

Foremost Income Fund Management's Discussion and Analysis

Management's Discussion and Analysis ("MD&A") of Foremost Income Fund, hereinafter referred to as the Fund, for the three and nine month periods ended September 30, 2009, should be read in conjunction with the Fund's Annual Report for the year ended December 31, 2008, as well as the Management's Discussion and Analysis in the Fund's 2008 Annual Report and the Fund's 2008 Annual Information Form ("AIF"). The interim financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with Canadian generally accepted accounting principles. The MD&A has been prepared taking into consideration information to November 12, 2009. Additional information relating to the Fund may be found at www.sedar.com.

Certain statements in this release may constitute forward-looking statements involving known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Fund to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this release, such statements use words such as "anticipate", "could", "expect", "seek", "may", "intend", "will", "believe", "estimate", "plan" and similar expressions. These statements reflect management's current expectations regarding future events and operating performance and are valid only up to the date of this release. These forward-looking statements involve a number of risks and uncertainties, including: the impact of general economic conditions, industry conditions, changes in laws and regulations, increased competition, fluctuations in commodity prices and foreign exchange, and interest rates and stock market volatility. Readers are cautioned not to place undue reliance on these forward-looking statements. The Fund does not undertake any obligation to update or revise any of the forward-looking statements, except as may be required by applicable securities laws.

NON-GAAP MEASURES

Management believes three measures which are not defined under Canadian generally accepted accounting principles, namely "funds flow from operations", "funds flow per trust unit" and "book value per trust unit" are useful supplemental measures. None of these terms as presented are intended to represent cash flows from operating activities or net income or comprehensive income, nor should they be viewed as an alternative to cash flows from operating activities, net income or comprehensive income or other measures of financial performance calculated in accordance with Canadian generally accepted accounting principles. Furthermore, the Fund's method of calculating these supplemental measures may not be comparable to similarly titled amounts reported by other issuers.

Used throughout this MD&A, their respective definitions and purpose are outlined below:

Funds flow from operations is defined as net income from continuing operations adjusted for items not involving cash and before changes in non-cash working capital. This amount is considered meaningful as it is used to identify the Fund's ability to finance from operations its working capital requirements, planned capital expenditures and trust unit distributions.

Funds flow per trust unit is determined as funds flow from continuing operations divided by the number of trust units outstanding at the end of the period. The Fund uses this amount as an indicator of the changes in funds flow from operations on a per-unit basis for comparative periods.

Book value per trust unit is determined as unitholders' equity divided by the number of trust units outstanding at the end of the period. The Fund uses this amount as an indicator of the changes in unitholders' equity on a per-unit basis for comparative periods.

OVERVIEW

The Fund is an unincorporated, open-end unit trust and conducts its business through Foremost Universal LP ("Universal") and Foremost Industries LP ("Foremost"), deriving its net income from both Universal and Foremost.

Universal, with its focus on the oil and gas industry, consists of:

- Universal Industries, a manufacturer of oil treating systems, shop and field storage tanks
- Stettler Universal Limited Partnership ("Stettler"), a gas separator manufacturer
- Corlac Industries ("Corlac"), Peace Land Fabricating and Supply Ltd. ("Peace Land") and De-In Industries Ltd. ("De-In"), all shop tank manufacturers
- Maloney Industries ("Maloney"), a manufacturer of oil and gas process treating equipment
- Force Compression Systems ("Force"), a sales and service provider for natural gas compression equipment.

Foremost, with its focus on custom manufacturing, consists of:

- Foremost Industries, a manufacturer of custom equipment used for the oil and gas, construction, waterwell and mining industries
- Foremost Drilling Company, Inc. (formerly known as Mobile Drilling Company, Inc.), a vendor of Foremost Industries custom equipment to U.S. customers.

On July 29, 2009 the Fund agreed to lease the land and buildings at Universal's Wilco, Saskatchewan facility to a manufacturer of non-competitive products. Commencing August 1, 2009, the lease is for three years. The Fund will receive monthly lease payments of \$3,250 for the first three months and \$6,500 thereafter. The Fund also granted the lessee an option to purchase the facility during the last two months of the lease for \$850,000.

On October 9, 2008, the Fund sold the operations and certain assets and liabilities of Mobile Drilling Company, Inc. ("Mobile"). Accordingly, the financial operations of this business have been reported as discontinued operations for the September 30, 2008 reporting period. In January 2009, approval was received to change the name to Foremost Drilling Company, Inc.

Headquartered in Calgary, the Fund's combined businesses, predominantly based in western Canada, employ approximately 375 people. Trust units of the Fund trade on the Toronto Stock Exchange under the symbol "FMO.UN".

