Mosaic Capital Corporation

Consolidated Financial Statements
Year Ended December 31, 2011

(audited)

MOSAIC CAPITAL CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(*audited*)

Contents

Deloitte.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Mosaic Capital Corporation:

We have audited the accompanying consolidated financial statements of Mosaic Capital Corporation, which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements comprehensive income, consolidated statements of changes in shareholders'/unitholders' equity and consolidated statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Mosaic Capital Corporation as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Deloitte & Touche LLP

April 30, 2012
Calgary, Alberta

Chartered Accountants

Mosaic Capital Corporation
Consolidated Balance Sheets
(shown in thousands of Canadian dollars)

	Notes	December 31, 2011	December 31, 2010	January 1, 2010
Assets		$	$	$
Current assets				
Cash and cash equivalents	7	20,303	10,395	9,154
Restricted cash	7	130	121	-
Accounts receivable	5(b) & 8	5,869	4,386	4,479
Inventory	9	586	553	256
Deposits and prepaid expenses		406	85	42
Income taxes recoverable		-	-	263
Total current assets		27,294	15,540	14,194
Non-current assets				
Property held for development	10	439	-	-
Income producing properties	11	19,595	-	-
Property, plant and equipment	12	4,685	4,496	4,668
Employee share purchase plan	13	445	-	-
Goodw ill and other intangible assets	14	17,585	18,426	19,092
Total non-current assets		42,749	22,922	23,760
Total assets		70,043	38,462	37,954
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	5(c)	2,347	1,456	2,163
Dividends payable	5(c)	424	1,393	1,073
Due to related parties	28	-	-	111
Current portion of mortgages payable	17	216	-	-
Current portion of notes payable	16	310	294	371
Total current liabilities		3,297	3,143	3,718
Non-current liabilities				
Preferred trust units	15	-	32,338	30,728
Mortgages payable	17	4,646	-	-
Notes payable	16	309	293	172
Deferred income tax liability	26	488	119	-
Security deposits		66	-	-
Total non-current liabilities		5,509	32,750	30,900
Total Liabilities		8,806	35,893	34,618
Shareholder/Unitholders' Equity				
Preferred securities	18	45,677	-	-
Series "A" shares	18	135	-	-
Common shares	18	15,981	-	-
Contributed surplus	18	505	26	-
Common trust units	18	-	16	16
Non-controlling interest	23	4,698	4,598	4,747
Accumulated Deficit		(5,759)	(2,071)	(1,427)
Total equity attributable to equity holders		61,237	2,569	3,336
Total liabilities and shareholder/unitholders' equity		70,043	38,462	37,954

-Commitments (note 29)

-Subsequent events (note 31)

See accompanying notes to the consolidated financial statements.

These consolidated financial statements were approved by the board of directors on April 29, 2012

(signed) *"Harold Kunik"*, Director

(signed) *"John Mackay"*, Director

Mosaic Capital Corporation

Consolidated Statements of Comprehensive Income

For the Years Ended December 31

(shown in thousands of Canadian dollars)

	Notes	2011	2010
		$	$
Revenue		23,654	20,384
Operating expenses		18,271	13,969
Income from Operations		5,383	6,415
Amortization of buildings	11	234	-
Amortization of tangible assets	12	694	657
Amortization of intangible assets	14	951	981
Share based compensation	20	505	-
Loss on sale of equipment		20	8
		2,404	1,646
Income before finance		2,979	4,769
Finance income	25	92	13
Finance expense	25	247	25
		(155)	(12)
Income before other items		2,824	4,757
Other Income and Expenses			
Acquisition costs	6	552	-
Income from continuing operations before tax		2,272	4,757
Income tax expense			
Current	26	124	-
Deferred	26	369	119
		493	119
Net income from continuing operations		**1,779**	**4,638**
Preferrred trust unit interest -the Fund		(1,182)	(3,550)
Net income from discontinued operations, net of tax	30	76	-
Net Income and comprehensive income		673	1,088
Income and comprehensive income attributable to:			
Shareholders'/Unit holders'		(295)	346
Non-controlling interest	23	968	742
		673	1,088
Earnings per share calculations		(see note 19)	(see note 19)
Weighted average number of common shares outstanding		7,115,673	5,063,298

See accompanying notes to the consolidated financial statements.

Mosaic Capital Corporation

Consolidated Statements of Changes in Shareholders'/Unitholders' Equity
For the Years Ended December 31

(shown in thousands of Canadian dollars)

	Notes	Number of Preferred Securities	Preferred Securities Stated Value	Number of Series "A" Shares	Series "A" Shares Stated Value	Number of Common Shares	Common Shares Stated Value	Contributed Surplus	Number of Common Trust Units	Common Trust Units Stated Value	Total Unit Capital Stated Value	Non-Controlling Interest	Deficit	Total Equity
Balance as at January 1, 2010		-	$ -	-	$ -	-	$ -	-	2,802	$ 16	$ 16	$ 4,747	$ (1,427)	$ 3,336
Redemption of preferred Units	18	-	-	-	-	-	-	26	-	-	26	-	-	26
Change in non-controlling interest	23	-	-	-	-	-	-	-	-	-	-	(891)	-	(891)
Distributions paid to unit holders	18	-	-	-	-	-	-	-	-	-	-	-	(990)	(990)
Income for the year		-	-	-	-	-	-	-	-	-	-	742	346	1,088
Balance at December 30, 2010		-	-	-	-	-	-	$ 26	2,802	$ 16	$ 42	$ 4,598	$ (2,071)	$ 2,569
Issue of common trust units/shares	18	-	-	21	135	8,138	15,981	(26)	(2,802)	(16)	16,074	-	-	16,074
Issue of preferred trust units/securities	18	5,089	45,859	-	-	-	-	-	-	-	45,859	-	-	45,859
Redemption of preferred securities	18	(22)	(182)	-	-	-	-	-	-	-	(182)	-	-	(182)
Change in non-controlling interest	23	-	-	-	-	-	-	-	-	-	-	(868)	-	(868)
Dividends paid on preferred securites	18	-	-	-	-	-	-	-	-	-	-	-	(3,381)	(3,381)
Dividends paid on series "A" shares	18	-	-	-	-	-	-	-	-	-	-	-	(12)	(12)
Share based compensation expense	20	-	-	-	-	-	-	505	-	-	505	-	-	505
Income for the year		-	-	-	-	-	-	-	-	-	-	968	(295)	673
Balance at December 30, 2011		5,067	$ 45,677	21	$ 135	8,138	$ 15,981	$ 505	-	-	$ 62,298	$ 4,698	$ (5,759)	$ 61,237

See accompanying notes to the consolidated financial statements.

Mosaic Capital Corporation

Consolidated Statements of Cash Flows

For the Years Ended December 31

(shown in thousands of Canadian dollars)

	Notes	2011	2010
		$	$
Cash and cash equivalents provided by (used in):			
Cash flows from operating activities			
Income for the period		(295)	346
Adjustments for:			
Accretion of notes payable	16	5	8
Amortization of buildings		234	-
Amortization of tangible assets	12	694	657
Amortization of intangible assets	14	951	981
Deferred tax expense	26	369	119
Gain on redemption of units		-	(19)
Share based compensation	20	505	-
Loss on sale of equipment		20	8
Non-controlling interest	23	968	742
Sub-total changes prior to non-cash working capital		3,451	2,842
Changes in non-cash working capital	27	(1,831)	(508)
Net cash provided by operating activities		1,620	2,334
Cash flows from investing activities			
Additions to intangible assets	14	(110)	(315)
Additions to property, plant and equipment	12	(883)	(485)
Business combination, cash acquired	6	6,805	-
Disposal of income producing properties	11	9,963	-
Disposal of property held for development	10	642	-
Employee share purchase plan	13	(445)	-
Net cash provided by (used in) investing activities		15,972	(800)
Cash flows from financing activities			
Additions to notes payable	16	348	-
Issue of preferred trust units		-	1,844
Restricted cash		(9)	(121)
Distributions to non-controlling interests	23	(873)	(591)
Distributions to unit holders	18		(560)
Dividends to preferred security holders	18	(1,854)	-
Acquisition of preferred securities pursuant to DRIP	18	(1,105)	-
Dividends to series "A" shareholders	18	(10)	-
Redemption of preferred securities	18	(182)	-
Redemption of units	18	(188)	(234)
Exercise of stock options	20	135	-
Repayment of mortgages	17	(3,630)	-
Repayment of notes payable	16	(316)	(520)
Repayment to related parties		-	(111)
Net cash from financing activities		(7,684)	(293)
Change in cash and cash equivalents		9,908	1,241
Cash and cash equivalents, beginning of year		10,395	9,154
Cash and cash equivalents, end of year		20,303	10,395

See accompanying notes to the consolidated financial statements.

1. GENERAL BUSINESS DESCRIPTION

Mosaic Capital Corporation

Mosaic Capital Corporation ("Mosaic Capital") was incorporated under the *Business Corporations Act* (Alberta) on February 11, 2011. Mosaic Capital is a Calgary based investment company that owns a portfolio of established businesses that generate strong cash flow from their operations in niche markets. Mosaic Capital's portfolio businesses operate in the printing, oil and gas services, technology, and real estate industries. Mosaic Capital continues to acquire and invest in businesses that have attributes similar to its existing businesses.

- Effective May 1, 2011, Mosaic Diversified Income Fund (the "Fund") was acquired by Mosaic Capital pursuant to the terms of a plan of arrangement (the "Arrangement") approved April 28, 2011. Under the terms of the Arrangement, the Fund became a wholly owned subsidiary of Mosaic Capital. The holders of preferred units of the Fund received one preferred security and 0.143 common shares in the capital of Mosaic Capital for each preferred unit held in the Fund. The holders of common units of the Fund received 1,631.7 common shares in Mosaic Capital for each common unit held in the Fund. The unit holders of the Fund, as a group, held approximately 62% of the common shares and 70% of the class "A" preferred securities of Mosaic Capital as of May 1, 2011.
- Effective May 1, 2011, First West Properties Ltd. ("First West") was acquired by Mosaic Capital pursuant to the terms of the Arrangement approved April 28, 2011. Under the Arrangement First West became a wholly-owned subsidiary of Mosaic Capital. In connection with the transaction, class "A" common voting shareholders of First West received, for each class "A" common voting share held, 0.077 of a preferred security and 0.154 of a common share of Mosaic Capital. In addition, holders of class "A" common voting share purchase options of First West exchanged those options for Mosaic Capital unit options on a basis so as to put the holders in materially the same economic position as they were prior to the Arrangement. The Mosaic Capital unit options entitle the holders to receive the same mix of preferred securities and common shares as holders of class "A" common voting shares of First West received under the Arrangement. The shareholders of First West, as a group, held approximately 38% of the common shares and 30% of the Class "A" preferred securities of Mosaic Capital as of May 1, 2011.

Information related to these transactions may be found under Mosaic Capital's profile at www.sedar.com.

The common shares and preferred securities of Mosaic Capital were listed and commenced trading on the TSX Venture Exchange under the symbol "MZ" and "MZ.PR.A", respectively, on May 9, 2011. Effective September 27, 2011, Mosaic Capital changed its trading symbol for its common shares from "MZ" to "M" and for its preferred securities from "MZ.PR.A" to "M.PR.A."

