# MOSAIC CAPITAL CORPORATION

**Management Discussion & Analysis**

**March 31, 2011**

The management of Mosaic Capital Corporation ("Mosaic" or "the Company") is pleased to present the Company's management discussion and analysis (the "MD&A") for the period ended March 31, 2011.

From the date of inception, February 11, 2011, the Company adopted International Financial Reporting Standards ("IFRS"). The unaudited interim financial statements for the three months ended March 31, 2011 have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"), and using accounting policies consistent with IFRS. Readers of this MD&A should refer to "Significant Accounting Policies" below for a discussion of IFRS and its affect on the Company's financial presentation. The reporting and measurement currency in the financial statements and in this discussion and analysis is the Canadian dollar.

*The following discussion and analysis should be read in conjunction with all of the notes and information pertaining to the Company as contained in the joint management information circular dated March 25, 2011 (the "Circular") in respect to a plan of arrangement involving the Company, First West Properties Ltd., Mosaic Diversified Income Fund, and others and filed on SEDAR at www.sedar.com.*

**Forward Looking Statements**

This MD&A contains forward-looking statements which may involve, but are not limited to, comments with respect to our objectives for 2011 and beyond, our strategies or future actions, and our targets or expectations for our financial performance and condition. All statements other than statements of historical fact contained in this MD&A are forward-looking statements, including, without limitation, statements regarding the future financial position, business strategy, proposed acquisitions, budgets, litigation, projected costs, and plans and objectives of or involving the Fund. Readers can identify many of these statements by looking for words such as "believes", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues" and similar words or the negatives thereof. Although management believes that the expectations represented in such forward looking statements are reasonable, there can be no assurance that such expectations will prove to be correct.

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

**Overall Performance**

Mosaic was incorporated under the *Business Corporations Act* (Alberta) on February 11, 2011. As at March 31, 2011 there had been no active operations for the Company. The only business of the Company had been its participation in a proposed business combination transaction involving the Company, First West Properties Ltd., Mosaic Diversified Income Fund and their respective securityholders, including entering into an arrangement agreement dated as of March 18, 2011 and pertaining to such transaction (herein referred to as the "Arrangement Transaction"). See "Subsequent Events" for additional information concerning this transaction.

In the first quarter of 2011, the loss of $99,995 was generated from an estimated accrual for the costs of the Arrangement Transaction to March 31, 2011 with the overall costs estimated to be $200,000, the balance of which is being accrued in the second quarter.

**Basis of Presentation**

The financial statements are presented and are in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("ISAB").

## Risks and Uncertainties

The Company does not have a history of earnings, nor has it paid any dividends or distributions during the first quarter of 2011. Mosaic's assets are currently limited to cash. The business of Mosaic and associated risks, following completion of the Arrangement Transaction, have been summarized in the Circular.

## Selected Financial Information

| | | March 31, 2011 |
|---|---|---|
| Liquidity | | |
| Cash and cash equivalents | $ | 5 |
| Non-cash working capital | | - |
| Total working capital | | 5 |
| Accounts payable and accrued liabilities | | 100,000 |
| Net liquidity | $ | (99,995) |
| Total assets | $ | 5 |
| Number of shares outstanding at end of period | | 1 |

| | | **Period Ended March 31, 2011** |
|---|---|---|
| Total revenue | $ | - |
| Funds used in operations | $ | 100,000 |
| Net Loss | $ | (100,000) |
| Net Loss per share | $ | (100,000) |
| Basic and diluted weighted average number of shares during period | | 1 |

## Selected Quarterly Financial Information

| | | **Q1'11** |
|---|---|---|
| Total revenue | $ | - |
| Net Loss | | 100,000 |
| Loss per diluted share | | 100,000 |
| Ending assets | $ | 5 |
| Weighted average shares | | 1 |
| Ending shares | | 1 |

## Results of Operations

As at March 31, 2011, Mosaic had no active operations other than undertaking matters in connection with the Arrangement Transaction.

### Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares ("Common Shares") and an unlimited number of preferred shares, issuable in series, of which the first series, designated as Series A Preferred Shares (the "Series A Shares"), have been created and an unlimited number of which are issuable. Upon incorporation the Company issued one Common Share at an issue price of $5.

