



**FOREMOST INCOME FUND
ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2023**

FOREMOST

INCOME FUND



QUARTER FOUR

Management's Discussion
and Analysis

2023

FOREMOST INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2023

MESSAGE TO THE UNITHOLDERS

Foremost ended 2023 with revenue of \$188.0 million, an increase of 23% from \$152.8 million in 2022. Gross margins rose from 13% in 2022 to 17% for the year, as plant utilization increased and higher demand drove an increase in selling prices. Sales volumes and production backlogs have risen to high levels for most of Foremost's product lines. Worldwide demand for capital equipment and spare parts in the mining, energy, infrastructure, and water well sectors continues to be strong, with Foremost well-positioned to serve customers in these markets.

Foremost Mobile Equipment's (FME) revenue was \$141.1 million in 2023, a 38% increase from the previous year's \$102.2 million. Gross margin for 2023 was \$27.5 million, 19% of revenue, an increase from \$18.4 million and 18% in 2022. FME plants are operating near full capacity, though labour shortages negatively impact throughput. Vacuum truck sales and deliveries into Canada and the US hit the highest annual numbers in the product line history with Foremost. This was due to robust demand for infrastructure-related equipment and the market enthusiasm for Foremost's industry-leading product portfolio. Water well and mining drills continue to show strong demand as water well drilling and metals mining remain high-activity sectors worldwide. FME also sold the highest annual volume of spare parts and mining tooling in its history in support of its worldwide customer base.

Foremost Energy Equipment (FEE) revenue was \$47.5 million in 2023, a 7% decrease from the previous year. This decrease was mainly driven by Ag bin volumes that were adversely affected by the drought conditions in parts of Western Canada. Despite this drop in revenue, FEE gross margin for the year was \$4.6 million compared to \$1.8 million in 2022. During the latter half of 2023, the demand for FEE products increased materially, driven by new projects and increased spending in the Western Canadian energy sector, driving up the backlog. This increased demand pushed prices up and increased gross margins for FEE products. FEE backlogs for energy products have recovered from the lows experienced during COVID.

The overview: key measurements for 2023 compared to 2022

Revenue was \$188.0 million, an increase of 23% from \$152.8 million in 2022.

Gross margin was \$32.0 million, which represents 17% of revenue, an increase of \$11.9 million from the previous year. The 2022 margin was 13% of revenue.

SG&A expenses were 9% of revenue. Total spend increased year over year to \$17.4 million compared to \$15.5 million in 2022.

EBITDA was \$19.4 million, representing 10% of revenue, an increase of \$11.2 million over 2022. EBITDA for 2022 was \$8.2 million and 5% of revenue.

2024 outlook

Foremost continues to face macroeconomic and supply chain challenges, including global supply chain challenges and lingering instability in commodity markets linked to the Ukraine war; however, we believe these factors are subsiding. Nonetheless, operations and supply chain teams are taking proactive steps to reduce the impact of these issues. Inflationary pressures on input costs and a tight labor market are expected to continue tempering the forecasted outlook for 2024. Still, steps are being taken to proactively push inflationary impacts through to the market where conditions allow.

Kevin Johnson, President

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INTRODUCTION

Read the Management's Discussion and Analysis (MD&A) of Foremost Income Fund (the Fund) dated March 14, 2024, with:

- the caution about forward-looking statements on page 20
- the Fund's audited consolidated financial statements and accompanying notes for the year ended December 31, 2023
- other materials in this report

You can find more information about the Fund under the Foremost Income Fund profile at <https://www.sedarplus.ca>.

The Fund is an unincorporated, open-ended unit trust formed under the laws of Alberta and governed by the Deed of Trust (amended and restated as at March 11, 2022). The Fund was created to effect a reorganization that resulted in the indirect acquisition of Foremost Industries Income Fund's operations. Foremost Industries Ltd. is the Fund's administrator.

The Fund continues to conduct its business mainly through three limited partnerships: Foremost Universal LP, Foremost Industries LP, and Foremost Equipment LP.

Headquartered in Calgary, Alberta, with sales and manufacturing activities based predominantly in Western Canada, the Fund's combined operations employed 555 people at December 31, 2023, up from the 492 employed on December 31, 2022. On the date of this MD&A, the Fund employed 573 people.

Consistent with the Fund's focus on customer and market responsiveness, the operating segments clearly reflect its two distinct business divisions: Foremost Mobile Equipment and Foremost Energy Equipment.



FOREMOST MOBILE EQUIPMENT (FME)

FME manufactures and services vacuum trucks (hydrovacs) and equipment; off-highway, large-wheeled and tracked vehicles; and equipment for the custom drilling, construction, water-well, and mining sectors. FME focuses on custom-built equipment for its global clientele, whom it serves through two manufacturing and service locations in Calgary and Stettler, Alberta.

FOREMOST ENERGY EQUIPMENT (FEE)

FEE, with its focus on the oil and gas industry in Western Canada, consists of two active manufacturing and service locations one in Lloydminster and the other in Grande Prairie. The locations manufacture and service oil-treating systems, shop tanks, field tanks, oil and gas process-treating equipment, fuel storage tanks, protective coatings, agriculture products, and gas separators.



RESULTS OF OPERATIONS

2023 VS 2022 HIGHLIGHTS

- Revenue for 2023 was \$188.0 million, compared to \$152.8 million for the same period in the previous year. More information is in the Segmented Results of Operations section.
- Gross profit for 2023 was \$32.0 million and 17% of revenue, compared to \$20.2 million and 13% of revenue in 2022. More information is in the Segmented Results of Operations section.
- During 2023, administration costs were \$17.4 million, up from the \$15.5 million incurred in the previous year. All categories within administration rose as a result of the increase in business activity, with the payroll category making up for more than half of the increase. The Fund also incurred expenses related to recruiting temporary foreign workers into all plants, including consulting fees, travel costs and spend related to housing.
- Adjusted EBITDA (defined on page 13) was \$19.4 million for 2023 compared to \$8.5 million in 2022.

ANNUAL SELECTED FINANCIAL INFORMATION

(000's except per Trust Unit amounts)

For the year ended	December 31, 2023	December 31, 2022	December 31, 2021
Revenue	\$ 187,993	\$ 152,751	\$ 134,775
Gross Profit (\$)	32,032	20,173	18,312
Gross Profit (%)	17%	13%	14%
Comprehensive income	\$ 16,072	\$ 4,580	\$ 8,413
EBITDA	19,476	8,543	13,965
Total assets	\$ 200,870	\$ 172,024	\$ 174,257
Total non-current liabilities	-	-	-
Distribution per Trust Unit	\$ 0.50	\$ 0.30	\$ 0.30



SUMMARY OF QUARTERLY INFORMATION

(000's except per Trust Unit amounts)

2023	Q1	Q2	Q3	Q4	Total
Revenue	\$ 45,297	\$ 50,585	\$ 44,985	\$ 47,126	\$ 187,993
Gross profit (\$)	\$ 7,222	\$ 9,896	\$ 7,902	\$ 7,012	\$ 32,032
Gross profit (%)	16%	20%	18%	15%	17%
Administrative expenses (\$)	\$ 4,262	\$ 4,269	\$ 4,433	\$ 4,460	\$ 17,424
Administrative expenses (% of total revenue)	9%	8%	10%	9%	9%
Exchange rate gain (loss)	\$ 174	\$ (23)	\$ (117)	\$ 142	\$ 176
Earnings from operations	\$ 2,960	\$ 5,627	\$ 3,469	\$ 2,552	\$ 14,608
Other non-operating income	\$ 581	\$ 454	\$ 401	\$ 1,471	\$ 2,907
Income tax expense	\$ (422)	\$ (508)	\$ (227)	\$ (286)	\$ (1,443)
Comprehensive income	\$ 3,119	\$ 5,573	\$ 3,643	\$ 3,737	\$ 16,072
EBITDA	\$ 4,084	\$ 6,599	\$ 4,304	\$ 4,489	\$ 19,476
Gain (loss) on sale of property, plant and equipment	\$ (3)	\$ 34	\$ (20)	\$ 95	\$ 106
Adjusted EBITDA *	\$ 4,087	\$ 6,565	\$ 4,324	\$ 4,394	\$ 19,370
Trust Units redeemed	18,299	3,252	4,605	10,324	36,480
Redemptions	\$ 116	\$ 23	\$ 30	\$ 72	\$ 241
Basic and diluted earnings per Trust Unit	\$ 0.18	\$ 0.32	\$ 0.21	\$ 0.21	\$ 0.92

* Adjusted EBITDA defined on page 13

2022	Q1	Q2	Q3	Q4	Total
Revenue	\$ 35,281	\$ 34,277	\$ 42,855	\$ 40,338	\$ 152,751
Gross profit (\$)	\$ 4,368	\$ 4,282	\$ 6,309	\$ 5,214	\$ 20,173
Gross profit (%)	12%	12%	15%	13%	13%
Administrative expenses (\$)	\$ 3,693	\$ 3,997	\$ 4,079	\$ 3,712	\$ 15,481
Administrative expenses (% of total revenue)	10%	12%	10%	9%	10%
Exchange rate gain (loss)	\$ 115	\$ (216)	\$ (532)	\$ 12	\$ (621)
Earnings from operations	\$ 675	\$ 285	\$ 2,230	\$ 1,502	\$ 4,692
Other non-operating income (loss)	\$ 331	\$ 91	\$ (328)	\$ 738	\$ 832
Income tax expense	\$ (151)	\$ (68)	\$ (204)	\$ (521)	\$ (944)
Comprehensive income	\$ 855	\$ 308	\$ 1,698	\$ 1,715	\$ 4,580
EBITDA	\$ 1,749	\$ 1,238	\$ 2,667	\$ 2,888	\$ 8,542
Gain (loss) on sale of property, plant and equipment	\$ (1)	\$ 14	\$ (2)	\$ 293	\$ 304
Adjusted EBITDA *	\$ 1,750	\$ 1,224	\$ 2,669	\$ 2,595	\$ 8,238
Trust Units redeemed	48,404	3,382	95,563	5,659	153,008
Redemptions	\$ 307	\$ 21	\$ 612	\$ 36	\$ 976
Basic and diluted earnings per Trust Unit	\$ 0.05	\$ 0.02	\$ 0.09	\$ 0.10	\$ 0.26

SEGMENTED RESULTS OF OPERATIONS

FOREMOST MOBILE EQUIPMENT (FME)

FME's revenues are classified into three main product categories: trucks, parts and service, and drills. The vehicle product line is specialized and has sporadic demand. These products and services are used worldwide in the construction, utility, forestry, oil and gas, mineral, and water-well drilling industries. The FME segment has manufacturing facilities in Calgary and Stettler.

SUMMARY OF YEAR TO DATE INFORMATION - FOREMOST MOBILE EQUIPMENT

(000's, except per Trust Unit amount)

	2023	2022
Revenue	\$ 141,052	\$ 102,183
Gross profit (\$)	\$ 27,429	\$ 18,422
Gross profit (%)	19%	18%
Administrative expense (\$)	\$ 10,152	\$ 8,562
Administrative expense (%)	7%	8%

FME 2023 HIGHLIGHTS

- Revenue increased by \$38.9 million over 2022, or 38%.
- Gross profit increased by \$9.0 million due to revenue growth and increased margin in the Truck category.
- Administrative expenses increased from \$8.9 million in 2022 to \$10.2 million in 2023. As a percentage of revenue, administrative expenses represent between 7-8%.

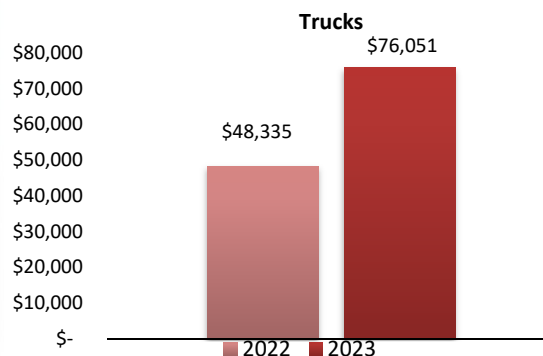
SUMMARY OF QUARTERLY INFORMATION - FOREMOST MOBILE EQUIPMENT

(000's except per Trust Unit amounts)

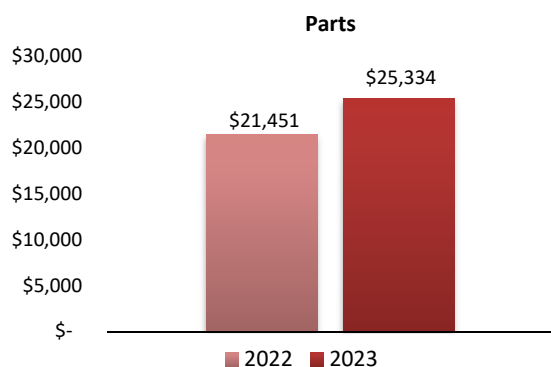
2023	Q1	Q2	Q3	Q4	Total
Revenue	\$ 33,709	\$ 37,564	\$ 33,582	\$ 36,196	\$ 141,052
Gross profit (\$)	\$ 6,524	\$ 7,834	\$ 6,742	\$ 6,328	\$ 27,429
Gross profit (%)	19%	21%	20%	17%	19%
Administrative expenses (\$)	\$ 2,546	\$ 2,566	\$ 2,512	\$ 2,528	\$ 10,152
Administrative expenses (% of total revenue)	8%	7%	7%	7%	7%
Net income before tax	\$ 4,258	\$ 5,385	\$ 4,445	\$ 4,162	\$ 18,251
2022	Q1	Q2	Q3	Q4	Total
Revenue	\$ 23,327	\$ 22,291	\$ 27,186	\$ 29,379	\$ 102,183
Gross profit (\$)	\$ 3,937	\$ 4,343	\$ 5,313	\$ 4,829	\$ 18,422
Gross profit (%)	17%	19%	20%	16%	18%
Administrative expenses (\$)	\$ 2,034	\$ 2,178	\$ 2,097	\$ 2,253	\$ 8,562
Administrative expenses (% of total revenue)	9%	10%	8%	8%	8%
Net income before tax	\$ 1,983	\$ 2,068	\$ 2,667	\$ 2,715	\$ 9,433



Truck revenue includes manufacturing and servicing vacuum trucks (hydrovacs) in Stettler. Revenue increased by \$27.7 million, year over year. During 2022 revenue was impacted from supply chain shortages.