The address and principal place of business, of Mosaic Capital is Suite 400, 2424 - 4th Street SW, Calgary, Alberta, Canada, T2S 2T4.

The Fund

The Fund is an unincorporated open-ended, limited purpose trust established under the laws of the Province of Alberta pursuant to a Declaration of Trust dated October 26, 2005. The Declaration of Trust was subsequently amended and restated February 21, 2006 and further amended and restated November 1, 2010. The Fund was formed to invest in a diversified group of income producing businesses.

As at December 31, 2011, the Fund has indirectly invested in four operating entities:

Printing Unlimited L.P. ("Printing Unlimited") – Printing Unlimited is a wholly-owned subsidiary based in Fort McMurray, Alberta, and prints marketing and promotional materials, annual reports, operation manuals and handbooks, safety tags, stationary, carbonless forms, and photocopies.

Allied Cathodic Services L.P. ("Allied Cathodic") – Allied Cathodic is based in Estevan, Saskatchewan, and installs, maintains and replaces cathodic protection systems for oil and gas production facilities in southeast Saskatchewan and southwest Manitoba. The Fund holds an 80% interest in Allied Cathodic.

Polar Geomatic Solutions L.P. ("Polar") – The Fund owns 90% of Polar. Based in Red Deer Alberta Polar provides services to create and maintain stakeholder information associated with an asset or project along with providing a web-based Landowner Information Database (LOID) system to manage this information. Polar's services and the LOID system are primarily used by pipeline companies to facilitate stakeholder notifications and ensure compliance with landowner consultation and emergency response planning requirements under applicable legislation.

Remote Waste L.P. ("Remote Waste") – Remote Waste is 75% owned by the Fund and is based in Sexsmith, Alberta. Remote Waste manufactures and leases biological sewage treatment units for use in remote work camps.

First West

First West was incorporated under the Business Corporations Act (Alberta) on June 7, 1996 as Aveiro Investment Corp. First West was an inactive public company until August 21, 2006, when the board of directors and management were changed and a new business plan was adopted. On February 7, 2008, First West amended its articles and changed its name to First West Properties Ltd. from Aveiro Investment Corp.

First West is an Alberta based real estate investment company that has built a portfolio of real estate assets in secondary markets in western Canada consisting primarily of income producing properties and other assets which provide income or to which management can conduct activity to provide fundamental value growth.

2. BASIS OF PREPARATION

a. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). As a result of the Arrangement, Mosaic Capital is a continuation of the Fund. The consolidated financial statements present Mosaic Capital's results of operations and financial position as if Mosaic Capital had always owned the Fund. The consolidated financial statements presented for comparative periods are those of the Fund. Also as a result of the Arrangement, the acquisition of First West has been accounted as a purchase business combination. The consolidated financial statements include the accounts and results of operations of First West from May 1, 2011, the date of closing of the Arrangement.

These are Mosaic Capital's first annual consolidated financial statements prepared in accordance with IFRS. The consolidated financial statements have been prepared in accordance with IFRS 1 "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"). Previously, the Fund prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

The preparation of the consolidated financial statements resulted in selected changes to the Fund's accounting policies as compared to those disclosed in the Fund's annual audited consolidated financial statements for the year ended December 31, 2010 issued under Canadian GAAP. A summary of significant changes to Mosaic Capital's accounting policies is disclosed in note 32 along with reconciliations presenting the impact of the transition to IFRS for the comparative periods as at January 1, 2010, and as at and for the year ended December 31, 2010.

A summary of Mosaic Capital's significant accounting policies under IFRS is presented in note 3. These policies have been retrospectively and consistently applied except where IFRS 1 mandatory exceptions and optional elections provided for an alternative treatment upon transition to IFRS as disclosed in note 32.

The consolidated financial statements were approved by the board of directors of Mosaic Capital on April 29, 2012.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

(i) derivative financial instruments, if any, are measured at fair value; and

(ii) held for trading financial assets are measured at fair value with changes in fair value recorded in earnings.

The methods used to measure fair values are discussed in note 4.

c. Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is Mosaic Capital's functional currency.

d. Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Judgments, estimates and underlying assumptions are reviewed on a continuous basis and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In preparing our financial statements, we make judgments regarding the application of IFRS for our accounting policies. Significant judgments relate to determination of whether a transaction constitutes a business combination, determination of significant influence or control, application of tax rules and regulations, identification of cash-generating units ("CGUs") and the impairment of assets.

Areas that require significant estimates and assumptions are set out in the following paragraphs.

Amortization and valuation of property, plant and equipment and goodwill and other intangible assets

The amounts recorded for amortization of components of property, plant and equipment and intangible assets and the valuation of CGUs are based on estimates of future cash flows, remaining lives and periods of future benefits and the residual values of the related assets.

Valuation of accounts receivable

The valuation of accounts receivable is based on management's estimate of the collectability of accounts receivable.

Income taxes

The amounts recorded for deferred income taxes are based on estimates as to the timing of the reversal of temporary differences and the tax rates expected to apply in the period of reversal. They are also based on estimates of the probability of Mosaic Capital utilizing certain tax pools and assets which in turn are dependent on estimates of future taxable income. The availability of tax pools is subject to audit and interpretation by taxation authorities.

Valuation of stock options

When not directly observable in active markets, Mosaic Capital uses third-party models and valuation methodologies that utilize observable market data to estimate the valuation of stock options. In addition to market information, Mosaic Capital incorporates transaction specific details that market participants would utilize in a fair value measurement.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the periods presented in these consolidated financial statements.

(a) Principles of consolidation

The consolidated financial statements include the accounts of the following:

- Mosaic Capital Corporation;
- Mosaic Diversified Income Fund and its subsidiaries; and
- First West Properties Ltd.

(b) Subsidiaries and business combinations

Subsidiaries are entities over which Mosaic Capital has control, where control is defined as the power to govern financial and operating policies. A controlling position is assumed to exist where Mosaic Capital holds, directly or indirectly, a voting interest exceeding 50% and where no other group or shareholder exercise substantive participating rights which would enable it to veto or to block ordinary decisions taken by Mosaic Capital. Subsidiaries are fully consolidated from the date control is transferred to Mosaic Capital, and are de-consolidated from the date control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries as follows:

- cost is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the closing date;
- identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date;
- the excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill and is allocated to each of the CGUs expected to benefit from the combination's synergies; and
- if the acquisition cost is less than the fair value of the net assets acquired, the fair value of the net assets is re-assessed and any remaining differences is recognized directly in the consolidated statement of comprehensive income.
- Non-controlling interest ("NCI") is calculated on the acquisition method which means that all balance sheet and income statement items are included in the consolidation in their full value. Non-controlling interest is eliminated by showing the NCI portion in shareholders'/unitholders' equity and in the income allocation on the consolidated statement of comprehensive income.

The value used to calculate and deduct NCI is the percentage of ownership that is owned by the NCI.

- Step acquisitions for NCI's are accounted for by calculating the NCI up to the date of a change and calculating NCI's beyond that date at the new percentage ownership.

If the initial accounting for a business combination can only be determined provisionally, subsequent adjustments to the allocation may be recognized if they occur within 12 months of the acquisition date. After 12 months, adjustments are recognized through income. The adjustments made as a result of finalizing the provisional accounting are retrospectively recognized from the acquisition date. As a result, adjustments to amortization are retrospectively recorded to reflect the final purchase accounting.

Intercompany transactions between subsidiaries are eliminated on consolidation.

Transaction costs, other than those associated with the issue of debt or equity securities, that Mosaic Capital incurs in connection with a business combination are expensed as incurred.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts on deposit with banks, guaranteed investment certificates held with banks and other short term highly liquid investments with maturities within 90 days or less at the date of issue.

(d) Restricted cash

Restricted cash is comprised of deposits with Canadian Chartered banks which pledged as security relating to the use of corporate credit cards and payroll processing.

(e) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Financial assets

Financial assets include cash and cash equivalents, restricted cash, and accounts receivable. Purchases and sales of financial assets are recognized on the settlement date, which is the date on which the asset is delivered to Mosaic Capital. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or Mosaic Capital has transferred substantially all risks and rewards of ownership. Financial assets are classified in the following categories at the time of initial recognition based on the purpose for which the financial assets are acquired:

Financial assets at fair value through profit or loss

<u>Classification</u>

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and its performance is evaluated on a fair value basis in accordance with Mosaic Capital's documented risk management or investment strategy. Mosaic Capital has designated cash and cash equivalents and restricted cash as held for trading. Derivatives are also categorized as held for trading unless they are designated as hedges.

Recognition and measurement

Financial assets carried at fair value through profit or loss are initially recognized and subsequently carried at fair value, with changes in fair value recognized in income. Transaction costs are expensed when incurred.

Loans and receivables

Classification

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Assets in this category include accounts receivable and deposits.

Recognition and measurement

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method, less any impairment losses. Interest income is recognized by applying the effective interest rate, except for assets with short terms to maturity where the recognition of interest would be immaterial.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They consist of investments in equity securities and certain debt securities. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Changes in fair value of available-for-sale financial assets are recognized in other comprehensive income. Mosaic Capital has not designated any financial assets as available-for-sale.

Reclassification of financial assets

Reclassification is only permitted in rare circumstances and where the asset is no longer held for the purpose of selling in the short-term. In all cases, reclassifications of financial assets are limited to debt instruments. Reclassifications are accounted for at the fair value of the financial asset at the date of reclassification.

(ii) Financial liabilities

Financial liabilities primarily consist of accounts payable and accrued liabilities, mortgages payable, notes and dividends payable, amounts due to related parties and security deposits. Financial liabilities are initially measured at fair value and subsequently measured at amortized cost for liabilities that are not hedged, and fair value for liabilities that are hedged. Mosaic Capital currently does not have any hedges.

(iii) Derivative financial instruments

Mosaic Capital may enter into certain financial derivative contracts in order to manage the exposure to market risks from price fluctuations. These instruments are not used for trading or speculative purposes. Transaction costs are recognized in income as incurred. Proceeds and costs realized from holding these financial instruments are recognized in income at the time each contract is settled.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in income. Mosaic Capital has not identified any embedded derivatives in any of its financial instruments or contracts.

(iv) Equity instruments

Common units of the Fund are classified as equity in the comparative financial statements. The preferred units of the Fund contained features that required they be classified as debt and they have been presented as liabilities in the comparative financial statements.

Preferred securities, series "A" preferred shares, and common shares of Mosaic Capital are classified as equity. Incremental costs directly attributable to the issue of preferred securities and common shares and share options are recognized as a deduction from equity, net of any tax effects.

(v) Impairment

At each balance sheet date, Mosaic Capital assesses whether there is objective evidence that a financial asset, other than those at fair value through profit or loss, or a group of financial assets could be impaired. When indicators of impairment exist, an impairment calculation for the respective assets is prepared. When an impairment has occurred, the cumulative loss is recognized in income.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. Objective evidence of impairment for a portfolio of receivables could include Mosaic Capital's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in income. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognized in income in the period of recovery.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to income in the period.