OVERALL RESULTS

Both the Fund's balance sheet and statements of income reflect the impact of current market conditions and management's efforts to manage cash and maintain a strong balance sheet. From a balance sheet perspective, at September 30, 2009, the Fund had \$34.9 million of cash on hand as compared with \$15.5 million of bank indebtedness at September 30, 2008. The combined effect of lower business activity levels on working capital requirements plus specific initiatives to reduce operating costs generated \$1.0 million of cash from non-cash working capital items for Q3-2009 and \$28.7 million YTD-2009 compared with the use of \$15.9 million and \$9.1 million for the respective periods in 2008. Working capital at September 30, 2009 was \$71.0 million, a \$9.8 million increase over the \$61.2 million reported for September 30, 2008. Unitholders' equity represented 89.2% of total assets at September 30, 2009 versus 79.1% at September 30, 2008.

From an income statement perspective, weak North American natural gas drilling activity, lower oilsands activity and uncertain and volatile commodity markets continue to suppress revenues and earnings relative to 2008. Revenues for Q3-2009 amounted to \$24.1 million versus \$57.3 million for Q3-2008. YTD-2009 revenues were \$94.0 million compared to \$160.1 million for YTD-2008. Gross profit dollars declined as a result of lower revenues. Reflecting changes in product mix, the Q3-2009 gross profit percentage of 28.0% was higher than 27.3% for Q3-2008. The YTD-2009 product mix resulted in a gross profit percentage of 27.0% versus 26.7% for YTD-2008. Compared against 2008, Q3-2009 and YTD-2009 selling, general and administrative expenses decreased \$2.5 million and \$3.9 million respectively because of manpower reductions, discretionary cost reductions and reduced levels of accrued bonuses. Q3-2009 and YTD-2009 foreign exchange losses of \$0.3 million and \$0.5 million respectively arose from the stronger Canadian dollar relative to June 30, 2009 and December 31, 2008. The YTD-2009 realized gain on forward exchange contracts of \$0.6 million is associated with a vehicle order delivered and paid for in Q2-2009. No significant disposals of property, plant and equipment have occurred YTD-2009 whereas YTD-2008 reported proceeds of \$4.1 million and a gain on disposal of \$2.4 million. Mobile's Q3-2008 and YTD-2008 net income of \$0.1 million and \$0.6 million has been reported as discontinued operations. The Fund's Q3-2009 net income was \$1.6 million versus \$8.4 million for Q3-2008. YTD-2009 net income was \$8.6 million as compared with \$24.3 million in 2008. Q3-2009 basic earnings per trust unit were \$0.08 per unit compared to \$0.39 for Q3-2008. YTD-2009 earnings per trust unit amount to \$0.40 per unit versus \$1.14 per trust unit for YTD-2008. Funds flow from operations has decreased as a result of lower earnings. Q3-2009 funds flow from operations was \$2.9 million compared to \$9.5 million in 2008. YTD-2009 funds flow from operations was \$12.1 million as compared with \$25.3 million for YTD-2008. In response to this, the Fund has reviewed its capital expenditure requirements and levels of trust unit distributions. Q3-2009 and YTD-2009 capital expenditures to maintain productive capacity were \$0.1 million and \$0.3 million respectively with YTD-2009 expenditures offset by the proceeds from disposal of property, plant and equipment. No trust units have been repurchased YTD-2009 whereas YTD-2008 included a \$3.0 million repurchase of trust units. All paid in cash, Q3-2009 trust unit distributions were \$2.1 million or \$0.10 per trust unit compared to Q3-2008 trust unit distributions of \$5.4 million or \$0.25 per trust unit. YTD-2009 trust unit distributions are \$6.4 million or cumulatively \$0.30 per trust unit versus \$15.9 million or \$0.75 per trust unit YTD-2008. The combination of operating, investing and financing activities generated a Q3-2009 increase in cash of \$1.5 million versus \$0.5 million use of cash for Q3-2008 and generated \$34.0 million YTD-2009 versus the use of \$0.5 million YTD-2008.

OUTLOOK FOR 2009

Q3-2009 and YTD-2009 financial results reflect the expected weakness in the Fund's core markets and the Fund's response to these conditions. The Fund believes revenues and earnings will continue to be suppressed as weakness in core markets persists through Q4-2009 and well into 2010. Accordingly, the Fund intends to maintain its focus on cost control, operational efficiency, capital expenditure requirements and trust unit distribution levels to maintain its balance sheet strength and cash position. As part of this focus, the Fund continues to look for ways to reduced operating costs, re-align manpower and monetize non-essential assets. These cash accumulation efforts should enable the Fund to meet the impact of increased business activity on working capital and to pursue accretive acquisitions.

