

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%.

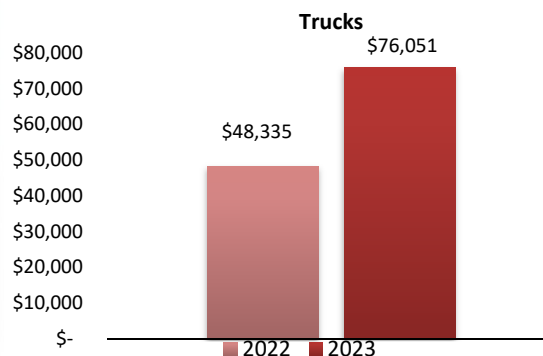
SUMMARY OF QUARTERLY INFORMATION - FOREMOST MOBILE EQUIPMENT

(000's except per Trust Unit amounts)

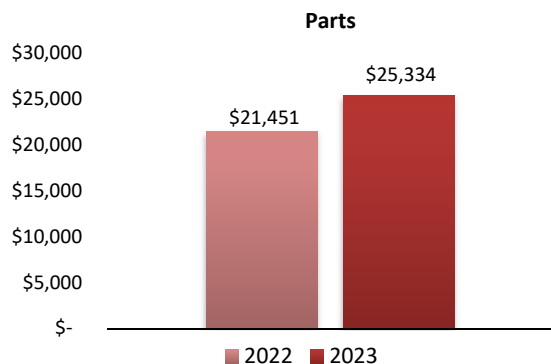
2023	Q1	Q2	Q3	Q4	Total
Revenue	\$ 33,709	\$ 37,564	\$ 33,582	\$ 36,196	\$ 141,052
Gross profit (\$)	\$ 6,524	\$ 7,834	\$ 6,742	\$ 6,328	\$ 27,429
Gross profit (%)	19%	21%	20%	17%	19%
Administrative expenses (\$)	\$ 2,546	\$ 2,566	\$ 2,512	\$ 2,528	\$ 10,152
Administrative expenses (% of total revenue)	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.

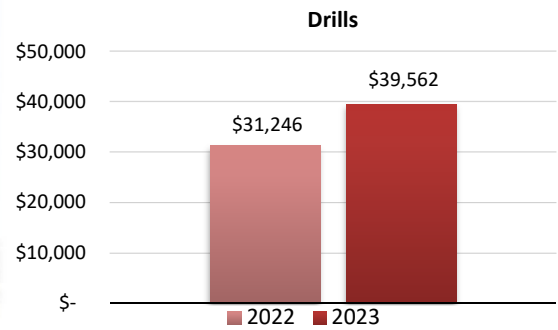


Parts sales increased by \$3.9 million over the prior year, as the market for mining tools and industrial products remained strong in the US and Internationally. 2023 was a record sales year for the parts product line.





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.

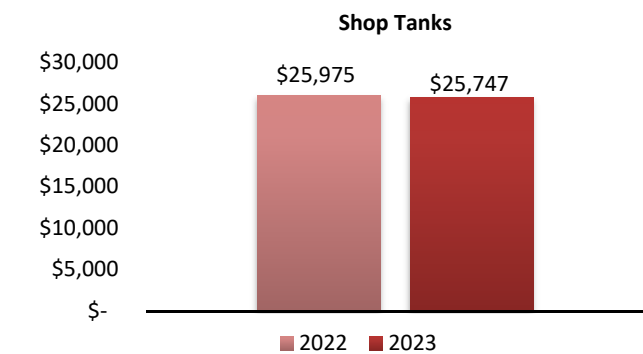
SUMMARY OF QUARTERLY INFORMATION - FOREMOST ENERGY EQUIPMENT

(000's except per Trust Unit amounts)