As at June 28, 2011 there were the following equity securities, and securities exercisable for equity securities, of the Company issued and outstanding:

| Class of Security | Issued and outstanding as at June 27, 2011 (non-diluted) | Issued and outstanding as at June 27, 2011 (fully diluted) |
|---|---|---|
| Common Shares issued | 8,137,848 | 8,137,848 |
| Options - Common Shares | 1,525,000 [1] | 234,850 |
| Fully diluted Common Shares | | 8,372,698 |
| | | |
| Series "A" Preferred Shares issued | 20,790 | 20,790 |
| Options - Series "A" Preferred Shares | 1,255,000 [2] | 96,635 |
| Fully diluted Series "A" Preferred Shares | | 117,425 |

[1] Each option is exercisable for 0.154 of a Common Share
[2] Each option is exercisable for 0.077of a Series A Share

### Liquidity and Capital Resources

As at March 31, 2011 Mosaic had working capital of ($99,995), comprised of cash and cash equivalents and accounts payable and accrued liabilities.

Management has assessed that at this time it has reasonable assurance of sufficient access to capital to fund its near-term objective of completing the Arrangement Transaction which will establish the business of the Company.

### Financial Instruments

The Company's financial instruments consist of cash. It is management's opinion that the Company is not exposed to significant currency or credit risks arising from these financial instruments and that the fair value of these financial instruments approximates their carrying values. For further discussion of financial instrument risks, see "Financial Instruments and Risk Management".

### Significant accounting policies

The accounting policies set out below have been applied consistently during the period presented in the financial statements of the Company for the period ended March 31, 2011.

New accounting standards, interpretations and amendments to existing standards:

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning January 1, 2011 or later periods. Many of these updates are not applicable or are not consequential to the Company and have been excluded from the discussion below. The IASB's improvements to IFRS contain several amendments that result in accounting changes for presentation, recognition or measurement purposes. The effective date for all of the amendments is January 1, 2011 although early application is permitted. Transitional requirements are set out on a standard-by-standard basis. The most significant features of the IASB's annual improvements project and new standards to be issued are discussed below.

Revisions to IFRS 3, Business Combinations

Clarification on the following areas:

- Contingent consideration arrangements arising from business combinations with acquisition dates preceding the application of the new IFRS 3 (as revised in 2008) should continue to be accounted for in accordance with the previous IFRS 3 (as issued in 2004).

- The choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by IFRS.

- Application guidance relating to the accounting for share-based payments in IFRS 3 applies to all share-based payment transactions that are part of a business combination, including un-replaced awards (i.e. unexpired awards over acquiree shares that remain outstanding rather than being replaced by the acquirer) and voluntarily replaced share-based payment awards.

Amendment to IAS 32, Financial Instruments Presentation - Classification of Rights Issues

The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

Improvements to IFRS 7 Financial Instruments, Disclosures

The amendments add an explicit statement that qualitative disclosure should be made in connection with the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements.

Improvements to IAS 1, Presentation of Financial Statements.

The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income also is required to be presented, but may be presented either in the statement of changes in equity or in the notes.

IFRS 9 Financial Instruments

IFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. IFRS 9 (2009) also replaces the models for measuring equity investments; such investments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Prior periods do not need to be restated if an entity adopts the standard for reporting periods beginning before January 1, 2012. Otherwise, this standard is required to be applied for accounting periods on or after January 1, 2013.

IFRS 9 (2010) adds the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities. It also discusses how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9 Reassessment of Embedded Derivatives.

**Financial Instruments and Risk Management**

The Company has the following financial instruments:

Cash and cash equivalents are designated as held-for-trading and are measured at fair value.

The Company is exposed to financial risk arising from its financial assets. The Company manages its exposure to financial risks in a manner that minimizes its exposure to the extent practical. The main financial risks affecting the Company are as follows:

(a) Credit risk

The financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash. The Company mitigates its exposure to credit loss by placing its cash with major financial institutions.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking harm to the Company's reputation.

(c) Fair values

The fair value of cash and cash equivalents, accounts payable and accrued liabilities approximate their carrying value because of the short-term nature. The fair value of transactions are classified according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs are other than quoted prices in Level 1 that are either directly or indirectly observable for the asset or liability.
- Level 3 - Inputs for the asset or liability that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level. The Company's cash is transacted in active markets and has been classified using Level 1 inputs.