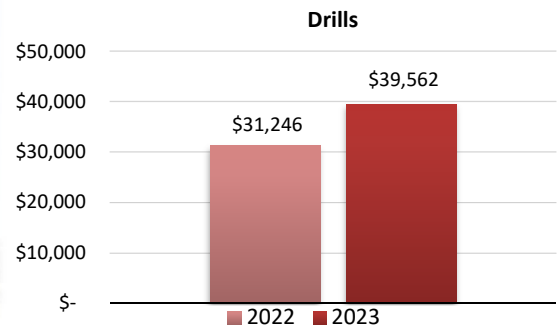


Parts sales increased by \$3.9 million over the prior year, as the market for mining tools and industrial products remained strong in the US and Internationally. 2023 was a record sales year for the parts product line.





The drill category includes dual rotary, pipe handlers, top drives, and injectors. Drill revenue increased by \$8.3 million when comparing 2023 volumes to 2022.



The vehicle category includes a wide variety of specialized auxiliary equipment and has sporadic demand.



FOREMOST ENERGY EQUIPMENT (FEE)

FEE's revenues are classified into six product categories: shop tanks, field tanks, vessel and gas separation, agriculture, ULC tanks, and other. The FEE segment has manufacturing and service shops at two Alberta locations: one site in Hythe and another in Lloydminster.

SUMMARY OF YEAR TO DATE INFORMATION - FOREMOST ENERGY EQUIPMENT

(000's, except per Trust Unit amount)

	2023	2022
Revenue	\$ 47,427	\$ 51,018
Gross profit (\$)	\$ 4,603	\$ 1,751
Gross profit (%)	10%	3%
Administrative expense (\$)	\$ 6,312	\$ 5,295
Administrative expense (%)	13%	10%

FEE 2023 HIGHLIGHTS

- Revenue decreased by \$3.6 million, or 7%, when comparing to 2022. All FEE product lines experienced a drop in revenue, with the exception of field and ULC tanks.
- Gross profit as a percentage of revenue increased from 3% in 2022 to 10% in 2023 despite the drop in revenue.
- Administrative expenses increased from \$5.3 million to \$6.3 million. As a percentage of revenue, administrative expenses increased from 10% to 13%.
- During 2022, the two Lloydminster facilities were consolidated in an effort to reduce costs and combine labour efforts. The operating costs of two idle FEE properties continue to impact the gross profit of this division.

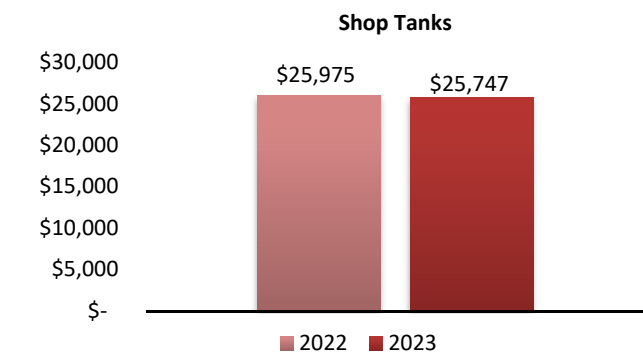
SUMMARY OF QUARTERLY INFORMATION - FOREMOST ENERGY EQUIPMENT

(000's except per Trust Unit amounts)

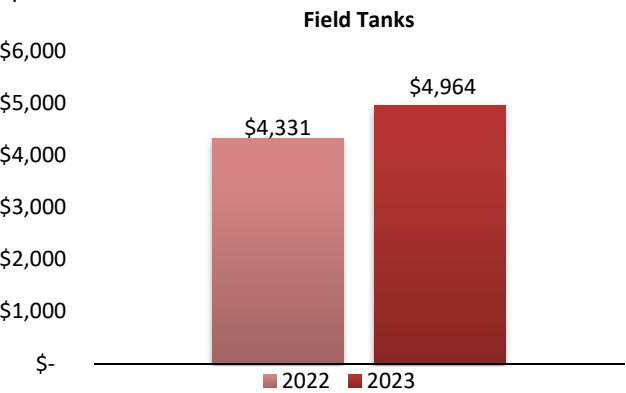
2023	Q1	Q2	Q3	Q4	Total
Revenue	\$ 11,710	\$ 13,142	\$ 11,525	\$ 11,050	\$ 47,427
Gross profit (\$)	\$ 698	\$ 2,062	\$ 1,160	\$ 683	\$ 4,603
Gross profit (%)	6%	16%	10%	6%	10%
Administrative expenses (\$)	\$ 1,509	\$ 1,514	\$ 1,526	\$ 1,763	\$ 6,312
Administrative expenses (% of total revenue)	13%	12%	13%	16%	13%
Net (loss) income before tax	\$ (631)	\$ 767	\$ (107)	\$ (269)	\$ (240)

2022	Q1	Q2	Q3	Q4	Total
Revenue	\$ 12,067	\$ 12,280	\$ 15,625	\$ 11,046	\$ 51,018
Gross profit (\$)	\$ 431	\$ 121	\$ 839	\$ 360	\$ 1,751
Gross profit (%)	4%	1%	5%	3%	3%
Administrative expenses (\$)	\$ 1,354	\$ 1,196	\$ 1,262	\$ 1,483	\$ 5,295
Administrative expenses (% of total revenue)	11%	10%	8%	13%	10%
Net loss before tax	\$ (766)	\$ (1,038)	\$ (241)	\$ (729)	\$ (2,774)

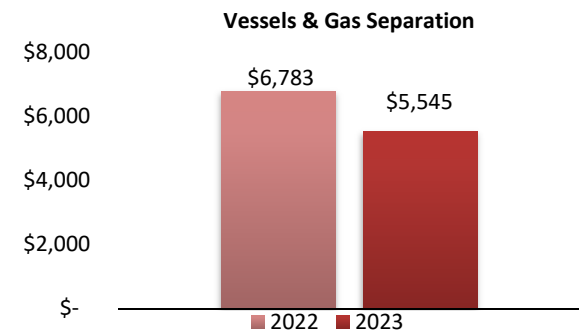
Shop tank revenue decreased slightly when comparing 2023 to 2022. This product line continues to be the strongest revenue source for FEE.



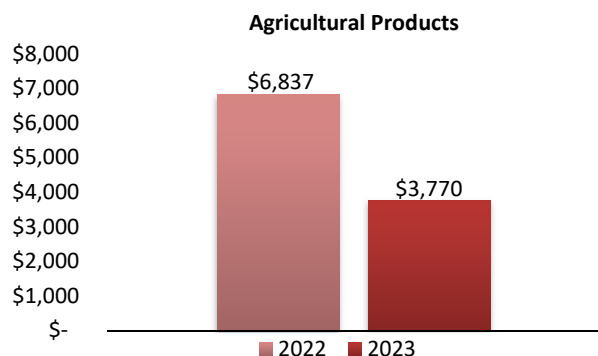
Field tank revenue rebounded during the end of 2022, from the 2021 low. Revenue of \$5.0 million was recognized during 2023, an increase over the \$4.3 million recognized in 2022. This is related to a large field project that finished in the second quarter of 2023.



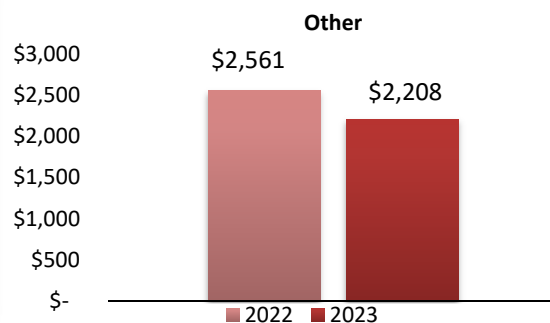
The vessel and gas separation revenue dropped by \$1.2 million year over year. Based on quote volumes and secured contracts, Foremost expects this product line revenue to increase in 2024.



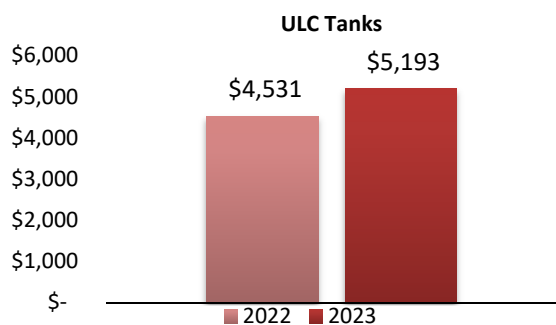
Shipments of bins slowed down throughout late 2022 and into 2023 due to rising interest rates, drought concerns and lower volatility in the fertilizer markets. This resulted in a drop in revenue of \$3.1 million when comparing 2022 to 2023.



The other income includes revenue not associated with the above product lines; for example, heat treating services, compression revenue, freight services, etc.



The ULC product line continues to see steady increase in demand. Revenue of \$5.2 million was recognized in 2023, a 15% increase over the \$4.5 million during 2022.



LIQUIDITY AND KEY FINANCIAL RATIOS

While the current operating environment presents significant challenges, Foremost remains well-positioned and continues to maintain liquidity. Liquidity mostly comes from operational cash flow but also includes proceeds from asset sales and the availability of a credit facility. The Fund has no long-term debt and continues to rely on cash flow from operations to support its working capital and investing requirements. During 2023, the cash balance increased by \$9.7 million, resulting in an ending cash balance of \$45.4 million at December 31, 2023 (\$35.8 million at December 31, 2022).

The categories affecting cash include:

- *Operating activities*—provided \$24.1 million (used \$8.1 million in 2022).
- *Investing activities*—used \$9.0 million to purchase assets (\$3.5 million in 2022).
- *Financing activities*—used \$5.5 million to pay the 2022 distribution and redemption of Trust Units (\$5.8 million in 2022 for redemption of Trust Units and the 2021 distribution).

Cash Flow Summary

(unaudited - in thousands of Canadian dollars)

	December 31, 2023	December 31, 2022	December 31, 2021
Cash Flow			
Operating activities	\$ 24,092	\$ (8,138)	\$ 10,112
Financing activities	\$ (5,489)	\$ (5,838)	\$ (8,024)
Investing activities	\$ (8,955)	\$ (3,446)	\$ (1,881)

CREDIT FACILITIES

The Fund maintains a credit facility with a major Canadian chartered bank but, as of December 31, 2023, was not accessing any funds. In 2016, the credit facility was revised to base the available facility on a percentage of specific inventory, eligible accounts receivable, and a net of certain trade payables to a maximum of \$30.0 million. The operating credit facility bears interest at prime plus 0.25% or prime plus 0.125%, depending on specific operating ratios. The credit facility is secured by a general security agreement and floating charge debenture of \$40.0 million. The credit facility permits the Fund to use bankers' acceptances to borrow at effective interest rates and to use certain financial instruments to manage interest and exchange risk. Based on the revised borrowing base calculations, \$26.0 million of the credit facility was available on December 31, 2023. The Fund's operating groups use various operating bank accounts in both Canadian and US dollars to transact business.

As it is not possible to predict the potential impact of current and expected market conditions on the Fund's performance, liquidity indicators, and debt covenants, the Trustees continue to closely monitor the Fund's working capital and debt levels. In an effort to preserve cash, the Trustees exercised their discretion to reduce the monthly limit for cash redemptions of Trust Units during 2019–2023 and into 2024.