With the exception of available-for-sale financial assets, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of available-for-sale financial assets, impairment losses previously recognized in income are not reversed through income. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

(f) Foreign currency transactions and operations

Transactions in foreign currencies are translated to the respective functional currencies of Mosaic Capital and its subsidiaries at exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate in effect on the balance sheet date with any resulting foreign exchange gain or loss recognized in income. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items measured in terms of historical cost in a foreign currency are translated using the exchange rate in effect on the date of the transaction. Foreign currency gains and losses on transactions are reported in income during the period they occur.

Mosaic Capital does not currently have an operation with a functional currency that is different from Canadian dollars.

(g) Property, plant and equipment

(i) Assets owned

Property, plant and equipment are carried at historical cost less any accumulated amortization and impairment losses. Historical cost includes the acquisition cost or production cost as well as the costs directly attributable to bringing the asset to the location and condition necessary for its use in operations. When property, plant and equipment include significant components with different useful lives, they are recorded and amortized separately. Amortization is computed based on the estimated useful life of the assets or components. Useful life is reviewed at the end of each reporting period. Assets financed by finance lease contracts are capitalized at the lower of the fair value of future minimum lease payments and market value and the related debt is recorded in notes payable.

(ii) Subsequent costs

Mosaic Capital recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to Mosaic Capital and the cost of the item can be measured reliably. All other costs are recognized in income as incurred.

(iii) Amortization

Amortization is charged to income over the estimated useful lives of each component of an item of property, plant and equipment as follows:

Buildings	Declining balance	2%
Computer equipment	Declining balance	30%
Furniture and fixtures	Declining balance	20%
Leasehold Improvements	Straight-line	Term of Lease
Motor vehicles	Declining balance	30%
Parts inventory	Declining balance	20%
Production equipment	Declining balance	20%
Rental equipment	Straight-line	20 years

The residual value, if significant, is reassessed annually.

(h) Intangible assets

(i) Intangible assets

Intangible assets that are acquired by Mosaic Capital are stated at cost less accumulated amortization and impairment losses.

(ii) Subsequent expenditures

Subsequent expenditures on capitalized intangible assets is capitalized only when it increases the future economic benefits embodied in the specific intangible asset to which it relates. All other expenditures are expensed as incurred.

(iii) Amortization

Amortization is charged to income on a straight-line basis over the estimated useful lives of intangible assets, unless such lives are indefinite. Goodwill and intangible assets are tested for impairment annually. Intangible assets are amortized from the date they are available for use. These assets are amortized as follows:

Computer software	Straight-line	1 year
Customer relationships	Straight-line	15 years
Employee agreements	Straight-line	10 years
Intellectual property	Straight-line	10 years
Non-compete agreements	Straight-line	5 years
Step up leases	Term of lease	Term of lease

(i) Goodwill

Mosaic Capital records goodwill relating to a business combination when the purchase price exceeds the fair value of the net identifiable assets and liabilities of the acquired business. Goodwill is reported at cost less any impairment. Goodwill impairments are not recovered.

(j) Impairment

When events or changes in the economic environment indicate a risk of impairment of goodwill, other intangible assets or property, plant and equipment, an impairment test is performed to determine whether the carrying amount of the asset or group of assets under consideration exceeds its or their recoverable amount. Recoverable amount is defined as the higher of an asset's fair value less costs to sell and its value in use. Value in use is equal to the present value of future cash flows expected to be derived from the use and sale of the asset.

In addition, asset impairment tests are subject to the following provisions:

- Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the group of assets. Such groups of assets are referred to as CGUs.
- Irrespective of whether there is any indication of impairment, goodwill and other indefinite life intangible assets are subject to an annual impairment test. This test is performed during the fourth quarter of each year. The recoverable value of each of Mosaic Capital's CGUs is compared to the carrying amount of the corresponding assets (including goodwill).
- Value in use is determined based on cash flow projections consistent with the most recent budget and business plan approved by management. The discount rate applied reflects current assessments by the market of the time value of money and the risks specific to the asset or CGU.
- Fair value less costs to sell is the estimated amount obtainable from the sale of the asset or CGU in an arm's length transaction between knowledgeable and willing parties, less costs to sell. These values are determined based on market data (comparison with similar listed companies, value attributed in recent transactions and stock market prices), or in the absence of reliable data, based on discounted future cash flows.
- If the recoverable amount is less than the carrying amount of an asset or CGU, an impairment loss is recognized for the difference. In the case of a CGU, this impairment loss is recorded in priority against goodwill.
- Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of the other assets in the CGU on a pro rata basis.

In assessing goodwill and indefinite-lived intangible assets for impairment at December 31, 2011, Mosaic Capital compared the aggregate recoverable amount of the assets included in the CGUs to their respective carrying amounts. The recoverable amount has been determined based on the expected future cash flows from the CGUs. No impairment was required to be recognized at January 1, 2010, December 31, 2010 or December 31, 2011.

(k) Inventory

Inventory is recorded at the lower of cost and net realizable value. Costs are measured using both the average cost and the first-in, first-out methods. Net realizable value is the estimated selling price of specific items less costs to sell.

(l) Revenue recognition

(i) Revenue

Revenues are recognized when the services and equipment rentals are provided and only when collectability is reasonably assured. Services are generally sold based upon service order or customer contracts that include fixed or determinable prices based on daily, hourly or job rates.

(ii) Property rental income

Revenue from rental properties is recognized when a tenant commences occupancy of a rental unit or site and rent is due. Rental income from income producing properties is recognized on a straight line basis over the lease term. Mosaic Capital retains all of the benefits and risks of ownership of its rental properties and therefore accounts for leases with its tenants as operating leases.

Incentives for lessees to enter lease agreements are spread evenly over the lease term, even if the payments are not made on such a basis. The lease term is the non-cancellable period of the lease.

(iii) Service charges and expenses recoverable from tenants

Income arising from expenses recharged to tenants is recognized in the period in which the expense can be contractually recovered.

(m) Property acquisitions

Upon acquisition of commercial properties, Mosaic Capital performs an assessment of the fair value of the properties' related tangible and intangible assets and liabilities (including land, buildings, in-place leases, above-and below-market leases, and any other assumed assets and liabilities) and allocates the purchase price to the acquired assets and liabilities based on these fair values.

Mosaic Capital assesses and considers fair value based on discounted cash flow projections that take into account relevant discount and capitalization rates and any other relevant sources of market information available. Estimates of future cash flows are based on factors that include historical operating results, if available, and anticipated trends, local markets and underlying economic conditions.

Mosaic Capital allocates the purchase price based on the following:

Land – The amount allocated to land is based on a combination of an appraisal estimate of its fair value and management's best estimate.

Buildings – The amount allocated to buildings is based on a combination of an appraisal estimate of its fair value and management's best estimate.

In-place leases – In-place lease values are determined based on estimated costs required for each lease that represents the net operating income lost during an estimated lease-up period that would be required to replace the existing leases at the time of purchase.

Tenant relationships – Tenant relationship values are determined based on costs avoided if the respective tenants were to renew their leases at the end of the existing term, adjusted for the estimated probability that the tenants will renew.

Above-and below-market leases – Values ascribed to above-and below-market existing leases are determined based on the present value of the difference between the rents payable under the terms of the respective leases and estimated future market rents at the date of acquisition.

(n) Income producing properties

(i) Completed income producing property

Initially, income producing properties are recorded at cost, including acquisition costs. Acquisition costs include transfer taxes and various professional fees.

Income producing property is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of income producing properties are recognized in income in the period of retirement or disposal.

Transfers are made to income producing property when, and only when, there is a change in use, evidenced by the end of the owner occupation or commencement of operating leases. Transfers are made from income producing property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

(ii) Income producing property under construction

The cost of development properties includes direct development costs and borrowing costs directly attributable to the development.

(o) Property held for development

Property held for development includes initial acquisition costs, plus other direct costs and operating expenses incurred during the period of development.

(p) Finance income and expenses

Finance income, consisting of interest income, is recognized as it accrues in income, using the effective interest method.

Finance expense comprises interest expense on borrowings, accretion of the discount on decommissioning provisions and impairment losses recognized on financial assets.

Borrowing costs incurred for the acquisition or construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. A qualifying asset is one that takes a substantial period of time to get ready for use or sale.

Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of Mosaic Capital during the period.

All other borrowing costs are recognized in income in the period in which they are incurred using the effective interest method.

(q) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences, and the carry forward of non-capital losses, can be utilized.

Deferred tax is not recognized from the initial recognition (other than in a business combination) of other assets or liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different taxable entities where Mosaic Capital has the intention and ability to settle current tax liabilities and assets on a net basis.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future profit will allow the deferred tax asset to be recovered and/or the carrying value of temporary differences exceed their tax basis.

(r) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Finance leases, which transfer to Mosaic Capital substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to income as they arise.

Other leases are classified as operating leases. Operating lease payments are recognized as an expense on a straight line basis over the lease term, except for contingent rental payments which are expensed when they arise.

(s) Provisions and contingent liabilities

Provisions are recognized when there is a present legal or constructive obligation arising as a result of a past event for which it is probable that an outflow of economic benefits will be required to settle the obligation and where a reliable estimate can be made of the amount of the obligation. Provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) Equity

When securities recognized as equity are repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a deduction from total equity.

(u) Share-based compensation

The fair value of employee security and share options is measured using a Black Scholes option pricing model. Measurement inputs include the share price on the grant date, the exercise price of the instrument, the expected volatility, the weighted average expected life of the instruments, the expected dividends and the risk-free interest rate. Service and non-market performance conditions are not taken into account in determining fair value. At the end of each reporting period, Mosaic Capital revises its estimate of the number of equity instruments expected to vest. There has been no cash-settled share based compensation during the year.

(v) Share issuance costs

Commissions paid to underwriters, and other related share issue costs, such as legal, auditing and printing, on the issue of Mosaic Capital's shares and securities are charged directly to share capital.

(w) Dividends

Dividends on preferred securities and series "A" preferred shares are recognized in the period in which the dividends are approved by Mosaic Capital's board of directors.

(x) Goods and services tax

Revenue, expenses and assets are recognized net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognized as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Receiver General is included as a current asset or liability in the consolidated balance sheet.

(y) Segmented information

Mosaic Capital's reporting segments are established on the basis of having similar economic characteristics and/or which are in similar geographic locations and those components of Mosaic Capital that are evaluated regularly by the chief operating decision maker, being the board of directors, in deciding how to allocate resources and in assessing performance.

(z) Earnings per share

Mosaic Capital presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the net income attributable to shareholders of Mosaic Capital less distributions approved for preferred securities by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the net income or loss attributable to owners and the weighted average number of common shares outstanding for the effects of all potentially dilutive instruments.

