

Mosaic Capital Corporation
Condensed Interim Consolidated Financial Statements
For the Six Months Ended June 30, 2011

(unaudited)

Notice

The Company discloses that its auditors, Deloitte Touche LLP, have not reviewed the interim consolidated financial statements.

MOSAIC CAPITAL CORPORATION
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED June 30, 2011

(unaudited)

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Mosaic Capital Corporation

Condensed Interim Consolidated Balance Sheets

(shown in thousands of Canadian dollars)
unaudited

	Notes	June 30, 2011	December 31, 2010	January 1, 2010
Assets				
Current assets				
Cash and cash equivalents	7	\$ 18,977	\$ 10,395	\$ 9,154
Restricted cash	7	130	121	-
Accounts receivable	5(b) & 8	3,292	4,386	4,479
Inventory	9	631	553	256
Deposits and prepaid expenses		555	85	42
Loan receivable	10	305	-	-
Income taxes recoverable			-	263
Total current assets		<u>23,890</u>	<u>15,540</u>	<u>14,194</u>
Non-current assets				
Property held for development	11	1,081	-	-
Income producing properties	12	24,537	-	-
Property, plant and equipment	13	4,692	4,496	4,668
Employee share purchase plan	14	392	-	-
Goodwill and other intangible assets	15	17,977	18,426	19,092
Total non-current assets		<u>48,679</u>	<u>22,922</u>	<u>23,760</u>
Total assets		<u>\$ 72,569</u>	<u>\$ 38,462</u>	<u>\$ 37,954</u>
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	5(c)	\$ 1,200	\$ 1,456	\$ 2,163
Dividends payable	5(c)	424	1,393	1,073
Current portion of mortgages payable	17	626	-	111
Current portion of notes payable	16	326	294	371
Total current liabilities		<u>2,576</u>	<u>3,143</u>	<u>3,718</u>
Non-current liabilities				
Notes payable	16	384	293	172
Mortgages payable	17	6,265	-	-
Security deposits		118	-	-
Total non-current liabilities		<u>6,767</u>	<u>293</u>	<u>172</u>
Total Liabilities		<u>9,343</u>	<u>3,436</u>	<u>3,890</u>
Shareholder/Unitholders' Equity				
Preferred securities	18	45,239	-	-
Series "A" shares	18	135	-	-
Common shares	18	16,982	-	-
Preferred trust units	18	-	32,338	30,728
Contributed surplus	18	-	26	-
Common trust units	18	-	16	16
Non-controlling interest	23	4,405	4,674	4,747
Deficit		(3,535)	(2,028)	(1,427)
Total equity attributable to equity holders		<u>63,226</u>	<u>35,026</u>	<u>34,064</u>
Total liabilities and shareholder/Unitholders' equity		<u>\$ 72,569</u>	<u>\$ 38,462</u>	<u>\$ 37,954</u>

-Commitments (note 30)

-Subsequent events (note 31)

See accompanying notes to the condensed interim consolidated financial statements.

These condensed interim consolidated financial statements were approved by the board of directors on August 29, 2011

(signed) "Harold Kunik", Director _____

(signed) "John Mackay", Director _____

Mosaic Capital Corporation

Condensed Interim Consolidated Statements of Income and Comprehensive Income

(shown in thousands of Canadian dollars)

unaudited

	Notes	3 Months Ended June 30,		6 Months Ended June 30,	
		2011	2010	2011	2010
Revenue		\$ 4,165	\$ 4,106	\$ 9,776	\$ 8,409
Operating expenses	25	3,653	3,112	7,534	5,853
Income from Operations		512	994	2,242	2,556
Amortization of buildings	12	62	-	62	-
Amortization of tangible assets	13	175	178	330	332
Amortization of intangible assets	15	232	211	464	451
Loss on sale of equipment		9	-	9	5
		478	389	865	788
Income before finance		34	605	1,377	1,768
Finance income	26	5	3	12	24
Finance expense	26	80	(13)	84	11
		(75)	16	(72)	13
Income (loss) before other items		(41)	621	1,305	1,781
Other Income and Expenses					
Reorganization costs	6	370	-	520	-
Income (loss) from continuing operations		(411)	621	785	1,781
Loss from discontinued operations		(9)	-	(9)	-
Income (loss) before tax		(420)	621	776	1,781
Income tax expense					
Current	27	-	(13)	-	(13)
Deferred	27	-	-	-	-
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	23	(80)	88	253	279
		\$ (420)	\$ 634	\$ 776	\$ 1,794
Earnings per share calculations		(see note 19)	(see note 19)	(see note 19)	(see note 19)
Weighted average number of shares outstanding		7,034,279	5,060,888	6,256,286	5,057,582

See accompanying notes to the condensed interim consolidated financial statements.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity*(shown in thousands of Canadian dollars)**unaudited*

	Notes	Number of Preferred Securities	Preferred Securities Stated Value	Number of Series "A" Shares	Series "A" Shares Stated Value	Number of Common Shares	Common Shares Stated Value	Number of Common Trust Units	Common Trust Units Stated Value	Number of Preferred Trust Units	Preferred Trust Units Stated Value	Contributed Surplus	Total Unit Capital Stated Value	Deficit	Non-Controlling Interest	Total Equity
Balance as at January 1, 2010		-	\$ -	-	\$ -	-	\$ -	2,802	\$ 16	3,349	\$ 30,728	-	\$ 30,744	\$ (1,427)	\$ 4,747	\$ 34,064
Issue of preferred trust units	18	-	-	-	-	-	-	-	-	96	944	-	944	-	-	944
Redemption of preferred Units	18	-	-	-	-	-	-	-	-	(12)	(124)	-	(124)	-	-	(124)
Unit issue costs		-	-	-	-	-	-	-	-	-	(11)	-	(11)	-	-	(11)
Change in non-controlling	23	-	-	-	-	-	-	-	-	-	-	-	-	-	(172)	(172)
Distributions paid to unit holders	18	-	-	-	-	-	-	-	-	-	-	-	-	(1,699)	-	(1,699)
Income for the year		-	-	-	-	-	-	-	-	-	-	-	-	1,515	-	1,515
Balance at June 30, 2010		-	-	-	-	-	-	2,802	16	3,433	31,537	-	31,553	(1,611)	4,575	34,517
Issue of preferred trust units	18	-	-	-	-	-	-	-	-	95	935	-	935	-	-	935
Redemption of preferred units	18	-	-	-	-	-	-	-	-	(14)	(136)	26	(110)	-	-	(110)
Unit issuance costs		-	-	-	-	-	-	-	-	-	2	-	2	-	-	2
Change in non-controlling	23	-	-	-	-	-	-	-	-	-	-	-	-	-	99	99
Distributions paid to unit holders	18	-	-	-	-	-	-	-	-	-	-	-	-	(2,841)	-	(2,841)
Income for the year		-	-	-	-	-	-	-	-	-	-	-	-	2,424	-	2,424
Balance at December 31, 2010		-	-	-	-	-	-	2,802	16	3,514	32,338	26	32,380	(2,028)	4,674	35,026
Issue of common trust units/shares	18	-	-	21	135	8,138	16,982	(2,802)	(16)	(3,514)	(32,338)	(26)	(15,263)	-	-	(15,263)
Issue of preferred trust units/securities	18	5,089	45,239	-	-	-	-	-	-	-	-	-	45,239	-	-	45,239
Change in non-controlling	23	-	-	-	-	-	-	-	-	-	-	-	-	-	(269)	(269)
Distributions paid to unit holders	18	-	-	-	-	-	-	-	-	-	-	-	-	(1,181)	-	(1,181)
Dividends paid on preferred securities	18	-	-	-	-	-	-	-	-	-	-	-	-	(847)	-	(847)
Dividends paid on series "A" shares	18	-	-	-	-	-	-	-	-	-	-	-	-	(2)	-	(2)
Income for the year		-	-	-	-	-	-	-	-	-	-	-	-	523	-	523
Balance at June 30, 2011		5,089	\$ 45,239	21	\$ 135	8,138	\$ 16,982	-	-	-	-	-	\$ 62,356	\$ (3,535)	\$ 4,405	\$ 63,226

See accompanying notes to the condensed interim consolidated financial statements.

