



MOSAIC CAPITAL

Management's Discussion and Analysis

Third Quarter Ended September 30, 2011

Dated: November 29, 2011

"Growth through sustainable cash flow."

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CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

MOSAIC CAPITAL OVERVIEW

Mosaic Capital Corporation ("Mosaic Capital") is an investment company based in western Canada that owns a portfolio of established businesses with unique competitive advantages and that have a history of generating strong sustainable cash flow from their operations. Mosaic Capital's objective is to create long term value for our shareholders and business partners and to have that reflected in our share price. We believe that this is achieved by growing free cash flow per share and retained earnings. We do this by acquiring businesses that we understand at attractive prices and we manage our risk through extensive due diligence, creative transaction structuring and working closely with our businesses after acquisition. Mosaic Capital's current portfolio of businesses operate in the printing, oil and gas services, technology and real estate industries.

The common shares and preferred securities of Mosaic Capital trade on the TSX Venture Exchange under the symbol "M" and "M.PR.A", respectively.

Mosaic Capital's registered office is located at 400, 2424 - 4th Street SW Calgary, Alberta, T2S 2T4.

EXPERIENCED TEAM WITH VISION

Mosaic's management team brings together an extensive breadth of experience from involvement in billions of dollars' worth of transactions. This experience allows us to acquire the right businesses with strong management teams who we work with to improve and grow their operations. We provide the companies we acquire with strategic, business, financial, human resource, accounting and legal expertise while at the same time giving the management team the autonomy to continue to operate the business.

In addition, we strongly encourage the management teams of our operating companies to continue to look for acquisitions that would facilitate their entry into new markets or increase their product or service offerings. We are actively looking for businesses in a variety of industries that fit our investment model.

Our acquisition criteria for such businesses include the following:

- Demonstrated history of growing sustainable cash flow and operating in an industry which we believe has good growth potential
- A capable and experienced management team that is growth oriented
- The business should have a significant market share in its business area
- A unique competitive advantage
- Ability to grow the business without significant amounts of new capital

Under favorable conditions Mosaic Capital also considers limited capital investments in early stage companies, distressed asset situations, business reorganizations, private equity and other investment related opportunities.

STRONG ALIGNMENT OF INTERESTS

We believe in the alignment of interest among our various stakeholders, including Mosaic Capital, our shareholders, our subsidiary company partners and Mosaic Capital's management team and employee group. Mosaic Capital's management team and employee group have a significant ownership in Mosaic Capital owning 46% of Mosaic Capital's common stock. Mosaic Capital's management team are also the largest holders of our preferred securities.

FINANCIAL RESOURCES FOR FUTURE GROWTH

Studies show that within Canada approximately 70% of medium sized businesses will change ownership over the next decade providing us with a tremendous opportunity to acquire good businesses that meet our criteria. Our financial position is strong with current working capital as at September 30, 2011 of \$21,414 including cash and

cash equivalents of \$17,399. Within our real estate division First West Properties Ltd., ("First West") we have a real estate portfolio valued at approximately \$24,000. This puts us in an excellent position to continue to execute on our business plan of buying great businesses.

PORTFOLIO OF BUSINESSES

Mosaic Capital acquires a control position in its businesses, which enables us to exercise the rights of ownership in making strategic decisions and managing risk. Mosaic Capital does not get involved in the daily operating decisions of the businesses. Mosaic Capital has two reportable business segments: Industrial and Real Estate.

Real Estate - a portfolio of real estate assets in secondary markets in western Canada through First West (100%). Management of First West acquires real estate with short and medium term price appreciation potential as a result of value catalyst events such as leasing vacant space, re-leasing space at step-up to market rents, and land development.

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) 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 Services L.P.** (80% ownership) 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 Geomatic Solutions L.P.** (90% ownership) 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 L.P.** (75% ownership) is based in Sexsmith, Alberta, and manufactures and leases biological wastewater treatment units used for remote work camps.

Non-segmented – this information covers all of the cost centres of Mosaic Capital that are not included in the segments above and primarily relates to corporate expenses.

RISK MANAGEMENT

Mosaic Capital invests significant time to understand the risks associated with our portfolio companies. These risks range from macro-economic factors to industry specific risks and individual business risks. It also includes risks that are largely beyond our reasonable control such as weather and commodity prices. Based on our assessment of the risks we work on various risk mitigation strategies that may involve deployment of technology, business process improvement, individual business and market diversification and overall corporate portfolio diversification.

Other risks are generally beyond our short term control. For example, over the past two years flooding and wet weather in southeast Saskatchewan and southwest Manitoba has interrupted operations at Allied Cathodic, pushing back work by as much as two months during their busiest time of year. This has created a short term reduction in income from operations. We continue to investigate business process improvements that may allow us to deal with these types of seemingly unpredictable factors.

RECENT DEVELOPMENTS

The following sets forth the recent developments in the business of Mosaic Capital since incorporation in February 2011.

Sale of Eastview Shopping Centre - On November 9, 2011, First West completed the sale of the Eastview shopping centre located at 3010/3020 Arlington Avenue in Saskatoon Saskatchewan for aggregate consideration of \$4,875. The property was 27,842 square feet on 1.5 acres leased to 13 retail tenants. The property was acquired in August 2008 for \$3,090. The proceeds were used to pay the mortgage on the property of \$1,895.

Sale of Wentz Property - On June 15, 2011, First West completed the sale of a property located in Saskatoon, Saskatchewan for a price of \$4,933 less disposal costs of \$175. The property was purchased in December 2007 for \$2,630 a portion of the proceeds were used to pay the mortgage on the property of \$1,542. There is no gain on sale recorded on the condensed consolidated interim financial statements as assets were re-valued as of the May 1, 2011 as a result of the acquisition of First West by Mosaic Capital pursuant to the Arrangement.

Purchase of Preferred Securities – On September 1, 2011 Mosaic Capital Corporation announced that it had recently purchased 21,900 (or less than 0.5%) of its preferred securities for cancelation bringing the total number of preferred securities issued and outstanding to 5,066,822.

Plan of Arrangement Mosaic Capital - Mosaic Capital acquired Mosaic Diversified Income Fund (the "Fund") effective May 1, 2011 pursuant to the terms of a Plan of Arrangement (the "Arrangement") approved by unitholders of the Fund on April 28, 2011. Under the terms of the Arrangement, the Fund became a wholly owned subsidiary of Mosaic Capital. The holders of preferred units of the Fund received one preferred security and 0.143 common shares in the capital of Mosaic Capital for each preferred unit held in the Fund. The holders of common units of the Fund received 1,631.7 common shares in the capital of Mosaic Capital for each common unit held in the Fund. The unitholders of the Fund, as a group, held approximately 62% of the common shares and 70% of the preferred securities of Mosaic Capital as of May 1, 2011.