KEY FINANCIAL RATIOS – refer to page 21 for Non-GAAP measures

<i>(unaudited - in thousands of Canadian dollars)</i>				
For the year ended	December 31, 2023	December 31, 2022	December 31, 2021	
Current ratio				
Current assets	\$ 145,017	\$ 119,941	\$	121,119
Current liabilities	\$ 52,801	\$ 31,057	\$	32,057
Working capital	\$ 92,216	\$ 88,884	\$	89,062
Working capital ratio	2.75	3.86		3.78
Debt-to-equity ratio				
Total debt	\$ 52,801	\$ 31,057	\$	32,057
Unitholders' equity	\$ 148,069	\$ 140,967	\$	142,200
Debt-to-equity ratio	0.36	0.22		0.23
EBITDA				
Net income and comprehensive income	\$ 16,072	\$ 4,580	\$	8,413
Interest income	\$ (1,887)	\$ (842)	\$	(304)
Depreciation and amortization	\$ 3,848	\$ 3,861	\$	4,050
Income tax expense	\$ 1,443	\$ 944	\$	1,806
EBITDA	\$ 19,476	\$ 8,543	\$	13,965
Gain on sale of property, plant and equipment	\$ 106	\$ 304		348
Adjusted EBITDA	\$ 19,370	\$ 8,239	\$	9,064

Working capital on December 31, 2023, was \$92.2 million, an increase from the December 31, 2022, balance of \$88.9 million. The working capital ratio decreased from 3.86:1 on December 31, 2022, to 2.75:1 on December 31, 2023.

The debt-to-equity ratio increased from 0.22:1 on December 31, 2022, to 0.36:1 on December 31, 2023.

The Fund uses earnings from operations before interest, taxes, depreciation, and amortization (EBITDA) to evaluate operating performance and determine cash available for distribution. Adjusted EBITDA starts with the EBITDA calculation above and removes impairment adjustments, gains or losses on the sale of property, plant, and equipment, and any one-time or non-reoccurring items, such as government subsidies.

LIQUIDITY RISK

Liquidity risk is when the Fund may find it difficult to meet financial liabilities settled in cash or with another financial asset. The Fund's approach to managing liquidity is to ensure, as far as possible, that under both normal and stressed conditions, it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the Fund's reputation.

The Fund manages its liquidity risk by monitoring its capital structure, financial leverage, and actual and projected cash flows. The Fund believes that the current cash balance and forecasted cash flows from operating activities, along with amounts available under the credit facility, will provide enough cash to cover the Fund's forecasted normal operating and budgeted capital expenditures. In addition, the Fund minimizes reliance on any single source of credit, maintains sufficient undrawn committed credit facilities, and manages the maturity profiles of financial assets and financial liabilities to minimize refinancing risk.

MARKET RISK

Fluctuations in foreign currency arise when dealing with foreign customers. To manage this risk, the Fund reviews its exposure, specifically the size and jurisdiction (including political and economic factors) of all foreign contracts. Where market risk is deemed unacceptably high, the Fund will enter into forward exchange contracts to reduce exposure. However, the currency and term of the forward exchange contracts will impact future cash flows as exchange rates change over the contract terms.

STRATEGIC PLAN

The Fund seeks to maximize Unitholder value. It continues to develop new product lines and improve processes and is receptive to well-targeted, accretive acquisitions. The Fund also strengthens its financial position through increased operational efficiency and controlled asset management. The management group's vision statement is below.



“Foremost will be a strong, dynamic, and growing company that is the preferred supplier of a diverse line of quality industrial, mobile, and energy-related equipment, products, and services.”

OUTLOOK FOR THE FUND

Foremost continues to face macroeconomic and supply chain challenges, including global supply chain challenges and lingering instability in commodity markets linked to the Ukraine war; however, we believe these factors are subsiding. Nonetheless, operations and supply chain teams are taking proactive steps to reduce the impact of these issues. Inflationary pressures on input costs and a tight labor market are expected to continue tempering the forecasted outlook for 2024. Still, steps are being taken to proactively push inflationary impacts through to the market where conditions allow.

The Fund plans to:

- continue to manage working capital
- minimize external financing
- aggressively search for domestic and international revenue opportunities
- maintain tight control over operational expenditures and workforce levels
- expend capital as necessary to optimize productive capacity
- determine Trust Unit distributions commensurate with annual business performance

The Fund believes this will create a strong position to capitalize on current and future business opportunities as market conditions stabilize and improve.

UNITHOLDERS' CAPITAL

The Fund is authorized to issue an unlimited number of Trust Units. These units entitle the Unitholder to:

- one vote per Trust Unit
- *pro rata* interest in the net assets of the Fund
- *pro rata* participation in all Trust Unit distributions

Upon special trustee resolution, the Fund may issue special voting units. These units:

- entitle the Unitholder to the number of votes the resolution prescribes
- do not entitle the Unitholder to participate in any distributions from the Fund
- do not entitle the Unitholder to any beneficial interest in any of the Fund's assets

No special voting units were issued as of December 31, 2023, or for the period up to the date of this MD&A.

A Unitholder may redeem Trust Units in whole or in part, on demand. When the Fund receives an executed redemption notice and related Trust Unit certificate, the Unitholder ceases to have any rights with respect to those Trust Units. On November 26, 2010, the Fund amended its Deed of Trust to change the value a Unitholder is entitled to receive on redemption. For each unit tendered for redemption, a Unitholder will receive an amount equal to plus or minus 10% of the tangible book value per Trust Unit of the Fund. The Deed of Trust provides that up to \$1,500,000 per month (the Monthly Limit) of Trust Units may be redeemed in cash at the Trustees' discretion, above which the Fund will redeem Trust Units by unsecured promissory notes.

The Trustees have exercised their discretion within the terms of the Deed of Trust to reduce the Monthly Limit to \$350,000.

This is a summary only and is subject in all respects to the Deed of Trust. The income and other tax consequences of holding, redeeming, or disposing of units and acquiring promissory notes will vary depending on:

- the Unitholder's particular circumstances, including the jurisdiction in which the Unitholder resides or carries on business
- whether the Unitholder is an RRSP, RESP, RRIF, DPSP, or TFSA

All Unitholders should consult their own legal and tax advisors before redeeming Trust Units.

The Board of Trustees reviews the stated redemption price quarterly; the stated redemption price was \$6.55 at January 1, 2024.

<i>(000's except per Trust Unit amounts)</i>			
For the year ended	December 31, 2023	December 31, 2022	December 31, 2021
Tangible book value per Trust Unit			
Unitholders' equity	\$ 148,069	\$ 140,967	\$ 142,200
Less: Deferred tax assets	\$ (14,862)	\$ (16,305)	\$ (17,249)
Less: Intangible assets	\$ (1,105)	\$ (1,400)	\$ (1,674)
Tangible equity	\$ 132,102	\$ 123,262	\$ 123,277
Trust Units outstanding, period ending	17,457,569	17,494,049	17,576,057
Tangible book value per Trust Unit	\$ 7.57	\$ 7.05	\$ 7.01

The Deed of Trust also limits a Unitholder's ability to sell, transfer, consign, mortgage, pledge, or dispose of any Trust Units in any way without the Board of Trustee's prior written consent unless the Unitholder is transferring the Trust Units to a similar beneficiary. Any attempt to do any of the above without the Board of Trustees' consent will be void.

At the date of this MD&A, 1,643,013 of unit options remain available under the unit-option plan.

<i>(000's except per Trust Unit amounts)</i>	Number of Trust	Unitholders'
Trust Unit Amounts	Units	Capital
December 31, 2021	17,576,057	\$ 60,764
Exercise of Unit Options	71,000	\$ 411
Redemption of Trust Units	(153,008)	(529)
December 31, 2022	17,494,049	\$ 60,646
Redemption of Trust Units	(36,480)	(127)
December 31, 2023	17,457,569	\$ 60,519

TRUST UNIT DISTRIBUTIONS

The table below sets out the Standardized Distributable Cash calculation for the periods ended December 31, 2023, December 31, 2022, and December 31, 2021. The Fund intends to use the annual distribution process. The annual Trust Unit distribution amount is generally determined by taking cash flows from operating activities and adjusting for the costs of upgrading and expanding property, plant, and equipment; business acquisitions; debt obligation repayments; and the effect of changes in general business conditions on working capital. The Trustees exercise discretion based on current market conditions and capital and operating requirements when setting the annual distribution amount. On December 1, 2023, the Fund announced an estimated \$8.7 million distribution, or \$0.50 per unit, for the 2023 fiscal year, which was paid during the first quarter of 2024.

Selected Information

<i>(000's except per Trust Unit amounts)</i>	December 31, 2023	December 31, 2022	December 31, 2021
For the year ended			
Net income for the year	\$ 16,072	\$ 4,580	\$ 8,413
Items not involving the use of cash	\$ 4,520	\$ 4,722	\$ 5,508
Change in non-cash working capital	\$ 3,500	\$ (17,441)	\$ (3,809)
Cash flows from operating activities	\$ 24,092	\$ (8,139)	\$ 10,112
Less: capital expenditures	\$ (9,367)	\$ (3,798)	\$ (2,324)
Standardized distributable cash	\$ 14,725	\$ (11,937)	\$ 7,788
Basic and diluted standardized distributable cash per unit	\$ 0.84	\$ (0.68)	\$ 0.44
Trust Unit distributions paid per Trust Unit	\$ 0.50	\$ 0.30	\$ 0.30

UNITHOLDERS' EQUITY

Unitholders' equity is comprised of Unitholders capital and accumulated earnings. Unitholders' equity at December 31, 2023, was \$148.1 million, compared with \$141.0 million at December 31, 2022.

RELATED PARTY TRANSACTIONS

The Fund uses the consulting services of TOM Capital Management Inc. (TOM Capital), a company that is partially owned by a Trustee of the Fund. The services consist of professional, M&A advisory, and investor relations advice, at market rates confirmed from time to time and agreed to by all parties. For the year ended December 31, 2023, the total amount invoiced for consulting services through TOM Capital was \$0.3 million. During the same period of 2022, consulting fees of \$0.6 million were paid to TOM Capital.

RISKS AND UNCERTAINTIES

The Fund is exposed to market risks and various operational risks.

ECONOMIC RISK

The Fund's products are primarily used in the global energy and mining sectors, which have historically experienced rapid and severe shifts in economic activity. These shifts can arise from factors such as significant changes in global market conditions, acceleration or delays in the timing of customer expenditures, and changes in government regulations. As most of the Fund's revenues are derived from these sectors, these large economic fluctuations will continue to impact its overall results. Two specific areas are total revenues (and related gross profits) and bad debts associated with customer accounts receivable.

FOREIGN EXCHANGE RISK

A portion of the Fund's operational business is conducted in foreign markets in either Canadian or US dollars. This includes not only product sales but also the purchase of a portion of the components needed to manufacture those products. The dependence on US currency for both sales and purchasing exposes the Fund to exchange-rate risk. Gross profit and the value of net monetary assets, consisting of cash, receivables, and payables, will fluctuate significantly if there are rapid or significant changes in exchange rates.



POLITICAL AND ECONOMIC RISK

A portion of revenue is earned from foreign customers susceptible to political and economic risks. For larger contracts, we mitigate these risks with contractual credit terms that require a considerable cash deposit and/or letter of credit to guarantee payment of contract amounts. Also, in some cases, we use Export Development Canada (EDC) to insure foreign contracts and receivables. However, if we need to call on EDC coverage, collection can be postponed significantly and may be less than the total contract price. We incur additional risk with international customers, as economic or political restrictions may delay the shipping and delivery of products.

PRODUCT RISK

Modifications to existing products, product customization, and new product development have inherent risks that include:

- *Technical risk*—the product either does not perform as desired or has unacceptable reliability issues that could make it un-merchantable.
- *Competitive risk*—the Fund's competitors develop and produce an alternative product that may render the Fund's product obsolete.
- *Supplier risk*—components, engines, and other modules purchased from third-party vendors to assemble products do not perform acceptably, thereby increasing product liability risk.
- *Commercial risk*—product-development cost overruns cause a significant financial drain. The Fund insists on reviewing proposed product initiatives to ensure the risk/reward trade-off is acceptable.
- *Environmental risk*—environmental issues may materially affect the Fund's financial condition or its performance. The Fund regularly assesses environmental risk.
- *International operation risk*—delivering, collecting, and completing contracts for products may not occur as expected. The Fund assesses international operation risk contract-by-contract to ensure these issues do not materially impact the Fund's financial performance.

REVENUE RISK

The amount of Trust Unit distributions to Unitholders is affected by events that directly impact the Fund's net income, cash flows generated from operating activities, and cash flows used for investing activities. Accordingly, a decline in revenue or gross profit from any of the following could impact the timing and amount of Trust Unit distributions to Unitholders:

- changing economic cycles
- a material bad-debt loss
- contract cancellation
- product failure
- a significant acquisition or investment in property, plant, or equipment



FINANCING RISK

The Fund may need additional debt or equity financing to support ongoing operations, undertake capital expenditures, or complete business acquisitions. Additional financing may not be available to the Fund when needed or may not be on acceptable terms. The Fund's inability to raise the necessary financing could limit the Fund's growth and adversely affect the Fund.



REGULATORY RISK

Changing government regulations impact the Fund, particularly in the area of safety. The Fund has established programs to comply with current safety and regulatory standards. However, the Fund's operations are subject to risks inherent in the manufacturing industry. These risks could expose the Fund to substantial liability for personal injury, loss of life, business interruption, property damage or destruction, pollution, and other environmental damage. The Fund's insurance against some of these risks is subject to coverage limits. The insurance may not cover the Fund's liabilities, may not be generally available in the future, or premiums may not remain commercially justifiable. The Fund's financial condition or operations could be materially affected if a substantial liability arose that was not covered by insurance or exceeded policy limits.

