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Mosaic Capital Corporation
Management's Discussion and Analysis

(shown in thousands of Canadian dollars except for amounts related to securities)

FOR THE SIX MONTHS ENDED JUNE 30, 2011

This MD&A is dated **August 29, 2011**.

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Mosaic Capital Corporation ("Mosaic Capital") should be read in conjunction with the audited consolidated financial statements of Mosaic Diversified Income Fund ("the Fund") for the year ended December 31, 2010 and the unaudited condensed interim consolidated financial statements of Mosaic Capital for the six months ended June 30, 2011.

As the Fund is the continuing entity for accounting purposes and these comparative financial statements include the financial statements of the Fund, Mosaic Capital has adopted International Financial Reporting Standards ("IFRS") effective January 1, 2010. The unaudited condensed interim consolidated financial statements for the six months ended June 30, 2011 have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"), and using accounting policies consistent with IFRS. Readers of this MD&A should refer to "Change in Accounting Policies" below for a discussion of IFRS and its effect on Mosaic Capital's financial presentation.

The condensed interim consolidated financial statements of Mosaic Capital for the three and six months ended June 30, 2011 include the operations of Mosaic Capital from its incorporation date on February 11, 2011 and the operations of First West Properties Ltd. ("First West") since its acquisition on May 1, 2011.

Mosaic Capital's auditors, Deloitte Touche LLP, have not reviewed the condensed interim consolidated financial statements.

The most significant impacts of the adoption of IFRS, together with details of IFRS exemptions taken, are described in the Changes in Accounting Policies and Recent Accounting Pronouncements sections of this report. Comparative information has been restated to comply with IFRS requirements.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

The public communications of Mosaic Capital often include written or oral forward-looking statements. Statements of this type are included in this MD&A or in other communications. Forward-looking statements may involve, but are not limited to, comments with respect to our objectives for 2011 and beyond, our strategies or future actions, and our targets or expectations for our financial performance and condition. All statements other than statements of historical fact contained in this MD&A are forward-looking statements, including, without limitation, statements regarding the future financial position, business strategy, proposed acquisitions, budgets, litigation, projected costs, and plans and objectives of or involving Mosaic Capital. Readers can identify many of these statements by looking for words such as "believes", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues" and similar words or the negatives thereof. Although management believes that the expectations represented in such forward looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Examples of forward looking statements include Mosaic Capital's future investment plans which will be heavily influenced by market conditions which may prevail in the short and medium term.

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties including those discussed in this MD&A. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this MD&A not to place undue reliance on our forward-looking statements because a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

BUSINESS OVERVIEW

<u>About Mosaic Capital</u>

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 have a history of generating cash flow from their operations in niche markets. Mosaic Capital's current portfolio of businesses operate in industrial and real estate 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 L.P. (100% ownership) ("Printing Unlimited"), Allied Cathodic Services L.P. (80% ownership) ("Allied Cathodic"), Polar Geomatic Solutions L.P. (90% ownership) ("Polar") and Remote Waste L.P. (75% ownership) ("Remote Waste"). Printing Unlimited is 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 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. Polar is based in Red Deer, Alberta, and provides a web based, proprietary landowner information database system. The system is used primarily by pipeline companies to simplify compliance with stakeholder notification and emergency response planning requirements under applicable legislation. Remote Waste is based in Sexsmith, Alberta, and manufactures and leases biological sewage treatment units used for remote work camps. Non-segmented – this area covers all of the cost centres of Mosaic Capital that would not be included in the segments above and primarily relates to corporate expenses that are not allocated to the Industrial and Real Estate segments.

Mosaic Capital continues to identify, acquire and invest in businesses that have a history of generating cash flow from their operations in niche markets. It also considers limited capital investments in start-up companies, distressed asset situations, business reorganizations, investment fund management, private equity, venture capital, and other investment related opportunities.

Effective May 1, 2011, Mosaic Capital acquired all of the outstanding trust units of the Fund and all of the outstanding common shares of First West as described in the joint management information circular (the "Circular") dated March 24, 2011 of the Fund and First West. A copy of the Circular can be obtained under First West's company profile at www.sedar.com.

Additional information about Mosaic Capital, including the Fund's audited consolidated financial statements for the year ended December 31, 2010, is available under Mosaic Capital's company profile at www.sedar.com.

Mosaic Capital's registered office is located at 400, 2424 – 4th St SW, Calgary, AB T2S 2T4,

About the Fund

The Fund is an unincorporated open-ended, limited purpose trust established under the laws of the Province of Alberta pursuant to a Trust Indenture formed on October 26, 2005. The Fund was formed to invest in a diversified group of income producing businesses.

The Fund has indirectly invested in four operating entities, Printing Unlimited L.P. (100% ownership) ("Printing Unlimited"), Allied Cathodic Services L.P. (80% ownership) ("Allied Cathodic"), Polar Geomatic Solutions L.P. (90% ownership) ("Polar") and Remote Waste L.P. (75% ownership) ("Remote Waste").

About First West

First West was incorporated under the *Business Corporations Act* (Alberta) on June 7, 1996. First West is a reporting issuer under the *Securities Act* (Alberta) 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. First West owns commercial and industrial properties in Fort McMurray, Alberta, Lethbridge, Alberta, and Saskatoon, Saskatchewan.

Additional information about First West is available under First West's company profile at www.sedar.com.

RECENT DEVELOPMENTS

Effective May 1, 2011, 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 the capital of Mosaic Capital for each common unit held in the Fund. The unitholder's of the Fund, as a group, held approximately 62% of the common shares and 70% of the preferred securities of Mosaic Capital as of May 1, 2011.