(aa) Recent accounting pronouncements

All accounting standards effective for periods on or before December 31, 2011 have been adopted as part of the transition to IFRS. The following new IFRS pronouncements have been issued but are not yet effective and may have an impact on Mosaic Capital in the future:

- IFRS 7 Financial Instruments: Disclosures
- IFRS 9 Financial Instruments
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- Amendments to IAS 1, Presentation of Financial Statements
- IAS 12 – Income Taxes
- IAS 27 – Consolidated and Separate Financial Statements
- IAS 28 – Investments in Associates and Joint Ventures

4. DETERMINATION OF FAIR VALUES

A number of Mosaic Capital's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment, intangible assets and goodwill

The fair value of property, plant and equipment, intangible assets and goodwill recognized in a business combination, is based on market values. The market value of property, plant and equipment is the estimated amount for which the asset could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of intangible assets is estimated with reference to the discounted cash flows expected to be derived from these assets.

(ii) Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable and notes payable

The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities and dividends payable approximates their carrying value due to their short term to maturity. Notes payable are recorded initially at cost, and subsequently amortized, reflecting debt discounts or premiums where interest rates negotiated with third parties differ from estimated market rates, which in management's opinion reflects their estimated fair values.

(iii) Derivatives

The fair value of forward contracts, collars and swaps is determined by discounting the difference between the contracted prices and published forward price curves as at the balance sheet date, adjusted for Mosaic Capital's non-performance risk and the non-performance risk of the counterparty.

(iv) Common share and preferred security options

The fair value of options to purchase common shares and preferred securities are measured using the Black-Scholes option pricing model. Measurement inputs include security price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility of similar sized companies based on publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

For financial assets and liabilities carried at fair value, the significance of inputs used in making fair value measurements are examined and classified according to a fair value hierarchy. Fair values of financial assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Financial assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly and are based on valuation models and techniques where the inputs are derived from a quoted index. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

Cash and cash equivalents are measured at fair value based on a Level 1 designation.

5. FINANCIAL RISK MANAGEMENT

(a) Overview

Mosaic Capital's activities expose it to a variety of financial risks that arise as a result of its investment and financing activities such as:

- credit risk;
- liquidity risk; and
- market risk.

Mosaic Capital employs risk management strategies and polices to ensure that any exposure to risk are in compliance with Mosaic Capital's business objectives and risk tolerance levels. While the board of directors has the overall responsibility for the establishment and oversight of Mosaic Capital's risk management framework, Mosaic Capital's management has the responsibility to administer and monitor these risks.

(b) Credit risk

Credit risk is the risk of financial loss to Mosaic Capital if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Mosaic Capital's accounts receivable are due from a wide range of customers and are subject to normal credit risk. The maximum exposure to credit risk at December 31, 2011 and December 31, 2010 is as follows:

(shown in thousands of Canadian dollars)

	Carrying amount		
	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Cash and cash equivalents	20,303	10,395	9,154
Restricted cash	130	121	-
Accounts receivable	5,869	4,386	4,479
	26,302	14,902	13,633

Cash and cash equivalents

Mosaic Capital manages the credit exposure related to cash and cash equivalents by selecting Canadian chartered banks with high credit ratings and monitors all short term deposits to ensure an adequate rate of return. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

Accounts receivable

Mosaic Capital is exposed to credit risk as an owner of businesses that extend credit to customers and tenants. The credit quality of the trade receivables amount is considered adequate. Mosaic Capital provides allowances for any customer accounts where collectability is doubtful. Mosaic Capital offers a diverse variety of products and services to a wide range of customers. Mosaic Capital does not have any significant exposure to any one customer.

The majority of accounts receivable relates to trade receivables. Mosaic Capital's management believes at this time that all receivables, net of allowances for doubtful accounts, will be collected.

(c) Liquidity risk

Liquidity risk is the risk that Mosaic Capital will not be able to meet its financial obligations as they come due. Mosaic Capital's approach to managing liquidity is to monitor cash requirements, maintain available lines of credit and to ensure it will have sufficient liquidity to meet its liabilities when due. Mosaic Capital's ongoing liquidity is impacted by various external events and conditions and the global economic downturn.

Mosaic Capital's financial liabilities consist of accounts payable and accrued liabilities, dividends payable, mortgages payable, security deposits and notes payable. Accounts payable consists mainly of invoices payable to trade suppliers.

Mosaic Capital expects to pay its financial liabilities in the normal course of operations and to fund future operational and capital requirements through operating cash flow, as well as future equity and debt financing.

Mosaic Capital's accounts payable and accrued liabilities as at December 31, 2011 and December 31, 2010 are aged as follows:

(shown in thousands of Canadian dollars)

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
0 - 30 days	2,245	1,330	2,132
31 to 60 days	101	126	31
61 to 90 days	-	-	-
Greater than 90 days	1	-	-
Total accounts payable and accrued liabilities	2,347	1,456	2,163

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect Mosaic Capital's net earnings or the value of financial instruments. The objective of Mosaic Capital is to manage and mitigate market risk exposures within acceptable limits, while maximizing returns.

(e) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Inherently, changes in interest rates may affect the general economy. Mosaic Capital is exposed to interest rate price risk to the extent that its borrowings are at floating rates.

At December 31, 2011 the impact on net income for each 1% change in interest rates is not significant.

(f) Capital management

Mosaic Capital's objective when managing capital is to safeguard its ability to continue as a going concern. It does this by monitoring liquidity with a view to meeting near term working capital requirements. It structures business and asset acquisitions with a combination of equity and debt financing to ensure debt servicing is manageable. Mosaic Capital defines capital as notes payable, mortgages payable, non-controlling interest and shareholders'/unitholders' equity. Non-performance risk, including Mosaic Capital's own credit risk for financial liabilities, is considered when determining the fair value of financial assets or liabilities, including derivative liabilities.

The total managed capital for Mosaic Capital is summarized below:

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Notes payable	619	587	543
Preferred trust units	-	32,338	30,728
Mortgages payable	4,862	-	-
Shareholders'/Unitholders' equity	61,237	2,569	3,336
	66,718	35,494	34,607

6. BUSINESS COMBINATIONS

On May 1, 2011, Mosaic Capital acquired all of the issued and outstanding shares of First West in exchange for 3,056,686 common shares and 1,528,386 preferred securities.

(shown in thousands of Canadian dollars)

The following summarizes the major classes of consideration transferred, and the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

As at May 1, 2011	Amount $
Common shares	13,663
Preferred securities	15,283
	28,946

This acquisition has been accounted for using the acquisition method on May 1, 2011, whereby the assets acquired and the liabilities assumed were recorded at their fair values. Mosaic Capital assessed the fair values of the net assets acquired based on management's best estimate of fair value and external documentation, which takes into consideration the condition of the assets acquired, current industry conditions and the discounted future cash flows expected to be received from the assets as well as the amount expected to settle the outstanding liabilities. Subsequent to the acquisition date, First West's operating results have been included in Mosaic Capital's revenues, expenses and capital spending.

The following summarizes the allocation of the aggregate consideration for the First West acquisition:

As at May 1, 2011	Amount $
Cash acquired	$ 6,805
Net working capital	360
Income producing properties	29,192
Property held for development	1,081
Mortgages payable	(8,492)
	28,946

There was no goodwill recognized as a result of this acquisition.

Mosaic Capital incurred costs related to the acquisition of First West of $552 relating to due diligence, as well as external legal and advisory fees, which were expensed.

7. CASH AND CASH EQUIVALENTS

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Bank balances	20,303	6,198	6,385
Government t-bill's or bank cashable GIC's	-	4,197	2,769
	20,303	10,395	9,154

Restricted cash

Restricted cash relates to deposits with Canadian Chartered banks and is pledged as security relating to the use of corporate credit cards and payroll processing.

(shown in thousands of Canadian dollars)

8. ACCOUNTS RECEIVABLE

As at December 31, 2011 and December 31, 2010, Mosaic Capital's accounts receivable were comprised of the following:

		Carrying amount	
	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Trade receivable	5,219	4,066	4,175
Other	650	320	304
	5,869	4,386	4,479

As at December 31, 2011 and December 31, 2010, Mosaic Capital estimates its trade receivable to be aged as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Current (0 - 30 days)	2,662	2,635	2,195
31 to 60 days	1,837	872	941
61 to 90 days	355	139	542
Past due (greater than 90 days)	365	420	497
	5,219	4,066	4,175

Mosaic Capital has an allowance for doubtful accounts as at December 31, 2011 of $215 (December 31, 2010 - $77, January 1, 2010 - $3). When determining whether past due accounts are recoverable, Mosaic Capital factors in the past credit history of the counterparties. Mosaic Capital considers all amounts greater than 90 days as past due.

9. INVENTORY

	December 31, 2011	December 31, 2010	January 1, 2010
Raw materials and consumables (at cost)	$ 586	$ 553	$ 256

The cost of inventories recognized as an expense during the year in respect of continuing operations was $2,651 (2010 - $3,099).

10. PROPERTY HELD FOR DEVELOPMENT

Property held for development of $439 (December 31, 2010 - $ Nil) consists of 3.85 acres of bare land.

On November 18, 2011, First West completed the sale of a portion of a parcel of land (3.16 acres) located in Lethbridge, Alberta for a price of $711 less disposal costs of $17. There is no gain on sale recorded in these consolidated financial statements as assets were fair valued as of the May 1, 2011 as a result of the acquisition of First West and there has been no significant change in fair value since that date.

(shown in thousands of Canadian dollars)

11. INCOME PRODUCING PROPERTIES

	Land	Buildings	Total
Cost	$	$	$
Balance at January 1, 2010	-	-	-
Balance at December 31, 2010	-	-	-
Additions	7,298	21,908	29,206
Disposals	(2,353)	(7,060)	(9,413)
Balance December 31, 2011	4,945	14,848	19,793
Accumulated amortization and impairment losses			
Balance at January 1, 2010	-	-	-
Balance at December 31, 2010	-	-	-
Amortization for the year	-	234	234
Disposals	-	(36)	(36)
Balance December 31, 2011	-	198	198
Net book value			
At January 1, 2010	-	-	-
At December 31, 2010	-	-	-
At December 31, 2011	4,945	14,650	19,595

Income producing properties are comprised of commercial buildings owned by First West. These properties are primarily located in secondary markets throughout Western Canada.

The income producing properties were valued upon acquisition of First West on May 1, 2011 and no significant change in fair market value has been identified from May 1, 2011 to December 31, 2011.

On June 15, 2011, First West completed the sale of a property located in Saskatoon, Saskatchewan for a price of $4,933 less disposal costs of $175. A portion of the proceeds were used to pay the mortgage on the property for $1,542. There is no gain on sale recorded in these consolidated financial statements as the assets were fair valued as of the May 1, 2011 as a result of the acquisition of First West by Mosaic Capital and the selling price was known at that time.

On October 31, 2011, First West completed the sale of a property located in Saskatoon, Saskatchewan for a price of $4,875 less disposal costs of $130. A portion of the proceeds were used to pay the mortgage on the property for $1,898. There was a loss on sale recorded on this transaction of $81.