Plan of Arrangement First West - Also effective May 1, 2011, First West was acquired by Mosaic Capital and became a wholly owned subsidiary pursuant to the terms of the Arrangement. In connection with the transaction, Class "A" common voting shareholders of First West received, for each Class "A" common voting share held, 0.077 of a preferred security and 0.154 of a common share of Mosaic Capital. In addition, holders of Class "A" common voting share purchase options of First West exchanged those options for Mosaic Capital unit options on a basis so as to put the holders in materially the same economic position as they were prior to the Arrangement. The Mosaic Capital unit options entitle the holders to receive the same mix of Preferred Securities and common shares as holders of Class "A" common voting shares of First West received under the Arrangement. The shareholders of First West held, as a group, approximately 38% of the common shares and 30% of the preferred securities of Mosaic Capital as of May 1, 2011.

Information related to these transactions may be found in the information circular ("the Circular") which was prepared in connection with the Arrangement and which is available under Mosaic Capital Corporation's company profile at www.sedar.com or in the investor section of Mosaic Capital's website at www.mosaiccapitalcorp.com.

KEY PERFORMANCE INDICATORS AND NON-IFRS FINANCIAL MEASURES

Mosaic Capital has historically used various metrics when evaluating its operational and financial performance. Mosaic Capital continually monitors and evaluates its metrics and updates these metrics as required to ensure they provide information considered most useful in any decision making based on Mosaic Capital's performance. The following section quantifies and analyzes the key performance indicators used by management of Mosaic Capital.

EBITDA, Free Cash Flow, Return on Common Equity and Preferred Security Payout Ratio. These key performance measures are not recognized measures under International Financial Reporting Standards ("IFRS") and are defined below:

EBITDA: is defined as Income before tax less (i) gain (loss) on sale of equipment; (ii) non-cash expenses such as amortization; (iii) finance income and expenses; (iv) share compensation expense; and (v) any unusual non-operating one-time items such as acquisition and reorganization costs. EBITDA is used by management to assess its consolidated results and the results of its operating segments. EBITDA is also a performance measure which may be utilized by investors to analyze the cash generated by Mosaic Capital's subsidiaries.

Free Cash Flow: is defined as EBITDA less non-controlling interest, and Mosaic Capital's share of the Sustaining Capital Expenditures. Free Cash Flow is a performance measure used by management to summarize the funds available for (i) the payment of distributions to holders of preferred securities and common shares, (ii) investment in capital expenditures made to grow the enterprise, (iii) new acquisitions and working capital.

Sustaining Capital Expenditures: is defined as capital expenditures required to sustain the operations of Mosaic Capital at its current level of operations. Growth capital expenditures are those capital expenditures that are made to grow the enterprise and are expected to generate additional EBITDA. An example of Sustaining Capital Expenditures would be the replacement of vehicles that have completed their useful life.

Return on Common Equity: means that number, expressed as a percentage, that is obtained by dividing (i) Free Cash Flow less distributions declared to holders of preferred securities during the period indicated, divided by (ii) weighted average Common Shareholders' equity for the period. Management believes Return on Common Equity is a key performance measure, however due to the Fund being the continuing entity for accounting purposes following the Arrangement, Return on Common Equity would not currently be representative of our performance and accordingly management will start reporting on this metric in subsequent periods.

Preferred Security Payout Ratio: means that number, expressed as a percentage, which is the cash paid to holders of preferred securities, series "A" shares and preferred units during the period divided by Free Cash Flow for the period.

Investors are cautioned that EBITDA, Free Cash Flow, Return on Common Equity, and Preferred Security Payout Ratio should not be viewed as an alternative to measures that are recognized under IFRS such as net income or cash from operating activities. The distributions and dividends paid by Mosaic Capital to its security holders are dependent on its cash flow from operating activities with consideration for changes in working capital requirements, investing activities and financing activities. Mosaic Capital's method of calculating EBITDA, Free Cash Flow, Return on Common Equity, and Preferred Security Payout Ratio may differ from that of other entities and therefore may not be comparable to measures utilized by them.

FINANCIAL HIGHLIGHTS

The following MD&A of the financial condition and results of operations of Mosaic Capital should be read in conjunction with the audited consolidated financial statements and annual management's discussion and analysis of the Fund for the year ended December 31, 2010 and the unaudited condensed interim consolidated financial statements of the Fund for the nine months ended September 30, 2010 and of Mosaic Capital for the nine months ended September 30, 2011.

As the Fund is the continuing entity for accounting purposes following the Arrangement the condensed interim consolidated financial statements of Mosaic Capital as at and for the period ended September 30, 2011 are compared to the financial statements of the Fund as at December 31, 2010 and for the period ended September 30, 2011. Mosaic Capital adopted ("IFRS") effective January 1, 2010.

The condensed interim consolidated financial statements of Mosaic Capital for the three and nine months ended September 30, 2011 include the operations of Mosaic Capital from its incorporation date on February 11, 2011, the operations of the Fund since January 1, 2011 and the operations of First West since its acquisition on May 1, 2011.

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

The financial highlights for Mosaic Capital for the periods indicated are as follows:

FINANCIAL PERFORMANCE	2011	per common share		2010	per common share	
		basic	fully diluted		basic	fully diluted
<u>For the three month period ended September 30</u>						
Revenue	\$ 6,768	0.83	0.82	\$ 6,118	1.21	1.21
EBITDA	1,724	0.21	0.21	2,491	0.49	0.49
Free cash flow	1,354	0.17	0.16	1,893	0.37	0.37
Preferred distributions paid/payable	791			398		
Common distributions	-	-	-	-	-	-
Preferred security payout ratio	58%			21%		
<u>For the nine month period ended September 30</u>						
Revenue	\$ 16,544	2.03	2.00	\$ 14,527	2.87	2.87
EBITDA	3,957	0.49	0.48	5,048	1.00	1.00
Free cash flow	2,897	0.36	0.35	3,901	0.77	0.77
Preferred distributions paid/payable	2,013			1,182		
Common distributions	-	-	-	-	-	-
Preferred security payout ratio	69%			30%		
<u>FINANCIAL POSITION</u>						
	September 30, 2011			December 31, 2010		
Working capital	\$ 21,414			\$ 12,397		
Property, plant and equipment	4,522			4,496		
Total assets	72,537			38,462		
Mortgages payable	6,817			-		
Equity attributable to equity holders	62,522			35,026		
<u>SHARE INFORMATION</u>						
	September 30, 2011			December 31, 2010		
Common shares/units	8,137,848			4,572,023 (2)		
Preferred securities/units	5,066,822			3,454,718 (3)		

(1) EBITDA, Free Cash Flow and Return on Common Equity are not recognized measures under IFRS and are defined under the heading "Key Performance Indicators and Non-IFRS Financial Measures."

