



FOREMOST INCOME FUND

Condensed Consolidated Interim Financial Statements
For the three and nine month periods ended September 30, 2023

(Unaudited – Prepared by management)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

National Instrument 51-102 *Continuous Disclosure Obligations* Part 4, subsection 4.3(3) (a) requires that, if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice indicating that they have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Foremost Income Fund (the Fund) have been prepared by management and approved by the Audit Committee and the Board of Trustees of the Fund.

The Fund's independent auditors have not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by CPA (Chartered Professional Accountants) Canada for a review of interim financial statements by an entity's auditors.

FOREMOST INCOME FUND

Condensed Consolidated Interim Statements of Financial Position

For the period ended September 30, 2023

(Unaudited in \$ thousands of Canadian dollars)

	Notes	September 30, 2023	December 31, 2022
Assets			
Current assets			
Cash and cash equivalents	5	\$ 40,292	\$ 35,774
Trade and other receivables	7(b)	16,326	16,136
Derivatives	7(a)	21	-
Inventories	6	57,890	59,043
Contract assets		12,328	7,027
Prepaid expenses		2,875	1,961
		129,732	119,941
Property, plant and equipment	8	33,484	30,505
Investment property	9	3,873	3,873
Deferred tax assets		15,148	16,305
Intangibles and other assets		1,513	1,400
		\$ 183,750	\$ 172,024
Liabilities and Unitholders' Equity			
Current liabilities			
Trade and other payables		\$ 15,577	\$ 11,505
Derivatives	7(a)	-	220
Distribution payable	10(c)	-	5,248
Provisions		1,199	1,223
Contract liabilities		13,841	12,861
		30,617	31,057
Unitholders' equity			
Unitholders' capital	10	60,555	60,646
Retained earnings		92,578	80,321
		153,133	140,967
		\$ 183,750	\$ 172,024

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

Approved by the Board of Trustees

(Signed – Bevan May)
Bevan May
Trustee

(Signed – Gord Wiebe)
Gord M. Wiebe
Trustee

FOREMOST INCOME FUND

Condensed Consolidated Interim Statements of Net Income and Comprehensive Income

For the three and nine months ended September 30, 2023 and 2022

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

		Three-month period ended September 30,		Nine-month period ended September 30,	
	Notes	2023	2022	2023	2022
Revenue	4	\$ 44,985	\$ 42,855	\$ 140,867	\$ 112,595
Cost of sales		37,083	36,546	115,847	97,454
Gross profit		7,902	6,309	25,020	15,141
Administrative expenses		4,433	4,079	12,964	11,769
Income earnings from operating activities		3,469	2,230	12,056	3,372
Interest income		538	206	1,391	537
(Loss) gain on disposal of property, plant and equipment		(20)	(2)	11	11
Foreign exchange (loss) gain		(117)	(532)	34	(633)
Net non-operating income (loss)		401	(328)	1,436	(85)
Income before income tax		3,870	1,902	13,492	3,287
Income tax expense		227	204	1,157	423
Net and comprehensive income for the period		\$ 3,643	\$ 1,698	\$ 12,335	\$ 2,864
Basic and diluted earnings per Trust Unit	12	\$ 0.21	\$ 0.09	\$ 0.71	\$ 0.16

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

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Condensed Consolidated Interim Statements of Changes in Unitholders' Equity

For the period ended September 30, 2023

(Unaudited in \$ 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	10(b)	(147,349)	(510)	(430)	(940)
Exercise of options		71,000	411	-	411
Net income and comprehensive income		-	-	2,864	2,864
September 30, 2022		17,499,708	\$ 60,665	\$ 83,870	\$ 144,535
December 31, 2022		17,494,049	\$ 60,646	\$ 80,321	\$ 140,967
Redemption of Trust Units	10(b)	(26,156)	(91)	(78)	(169)
Net income and comprehensive income		-	-	12,335	12,335
September 30, 2023		17,467,893	60,555	92,578	153,133

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Condensed Consolidated Interim Statements of Cash Flows

For the period ended September 30, 2023

(Unaudited in \$ thousands of Canadian dollars)