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(shown in thousands of Canadian dollars)

12. PROPERTY, PLANT AND EQUIPMENT

	Land	Motor Vehicles	Computer Equipment	Production and Rental Equipment	Furniture and Fixtures	Parts Inventory	Leasehold Improvements	Total
Cost	$	$	$	$	$	$	$	$
Balance at January 1, 2010	57	857	279	4,209	131	371	-	5,904
Additions	-	244	103	56	11	67	5	485
Disposals		(31)						(31)
Balance at December 31, 2010	57	1,070	382	4,265	142	438	5	6,358
Additions	-	504	69	387	27	-	-	987
Disposals	(57)	(108)	-	-	-	-	-	(165)
Balance December 31, 2011	-	1,466	451	4,652	169	438	5	7,181
Accumulated amortization and impairment losses								
Balance at January 1, 2010	-	289	154	679	45	69	-	1,236
Amortization for the year	-	215	50	297	19	74	3	657
Disposals		(31)	-	-	-	-	-	(31)
Balance at December 31, 2010	-	473	204	976	64	143	3	1,862
Amortization for the year	-	275	65	272	19	60	2	694
Disposals		(60)	-	-	-	-	-	(60)
Balance December 31, 2011	-	688	269	1,248	83	203	5	2,496
Net book value								
At January 1, 2010	57	568	125	3,530	86	302	-	4,668
At December 31, 2010	57	597	177	3,290	78	295	2	4,496
At December 31, 2011	-	778	182	3,404	86	235	-	4,685

13. EMPLOYEE SHARE PURCHASE PLAN

Directors, officers and key employees (collectively "employees") of Mosaic Capital are eligible to participate in the employee share purchase plan (the "ESPP"). Under the ESPP, employees who have been invited to participate in the ESPP may contribute up to such amount as is determined by Mosaic Capital. The amount (if any) then contributed by the employee is matched by Mosaic Capital through a matching loan (the "Loan") secured by a promissory note bearing interest at 1% and repayable by the employee over a term not to exceed five years. The employee contribution together with the funds loaned by Mosaic Capital are then provided to the trustee of the ESPP and the trustee uses such funds to purchase common shares of Mosaic Capital through the facilities of the TSX Venture Exchange. The trustee, or its agent, is responsible for determining the pricing and timing of purchases of the common shares. The common shares purchased on behalf of an employee are held as security for their Loan. Should the employee's position terminate with Mosaic Capital then their Loan is repayable, subject to certain exceptions, within 30 days of the termination date. Should the common shares be sold by the employee, the proceeds of such sale shall first be applied in repayment of the Loan and then any remaining balance remitted to the employee. If any dividends or other distributions are paid on the common shares held under the Plan for the benefit of the employee, the proceeds are used to reduce the Loan made to such employee.

The outstanding amount of loans under the ESPP was $445 as at December 31, 2011 (December 31, 2010 - $Nil).

(shown in thousands of Canadian dollars)

14. GOODWILL AND OTHER INTANGIBLES

	Goodwill	Non-compete agreements	Employment Agreements	Intellectual Property	Customer Relationships	Computer Software	Step up leases	Total
Cost	$	$	$	$	$	$	$	$
Balance at January 1, 2010	7,650	117	199	1,460	11,388	155	-	20,970
Additions	256	-	-	-	-	63	-	319
Balance at December 31, 2010	7,906	117	199	1,460	11,388	218	-	21,289
Additions	-	-	-	-	-	94	50	144
Disposals	-	-	-	-	-	(56)	-	(56)
Balance at December 31, 2011	7,906	117	199	1,460	11,388	256	50	21,377
Accumulated amortization								
Balance at January 1, 2010	-	35	42	158	1,537	106	-	1,878
Amortization for the year	-	23	20	97	759	85	-	985
Balance at December 31, 2010	-	58	61	256	2,297	191	-	2,863
Amortization for the year	-	24	20	98	759	50	-	951
Disposals						(22)	-	(22)
Balance at December 31, 2011	-	82	81	353	3,056	219	-	3,792
Net book value								
At January 1, 2010	7,650	83	158	1,302	9,851	49	-	19,092
At December 31, 2010	7,906	59	138	1,205	9,092	27	-	18,426
At December 31, 2011	7,906	35	118	1,107	8,332	37	50	17,585

Mosaic Capital allocates goodwill to its CGUs. The recoverable amount of each CGU has been determined based on value-in-use calculations. Those calculations use cash flow projections based on actual operating results and the 5 year projection from management. Cash flows for a further 5 year period are extrapolated using a 5% growth rate. These assumptions are consistent with the long-term average growth rate for the industry.

15. PREFERRED TRUST UNITS PAYABLE

The Fund issued preferred trust units which were previously classified as unitholder equity however under IFRS this value was required to be re-classified as long term debt as it represents priority and callable units. This change required payments to preferred unit holders to be reclassified under IFRS to interest.

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(shown in thousands of Canadian dollars)

16. NOTES PAYABLE

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
At December 31, 2011, $139 was payable to a former minority partner. The note is repayable with monthly payments of $5 and a lump sum payment of $110 on Jan 1, 2012. Interest is calculated on the lower of $110 or the outstanding balance of the loan at 5%. The note is secured by a first charge on the partnership units purchased.	139	298	-
$1,500 payable to a minority partner. The note bears interest at 5% per annum and is secured by a first charge on assets acquired. The note is repayable by way of blended monthly payments of principal and interest of $45 to June 30, 2010, and is repayable in whole or in part at any time without penalty.	-	-	263
Finance leases payable to a third party. The leases bear interest at 5% per annum and are repayable in blended quarterly payments of $10 to June 2013.	41	78	113
Vehicle financing is payable to third parties. The financings bear interest at a blended rate of between 0.0% to 8.6% and is repayable in blended monthly payments of between $1 and $2. Expiry of the financing range from May 31, 2011 to March 31, 2015. The financing is secured by a specific charge over the vehicles financed.	439	211	167
	619	587	543
Less: Current portion of notes payable	(310)	(294)	(371)
	309	293	172

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(shown in thousands of Canadian dollars)

Payments of principal amounts owing are scheduled as follows:

	Cash Payments
2012	310
2013	164
2014	88
2015	57
	619

17. MORTGAGES PAYABLE

One of Mosaic Capital's subsidiaries has entered into various loans with a Canadian chartered bank, and in respect to each, has issued a mortgage and a demand promissory note. The demand promissory note only comes into effect as a result of default.

There are three floating rate loans that have an aggregate principal balance of $4,862 as at December 31, 2011 with each such loan having a maturity date of the earlier of (i) January 28, 2015, (ii) the end of the elected term in the event that the loan is converted from floating rate to fixed rates; and (iii) the date payment is demanded as a result of default. The floating rate loan facilities are payable at the greater of 4.75% or bank prime rate plus 1%. The bank prime rate at December 31, 2011 was 3%. The loans have fixed monthly blended payments ranging from $4 to $24. The loans are reviewed, at least annually, by the lender. Refer to note 29 for additional commitments for these mortgages.

Each loan is in respect of a specific property and is secured by a mortgage charge against, and a general security agreement charging present and after-acquired personal property of First West in respect of that specific property. The specific properties charged by this security have a net book value of $12,200.

One fixed rate loan, in the amount of $1,542 and one floating rate loan, in the amount of $1,898 was repaid during the year.

Mosaic Capital is subject to one principal financial covenant over its mortgages payable. This financial covenant is described below:

i) To maintain a cash flow coverage ratio of not less than 1.20x at all times – measured separately against each individual property.

As at December 31, 2011 and as at April 29, 2012 Mosaic Capital is in compliance of the above covenant.

18. SHARES, UNITS AND SECURITIES

Mosaic Capital is authorized to issue the following equity securities and shares. For full particulars, reference should be made to the Articles of Mosaic Capital and the preferred securities indenture (as hereafter defined) which may be found under Mosaic Capital's profile at www.sedar.com.

(i) Common shares

Authorized: Unlimited

The holders of common shares are entitled to one vote per share at all meetings of shareholders, except separate meetings of the holders of another class or series of shares of Mosaic Capital. The common shares are entitled to dividends, if and when declared by the board of directors of Mosaic Capital and to the distribution of the residual assets of Mosaic Capital in the event of the liquidation, dissolution or winding-up of Mosaic Capital.

(ii) Preferred shares, issuable in series

Authorized: Unlimited

The preferred shares are issuable in series. The preferred shares of each series rank on a parity with the preferred shares of every other series with respect to dividends and return of capital and are entitled to a preference over the common shares and any other shares ranking junior to the preferred shares with respect to priority in the payment of dividends and the distribution of assets in the event of the liquidation, dissolution or winding-up of Mosaic Capital. The board of directors of Mosaic Capital are empowered to fix the number of shares and the rights to be attached to the preferred shares of each series, including the amount of dividends and any conversion, voting and redemption rights. Subject to the Articles of Mosaic Capital and to applicable law, the preferred shares as a class are not entitled to receive notice of or attend or vote at meetings of Mosaic Capital shareholders.

The board of directors of Mosaic has created series "A" preferred shares. The series "A" preferred shares issued under the Plan of Arrangement are non-voting and entitle the holders thereof to a dividend equal to the dividend payments made on the preferred securities. Each series "A" preferred share is redeemable for one preferred security.

(iii) Preferred securities

Authorized: Unlimited

The preferred securities were created and issued under the subordinated securities indenture ("Preferred Securities Indenture") dated April 29, 2011 between Mosaic Capital and Olympia Trust Company as trustee. The preferred securities are non-voting, unsecured, subordinated, perpetual securities having no fixed maturity or redemption date and are issuable in denominations of $10 and integral multiples thereof and bear simple interest at the rate of 10% per annum calculated annually not in advance.

(iv) Contributed surplus

The contributed surplus of $505 as at December 31, 2011 consists of the value of the share based compensation expense that was recorded during the period.

(v) Preferred trust units

Authorized – Unlimited number of units

Except in certain circumstances the holders of preferred units are not entitled to vote on any matter pertaining to the Fund. The holders of preferred units may vote separately as a class, where the matter for which approval is being sought is to amend the rights, privileges, restrictions and conditions attaching to the preferred units. The holders of the preferred units, in priority to the common units, shall be entitled to receive out of the distribution cash flow of the Trust properly applicable to the payment of distributions, fixed preferential cumulative cash distributions at the rate of $0.8333 per preferred trust unit, per month. In addition to such fixed preferential cumulative distributions, the holders of the preferred trust units shall be entitled to receive non-cumulative distributions when declared by the Trustees.

(shown in thousands of Canadian dollars)

(vi) Common trust units

Authorized – Unlimited number of units

The holders of common trust units are entitled to vote and are entitled to receive non-cumulative distributions when declared by the Trustees.

(vii) Distributions and dividends to unit holders, security holders and shareholders

	For the period ended December 31, 2011					
	Preferred securities	Series "A" shares	Common shares	Preferred units	Common units	Totals
Dividends/distributions unpaid - opening	-	-	-	403	990	1,393
Dividends/distributions declared	3,381	12	-	1,182	-	4,575
Dividends/distributions paid	1,854	10	-	699	990	3,553
Dividends/distributions reinvested	1,105	-	-	886	-	1,991
Dividends/distributions unpaid	422	2	-	-	-	424

(viii) Redemptions of preferred securities

For the year ended December 31, 2011 Mosaic Capital purchased 21,900 preferred securities at a total cost of $182. These securities were subsequently cancelled. This transaction was undertaken to mitigate any dilution that would have been created by the issuance of series "A" preferred shares upon exercise of options exercised in the period.