## Subsequent Events

Effective May 1, 2011, the Company acquired Mosaic Diversified Income Fund (the "Fund") and First West Properties Ltd ("First West") pursuant to the terms of a plan of arrangement under Section 193 of the *Business Corporations Act* (Alberta) (herein the "Arrangement"). Under the Arrangement each of the Fund and First West became wholly-owned subsidiaries of the Company.

In connection with the Arrangement, holders of preferred units of the Fund received, for each preferred unit held by them, one preferred security in the capital of the Company ("Preferred Security") and 0.143 of a Common Share. Holders of common units of the Fund received 1,631.7 Common Shares for each common unit of the Fund held by them. Holders of common shares of First West received, for each common share held, 0.077 of a Preferred Security and 0.154 of a Common Share. In addition, holders of common share purchase options of First West exchanged those options for unit options of the Company on a basis so as to put the holders in materially the same economic position as they were prior to the arrangement transaction.

The Common Shares and the Preferred Securities were listed and commenced trading on the TSX Venture Exchange under the symbol "MZ" and "MZ.PR.A", respectively, on May 9, 2011.

On May 19, 2011 the Company obtained the approval of the TSX Venture Exchange (the "TSXV") to commence a normal course issuer bid (the "Bid") effective May 25, 2011 for its Common Shares. Under the rules of the TSXV, the Company is permitted to acquire up to 406,894 of its Common Shares under the Bid, representing 5% of the issued and outstanding Common Shares as of May 19, 2011. Subject to renewal of the Bid, the Bid for the Common Shares will terminate on the earlier of May 26, 2012 and the date on which the Company has acquired the maximum number of Common Shares permitted under the Bid. The Company may from time to time acquire its Common Shares at the then current market price through the facilities of the TSXV. The terms under which the Bid is being conducted only currently enable the Company to make purchases of Common Shares at times when the Company would otherwise ordinarily be permitted to be in the market having consideration to its own internal trading blackout periods and other insider trading rules. As at June 28, 2011 the Company had not yet made any acquisition of Common Shares pursuant to the Bid. All Common Shares acquired under the Bid will be cancelled. The actual number of Common Shares purchased, if any, the time of the purchases and the prices at which such Common Shares are purchased will depend on future market conditions. Purchases are being conducted on behalf of the Company by Raymond James Ltd. A copy of the Notice filed by the Company with the TSXV in respect to the Bid may be obtained, without charge, upon request to the Company at 2424 – 4th Street, S.W., Calgary, AB, T2S 2T4, Attention: Vice President, Corporate Affairs.

On May 19, 2011 the Company announced that it was instituting a program to commence market purchases of its Preferred Securities in circumstances were the Company believes the market price of such securities is not fully reflecting their underlying value and where the purchase of such securities would therefore be an attractive and appropriate use of corporate funds. There is no set date upon which purchases of Preferred Securities are intended to cease, nor is there any restriction on the maximum number of Preferred Securities which may be acquired. The Company may from time to time acquire Preferred Securities at the then current market price through the facilities of the TSXV. The Company is only currently able to make purchases of Preferred Securities at times when the Company would otherwise ordinarily be permitted to be in the market having consideration to its own internal trading blackout periods and other insider trading rules. As at June 28, 2011 the Company had not yet made any acquisition of Preferred Securities under this purchase program. All Preferred Securities acquired under this program will be cancelled. The actual number of Preferred Securities purchased, if any, the time of the purchases and the prices at which such securities are purchased will depend on future market conditions. Purchases are being conducted on behalf of the Company by Raymond James Ltd.

On June 15, 2011, the Company paid a cumulative distribution of $423,890 ($0.08333 per security) to those holders of Preferred Securities who were holders as of May 31, 2011, the record date for the distribution.

## Outlook

Following completion of the Arrangement Transaction effective May 1, 2011, the business of the Mosaic is now the business carried on by its two wholly-owned subsidiaries, the Fund and First West. Due to the current economic uncertainty and volatility in prices, management believes that the current outlook continues to be difficult to ascertain and as a consequence, there remains challenges to our business units. Management continues to focus on assisting each of the management teams of the operating subsidiaries as they react to the uncertainties presented by the present economic climate.

Management continues to actively search for acquisition opportunities that meet its acquisition criteria and is currently in discussions with owners and management of businesses that may be suitable for acquisition.

## Additional Information

Additional information relating to the Company may be found on SEDAR under the Company' profile at www.sedar.com.

## Dated

This management's discussion and analysis is dated June 28, 2011.