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Condensed Interim Consolidated Statements of Cash Flows

(shown in thousands of Canadian dollars)

unaudited

	Notes	Three Months ended June 30,		Six Months ended June 30,	
		2011	2010	2011	2010
Cash and cash equivalents provided by (used in):					
Cash flows from operating activities					
Income (loss) for the period		\$ (340)	\$ 546	\$ 523	\$ 1,515
Adjustments for:					
Accretion of notes payable	16	-	2	2	3
Amortization of buildings		62	-	62	-
Amortization of intangibles assets	15	232	211	464	451
Amortization of tangibles assets	13	175	178	330	332
Gain on redemption of units		-	(4)	-	(12)
Loss on sale of equipment		9	-	9	5
Non-controlling interest	23	(80)	88	253	279
Sub-total changes prior to non-cash working capital		58	1,021	1,643	2,573
Changes in non-cash working capital	28	616	614	(4)	629
Net cash provided by operating activities		674	1,635	1,639	3,202
Cash flows from investing activities					
Additions to intangible assets	15	-	(16)	(35)	(27)
Additions to property, plant and equipment	13	(191)	(85)	(451)	(224)
Business combination, net of cash acquired	6	6,786	-	6,786	-
Disposal of income producing properties	12	4,607	-	4,607	-
Employee share purchase plan	14	(392)	-	(392)	-
Net cash used in investing activities		10,810	(101)	10,515	(251)
Cash flows from financing activities					
Additions to notes payable	16	219	31	306	31
Distributions to non-controlling interests	23	(200)	(421)	(763)	(451)
Distributions to unit holders	18	(264)	(391)	(699)	(653)
Dividends to preferred security holders	18	(424)	-	(424)	-
Dividends to series "A" shareholders	18	(2)	-	(2)	-
Redemption of units		(188)	(33)	(188)	(112)
Repayment of mortgages	17	(1,599)	-	(1,599)	-
Repayment of notes payable	16	(130)	(160)	(203)	(316)
Repayment to related parties		-	(166)	-	(279)
Shares issued for cash (net of issuance costs)		-	(21)	-	-
Changes in non-cash working capital	28	(7)	(162)	-	(145)
Net cash from financing activities		(2,595)	(1,323)	(3,572)	(1,925)
Change in cash and cash equivalents		8,889	211	8,582	1,026
Cash and cash equivalents, beginning of period		10,088	9,969	10,395	9,154
Cash and cash equivalents, end of period		\$ 18,977	\$ 10,180	\$ 18,977	\$ 10,180

See accompanying notes to the condensed interim consolidated financial statements.

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Notes to Condensed Interim Consolidated Financial Statements

For the Six months Ended June 30, 2011

1. General business description

Mosaic Capital Corporation

Mosaic Capital Corporation ("Mosaic Capital") was incorporated under the *Business Corporations Act* (Alberta) on February 11, 2011. Mosaic Capital is a Calgary based investment company that owns a portfolio of established businesses that generate strong cash flow from their operations in niche markets. Mosaic Capital's portfolio businesses operate in the printing, oil and gas services, technology, and real estate industries. Mosaic Capital continues to acquire and invest in businesses that have attributes similar to its existing businesses. It also considers limited capital investments in start up companies, distressed asset situations, reorganizations of businesses, investment fund management, private equity, venture capital, or pursuing various other investment related opportunities.

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

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

The common shares and preferred securities of Mosaic Capital were listed and commenced trading on the TSX Venture Exchange under the symbol "MZ" and "MZ.PR.A", respectively, on May 9, 2011.

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

Mosaic Diversified Income Fund ("the Fund")

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

As at June 30, 2011, the Fund has indirectly invested in four operating entities, Printing Unlimited L.P. 100% ownership ("Printing Unlimited"), Allied Catholic Services L.P. 80% ownership ("Allied Catholic"), Polar Geomatic Solutions L.P. 90% ownership ("Polar") and Remote Waste L.P. 75% ownership ("Remote

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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.

First West Properties Ltd. ("First West")

First West, formerly known as Aveiro Investment Corp was incorporated under the Alberta Business Corporations Act (Alberta) on June 7, 1996 and its articles were amended on June 24, 1996. First West was an inactive public company until August 21, 2006, when the board of directors and management were changed and a new business plan was adopted. On February 7, 2008, First West amended its articles and changed its name to First West Properties Ltd. from Aveiro Investment Corp.

First West is an Alberta based real estate investment company that has built a portfolio of real estate assets in secondary markets in western Canada consisting primarily of income producing properties and other assets which provide income or to which management can conduct activity to provide fundamental value growth. First West owns 75% of First West Mortgage LP which is included in this consolidation.

2. Basis of preparation

(a) Statement of compliance

In conjunction with Mosaic Capital's annual condensed interim 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 of the Fund. First West financial information for prior periods is not included in this report as First West was acquired effective May 1, 2011. As a result, these statements 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 statements 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 Mosaic Capital's and 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 Mosaic Capital's accounting policies is disclosed in note 33 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 Capital's significant accounting policies under IFRS is presented in note 3. 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 25.

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Notes to Condensed Interim Consolidated Financial Statements

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

The Company discloses that its auditors, Deloitte Touche LLP, have not reviewed the interim consolidated financial statements.

The condensed interim consolidated financial statements were authorized for issue by the board of directors of Mosaic Capital on August 29, 2011.

(b) Basis of measurement

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

- (i) derivative financial instruments, if any, are measured at fair value; and
- (ii) held for trading financial assets are measured at fair value with changes in fair value recorded in earnings.

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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 interim consolidated financial statements is included, but not limited to the following notes:

- Note 4 - valuation of financial instruments
- Note 13 - valuation of property, plant and equipment
- Note 15 - valuation of goodwill and other intangible assets
- Note 3 valuation of stock options
- Note 27 - valuation and utilization of tax losses

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Notes to Condensed Interim Consolidated Financial Statements

For the Six months Ended June 30, 2011

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, plant 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.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these condensed interim consolidated 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;

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- 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, that 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.

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Notes to Condensed Interim Consolidated Financial Statements
For the Six months Ended June 30, 2011

(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.

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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*

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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.

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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.

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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.

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- 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.

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(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 are 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.

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(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.

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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:

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- *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 security and share options is measured using a Black Scholes option pricing model. Measurement inputs include the share price on the grant date, the exercise price of the instrument, the expected volatility, the weighted average expected life of the instruments, the expected dividends and the risk-free interest rate. Service and non-market performance conditions are not taken into account in determining fair value.

(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

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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 on the Company 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.

4. Determination of fair values

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

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asset or liability.

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

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

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

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

- (iii) Derivatives

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

- (iv) Common share and preferred security options

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

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

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

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5. Financial risk management

(a) Overview

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

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

This note presents information about Mosaic Capital's exposure to each of the above risks, Mosaic Capital's objectives, policies and processes for measuring and managing risk, and Mosaic Capital's management of capital. Further quantitative disclosures are included throughout these condensed interim consolidated financial statements.

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

(b) Credit risk

Credit risk is the risk of financial loss to Mosaic Capital if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Mosaic Capital's accounts receivable are due from a wide range of customers and are subject to normal credit risk. The maximum exposure to credit risk at June 30, 2011 and December 31, 2010 is as follows:

	Carrying amount	
	June 30, 2011	December 31, 2010
Cash and cash equivalents	\$ 18,977	\$ 10,395
Accounts receivable	3,292	4,386
	\$ 22,269	\$ 14,781

Cash and cash equivalents

Cash and cash equivalents, when held, consist of cash bank balances and short term deposits cashable in less than 90 days at inception. Mosaic Capital manages the credit exposure related to cash and cash equivalents by selecting Canadian chartered banks with high credit ratings and monitors all short term deposits to ensure an adequate rate of return. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

Accounts receivable

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

Mosaic Capital is exposed to credit risk as an owner of businesses that extend credit to customers and tenants. The credit quality of the trade receivables amount is considered adequate. Mosaic Capital provides allowances for any customer accounts where collectability is doubtful.