Effective May 1, 2011, First West was acquired by Mosaic Capital pursuant to the terms of the Arrangement. Under the terms of 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 held as a group, approximately 38% of the common shares and 30% of the preferred securities of Mosaic Capital.

Information related to these transactions may be found in the Circular which is available under First West's company 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.

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 of $1,542. There is no gain on sale recorded on the condensed consolidated interim financial statements as assets were re-valued as of the May 1, 2011 as a result of the acquisition of First West by Mosaic Capital pursuant to the Arrangement. There are no taxes payable on this sale due to tax losses carry forward of First West.

SUMMARY FINANCIAL REVIEW AND DISCUSSION OF RESULTS

The following information should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Mosaic Capital for the six months ended June 30, 2011 and 2010 and the audited consolidated financial statements of the Fund for the year ended December 31, 2010.

The following is a summary of certain selected financial information for (i) Mosaic Capital, on a consolidated basis; and (ii) its operating segments, as at and for the periods indicated. The comparative periods do not include the balance sheet information or income and expenses for First West.

Mosaic Capital – Consolidated

Selected Balance Sheet Information		as at	
	June 30,	Dec 31,	Jan 31,
In thousands of Canadian dollars	2011	2010	2010
Cash and cash equivalents	$18,977	$10,395	$9,154
Accounts receivable	3,292	4,386	4,479
Total current assets	23,890	15,540	14,194
Income producing properties	24,537	-	-
Total non-current assets	48,679	22,922	23,760
Total assets	72,569	38,462	37,954
Total current liabilities	2,576	3,143	3,718
Mortgages payable	6,891	-	-
Total non-current liabilities	6,767	293	172
Total equity attributable to equity holders	63,226	35,026	34,064
Working Capital	21,314	12,397	10,476

Selected Income and Expense Information	Three months Ended June 30,		Six months Ended June 30,	
In thousands of Canadian dollars	2011	2010	2011	2010
Revenue	$ 4,165	$ 4,106	$ 9,776	$ 8,409
Operating expenses	3,653	3,112	7,534	5,853
Income from operations	512	994	2,242	2,556
Income (loss) before other items	(41)	621	1,305	1,781
Reorganization costs	370	-	520	-
Income (loss) from continuing operations	(411)	621	785	1,781
Income (loss) and comprehensive income (loss)	(420)	634	776	1,794
Income (loss) and comprehensive income (loss) attributable to:				
Shareholders'/Unit holders'	(340)	546	523	1,515
Non-controlling interest	(80)	88	253	279

The following provides a discussion of the financial position as at June 30, 2011, and the results of operations for the three and six months ended June 30, 2011, with comparative reference to the same periods ended June 30, 2010.

Mosaic Capital

As at June 30, 2011 working capital was $21,314 (Dec 31, 2010 - $12,397) an increase of $8,917 primarily as result of the acquisition of First West pursuant to the Arrangement. Total assets increased from $38,462 to $72,569 and total liabilities increased from $3,436 to $9,343 also primarily as a result of assets and liabilities acquired as a result of the acquisition of First West pursuant to the Arrangement.

For the three months ended June 30, 2011 revenue remained flat at $4,165 compared to the same period in 2010. Revenue was reduced as a result of a significant decrease in activity in south east Saskatchewan due to exceptionally wet weather and flooding, but the reduction was partially offset by increases in activity levels in other operating areas during the period and the inclusion of revenue from First West for the period from May 1, 2011 to June 30, 2011. The increase in operating expense to $3,653 (2010 $3,112) was primarily related to higher costs in Industrial segment operations, the addition of personnel and operating expenses in Mosaic Capital as a result of (i) increased deal flow, (ii) acquisition investigation activity, and (iii) costs relating to being a listed company. Reorganization costs of $370 (2010 $Nil) were directly related to the Arrangement. The reduction in Income from continuing operations to ($411) (2010 - $621) was is primarily a result of the costs relating to the Arrangement, the lower margin sales that replaced the reduction of higher margin sales and the increase in Mosaic Capital expenses.

For the six months ended June 30, 2011 revenue increased to $9,776 (2010 - $8,409) which was a primarily as a result of an increase in overall increase in activity levels in the Industrial segment and the inclusion of revenue from First West for the period from May 1, 2011 to June 30, 2011. The increase in operating expense to $7,534 (2010 - $5,853) was primarily related to the same reasons as were the case in the three month period ended June 30, 2011. Reorganization costs of $520 (2010 - $Nil) were directly related to the Arrangement. The reduction in Income from continuing operations to $785 (2010 - $1,781) was primarily related to the same reasons as were the case in the three month period ended June 30, 2011.

Mosaic Capital - Segmented Information

Industrial

Selected Income and Expense Information for the Industrial Segment	**Three months Ended June 30,**		**Six months Ended June 30,**	
In thousands of Canadian dollars	**2011**	**2010**	**2011**	**2010**
Revenue	$ 3,740	$ 4,106	$ 9,351	$ 8,409
Operating expenses	3,184	3,112	6,965	5,853
Income from operations	556	994	2,386	2,556
Income (loss) before other items	139	605	1,585	1,781
Reorganization costs	150	-	200	-
Income (loss) from continuing operations	(11)	621	1,385	1,781
Income (loss) and comprehensive income (loss)	(11)	621	1,385	1,781

Revenue in the Industrial segment decreased $366 for the three months ended June 30, 2011 to $3,740 (2010 - $4,106). The primary reason for this decrease was reduced revenue from operations in south east Saskatchewan due to exceptionally wet weather and flooding during the period which was partially offset by increased revenue from operations in other areas. Revenue increased $942 for the six months ended June 30, 2011 to $9,351 (2010 - $8,409) primarily as a result of increased revenue from other areas of operation but offset by decreased activity in southeast Saskatchewan due to excess rainfall and flooding during the six month period.