		For the nine-month period ended September 30,	
	Notes	2023	2022
Cash flows provided by (used in):			
Operations:			
Net income and comprehensive income for the period		\$ 12,335	\$ 2,864
Items not involving the use of cash:			
Depreciation and amortization	8	2,884	2,904
Gain on disposal of property, plant and equipment		(11)	(11)
Income tax expense		1,157	423
Unrecognized foreign exchange (gain) loss on forward contract	7(a)	(241)	495
Change in non-cash working capital:			
Trade and other receivables		(190)	(4,288)
Inventories		1,153	(14,741)
Contract assets		(5,301)	(1,688)
Prepaid expenses		(914)	296
Trade and other payables		4,072	1,134
Provisions		(24)	139
Contract liabilities		980	743
Net cash provided by (used in) operating activities		15,900	(11,730)
Investments:			
Purchase of property, plant and equipment	8	(5,669)	(2,035)
Purchase of intangibles		(351)	-
Net proceeds from disposal of property, plant and equipment		55	16
Net cash used in investing activities		(5,965)	(2,019)
Financing:			
Distribution payment	10(c)	(5,248)	(5,267)
Exercise of options		-	411
Redemption of Trust Units	10(b)	(169)	(940)
Net cash used in financing activities		(5,417)	(5,796)
Net increase (decrease) in cash and cash equivalents		4,518	(19,545)
Cash and cash equivalents, beginning of the period		35,774	53,196
Cash and cash equivalents, end of period		\$ 40,292	\$ 33,651
Supplemental disclosure of operating cash flows			
Cash interest received	7	1,391	537

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

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Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2023 and 2022

All amounts in thousands of Canadian dollars unless otherwise stated (Unaudited)

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 on March 11, 2022 (the 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 resolution, 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 of 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 terms of the Deed of Trust, 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 two active manufacturing and service locations in Alberta. These 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 maintains a focus on custom-built vehicles for its clientele and serves them through two manufacturing and service locations across Alberta.

2. Basis of Preparation

a. Statement of Compliance

The condensed consolidated interim financial statements (statements) have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting, as issued by the International Accounting Standards Board.

These statements were authorized for issue by the Board of Trustees on November 23, 2023, and should be read with the Fund's 2022 annual audited consolidated financial statements.

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

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d. Use of Estimates and Judgments

The preparation of the 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 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.

Significant estimates used in the preparation of these statements are consistent with those disclosed in the 2022 annual audited consolidated financial statements and include:

- the assessment of the percentage completion on cost-plus and fixed-fee contracts (including estimated total costs and provisions for estimated losses)
- the recognition of claims, variations in contract work (that is, change orders), and incentive payments on contracts
- assumptions used to value financial instruments
- estimates and assumptions used to determine the allowance for impairment of trade receivables; useful lives and impairment of property, plant and equipment; warranty provisions; and allowance relating to deferred tax assets

Management applies judgment to determine whether a contract is, or contains, a lease, from both a lessee and a lessor perspective. This assessment is based on whether the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Key judgments include whether a contract identifies an asset, whether the lessee obtains substantially all of the economic benefits of the asset over the contract term, and whether the lessee has the right to direct the asset's use. Management also applies judgment to determine the rate used to discount the lease payments. Estimates are applied with respect to the incremental borrowing rate used.

3. Significant Accounting Policies

The Fund's accounting policies have not changed from those previously disclosed in note 3 of the 2022 annual audited consolidated financial statements.

4. Operating Segments

The Fund has three reportable operating segments, as described below, each of which are the Fund's strategic business units. For each strategic business unit, the Fund's President reviews 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 equipment, and related parts and tooling
- **Foremost Energy Equipment—FEE** designs, manufactures, sells, and services oil treating systems, shop tanks, field tanks, oil and gas process treating equipment, fuel storage tanks, protective coatings, agricultural products, and gas separators
- **Corporate and Eliminations—Corporate** includes administrative operations with expenses incurred at the Fund level and within Foremost Financial Ltd. Eliminations include adjustments for internal rent agreements between segments

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Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that the President reviews. Segment profit is used to measure performance, as management believes it is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Transfer pricing is based on third-party rates.