SEASONALITY

Historically, the Fund's financial results reflect the seasonal operations of the oil and gas markets. Generally, it means that revenues and net earnings reported in the first two quarters are lower than the third and fourth quarters. However, this trend can be offset by significant shifts in economic activity in the global energy and mining industries or by the impact of business acquisitions or divestitures. Based on results to date and the current outlook, this pattern is not expected to occur in fiscal 2009.

RESULTS OF OPERATIONS

Universal

Universal's Q3-2009 revenues were \$19.8 million compared with \$41.8 million in Q3-2008. Q3-2009 net income was \$1.5 million compared with \$5.4 million in Q3-2008. Q3-2009 gross profit was \$5.0 million (25.3% of revenues) versus \$10.3 million (24.7% of revenues) for Q3-2008. Q3-2009 selling, general and administrative expenses were \$2.5 million (12.8% of revenues) compared with \$4.1 million (9.8% of revenues) in Q3-2008. YTD-2009 revenues were \$64.1 million compared to \$113.0 million for YTD-2008. YTD-2009 net income was \$3.8 million versus \$16.2 million for YTD-2008. YTD-2009 gross profit was \$15.4 million (24.1% of revenues) versus \$28.7 million (25.4% of revenues) for YTD-2008. YTD-2009 selling general and administrative expenses amounted to \$9.2 million (14.3% of revenues) versus \$11.8 million (10.4% of revenues) for YTD-2008. Neither Q3-2009 or YTD-2009 net incomes include significant gains from the disposal of property, plant and equipment whereas YTD-2008 includes a \$2.3 million gain on sale of property, plant and equipment. The decrease in Q3-2009 and YTD-2009 revenues, gross profit dollars, and net income relative to 2008 reflects ongoing weak market conditions. Selling, general and administrative expenses decreased because of reductions in manpower, discretionary costs and accrued bonuses but were partially offset by increases in legal expenses and international selling costs. The selling, general and administrative expenses have not and are not expected to decrease in direct proportion to revenues due to a significant portion of the remaining costs being fixed in nature.

After reviewing its future operational role, the Fund agreed to lease the land and buildings at Universal's Wilco, Saskatchewan facility to a manufacturer of non-competitive products. Commencing August 1, 2009, the lease is for three years. The Fund will receive monthly lease

payments of \$3,250 for the first three months and \$6,500 thereafter. The Fund also granted the lessee an option to purchase the facility during the last two months of the lease for \$850,000.

Foremost

Q3-2009 revenues for Foremost were \$4.3 million as compared with \$15.4 million for Q3-2008 (adjusted for Mobile discontinued operations). Q3-2009 net income was \$0.1 million versus \$2.9 million for Q3-2008. Q3-2009 gross profit was \$1.7 million (40.3% of revenues) versus \$5.3 million (34.3% of revenues) for Q3-2008. Q3-2009 selling, general and administrative expenses were \$1.1 million (26.2% of revenues) versus \$2.0 million (13.0% of revenues) for Q3-2008. YTD-2009 revenues were \$30.0 million as compared with \$47.1 million for YTD-2008 (adjusted for Mobile discontinued operations). YTD-2009 net income was \$4.8 million compared to \$8.0 million for YTD-2008. YTD-2009 gross profit was \$10.0 million (33.4% of revenues) compared to \$14.1 million (29.9% of revenues) for YTD-2008. YTD-2009 selling, general and administrative expenses were \$4.6 million (15.3% of revenues) compared to \$6.0 million (12.8% of revenues) for YTD-2008. Both the Q3-2009 and YTD-2009 revenue declines are due to lower sales in all product categories. The Q3-2009 increase in gross profit percentage reflects the benefits of higher margin vehicle, parts and service revenues offset by the negative impact of the stronger Canadian dollar. The decrease in selling, general and administrative expenses reflects lower tradeshow costs, lower costs from reductions in manpower and discretionary costs plus reductions in accrued bonuses. Increased legal expenses and international selling costs partially offset these reductions. The selling, general and administrative expenses have not and are not expected to decrease in direct proportion to revenues due to a significant portion of the remaining costs being relatively fixed in nature.

SELLING, GENERAL AND ADMINISTRATIVE

The Fund's Q3-2009 selling, general and administrative expenses amounted to \$3.7 million (15.2% of revenues) compared with \$6.2 million (10.8%) for Q3-2008. YTD-2009 selling, general and administrative expenses were \$13.8 million (14.6% of revenues) versus \$17.7 million (11.0%) for YTD-2008. The Q3-2009 decrease of \$2.5 million relative to Q3-2008 reflects the impact of lower operating costs arising from reductions in manpower, discretionary operating costs and bonus accruals. The YTD-2009 decrease of \$3.9 million can be attributed to the same factors. Partially offsetting these decreases were increased legal and international marketing expenses. Based on current revenue and operating expense forecasts, Q4-2009 selling, general and administrative expenses should be slightly lower than Q3-2009.