Operating expenses increased $72 for the three months ended June 30, 2011 to $3,184 (2010 – $3,112). Operating expenses increased $1,112 for the six months ended June 30, 2011 to $6,965 (2010 – $5,853). The increase in operating expenses is primarily as a result of lower margin sales that replaced the reduction of higher margin sales during the period.

As a result of the decrease in revenue and increase in expenses, income from operations decreased $438 for the three months ended June 30, 2011 to $556 (2010 - $994) and income from operations decreased $170 for the six months ended June 30, 2011 to $2,386 (2010 - $2,556). The decrease is primarily as a result of lower margin sales that replaced the reduction of higher margin sales during the period.

Reorganization costs were $150 for the three months ended June 30, 2011 (2010 - $Nil) and $200 for the six months ended June 30, 2011 (2010 - $Nil) in both case directly related to the costs of the Arrangement. These costs are not expected to occur next year.

Income from continuing operations was down $632 for the three months ended June 30, 2011 to ($11) (2010 - $621) and was down $396 for the six months ended June 30, 2011 to $1,385 (2010 - $1,781) in both cases primarily as a result of lower margins sales that replaced the reduction of higher margin sales during the period and reorganization costs.

Real Estate

Selected Income and Expense Information for the Real Estate Segment	**Three months Ended June 30,**		**Six months Ended June 30,**	
In thousands of Canadian dollars	**2011**	**2010**	**2011**	**2010**
Revenue	$ 425	$ -	$ 425	$ -
Operating expenses	256	-	256	-
Income from operations	169	-	169	-
Finance Expense	73	-	73	-
Income (loss) before other items	106	-	106	-
Reorganization costs	-	-	-	-
Income (loss) from continuing operations	33	-	33	-

Mosaic Capital's real estate segment contains two months of operations as a result of the acquisition of First West pursuant to the Arrangement effective May 1, 2011. As a result there are no comparatives for prior periods.

The real estate segment had revenue of $425 and operating costs of $256 for income from operations of $169. The primary operating costs relate to overhead costs of the income producing properties that the real estate segment owns.

Finance expenses relate to interest on mortgages on several of the income producing properties.

The most significant activity during the two months from May 1, 2011 to June 30, 2011 is the sale of one of the income producing properties in Saskatoon. There is no gain or loss on this sale as the property was revalued as at May 1, 2011 as a result of the acquisition of First West. The only change this had to the condensed interim consolidated financial statements was to increase cash, reduce mortgages payable and reduce income producing properties.

Non-segmented - Corporate Expenses

Selected Income and Expense Information for Non-Segmented Items	**Three months Ended June 30,**		**Six months Ended June 30,**	
In thousands of Canadian dollars	**2011**	**2010**	**2011**	**2010**
Revenue	$ -	$ -	$ -	$ -
Operating expenses	213	-	213	-
Income from operations	(213)	-	(213)	-
Income (loss) before other items	(213)	-	(213)	-
Reorganization costs	220	-	220	-
Income (loss) from continuing operations	(433)	-	(433)	-
Income (loss) and comprehensive income (loss)	(433)	-	(433)	-

Corporate expenses are considered non-segmented for the purposes of IFRS. The corporate expenses were $213 (2010 - $Nil) for the three and six month periods ended June 30, 2011 and reorganization costs of $220 (2010 - $Nil) related to the acquisition of the Fund and First West pursuant to the Arrangement. A significant portion of the corporate expenses were the reallocation of personnel in May 2011 from the Fund to corporate expenses as their work covers all areas of Mosaic Capital.

SUMMARY OF QUARTERLY RESULTS

The following table summarizes Mosaic Capital's operating results for each of the eight most recently completed quarters.

In $ Thousands	Sep 30, 2009	Dec 31, 2009	Mar 31, 2010	Jun 30, 2010	Sep 30, 2010	Dec 31, 2010	Mar 31, 2011	Jun 30, 2011
	GAAP	GAAP	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
Revenue	$ 5,620	$ 5,362	$ 4,303	$ 4,106	$ 6,118	$ 5,857	$ 5,611	$ 4,165
Operating expenses	3,348	4,164	2,740	3,116	3,628	4,475	4,031	3,653
Income from operations	2,272	1,198	1,563	990	2,490	1,382	1,580	512
Income (loss)	2,072	96	968	547	1,667	756	1,196	(420)

DISTRIBUTIONS and DIVIDENDS

The Fund paid distributions to holders of preferred units in the amount of $1,182 to April 30, 2011 and Mosaic Capital paid dividends to holders of preferred securities in the amount of $847 for May and June 2011 and dividends to Series "A" shares of $2 for total distributions and dividends of $2,028 for the six months to June 30, 2011 (2010 - $1,699 by the Fund). Of this amount $1,146 was paid for the 3 months ended June 30, 2011 (2010 - $854 by the Fund). The increase in dividends and distributions for both the three and six month periods relates primarily to an increase in the number of outstanding preferred securities as a result of the Arrangement compared to the number of preferred units of the Fund for the comparable period.

INCOME-PRODUCING PROPERTIES

Income producing properties are comprised primarily of industrial and commercial buildings. These properties are primarily located in secondary markets in Alberta and Saskatchewan.

On June 15, 2011, the Real Estate segment 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 of $1,542. There is no gain on sale recorded on the condensed consolidated interim financial statements as assets were re-valued as of the May 1, 2011 as a result of the acquisition of First West by Mosaic Capital. There are no taxes payable on this sale due to tax losses carry forward.