A wide range of customers purchase products and services from Mosaic Capital's subsidiaries, which helps to mitigate Mosaic Capital's exposure to any one customer.

There were approximately three hundred fifty customers making up the total consolidated sales for the three months period ended June 30, 2011 and four hundred sixty customers for the six month period ended June 30, 2011. During the three months ended June 30, 2011 thirty four customers accounted for 77% of the consolidated sales and during the six months ended June 30, 2011 thirty six customers accounted for 82% of the consolidated sales. All specific customers were less than 9% of the sales during these periods.

(c) Liquidity risk

Liquidity risk is the risk that Mosaic Capital will not be able to meet its financial obligations as they are due. Mosaic Capital's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its liabilities when due. Mosaic Capital's ongoing liquidity is impacted by various external events and conditions, including price fluctuations and the global economic downturn.

Mosaic Capital's financial liabilities consist of accounts payable and accrued liabilities, distributions payable and notes payable. Accounts payable consists of invoices payable to trade suppliers. Accounts payable and accrued liabilities as at June 30, 2011 was \$1,200 (December 31, 2010 \$1,456). Dividends payable as of June 30, 2011 was \$424 (December 31, 2010 \$1,393). Refer to note 5(f) for further disclosure on the management of capital.

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

Mosaic Capital's accounts payable and accrued liabilities as at June 30, 2011 and December 31, 2010 are aged as follows:

	June 30, 2011	December 31, 2010
0 - 30 days	\$ 1,190	\$ 1,330
31 to 60 days	3	126
61 to 90 days	3	-
Greater than 90 days	4	-
Total accounts payable and accrued liabilities	\$ 1,200	\$ 1,456

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Mosaic Capital expects to satisfy its obligations under accounts payable and accrued liabilities within the next year.

Mosaic Capital is also subject to future commitments as disclosed in note 22.

(d) Market risk

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

(e) Interest rate risk

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

(f) Capital management

Mosaic Capital's objectives when managing capital are to safeguard its ability to continue as a going concern. It does this by monitoring liquidity with a view to meet near term working capital requirements. It structures business and asset acquisitions with a combination of equity and debt financing to ensure debt servicing is manageable. Mosaic Capital defines capital as notes payable, mortgages payable, non-controlling interest and shareholders' equity.

The total managed capital for Mosaic Capital is summarized below:

	June 30, 2011	December 31, 2010
Notes payable	\$ 710	\$ 587
Mortgages payable	\$ 6,891	-
Non-controlling interest	4,405	4,674
Shareholders'/Unitholders' equity	58,821	30,352
	\$ 70,827	\$ 35,613

6. Business combinations

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

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

As at May 1, 2011	Amount
Common shares	\$ 14,664
Preferred securities	14,664
	\$ 29,328

This acquisition has been accounted for using the acquisition method on May 1, 2011, whereby the assets acquired and the liabilities assumed were recorded at their fair values. The company assessed the fair

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values of the net assets acquired based on management's best estimate of fair value and external documentation, which takes into consideration the condition of the assets acquired, current industry conditions and the discounted future cash flows expected to be received from the assets as well as the amount it is expected to cost to settle the outstanding liabilities. Subsequent to the acquisition date, First West's operating results have been included in Mosaic Capital's revenues, expenses and capital spending.

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

As at May 1, 2011	Amount
Net working capital	\$ 6,797
Income producing properties	29,942
Property held for development	1,081
Mortgages payable	(8,492)
	\$ 29,328

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

The company incurred costs related to the acquisition of First West of \$520 relating to due diligence, as well as external legal and advisory fees, which were expensed in the period incurred.

7. Cash and cash equivalents

	June 30, 2011	December 31, 2010
Bank balances	\$ 12,477	\$ 6,198
Government t-bill's or bank cashable GIC's	6,500	4,197
	\$ 18,977	\$ 10,395

Restricted Cash

Restricted cash as of June 30, 2011 was \$130 (2010 – \$121) and relates to deposits with Canadian Chartered banks and is pledged as security relating to the use of corporate credit cards and payroll processing.

8. Accounts receivable

As at June 30, 2011 and December 31, 2010, Mosaic Capital's accounts receivable were comprised of the following:

	Carrying amount	
	June 30, 2011	December 31, 2010
Trade receivable	\$ 3,012	\$ 4,066
Other	280	320
	\$ 3,292	\$ 4,386

As at June 30, 2011 and December 31, 2010, Mosaic Capital estimates its trade receivable to be aged as follows:

Mosaic Capital Corporation
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	June 30, 2011	December 31, 2010
Current (0 - 30 days)	\$ 2,018	\$ 2,635
31 to 60 days	\$ 313	\$ 872
61 to 90 days	322	139
Past due (greater than 90 days)	359	420
	\$ 3,012	\$ 4,066

Mosaic Capital has an allowance for doubtful accounts as at June 30, 2011 of \$57 and December 31, 2010 of \$77 and provided for any doubtful accounts receivables during the three month period ended June 30, 2011 for a recovery of (\$20) and June 30, 2010 for a provision of \$16. When determining whether past due accounts are recoverable, Mosaic Capital factors in the past credit history of the counterparties. Mosaic Capital considers all amounts greater than 90 days as past due, other than those for which an allowance has been accrued. These past due accounts are considered to be collectible.

9. Inventory

	June 30, 2011	December 31, 2010
Raw materials and consumables (at cost)	\$ 450	\$ 553
Work in progress (at cost)	181	-
	\$ 631	\$ 553

10. Loan receivable

The loan of \$305 as at June 30, 2011 (2010 - \$ Nil) relates to a bridging loan provided to a tenant for customized leasehold improvements and equipment. The loan is repayable in principal and interest over the next year and is secured by a promissory note with a fixed charge over the improvements, equipment and a personal guarantee.

11. Property held for development

Property held for development of \$1,081 (2010 - \$ Nil) consists of 7.01 acres of bare land and one residential property.

Mosaic Capital Corporation
Notes to Condensed Interim Consolidated Financial Statements
For the Six months Ended June 30, 2011

12. Income producing properties

	Land	Buildings	Total
Cost			
Balance at January 1, 2010	\$ -	\$ -	\$ -
Additions	-	-	-
Balance at December 31, 2010	-	-	-
Additions	7,298	21,908	29,206
Disposals	(1,152)	(3,455)	(4,607)
Balance June 30, 2011	\$ 6,146	\$ 18,453	\$ 24,599
Accumulated amortization and impairment losses			
Balance at January 1, 2010	\$ -	\$ -	\$ -
Amortization for the period	-	-	-
Balance at December 31, 2010	-	-	-
Amortization for the period	-	62	62
Balance June 30, 2011	\$ -	\$ 62	\$ 62
Net book value			
At January 1, 2010	\$ -	\$ -	\$ -
At December 31, 2010	\$ -	\$ -	\$ -
At June 30, 2011	\$ 6,146	\$ 18,391	\$ 24,537

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

On June 15, 2011, First West completed the sale of a property location in Saskatoon, Saskatchewan for a price of \$4,933 less disposal costs of \$175. A portion of the proceeds were used to pay the mortgage on the property for \$1,542. There is no gain on sale recorded on these consolidated 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 anticipated on this sale due to tax losses of First West.