	Foremost Energy Equipment		Foremost Mobile Equipment		Corporate		Total	
For the three months ended September 30,	2023	2022	2023	2022	2023	2022	2023	2022
Revenue	\$ 11,525	\$ 15,782	\$ 33,582	\$ 27,186	\$ (122)	\$ (113)	\$ 44,985	\$ 42,855
Cost of sales	10,365	14,786	26,840	21,873	(122)	(113)	37,083	36,546
Gross profit	1,160	996	6,742	5,313	-	-	7,902	6,309
Administrative expenses	1,526	1,262	2,512	2,097	395	720	4,433	4,079
Net (loss) income from operating activities	(366)	(266)	4,230	3,216	(395)	(720)	3,469	2,230
Interest income	157	26	251	(19)	130	199	538	206
Other income	124	-	(124)	-	-	-	-	-
(Loss) gain on disposal of property, plant and equipment	(21)	-	1	(2)	-	-	(20)	(2)
Foreign exchange (loss) gain	(1)	(1)	87	(528)	(203)	(3)	(117)	(532)
Net non-operating income (loss)	259	25	215	(549)	(73)	196	401	(328)
Income/(loss) before tax	(107)	(241)	4,445	2,667	(468)	(524)	3,870	1,902
Income tax expense	112	40	103	138	12	26	227	204
Net (loss) income and comprehensive (loss) income	\$ (219)	\$ (281)	\$ 4,342	\$ 2,529	\$ (480)	\$ (550)	\$ 3,643	\$ 1,698

	Foremost Energy Equipment		Foremost Mobile Equipment		Corporate		Total	
For the nine months ended September 30,	2023	2022	2023	2022	2023	2022	2023	2022
Revenue	\$ 36,377	\$ 40,129	\$ 104,855	\$ 72,804	\$ (365)	\$ (338)	\$ 140,867	\$ 112,595
Cost of sales	32,457	38,581	83,755	59,211	(365)	(338)	115,847	97,454
Gross profit	3,920	1,548	21,100	13,593	-	-	25,020	15,141
Administrative expenses	4,549	3,812	7,624	6,309	791	1,648	12,964	11,769
Net (loss) income from operating activities	(629)	(2,264)	13,476	7,284	(791)	(1,648)	12,056	3,372
Interest income	522	205	661	(21)	208	353	1,391	537
Other income	124	-	(124)	-	-	-	-	-
Gain (loss) on disposal of property, plant and equipment	13	14	(2)	(3)	-	-	11	11
Foreign exchange (loss) gain	(1)	-	77	(542)	(42)	(91)	34	(633)
Net non-operating income (loss)	658	219	612	(566)	166	262	1,436	(85)
Income/(loss) before tax	29	(2,045)	14,088	6,718	(625)	(1,386)	13,492	3,287
Income tax expense	448	61	653	244	56	118	1,157	423
Net (loss) income and comprehensive (loss) income	\$ (419)	\$ (2,106)	\$ 13,435	\$ 6,474	\$ (681)	\$ (1,504)	\$ 12,335	\$ 2,864

Reportable segment assets	\$ 67,951	\$ 63,956	\$ 75,910	\$ 73,453	\$ 39,889	\$ 36,419	\$ 183,750	\$ 173,828
Capital expenditures	\$ 4,686	\$ 1,325	\$ 983	\$ 710	\$ -	\$ -	\$ 5,669	\$ 2,035
Reportable segment liabilities	\$ 9,644	\$ 10,518	\$ 20,210	\$ 17,626	\$ 763	\$ 1,149	\$ 30,617	\$ 29,293

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Notes to the Condensed Consolidated Interim Financial Statements

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Disaggregation of revenue

	Primary Geographical Markets							
	Canada		United States		International		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
For the three months ended September 30,								
Major Product Lines								
Vessels & Gas Separation	\$ 1,077	\$ 1,861	\$ -	\$ -	\$ -	\$ -	\$ 1,077	\$ 1,861
Agricultural Bins	1,857	3,064	-	-	-	-	1,857	3,064
Shop Tanks	5,980	7,509	172	-	-	-	6,152	7,509
Field Tanks	619	1,513	-	-	-	-	619	1,513
ULC Tanks	1,424	1,152	-	5	-	5	1,424	1,162
Other	396	655	-	15	-	3	396	673
Total FEE	11,353	15,754	172	20	-	8	11,525	15,782
Parts	1,295	1,606	3,116	2,019	1,550	1,210	5,961	4,835
Drills	2,065	1,577	4,864	2,982	1,371	3,832	8,300	8,391
Vehicles	-	-	28	797	-	-	28	797
Trucks	8,028	7,310	11,265	5,853	-	-	19,293	13,163
Total FME	11,388	10,493	19,273	11,651	2,921	5,042	33,582	27,186
Corporate and Eliminations	(122)	(113)	-	-	-	-	(122)	(113)
Total	\$ 22,619	\$ 26,134	\$ 19,445	\$ 11,671	\$ 2,921	\$ 5,050	\$ 44,985	\$ 42,855