PROPERTY HELD FOR DEVELOPMENT

At June 30, 2011, the Real Estate segment held raw land in Lethbridge, Alberta with a book value of $931.

PROPERTY, PLANT & EQUIPMENT

The carrying value of property, plant & equipment increased to $4,692 at June 30, 2011 from $4,496 at December 31, 2010. The increase of $196 primarily relates to net purchases of $393 of motor vehicles acquired by the operating businesses, less amortization recorded for the period.

	June 30, 2011			December 31, 2010
In thousands of Canadian dollars	**Cost**	**Amortization**	**Net Book Value**	
Land	**$ 57**	**$ -**	**$ 57**	$ 57
Motor Vehicles	**1,463**	**581**	**882**	598
Computer equipment	**429**	**234**	**195**	178
Equipment	**4,312**	**1,110**	**3,202**	3,289
Parts inventory	**438**	**173**	**265**	294
Furniture and fixtures	**162**	**72**	**90**	77
Leasehold Improvements	**5**	**4**	**1**	3
	$ 6,866	**$ 2,174**	**$ 4,692**	$ 4,496

The property, plant & equipment is recorded at cost and subsequently depreciated at the following rates and methods:

Buildings	Declining balance	2%
Computer Equipment	Declining balance	30%
Furniture & 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.

GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying value of goodwill and other intangible assets decreased to $17,977 at June 30, 2011 from $18,426 at December 31, 2010. The decrease of $449 primarily relates to the amortization of non-goodwill assets. The goodwill and other intangible assets were acquired in connection with Mosaic Capitals' operating subsidiaries. They included:

In $ Thousands	**Net Book Value June 30, 2011**	Net Book Value December 31, 2010
Goodwill	$ 7,906	$ 7,906
Customer relationships	8,712	9,092
Intellectual property	1,156	1,204
Employment agreements	128	138
Non-competition agreements	47	59
Computer Software	15	27
Step up leases	13	-
	$ 17,977	$ 18,426

Mosaic Capital tests for impairment of goodwill annually or more frequently if events occur that could result in impairment. To date, management has determined that there has been no impairment in the carrying value of goodwill.

Other intangible assets such as customer relationships, employment agreements and non-competition agreements are amortized over their expected economic lives as follows:

Computer Software	Straight line	100%
Customer relationships	Straight line	15 years
Employment agreements	Straight line	10 years
Intellectual property	Straight line	10 years
Non-compete agreements	Straight line	5 years

Intangible assets besides goodwill are tested for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. To date, management has determined that there has been no impairment in the carrying value of intangible assets.

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.

There are four floating rate demand loans that have an aggregate principal balance of $6,891 as at June 30, 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%. Bank prime rate at June 30, 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.

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 in respect of that specific property. The specific properties charged by this security have a net book value of $17,016.

One fixed rate loan, in the amount of $1,542 was repaid during the period May 1, 2011 to June 30, 2011.

NOTES PAYABLE

Notes payable includes vehicle financing, capital leases and notes payable to a former minority partner. The balance outstanding as at June 30, 2011 is $710 ($587 at December 31, 2010), and the fair value of the notes is $712 ($587 at December 31, 2010). The difference between the balance outstanding and the fair value of the notes relates to the market interest rate for a loan of this type estimated to be 5% and rates charges on the actual note payable. In this case the rates are similar but only $110 of the note bears interest and the balance is interest free. The difference between the fair values of the note, results in a non-cash accretion charge that will be expensed as interest on long term debt and accreted to the principal balance over the life of the note payable.

Summary of Scheduled Payments

The payments of principal amounts owing on the above amounts as well as vehicle and equipment financing over the next five years are scheduled as follows:

In $ Thousands	Cash Payments	Carrying Value
Twelve months ended December 31,		
2011	128	130
2012	344	344
2013	150	150
2014	76	76
2015	12	12
	$ 710	$ 712

NON-CONTROLLING INTEREST

Non-controlling interest primarily consists of capital contributions, accumulated earnings, less distributions paid to the Fund's and First West's minority partners.

During the three months ended June 30, 2011 ($80) (2010 - $88) of subsidiary income (loss) was allocated to non-controlling interests and cash distributions of $200 (2010 - $421) were paid to holders of the non-controlling interests.

During the six months ended June 30, 2011, $253 (2010 - $279) of subsidiary income was allocated to non-controlling interests and cash distributions of $805, (2010 - $451) were paid to holders of the non-controlling interests.

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.

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" shares per option (the series "A" shares are redeemable for preferred securities). 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" shares of Mosaic Capital. As at June 30, 2011 there were outstanding Mosaic Capital unit options entitling the holders to purchase 234,850 common shares at a weighted average exercise price of $3.51 per share and 96,635 series "A" shares at a weighted average exercise price of $7.11 per share. These options are issued under, and subject to, the Mosaic Capital share-based compensation plan.

LIQUIDITY AND CAPITAL RESOURCES

Mosaic Capital's primary capital resources for meeting its cash commitments are existing working capital and cash generated from the operations of its subsidiaries. At June 30, 2011, Mosaic Capital had positive working capital of $21,314 (December 31, 2010 - $12,397) and cash and cash equivalents of $18,977 (December 31, 2010 - $10,395), accounts receivable of $3,292 (December 31, 2010 - $4,386), accounts payable of $1,200 (December 31, 2010 - $1,456), and distributions payable of $424 (December 31, 2010 $1,393).

The largest uses of cash during the three months ended June 30, 2011 was the repayment of mortgages of $1,599 and dividends to preferred security holders of $424. There were cash inflows of $6,793 related to the acquisition of First West and $4,607 from the sale of an income producing property in Saskatoon.