19. EARNINGS PER SHARE

For purposes of this calculation the prior period common units and preferred securities have been converted into the equivalent number of common shares of Mosaic Capital based on the exchange ratios as set out in the Arrangement to provide the calculation of earnings per common share as follows.

	2011	2010
Basic and diluted net income available per common share from income from continuing operations	$ (0.52)	$ 0.07
Basic and diluted net income available per common share from discontinued operations	$ 0.01	$ -
Basic and diluted net income available per common share from income and comprehensive income	$ (0.51)	$ 0.07
Weighted average number of common shares outstanding	7,115,673	5,063,298

20. STOCK OPTIONS

The board of directors of Mosaic Capital adopted a share based compensation plan which was approved by the holders of preferred units of the Fund and holders of common shares of First West at the meetings of First West and the Fund to approve the Arrangement. The Mosaic Capital share-based compensation plan is intended to afford persons who provide services to Mosaic Capital with an opportunity to obtain a proprietary interest in Mosaic Capital and to assist in attracting as well as retaining and encouraging the continued involvement of such persons with Mosaic Capital. The Mosaic Capital share-based compensation plan permits the granting of equity incentive awards, including Mosaic Capital options, stock appreciation rights, restricted stock, restricted stock units, performance awards and other share-based awards to directors, officers, employees and consultants of Mosaic Capital and its subsidiaries. The number of Mosaic Capital common shares that will be available for issuance under the shared-based compensation plan will not exceed 10% of the issued and outstanding Mosaic Capital common shares on a "rolling" basis. The term "rolling" means that as the outstanding capital of Mosaic Capital increases from time to time by the issuance of Mosaic Capital common shares, whether due to the exercise of Mosaic Capital units, options or otherwise, the number of Mosaic Capital common shares eligible to be issued under the Mosaic Capital share-based compensation plan will automatically increase to 10% of the then issued and outstanding Mosaic Capital common shares.

(shown in thousands of Canadian dollars)

Immediately prior to the completion to the Arrangement, First West had outstanding options to purchase 1,525,000 common shares of First West (the "First West Options"). Pursuant to the terms of the Arrangement, the First West Options were exchanged for Mosaic Capital unit options on a basis so as to put the holders in materially the same economic position as they were prior to the Arrangement. The Mosaic Capital unit options entitle the holders to receive the same mix of preferred securities and common shares as holders of common shares of First West received under the Arrangement, namely 0.154 common shares per option and 0.077 series "A" preferred shares per option. Upon completion of the Arrangement 1,525,000 Mosaic Capital unit options were issued which entitled the holders thereof to acquire, in aggregate, 234,850 common shares of Mosaic Capital and 117,425 series "A" preferred shares of Mosaic Capital. These options are issued under, and subject to, the Mosaic Capital share-based compensation plan. Particulars concerning the outstanding Mosaic Capital unit options are set forth below:

Activity	Number of Common Shares for issue under Options	Weighted Exercise Price	Number of Series "A" Shares for issue under Options	Weighted Exercise Price
Outstanding May 1, 2011	234,850	$ 3.51	117,425	$ 7.00
Exercised	-	$ -	(20,790)	$ 6.49
Expired	(1,540)	$ 3.25	(770)	$ 6.49
Outstanding December 31, 2011	233,310	$ 3.51	95,865	$ 7.12

The following tables indicate the dates upon which the Mosaic Capital common shares and series "A" preferred shares, as the case may be, cease to be able to be obtained upon exercise of Mosaic Capital unit options due to the expiry thereof. The number of common shares and series "A" preferred shares underlying the options is indicated in the tables.

(shown in thousands of Canadian dollars)

Number of Common Shares for issue under Options	Exercise Price		Expiry Date
190,960	$	3.25	Jun 6, 2017
30,800	$	4.87	Aug 22, 2017
11,550	$	4.12	Dec 31, 2019
233,310	Total		

Number of Series "A" Shares for issue under Options	Exercise Price		Expiry Date
74,690	$	6.49	Jun 6, 2017
15,400	$	9.74	Aug 22, 2017
5,775	$	8.25	Dec 31, 2019
95,865	Total		

Mosaic Capital did not issue any securities for share based compensation during the year ended December 31, 2011.

Mosaic Capital accounts for its share based compensation using the fair value method for all stock options. Mosaic Capital expenses the fair value of the stock options that are expected to vest over the vesting period. For the year ended December 31, 2011 Mosaic Capital recorded non-cash compensation expense of $505 (December 31, 2010 $0). The fair values of all options granted during the period are estimated at the date of grant using the Black-Scholes option pricing model. Expected volatility is estimated by considering historic average stock price volatility.

The assumptions used in the Black-Scholes model to determine the fair value of options for common shares is illustrated as follows:

Grant date of options	Unit price		Exercise price		Annual dividend yield of options	Volatility	Risk free interest rate	Expected remaining life of the options
May 1, 2011	$	5.00	$	3.25	0%	36%	2.88%	6.10 years
May 1, 2011		5.00		4.87	0%	36%	2.88%	6.14 years
May 1, 2011		5.00		4.12	0%	36%	2.88%	8.67 years

(shown in thousands of Canadian dollars)

The assumptions used in the Black-Scholes model to determine the fair value of options for series "A" preferred shares is illustrated as follows:

Grant date of options	Unit price	Exercise price	Annual dividend yield of options	Volatility	Risk free interest rate	Expected remaining life of the options
May 1, 2011	$ 10.00	$ 6.49	10%	36%	2.88%	6.10 years
May 1, 2011	10.00	9.74	10%	36%	2.88%	6.14 years
May 1, 2011	10.00	8.25	10%	36%	2.88%	8.67 years

21. SEGMENTED INFORMATION

Mosaic Capital's reportable business segments include strategic business units that offer different products and services. Mosaic Capital has two reportable business segments:

Real Estate – a portfolio of income producing commercial and industrial real estate assets in Lethbridge Alberta, Fort McMurray Alberta, Regina Saskatchewan and Saskatoon Saskatchewan to which management is conducting activities to provide fundamental value growth.

Industrial – a portfolio of businesses that have a history of generating cash flow from their operations in niche markets; Printing Unlimited, Allied Cathodic Services, Polar and Remote Waste.

Corporate – this area covers all of the cost centres of Mosaic Capital that are not included in the segments above and primarily relates to general corporate expenses that are not allocated to the Industrial and Real Estate segments.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Mosaic Capital evaluates each segment's performance based on operating income. Mosaic Capital's method of calculating operating income may differ from that of other corporations and therefore may not be comparable to measures utilized by them. There are no inter-segment revenues.

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Segmented Income and Expenses	Industrial as at			Real Estate as at			Segments Sub-Total as at			Corporate as at			Consolidated as at		
In thousands of Canadian dollars	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
Assets	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$
Current assets															
Cash and cash equivalents	11,358	10,395	9,154	1,849	-	-	13,207	10,395	9,154	7,096	-	-	20,303	10,395	9,154
Restricted cash	120	121	-	10	-	-	130	121	-	-	-	-	130	121	-
Accounts receivable	5,844	4,386	4,479	9	-	-	5,853	4,386	4,479	16	-	-	5,869	4,386	4,479
Inventory	586	553	256	-	-	-	586	553	256	-	-	-	586	553	256
Deposits and prepaid expenses	103	85	42	264	-	-	367	85	42	39	-	-	406	85	42
Income taxes recoverable	-	-	263	-	-	-	-	-	263	-	-	-	-	-	263
Total current assets	18,011	15,540	14,194	2,132	-	-	20,143	15,540	14,194	7,151	-	-	27,294	15,540	14,194
Non-current assets															
Property held for development	-	-	-	439	-	-	439	-	-	-	-	-	439	-	-
Income producing properties	-	-	-	19,595	-	-	19,595	-	-	-	-	-	19,595	-	-
Investments	31	-	-	-	-	-	31	-	-	(31)	-	-	-	-	-
Property, plant and equipment	4,622	4,496	4,668	17	-	-	4,639	4,496	4,668	46	-	-	4,685	4,496	4,668
Employee share purchase plan	-	-	-	-	-	-	-	-	-	445	-	-	445	-	-
Goodwill and other intangible assets	17,513	18,426	19,092	50	-	-	17,563	18,426	19,092	22	-	-	17,585	18,426	19,092
Total non-current assets	22,166	22,922	23,760	20,101	-	-	42,267	22,922	23,760	482	-	-	42,749	22,922	23,760
Total assets	40,177	38,462	37,954	22,233	-	-	62,410	38,462	37,954	7,633	-	-	70,043	38,462	37,954
Liabilities															
Current liabilities															
Accounts payable and accrued liabilities	1,355	1,456	2,163	174	-	-	1,529	1,456	2,163	818	-	-	2,347	1,456	2,163
Dividends payable	-	1,393	1,073	-	-	-	-	1,393	1,073	424	-	-	424	1,393	1,073
Due to (from) related parties	6	-	111	-	-	-	6	-	111	(6)	-	-	-	-	111
Current portion of mortgages payable	-	-	-	216	-	-	216	-	-	-	-	-	216	-	-
Current portion of notes payable	310	294	371	-	-	-	310	294	371	-	-	-	310	294	371
Total current liabilities	1,671	3,143	3,718	390	-	-	2,061	3,143	3,718	1,236	-	-	3,297	3,143	3,718
Non-current liabilities															
Preferred trust units	32,877	32,338	30,728	-	-	-	32,877	32,338	30,728	(32,877)	-	-	-	32,338	30,728
Mortgages payable	-	-	-	4,646	-	-	4,646	-	-	-	-	-	4,646	-	-
Notes payable	309	293	172	-	-	-	309	293	172	-	-	-	309	293	172
Deferred income tax liability	488	119	-	-	-	-	488	119	-	-	-	-	488	119	-
Security deposits	-	-	-	66	-	-	66	-	-	-	-	-	66	-	-
Total non-current liabilities	33,674	32,750	30,900	4,712	-	-	38,386	32,750	30,900	(32,877)	-	-	5,509	32,750	30,900
Total Liabilities	35,345	35,893	34,618	5,102	-	-	40,447	35,893	34,618	(31,641)	-	-	8,806	35,893	34,618
Shareholder/Unitholder Equity															
Preferred securities	-	-	-	-	-	-	-	-	-	44,867	-	-	44,867	-	-
Series "A" shares	-	-	-	-	-	-	-	-	-	135	-	-	135	-	-
Common shares	-	-	-	16,946	-	-	16,946	-	-	(155)	-	-	16,791	-	-
Contributed surplus	-	26	-	-	-	-	-	26	-	505	-	-	505	26	-
Common trust units	16	16	16	-	-	-	16	16	16	(16)	-	-	-	16	16
Non-controlling interest	4,698	4,598	4,747	-	-	-	4,698	4,598	4,747	-	-	-	4,698	4,598	4,747
Deficit	118	(2,071)	(1,427)	185	-	-	303	(2,071)	(1,427)	(6,062)	-	-	(5,759)	(2,071)	(1,427)
Total Equity attributable to equity holders	4,832	2,569	3,336	17,131	-	-	21,963	2,569	3,336	39,274	-	-	61,237	2,569	3,336
Total liabilities and shareholder/unitholder equity	40,177	38,462	37,954	22,233	-	-	62,410	38,462	37,954	7,633	-	-	70,043	38,462	37,954