The Fund's overall financial results may continue to be affected by government-initiated changes and customer reactions to new environmental legislation. These reactions include possible cancellation, delay, revision, or relocation of projects, which in turn impact opportunities for the Fund to generate revenue.





NEW ACCOUNTING STANDARDS

Certain new standards and amendments to standards and interpretations are effective in future periods and have not been applied in preparing the consolidated financial statements. These standards and interpretations are not expected to have a material impact on the Fund's consolidated financial statements.

FORWARD-LOOKING INFORMATION

Certain statements in this MD&A may constitute forward-looking statements involving known and unknown risks, uncertainties, and other factors that may cause the Fund's actual results, performance, or achievements to be materially different from future results, performance, or achievements expressed or implied by these forward-looking statements. In this release, these statements use words like "anticipate", "could", "expect", "seek", "may", "intend", "will", "believe", "estimate", "plan", and similar expressions. In particular, forward-looking statements include:

- all statements under the heading **Message to the Unitholders**
- all statements under the heading **Strategic Plan**
- all statements under the heading **Outlook for the Fund**
- statements about the impact of current conditions on operations under the headings **Liquidity and Key Financial Ratios** and **Unitholders' Capital** and other commentary on market conditions throughout this document
- statements made under the **FME and FEE Highlights** section

These statements reflect management's current expectations about future events and operating performance and are valid only up to the date of this MD&A. These forward-looking statements involve a number of assumptions, risks, and uncertainties, including the impact of general economic conditions, market and industry conditions, changes in laws and regulations, increased competition, fluctuations in commodity prices and foreign exchange, and interest rates. This is not an exhaustive list. Do not rely unduly on these forward-looking statements. The Fund is not obligated to update or revise any of the forward-looking statements except as applicable securities laws may require.

NON-GAAP MEASURES

The measures defined below are not defined under IFRS, but management believes they are useful. None of these terms are intended to represent cash flow from operating activities, net income, or comprehensive income, nor should you view them as an alternative to those or other measures of financial performance calculated in accordance with generally accepted accounting principles (GAAP). As well, the Fund's method of calculating these supplemental measures may not be comparable to similarly titled amounts reported by other issuers.

Tangible book value per Trust Unit: Determined as Unitholders' equity (as defined by GAAP) less intangibles and other assets, less deferred tax assets, then divided by the number of Trust Units outstanding at the end of the period. The Fund uses this to indicate the growth or decline in Unitholders' equity on a per-unit basis for comparative periods. Refer to page 15 for the calculation.

EBITDA: Calculated as earnings from operations (as defined by GAAP) before interest, taxes, depreciation, and amortization. The Fund uses this to evaluate operating performance and determine cash available for distribution. Refer to page 13 for the calculation.

Adjusted EBITDA: Calculated as EBITDA, defined above, and removing the impact of impairment, gain or loss on the sale of property, plant and equipment, and government subsidies. The Fund uses this to evaluate operating performance. Refer to page 13 for the calculation.

Standardized distributable cash: Calculated as cash from operating activities (as defined by GAAP) less capital expenditure (as defined by GAAP). The Fund uses this to indicate cash flow per unit available for distribution. Refer to page 16 for the calculation.

Working capital: Calculated as current assets (as defined by GAAP) minus current liabilities (as defined by GAAP). The Fund uses this to assess its ability to pay its obligations as they fall due. Refer to page 13 for the calculation.

Working capital ratio: Calculated as current assets (as defined by GAAP) divided by current liabilities (as defined by GAAP). The Fund uses this to assess its ability to pay its obligations as they fall due. Refer to page 13 for the calculation.

Debt-to-equity ratio: Calculated as total debt, equal to the Fund's liabilities, divided by equity. The Fund uses this to measure its financial leverage. Refer to page 13 for the calculation.



FOREMOST INCOME FUND

Consolidated Financial Statements
For the years ended December 31, 2023, and 2022

To the Unitholders of Foremost Income Fund:

Opinion

We have audited the consolidated financial statements of Foremost Income Fund and its subsidiaries (the "Fund"), which comprise the consolidated statements of financial position as at December 31, 2023 and December 31, 2022, and the consolidated statements of net income and comprehensive income, changes in unitholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of material accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Fund as at December 31, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Fund to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Craig Bloom.

Calgary, Alberta

March 15, 2024

MNP LLP

Chartered Professional Accountants

FOREMOST INCOME FUND

Consolidated Statements of Financial Position

As at December 31, 2023, and 2022

(\$ thousands of Canadian dollars, except per Trust Unit amounts)

	Notes	December 31, 2023	December 31, 2022
Assets			
Current assets			
Cash and cash equivalents	11	\$ 45,422	\$ 35,774
Trade and other receivables	12	23,127	16,136
Derivatives	26(c)	445	-
Inventories	13	59,172	59,043
Contract assets	14	11,302	7,027
Prepaid expenses		5,549	1,961
		145,017	119,941
Property, plant and equipment			
Investment property	15	36,013	30,505
Deferred tax assets	16	3,873	3,873
Intangibles and other assets	9	14,862	16,305
	17	1,105	1,400
		\$ 200,870	\$ 172,024
Liabilities and Unitholders' Equity			
Current liabilities			
Trade and other payables	22	\$ 16,691	\$ 11,505
Derivatives	26(c)	-	220
Distribution payable	18(c)	8,729	5,248
Provisions	23	1,321	1,223
Contract liabilities	14	26,060	12,861
		52,801	31,057
Unitholders' equity			
Unitholders' capital	18	60,519	60,646
Retained earnings		87,550	80,321
		148,069	140,967
		\$ 200,870	\$ 172,024

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board of Trustees

(Signed – Bevan May)
Bevan May
Trustee

(Signed – Gord Wiebe)
Gord M. Wiebe
Trustee

FOREMOST INCOME FUND

Consolidated Statements of Net Income and Comprehensive Income

For the years ended December 31, 2023, and 2022

(\$ thousands of Canadian dollars, except per Trust Unit amounts)

		December 31, 2023	December 31, 2022
	Notes		(Note 29)
Revenue	4,29	\$ 187,993	\$ 152,751
Cost of sales	5,6	155,961	132,578
Gross profit		32,032	20,173
Administrative expenses	5,6	17,424	15,481
Income earnings from operating activities		14,608	4,692
Interest income	7	1,887	842
Other income	8,29	738	307
Gain on disposal of property, plant and equipment	15	106	304
Foreign exchange gain (loss)	26(c)	176	(621)
Net non-operating income		2,907	832
Income before income tax		17,515	5,524
Tax expense	9	1,443	944
Net and comprehensive income for the year		\$ 16,072	\$ 4,580
Basic and diluted earnings per Trust Unit	19	\$ 0.92	\$ 0.26

The accompanying notes are an integral part of these consolidated financial statements.

FOREMOST INCOME FUND

Consolidated Statements of Changes in Unitholders' Equity

For the years ended December 31, 2023, and 2022

(\$ thousands of Canadian dollars, except per Trust Unit amounts)

	Note	Number of Trust Units	Unitholders' Capital	Retained Earnings	Total Equity
December 31, 2021		17,576,057	\$ 60,764	\$ 81,436	\$ 142,200
Redemption of Trust Units	18(b)	(153,008)	(529)	(447)	(976)
Exercise of options	20	71,000	411	-	411
Distribution payable to Unitholders	18(c)	-	-	(5,248)	(5,248)
Net income and comprehensive income		-	-	4,580	4,580
December 31, 2022		17,494,049	\$ 60,646	\$ 80,321	\$ 140,967
December 31, 2022		17,494,049	\$ 60,646	\$ 80,321	\$ 140,967
Redemption of Trust Units	18(b)	(36,480)	(127)	(114)	(241)
Distribution payable to Unitholders	18(c)	-	-	(8,729)	(8,729)
Net income and comprehensive income		-	-	16,072	16,072
December 31, 2023		17,457,569	\$ 60,519	\$ 87,550	\$ 148,069

The accompanying notes are an integral part of these consolidated financial statements.

FOREMOST INCOME FUND

Consolidated Statements of Cash Flows

For the years ended December 31, 2023, and 2022

(\$ thousands of Canadian dollars)

	Notes	For the year ended December 31,	
		2023	2022
Cash flows provided by (used in):			
Operations:			
Net income and comprehensive income for the year		\$ 16,072	\$ 4,580
Items not involving the use of cash:			
Depreciation and amortization	15,17	3,848	3,860
Gain on disposal of property, plant and equipment	15	(106)	(304)
Income tax expense	9	1,443	944
Unrecognized foreign exchange (gain) loss on forward contract	26(c)	(665)	222
Change in non-cash working capital:			
Trade and other receivables		(6,991)	(1,622)
Inventories		(129)	(13,625)
Contract assets		(4,275)	(648)
Prepaid expenses		(3,588)	(351)
Trade and other payables		5,186	(1,352)
Provisions		98	76
Contract liabilities		13,199	81
Net cash provided by (used in) operating activities		24,092	(8,139)
Investments:			
Purchase of property, plant and equipment	15	(9,349)	(3,761)
Purchase of intangibles	17	(18)	(37)
Net proceeds from disposal of property, plant and equipment		412	353
Net cash used in investing activities		(8,955)	(3,445)
Financing:			
Distribution payment	18(c)	(5,248)	(5,273)
Exercise of options	20	-	411
Redemption of Trust Units	18(b)	(241)	(976)
Net cash used in financing activities		(5,489)	(5,838)
Net increase (decrease) in cash and cash equivalents		9,648	(17,422)
Cash and cash equivalents, beginning of the year		35,774	53,196
Cash and cash equivalents, end of year		\$ 45,422	\$ 35,774
Supplemental disclosure of operating cash flows			
Cash interest received	7	1,887	842

The accompanying notes are an integral part of these consolidated financial statements.

FOREMOST INCOME FUND

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023, and 2022

All amounts in thousands of Canadian dollars unless otherwise stated

1. Reporting Entity

Foremost Income Fund (the Fund) is an unincorporated, open-ended unit trust established by a deed of trust under the laws of Alberta dated November 12, 2005, and amended and restated March 11, 2022 (Deed of Trust). The Deed of Trust limits the Unitholders' ability to sell, transfer, consign, mortgage, pledge, or dispose of any Trust Units in any manner other than a transfer to a similar beneficiary without the prior written consent of the Board of Trustees. The Board of Trustees will evidence its consent by written approval, and any attempt to do any of the above without that consent will be void.

The Fund intends, as described within the Deed of Trust, to distribute all its taxable income and realized capital gains to the common trust unitholders (Unitholders). As distributions are paid annually, any remaining undistributed taxable income and realized capital gains will be distributed to the Unitholders of record as at the distribution record date in December of each fiscal year. Distribution of this taxable income can be in the form of cash or additional common trust units (Trust Units). Under the Deed of Trust terms, if taxable income is distributed in the form of additional Trust Units, there will be an immediate reconsolidation of the number of Trust Units outstanding. After the consolidation, each Unitholder will hold the same number of Trust Units as held before the distribution of additional Trust Units.

The Fund conducts its business through three limited partnerships: Foremost Universal LP, Foremost Equipment LP, and Foremost Industries LP. Consistent with the Fund's focus on customer and market responsiveness, the Fund's operating segments clearly reflect the two distinct product lines, Foremost Energy Equipment (FEE) and Foremost Mobile Equipment (FME). FEE consists of three active manufacturing and service locations across Alberta. The locations manufacture shop tanks, gas separation units, pressure vessels, field tanks, oil treating units, gas processing units, fuel tanks, agricultural products, and steam generators. FME manufactures hydrovac trucks and equipment, off-highway large wheeled and tracked vehicles, and equipment for custom drilling, construction, water wells, and mining sectors. FME focuses on custom-built vehicles for its clientele and serves them through two manufacturing and service locations in Alberta.

2. Basis of Preparation

a. Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) effective January 1, 2023, as issued by the International Accounting Standards Board.

These consolidated financial statements were authorized for issue by the Board of Trustees on March 14, 2024.

b. Basis of Measurement

These consolidated financial statements have been prepared on the historical cost basis except for the liabilities relating to cash-settled-Trust Unit-based payment arrangements and derivatives, which are measured at fair value.

c. Functional and Presentation Currency

These consolidated financial statements are presented in Canadian dollars, which is the Fund's and all of its subsidiaries' functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand except where otherwise stated.

FOREMOST INCOME FUND

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023, and 2022

All amounts in thousands of Canadian dollars unless otherwise stated

d. Use of Estimates and Judgments

The preparation of the consolidated financial statements in conformity with IFRS requires that management make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses, and disclosures of contingent assets and liabilities at the dates of the consolidated financial statements. Actual results may differ materially from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Estimates

Significant estimates used in the preparation of these consolidated financial statements include:

Revenue recognition – revenue is recognized either over time or at a point in time. When recognized over time, it is based on the percentage completion of labour or total costs on cost-plus and fixed-fee contracts. This requires management to estimate costs and the overall percentage completed, contract-by-contract.