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Notes to Condensed Interim Consolidated Financial Statements
For the Six months Ended June 30, 2011

13. Property, plant and equipment

	Land	Motor Vehicles	Computer Equipment	Production and Rental Equipment	Furniture and Fixtures	Parts Inventory	Leasehold Improvements	Total
Cost								
Balance at January 1, 2010	\$ 57	\$ 857	\$ 279	\$ 4,209	\$ 131	\$ 371	\$ -	\$ 5,904
Additions	-	213	103	56	11	67	5	455
Balance at December 31, 2010	57	1,070	382	4,265	142	438	5	6,359
Additions	-	411	47	47	20	-	-	525
Balance June 30, 2011	\$ 57	\$ 1,481	\$ 429	\$ 4,312	\$ 162	\$ 438	\$ 5	\$ 6,884
Accumulated amortization and impairment losses								
Balance at January 1, 2010	\$ -	\$ 289	\$ 154	\$ 679	\$ 45	\$ 69	\$ -	\$ 1,236
Amortization for the period	-	184	50	297	19	74	3	626
Balance at December 31, 2010	-	473	204	976	64	143	3	1,862
Amortization for the period	-	128	28	134	8	30	1	330
Balance June 30, 2011	\$ -	\$ 601	\$ 232	\$ 1,110	\$ 72	\$ 173	\$ 4	\$ 2,192
Net book value								
At January 1, 2010	\$ 57	\$ 568	\$ 125	\$ 3,530	\$ 86	\$ 302	\$ -	\$ 4,668
At December 31, 2010	\$ 57	\$ 597	\$ 177	\$ 3,290	\$ 78	\$ 295	\$ 2	\$ 4,496
At June 30, 2011	\$ 57	\$ 880	\$ 197	\$ 3,202	\$ 90	\$ 265	\$ 1	\$ 4,692

14. 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.

The outstanding amount of loans under the ESPP was \$392 as at June 30, 2011 (2010 - \$Nil).

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15. Goodwill and other intangible assets

	Goodwill	Non-compete agreements	Employment Agreements	Intellectual Property	Customer Relationships	Computer Software	Step up leases	Total
Cost								
Balance at January 1, 2010	\$ 7,650	\$ 117	\$ 199	\$ 1,460	\$ 11,388	\$ 155	\$ -	\$ 20,970
Acquisitions	129	-	-	-	-	-	-	129
Additions	127	-	-	-	-	63	-	190
Disposals	-	-	-	-	-	-	-	-
Balance at December 31, 2010	7,906	117	199	1,460	11,388	218	-	21,289
Acquisitions	-	-	-	-	-	-	-	-
Additions	-	-	-	-	-	37	13	50
Disposals	-	-	-	-	-	(56)	-	(56)
Balance at June 30, 2011	\$ 7,906	\$ 117	\$ 199	\$ 1,460	\$ 11,388	\$ 199	\$ 13	\$ 21,283
Accumulated amortization and impairment losses								
Balance at January 1, 2010	\$ -	\$ 35	\$ 42	\$ 158	\$ 1,537	\$ 106	\$ -	\$ 1,878
Amortization	-	23	20	97	759	85	-	985
Impairment	-	-	-	-	-	-	-	-
Reversal of impairment	-	-	-	-	-	-	-	-
Foreign exchange movements	-	-	-	-	-	-	-	-
Balance at December 31, 2010	-	58	61	256	2,297	191	-	2,863
Amortization	-	12	10	49	379	14	-	464
Impairment	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	(21)	-	(21)
Reversal of impairment	-	-	-	-	-	-	-	-
Foreign exchange movements	-	-	-	-	-	-	-	-
Balance at June 30, 2011	\$ -	\$ 70	\$ 71	\$ 304	\$ 2,676	\$ 184	\$ -	\$ 3,306
Net book value								
At January 1, 2010	\$ 7,650	\$ 83	\$ 158	\$ 1,302	\$ 9,851	\$ 49	\$ -	\$ 19,092
At December 31, 2010	\$ 7,906	\$ 59	\$ 138	\$ 1,205	\$ 9,092	\$ 27	\$ -	\$ 18,426
At June 30, 2011	\$ 7,906	\$ 47	\$ 128	\$ 1,156	\$ 8,712	\$ 15	\$ 13	\$ 17,977

Goodwill

Mosaic Capital allocates goodwill to its CGUs identified according to operating segment. Mosaic Capital has two CGUs; Industrial and Real Estate (see note 21). The recoverable amount of a CGU is determined based on value-in-use calculations. Those calculations use cash flow projections based on actual operating results and the 5 year projection from management. Cash flows for a further 5 year period are extrapolated using a 5% growth rate. These assumptions are consistent with the long-term average growth rate for the industry. A pre-tax discount rate of 5% has been used in discounting the projected cash flows.

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Mosaic Capital Corporation
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16. Notes payable

	June 30, 2011	December 31, 2010
\$164 payable to a former minority partner. The note is repayable with monthly payments of \$5 and a lump sum payment of \$110 on Jan 1, 2012. Interest is calculated on the lower of \$110 or the outstanding balance of the loan at 5%. The note is secured by a first charge on the partnership units purchased.	\$ 164	\$ 298
Capital leases payable to a third party. The leases bear interest at 5% per annum and are repayable in blended quarterly payments of \$10 to June 2013	60	78
Vehicle financing is payable to third parties. The financings bear interest at a blended rate of between 0.0% to 8.6% and is repayable in blended monthly payments of between \$1 and \$2. Expiry of the financing range from May 31, 2011 to March 31, 2015. The financing is secured by a specific charge over the vehicles financed.	486	211
	710	587
Less: Current portion of notes payable	(326)	(294)
	<u>\$ 384</u>	<u>\$ 293</u>

The notes payable issued as partial consideration for the acquisition of the additional portion of a minority partner has been recorded at its fair value, reflecting an estimated market discount rate of 5%. The difference between the notes payables carrying value of \$712 and the face value of \$710 results in a non-cash accretion charge that is expensed as interest on long-term debt over the life of the loan. The un-accreted balance of debt discount at June 30, 2011 was \$2 (December 31, 2010 - \$5). During the three months ended June 30, 2011, accretion included in interest expense was \$1 (June 30, 2010 - \$1). During the six months ended June 30, 2011, accretion included in interest expense was \$1 (June 30, 2010 - \$6).

Payments of principal amounts owing are scheduled as follows:

	Cash Payments	Carrying Value
2011	\$ 128	\$ 130
2012	344	344
2013	150	150
2014	76	76
2015	12	12
	<u>\$ 710</u>	<u>\$ 712</u>

17. Mortgages Payable

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

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

Mosaic Capital Corporation
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is demanded as a result of default. Until March 19, 2009, the floating rate loans had interest rates of bank prime rate plus 1%. 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. Refer to note 30 for additional commitments for these mortgages.

Each loan is in respect of a specific property and is secured by a mortgage charge against, and a general security agreement charging present and after-acquired personal property 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.

18. Shares and Securities

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

(a) Common Shares

Authorized: Unlimited

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

(b) Preferred Shares, issuable in series

Authorized: Unlimited

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

The board of directors of Mosaic has created series "A" shares. The series "A" shares issued under the Plan of Arrangement are non-voting and entitle the holders thereof to a dividend equal to the interest payments made on the preferred securities. Each series "A" share is redeemable for one preferred security. For the three month period ended June 30, 2011 \$2 (2010 - \$ Nil) was paid in dividends to holders of series "A" shares. For the six month period ended June 30, 2011 \$2 (2010 \$ Nil) was paid in dividends to holders of series "A" shares.

(c) Preferred Securities

Authorized: Unlimited

The preferred Securities were created and issued under the subordinated securities indenture (the"

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

(d) Contributed Surplus

The contributed surplus of \$26 as at December 31, 2010 consists of the value of the discount that was applied as per the trust agreement for redemption of units requested by unit holders of the Fund and approved by the board of directors.

(e) Preferred Units

Authorized – Unlimited number of units

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

Values for the preferred units is shown for comparative statements only as all of the outstanding preferred units were bought pursuant to the information in note 1 (General business). As a result of this purchase the preferred units are eliminated upon consolidation for current periods.