INTEREST EXPENSE

The Fund earned \$7,000 of interest income during Q3-2009 versus interest expense of \$22,000 for Q3-2008. YTD-2009 interest income was \$2,000 versus YTD-2008 interest expense of \$0.3 million. The lower interest expense is due to the Fund having little or no bank indebtedness. The Fund's conservative investment policies requires funds be invested in low risk interest bearing instruments. The combination of this policy with current low interest rates resulted in minimal interest income for Q3-2009 and is expected to generate similar results for Q4-2009. The Fund currently has no interest rate swap contracts or similar instruments to manage interest rate risk.

AMORTIZATION

Q3-2009 and Q3-2008 amortization was \$1.2 million respectively. YTD-2009 amortization was \$3.4 million versus \$3.7 million for YTD-2008. The lower YTD-2009 amortization reflects the 2008 sale of certain property, plant and equipment. Q4-2009 amortization is expected to be approximately \$1.2 million.

FOREIGN EXCHANGE

The Fund reported a Q3-2009 foreign exchange loss of \$0.3 million versus a \$0.1 million gain in Q3-2008. YTD-2009 reflects a \$0.5 million loss as compared with a \$0.2 million gain for YTD-2008. At any time, the Fund generally holds a net U.S. dollar working capital position. The Q3-2009 and YTD-2009 exchange loss is the net effect of exchange rate fluctuations on the conversion of U.S. dollar balances into Canadian dollar balances during the three and nine month periods plus the translation of foreign currency balances held at September 30, 2009 into equivalent Canadian dollar balances. Foreign exchange gains or losses will arise as long as the U.S.-to-Canadian dollar exchange rates fluctuate. Because the majority of foreign exchange is with the U.S. dollar, operating results will be influenced by rapid and significant changes in these exchange rates.

The Fund does not usually enter into foreign exchange contracts or similar instruments to manage exchange risk. However, the Fund entered into two foreign exchange forward contracts in 2008 to manage the foreign exchange risk associated with \$10.9 million of international capital equipment contracts. One contract worth \$4.4 million was closed out during Q1-2009 with the remaining \$6.5 million contract closed out during Q2-2009. Measured on a marked to market basis, foreign exchange forward contracts will generate a gain or loss from the comparison of the contract rate with the foreign exchange rate at each period end and at the closing date. YTD-2009 includes the \$0.6 million realized gain generated from these contracts. At September 30, 2009, there were no other foreign exchange forward contracts.

INCOME TAXES

Pursuant to the Deed of Trust, all Canadian taxable income is distributed to unitholders and, consequently, there is no Canadian income tax liability for the Fund. The Fund achieves this through the combination of its quarterly trust unit distributions which are paid in cash and the distribution of any remaining taxable income by way of a special non-cash distribution at December 31 of each year.

The Canadian government has enacted legislation which imposes a tax on certain distributions from publicly traded specified income flow-through trusts ("SIFT") entities effective January 1, 2011 or earlier if the Fund exceeds certain permitted growth guidelines established by the Canadian Department of Finance. The Fund remains subject to these tax measures. These measures result in the recognition of the estimated future income tax assets or liabilities based on the estimated timing differences (differences between the accounting basis and the tax basis of the respective assets and liabilities) at December 31, 2010. These differences are measured using the substantively enacted rates and laws expected to be applicable at that date. These differences are measured on a quarterly basis with any changes charged to the income statement when determined. The current future income tax asset and liabilities have been determined using tax rates ranging from 25% to 26.5%. The estimated \$19.5 million future income tax asset at September 30, 2009 remains unchanged from December 31, 2008.

The Fund's actual realization of this estimated future income tax asset will vary based on actual results, including but not limited to, changes in organizational structure, operating results, changes to tax deduction pool balances and trust unit distributions. The future income asset will be recalculated quarterly and differences in the actual realization of this future income tax asset may be material.

The Canadian government has released proposed amendments to the Income Tax Act (Canada) to permit the "conversion" of income trusts into corporations. The Fund is continuing to assess the impact of these proposed amendments.