(2) Reflects the conversion of the 2,802 common units of the Fund outstanding on December 31, 2010 into 4,572,023 common shares based on the exchange ratio approved as part of the Arrangement of 1,631.7 common shares for each outstanding common unit.

(3) Reflects the number of preferred units of the Fund outstanding on December 31, 2010. The exchange ratio for preferred units of the Fund was one preferred security and 0.143 of a common share for each preferred unit held.

EBITDA AND FREE CASH FLOW

The following reconciles Income before tax to EBITDA and Free Cash Flow and provides a discussion and analysis of the EBITDA and Free Cash Flow results for the periods set forth.

EBITDA periods ended September 30	Three months ended		Nine months ended	
	2011	2010	2011	2010
Income before tax	\$ 1,053	\$ 2,042	\$ 1,829	\$ 3,823
Amortization	515	417	1,371	1,201
Non-operating items				
Reorganization costs	32	-	552	-
Loss on sale of equipment	40	3	49	8
Finance income	(3)	18	(15)	(6)
Finance expense	87	11	171	22
EBITDA	\$ 1,724	\$ 2,491	\$ 3,957	\$ 5,048

FREE CASH FLOW periods ended September 30	Three months ended		Nine months ended	
	2011	2010	2011	2010
EBITDA	\$ 1,724	\$ 2,491	\$ 3,957	\$ 5,048
Non-controlling interest	318	362	571	641
Mosaic's share of sustaining capital exp.	52	236	489	506
FREE CASH FLOW	1,354	1,893	2,897	3,901

Mosaic Capital generated Free Cash Flow of \$1,354 for the three months ended September 30, 2011, which is \$539 lower than the \$1,893 generated in the comparative 2010 period. The 28% decrease in Free Cash Flow is a result of the 31% decrease in EBITDA. Mosaic Capital generated Free Cash Flow of \$2,897 for the nine months ended September 30, 2011, which is \$1,004 lower than the \$3,901 generated in the comparative 2010 period. Consistent with the discussion above for the three month period, the 26% decrease in Free Cash Flow is mainly the result of the 22% decrease in EBITDA. The decrease in EBITDA is primarily a result of a reduction of business activity in the Industrial segment in southeast Saskatchewan and southwest Manitoba due to exceptionally wet weather and flooding. There was also an increase in non-segmented corporate expenses in Mosaic Capital and as a result of being a listed company. This reduction which was partially offset by increases in activity levels in other operating areas during the period as well as the inclusion of results from First West. The results for the period are analyzed in more detail under the heading "Financial Review and Discussion of Results."

DISTRIBUTIONS & PREFERRED SECURITY PAYOUT RATIO

Information regarding the distributions declared and paid to holders of preferred securities and preferred units during the nine months ended September 30, 2011 and comparative periods in 2010 is set forth below.

As part of the Arrangement the board of directors of Mosaic Capital approved the Mosaic Capital distribution reinvestment plan (the "DRIP") under which distributions paid on preferred securities to eligible participants may be automatically reinvested into additional preferred securities at the election of the holder of preferred securities.

The Arrangement provided that all holders of preferred units in the Fund who were enrolled in the Fund's DRIP and are eligible under the DRIP were automatically enrolled into the DRIP as at the effective time of the Arrangement respect to the preferred securities received by such participants. First West did not have a dividend reinvestment plan. Accordingly, the percentage participation in the DRIP was reduced when compared to the participation under the Fund's distribution reinvestment plan as a result of the issuance of preferred securities to holders of First West common shares pursuant to the Arrangement, none of which were automatically enrolled in the DRIP. Under the DRIP, holders of preferred securities who are residents of Canada and are participating in the plan will have distributions relating to their preferred securities reinvested into preferred securities. The difference between distributions declared and distributions paid is related to securities

that were purchased through the facilities of the TSX Venture Exchange to satisfy the DRIP. The DRIP allows Mosaic Capital to elect to have the preferred securities purchased on the open market or issued from treasury.

Record Date	2011			2010		
	Distributions Declared	Distributions Paid	DRIP Participation (2)	Distributions Declared	Distributions Paid	DRIP Participation (2)
January	\$ 293	\$ 134	54%	\$ 280	\$ 128	54%
February	295	134	55%	282	129	54%
March	296	134	55%	282	131	54%
April	297	297	0%	284	132	54%
May	424	264	38%	285	132	54%
June (1)	424	259	39%	286	132	54%
July 31 (1)	424	263	38%	287	132	54%
August 31 (1)	423	263	38%	288	133	54%
September 30 (1)	422	265	37%	290	133	54%
	\$ 3,298	\$ 2,013	39%	\$ 2,564	\$ 1,182	54%

(1) Since listing on the TSX Venture Exchange in May Mosaic Capital elected to satisfy its obligation under the DRIP by purchasing preferred securities through the facilities of the TSX Venture Exchange rather than issuing preferred securities from treasury.

(2) Percentage of distributions on preferred units or preferred shares with respect to which the holders of securities have elected to participate in the DRIP.

For the three months to September 30, 2011 Mosaic Capital declared distributions on preferred securities of \$1,269 (2010 - \$Nil) and dividends on series "A" shares of \$5 (2010 - \$Nil). Also during this period Mosaic Capital declared distributions on preferred units of the Fund of \$Nil (2010 - \$865) and on common trust units of the Fund of \$Nil (2010 - \$Nil).

For the three months to September 30, 2011 Mosaic Capital paid distributions to preferred security holders in the amount of \$791 (2010 - \$Nil) and dividends to series "A" shareholders of \$5 (2010 - \$Nil). Also during this period Mosaic Capital paid distributions to preferred unitholders of the Fund of \$Nil (2010 - \$398) and on common trust units of \$Nil (2010 - \$Nil).

For the nine months to September 30, 2011 Mosaic Capital declared distributions on preferred securities of \$2,115 (2010 - \$Nil) and dividends on series "A" shares of \$7 (2010 - \$Nil). Also during this period Mosaic Capital declared distributions on preferred trust units of the Fund of \$1,182 (2010 - \$2,564) and on common trust units of the Fund of \$Nil (2010 - \$Nil).