The largest uses of cash during the six months ended June 30, 2011 was the repayment of mortgages of $1,599, distributions to non-controlling interest of $763, and distributions and dividends to holders of preferred units of the Fund and holders of preferred securities of Mosaic Capital, respectively, in the aggregate of $2,028. There were cash inflows of $6,793 from the acquisition of First West and $4,607 from the sale of an income producing property in Saskatoon.

Management believes, assuming its subsidiaries generate, in aggregate, positive cash flow from operations in the next twelve months, that its capital resources as at June 30, 2011 are sufficient to meet its financial obligations and dividends on preferred securities.

Management is continually evaluating potential acquisitions and will consider new acquisitions over the next twelve months if they meet the Mosaic Capital's investment criteria. Such acquisitions, however, will be considered only if sufficient financing, both debt and equity, can be arranged and without impairing Mosaic Capital's ability to meet its ongoing commitments.

RISK FACTORS

An investment in, and the businesses and operations of, Mosaic Capital are subject to risks. A discussion of those risks can be found in the Circular filed under First West's company profile on March 29, 2011 at www.sedar.com.

RELATED PARTY TRANSACTIONS

Included in amounts due to related parties, for the three months ended June 30, 2011, was $NIL (June 30, 2010 $167).

Consulting fees in the amount of $44 were paid for the three months to June 30, 2011 and in the amount of $78 were paid for the six months to June 30, 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 were paid for the three and six months to June 30, 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.

Directors, officers and key employees (collectively "employee(s)") 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 $392 as at June 30, 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.

ACCOUNTING ESTIMATES

The preparation of Mosaic Capital's condensed consolidated interim financial statements require management to make assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses for the period then ended. Actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to the determination and allocation of the fair value of assets acquired in business acquisitions, amounts recorded as accrued liabilities, inventory obsolescence, collection of accounts receivable, recoverability of goodwill and other intangible assets, and depreciation and amortization.

CHANGES IN ACCOUNTING POLICIES

In conjunction with Mosaic Capital's annual condensed consolidated financial statements to be issued under International Financial Reporting Standards ("IFRS") for the year ended December 31, 2011, these condensed interim consolidated financial statements present Mosaic Capital's initial financial results of operations and financial position as at and for the six months ended June 30, 2011, including 2010 comparative periods for the Fund. As a result, they have been prepared in accordance with IFRS 1 "First-time Adoption of International Financial Reporting Standards" and with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". These condensed interim consolidated financial statements do not include all the necessary annual disclosures in accordance with IFRS. Previously, the Fund prepared its interim and annual consolidated financial statement in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

The preparation of these condensed interim 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 period ended December 31, 2010 issued under Canadian GAAP. A summary of significant changes to the Mosaic Capital’s accounting policies is disclosed in Note 33 to Mosaic Capitals' condensed interim consolidated financial statements along with reconciliations presenting the impact of the transition to IFRS for the comparative periods as at January 1, 2010, as at and for the six months ended June 30, 2010, and as at and for the twelve months ended December 31, 2010.

A summary of Mosaic Capitals' significant accounting policies under IFRS is presented in Note 3 to Mosaic Capitals' condensed consolidated interim financial statements. These policies have been retrospectively and consistently applied except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1 as disclosed in Note 33 of the condensed consolidated interim financial statements.

The condensed interim consolidated financial statements should be read in conjunction with the Fund's Canadian GAAP annual audited consolidated financial statements for the year ended December 31, 2010.

(a) Basis of measurement

The condensed consolidated interim 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.

(b) Functional and presentation currency

These condensed consolidated interim financial statements are presented in Canadian dollars, which is Mosaic Capitals' functional currency and the currency of the primary economic environment in which Mosaic Capital and each entity within Mosaic Capital operates.

(c) 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. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements is included, but not limited to the following notes:

- Note 4 - valuation of financial instruments
- Note 13 - valuation of property and equipment
- Note 15 - valuation of goodwill and other intangible assets
- Note 3 - measurement of unit-based compensation
- Note 27 - valuation and utilization of tax losses

The following discussion sets forth management's most critical estimates and assumptions in determining the value of assets, liabilities and equity:

Amortization and valuation of equipment and goodwill and other intangible assets

The amounts recorded for amortization of components of property and equipment and intangible assets and the valuation of cash-generating units are based on estimates. These estimates include future cash flows, remaining lives and periods of future benefits and the residual values of the related assets and other relevant assumptions.

Valuation of accounts receivable

The valuation of accounts receivable is based on management's estimate of the provision for doubtful accounts.

Income taxes

The amounts recorded for deferred income taxes are based on estimates as to the timing of the reversal of temporary differences and tax rates currently substantively enacted. 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.

The accounting policies set out below have been applied consistently to the periods presented in the condensed consolidated interim financial statements, and have been applied consistently by Mosaic Capital.

(a) Principles of consolidation

The condensed interim consolidated financial statements include the accounts of the following:

- Mosaic Capital Corporation
- Mosaic Diversified Income Fund consolidated
- First West Properties Ltd. consolidated

(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 with acquisition costs being expensed;
- 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 cash-generating units 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 condensed interim consolidated statement of income and comprehensive income.

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, the Mosaic Capital incurs in connection with a business combination are expensed as incurred.

(c) Property acquisitions and business combinations

Where property is acquired through the acquisition of corporate interests, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents the acquisition of a business. The basis of the judgment is set out in Note 3.

Where such acquisitions are not judged to an acquisition of a business, they are not treated as business combinations. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair value at acquisition date. Accordingly, no goodwill or additional deferred taxation arises. Otherwise, corporate acquisitions are accounted for as business combinations.

(d) 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 or that are cashable within 90 days or less at the date of issue.