	Primary Geographical Markets							
	Canada		United States		International		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
For the nine months ended September 30,								
Major Product Lines								
Vessels & Gas Separation	\$ 4,433	\$ 5,191	\$ -	\$ -	\$ -	\$ 191	\$ 4,433	\$ 5,382
Agricultural Products	2,695	5,971	-	-	-	-	2,695	5,971
Shop Tanks	18,520	20,267	801	-	-	-	19,321	20,267
Field Tanks	4,125	2,660	-	-	-	-	4,125	2,660
ULC Tanks	4,054	3,613	-	5	-	8	4,054	3,626
Other	1,749	2,205	-	15	-	3	1,749	2,223
Total FEE	35,576	39,907	801	20	-	202	36,377	40,129
Parts	4,723	4,157	8,156	6,944	6,187	3,832	19,066	14,933
Drills	8,767	5,476	15,603	11,422	5,037	7,625	29,407	24,523
Vehicles	-	-	28	848	-	-	28	848
Trucks	27,326	21,712	29,029	10,788	-	-	56,355	32,500
Total FME	40,815	31,345	52,816	30,002	11,224	11,457	104,855	72,804
Corporate and Eliminations	(365)	(338)	-	-	-	-	(365)	(338)
Total	\$ 76,026	\$ 70,914	\$ 53,617	\$ 30,022	\$ 11,224	\$ 11,659	\$ 140,867	\$ 112,595

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Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2023 and 2022

All amounts in thousands of Canadian dollars unless otherwise stated (Unaudited)

Major Customers

For the nine month period ended September 30, 2023, the Fund had two customers who accounted for 39.9% of revenues. For the same period ended 2022, one customer accounted for 28.7% of revenues. Within the Energy Equipment segment, three customers accounted for 23.7% of segment revenues for the nine-month period ended September 30, 2023. For the same period ended September 30, 2022, three customers accounted for 28.2% of segment revenues. Within the Mobile Equipment segment, two customers accounted for 53.7% of revenues for the nine-month period ended September 30, 2023. For the same period ended September 30, 2022, two customers accounted for 44.5% of revenues.

5. Cash and Cash Equivalents

As at	September 30, 2023	December 31, 2022
Bank balances	\$ 30,050	\$ 15,709
Short-term investments	10,242	20,065
	\$ 40,292	\$ 35,774

At September 30, 2023, the Fund held short-term deposits of \$10.2 million (December 31, 2022 – \$20.1 million).

6. Inventories

	September 30, 2023	December 31, 2022
Raw materials and consumables	\$ 41,747	\$ 47,049
Work in progress related to capital equipment	11,145	7,999
Finished goods	4,998	3,995
	\$ 57,890	\$ 59,043

Valuation Allowances

	September 30, 2023	December 31, 2022
Raw materials and consumables	\$ (5,067)	\$ (5,036)
Finished goods	(997)	(1,319)
	\$ (6,064)	\$ (6,355)

During the nine months that ended September 30, 2023, the Fund reviewed its inventory allowance calculation and, as a result, recorded an inventory recovery of \$0.3 million (2022 - \$0.6 million recovery). The recovery is due to both usage and disposal of raw materials as well as fluctuations in the market value of raw materials on hand.

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Notes to the Condensed Consolidated Interim Financial Statements

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7. Risk Management

a. Market Risk

Fluctuations in foreign currency are a source of market risk for the Fund 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), under all foreign contracts. Where market risk is deemed unacceptably high, the Fund will enter into forward exchange contracts to reduce exposure. Derivative instruments will impact future cash flows as foreign exchange rates change over the contract terms. Both contract currency and term will have an impact on this outcome.

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 on the difference between the contracted rate and the current forward rate. At September 30, 2023, seven contracts were in place, which recorded an unrealized gain of \$0.1 million. Six contracts were in place on September 30, 2022, which recorded an unrealized loss of \$0.5 million. The unrealized gain was recorded in the Foreign Exchange Gain (loss) section.