For the nine months to September 30, 2011 Mosaic Capital paid distributions to preferred security holders in the amount of \$1,314 (2010 - \$Nil) and dividends to series "A" shareholders of \$5 (2010 - \$Nil). Also during this period Mosaic Capital paid distributions to preferred trust unit holders of the Fund of \$699 (2010 - \$1,182) and distributions to common trust units of \$990 (2010 - \$540).

At September 30, 2011 holders of preferred securities representing approximately 37% of the outstanding preferred securities participated in the DRIP. The DRIP allows Mosaic Capital to elect to have the preferred securities purchased on the open market or issued from treasury. Since listing on the TSX Venture Exchange in May 2011 Mosaic Capital elected to satisfy its obligations under the DRIP by purchasing preferred securities through the facilities of the TSX Venture Exchange.

The following Preferred Security Payout Ratios for the periods indicated are as follows:

Preferred security payout ratios	2011	2010
Three month period ended September 30,	58%	21%
Nine month period ended September 30,	69%	30%

OUTLOOK

Mosaic Capital's management team's primary focus is on improving results within Mosaic Capital's different operating segments and acquiring businesses that we understand at attractive prices and we manage our risk through extensive due diligence, creative transaction structuring and by working closely with our businesses after acquisition.

The businesses in Mosaic Capital's Industrial segment generally benefit from the growth of oil and gas exploration and development in western Canada. According to Canadian Association of Petroleum Producers (CAPP) the forecast for oil and gas activities and oil sands production calls for robust growth.

Within the Real Estate segment Mosaic Capital benefits from economic growth in the markets in which it owns real estate. We are currently marketing our real estate properties in Fort McMurray and Lethbridge and have recently sold our properties in Saskatoon. These sales are not a reflection of our views of property in these markets but rather that we have completed the catalyst events on the properties to add value and accordingly are being sold as part of the normal operations of the Real Estate segment. We are continuing to review potential acquisition targets in this segment.

In the Industrial segment, we have continued to expand our network of business acquisition referral sources and have seen an increase in deal flow for potential acquisition targets and expect this trend to continue as a result of the efforts of management in markets across western Canada.

FINANCIAL REVIEW AND DISCUSSION OF RESULTS

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

The unaudited condensed interim consolidated financial statements for the nine months ended September 30, 2011 have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"), and using accounting policies consistent with IFRS. Readers of this MD&A should refer to "Change in Accounting Policies" below for a discussion of IFRS and its effect on Mosaic Capital's financial presentation.

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

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Mosaic Capital – Consolidated

Selected balance sheet information				
	Sept 30,	Dec 31,	Jan 1,	
in thousands of Canadian dollars	2011	2010	2010	
Cash and cash equivalents	\$ 17,399	\$ 10,395	\$ 9,154	
Accounts receivable	5,052	4,386	4,479	
Total current assets	24,461	15,540	14,194	
Income producing preoperatives	24,445	-	-	
Total non-current assets	48,076	22,922	23,760	
Total assets	\$ 72,537	\$ 38,462	\$ 37,954	
Total current liabilities	\$ 3,047	\$ 3,143	\$ 3,718	
Mortgages payable	6,817	-	-	
Total non-current liabilities	6,968	293	172	
Total equity attributable to equity holders	\$ 62,522	\$ 35,026	\$ 34,064	
Working capital	\$ 21,414	\$ 12,397	\$ 10,476	
Selected income and expense information				
	Three months ended		Nine months ended	
in thousands of Canadian dollars	Sept 30,	2010	Sept 30,	2010
Revenue	\$ 6,768	\$ 6,118	\$ 16,544	\$ 14,527
Operating expenses	5,042	3,627	12,576	9,479
Income from operations	1,726	2,491	3,968	5,048
Income before other items	1,087	2,042	2,392	3,823
Reorganization costs	32	-	552	-
Income from continuing operations	1,055	2,042	1,840	3,823
Income and comprehensive income	\$ 1,053	\$ 2,029	\$ 1,829	\$ 3,823
Income and comprehensive income attributed to:				
Shareholders'/Unit holders'	\$ 735	\$ 1,667	\$ 1,258	\$ 3,182
Non-controlling interest	318	362	571	641
	\$ 1,053	\$ 2,029	\$ 1,829	\$ 3,823

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

Mosaic Capital

As at September 30, 2011 working capital was \$21,414 (Dec 31, 2010 - \$12,397) an increase of \$9,017, primarily as a result of the acquisition of First West pursuant to the Arrangement. Total assets increased from \$38,462 to \$72,537 and total liabilities increased from \$3,436 to \$10,015 also primarily as a result of assets and liabilities acquired as a result of the acquisition of First West pursuant to the Arrangement.

For the three months ended September 30, 2011 revenue increased \$650 to \$6,768 (2010 - \$6,118) which was primarily related to an increase in overall activity levels in the Industrial segment, and the inclusion of revenue from First West during the period. The increase in operating expense to \$5,042 (2010 \$3,627) was primarily related to higher costs in Industrial segment operations, the addition of personnel and operating expenses in Mosaic Capital as a result of (i) increased deal flow, (ii) acquisition investigation activity, and (iii) costs relating to being a listed company. One time reorganization costs of \$32 (2010 \$Nil) were directly related to the Arrangement. The reduction in Income from continuing operations to \$1,055 (2010 - \$2,042) was primarily a result of the costs relating to the Arrangement, higher expenses in the Industrial segment relative to revenue compared to prior periods and the increase in personnel and operating expenses in Mosaic Capital expenses.

For the nine months ended September 30, 2011 revenue increased \$2,017 to \$16,544 (2010 - \$14,527) which was primarily related to the same reasons as were the case in the three month period ended September 30,

2011. The increase in operating expense to \$12,576 (2010 - \$9,479) was primarily related to the same reasons as shown above for the three month period ended September 30, 2011. Reorganization costs of \$552 (2010 - \$Nil) were directly related to the Arrangement. The reduction in Income from continuing operations to \$1,840 (2010 - \$3,823) was primarily related to higher expenses in the Industrial segment relative to revenue compared to prior periods.