(f) Common Units

Authorized – Unlimited number of units

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

Values for the common units is shown for comparative statements only as all of the outstanding preferred units were bought pursuant to the information in note 1 (General business). As a result of this purchase the common units are eliminated upon consolidation for current periods.

(g) Distributions and Dividends to Unit Holders, Security Holders and Shareholders

The Fund paid distributions to preferred unit holders in the amount of \$1,182 to April 30, 2011 and Mosaic Capital paid dividends to preferred security holders in the amount of \$847 for May and June 2011 and dividends to series “A” shares of \$2 for total dividends and distributions of \$2,031 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).

19. Earnings per share

For purposes of this calculation the prior period common units and preferred securities have been converted into the equivalent number of common shares of Mosaic Capital to provide the calculation of earnings per common share as follows.

Mosaic Capital Corporation
Notes to Condensed Interim Consolidated Financial Statements
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	June 30,		June 30,	
	2011	2010	2011	2010
Basic and diluted net income available per common share from income from continuing operations	\$ -	\$ -	\$ -	\$ 0.02
Basic and diluted net income available per common share from discontinued operations	\$ -	\$ -	\$ -	\$ -
Basic and diluted net income available per common share from income and comprehensive income	\$ -	\$ -	\$ -	\$ 0.02
Weighted average number of common shares outstanding	7,034,279	5,060,888	6,256,286	5,057,582

20. Stock Options

The board of directors of Mosaic Capital adopted a share based compensation plan which was approved by the holders of preferred units of the Fund and holders of common shares of First West at the meetings of First West and the Fund to approve the Arrangement. The Mosaic Capital share-based compensation plan is intended to afford persons who provide services to Mosaic Capital with an opportunity to obtain a proprietary interest in Mosaic Capital and to assist in attracting as well as retaining and encouraging the continued involvement of such persons with Mosaic Capital. The Mosaic Capital share-based compensation plan permits the granting of equity incentive awards, including Mosaic Capital options, stock appreciation rights, restricted stock, restricted stock units, performance awards and other share-based awards to directors, officers, employees and consultants of Mosaic Capital and its subsidiaries. The number of Mosaic Capital common shares that will be available for issuance under the share-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. These options are issued under, and subject to, the Mosaic Capital share-based compensation plan. Particulars concerning the outstanding Mosaic Capital unit options are set forth below:

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For the Six months Ended June 30, 2011

Activity	Number of Common Shares for issue under Options	Weighted Exercise Price	Number of Series "A" Shares for issue under Options	Weighted Exercise Price
Outstanding May 1, 2011	234,850	\$ 3.51	117,425	\$ 7.00
Granted	-	\$ -	-	
Exercised	-	\$ -	(20,790)	
Cancelled	-	\$ -	-	
Outstanding June 30, 2011	234,850	\$ 3.51	96,635	\$ 7.11

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

Number of Common Shares for issue under Options	Price	Expiry Date
192,500	\$ 3.25	Jun 6, 2017
30,800	\$ 4.87	Aug 22, 2017
11,550	\$ 4.12	Dec 31, 2017
234,850	Total	

Number of Series "A" Shares for issue under Options	Price	Expiry Date
75,460	\$ 6.49	Jun 6, 2017
15,400	\$ 9.74	Aug 22, 2017
5,775	\$ 8.25	Dec 31, 2017
96,635	Total	

Mosaic Capital did not issue any securities for stock based compensation during the three month period ending June 30, 2011 or June 30, 2010.

21. Segmented information

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

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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.

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Mosaic Capital Corporation
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Segmented Balance Sheet	Industrial			Real Estate			Segments Sub-Total			Non-Segmented			Consolidated		
	as at			as at			as at			as at			as at		
	June 30, 2011	31, 2010	January 1, 2010	June 30, 2011	31, 2010	January 1, 2010	June 30, 2011	31, 2010	January 1, 2010	June 30, 2011	31, 2010	January 1, 2010	June 30, 2011	31, 2010	January 1, 2010
In thousands of Canadian dollars															
Assets															
Current assets															
Cash and cash equivalents	\$ 8,372	\$ 10,395	\$ 9,154	\$ 10,405	\$ -	\$ -	\$ 18,777	\$ 10,395	\$ 9,154	\$ 200	\$ -	\$ -	\$ 18,977	\$ 10,395	\$ 9,154
Restricted cash	120	121	-	10	-	-	130	121	-	-	-	-	130	121	-
Accounts receivable	3,053	4,386	4,479	198	-	-	3,251	4,386	4,479	41	-	-	3,292	4,386	4,479
Inventory	631	553	256	-	-	-	631	553	256	-	-	-	631	553	256
Deposits and prepaid expenses	116	85	42	243	-	-	359	85	42	196	-	-	555	85	42
Loan receivable	-	-	-	305	-	-	305	-	-	-	-	-	305	-	-
Income taxes recoverable	-	-	263	-	-	-	-	-	263	-	-	-	-	-	263
Total current assets	12,292	15,540	14,194	11,161	-	-	23,453	15,540	14,194	437	-	-	23,890	15,540	14,194
Non-current assets															
Property held for development	-	-	-	1,081	-	-	1,081	-	-	-	-	-	1,081	-	-
Income producing properties	-	-	-	24,537	-	-	24,537	-	-	-	-	-	24,537	-	-
Investments	31	-	-	-	-	-	31	-	-	(31)	-	-	-	-	-
Property, plant and equipment	4,638	4,496	4,668	19	-	-	4,657	4,496	4,668	35	-	-	4,692	4,496	4,668
Employee share purchase plan	-	-	-	-	-	-	-	-	-	392	-	-	392	-	-
Goodwill and other intangible assets	17,963	18,426	19,092	14	-	-	17,977	18,426	19,092	-	-	-	17,977	18,426	19,092
Total non-current assets	22,632	22,922	23,760	25,651	-	-	48,283	22,922	23,760	396	-	-	48,679	22,922	23,760
Total assets	\$ 34,924	\$ 38,462	\$ 37,954	\$ 36,812	\$ -	\$ -	\$ 71,736	\$ 38,462	\$ 37,954	\$ 833	\$ -	\$ -	\$ 72,569	\$ 38,462	\$ 37,954
Liabilities															
Current liabilities															
Accounts payable and accrued liabilities	\$ 1,254	\$ 1,456	\$ 2,163	\$ 216	\$ -	\$ -	\$ 1,470	\$ 1,456	\$ 2,163	\$ (270)	\$ -	\$ -	\$ 1,200	\$ 1,456	\$ 2,163
Dividends payable	-	1,393	1,073	-	-	-	-	1,393	1,073	424	-	-	424	1,393	1,073
Due to (from related parties)	(1,629)	-	-	-	-	-	(1,629)	-	-	1,629	-	-	-	-	-
Current portion of mortgages payable	-	-	111	626	-	-	626	-	111	-	-	-	626	-	111
Current portion of notes payable	326	294	371	-	-	-	326	294	371	-	-	-	326	294	371
Total current liabilities	(49)	3,143	3,718	842	-	-	793	3,143	3,718	1,783	-	-	2,576	3,143	3,718
Non-current liabilities															
Notes payable	384	293	172	-	-	-	384	293	172	-	-	-	384	293	172
Mortgages payable	-	-	-	6,265	-	-	6,265	-	-	-	-	-	6,265	-	-
Security deposits	-	-	-	118	-	-	118	-	-	-	-	-	118	-	-
Total non-current liabilities	384	293	172	6,383	-	-	6,767	293	172	-	-	-	6,767	293	172
Total Liabilities	335	3,436	3,890	7,225	-	-	7,560	3,436	3,890	1,783	-	-	9,343	3,436	3,890
Shareholder/Unitholders' Equity															
Preferred securities	-	-	-	-	-	-	-	-	-	45,239	-	-	45,239	-	-
Series "A" shares	-	-	-	-	-	-	-	-	-	135	-	-	135	-	-
Common shares	-	-	-	29,328	-	-	29,328	-	-	(12,346)	-	-	16,982	-	-
Preferred trust units	32,877	32,338	30,728	-	-	-	32,877	32,338	30,728	(32,877)	-	-	-	32,338	30,728
Contributed surplus	-	26	-	-	-	-	-	26	-	-	-	-	-	26	-
Common trust units	16	16	16	-	-	-	16	16	16	(16)	-	-	-	16	16
Non-controlling interest	4,169	4,674	4,747	236	-	-	4,405	4,674	4,747	-	-	-	4,405	4,674	4,747
Deficit	(2,473)	(2,028)	(1,427)	23	-	-	(2,450)	(2,028)	(1,427)	(1,085)	-	-	(3,535)	(2,028)	(1,427)
Total equity attributable to equity holders	34,589	35,026	34,064	29,587	-	-	64,176	35,026	34,064	(950)	-	-	63,226	35,026	34,064
Total liabilities and shareholder/unitholders' equity	\$ 34,924	\$ 38,462	\$ 37,954	\$ 36,812	\$ -	\$ -	\$ 71,736	\$ 38,462	\$ 37,954	\$ 833	\$ -	\$ -	\$ 72,569	\$ 38,462	\$ 37,954