	Notational Amount	Fair Value	Fixed Rate to Sell	Forward Rate	Term
Forward contract	1,500 USD	\$ 5	1.357500	1.354300	November 30, 2023
Forward contract	1,000 USD	\$ 15	1.357500	1.352750	January 31, 2024
Forward contract	1,500 USD	\$ 5	1.355500	1.352260	February 29, 2024
Forward contract	1,500 USD	\$ (11)	1.344500	1.351860	March 28, 2024
Forward contract	1,500 USD	\$ 7	1.355500	1.350930	May 30, 2024
Forward contract	1,000 USD	\$ 5	1.361000	1.356053	May 31, 2024
Forward contract	1,500 USD	\$ (4)	1.353500	1.356053	August 30, 2024
	9,500 USD	\$ 21			

b. 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. Credit risk 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, primarily in the oil and natural gas industry in Canada and the United States. At September 30, 2023, and December 31, 2022, no customers represented more than 10% of the Fund's accounts receivable balance. One customer represented 16.9% of work in progress at September 30, 2023, and one customer represented 25% of work in progress at December 31, 2022.

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All amounts in thousands of Canadian dollars unless otherwise stated (Unaudited)

The Fund has established credit policies and limits, according to which counterparties are analyzed individually for creditworthiness before being offered the Fund's standard delivery terms. Management also reviews all past-due receivable balances to identify matters at an early stage that could potentially delay the collection of funds. For the nine months ended September 30, 2023, the Fund provided an allowance for doubtful accounts of \$0.2 million (December 2022 —\$0.2 million), calculated using an expected credit loss assessment for specifically identifiable customer balances assessed to have credit risk exposure. The aging of trade and other receivables is as follows:

As at:	September 30, 2023		December 31, 2022	
	Gross	Impairment	Gross	Impairment
Current	\$ 8,612	\$ -	\$ 3,657	\$ -
Past due 1 - 30 days	4,052	-	6,866	-
Past due 31 - 60 days	1,708	-	1,844	-
Past due 60 days	1,605	208	3,237	186
Total trade receivables	15,977	208	15,604	186
Other receivables	557	-	718	-
Total trade and other receivables	\$ 16,534	\$ 208	\$ 16,322	\$ 186

8. Property, Plant and Equipment

	Land and Buildings	Assets Under Construction	Equipment	Rental Equipment	Total
Balance at December 31, 2022	\$ 47,333	\$ 2,162	\$ 40,779	\$ -	\$ 90,274
Additions	1,276	2,743	1,661	-	5,680
Transfer	25	(230)	205	-	-
Disposals	(43)	(13)	(179)	-	(235)
Balance at September 30, 2023	\$ 48,591	\$ 4,662	\$ 42,466	\$ -	\$ 95,719

Accumulated depreciation

	Land and Buildings	Assets Under Construction	Equipment	Rental Equipment	Total
Balance at December 31, 2022	\$ 29,089	\$ -	\$ 30,680	\$ -	\$ 59,769
Depreciation for the year	981	-	1,665	-	2,646
Disposals	(22)	-	(158)	-	(180)
Balance at September 30, 2023	\$ 30,048	\$ -	\$ 32,187	\$ -	\$ 62,235

Carrying Amount	Land and Buildings	Assets Under Construction	Equipment	Rental Equipment	Total
Balance at December 31, 2022	\$ 18,244	\$ 2,162	\$ 10,099	\$ -	\$ 30,505
Balance at September 30, 2023	\$ 18,543	\$ 4,662	\$ 10,279	\$ -	\$ 33,484

Depreciation included in the cost of sales category for the period is \$2.4 million, and \$0.2 million is included in administrative expenses.

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9. Investment Property

	September 30, 2023	December 31, 2022
Cost		
Balance, beginning of year	\$ 8,949	\$ -
Additions	\$ -	
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
Land and Buildings	\$ 3,873	\$ 3,873
Total	\$ 3,873	\$ 3,873

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

10. 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 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 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 cash redemption price equal to the tangible book value, plus or minus 10%. The cash redemption price is set at the discretion of the Board of Trustees. In conjunction with its delisting, the Fund increased the monthly redemption limit to \$1.5 million per month, which can be paid in cash or, in certain circumstances, by the issuance of an unsecured promissory note.

The Deed of Trust also limits the Unitholders' ability to sell, transfer, consign, mortgage, pledge, or dispose of any Trust Units in any manner without the prior written consent of the Board of Trustees. The Board of Trustees will evidence its consent by resolution, and any attempt to do any of the above without consent will be void.