Net realizable value of inventory – the net realizable value of inventory is estimated on a product-by-product basis. Determining this value uses a combination of historical analysis of each product's usage, age of inventory, and management's judgment as to the probability of future product use. Based on this assessment, management then estimates the net realizable value for those products not expected to be used in the foreseeable future. Net realizable value is the estimated selling price of that product in the ordinary course of business less any estimated costs of completion and estimated selling costs.

Expected Credit Losses – financial assets measured at amortized cost are stated after evaluating their collectability and allowing appropriately for expected credit losses where considered necessary. Expected credit losses are based on the Fund's historical losses.

Impairment test – impairment tests include management's estimates of future cash flows, discount rates, and third-party appraisals.

Depreciation and amortization – estimated useful lives of property, plant, and equipment are based on management's assumptions and estimates of the useful lives of the assets, along with residual value.

Judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is below:

Revenue recognition – revenue is recognized either over time or at a point in time. When recognized over time, it is based on the percentage completion of labour or total cost on cost-plus and fixed-fee contracts. This requires management to make judgments and assumptions about both total costs and overall percentage complete on a contract-by-contract basis, as well as whether the contract is in a loss position.

FOREMOST INCOME FUND

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023, and 2022

All amounts in thousands of Canadian dollars unless otherwise stated

Property, plant and equipment, intangible assets, and other assets – indicators of impairment on property, plant and equipment, intangible assets, and other assets are assessed at least annually. They are based on management's estimates and judgments on the impairment indicators, along with the useful lives of the assets, including residual values. Management also applies judgment in determining the cash-generating units for which the property, plant and equipment, intangible assets, and other assets reside.

Deferred tax asset – the deferred tax asset is based on management's judgment of the probability of using future tax pools.

3. Material Accounting Policies

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

a. Basis of Consolidation

In preparing the consolidated financial statements, Intra-Fund balances and transactions and any unrealized income and expenses arising from Intra-Fund transactions are eliminated.

Subsidiaries are entities controlled by the Fund, including unincorporated entities such as partnerships. The subsidiaries' financial results are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are aligned with the policies adopted by the Fund. Subsidiaries of the Fund as at December 31, 2023, include:

Subsidiaries & Partnerships	Percentage Owned	Jurisdiction of Incorporation, Continuance, or Formation
Air & Gas GP Ltd.	100	Alberta
Foremost (Cyprus) Limited	100	Cyprus
Foremost Commercial Trust	100	Alberta
Foremost Financial Ltd.	100	Alberta
Foremost Industries LP	100	Alberta
Foremost Industries Ltd.	100	Alberta
Foremost Resources Ltd.	100	Alberta
Foremost Track Vehicles Limited	100	Alberta
Foremost Universal LP	100	Alberta
Maloney Industries (Cyprus) Limited	100	Cyprus
Universal Technical Ltd.	100	Alberta
958499 Alberta Ltd.	100	Alberta
Foremost Industries Inc.	100	Alberta
Universal Industries (Foremost) Corp.	100	Alberta
Universal Industries Corp.	100	Alberta
Foremost Equipment LP	100	Alberta
Foremost Equipment G.P. Ltd.	100	Alberta

FOREMOST INCOME FUND

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023, and 2022

All amounts in thousands of Canadian dollars unless otherwise stated

b. Foreign Currency Transactions

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Canadian dollars at the exchange rate at that date. Any resulting gain or loss is recognized in net income. Non-monetary assets and liabilities arising from transactions denominated in foreign currencies are translated into Canadian dollars based on the exchange rates at the date of the transaction.

c. Financial Instruments

The Fund's financial assets and liabilities are classified into the following categories:

	Classification	Measurement
Financial assets:		
Cash and cash equivalents	Assets at amortized cost	Amortized cost
Trade and other receivables	Assets at amortized cost	Amortized cost
Derivatives	Fair value through profit or loss	Fair value
Financial liabilities:		
Trade and other payables	Liabilities at amortized cost	Amortized cost
Distribution payable	Liabilities at amortized cost	Amortized cost

Financial Assets

Recognition and initial measurement

The Fund recognizes financial assets when it becomes a party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets, which are subsequently measured at fair value through profit or loss, are expensed in profit or loss when incurred.

Classification and subsequent measurement

On initial recognition, financial assets are classified as subsequently measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss. The Fund determines the classification of its financial assets and any embedded derivatives based on the business model for managing the financial assets and their contractual cash-flow characteristics.

Financial assets are classified as follows:

- *Amortized cost*—assets held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method adjusted for gains/losses arising from impairment. Foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost comprise cash and cash equivalents, trade, and other receivables.

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- *Fair value through other comprehensive income*—assets held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income is calculated using the effective interest method, and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Fund holds no financial assets measured at fair value through other comprehensive income.
- *Mandatorily at fair value through profit or loss*—assets that do not meet the criteria to be measured at amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Financial assets, including derivatives, are mandatorily measured at fair value through profit or loss.
- *Designated at fair value through profit or loss*—on initial recognition, the Fund may irrevocably designate a financial asset to be measured at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The Fund does not hold any financial assets designated to be measured at fair value through profit or loss.

Contractual cash-flow assessment

The Fund assesses whether cash flows of financial assets are solely payments of principal and interest based on their contractual terms. For this purpose, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Fund considers factors that would alter the timing and amount of cash flows, such as prepayment and extension features, terms that might limit the Fund's claim to cash flows, and any features that modify consideration for the time value of money.

Impairment

The Fund recognizes a loss allowance for the expected credit losses associated with its financial assets other than those measured at fair value through profit or loss. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions, and forecasts of future economic conditions.

The Fund applies the simplified approach for trade receivables. Using the simplified approach, the Fund records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

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The Fund assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts and breaches of borrowing contracts, such as default events or breaches of borrowing covenants. The Fund continues to recognize a loss allowance equal to lifetime-expected credit losses for financial assets assessed as credit-impaired at the reporting date.

For financial assets measured at amortized cost, loss allowances for expected credit losses are presented in the statement of financial position as a deduction from the gross carrying amount of the financial asset. Financial assets are written off when the Fund has no reasonable expectation of recovering all or any portion thereof.

Derecognition of financial assets

The Fund derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire.

Financial Liabilities

Recognition and initial measurement

The Fund recognizes a financial liability when it becomes a party to the contractual provisions of the instrument. At initial recognition, the Fund measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, except for financial liabilities subsequently measured at fair value through profit or loss, for which transaction costs are immediately recorded in profit or loss.

Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount.

Classification and subsequent measurement

After initial recognition, the effective interest rate method measures all financial liabilities at amortized cost. Interest and gains and losses relating to a financial liability are recognized in profit or loss.

Derecognition of financial liabilities

The Fund derecognizes a financial liability only when its contractual obligations are discharged, cancelled, or expired.

d. Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term investments with an original maturity of less than 3 months.

e. Inventories

Raw materials for manufacturing purposes and repair parts are valued at the lower of cost or net realizable value. Cost is determined on a first-in, first-out basis and includes expenditures incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overhead based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less any estimated costs necessary to make the sale.

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Work in progress related to capital equipment contract sales is determined using the percentage-of-completion method and includes material, labour, and manufacturing overhead and is recorded net of related deferred revenue on a contract-by-contract basis. Finished goods are also valued at the lower of cost or net realizable value.

f. Property, Plant, and Equipment

Property, plant, and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures directly attributable to the acquisition of the asset. Gains and losses on disposal of an item are determined by comparing the proceeds from disposal with the carrying amount of property, plant, and equipment and are recognized in profit or loss.

Depreciation is calculated using the depreciable amount, which is the cost of an asset less its residual value, on a straight-line basis. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant, and equipment. Leased assets are depreciated over the shorter of the lease term or their useful lives unless it is reasonably certain that the Fund will obtain ownership by the end of the lease term. Land and land improvements are not depreciated.

The estimated useful life, residual values, and depreciation method for each property, plant, and equipment class are reviewed at each reporting date and adjusted if appropriate. The estimated useful lives of the various assets are as follows:

Buildings and improvements	25 years
Equipment	3 - 25 years

g. Investment Property

Investment property consists of two idle manufacturing facilities in Alberta and are held for long-term capital appreciation or future lease. This property is carried at cost less accumulated depreciation and impairment.

h. Intangible Assets (other than goodwill)

Intangible assets include costs relating to non-compete agreements, patents, rights, licenses, and other assets. These assets are carried at cost less accumulated amortization and are amortized on a straight-line basis over their three to fifteen years of useful lives. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset it relates to. All other expenditures are recognized in profit or loss as incurred. The estimated useful life and amortization methods are reviewed annually.

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i. Taxes

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss, except to the extent that it relates to a business combination or items recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss 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. Current tax payable is reduced for any tax reduction associated with the declaration of distributions.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates expected to be applied to temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date. Deferred tax is not recognized for:

- temporary differences in the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss,
- temporary differences related to investments in subsidiaries to the extent that the group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future,
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax 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 for unused tax losses, tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they 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.

j. Trust Unit Based Compensation

The fair value of the amount payable to employees in respect of the Trust Unit Option Plan, which is classified as a liability, is recognized as an expense with a corresponding increase in liabilities over the period that the recipients unconditionally become entitled to payments. The liability is re-measured at each reporting date and at the settlement date based on the amount of the Trust Unit Options. Any changes in the fair value of the liability are recognized in profit or loss.

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k. Provisions

A provision is recognized if, as a result of a past event, the Fund has a present legal or constructive obligation that can be estimated reliably, and it is probable that the Fund will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The Fund provides for future warranty costs on a product-by-product basis when the products are sold.

l. Revenue Recognition

The Fund records revenue from contracts with customers in accordance with the five-step model as follows:

- 1) Identify the contract with a customer.
- 2) Identify the performance obligations in the contract.
- 3) Determine the transaction price, which is the total consideration provided by the customer.
- 4) Allocate the transaction price among the performance obligations in the contract based on their relative fair values.
- 5) Recognize revenue when the criteria are met for each performance obligation.

Most of the Fund's contracts are considered single-performance obligations, as the products and services provided (drafting, engineering, manufacturing, painting, etc.) together form the basis of the contract. Contracts are regularly modified upon customer request, and the revenue applicable to the modifications is allocated to the original performance obligation. Revenue is recognized for each contract or performance obligation either over time or at a point in time.

Revenue is recognized using the cost-based input method for performance obligations satisfied over time. The level of completion is based on management's judgment about how close the work is to satisfying the performance obligation. This requires management to estimate total costs and labour and overall percentage completion on a contract-by-contract basis. When the outcome of a contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. Expected losses on a contract are immediately recognized in profit or loss.

When performance obligations are satisfied at a point in time, the Fund recognizes revenue when the customer has possession of the goods or services. The table below outlines the revenue recognition method by product line.

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Product Line Revenue	Segment	Recognition over time or at a point in time
Vessels & Gas Separation	FEE	Either over time or at a point in time depending on contract terms. Contracts include cancellation clauses that represent an enforceable right to payment. Products are custom-built.
Shop Tanks	FEE	Either over time or at a point in time depending on contract terms. Contracts may include customer customization and an enforceable right to payment.
Field Tanks	FEE	Over time based on a cost-based input method. Most manufacturing is completed on the customer's site, and customer controls the work in progress. Payment and cancellation terms are usually based on work performed over the duration of the project.
Agricultural Products	FEE	Either over time or at a point in time depending on contract terms. Contracts may include customer customization and an enforceable right to payment.
ULC Tanks	FEE	Either over time or at a point in time depending on contract terms. Contracts may include customer customization and an enforceable right to payment.
Parts and Service	FME	Recognized at a point in time. The Fund recognizes revenue when the customer takes possession of the parts.
Vehicles	FME	Recognized over time. Contracts include an enforceable right to payment. Products are custom-built.
Drills	FME	Recognized over time. Contracts include an enforceable right to payment. Products are custom-built.
Trucks	FME	Recognized at a point in time. The Fund recognizes revenue when the customer takes possession of the truck, as this is when the customer obtains control of the asset. This usually occurs shortly after build is complete and when full payment is received.

Nature of goods and services

The Fund carries on business in two segments: FEE and FME. Revenue for FEE is generated from the following product categories: vessels & gas separation (including pressure vessels, gas separation units, oil treating units and gas processing units), shop tanks, field tanks, agricultural products, and ULC tanks. FEE also offers supporting parts sales and service programs and specific equipment rentals. While a Calgary sales office coordinates product sales, the products are currently manufactured at sites throughout Alberta, including Lloydminster and Hythe. Manufacturing is assigned to the location that best fits the product specifications, labour skills, customer site proximity, and delivery times.

In the FME segment, revenues are classified into four product categories: hydrovac and vacuum trucks, drills, vehicles, and parts & service. These products and services are used worldwide in the infrastructure, oil, mineral, and water-well drilling industries. All of these products are currently manufactured, serviced, or distributed from facilities in Calgary and Stettler. Each category is subject to significant fluctuations in activity and revenue. These fluctuations often require significant reallocation of manufacturing resources, skilled labour force, and multi-functional facilities. Refer to Note 9 for more information on the segmented operations.