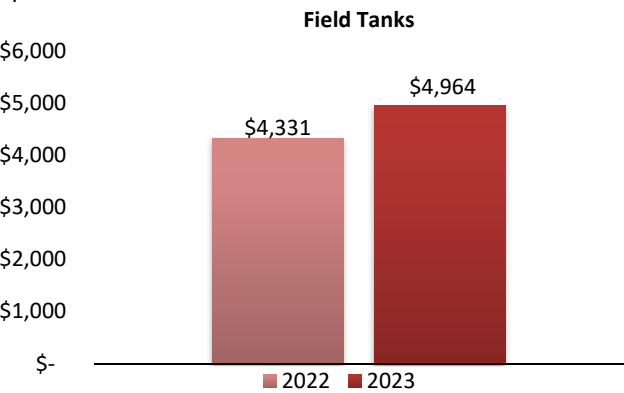
2023	Q1	Q2	Q3	Q4	Total
Revenue	\$ 11,710	\$ 13,142	\$ 11,525	\$ 11,050	\$ 47,427
Gross profit (\$)	\$ 698	\$ 2,062	\$ 1,160	\$ 683	\$ 4,603
Gross profit (%)	6%	16%	10%	6%	10%
Administrative expenses (\$)	\$ 1,509	\$ 1,514	\$ 1,526	\$ 1,763	\$ 6,312
Administrative expenses (% of total revenue)	13%	12%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

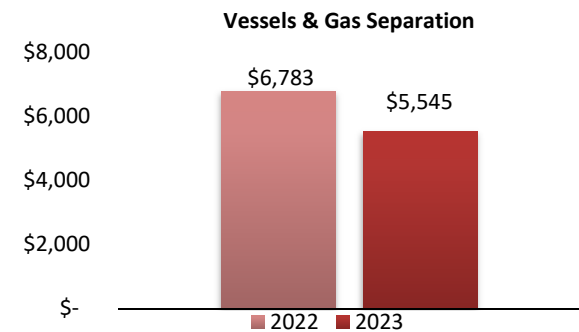
Shop tank revenue decreased slightly when comparing 2023 to 2022. This product line continues to be the strongest revenue source for FEE.



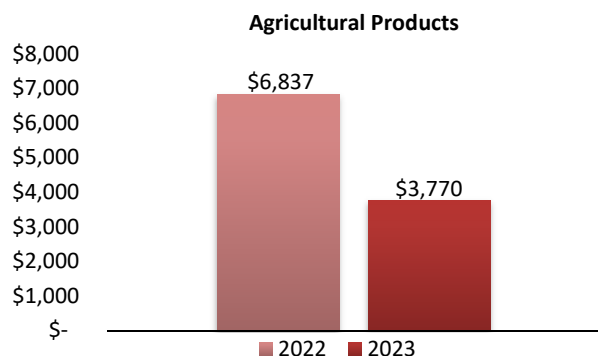
Field tank revenue rebounded during the end of 2022, from the 2021 low. Revenue of \$5.0 million was recognized during 2023, an increase over the \$4.3 million recognized in 2022. This is related to a large field project that finished in the second quarter of 2023.



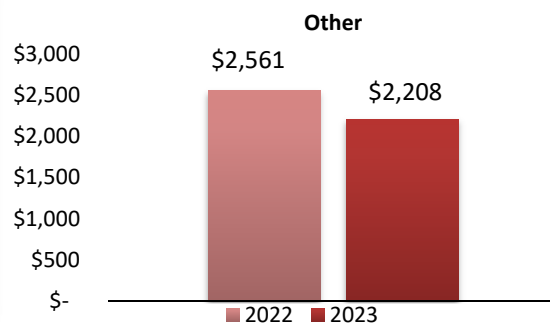
The vessel and gas separation revenue dropped by \$1.2 million year over year. Based on quote volumes and secured contracts, Foremost expects this product line revenue to increase in 2024.



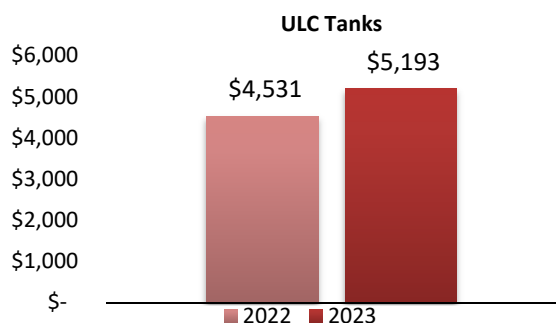
Shipments of bins slowed down throughout late 2022 and into 2023 due to rising interest rates, drought concerns and lower volatility in the fertilizer markets. This resulted in a drop in revenue of \$3.1 million when comparing 2022 to 2023.



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.