FOREMOST INCOME FUND

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2023 and 2022

All amounts in thousands of Canadian dollars unless otherwise stated (Unaudited)

As previously disclosed, under s. 6.4(ii)(B) of the Deed of Trust, the Trustees have exercised their discretion to reduce the monthly redemption limit to \$0.35 million for each month until otherwise notified. This means that if redemptions exceed the monthly limit, the excess will be paid by promissory notes, but Unitholders tendering notices of redemption will be allowed to withdraw notices. All promissory notes are subject to the terms and conditions of the Deed of Trust.

During the nine month period ended September 30, 2023, there were 26,156 Trust Units redeemed (2022 – 147,349) and cash payments of \$0.2 million (2022 – \$0.9 million). As at September 30, 2023, the stated redemption price was \$6.85 per unit.

c. Trust Unit Distributions

The Fund intends to distribute taxable income annually via a cash distribution at the Trustees' discretion. For the year ended December 31, 2022, the Fund announced a \$5.3 million distribution, representing \$0.30 per unit. This was paid in the first quarter of 2023.

11. Related Parties

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 nine month period ended September 30, 2023, the total amount invoiced for consulting services through TOM Capital was \$0.3 million (2022 – \$0.3 million).

12. Per Trust Unit Amounts

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

For the nine month period ended September 30,	2023	2022
Basic and diluted weighted-average Trust Units	17,476,345	17,579,768
Net income for the year (in thousands of Canadian dollars)	\$ 12,335	\$ 2,864
Basic and diluted earnings per share	\$ 0.71	\$ 0.16

13. 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 2017, the Trustees granted 116,000 options, at an exercise price of \$5.80 per unit. In the first quarter of 2021, an additional 440,000 options were granted at an exercise price of \$6.00 per unit.

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Trust Units-Based Compensation Expense

Of the 116,000 unit options granted in April 2017, 71,000 were exercised during the first quarter of 2022, at \$5.80 per unit. On April 1, 2022, 5,000 of these units expired, and 40,000 were cancelled and re-issued as part of the 2021 options. There were no options granted during 2023.

The 440,000 unit options granted in January 2021 vest over a five-year period and expire five years from the date of grant. They are exercisable on a one-to-one basis at the exercise price of \$6.00 per unit option. The fair value of these unit options is \$451 at June 30, 2023 (2022 – \$155). The 2023 weighted average fair value per option of \$0.79 was calculated using the Black-Scholes model, with the following assumptions: a risk-free rate of 7.2%, a forfeiture rate of nil, an expected option life of five years, a volatility of 4.70%, and a quarterly dividend rate of 4.62%.

For the nine months ended September 30, 2023, an expense of \$297 (2022 - \$137) was recorded in relation to the transactions above. The trust unit-based compensation expense is included in administrative expenses on the statement of income.

14. 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

The Fund is not subject to any externally imposed capital requirements.

In the definition of capital, the Fund includes Unitholders' capital, retained earnings, long-term debt (including any current portion), bank indebtedness, cash and cash equivalents, and undrawn credit facilities.

15. Credit Facilities

The Fund maintains a credit facility with a major Canadian chartered bank. 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 \$19.7 million of the credit facility at September 30, 2023.

FOREMOST INCOME FUND

Notes to the Condensed Consolidated Interim Financial Statements

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All amounts in thousands of Canadian dollars unless otherwise stated (Unaudited)

16. 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 condensed consolidated interim statement of financial position, are as follows:

	September 30, 2023		December 31, 2022	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets carried at amortized cost				
Cash and cash equivalents	\$ 40,292	\$ 40,292	\$ 35,774	\$ 35,774
Trade and other receivables	16,326	16,326	16,136	16,136
Derivatives	21	21	-	-
	\$ 56,639	\$ 56,639	\$ 51,910	\$ 51,910
Liabilities carried at amortized cost				
Trade and other payables	\$ 15,577	\$ 15,577	\$ 11,505	\$ 11,505
Distribution payable	-	-	5,248	5,248
Derivatives	-	-	220	220
	\$ 15,577	\$ 15,577	\$ 16,973	\$ 16,973

Fair Value Hierarchy

The Fund has segregated all financial assets and liabilities that are 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.

The fair value of the forward contract is measured based on the difference between the contracted rate and the current forward rate provided from the financial institution. The Fund continues to classify the forward contract as level 2, as the inputs used in the valuation are observable in the open market.