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Contract costs

Management expects that incremental commission fees paid as a result of obtaining contracts are recoverable, and therefore, we will capitalize them as part of the contract costs when material. For the year ended December 31, 2023, these values were immaterial and remained in administrative costs, consistent with prior years.

Contract balances

Contract assets primarily relate to the Fund's rights to payment for work completed but not billed at the reporting date. Contract assets are transferred to receivables when the rights become unconditional. Contract liabilities relate to the advance payments received from customers. Contract assets and liabilities are accounted for on a contract-by-contract basis, with each contract presented as either a net contract asset or net contract liability accordingly.

m. Earnings per Trust Unit

The Fund presents basic and diluted earnings per Trust Unit (EPTU). Basic EPTU is calculated by dividing the profit or loss attributable to Unitholders by the weighted average number of Trust Units outstanding during the year. Diluted EPTU is determined by adjusting the weighted average number of ordinary units outstanding and for the effects of all dilutive potential Trust Units comprised of Trust Unit options granted to recipients.

n. Segment Reporting

An operating segment is a component of the Fund that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Fund's other components. The President reviews all operating segment results regularly to assess the segment's performance and decide what resources should be allocated to it. Segment results reported to the President include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

o. Leases

Leased assets are recognized as right-of-use assets, with corresponding lease liabilities recognized on the statement of financial position at the lease commencement date. Right-of-use assets include buildings. The right-of-use asset is initially recognized at cost and subsequently measured at cost less any accumulated depreciation and accumulated impairment losses, adjusted for re-measurements of the lease liability. The right-of-use asset is depreciated over the lesser of the asset's useful life and the lease term on a straight-line basis.

The lease liability is initially measured at the present value of the lease payments, discounted at a rate the Fund would be required to pay to borrow over a similar term with a similar security to obtain an asset of a similar value to the right-of-use asset. The lease liability is subsequently increased by interest expense on the lease liability and decreased by lease payments made. Interest expense is recorded in earnings at an amount that represents a constant periodic interest rate on the remaining lease liability balance. The lease liability is re-measured when there is a change in future lease payments arising from a change in:

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- an index or rate
- the estimated guaranteed residual value to be paid
- the assessment of whether a purchase option, extension option, or termination option is reasonably certain to be exercised.

A corresponding adjustment is made to the right-of-use asset when a liability is re-measured, or the adjustment is recorded in earnings if the value of the right-of-use asset has been reduced to zero.

Refer to the Lease Liabilities note for additional information regarding the Fund's leases.

p. Short-Term Employee Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonuses or profit-sharing plans if the Fund has a present legal or constructive obligation to pay it and the obligation can be estimated reliably.

q. Business Combinations

The Fund applies the acquisition method to account for business combinations. The Fund measures goodwill as the fair value of the consideration paid, less the fair value of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. The Fund elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value or at its proportionate share of the recognized amount of the identifiable net assets at the acquisition date. Transaction costs, other than those associated with the issue of debt or equity securities that the Fund incurs in connection with a business combination, are expensed as incurred.

r. Impairment

The Fund's non-financial assets, specifically intangibles and property, plant, and equipment, are assessed at each reporting date to determine whether there is objective evidence of impairment. If evidence indicates that impairment has occurred, the assets are tested for recoverability. For goodwill, the recoverable amount is estimated each year at the same time.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of asset's CGU.

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s. New Standards and Interpretations

In February 2021, the IASB issued Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2). The amendments are effective for annual periods beginning on or after January 1, 2023, with earlier adoption permitted. The amendments require the disclosure of material accounting policies rather than significant accounting policies. Adopting these amendments did not result in any changes to the Fund's accounting policies.

In January 2020, the IASB issued Presentation of Financial Statements (Amendments to IAS 1), and on October 31, 2022, the IASB issued Non-current Liabilities with Covenants (Amendments to IAS 1). The amendments are effective for annual periods beginning on or after January 1, 2024. The amendments clarify the requirements on determining whether a liability is current or non-current and require new disclosures for non-current liabilities that are subject to future covenants. Adopting these amendments will not have a material impact on the consolidated financial statements.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The amendments introduce the definition of accounting estimates and include other amendments to IAS 8 to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual periods beginning on or after January 1, 2023, and changes in accounting policies and accounting estimates that occur on or after the start of that period. Adopting these amendments did not have a material impact on the consolidated financial statements.

4. Revenue

	Primary Geographical Markets							
	Canada		United States		International		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
For the year ended December 31,								
Major Product Lines								
Shop Tanks	\$ 24,575	\$ 25,975	\$ 1,172	\$ -	\$ -	\$ -	\$ 25,747	\$ 25,975
Vessels & Gas Separation	5,524	6,592	21	-	-	191	5,545	6,783
ULC Tanks	5,193	4,518	-	5	-	8	5,193	4,531
Field Tanks	4,964	4,331	-	-	-	-	4,964	4,331
Agricultural Products	3,770	6,837	-	-	-	-	3,770	6,837
Other	2,198	2,543	10	15	-	3	2,208	2,561
Total FEE	46,224	50,796	1,203	20	-	202	47,427	51,018
Trucks	37,948	29,756	38,103	18,579	-	-	76,051	48,335
Drills	11,015	7,167	21,394	14,678	7,153	9,401	39,562	31,246
Parts	5,936	5,378	11,266	9,943	8,132	6,130	25,334	21,451
Vehicles	-	-	105	1,151	-	-	105	1,151
Total FME	54,899	42,301	70,868	44,351	15,285	15,531	141,052	102,183
Corporate and Eliminations	(486)	(450)	-	-	-	-	(486)	(450)
Total	\$100,637	\$ 92,647	\$ 72,071	\$ 44,371	\$ 15,285	\$ 15,733	\$187,993	\$152,751

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For the year ended December 31,	Timing of Revenue Recognition					
	Products transferred at a point in time		Products and services transferred over time		Total	
	2023	2022	2023	2022	2023	2022
Major Product Lines						
Shop Tanks	702	833	25,044	25,142	25,747	25,975
Vessels & Gas Separation	-	270	5,545	6,513	5,545	6,783
ULC Tanks	1,582	1,809	3,611	2,722	5,193	4,531
Field Tanks	-	-	4,964	4,331	4,964	4,331
Agricultural Products	3,770	6,374	-	463	3,770	6,837
Other	883	1,456	1,326	1,412	2,208	2,561
Total FEE	6,937	10,742	40,490	40,583	47,427	51,018
Trucks	76,051	48,335	-	-	76,051	48,335
Drills	-	-	39,562	31,246	39,562	31,246
Parts	25,334	21,451	-	-	25,334	21,451
Vehicles	-	-	105	1,151	105	1,151
Total FME	101,385	69,786	39,667	32,397	141,052	102,183
Corporate and Eliminations	(486)	(450)	-	-	(486)	(450)
Total	\$107,836	\$ 80,078	\$ 80,157	\$ 72,980	\$187,993	\$152,751

(000's) Revenue for the year ended December 31,	2023	2022
Manufacturing and Construction	\$ 159,194	\$ 127,764
Parts	28,151	23,484
Rendering of Services	604	1,078
Rental	44	425
Total	\$ 187,993	\$ 152,751

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5. Operating Costs

The Fund's operating costs, by nature of expense, are:

For the year ended December 31,	2023	2022
Raw material, finished goods, and consumables used	\$ 100,967	\$ 84,082
Personnel	53,388	45,468
Occupancy	6,595	6,178
General and administrative	6,503	6,510
Depreciation and amortization	3,848	3,860
Equipment	2,084	1,961
	\$ 173,385	\$ 148,059

Operating costs included by function in:

For the year ended December 31,	2023	2022
Cost of sales	\$ 155,961	\$ 132,578
Administrative expenses	17,424	15,481
	\$ 173,385	\$ 148,059

6. Personnel Expense

The Fund's personnel expense, by nature of expense, are:

For the year ended December 31,	2023	2022
Wages and salaries	\$ 41,713	\$ 36,185
Bonuses	3,773	2,575
Canada Pension Plan (CPP) and Employment Insurance (EI) remittances	2,819	2,403
Group benefit plans	1,791	1,479
Contractor costs	1,188	1,064
Contributions to defined contribution plans	1,001	751
Workers Compensation	661	717
Trust unit option compensation	370	125
Long-term retention	72	169
	\$ 53,388	\$ 45,468

Personnel costs included by function in:

For the year ended December 31,	2023	2022
Cost of sales	\$ 43,345	\$ 37,368
Administrative expenses	10,043	8,100
	\$ 53,388	\$ 45,468

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7. Interest Income

(000's) For the year ended December 31,	2023	2022
Interest Income	\$ 1,887	\$ 842
	\$ 1,887	\$ 842

Interest income is derived from the Fund's cash and cash equivalents.

8. Other Income

Other income includes proceeds from scrap steel, WCB refunds, rental income, and other miscellaneous income not in the normal course of operations.

9. Tax Expense

The Fund is an open-ended unit trust and is subject to tax on any Canadian taxable income not allocated to Unitholders. As a result of the voluntary delisting by the Fund effective December 15, 2010, the Fund is no longer a Specified Investment Flow-Through (SIFT) Trust and is therefore no longer subject to the SIFT tax legislation that passed in Bill C-52 in June 2007. The SIFT legislation provided that the Fund would be subject to a tax on distributions. Under the new status for the non-listed Fund, distributions remain deductible, and the SIFT distribution tax does not apply. Management intends that the Fund will distribute taxable income to the Unitholders to eliminate any taxable income in the Fund.

The following is a reconciliation of income taxes, calculated at the combined federal and provincial income tax rate, to the income tax provision included in the consolidated statements of net income and comprehensive income.

(000's)	December 31, 2023	December 31, 2022
Income from operations before taxes	\$ 17,515	\$ 5,524
Statutory rate	48.0%	48.0%
Expected income tax provision	8,407	2,652
Add (deduct):		
Income distributed to Unitholders	(4,190)	(2,520)
Changes in deferred tax assets not recognized	(1,495)	1,219
Expenses not deductible for tax	(79)	(45)
Other	(1,200)	(362)
Deferred income tax expense	\$ 1,443	\$ 944

Unrecognized temporary differences

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

(000's)	December 31, 2023	December 31, 2022
Intangible	\$ 31,360	\$ 33,612
Property, plant and equipment	30,034	30,753
Losses carried forward	8,340	8,599
	\$ 69,734	\$ 72,964

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The tax losses expire as per the table below:

Year of tax loss expiry	(000's)
2027	\$ 214
2028	167
2029	9
2030	2,881
2032	37
2033	1,565
2034	1,402
2035	1,447
2036	1,294
	\$ 9,016

Movement in deferred tax assets during the year

(000's)	December 31, 2022	Recognized in Net Income	December 31, 2023
Intangible	\$ 9,665	(451)	\$ 9,214
Property, plant and equipment	4,572	(870)	3,702
Provisions	1,493	(112)	1,381
Losses carried forward	575	(10)	565
Tax assets	\$ 16,305	(1,443)	\$ 14,862

10. Operating Segments

The Fund has three reportable business segments, each of which are the Fund's strategic business units. The strategic business units offer different products and services within the oil and natural gas industry. For each strategic business unit, the President and CFO review internal management reports monthly. The following summary describes the operations in each of the Fund's reportable segments:

- Foremost Mobile Equipment – FME designs, manufactures, sells, and services drilling equipment, heavy all-terrain vehicles, hydrovac trucks, and related parts and tooling.
- Foremost Energy Equipment – FEE designs, manufactures, sells, and services oil-treating systems, pressure vessels, fluid storage tanks, gas separators, fuel tanks, agricultural products, and steam generators.
- Corporate – Corporate handles administrative expenses incurred at the Fund level, and elimination entries and transactions within Foremost Financial Ltd.

The accounting policies of the reportable segments are the same as described in notes 2 and 3. Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax and earnings before interest, tax, depreciation, and amortization (EBITDA), as included in the internal management reports reviewed by the Fund's President and CFO. Segment profit is used to measure performance, as management believes that is the most relevant measure to compare against other entities that operate within these industries.

Transfer pricing is based on third-party rates.