(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 accounts receivable and cash and cash equivalents. Purchases and sales of financial assets are recognized on the settlement date, which is the date on which the asset is delivered to or by Mosaic Capital. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or were transferred and 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 were acquired:

Financial assets at fair value through profit or loss

Classification

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 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 recognized in the condensed interim consolidated statement of income and comprehensive 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 and are classified as current assets in the balance sheet.

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 short-term receivables when 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 other debt securities. They are included in other non-current financial assets unless management intends to dispose of the investment within 12 months of the balance sheet date. 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 payables and accrued liabilities, notes and distributions payable and amounts due to related parties. 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. 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.

(iii) *Derivative financial instruments*

Mosaic Capital may enter into, from time to time, 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 the condensed interim consolidated statement of income and comprehensive income as incurred. Proceeds and costs realized from holding these financial instruments are recognized in profit or loss at the time each transaction under a 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 the condensed interim consolidated statement of income and comprehensive income. Mosaic Capital has not identified any embedded derivatives in any of its financial instruments.

(iv) *Equity instruments*

Preferred units and common units of the Fund are classified as equity on the comparative financial statements from prior years. Preferred securities, series “A” shares, and common shares 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*

Mosaic Capital assesses at each balance sheet date 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 is impaired. When an impairment has occurred, the cumulative loss is recognized in profit or loss.

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. For receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. 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. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

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 profit or loss in the period.

With the exception of available-for-sale equity instruments, 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 profit or loss 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 equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. 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 net 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 on a net basis and recognized in other items within net income.

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

(g) Property, Plant and equipment

(i) Assets owned by Mosaic Capital

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. 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 “borrowings and other financial liabilities”. These assets are amortized over their estimated useful life. Amortization expenses on assets acquired under such leases are included in Amortization expenses.

Subsequent to initial recognition, the cost model is applied to property, plant and equipment. Mosaic Capital has elected not to apply the option provided by IFRS I regarding the re-measurement, as at January 1, 2010, of its property, plant and equipment at their fair value at January 1, 2010.

(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 the condensed interim consolidated statement of income and comprehensive income as an expense as incurred.

(iii) Amortization

Amortization is charged to the condensed interim consolidated statement of income and comprehensive income over the estimated useful lives of each part 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 not insignificant, is reassessed annually.

(h) Intangible assets

(i) Other intangible assets

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

Expenditures on internally generated goodwill are recognized in the condensed interim consolidated statement of income and comprehensive income as an expense as incurred.

(ii) Subsequent expenditure

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

(iii) Amortization

Amortization is charged to the condensed interim consolidated statement of income and comprehensive income on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are tested for impairment annually. Other intangible assets are amortized from the date they are available for use. These assets are amortized as follows:

Computer software	Declining balance	100%
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

(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:

- 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 operating units is compared to the carrying amount of the corresponding assets (including goodwill).

- 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.

- 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 group of assets.

- Fair value (less costs to sell) is the estimated amount obtainable from the sale of the asset or group of assets 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 group of assets, an impairment loss is recognized for the difference. In the case of a group of assets, this impairment loss is recorded in priority against goodwill.

- Impairment losses recognized in respect of property and equipment and intangible assets (other than goodwill) may be reversed in a later period if the recoverable amount becomes greater than the carrying amount, within the limit of impairment losses previously recognized. Conversely, impairment losses recognized in respect of goodwill cannot be reversed.

Impairment losses recognized in respect of cash-generating units ("CGUs") are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Goodwill and indefinite-lived intangible assets were tested for impairment at January 1, 2010, the date of transition to IFRS, even though no indication of impairment existed.

(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.

(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 investment 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. Revenue related to laundry and parking are included gross of the related costs in revenue.

(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 acquired assets and liabilities in accordance with IFRS 3.

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.

(n) Income producing properties

(i) Completed income producing property

Initially, income producing properties are recorded at cost, including transaction costs. Transaction costs include transfer taxes and various professional fees. Subsequent to initial recognition, income producing properties are stated at fair value. Gains and losses arising from changes in the fair values included in the statement of income in the year in which they arise.

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 of disposal of income producing property are recognized in the statement of income in the year 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, realty taxes and borrowing costs directly attributable to the development. Under the requirements of IAS 40 income producing property under construction is measured at fair value at each reporting date, with the recognition of gains and losses in the statement of income. If the fair value of an income producing property under construction is not reliably determinable when construction is complete, it measures that income producing property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

(o) Property held for development

Property held for development includes initial acquisition costs; other direct costs; and realty taxes, interest, and operating expenses net of revenues during the period of development.

(p) Finance income and expenses

Finance income, consisting of interest income, is recognized as it accrues in profit or loss, 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 profit or loss 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 profit or loss 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 on the initial recognition of assets or liabilities in a transaction that is not a business combination. 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 tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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 the income statement as they arise.

Other leases are classified as operating leases. Operating lease payments are recognized as an expense in the income statement of 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 and contingent liabilities 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 and contingent liabilities 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) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

- *Consolidation* (replacement for IAS 27 and SIC 12)
- *Discontinued Operations* (amendment of IFRS 5)
- *Earnings per Share* (replacement of IAS 33)
- *First-time Adoption of IFRS* (amendment to IFRS 1)
- *Group Cash-settled Share-based Payment Transactions* (amendment to IFRS 2)
- *Joint Arrangements* (amendment to IAS 31)
- *Management Commentary*

(u) 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.

(v) Share-based compensation

The fair value of employee stock 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.

(w) 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.

(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 condensed interim consolidated balance sheet.