Mosaic Capital Corporation
Notes to Condensed Interim Consolidated Financial Statements
For the Six months Ended June 30, 2011

Segmented Income and Expenses	Industrial				Real Estate				Segments Sub-Total				Non-Segmented				Consolidated			
	Three months Ended June 30,		Six months Ended June 30,		Period May 1 to June 30,		Period May 1 to June 30,		Three months Ended June 30,		Six months Ended June 30,		Three months Ended June 30,		Six months Ended June 30,		Three months Ended June 30,		Six months Ended June 30,	
In thousands of Canadian dollars	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Revenue	\$ 3,740	\$ 4,106	\$ 9,351	\$ 8,409	\$ 425	\$ -	\$ 425	\$ -	\$ 4,165	\$ 4,106	\$ 9,776	\$ 8,409	\$ -	\$ -	\$ -	\$ -	\$ 4,165	\$ 4,106	\$ 9,776	\$ 8,409
Operating expenses	3,184	3,112	6,965	5,853	256	-	256	-	3,440	3,112	7,221	5,853	213	-	313	-	3,653	3,112	7,534	5,853
Operating income	556	994	2,386	2,556	169	-	169	-	725	994	2,555	2,556	(213)	-	(313)	-	512	994	2,242	2,556
Amortization of buildings	-	-	-	-	62	-	62	-	62	-	62	-	-	-	-	-	62	-	62	-
Amortization of tangible assets	174	178	329	332	1	-	1	-	175	178	330	332	-	-	-	-	175	178	330	332
Amortization of intangible assets	232	211	464	451	-	-	-	-	232	211	464	451	-	-	-	-	232	211	464	451
Loss on sale of equipment	9	-	9	5	-	-	-	-	9	-	9	5	-	-	-	-	9	-	9	5
	415	389	802	788	63	-	63	-	478	389	865	788	-	-	-	-	478	389	865	788
Income (loss) before finance	141	605	1,584	1,768	106	-	106	-	247	605	1,690	1,768	(213)	-	(313)	-	34	605	1,377	1,768
Finance income	5	3	12	24	-	-	-	-	5	3	12	24	-	-	-	-	5	3	12	24
Finance expense	7	(13)	11	11	73	-	73	-	80	(13)	84	11	-	-	-	-	80	(13)	84	11
	(2)	16	1	13	(73)	-	(73)	-	(75)	16	(72)	13	-	-	-	-	(75)	16	(72)	13
Income (loss) before other items	139	621	1,585	1,781	33	-	33	-	172	621	1,618	1,781	(213)	-	(313)	-	(41)	621	1,305	1,781
Other income and expenses																				
Reorganization costs	150	-	200	-	-	-	-	-	150	-	200	-	220	-	320	-	370	-	520	-
Income (loss) from continuing operations	(11)	621	1,385	1,781	33	-	33	-	22	621	1,418	1,781	(433)	-	(633)	-	(411)	621	785	1,781
Income (loss) from discontinuing operations	-	-	-	-	(9)	-	(9)	-	(9)	-	(9)	-	-	-	-	-	(9)	-	(9)	-
Income (loss) before tax	(11)	621	1,385	1,781	24	-	24	-	13	621	1,409	1,781	(433)	-	(633)	-	(420)	621	776	1,781
Income tax expense																				
Current	-	(13)	-	(13)	-	-	-	-	-	(13)	-	(13)	-	-	-	-	-	(13)	-	(13)
Deferred	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income (loss) and comprehensive income (loss)	\$ (11)	\$ 634	\$ 1,385	\$ 1,794	\$ 24	\$ -	\$ 24	\$ -	\$ 13	\$ 634	\$ 1,409	\$ 1,794	\$ (433)	\$ -	\$ (633)	\$ -	\$ (420)	\$ 634	\$ 776	\$ 1,794

Mosaic Capital Corporation
Notes to Condensed Interim Consolidated Financial Statements
For the Six months Ended June 30, 2011

22. Consolidated entities

Parent Entity	Country of Incorporation	Ownership Interest	
		June 30, 2011	December 31, 2010
Mosaic Capital Corporation	Canada		
Significant Cash Generating Units			
Mosaic Diversified Income Fund	Canada	100.00%	0.00%
First West Properties Ltd.	Canada	100.00%	0.00%

23. Non-controlling interest

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

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

During the six months ended June 30, 2011, \$253 (2010 - \$279) of subsidiary income was allocated to non-controlling interests and cash distributions of \$763 (2010 - \$451) were paid to holders of the non-controlling interests.

24. Personnel expenses

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Salaries	\$ 1,776	\$ 1,474	\$ 3,581	\$ 2,938
Unit-based compensation (i)	\$ -	\$ -	\$ -	\$ -

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

As at June 30, 2011, Mosaic Capital has not capitalized any general and administrative expenses.

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Notes to Condensed Interim Consolidated Financial Statements
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Key management personnel include executive officers and non-executive directors. Executive officers are paid a salary and are eligible to participate in Mosaic Capital's option program. The executive officers include the Chief Executive Officer, President, Executive Vice President and Vice Presidents. Non-executive directors may also participate in Mosaic Capital's option program. Key management personnel compensation is comprised of the following:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Salaries	\$ 186	\$ 62	\$ 340	\$ 123
Unit-based compensation (i)	\$ -	\$ -	\$ -	\$ -

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

25. Operating expenses

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Operating expenses	\$ 3,653	\$ 3,112	\$ 7,534	\$ 5,853
Total operating expenses	\$ 3,653	\$ 3,112	\$ 7,534	\$ 5,853

26. Finance income and expenses

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Finance income				
Interest income on cash and cash equivalents	\$ 5	\$ 3	\$ 12	\$ 24
Finance expenses				
Interest expense on notes payable	80	(13)	84	11
Net finance income (expense) recognized in profit or loss	\$ (75)	\$ 16	\$ (72)	\$ 13

Mosaic Capital Corporation
Notes to Condensed Interim Consolidated Financial Statements
For the Six months Ended June 30, 2011

27. Income tax expense

Reconciliation of effective tax rate:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Profit before income tax	\$ (420)	\$ 621	\$ 776	\$ 1,781
Statutory tax rate	26.50%	28.00%	26.50%	29.00%
Expected income tax recovery	(111)	174	206	516
Change in statutory tax rates	-	-	-	-
Non-taxable entities	111	(174)	(206)	(516)
Unit-based compensation	-	-	-	-
Total income tax expense (recovery)	\$ -	\$ -	\$ -	\$ -
Effective tax rate	0.00%	0.00%	0.00%	0.00%

Recognized deferred tax assets and liabilities:

Deferred tax assets and liabilities are attributable to the following:

	Period ended June 30,	
	2011	2010
Deferred tax liabilities		
Property, plant and equipment	\$ 4,692	\$ 4,605
Intangible assets	17,977	17,397

