated payroll expense of employees, officers and directors is as follows:

	Three months ended March 31,	
	2017	2016
	$	$
Salaries	6,744	3,947
Equity-based compensation	(205)	102
	6,539	4,049

16. FINANCE INCOME AND EXPENSE

	Three months ended March 31,	
	2017	2016
	$	$
Finance income		
Interest income on cash and cash equivalents	39	89
Finance expense		
Interest expense	(1,023)	(132)
Finance expense from continuing operations	(984)	(43)

(in thousands of Canadian dollars, except per unit amounts)

17. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash operating working capital:

	Three months ended March 31,	
	2017	2016
	$	$
Accounts receivable	367	3,929
Inventories	(634)	269
Deposits and prepaid expenses	272	(502)
Accounts payable & accrued liabilities	(4,790)	(2,358)
Dividends payable	-	(2)
Income taxes recoverable	(14)	73
Deferred contract revenue	(792)	(843)
	(5,591)	566

18. RELATED PARTY TRANSACTIONS

Rent of $526 for the three months ended March 31, 2017 (March 31, 2016 - $198) for space occupied by certain of Mosaic's subsidiaries was paid to entities controlled by minority partners within Mosaic's subsidiaries. These leasing arrangements are ongoing.

Related party transactions are in the normal course of operations and are recorded at fair value.

There were no amounts outstanding to or from related parties as of March 31, 2017 (December 31, 2016 $nil).

19. COMMITMENTS AND CONTINGENT LIABILITIES

Mosaic has commitments under operating leases for office and shop space and equipment as well as commitments to pay contingent consideration in relation to its business combinations. Amounts to be paid in relation to these are approximately as follows:

Year	Amount
	$
2017	2,659
2018	3,095
2019	3,095
2020	2,203
2021 and after	3,038
	14,090

Certain subsidiaries of Mosaic are contingently liable for contractor obligations relating to performance and completion of construction contracts. These may include contingent liabilities for subcontractors failing to meet their contractual performance obligations.

As part of normal ongoing operations, it is possible that Mosaic and its subsidiaries could become involved in litigation and claims from time to time. Management is not presently aware of any litigation or claims where likelihood and quantum of liability can be reasonably estimated and which would materially affect the financial position or results of operations of Mosaic. In addition, Mosaic or its subsidiaries may provide indemnifications, in the normal course of business, that are often standard contractual terms to counterparties in certain transactions, such as purchase and sale agreements or service contracts. The terms of these indemnifications will vary based upon the contract, the nature of which prevents Mosaic from making a reasonable estimate of the maximum potential amounts that may be required to be paid.

20. SUBSEQUENT EVENT

On May 1, 2017, Mosaic completed the acquisition of a 75% interest in the business being carried on by Cedar Infrastructure Products Inc. (“Cedar”). The remaining 25% is being retained by its founders. Mosaic’s cost of the acquisition was $18,300 plus a three-year earn out provision to be paid to the vendors if the business meets specified financial targets, subject to typical post-closing adjustments and was funded through a combination of cash ($14,000) and vendor take-back financing ($4,300). The vendor take back financing is payable in full on year three and bears interest at 5%. Existing management will remain in place. Mosaic is currently determining the fair value of the earn-out provision.