(y) Condensed interim consolidated balance sheet

Assets and liabilities expected to be realized in, or intended for sale or consumption in, the entity's normal operating cycle, usually equal to 12 months, are recorded as current assets or liabilities. If their maturity exceeds this period, they are recorded as non-current assets or liabilities.

(z) 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 in deciding how to allocate resources and in assessing performance.

(aa) 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 or loss attributable to shareholders of Mosaic Capital 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 common shares, which comprise in-the-money stock options.

(bb) Recent accounting pronouncements

All accounting standards effective for periods on or after January 1, 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 Mosaic Capital in the future:

IFRS 9 Financial Instruments

IFRS 9 was issued in November 2009 and reflects the first phase of the IASB's work on the replacement of IAS 39 *Financial Instruments: Recognition and Measurement*. The standard revises and limits the classification and measurement models available for financial assets and liabilities to amortized cost or fair value. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. Mosaic Capital is currently assessing the impact of the new standard on its consolidated financial statements, but does not anticipate that the adoption of the standard will have a significant impact.

IFRS 10 Consolidated Financial Statements

IFRS 10 was issued in May 2011 and establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC 12 *Consolidation – Special Purpose Entities*. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. Mosaic Capital is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 was issued in May 2011 and is new comprehensive standard that specifies disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles, and other off-balance-sheet vehicles. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Mosaic Capital is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 13 Fair Value Measurement

IFRS 13 was issued in May 2011 and defines fair value, sets out in a single standard a framework for measuring fair value, and specifying certain disclosure requirements about fair value measurements. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. Mosaic Capital is currently assessing the impact of the new standard on its consolidated financial statements.

(a) Principles of consolidation

The condensed consolidated interim financial statements include the accounts of the following:

- Mosaic Capital Corporation
- Mosaic Diversified Income Fund consolidated.
- First West Properties Ltd consolidated.

(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 purchase 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 with acquisition costs being expensed;
- 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 cash-generating units expected to benefit from the combination's synergies; and
- if the acquisition cost is less than the fair value of the next assets acquired, the fair value of the net assets is re-assessed and any remaining differences is recognized directly in the income statement.

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 depreciation and amortization are retrospectively recorded to reflect the final purchase accounting.

Intercompany transactions between subsidiaries are eliminated in consolidation.

(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 that are cashable in 90 days or less at the date of issue.

(d) 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 accounts receivable and cash and cash equivalents. Purchases and sales of financial assets are recognized on the settlement date, which is the date on which the asset is delivered to or by Mosaic Capital. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or were transferred and 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 were acquired:

Financial assets at fair value through profit or loss

Classification

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 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 recognized in the income statement. 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 and are classified as current assets in the balance sheet.

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 short-term receivables when the recognition of interest would be immaterial.

A*vailable-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 other debt securities. They are included in other non-current financial assets unless management intends to dispose of the investment within 12 months of the balance sheet date. 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 payables and accrued liabilities, notes and distributions payable and due to related parties. 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. Non-performance risk, including Mosaic Capitals' own credit risk for financial liabilities, is considered when determining the fair value of financial assets or liabilities, including derivative liabilities.

(iii) *Derivative financial instruments*

Mosaic Capital may enter into, from time to time, 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. Mosaic Capital has not designated its financial derivative contracts as effective accounting hedges, and thus not applied hedge accounting, even though Mosaic Capital considers all commodity contracts to be economic hedges. As a result, all financial derivative contracts are classified as fair value through profit or loss and are recorded on the balance sheet at fair value with changes in fair value recorded in the income statement. Transaction costs are recognized in the income statement as incurred. Proceeds and costs realized from holding these financial instruments are recognized in profit or loss at the time each transaction under a 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 the income statement. Mosaic Capital has not identified any embedded derivatives in any of its financial instruments.

(iv) *Equity instruments*

Preferred units and common units of the Fund are classified as equity on the comparative financial statements from prior years. Preferred securities, Series "A" 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*

Mosaic Capital assesses at each balance sheet date 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 is impaired. When an impairment has occurred, the cumulative loss is recognized in profit or loss.

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. For receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Mosaic Capitals' 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. When an accounts receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

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 profit or loss in the period.

With the exception of available-for-sale equity instruments, 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 profit or loss 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 equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

(e) Property and equipment

(i) Assets owned by Mosaic Capital

Property and equipment are carried at historical cost less any accumulated depreciation 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. 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 "borrowings and other financial liabilities". These assets are amortized over their estimated useful life. Depreciation expenses on assets acquired under such leases are included in depreciation expenses.

Subsequent to initial recognition, the cost model is applied to property, plant and equipment. Mosaic Capital has elected not to apply the option provided by IFRS I regarding the re-measurement, as at January 1, 2010, of its property, plant and equipment at their fair value at January 1, 2010.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(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 the income statement as an expense as incurred.

(iii) Depreciation

Depreciation is charged to the income and comprehensive income statement over the estimated useful lives of each part of an item of property, plant and equipment as follows:

Buildings	Declining balance	2%
Computer Equipment	Declining balance	30%
Furniture & 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 not insignificant, is reassessed annually.

(f) Intangible assets

(i) Other intangible assets

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

Expenditures on internally generated goodwill are recognized in the income statement as an expense as incurred.

(ii) Subsequent expenditure

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

(iii) Amortization

Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortized from the date they are available for use. These assets are amortized as follows:

Buildings	Declining balance	2%
Computer Equipment	Declining balance	30%
Furniture & 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

(g) Impairment

When events or changes in the economic environment indicate a risk of impairment of goodwill, other intangible assets or property 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:

- 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 the Mosaic Capitals' operating units is compared to the carrying amount of the corresponding assets (including goodwill).
- 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.
- 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 group of assets.
- Fair value (less costs to sell) is the estimated amount obtainable from the sale of the asset or group of assets 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 group of assets, an impairment loss is recognized for the difference. In the case of a group of assets, this impairment loss is recorded in priority against goodwill.
- Impairment losses recognized in respect of property and equipment and intangible assets (other than goodwill) may be reversed in a later period if the recoverable amount becomes greater than the carrying amount, within the limit of impairment losses previously recognized. Conversely, impairment losses recognized in respect of goodwill cannot be reversed.

Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Goodwill and indefinite-lived intangible assets were tested for impairment at January 1, 2010, the date of transition to IFRS, even though no indication of impairment existed.

(h) 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.

(i) Revenue recognition

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.

(j) Finance income and expenses

Finance income, consisting of interest income, is recognized as it accrues in profit or loss, 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 profit or loss in the period in which they are incurred using the effective interest method.

(k) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss 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 on the initial recognition of assets or liabilities in a transaction that is not a business combination. 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 tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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.

(l) Employee Share Purchase Plan

Directors, officers and key employees (collectively "employee(s)") 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.

(m) Provisions and contingent liabilities

Provisions and contingent liabilities 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 and contingent liabilities 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.

(n) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year of the Fund except as follows:

- Consolidation (replacement for IAS 27 and SIC 12)
- Discontinued Operations (amendment of IFRS 5)
- Earnings per Share (replacement of IAS 33)
- First-time Adoption of IFRS (amendment to IFRS 1)
- Group Cash-settled Share-based Payment Transactions (amendment to IFRS 2)
- Joint Arrangements (amendment to IAS 31)
- Management Commentary

(o) Equity

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

(p) 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 balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Receiver General are classified as operating cash flows.

(q) Consolidated balance sheet

Assets and liabilities expected to be realized in, or intended for sale or consumption in, the entity's normal operating cycle, usually equal to 12 months, are recorded as current assets or liabilities. If their maturity exceeds this period, they are recorded as non-current assets or liabilities.

RECENT ACCOUNTING PRONOUNCEMENTS

As stated in Changes of Accounting Policies, these are Mosaic Capital first condensed consolidated interim financial statements after the acquisition of the Fund and First West prepared in accordance with IFRS.

The policies set out in the Summary of Significant Accounting Policies section have been applied in preparing the financial statements for the three months ended June 30, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS balance sheet at January 1, 2010 (the Fund's date of transition).

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

Choices available at first-time adoption

a) Property and equipment – IFRS 1 provides a choice between measuring property 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 and equipment and has not restated property and equipment to fair value under IFRS. The historical bases under Canadian GAAP have been designated as the deemed cost under IFRS at Transition Date.

b) Business combinations – IFRS 3, Business Combinations (CICA Section 1582) 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 January 1, 2010 and such business combinations will not be restated. Any goodwill arising on such business combinations before January 1, 2010 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. However, Mosaic Capital has early adopted CICA Section 1582 effective January 1, 2010.

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 in IAS 39 at that date. Hedging relationships cannot be designated retrospectively and the supporting documentation cannot be created retrospectively. There was no material transaction 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.

OUTSTANDING SHARE DATA

As at August 29, 2011 the following share and securities for Mosaic Capital were outstanding.

Preferred securities	5,066,872
Series "A" shares	20,790
Common shares	8,137,848

OUTLOOK

The following discussion is qualified in its entirety by the "Caution Regarding Forward-looking Statements" at the beginning of this MD&A, and the section titled "Risk Factors".

Mosaic Capital's industrial operating segment has business activity in northeast British Columbia and northwest Alberta, Fort McMurray and southeast Saskatchewan and is directly affected by activity levels in exploration for, and production of, oil and natural gas. Southeast Saskatchewan experienced one of the wettest springs in recent memory and was subject to severe flooding which significantly curtailed activity in the area as access to oil and gas leases was not possible as a result of the weather and flooding. Since mid-July the area has been experiencing more usual weather and activity has started to increase and management expects it to increase until freeze up in late November to early December. Management believes that oil and natural gas exploration and production activity in Alberta has increased since last year. Subject to weather and certain other conditions, management anticipates that the industrial operating segment will return to a normalized business environment for the remainder of 2011.

Mosaic Capital has developed and is expanding a network of referral sources that regularly present potential investments. Both of Mosaic Capital's industrial and real estate operating segments are seeing an increase in deal flow for potential acquisition targets so far this year and expect this trend to continue as a result of the efforts of management in markets across western Canada. Offsetting increased deal flow, management of both of Mosaic Capital's operating segments are seeing increased competition for investments which is putting upward pressure on valuation multiples. Mosaic Capital's real estate operating segment may be able to take advantage of a more robust market to sell certain of its real estate. There can be no assurance that target companies or assets meeting Mosaic Capital's operating segments' acquisition criteria will be found or that purchasers for any of its assets or businesses will be found. Mosaic Capital may incur costs related to acquisitions even though no acquisitions are closed, which costs will have a negative impact on Mosaic Capital's financial results.

Volatility in the financial markets due to the downgrade in the US debt rating, European sovereign debt issues, volatile commodity prices and other issues have an effect on most businesses, including Mosaic Capital and its operating segments. Management will continue to assess Mosaic Capital's operating performance and its business environment, and execute what it believes to be appropriate strategies in relation to capital expenditures, sales and marketing and operational review to attempt to obtain stability in its business units.

SUBSEQUENT EVENTS

Mosaic Capital paid a distribution of $424 to holders of preferred securities and $2 to holders of series "A" shares that were outstanding as of June 30, 2011. An additional distribution was declared as of July 31, 2011 in the amount of $424 to holders of preferred securities and $2 to holders of series "A" shares and was paid on August 15, 2011.