FOREMOST INCOME FUND

Consolidated Statements of Financial Position

For the years ended December 31, 2023, and 2022

(\$ thousands of Canadian dollars)

Reportable Segments – Foremost Energy Equipment, Foremost Mobile Equipment, and Corporate

For the year ended December 31,	Foremost Energy Equipment		Foremost Mobile Equipment		Corporate		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
Revenue	\$ 47,427	\$ 51,018	\$ 141,052	\$ 102,183	\$ (486)	\$ (450)	\$ 187,993	\$ 152,751
Cost of sales	42,824	49,267	113,623	83,761	(486)	(450)	155,961	132,578
Gross profit	4,603	1,751	27,429	18,422	-	-	32,032	20,173
Administrative expenses	6,312	5,295	10,152	8,562	960	1,624	17,424	15,481
Net (loss) income from operating activities	(1,709)	(3,544)	17,277	9,860	(960)	(1,624)	14,608	4,692
Interest income	655	222	947	(32)	285	652	1,887	842
Other income	649	257	89	50	-	-	738	307
Gain (loss) on disposal of property, plant and equipment	164	289	(58)	15	-	-	106	304
Foreign exchange gain (loss)	1	2	(4)	(460)	179	(163)	176	(621)
Net non-operating income (loss)	1,469	770	974	(427)	464	489	2,907	832
Income (loss) before tax	(240)	(2,774)	18,251	9,433	(496)	(1,135)	17,515	5,524
Income tax expense	699	109	717	674	27	161	1,443	944
Net (loss) income and comprehensive (loss) income	\$ (939)	\$ (2,883)	\$ 17,534	\$ 8,759	\$ (523)	\$ (1,296)	\$ 16,072	\$ 4,580
Reportable segment assets	\$ 78,597	\$ 63,065	\$ 76,900	\$ 73,524	\$ 45,373	\$ 35,435	\$ 200,870	\$ 172,024
Capital expenditures	\$ 7,829	\$ 2,492	\$ 1,520	\$ 1,269	\$ -	\$ -	\$ 9,349	\$ 3,761
Reportable segment liabilities	\$ 20,430	\$ 9,156	\$ 22,995	\$ 16,132	\$ 9,376	\$ 5,769	\$ 52,801	\$ 31,057

FOREMOST INCOME FUND

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

All amounts in thousands of Canadian dollars unless otherwise stated

Geographic Segments

For the year ended December 31, the Fund had non-current assets in the following jurisdiction:

(000's) Non-current assets as at December 31,	2023	2022
Canada	\$ 55,853	\$ 52,083
Total	\$ 55,853	\$ 52,083

Major Customers

For the year ended December 31, 2023, the Fund had two customers who accounted for 40.3% of revenue. During 2022, two customers represented 31.5% of revenue.

Within the FEE segment, no customer accounted for more than 10% of revenue in 2023. One customer accounted for 10.7% of revenues for the year ended December 31, 2022.

Within the FME segment, two customers accounted for 53.8% of revenues in 2023. This is a result of two distributor agreements within the truck product line that have resulted in continued growth and greater market penetration. During 2022, the same two customers accounted for 47.2% of revenue.

11. Cash and Cash Equivalents

As at	December 31, 2023	December 31, 2022
Bank balances	\$ 20,422	\$ 15,709
Short-term investments	25,000	20,065
	\$ 45,422	\$ 35,774

At December 31, 2023, the Fund held two short-term deposits totalling \$25.0 million (December 31, 2022 – \$20.0 million) bearing interest at a rate of 5.96% and 5.78% (December 31, 2022 – 4.77% and 4.73%).

12. Trade and Other Receivables

As at	December 31, 2023	December 31, 2022
Trade receivables	\$ 22,622	\$ 15,418
Other receivable	505	718
	\$ 23,127	\$ 16,136

FOREMOST INCOME FUND

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

All amounts in thousands of Canadian dollars unless otherwise stated

13. Inventories

Inventory

	December 31, 2023	December 31, 2022
Raw materials and consumables	\$ 43,068	\$ 47,049
Work in progress related to capital equipment	10,663	7,999
Finished goods	5,441	3,995
	\$ 59,172	\$ 59,043

Valuation Allowances

	December 31, 2023	December 31, 2022
Raw materials and consumables	\$ (5,075)	\$ (5,036)
Finished goods	(987)	(1,319)
	\$ (6,062)	\$ (6,355)

During 2023, as a result of inventory transactions, a \$0.3 million recovery (2022 - \$0.5 million recovery) in valuation was recorded for the year.

14. Contract Balances

	Contract Assets	
For the year ended December 31,	2023	2022
Balance, beginning of year	\$ 7,027	\$ 6,379
Additions from new contracts with customers	39,448	34,269
Contract assets invoiced during the year	(35,173)	(33,621)
Balance, end of year	\$ 11,302	\$ 7,027

	Contract Liabilities	
For the year ended December 31,	2023	2022
Balance, beginning of year	\$ 12,861	\$ 12,780
Additions from new contracts with customers	65,116	45,136
Contract liabilities recognized in revenue during the year	(51,917)	(45,055)
Balance, end of year	\$ 26,060	\$ 12,861

	Contract Assets & Liabilities	
For the year ended December 31,	2023	2022
Balance, beginning of year (net)	\$ (5,834)	\$ (6,401)
Revenue recognized	80,157	72,980
Amounts invoiced during the year	(89,081)	(72,413)
Balance, end of year (net)	\$ (14,758)	\$ (5,834)

FOREMOST INCOME FUND

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

All amounts in thousands of Canadian dollars unless otherwise stated

15. Property, Plant and Equipment

Cost					
	Land and Buildings	Assets Under Construction	Equipment	Total	
Balance at December 31, 2021	\$ 56,179	\$ 1,093	\$ 39,680	\$ 96,952	
Additions	38	2,193	1,565	3,796	
Transfer	79	(1,124)	1,010	(35)	
Transfer to investment property	(8,949)			(8,949)	
Disposals	(14)	-	(1,476)	(1,490)	
Balance at December 31, 2022	\$ 47,333	\$ 2,162	\$ 40,779	\$ 90,274	
Additions	1,872	4,361	3,116	9,349	
Transfer	64	(781)	717	-	
Disposals	(101)	(20)	(1,140)	(1,261)	
Balance at December 31, 2023	\$ 49,168	\$ 5,722	\$ 43,472	\$ 98,362	

Accumulated depreciation					
	Land and Buildings	Assets Under Construction	Equipment	Total	
Balance at December 31, 2021	\$ 32,815	\$ -	\$ 29,922	\$ 62,737	
Depreciation for the year	1,357	-	2,192	3,549	
Transfer to investment property	(5,076)	-	-	(5,076)	
Disposals	(7)	-	(1,434)	(1,441)	
Balance at December 31, 2022	\$ 29,089	\$ -	\$ 30,680	\$ 59,769	
Depreciation for the year	1,315	-	2,220	3,535	
Disposals	(49)	-	(906)	(955)	
Balance at December 31, 2023	\$ 30,355	\$ -	\$ 31,994	\$ 62,349	

Carrying Amount					
	Land and Buildings	Assets Under Construction	Equipment	Total	
Balance at December 31, 2022	\$ 18,244	\$ 2,162	\$ 10,099	\$ 30,505	
Balance at December 31, 2023	\$ 18,813	\$ 5,722	\$ 11,478	\$ 36,013	

Assets under construction increased in 2023 due to the purchase and install of a tank welding unit (\$1.9 million), gantry crane system for a pressure shop (\$0.3 million), and tank production system including decoiler and semi-automatic seam welder (\$1.4 million) in FEE.

FOREMOST INCOME FUND

Notes to the Consolidated Financial Statements

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All amounts in thousands of Canadian dollars unless otherwise stated

Impairment Analysis

The Fund assesses whether there is an indication of impairment at each reporting date. This is based on economic conditions, such as commodity pricing, specifically oil and gas, and recent and forecasted financial performance of the CGU. Foremost determined that indicators, specifically a negative payback, existed for one of the Fund's CGUs during 2023.

The Fund used the fair value less costs of disposal method to determine the recoverable amounts of this CGU for the purpose of impairment testing. As the recoverable amounts exceeded the carrying amount, the Fund determined there was no impairment loss to be recognized on this CGU (2022 – nil). Recoverable amounts were determined based on third-party appraisals.

There have been limited market transactions with assets of this nature, so internal estimates combined with appraisals were relied upon to determine fair market value. This calculation of recoverable amount relies on subjective key assumptions but represent reasonable estimates with respect to factors affecting operations, including economic, operational, and market conditions. These conditions are sensitive to change and could affect fair value.

16. Investment Property

	December 31, 2023	December 31, 2022
Cost		
Balance, beginning of year	\$ 8,949	\$ -
Transfer in	-	8,949
Balance, end of year	8,949	8,949
Accumulated Depreciation		
Balance, beginning of year	\$ 5,076	\$ -
Transfer in	-	5,076
Balance, end of year	5,076	5,076
Balance at December 31, 2022	\$ 3,873	\$ 3,873
Balance at December 31, 2023	\$ 3,873	\$ 3,873

Investment property consists of two idle manufacturing facilities in Alberta and are held for long-term capital appreciation or future lease. This property is carried at cost less accumulated depreciation and impairment.

FOREMOST INCOME FUND

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

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17. Intangible and Other Assets

Cost	Other Assets	Patents, rights and licenses	Non-compete agreements	Total
Balance at December 31, 2021	\$ 1,822	\$ 3,198	\$ 50	\$ 5,070
Additions	-	37	-	37
Disposals	(21)	(24)	(50)	(95)
Balance at December 31, 2022	\$ 1,801	\$ 3,211	\$ -	\$ 5,012
Additions	12	6	-	18
Balance at December 31, 2023	\$ 1,813	\$ 3,217	\$ -	\$ 5,030

Amortization	Other Assets	Patents, rights and licenses	Non-compete agreements	Total
Balance at December 31, 2021	\$ 1,336	\$ 2,010	\$ 50	\$ 3,396
Disposals	(21)	(24)	(50)	(95)
Amortization for the year	252	59	-	311
Balance at December 31, 2022	\$ 1,567	\$ 2,045	\$ -	\$ 3,612
Amortization for the year	245	68	-	313
Balance at December 31, 2023	\$ 1,812	\$ 2,113	\$ -	\$ 3,925

Carrying Amount	Other Assets	Patents, rights and licenses	Non-compete agreements	Total
December 31, 2022	\$ 234	\$ 1,166	\$ -	\$ 1,400
December 31, 2023	\$ 1	\$ 1,104	\$ -	\$ 1,105

18. Unitholders' Equity

a. Unitholders' Capital

The Fund is authorized to issue an unlimited number of Trust Units and an unlimited number of special voting units. Special voting units may be issued by Trustee resolution. These special voting units entitle the holders thereof to the number of votes prescribed by the resolution. These special voting units do not entitle the holder to participate in any distributions from the Fund or to beneficial interest in any assets of the Fund.

b. Redemption of Trust Units

Trust Units are redeemable in whole or in part at any time on demand by the Unitholder. Upon receipt of an executed redemption notice and related Trust Unit certificate, the Unitholder ceases to have any rights with respect to those Trust Units. The Unitholder is entitled to receive a redemption price equal to the tangible book value, plus or minus 10%. The redemption price is set at the discretion of the Board of Trustees. The Trustees exercised their discretion and set the monthly limit for cash distributions at \$0.35 million for October 2018 to December 2023. Refer to note 30.

FOREMOST INCOME FUND

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

All amounts in thousands of Canadian dollars unless otherwise stated

Unitholders are limited in their ability to sell, transfer, consign, mortgage, pledge, or dispose of any Trust Units in any way without the Board of Trustee's prior written consent unless the Unitholder is transferring the Trust Units to a similar beneficiary. The Board of Trustees will evidence its consent by written approval, and any attempt to do any of the above without the Board of Trustees' consent will be void.

During the year ended December 31, 2023, 36,480 (2022 – 153,008) Trust Units were redeemed for cash of \$0.2 million (2022 – \$1.0 million). As of December 31, 2023, the stated redemption price was \$7.05 per unit (2022 - \$6.50 per unit). Effective January 1, 2024, as a result of a cash distribution of \$0.50 per unit, the stated redemption price was reduced to \$6.55 per unit.

c. Trust Unit Distributions

The Fund intends to distribute taxable income on an annual basis via a special or cash distribution at the discretion of the Trustees. On December 1, 2023, the Fund announced an estimated \$8.7 million distribution, or \$0.50 per unit, for the 2023 fiscal year. This distribution is to be paid on or before March 31, 2024. A \$5.3 million distribution for the year ended December 31, 2022, was paid in the first quarter of 2023.

19. Earnings per Trust Unit

Earnings per Trust Unit are calculated using the weighted average number of Trust Units outstanding. The reconciliation of the denominators used to determine the basic earnings per Trust Unit and diluted earnings per Trust Unit is below:

For the year ended December 31,	2023	2022
Basic and diluted weighted-average Trust Units	17,474,870	17,558,851
Net income for the year (in thousands of Canadian dollars)	\$ 16,072	\$ 4,580
Basic and diluted earnings per share	\$ 0.92	\$ 0.26

20. Trust Unit-Based Compensation Plan

In March 2022, the requisite majority of Unitholders approved an amended and restated unit option plan. The Fund has reserved 2,123,013 unit options under the amended and restated unit option plan. During 2021, 480,000 options were granted at an exercise price of \$6.00 per unit. These options vest annually over five years, on each of the five anniversaries of the date of the grant, and expire one year after the fifth anniversary.

During 2022, 71,000 options that were granted in 2017 were exercised, and 5,000 of these units expired. No additional options were granted during 2023. As at December 31, 2023, 192,000 trust units had vested.

FOREMOST INCOME FUND

Notes to the Consolidated Financial Statements

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All amounts in thousands of Canadian dollars unless otherwise stated

A summary of the status of the plan and changes during the years that ended is presented below:

	December 31, 2023		December 31, 2022	
Unit Option Plan	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Unit options, beginning of year	\$ 480,000	\$ 6.00	\$ 556,000	\$ 5.96
Exercised	-	-	(71,000)	5.80
Expired	-	-	(5,000)	5.80
Unit options, end of year	\$ 480,000	\$ 6.00	\$ 480,000	\$ 6.00
Unit options exercisable, end of year	192,000	\$ 6.00	96,000	\$ 6.00

Trust Units-Based Compensation Expense

The fair value of these unit options is \$525 at December 31, 2023 (2022 – \$155). For the year ended December 31, 2023, an expense of \$370 (2022 – \$50) was recorded in administrative expenses with an equal amount offset to other payables.