Mosaic Capital - Segmented Information

Industrial

Selected income and expense information for the Industrial segment In thousands of Canadian dollars	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Revenue	\$ 6,132	\$ 6,118	\$ 15,483	\$ 14,527
Operating expenses	4,280	3,627	11,245	9,479
Income from operations	1,852	2,491	4,238	5,048
Income before other items	1,413	2,042	2,998	3,823
Income from continuing operations	1,413	2,042	2,998	3,823
Income and comprehensive income	\$ 1,413	\$ 2,029	\$ 2,998	\$ 3,823

Revenue in the Industrial segment increased \$14 for the three months ended September 30, 2011 to \$6,132 (2010 - \$6,118). Revenue increased \$956 for the nine months ended September 30, 2011 to \$15,483 (2010 - \$14,527). For both the three and nine month periods we saw increases in our operations in Alberta, this was somewhat offset by decreased activity in southeast Saskatchewan and southwest Manitoba due to weather conditions which impacted operating activity levels.

Operating expenses increased \$653 for the three months ended September 30, 2011 to \$4,280 (2010 - \$3,627). Operating expenses increased \$1,766 for the nine months ended September 30, 2011 to \$11,245 (2010 - \$9,479). The increase in operating expenses was primarily as a result of an increase in oilfield service activity in Alberta and a reduction in margin on activities in southeast Saskatchewan due to excess rainfall and flooding which eliminated certain operational efficiencies. As a result of the increase in expenses, income from operations decreased \$639 for the three months ended September 30, 2011 to \$1,852 (2010 - \$2,491) and income from operations decreased \$810 for the nine months ended September 30, 2011 to \$4,238 (2010 - \$5,048).

Income from continuing operations was down \$629 for the three months ended September 30, 2011 to \$1,413 (2010 - \$2,042) and was down \$825 for the nine months ended September 30, 2011 to \$2,998 (2010 - \$3,823) in both cases primarily as a result of increased operating expenses during the period and reorganization costs.

Real Estate

Selected income and expense information for the Real Estate segment In thousands of Canadian dollars	Three months ended September 30,		153 days September 30,	
	2011	2010	2011	2010
Revenue	636	-	1,061	-
Operating expenses	257	-	513	-
Income from operations	\$ 379	\$ -	\$ 548	\$ -
Income before other items	183	-	216	-
Income from continuing operations	183	-	216	-
Income and comprehensive income	\$ 181	\$ -	\$ 205	\$ -

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

The real estate segment had revenue of \$636 and \$1,061 for the three and nine month period ended September 30, 2011. Operating costs were \$257 and \$513 for the three and nine month period ended September 30, 2011. This resulted in income from operations of \$379 and \$548 for the three and nine month period ended September 30, 2011. The primary operating costs relate to operating costs of the income producing properties in the real estate segment which were not recovered from tenants.

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

The most significant activity during the five months from May 1, 2011 to September 30, 2011 is the sale of one of the income producing properties in Saskatoon. There is no gain or loss on this sale as the property was revalued as at May 1, 2011 as a result of the acquisition of First West pursuant to the Arrangement. The only change this had to the condensed interim consolidated financial statements was to increase cash, reduce mortgages payable and reduce income producing properties. First West purchased the property for \$830 in cash and a mortgage of \$1,817. The property was sold for \$4,933 less disposal costs of \$175 and First West received \$3,116 cash after it repaid the mortgage outstanding in the amount of \$1,542.

Non-segmented - Corporate Expenses

Selected income and expense information for the non-segmented corporate expenses In thousands of Canadian dollars	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Revenue	-	-	-	-
Operating expenses	505	-	818	-
Income from operations	\$ (505)	\$ -	\$ (818)	\$ -
Income before other items	(509)	-	(822)	-
Reorganization costs	32	-	552	-
Income from continuing operations	(541)	-	(1,374)	-
Income and comprehensive income	\$ (541)	\$ -	\$ (1,374)	\$ -

Corporate expenses are considered non-segmented for the purposes of IFRS. The corporate expenses were \$509 (2010 - \$Nil) and \$822 (2010 - \$Nil) for the three and nine month periods ended September 30, 2011. The nine month period only included 153 days of operation as Mosaic Capital had no operations prior to completion of the Arrangement. A significant portion of the corporate expenses were the reallocation of personnel in May 2011 from the Fund to corporate expenses as their work covers all areas of Mosaic Capital.

Reorganization costs were \$32 for the three months ended September 30, 2011 (2010 - \$Nil) and \$552 for the nine months ended September 30, 2011 (2010 - \$Nil) in both cases directly related to the costs of the Arrangement. These costs are not expected to occur next year.

SUMMARY OF QUARTERLY RESULTS

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

in \$ thousands Canadian	Dec 31,	Mar 31,	Jun 30,	Sep 30,	Dec 31,	Mar 31,	Jun 30,	Sep 30,
	2009	2010	2010	2010	2010	2011	2011	2011
	GAAP	IFRS						
Revenue	\$ 5,362	\$ 4,303	\$ 4,106	\$ 6,118	\$ 5,857	\$ 5,611	\$ 4,165	\$ 6,768
Operating expenses	4,164	2,740	3,116	3,628	4,475	4,031	3,653	5,042
Income from operations	1,198	1,563	990	2,490	1,382	1,580	512	1,726
Income (loss)	\$ 96	\$ 968	\$ 547	\$ 1,667	\$ 756	\$ 1,196	\$ (420)	\$ 735

INCOME-PRODUCING PROPERTIES

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

On June 15, 2011, the Real Estate segment completed the sale of a property located in Saskatoon, Saskatchewan for \$4,933 less disposal costs of \$175. There is no gain or loss on this sale as the property was revalued as at May 1, 2011 as a result of the acquisition of First West by Mosaic Capital. There are no taxes payable on this sale due to tax losses carried forward in First West. First West purchased the property for \$830 in cash and a mortgage of \$1,817. The property was sold for \$4,933 less disposal costs of \$175 and First West received \$3,116 cash after it repaid the mortgage outstanding in the amount of \$1,542.

PROPERTY HELD FOR DEVELOPMENT

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

PROPERTY, PLANT AND EQUIPMENT

The carrying value of property, plant and equipment increased to \$4,522 at September 30, 2011 from \$4,496 at December 31, 2010. The increase of \$26 primarily relates to purchases of motor vehicles acquired by the operating businesses, less amortization recorded for the period.

in thousands of Canadian dollars	September 30, 2011			December 31, 2010	
	Cost	Amortization	Net Book Value	Net Book Value	
Land	\$ 57	\$ -	\$ 57	\$ 57	\$ 57
Motor Vehicles	1,408	614	794		597
Computer Equipment	439	248	191		177
Equipment	4,322	1,178	3,144		3,290
Parts Inventory	438	188	250		295
Furniture and fixtures	163	77	86		78
Leasehold improvements	5	5	-		2
	\$ 6,832	\$ 2,310	\$ 4,522	\$ 4,496	

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

Buildings	Declining balance	2%
Computer Equipment	Declining balance	30%
Furniture & Fixtures	Declining balance	20%
Leasehold Improvements	Straight line	Term of Lease
Motor Vehicles	Declining balance	30%
Parts inventory	Declining balance	20%
Production equipment	Declining balance	20%
Rental equipment	Straight line	20 years

The residual value, if significant, is reassessed annually.

GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying value of goodwill and other intangible assets decreased to \$17,786 at September 30, 2011 from \$18,426 at December 31, 2010. The decrease of \$640 primarily relates to the amortization of non-goodwill assets. The goodwill and other intangible assets were acquired primarily in connection with Mosaic Capital's operating subsidiaries. They included:

in thousands of Canadian dollars	Net Book Value	
	September 30, 2011	December 31, 2010
Goodwill	\$ 7,906	\$ 7,906
Customer relationships	8,521	9,092
Intellectual property	1,130	1,205
Employment agreements	123	138
Non-competition agreements	41	59
Computer software	32	26
Step-up leases	33	-
	\$ 17,786	\$ 18,426

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

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

Computer Software	Straight line	100%
Customer relationships	Straight line	15 years
Employment agreements	Straight line	10 years
Intellectual property	Straight line	10 years
Non-compete agreements	Straight line	5 years
Step-up Leases	Term of lease	Term of lease

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

MORTGAGES PAYABLE

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

There are four floating rate demand loans that have an aggregate principal balance of \$6,817 as at September 30, 2011 with each such loan having a maturity date of the earlier of (i) January 28, 2015, (ii) the end of the elected term in the event that the loan is converted from floating rate to fixed rates; and (iii) the date payment is demanded as a result of default. The floating rate loan facilities are payable at the greater of 4.75% or bank prime rate plus 1%. Bank prime rate at September 30, 2011 was 3%. The loans have fixed monthly blended payments ranging from \$4 to \$24. The loans are reviewed, at least annually, by the lender.

Each loan is in respect of a specific property and is secured by a mortgage charge against, and a general security agreement charging present and after-acquired personal property in respect of that specific property. The specific properties charged by this security have a net book value of \$17,016.

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

NOTES PAYABLE

Notes payable includes vehicle financing, capital leases and notes payable to a former minority partner. The balance outstanding as at September 30, 2011 is \$641 (\$587 at December 31, 2010), and the fair value of the notes is \$639 (\$587 at December 31, 2010). The difference between the balance outstanding and the fair value of the notes relates to the market interest rate for a loan of this type estimated to be 5% and rates charges on the actual note payable. In this case the rates are similar but only \$110 of the note bears interest and the balance is interest free. The difference between the fair values of the note, results in a non-cash accretion

charge that will be expensed as interest on long term debt and accreted to the principal balance over the life of the note payable.

Summary of Scheduled Payments

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

in thousands of Canadian dollars	Cash payments		Carrying value	
Twelve months ended December 31,				
2011	\$	62	\$	64
2012		340		340
2013		150		150
2014		75		75
2015		12		12
	\$	639	\$	641

NON-CONTROLLING INTEREST

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

During the three months ended September 30, 2011 \$318 (2010 - \$362) of Mosaic Capital's income (loss) was allocated to non-controlling interests and cash distributions of \$0 (2010 - \$140) were paid to holders of the non-controlling interests.

During the nine months ended September 30, 2011, \$571 (2010 - \$641) of Mosaic Capital's income was allocated to non-controlling interests and cash distributions of \$763 (2010 - \$591) were paid to holders of the non-controlling interests.

STOCK OPTIONS

The board of directors of Mosaic Capital adopted a share based compensation plan which was approved by the holders of preferred units of the Fund and holders of common shares of First West at the meetings of First West and the Fund to approve the Arrangement. The Mosaic Capital share-based compensation plan is intended to afford persons who provide services to Mosaic Capital with an opportunity to obtain a proprietary interest in Mosaic Capital and to assist in attracting as well as retaining and encouraging the continued involvement of such persons with Mosaic Capital. The Mosaic Capital share-based compensation plan permits the granting of equity incentive awards, including Mosaic Capital options, stock appreciation rights, restricted stock, restricted stock units, performance awards and other share-based awards to directors, officers, employees and consultants of Mosaic Capital and its subsidiaries. The number of Mosaic Capital common shares that will be available for issuance under the 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. As at June 30, 2011 there were outstanding Mosaic Capital unit options entitling the holders to purchase 234,850 common shares at a weighted average exercise price of \$3.51 per share and 96,635 series "A" shares at a weighted average exercise price of \$7.11 per share. These options are issued under, and subject to, the Mosaic Capital share-based compensation plan.

LIQUIDITY AND CAPITAL RESOURCES

Mosaic Capital's primary capital resources for meeting its cash commitments are existing working capital and cash generated from the operations of its subsidiaries. At September 30, 2011, Mosaic Capital had positive working capital of \$21,414 (December 31, 2010 - \$12,397) including cash and cash equivalents of \$17,399 (December 31, 2010 - \$10,395), accounts receivable of \$5,052 (December 31, 2010 - \$4,386), accounts payable of \$2,015 (December 31, 2010 - \$1,456), and distributions payable of \$424 (December 31, 2010 \$1,393).

The largest uses of cash during the three months ended September 30, 2011 was distributions to preferred security holders and purchase of preferred securities for delivery pursuant to Mosaic Capital's obligations pursuant to the DRIP of \$1,269, and redemptions of preferred securities of \$182. The largest uses of cash during the nine months ended September 30, 2011 was the repayment of mortgages of \$1,673, distributions to non-controlling interest of \$763, distributions to holders of preferred units of the Fund and holders of preferred securities and purchase of preferred securities for delivery pursuant to Mosaic Capital's obligations pursuant to the DRIP of \$3,297. There were cash inflows of \$6,721 from the acquisition of First West and \$4,607 from the sale of an income producing property in Saskatoon.

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

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

RISK FACTORS

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

RELATED PARTY TRANSACTIONS

Consulting fees in the amount of \$36 were paid for the three months to September 30, 2011 and in the amount of \$114 were paid for the nine months to September 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 \$Nil were paid for the three months to September 30, 2011 and \$100 were paid for the nine months to September 30, 2011 to a company controlled by one the officers of Mosaic Capital (formerly an officer of the administrator of the Fund) in the course of business related to the Arrangement.