Less deferred tax assets

Unamortized share issuance costs	-	-
Non-capital losses	-	-

Net deferred tax asset	\$ -	\$ -
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Mosaic Capital has available the following estimated non-capital loss carry forwards for which a deferred tax asset has been recognized in the condensed interim consolidated financial statements:

<u>Year of Expiry</u>	<u>Amount</u>
2029	\$ -
2030	-
2031	-
	<u>\$ -</u>

Mosaic Capital Corporation
Notes to Condensed Interim Consolidated Financial Statements
For the Six months Ended June 30, 2011

28. Supplemental cash flow information

Change in non-cash operating working capital:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Accounts receivable	\$ 960	\$ 140	\$ 1,094	\$ 1,230
Prepays	(413)	(1)	(470)	(59)
Inventory	(253)	(73)	(77)	(62)
Income taxes recoverable	-	263	-	263
Accounts payable and accrued liabilities	(481)	166	(256)	44
Dividends/Distributions payable	803	119	(295)	(787)
	\$ 616	\$ 614	\$ (4)	\$ 629

Change in non-cash investing working capital:

	Three months ended June 30,		Three months ended June 30,	
	2011	2010	2011	2010
Other changes	\$ (1)	\$ -	\$ 1	\$ -
	\$ (1)	\$ -	\$ 1	\$ -

Change in non-cash financing working capital:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Other changes	\$ (7)	\$ (162)	\$ -	\$ (145)
	\$ (7)	\$ (162)	\$ -	\$ (145)

Other information:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Interest received	\$ 5	\$ 3	\$ 12	\$ 24
Interest paid	80	(13)	84	11
Taxes recovered	\$ -	\$ (13)	\$ -	\$ (13)

Mosaic Capital Corporation
Notes to Condensed Interim Consolidated Financial Statements
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Cash and cash equivalents are comprised of the following:

	June 30, 2011		December 31, 2010
Bank balances	\$ 12,477	\$	6,198
Government T-Bill's or Bank GIC's	6,500		4,197
	\$ 18,977	\$	10,395

29. 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 and \$100 to a company controlled by one of 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.

30. Commitments

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

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<u>Year</u>		<u>Amount</u>
2011	\$	280
2012		667
2013		281
2014		120
2015		12
	\$	<u>1,360</u>

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

<u>Year</u>		<u>Amount</u>
2011	\$	313
2012		626
2013		626
2014		626
2015		4,700
	\$	<u>6,891</u>

31. Subsequent events

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

32. Comparative Figures

Certain of the comparative figures have been reclassified to conform to the consolidated interim financial statement presentation adopted in the current period.

33. Transition to IFRS

As stated in Summary of Significant Accounting Policies note (a), these are Mosaic Capital's first condensed interim consolidated financial statements prepared in accordance with IFRS.

The policies set out in the Summary of Significant Accounting Policies section have been applied in preparing the condensed interim consolidated financial statements for the six months ended June 30, 2011, the comparative information presented in these condensed interim consolidated financial statements for the year ended December 31, 2010 and the six months ended June 30, 2010 and in the preparation of an opening IFRS balance sheet at January 1, 2010 (Mosaic Capital'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

Mosaic Capital Corporation

Notes to Condensed Interim Consolidated Financial Statements

For the Six months Ended June 30, 2011

- 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.

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

Mosaic Capital Corporation
Notes to Condensed Interim Consolidated Financial Statements
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Reconciliation of condensed interim consolidated balance sheet as at January 1, 2010 from Canadian GAAP to IFRS:

	Canadian GAAP	Reclassification upon transition to IFRS	Effect of transition to IFRS	IFRS
ASSETS				
Current assets				
Cash and cash equivalents	\$ 9,154	\$ -	\$ -	\$ 9,154
Accounts receivable	4,479	-	-	4,479
Inventory	256	-	-	256
Deposits and prepaid expenses	42	-	-	42
Income taxes recoverable	263	-	-	263
Total current assets	14,194	-	-	14,194
Non-current assets				
Property and equipment	4,668	-	-	4,668
Goodwill and other intangible	17,842	-	1,250	19,092
Total non-current assets	22,510	-	1,250	23,760
Total assets	\$ 36,704	\$ -	\$ 1,250	\$ 37,954
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and accrued	\$ 913		\$ 1,250	\$ 2,163
Distributions payable	1,073			1,073
Due to related parties	111			111
Current portion of notes payable	371			371
Total current liabilities	2,468	-	1,250	3,718
Non-current liabilities				
Notes payable	172			172
Non-controlling interest	4,747	(4,747)		-
Total non-current liabilities	4,919	(4,747)	-	172
Total Liabilities	7,387	(4,747)	1,250	3,890
Equity				
Preferred trust units	30,728			30,728
Common trust units	16			16
Non-controlling interests	-	4,747		4,747
Deficit	(1,427)			(1,427)
	29,317	4,747	-	34,064
	\$ 36,704	\$ -	\$ 1,250	\$ 37,954

Mosaic Capital Corporation
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Reconciliation of condensed interim consolidated balance sheet as at June 30, 2010 from Canadian GAAP to IFRS:

	Canadian GAAP	Reclassification upon transition to IFRS	Effect of transition to IFRS	IFRS
ASSETS				
Current assets				
Cash and cash equivalents	\$ 10,180	\$ -	\$ -	\$ 10,180
Accounts receivable	3,249	-	-	3,249
Inventory	318	-	-	318
Deposits and prepaid expenses	101	-	-	101
Income taxes recoverable	-	-	-	-
Total current assets	13,848	-	-	13,848
Non-current assets				
Property and equipment	4,605	-	-	4,605
Goodwill and other intangible	17,397	-	1,250	18,647
Total non-current assets	22,002	-	1,250	23,252
Total assets	\$ 35,850	\$ -	\$ 1,250	\$ 37,100
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and accrued	\$ 956		\$ 1,250	\$ 2,206
Distributions payable	286			286
Due to related parties	(168)			(168)
Current portion of notes payable	105			105
Total current liabilities	1,179	-	1,250	2,429
Non-current liabilities				
Notes payable	154			154
Non-controlling interest	4,575	(4,575)		-
Total non-current liabilities	4,729	(4,575)	-	154
Total Liabilities	5,908	(4,575)	1,250	2,583
Equity				
Preferred trust units	31,537			31,537
Common trust units	16			16
Non-controlling interests	-	4,575		4,575
Deficit	(1,611)			(1,611)
	29,942	4,575	-	34,517
Total Liabilities and Equity	\$ 35,850	\$ -	\$ 1,250	\$ 37,100

Mosaic Capital Corporation
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Reconciliation of condensed interim consolidated balance sheet as at December 31, 2010 from Canadian GAAP to IFRS:

	Canadian GAAP	Reclassification upon transition to IFRS	Effect of transition to IFRS	IFRS
ASSETS				
Current assets				
Cash and cash equivalents	\$ 10,516	\$ -	\$ -	\$ 10,516
Accounts receivable	4,386	-	-	4,386
Inventory	553	-	-	553
Deposits and prepaid expenses	85	-	-	85
Income taxes recoverable	-	-	-	-
Total current assets	15,540	-	-	15,540
Non-current assets				
Property and equipment	4,496	-	-	4,496
Goodwill and other intangible	18,426	-	-	18,426
Total non-current assets	22,922	-	-	22,922
Total assets	\$ 38,462	\$ -	\$ -	\$ 38,462
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and accrued	\$ 1,456		\$ -	\$ 1,456
Distributions payable	1,393			1,393
Due to related parties	-			-
Current portion of notes payable	294			294
Total current liabilities	3,143	-	-	3,143
Non-current liabilities				
Notes payable	293			293
Non-controlling interest	4,674	(4,674)		-
Total non-current liabilities	4,967	(4,674)	-	293
Total Liabilities	8,110	(4,674)	-	3,436
Equity				
Preferred trust units	32,364	(26)		32,338
Contributed surplus		26		26
Common trust units	16			16
Non-controlling interests	-	4,674		4,674
Deficit	(2,028)			(2,028)
	30,352	4,674	-	35,026
	\$ 38,462	\$ -	\$ -	\$ 38,462