Mosaic Capital Corporation
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2011
(shown in thousands of Canadian dollars)

Segmented Income and Expenses	Industrial		Real Estate		Segments Sub-Total		Corporate		Consolidated	
	December 31,		December 31,		December 31,		December 31,		December 31,	
In thousands of Canadian dollars	2011 $	2010 $	2011 $	2010 $	2011 $	2010 $	2011 $	2010 $	2011 $	2010 $
Revenue	22,229	20,384	1,425	-	23,654	20,384	-	-	23,654	20,384
Operating expenses	15,342	13,969	811	-	16,153	13,969	2,118	-	18,271	13,969
Operating income	6,887	6,415	614	-	7,501	6,415	(2,118)	-	5,383	6,415
Amortization of buildings	-	-	234		234	-	-	-	234	-
Amortization of tangible assets	683	657	3	-	686	657	8	-	694	657
Amortization of intangible assets	946	981	-	-	946	981	5	-	951	981
Share based compensation	-	-	-	-	-	-	505	-	505	-
Loss on sale of equipment	20	8	-	-	20	8	-	-	20	8
	1,649	1,646	237	-	1,886	1,646	518	-	2,404	1,646
Income (loss) before finance	5,238	4,769	377	-	5,615	4,769	(2,636)	-	2,979	4,769
Finance income	17	13	75	-	92	13	-	-	92	13
Finance expense	28	25	219	-	247	25	-	-	247	25
	(11)	(12)	(144)	-	(155)	(12)	-	-	(155)	(12)
Income (loss) before other items	5,227	4,757	233	-	5,460	4,757	(2,636)	-	2,824	4,757
Other income and expenses										
Reorganization costs	-	-	-	-	-	-	552	-	552	-
Income (loss) from continuing operations before tax	5,227	4,757	233	-	5,460	4,757	(3,188)	-	2,272	4,757
Income tax expense										
Current	-	-	124	-	124	-	-	-	124	-
Deferred	369	119	-	-	369	119	-	-	369	119
	369	119	124	-	493	119	-	-	493	119
Income from continuing operations	4,858	4,638	109	-	4,967	4,638	(3,188)	-	1,779	4,638
Preferred trust unit interest - the Fund	(1,182)	(3,550)	-	-	(1,182)	(3,550)	-	-	(1,182)	(3,550)
Income (loss) from discontinuing operations net of tax	-	-	76		76	-	-	-	76	-
Income (loss) and comprehensive income (loss)	3,676	1,088	185	-	3,861	1,088	(3,188)	-	673	1,088

(shown in thousands of Canadian dollars)

22. CONSOLIDATED ENTITIES

	Country of	Ownership Interest	
Parent Entity	Incorporation	December 31, 2011	December 31, 2010
Mosaic Capital Corporation	Canada		
Significant Cash Generating Units			
Mosaic Diversified Income Fund	Canada	100.00%	0.00%
First West Properties Ltd.	Canada	100.00%	0.00%

Ownership interest for 2010 is shown above as nil as Mosaic Capital did not acquire either Mosaic Diversified Income Fund or First West Properties until the plan of arrangement of May 1, 2011.

23. NON-CONTROLLING INTEREST

Non-controlling interest consists of the capital contributions and accumulated earnings of the minority partners in investments of the Fund and First West, less distributions to those minority partners.

During the year ended December 31, 2011, $968 (December 31, 2010 - $742) of Mosaic Capital's net income was allocated to non-controlling interests and cash distributions of $873 (December 31, 2010 - $591) were paid to holders of the non-controlling interests.

24. PERSONNEL EXPENSES

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

	December 31, 2011	December 31, 2010
Salaries	$ 8,776	$ 6,422
Share based compensation (i)	-	-

(i) Represents the amortization of share-based compensation associated with unit options granted to all employees, officers and directors as recorded in the consolidated financial statements as well as the value of any preferred or common units sold to employees, directors or executive management, or their families, at less than fair value, if any.

(ii) As at December 31, 2011, Mosaic Capital has not capitalized any general and administrative expenses. Key management personnel include executive officers and certain key consultants. Executive officers are paid a salary and are eligible to participate in Mosaic Capital's share based compensation plan. The executive officers include the Executive Chairman and Chief Executive Officer, President and Chief Financial Officer, Executive Vice President and the Vice President Corporate Affairs. Non-executive directors and consultants may also participate in Mosaic Capital's share based compensation plan. Key management personnel compensation is comprised of the following:

(shown in thousands of Canadian dollars)

	December 31, 2011	December 31, 2010
Salaries	$ 1,284	$ 271
Share based compensation (i)	-	-

(i) Represents the amortization of share-based compensation associated with unit options granted to executive officers and non-executive directors as recorded in the consolidated financial statements as well as the value of any preferred or common units sold to executive management or non-executive directors or their families at less than fair value, if any.

25. FINANCE INCOME AND EXPENSES

	December 31, 2011	December 31, 2010
Finance income	$	$
Interest income on cash and cash equivalents	92	13
Finance expenses		
Interest expense on notes payable	247	25
Net finance income (expense) recognized in profit or loss	(155)	(12)

26. INCOME TAX EXPENSE

Reconciliation of expected tax expense to total tax expense:

	December 31, 2011	December 31, 2010
Profit before income tax	$ 198	$ 465
Statutory tax rate	26.50%	28.00%
Expected income tax expense (recovery)	52	130
Other	183	
Non-taxable entities	-	(11)
Prior years First West tax reassessment	124	-
Share based compensation	134	-
Total income tax expense (recovery)	$ 493	$ 119

(shown in thousands of Canadian dollars)

Recognized deferred tax assets and liabilities:

Deferred tax assets and liabilities are attributable to the following:

	December 31, 2011	December 31, 2010
Deferred tax liabilities	$	$
Property, plant and equipment	484	389
Intangible assets	122	-
Total deferred tax liabilities	606	389
Less deferred tax assets		
Unamortized share issuance costs	91	184
Cumulative eligible capital	17	17
Capital lease obligation	10	19
Intangible assets	-	50
Total deferred tax assets	118	270
Net deferred tax liability	488	119
Deferred income tax expense	369	119

Mosaic Capital has no available estimated non-capital loss carry forwards for which a deferred tax asset has been recognized in the consolidated financial statements:

27. SUPPLEMENTAL CASH FLOW INFORMATION

Change in non-cash operating working capital:

	December 31, 2011	December 31, 2010
	$	$
Accounts receivable	(1,483)	93
Inventory	(33)	(297)
Deposits and prepaid expenses	(321)	(43)
Income taxes recoverable	-	263
Accounts payable and acrued liabilities	891	(707)
Dividends payable	(969)	320
Security deposits	(66)	-
Other	150	(137)
	(1,831)	(508)

(shown in thousands of Canadian dollars)

Other information:

	December 31, 2011	December 31, 2010
Interest received	$ 92	$ 13
Interest paid	247	25

Cash and cash equivalents are comprised of the following:

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Bank balances	20,303	6,198	6,385
Government T-Bill's or Bank GIC's	-	4,197	2,769
	20,303	10,395	9,154

28. RELATED PARTY TRANSACTIONS

Consulting fees in the amount of $159 (2010 – $Nil) were paid for the year ended December 31, 2011 to a company controlled by a director of Mosaic Capital (formerly a trustee of the Fund) in the course of business related to Mosaic Capital. Consulting fees in the amount of $100 (2010 - $75) were paid for the year ended December 31, 2011 to a company controlled by one the officers of Mosaic Capital (formerly an officer of the administrator of the Fund) in the course of business related to the Arrangement.

The outstanding amount of loans under the ESPP was $445 as at December 31, 2011 (2010 - $Nil).

Related party transactions are in the normal course of operations and are recorded at the exchange amount, which management believes to be at market rates, and under normal terms and conditions.

29. COMMITMENTS AND CONTINGENT LIABILITIES

Mosaic Capital has commitments under operating leases for office and shop space and equipment. Amounts to be paid under these leases are approximately as follows:

Year	Amount
2012	$ 661
2013	278
2014	159
2015	60
2016	60
	1,218

(shown in thousands of Canadian dollars)

Mosaic Capital has commitments under mortgages on income producing properties. Amounts to be paid under these mortgages are approximately as follows:

Year	Amount
2012	$ 444
2013	444
2014	444
2015	3,530
2016	-
	4,862

Mosaic Capital and its subsidiaries are 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 Capital. In addition, Mosaic Capital 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 Capital from making a reasonable estimate of the maximum potential amounts that may be required to be paid.

30. DISCONTINUED OPERATIONS

In June 2011 First West completed the sale of a property in Saskatoon, Saskatchewan as disclosed in note 11. The results of this income producing property have been presented as discontinued operations.

In October 2011 First West completed the sale of a property in Saskatoon, Saskatchewan as disclosed in note 11. The results of this income producing property have been presented as discontinued operations.

	Year ended December 31	
	Income producing properties	
	2011	2010
	$	$
Revenue and other income	327	-
Operating expenses	145	-
Income from operations	182	-
Loss on sale of properties	106	-
Income before tax	76	-
Income tax expense		
Current	-	-
Deferred	-	-
	-	-
Net income from discontinued operations, net of tax	76	-

31. SUBSEQUENT EVENTS

Effective January 1, 2012, Mosaic Capital completed the acquisition of the business of Ambassador Mechanical Ltd. With this transaction Mosaic Capital will own 75% of the business. Mosaic Capital's cost of acquisition was $14,625 and was funded through a combination of cash and vender take back financing. The acquisition of Ambassador was done to diversify our portfolio of businesses, deploy available capital and increase our return on capital.

(shown in thousands of Canadian dollars)

The following summarizes the allocation of the aggregate consideration for the Ambassador Mechanical acquisition:

As at January 1, 2012	Amount $
Cash	1,448
Working capital	5,128
Property, plant and equipment	1,128
Goodwill	11,796
Enterprise value	19,500
Contribution of minority partner	(4,875)
Mosaic Capital contribution	14,625

On each of January 15, February 15, March 15, 2012 and April 15, 2012 Mosaic Capital paid a dividend of $422 to holders of preferred securities and $2 to holders of series "A" preferred shares.

On January 19, 2012, Mosaic Capital announced that its board of directors has adopted a policy to declare and pay a regular quarterly dividend on Mosaic Capital's common shares in such amount as Mosaic Capital's Board of Directors may from time to time determine. Furthermore, Mosaic Capital announced that its Board of Directors has declared an initial quarterly cash dividend for its common shares of $0.02 per share which was paid on February 15, 2012 to holders of record on January 31, 2012.

On February 29, 2012 Mosaic Capital sold 3.85 acres of raw land held by its real estate segment in Lethbridge, Alberta for aggregate consideration of $527.