Directors, officers and key employees (collectively "employee(s)") of Mosaic Capital are eligible to participate in the employee share purchase plan (the "ESPP"). Under the ESPP, employees who have been invited to participate in the ESPP may contribute up to such amount as is determined by Mosaic Capital. The amount (if any) then contributed by the employee is matched by Mosaic Capital through a matching loan (the "Loan")

secured by a promissory note bearing interest at 1% and repayable by the employee over a term not to exceed five years. The employee contribution together with the funds loaned by Mosaic Capital are then provided to the trustee of the ESPP and the trustee uses such funds to purchase common shares of Mosaic Capital through the facilities of the TSX Venture Exchange. The trustee, or its agent, is responsible for determining the pricing and timing of purchases of the common shares. The common shares purchased on behalf of an employee are held as security for their Loan. Should the employee's position terminate with Mosaic Capital then their Loan is repayable, subject to certain exceptions, within 30 days of the termination date. Should the common shares be sold by the employee the proceeds of such sale shall first be applied in repayment of the Loan and then any remaining balance remitted to the employee. If any dividends or other distributions are paid on the common shares held under the Plan for the benefit of the employee, the proceeds are used to reduce the Loan made to such employee.

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

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

ACCOUNTING ESTIMATES

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

TAXATION AND ACCOUNTING TREATMENT OF MOSAIC PREFERRED SECURITIES

Preferred securities are considered debt for Canadian income tax purposes, however are treated as equity for the purposes of IFRS. On Mosaic Capital's financial statements payment of interest to holders of preferred securities is classified as a dividend. In the MD&A reference is made to "distributions" on preferred securities in an effort to distinguish between the tax and accounting treatments of payment on the preferred securities. A holder of preferred securities that is a corporation, partnership, unit trust or trust of which a corporation or partnership is a beneficiary will be required to include in its income for a taxation year any interest or amount that is considered for the purposes of the Tax Act to be interest on the preferred security that accrued to it to the end of the year or became receivable or was received by it before the end of the year (including any interest that is reinvested in preferred securities pursuant to the Mosaic DRIP), except to the extent that it was included in computing its income for a preceding year.

Any other holder, including an individual, will be required to include in income for a taxation year any amount received (including any interest that is reinvested in preferred securities pursuant to the DRIP) or receivable by the holder as interest in the year (depending upon the method regularly followed by the holder when computing income) on the preferred security, to the extent that such amount was not included in the holder's income for a preceding year. In addition, if at any time a preferred security should become an "investment contract" (as defined in the Tax Act) in relation to a holder, such holder will be required to include in computing income for a taxation year any interest that accrues to the holder on the preferred security up to any "anniversary day" (as defined in the Tax Act) in that year to the extent such interest was not otherwise included in the holder's income for that year or a preceding year. Under the terms of the preferred securities, Mosaic Capital may indefinitely defer payment of all or any part of any accrued interest otherwise due on the preferred securities. In circumstances where payment of the accrued interest is deferred by Mosaic Capital, the preferred security may be viewed as an "investment contract" for the purposes of the Tax Act relation to certain Holders

(including individuals) and such holders will be required to include such deferred interest in their income for the taxation year that includes the "anniversary day" (as defined in the Tax Act) of the preferred security.

A holder that is a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable for a refundable tax of 66 2/3 % on its investment income, which will include interest on the preferred security that is included when computing the holder's income.

CHANGES IN ACCOUNTING POLICIES

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

The preparation of the condensed interim consolidated financial statements resulted in selected changes to Mosaic Capital's accounting policies as compared to those disclosed in the Fund's annual audited consolidated financial statements for the period ended December 31, 2010 issued under Canadian GAAP. A summary of significant changes to the Mosaic Capital's accounting policies is disclosed in Note 33 to Mosaic Capital's condensed interim consolidated financial statements along with reconciliations presenting the impact of the transition to IFRS for the comparative periods as at January 1, 2010, as at and for the nine months ended September 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 to Mosaic Capital's condensed consolidated interim financial statements. These policies have been retrospectively and consistently applied except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1 as disclosed in Note 33 of the condensed consolidated interim financial statements.

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

(a) Basis of measurement

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

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

The methods used to measure fair values are discussed in Note 4 to the condensed interim consolidated financial statements.

(b) Functional and presentation currency

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

(c) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

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

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

Amortization and valuation of equipment and goodwill and other intangible assets

The amounts recorded for amortization of components of property, 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.

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

(a) Principles of consolidation

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

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

(b) Subsidiaries and business combinations

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

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

- cost is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the closing date with acquisition costs being expensed;
- identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date;
- the excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill and is allocated to each of the cash-generating units expected to benefit from the combination's synergies; and
- if the acquisition cost is less than the fair value of the net assets acquired, the fair value of the net assets is re-assessed and any remaining differences is recognized directly in the condensed interim consolidated statement of income and comprehensive income.

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

Intercompany transactions between subsidiaries are eliminated on consolidation.

Transaction costs, other than those associated with the issue of debt or equity securities, 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 to the condensed interim consolidated financial statements.

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

(d) Cash and cash equivalents

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

(e) Financial instruments

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

(i) assets

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

Financial assets at fair value through profit or loss

Classification

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

Recognition and measurement

Financial assets carried at fair value through profit or loss are initially recognized, and subsequently carried, at fair value, with changes recognized in the condensed interim consolidated statement of income and comprehensive income. Transaction costs are expensed when incurred.

Loans and receivables

Classification

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

Recognition and measurement

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

Available-for-sale financial assets

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

Reclassification of financial assets

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

(ii) Financial liabilities

Financial liabilities primarily consist of accounts payables and accrued liabilities, notes and distributions payable and amounts due to related parties. Financial liabilities are initially measured at fair value and subsequently measured at amortized cost for liabilities that are not hedged, and fair value for liabilities that are hedged. Non-performance risk, including Mosaic Capital's own credit risk for financial liabilities, is considered when determining the fair value of financial assets or liabilities, including derivative liabilities.

(iii) Derivative financial instruments

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

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

(iv) Equity instruments

Preferred units and common units of the Fund are classified as equity on the comparative financial statements from prior years. Preferred securities, series "A" shares, and common shares are classified as equity. Incremental costs directly attributable to the issue of preferred securities and common shares and share options are recognized as a deduction from equity, net of any tax effects.

(v) Impairment

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

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. For receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Mosaic Capital's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

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

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

(f) Foreign currency transactions and operations

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

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

(g) Property, Plant and equipment

(i) Assets owned by Mosaic Capital

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

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

(ii) Subsequent costs

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

(iii) Amortization

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

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

The residual value, if not insignificant, is reassessed annually.