The 2021 weighted average fair value per option with an exercise price of \$6.00 was \$1.22. This was calculated using the Black-Scholes model, with the assumptions being a risk-free rate of 7.20%, a forfeiture rate of nil, an expected option life of five years, a volatility of 4.73%, and a quarterly dividend rate of 4.73%.

21. Credit Facilities

The Fund maintains a credit facility with a major Canadian chartered bank; however, as of December 31, 2022, the Fund had not drawn on the credit facility. During 2016, the credit facility was revised to base the available facility on a percentage of specific inventory and eligible accounts receivable, net of certain trade payables, to a maximum of \$30.0 million. Depending on specific operating ratios, the operating credit facility bears interest at prime plus 0.25% or prime plus 0.125%. The credit facility is secured by a general security agreement and floating charge debenture of \$40.0 million. The credit facility permits the Fund to use bankers' acceptances to borrow at effective interest rates and to use certain financial instruments to manage interest and exchange risk. Based on the revised borrowing base calculations, the Fund had access to \$26.0 million of the credit facility at December 31, 2023.

22. Trade and Other Payables

	December 31, 2023	December 31, 2022
Due to related parties	\$ 50	\$ 50
Trade payables	11,006	6,129
Non-trade and accrued payables	5,635	5,326
	\$ 16,691	\$ 11,505

The Fund's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 25.

FOREMOST INCOME FUND

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

All amounts in thousands of Canadian dollars unless otherwise stated

23. Provisions

Warranty Provision

	December 31, 2023	December 31, 2022
Provisions, beginning of the year	\$ 1,223	\$ 1,147
Provisions made during the year	809	828
Provisions used during the year	(711)	(752)
Provision, end of the year	\$ 1,321	\$ 1,223

The provision for warranties relates mainly to goods sold during the years ended December 31, 2023, and December 31, 2022. The provision is based on estimates made from historical warranty data associated with similar products and services. In accordance with its contractual obligations, the Fund expects to incur most of the liability over the next year.

24. Contingent Liability

The Fund has recently been named in several personal injury lawsuits, collectively claiming \$2.5 million in general damages and an undetermined amount of special damages. There is the potential for additional claims. The lawsuits arose from an accident on the Columbia Ice Field in 2020, and the Fund is one of numerous defendants. The Fund's insurer has appointed defence counsel, defences have not yet been filed for the claims, and any liability is undeterminable at this time.

The Fund is currently and may be, from time to time, involved in various employment and other related legal proceedings. No liability has been recorded in the consolidated statement of financial position for the year ended December 31, 2023 (2022 – nil), as the result of these actions is unknown and is expected to be immaterial.

FOREMOST INCOME FUND

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

All amounts in thousands of Canadian dollars unless otherwise stated

25. Fair Values of Financial Instruments

Fair Values versus Carrying Amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the consolidated statement of financial position, are as follows:

	December 31, 2023		December 31, 2022	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets carried at cost				
Cash and cash equivalents	\$ 45,422	\$ 45,422	\$ 35,774	\$ 35,774
Trade and other receivables	23,127	23,127	16,136	16,136
Assets carried at fair value through profit and loss				
Derivatives	445	445	-	-
	\$ 68,994	\$ 68,994	\$ 51,910	\$ 51,910
	December 31, 2023		December 31, 2022	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Liabilities carried at cost				
Trade and other payables	\$ 16,691	\$ 16,691	\$ 11,505	\$ 11,505
Distribution payable	8,729	8,729	5,248	5,248
Liabilities carried at fair value through profit and loss				
Derivatives	-	-	220	220
	\$ 25,420	\$ 25,420	\$ 16,973	\$ 16,973

Fair Value Hierarchy

The Fund has segregated all financial assets and liabilities measured at fair value into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date.

Financial instruments measured at fair value on the consolidated statement of financial position require classification into one of the following levels of the fair value hierarchy:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy level at which a fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

FOREMOST INCOME FUND

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

All amounts in thousands of Canadian dollars unless otherwise stated

26. Financial Risk Management Overview

The Fund is exposed to the following risks from its use of financial instruments: credit risk, liquidity risk, and market risk.

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

Risk Management Framework

The Board of Trustees has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Fund's risk management policies are established to identify and analyze the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities.

a. Credit Risk

Credit risk is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Fund's receivables from customers.

Trade and Other Receivables

In the normal course of business, the Fund is exposed to credit risk through its accounts receivable and construction work in progress from its customers, which operate primarily in the oil and natural gas industry in Canada and the United States. At December 31, 2023, one customer represented over 21.35% of accounts receivable and three customers combined to represent 49% of work in progress (2022 – no one customer represented over 10.0% of accounts receivable and one customer represented 24.7% of work in progress).

The Fund has established credit policies and limits, which are applied in the selection of counterparties, by which they are analyzed individually for creditworthiness before being offered the Fund's standard delivery terms. Management also reviews all receivable balances past due to identify at an early stage matters that could potentially delay the collection of funds.

The aging of trade and other receivables is as follows:

As at:	December 31, 2023		December 31, 2022	
	Gross	Impairment	Gross	Impairment
Current	\$ 5,096	\$ -	\$ 3,657	\$ -
Past due 1 - 30 days	8,901	-	6,866	-
Past due 31 - 60 days	6,574	-	1,844	-
Past due 60 days	2,264	213	3,237	186
Total trade receivables	22,835	213	15,604	186
Other receivables	505	-	718	-
Total trade and other receivables	\$ 23,340	\$ 213	\$ 16,322	\$ 186

FOREMOST INCOME FUND

Notes to the Consolidated Financial Statements

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The Fund reviews its trade and other receivables regularly and determines estimates of impairments on a customer-by-customer evaluation of collectability at each reporting date, taking into consideration the following factors: the length of time the receivable has been outstanding, specific knowledge of each customer's financial condition, and historical payment behaviour. The impairment allowance is used to record impairment losses unless the Fund is satisfied that no recovery of the amount owing is possible; at that point, the amounts are considered irrecoverable and are written off against the financial asset directly. The movement in the impairment allowance accounts specific to trade receivables during the year is as follows:

As at:	December 31, 2023	December 31, 2022
Impairment allowance, beginning of year	\$ 186	\$ 286
Provisions made during the year	89	133
Provisions used during the year	(62)	(233)
Impairment allowance, end of year	\$ 213	\$ 186

b. Liquidity Risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Fund's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation.

The Fund manages its liquidity risk through monitoring its capital structure and financial leverage. The Fund believes that the current cash balance, forecasted cash flows from operating activities, along with amounts available under the credit facility will provide sufficient cash requirements to cover the Fund's forecasted normal operating and budgeted capital expenditures. In addition, the Fund manages liquidity risk by monitoring forecasted and actual cash flows, minimizing reliance on any single source of credit, maintaining sufficient undrawn committed credit facilities, and managing the maturity profiles of financial assets and financial liabilities to minimize refinancing risk.

The following are the undiscounted contractual maturities of non-derivative financial liabilities, excluding the impact of netting agreements:

As at December 31, 2023	Carrying amount	Contractual cash flows	1 years or less	1-5 years	More than 5 years
Trade and other payables	16,691	16,691	16,691	-	-
Distribution payable	8,729	8,729	8,729	-	-
	\$ 25,420	\$ 25,420	\$ 25,420	\$ -	\$ -

As at December 31, 2022	Carrying amount	Contractual cash flows	1 years or less	1-5 years	More than 5 years
Trade and other payables	11,505	11,505	11,505	-	-
Distribution payable	5,248	5,248	5,248	-	-
	\$ 16,753	\$ 16,753	\$ 16,753	\$ -	\$ -

FOREMOST INCOME FUND

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c. Market Risk

Fluctuations in foreign currency are a source of market risk and arise when dealing with foreign customers. As part of managing this risk, the Fund reviews its exposure, specifically the size and jurisdiction (including political and economic factors) of all foreign contracts. Where market risk is deemed unacceptably high, the Fund will enter into forward exchange contracts to reduce exposure. Future cash flows will be impacted by derivative instruments as foreign exchange rates change over the contract terms. Both contract currency and term will have an impact on this outcome.

The \$0.2 million foreign exchange gain recognized in 2023 (2022 – \$0.6 million loss) is attributable to changes in the value of the Fund's U.S. dollar (USD) denominated net monetary assets and liabilities and foreign exchange on forward contracts. The USD-denominated monetary assets consist of cash and accounts receivable. The \$0.2 million foreign exchange gain was made up of a \$0.4 million unrecognized gain on derivatives and a \$0.2 million recognized loss on cash and accounts receivable. A 5% change in the foreign exchange rate would result in an immaterial impact on the consolidated financial statements.

The Fund enters into currency exchange contracts to mitigate a portion of the foreign currency exposure risk on funds to be received for existing contracts denominated in US Dollars. The fair value of the forward contracts is measured based on the difference between the contracted rate and the current forward rate. At December 31, 2023, the Fund had nine outstanding forward contracts denominated in USD.

	Notational Amount	Fair Value	Fixed Rate to Sell	Forward Rate	Term
Forward contract	1,500 USD	\$ 56	1.355500	1.318440	May 30, 2024
Forward contract	1,000 USD	\$ 47	1.367500	1.320240	January 31, 2024
Forward contract	1,500 USD	\$ 38	1.344500	1.319250	March 28, 2024
Forward contract	1,000 USD	\$ 36	1.361000	1.325300	May 31, 2024
Forward contract	1,500 USD	\$ 64	1.359500	1.316970	October 4, 2024
Forward contract	2,000 USD	\$ 62	1.356500	1.325300	January 31, 2025
Forward contract	1,500 USD	\$ 54	1.355500	1.319730	February 29, 2024
Forward contract	1,500 USD	\$ 42	1.353500	1.325300	August 30, 2024
Forward contract	1,500 USD	\$ 46	1.356000	1.325300	April 30, 2025
	13,000 USD	\$ 445			

d. Interest Rate Risk

At the reporting date, the risk related to interest rate is limited to the Fund's interest-bearing credit facility, which was unused at December 31, 2023.

27. Management of Capital

The Fund's objectives when managing capital are to safeguard the Fund's ability to continue as a going concern to provide returns to Unitholders and benefits for other stakeholders, maintain financial liquidity and flexibility to fulfill existing financial obligations, support capital requirements of current operations, pay Trust Unit distributions in cash, and provide capital for accretive acquisitions.

FOREMOST INCOME FUND

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All amounts in thousands of Canadian dollars unless otherwise stated

In the definition of capital, the Fund includes Unitholders' capital, retained earnings, cash and cash equivalents, and undrawn credit facilities.

The Fund's financial strategy is designed to maintain a flexible capital structure consistent with the objectives stated above and to respond to growth opportunities or changes in economic conditions. To maintain or adjust its capital structure, the Fund may issue new Trust Units, redeem Trust Units, issue new debt, acquire or dispose of assets, adjust Trust Unit distribution amounts or the form of payment, or adjust the amount of cash and short-term investment balances.

The objectives and strategies concerning capital risk management are established on an annual basis and are monitored on a quarterly basis. They have been revised to align with the capital requirements stipulated within the Credit Agreement.

The Fund is not subject to any externally imposed capital requirements. The Fund is subject to certain covenants under its credit facility and is compliant as at December 31, 2023, and 2022.

28. Related Parties

Transactions with Key Management Personnel

The Fund defines key management as being the Trustees, executive officers of the Fund, and senior management. Certain executive officers have management contracts. Trustees also participated in the Fund's unit option plan (see Note 20).

Key management personnel compensation comprised:

	December 31, 2023	December 31, 2022
Salaries and benefits	\$ 1,432	\$ 1,433
Long-term retention	72	169
Trust unit option related payments	-	73
	\$ 1,504	\$ 1,675

Key Management Personnel and Director Transactions

The Fund uses the consulting services of TOM Capital Management Inc. (TOM Capital), a company that is partially owned by a Trustee of the Fund. The services consist of professional M&A, advisory, and investor relations advice at market rates confirmed from time to time and agreed to by all parties. For the year ended December 31, 2023, the total amount invoiced for consulting and management services through TOM Capital was \$0.3 million (2022 - \$0.6 million).

29. Comparative Figures

Certain comparative figures have been reclassified in accordance with the current year's presentation.

FOREMOST INCOME FUND

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All amounts in thousands of Canadian dollars unless otherwise stated

30. Subsequent Event

On March 8, 2024 the Trustees exercised their discretion to approve an exemption from the previously imposed monthly \$350 cash limit for redemptions in connection with a Unitholder redemption request for 2,141,103 units at the stated redemption price of \$6.55 per unit for an aggregate redemption amount of \$14.0 million. The Trustees retain their authority to use their discretion in approving redemptions, considering the Fund's cash balance and overall working capital position in accordance with the Deed of Trust.