On April 18, 2012 Mosaic Capital announced that its board of directors has approved the increase of the quarterly dividend on Mosaic Capital's common shares to $0.03 per share from $0.02 per share.

32. TRANSITION TO IFRS

The policies set out in the Summary of Significant Accounting Policies section have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented in these consolidated financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS balance sheet at January 1, 2010, Mosaic Capital's date of transition ("Transition Date").

Mosaic Capital has followed the recommendations in IFRS 1 in preparing its transitional statements. IFRS 1 provided specific one-time choices and mandates specific one-time exceptions with respect to the first-time adoption of IFRS.

Choices available at first-time adoption

a) Property, plant and equipment – IFRS 1 provides a choice between measuring property, plant and equipment at its fair value at the date of transition and using those amounts as deemed cost or using the historical valuation under the prior GAAP. Mosaic Capital has decided to continue to apply the cost model for property, plant and equipment and has not restated property, plant and equipment to fair value under IFRS. The historical bases under Canadian GAAP have been designated as the deemed cost under IFRS at the Transition Date.

b) Business combinations – IFRS 3, Business Combinations may be applied retrospectively or prospectively. The retrospective basis would require restatement of all business combinations that occurred prior to January 1, 2010. Mosaic Capital has elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to September 16, 2008 and such business combinations will not be restated. Any goodwill arising on such business combinations before September 16, 2008 will not be adjusted from the carrying value previously determined under Canadian GAAP as a result of applying these exemptions, except as required under IFRS 1.

Exceptions that are mandated by IFRS 1

a) Hedge accounting – Hedge accounting can only be applied prospectively from January 1, 2010 to transactions that satisfy the hedge accounting criteria under IFRS at that date. Hedging relationships cannot be designated retrospectively and the supporting documentation cannot be created retrospectively. There was no material transition impact under this exception.

b) Estimates – IFRS 1 prohibits use of hindsight to create or revise previous estimates. The estimates Mosaic Capital previously made under Canadian GAAP have not been revised for application of IFRS.

In preparing its opening IFRS balance sheet, Mosaic Capital has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected Mosaic Capital's financial position, financial performance and cash flows is set out in the following tables and the additional notes that accompany the tables

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(shown in thousands of Canadian dollars)

Reconciliation of consolidated balance sheet as at January 1, 2010 from Canadian GAAP to IFRS:

	Canadian GAAP	Reclassification upon transition to IFRS	Effect of transition to IFRS	IFRS
ASSETS				
Current assets	$	$	$	$
Cash and cash equivalents	9,154	-	-	9,154
Accounts receivable	4,479	-	-	4,479
Inventory	256	-	-	256
Deposits and prepaid expenses	42	-	-	42
Income taxes recoverable	263	-	-	263
Total current assets	14,194	-	-	14,194
Non-current assets				
Property and equipment	4,668	-	-	4,668
Goodwill and other intangible	17,842	-	1,250	19,092
Total non-current assets	22,510	-	1,250	23,760
Total assets	36,704	-	1,250	37,954
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and accrued	913	-	1,250	2,163
Distributions payable	1,073	-	-	1,073
Due to related parties	111	-	-	111
Current portion of notes payable	371	-	-	371
Total current liabilities	2,468	-	1,250	3,718
Non-current liabilities				
Preferred trust units	-	30,728	-	30,728
Notes payable	172	-	-	172
Non-controlling interest	4,747	(4,747)	-	-
Total non-current liabilities	4,919	25,981	-	30,900
Total Liabilities	7,387	25,981	1,250	34,618
Equity				
Preferred trust units	30,728	(30,728)	-	-
Common trust units	16	-	-	16
Non-controlling interests	-	4,747	-	4,747
Deficit	(1,427)	-	-	(1,427)
	29,317	(25,981)	-	3,336
	36,704	-	1,250	37,954

(shown in thousands of Canadian dollars)

Reconciliation of consolidated balance sheet as at December 31, 2010 from Canadian GAAP to IFRS:

	Canadian GAAP	Reclassification upon transition to IFRS	Effect of transition to IFRS	IFRS
ASSETS				
Current assets	$	$	$	$
Cash and cash equivalents	10,395	-	-	10,395
Restricted Cash	121	-	-	121
Accounts receivable	4,386	-	-	4,386
Inventory	553	-	-	553
Deposits and prepaid expenses	85	-	-	85
Income taxes recoverable	-	-	-	-
Total current assets	15,540	-	-	15,540
Non-current assets				
Property and equipment	4,496	-	-	4,496
Goodwill and other intangible	18,426	-	-	18,426
Total non-current assets	22,922	-	-	22,922
Total assets	38,462	-	-	38,462
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and accrued	1,456	-	-	1,456
Distributions payable	1,393	-	-	1,393
Due to related parties	-	-	-	-
Current portion of notes payable	294	-	-	294
Total current liabilities	3,143	-	-	3,143
Non-current liabilities				
Preferred trust units	-	32,338	-	32,338
Notes payable	293			293
Deferred income tax liability	-	-	119	119
Non-controlling interest	4,674	(4,674)	-	-
Total non-current liabilities	4,967	27,664	119	32,750
Total Liabilities	8,110	27,664	119	35,893
Equity				
Preferred trust units	32,338	(32,338)	-	-
Contributed surplus	26	-	-	26
Common trust units	16	-	-	16
Non-controlling interests	-	4,674	(76)	4,598
Deficit	(2,028)	-	(43)	(2,071)
	30,352	(27,664)	(119)	2,569
	38,462	-	-	38,462

(shown in thousands of Canadian dollars)

Reconciliation of consolidated statement of comprehensive income for the year ended December 31, 2010:

	Canadian GAAP	Reclassification upon transition to IFRS	Effect of transition to IFRS	IFRS
	$	$	$	$
Revenue	20,384	-	-	20,384
Operating expenses	13,969	-	-	13,969
Income from operations	6,415	-	-	6,415
Amortization of tangible assets	657	-	-	657
Amortization of intangible assets	981	-	-	981
Loss on sale of equipment	8	-	-	8
Long-term incentive plan		-		-
	1,646	-	-	1,646
Income before finance	4,769	-	-	4,769
Finance income	13	-	-	13
Finance expense	26		-	26
Income from continuing operations before tax	4,756	-	-	4,756
Income tax expense (recovery)				
Current	-	-	-	-
Deferred	-	-	119	119
Net income from continuing operations	**4,756**	**-**	**(119)**	**4,637**
Preferred trust unit interest - the Fund	-	(3,549)		(3,549)
Net income and comprehensive income	4,756	(3,549)	(119)	1,088
Income and comprehensive income attributable to:				
Unit holders	3,939	(3,549)	(44)	346
Non-controlling interest	818	-	(76)	742
	4,757	(3,549)	(120)	1,088

(shown in thousands of Canadian dollars)

Reconciliation of consolidated cash flows statement for the period ended December 31, 2010:

	Canadian GAAP	Reclassification upon transition to IFRS	Effect of transition to IFRS	IFRS
	$	$	$	$
Cash and cash equivalents provided by (used in):				
Cash flows from operating activities				
Income for the period	3,939	(3,549)	(44)	346
Adjustments for:				-
Amortization of tangible assets	657	-	-	657
Gain on sale of equipment	8	-	-	8
Amortization of intangible assets	981	-	-	981
Accretion of notes payable	8	-	-	8
Deferred income taxes	-	-	-	-
Long-term inventive plan	-	-	-	-
Gain on redemption of units	(19)	-	-	(19)
Non-controlling interest	818	(76)	-	742
Change in non-cash working capital	(555)	45	-	(510)
Net cash provided or (used) in operating activities	5,837	(3,580)	(44)	2,213
Cash flow from investing activities				
Additions to intangible assets	(315)	-	-	(315)
Additions to property and equipment	(485)	-	-	(485)
Business acquisitions, net of cash acquired	-	-	-	-
Changes in non-cash working capital	-	-	-	-
Net cash unused in investing activities	(800)	-	-	(800)
Cash flow from financing activities				
Preferred trust units issued for cash (net of issuance costs)	-	1,844	-	1,844
Advances from related parties	(111)	-	-	(111)
Redemption of units	(234)	-	-	(234)
Repayment of notes payable	(520)	-	-	(520)
Distributions to unitholders	(2,340)	1,780	-	(560)
Distributions to non-controlling interests	(591)	-	-	(591)
Changes in non-cash working capital	-	-	-	-
Net cash from financing activities	(3,796)	3,624	-	(172)
Change in cash and cash equivalents	1,241	44	(44)	1,241
Cash and cash equivalents, beginning of period	9,154	-	-	9,154
Cash and cash equivalents, end of period	10,395	44	(44)	10,395

Explanation of transition to IFRS

As stated in Note 2, Mosaic Capital has adopted IFRS from January 1, 2010, which is the date of transition to IFRS. The accounting policies in note 3 have been applied as follows:

- In preparing the consolidated financial statements for the year ended December 31, 2011.
- In preparing the comparative financial statements for the year ended December 31, 2010.

Under IFRS 1 "First time Adoption of International Financial Reporting Standards", IFRS are applied retrospectively at the date of transition. IFRS 1 contains a number of optional exemptions which companies are permitted to apply. Mosaic Capital did not apply any IFRS 1 exemptions and applied the full retrospective application of IFRS along with the mandatory exceptions under IFRS 1.

The applicable mandatory exception in IFRS 1 applied in the conversion from Canadian GAAP to IFRS is "Estimates". Hindsight is not used to create or revise estimates. The estimates previously made by Mosaic Capital under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

Changes in accounting policies

The following narratives explain the significant differences between the previous historical Canadian GAAP accounting policies and the current IFRS accounting policies applied by Mosaic Capital. Only the differences having an impact on Mosaic Capital are described below. The following is not a complete summary of all of the differences between Canadian GAAP and IFRS. Relative to the impacts on Mosaic Capital, the descriptive caption next to each lettered item below corresponds to the same letter and descriptive caption in the tables above, which reflect the quantitative impacts from each change. Unless a quantitative impact was noted below, the impact from the change was not material to Mosaic Capital.

a) Mosaic Capital has chosen to adopt IFRS 3 – Business Combinations for an acquisition that occurred on September 16, 2008. Mosaic Capital has elected to use the IFRS exemption for any acquisition prior to that date, which results in no changes to the accounting for acquisitions prior to September 16, 2008. As a result of the adoption of IFRS 3, Mosaic Capital has recognized a contingent liability relating to the earn-out clause in the purchase agreement. The result has been an increase to goodwill and accrued liabilities of $1,250,000 at January 1, 2010.

b) In accordance with IAS 27, non-controlling interest are included in equity, resulting in a reclassification of $4,747 January 1, 2010.

c) In accordance with IFRS, preferred trust units are included as debt, resulting in a reclassification of $30,728 January 1, 2010. As a result of the reclassification, distributions for 2010 were reclassified from dividends to interest expense in the amount of $3,549 for 2010. For the reconciliation of consolidated cash flows for the period ended December 31, 2010 changes were made for $1,844 and $1,780 that were non-cash items related to the DRIP program that due to reclassification of preferred units from shareholders equity to debt required cash values to be input.