(h) Intangible assets

(i) Intangible assets

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

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

(ii) Subsequent expenditure

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

(iii) Amortization

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

Computer software	Declining balance	100%
Customer relationships	Straight-line	15 years
Employee agreements	Straight-line	10 years
Intellectual property	Straight-line	10 years
Non-compete agreements	Straight-line	5 years
Step-up leases	Term of lease	Term of lease

(i) Goodwill

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

(j) Impairment

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

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

- Irrespective of whether there is any indication of impairment, goodwill and other indefinite life intangible assets are subject to an annual impairment test. This test is performed during the fourth quarter of each year. The recoverable value of each of Mosaic Capital's operating units is compared to the carrying amount of the corresponding assets (including goodwill).
- Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the group of assets.
- Value in use is determined based on cash flow projections consistent with the most recent budget and business plan approved by management. The discount rate applied reflects current assessments by the market of the time value of money and the risks specific to the asset or group of assets.
- Fair value (less costs to sell) is the estimated amount obtainable from the sale of the asset or group of assets in an arm's length transaction between knowledgeable and willing parties, less costs to sell. These values are determined based on market data (comparison with similar listed companies, value

attributed in recent transactions and stock market prices), or in the absence of reliable data based on discounted future cash flows.

- If the recoverable amount is less than the carrying amount of an asset or group of assets, an impairment loss is recognized for the difference. In the case of a group of assets, this impairment loss is recorded in priority against goodwill.
- Impairment losses recognized in respect of property, plant 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 is included gross of the related costs in revenue.

(m) Property acquisitions

Upon acquisition of commercial properties, Mosaic Capital performs an assessment of the fair value of the properties' related tangible and intangible assets and liabilities (including land, buildings, in-place leases, above-and below-market leases, and any other assumed assets and liabilities), and allocates the purchase price to acquired assets and liabilities in accordance with IFRS 3.

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

Mosaic Capital allocates the purchase price based on the following:

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

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

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

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

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

(n) Income producing properties

(i) Completed income producing property

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

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

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

(ii) Income producing property under construction

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

(o) Property held for development

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

(p) Finance income and expenses

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

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

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

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

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

(q) Income taxes

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

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

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

Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

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

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

(r) Leases

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

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

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

(s) Provisions and contingent liabilities

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

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

(t) Changes in accounting policies

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

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

(u) Equity

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

(v) Share-based compensation

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

(w) Share issuance costs

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

(x) Goods and services tax

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

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

(y) Condensed interim consolidated balance sheet

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

(z) Segmented information

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

(aa) Earnings per share

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

(bb) Recent accounting pronouncements

All accounting standards effective for periods on or after January 1, 2011 have been adopted as part of the transition to IFRS. The following new IFRS pronouncements have been issued but are not yet effective and may have an impact Mosaic Capital in the future:

IFRS 9 Financial Instruments

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

IFRS 10 Consolidated Financial Statements

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

IFRS 12 Disclosure of Interests in Other Entities

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

IFRS 13 Fair Value Measurement

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

RECENT ACCOUNTING PRONOUNCEMENTS

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

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

Choices available at first-time adoption

- a) Property, plant and equipment - IFRS 1 provides a choice between measuring property, plant and equipment at its fair value at the date of transition and using those amounts as deemed cost or using the historical valuation under the prior GAAP. Mosaic Capital has decided to continue to apply the cost model

for property, plant and equipment and has not restated property, plant and equipment to fair value under IFRS. The historical bases under Canadian GAAP have been designated as the deemed cost under IFRS at Transition Date.

- b) Business combinations - IFRS 3, Business Combinations (CICA Section 1582) may be applied retrospectively or prospectively. The retrospective basis would require restatement of all business combinations that occurred prior to January 1, 2010. Mosaic Capital has elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to January 1, 2010 and such business combinations will not be restated. Any goodwill arising on such business combinations before January 1, 2010 will not be adjusted from the carrying value previously determined under Canadian GAAP as a result of applying these exemptions except as required under IFRS 1. However, Mosaic Capital has early adopted CICA Section 1582 effective January 1, 2010.

Exceptions that are mandated by IFRS-1

- a) Hedge accounting – Hedge accounting can only be applied prospectively from January 1, 2010 to transactions that satisfy the hedge accounting criteria in IAS 39 at that date. Hedging relationships cannot be designated retrospectively and the supporting documentation cannot be created retrospectively. There was no material transaction impact under this exception.
- b) Estimates – IFRS-1 prohibits use of hindsight to create or revise previous estimates. The estimates Mosaic Capital previously made under Canadian GAAP have not been revised for application of IFRS.

OUTSTANDING SHARE DATA

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.

(c) Preferred securities

Authorized: Unlimited

The preferred securities were created and issued under the subordinated securities indenture ("Preferred Securities Indenture") dated April 29, 2011 between Mosaic Capital and Olympia Trust Company as trustee. The preferred Securities are non-voting, unsecured, subordinated, perpetual securities having no fixed maturity 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.

The preferred securities are non-voting undated, perpetual securities having no fixed maturity or redemption date and bear interest at a rate of \$0.0833 per preferred security per month. Mosaic Capital may indefinitely defer payment of all or any part of accrued interest otherwise due by giving notice to the preferred security trustee under the preferred security indenture. A full description of the terms of the preferred securities is included in the Circular.

As at November 29, 2011 the following share and securities of Mosaic Capital were outstanding.

Preferred securities	5,066,822
Series "A" shares	20,790
Common shares	8,137,848

SUBSEQUENT EVENTS

On October 15, 2011 Mosaic Capital paid a distribution of \$265 to holders of preferred securities and \$2 to holders of series "A" shares that were outstanding as of September 30, 2011. A distribution was declared as of October 31, 2011 in the amount of \$422 to holders of preferred securities and \$2 to holders of series "A" shares and was paid or satisfied pursuant to the DRIP on November 15, 2011. A distribution was declared as of November 30, 2011 in the amount of \$422 to holders of preferred securities and \$2 to holders of series "A" shares which will be paid or satisfied pursuant to the DRIP on December 15, 2011.

On November 9, 2011 Mosaic Capital sold property held by its real estate segment in Saskatoon, Saskatchewan for aggregate consideration of \$4,875.

On November 18, 2011 Mosaic Capital sold 3.16 acres of raw land held by its real estate segment in Lethbridge, Alberta for aggregate consideration of \$507.