Mosaic Capital Corporation
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Reconciliation of condensed interim consolidated statement of income and comprehensive income for the six months ended June 30, 2010:

	Canadian GAAP	Reclassification upon transition to IFRS	Effect of transition to IFRS	IFRS
Revenue	\$ 8,409			\$ 8,409
Operating expenses	5,853			5,853
	2,556	-	-	2,556
Expenses				
Amortization of tangible assets	332			332
Amortization of intangible assets	451			451
Loss on sale of equipment	5			5
Long-term incentive plan	-			-
	788	-	-	788
Net operating income	1,768	-	-	1,768
Finance income	24			24
Finance expense	11			11
Income before income tax	1,781	-	-	1,781
Income tax expense (recovery)				
Current	(13)	-	-	(13)
Deferred	-	-	-	-
Income and comprehensive income for the period	\$ 1,794	\$ -	\$ -	\$ 1,794

Income and comprehensive income attributable to:

Unit holders	\$ 1,515	\$ -	\$ -	\$ 1,515
Non-controlling interest	279	-	-	279
	\$ 1,794	\$ -	\$ -	\$ 1,794

Mosaic Capital Corporation
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For the Six months Ended June 30, 2011

Reconciliation of condensed interim consolidated statement of income and comprehensive income for the period ended December 31, 2010:

	Canadian GAAP	Reclassification upon transition to IFRS	Effect of transition to IFRS	IFRS
Revenue	\$ 20,384			\$ 20,384
Operating expenses	13,969			13,969
	6,415	-	-	6,415
Expenses				
Amortization of tangible assets	657			657
Amortization of intangible assets	981			981
Loss on sale of equipment	8			8
Long-term incentive plan				-
	1,646	-	-	1,646
Net operating income	4,769	-	-	4,769
Finance income	13			13
Finance expense	26			26
Income before income tax	4,756	-	-	4,756
Income tax expense (recovery)				
Current	(1)	-	-	(1)
Deferred	-	-	-	-
Income and comprehensive income for the period	\$ 4,757	\$ -	\$ -	\$ 4,757

Income and comprehensive income attributable to:

Unit holders	\$ 3,939	\$ -	\$ -	\$ 3,939
Non-controlling interest	818	-	-	818
	\$ 4,757	\$ -	\$ -	\$ 4,757

Reconciliation of equity for the period ended June 30, 2010:

Total equity under Canadian GAAP	\$ 29,942
Non-controlling interest	4,575
Total adjustment to equity	\$ -
Total equity under IFRS	\$ 34,517

Mosaic Capital Corporation
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Reconciliation of equity for the period ended December 31, 2010:

Total equity under Canadian GAAP	\$	30,352
Non-controlling interest		4,674
Total adjustment to equity	\$	-
Total equity under IFRS	\$	35,026

Reconciliation of income and comprehensive income for the period ended June 30, 2010:

Income under Canadian GAAP	\$	3,939
Total adjustment to equity	\$	-
Total income under IFRS	\$	3,939

Reconciliation of income and comprehensive income for the period ended December 31, 2010:

Income under Canadian GAAP	\$	3,939
Total adjustment to equity	\$	-
Total income under IFRS	\$	3,939

Mosaic Diversified Income Fund
Notes to Consolidated Financial Statements
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Reconciliation of condensed interim consolidated cash flows statement for the six months ended June 30, 2010:

	Canadian GAAP	Reclassification upon transition to IFRS	Effect of transition to IFRS	IFRS
Cash and cash equivalents provided by (used in):				
Cash flows from operating activities				
Income for the period	\$ 1,515	\$ -	\$ -	\$ 1,515
Adjustments for:				-
Amortization of tangible assets	332			332
Gain on sale of equipment	5			5
Amortization of intangible assets	451			451
Accretion of notes payable	3			3
Gain on redemption of units	(12)			(12)
Non-controlling interest	279			279
Change in non-cash working capital	629			629
Net cash provided or (used) in operating activities	3,202	-	-	3,202
Cash flow from investing activities				
Additions to intangible assets	(27)			(27)
Additions to property and equipment	(224)			(224)
Business acquisitions, net of cash acquired	-			-
Changes in non-cash working capital	-			-
Net cash unused in investing activities	(251)	-	-	(251)
Cash flow from financing activities				
Preferred trust units issued for cash (net of issuance costs)	-			-
Repayment from related parties	(279)			(279)
Redemption of units	(112)			(112)
Additions to notes payable	31			31
Repayment of notes payable	(316)			(316)
Distributions to unitholders	(653)			(653)
Distributions to non-controlling interests	(451)			(451)
Changes in non-cash working capital	(145)			(145)
Net cash from financing activities	(1,925)	-	-	(1,925)
Change in cash and cash equivalents	1,026	-	-	1,026
Cash and cash equivalents, beginning of period	9,154			9,154
Cash and cash equivalents, end of period	\$ 10,180	\$ -	\$ -	\$ 10,180

Mosaic Diversified Income Fund
Notes to Consolidated Financial Statements
For the Six months Ended June 30, 2011

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

	Canadian GAAP	Reclassification upon transition to IFRS	Effect of transition to IFRS	IFRS
Cash and cash equivalents provided by (used in):				
Cash flows from operating activities				
Income for the period	\$ 3,939	\$ -	\$ -	\$ 3,939
Adjustments for:				-
Amortization of tangible assets	657			657
Gain on sale of equipment	8			8
Amortization of intangible assets	981			981
Accretion of notes payable	8			8
Deferred income taxes	-			-
Long-term incentive plan	-			-
Gain on redemption of units	(19)			(19)
Non-controlling interest	818			818
Change in non-cash working capital	559			559
Net cash provided or (used) in operating activities	6,951	-	-	6,951
Cash flow from investing activities				
Additions to intangible assets	(1,385)			(1,385)
Additions to property and equipment	(407)			(407)
Business acquisitions, net of cash acquired	-			-
Changes in non-cash working capital	-			-
Net cash unused in investing activities	(1,792)	-	-	(1,792)
Cash flow from financing activities				
Preferred trust units issued for cash (net of issuance costs)	-			-
Advances from related parties	(111)			(111)
Redemption of units	(234)			(234)
Repayment of notes payable	(520)			(520)
Distributions to unitholders	(2,340)			(2,340)
Distributions to non-controlling interests	(592)			(592)
Changes in non-cash working capital	-			-
Net cash from financing activities	(3,797)	-	-	(3,797)
Change in cash and cash equivalents	1,362	-	-	1,362
Cash and cash equivalents, beginning of period	9,154			9,154
Cash and cash equivalents, end of period	\$ 10,516	\$ -	\$ -	\$ 10,516

Mosaic Diversified Income Fund

Notes to Consolidated Financial Statements

For the Six months Ended June 30, 2011

Explanation of transition to IFRS

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

- In preparing the condensed interim consolidated financial statements for the six months ended June 30, 2011.
- In preparing the comparative financial statements for the period ended December 31, 2010 and June 30, 2010.

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

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

Changes in accounting policies

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

- a) Mosaic Capital has chosen to adopt IFRS 3 – Business Combinations for an acquisition of that occurred on September 16, 2008. Mosaic Capital has elected to use the IFRS exemption for any acquisition prior to that date, which results in no changes to the accounting for acquisitions prior to September 16, 2008. As a result of the adoption of IFRS 3, Mosaic Capital has recognized a contingent liability relating to the earn-out clause in the purchase agreement. The result has been an increase to goodwill and accrued liabilities of \$1,250,000 at January 1, 2010.
- b) In accordance with IAS 27, non-controlling interest are included in equity, resulting in a reclassification of \$4,747 January 1, 2010.