CASH LIQUIDITY AND KEY FINANCIAL RATIOS

Q3-2009 funds flow from continuing operations amounted to \$2.9 million versus \$9.5 million for Q3-2008. The \$6.6 million decrease reflects the comparative difference in income from continuing operations. Q3-2009 changes in non-cash working capital reflects the changes in accounts receivable, inventories, prepaid expenses, accounts payable and accrued liabilities and deferred revenue balances relative to June 30, 2009. These changes resulted in the generation of \$0.9 million in cash for Q3-2009 versus the use of \$15.9 million during Q3-2008. YTD-2009 funds flow from operations amounted to \$12.1 million versus \$25.3 million for YTD-2008. The \$13.2 million decrease reflects the lower income from continuing operations. YTD-2009 changes in non-cash working capital accounts relative to December 31, 2008 resulted in the generation of \$28.7 million in cash versus the use of \$9.1 million during YTD-2008. The cash generated from working capital changes in Q3-2009 and YTD-2009 is a combination of reduced revenues and corresponding lower accounts receivable, concentrated efforts to collect accounts receivable, completion and delivery of previous periods work in progress, lower purchases of inventory on account due to lower business activity, lower receipts of cash deposits and progress payments on equipment sales contracts, and payments of accounts payable and accrued liabilities. As a result, cash flows provided by continuing operations amounted to \$3.8 million in Q3-2009 versus the use of \$6.3 million for Q3-2008. YTD-2009 cash flows provided by continuing operations were \$40.7 million compared with \$16.1 million for YTD-2008. The discontinued operations of Mobile generated \$0.2 million in cash for Q3-2008 and \$1.2 million for YTD-2008.

Q3-2009 investing activities consist of capital expenditures of approximately \$0.1 million. This compares with Q3-2008 capital expenditures of \$0.7 million and \$0.2 million of proceeds from disposals of certain property, plant and equipment. YTD-2009 capital expenditures were \$0.3 million compared to \$2.2 million for YTD-2008. YTD-2009 disposals of property, plant and equipment generated proceeds of \$0.3 million versus \$4.1 million in YTD-2008. YTD-2009 capital expenditures were to maintain productive capacity for current revenue requirements. The Fund's capital expenditures for fiscal 2009 are expected to be less than \$0.7 million.

Q3-2009 financing activities consisted of the cash payments of \$2.1 million of trust unit distributions (\$0.10 per unit). Q3-2008 financing activities consisted of an increase of \$11.1 million of bank indebtedness, cash payments of \$5.4 million of trust unit distributions and the issuance of \$0.4 million in trust units from the exercise of unit options. YTD-2009 financing activities consisted of the repayment of \$0.3 million of bank indebtedness and the cash payment of \$6.4 million of trust unit distributions. YTD-2008 financing activities included the repurchase of trust units for \$3.0 million pursuant to a Normal Course Issuer Bid, \$15.9 million in cash payments for trust unit distributions and the repayment of \$1.1 million of bank indebtedness.

The Q3-2009 and Q3-2008 cash flows provided by continuing operations were sufficient to fund the respective Q3-2009 and Q3-2008 trust unit distributions. As well, YTD-2009 and YTD-2008 cash flows provided by continuing operations have been sufficient to fund YTD-2009 and YTD-2008 trust unit distributions.

Net working capital at September 30, 2009 was \$71.0 million compared to \$65.3 million at December 31, 2008 and \$61.2 million at September 30, 2008. The Fund's working capital and debt-to-equity ratios improved relative to December 31, 2008 and September 30, 2008. The September 30, 2009 working capital ratio was 4.77:1 versus 2.87:1 at December 31, 2008 and 2.54:1 at September 30, 2008. The debt-to-equity ratio was 0.12:1 at September 30, 2009 compared with 0.23:1 at December 31, 2008, and 0.26:1 at September 30, 2008.

Book value per trust unit increased to \$7.29 at September 30, 2009 from \$7.18 at December 31, 2008 and \$7.02 at September 30, 2008.

The Fund has no short-term or long-term debt and continues to use cash flow from operating activities and short-term bank indebtedness to support non-cash working capital, investing and financing requirements. The Fund expects the combination of its September 30, 2009 cash balances and Q4-2009 cash flows from operations will fund anticipated Q4-2009 working capital, planned capital expenditures and forecast trust unit distributions.

The Fund's bank credit facility contains certain debt covenants. The Fund is well within these covenants at September 30, 2009 and expects to remain well within these covenants at the end of fiscal 2009 and into fiscal 2010. The Fund's \$50.0 million committed bank credit facility expired in July 2009. The Fund subsequently entered into a one year \$20.0 million uncommitted operating credit facility with its bank.

TRUST UNIT DISTRIBUTIONS

The Fund declares trust unit distributions to unitholders on a quarterly basis. The amount of trust unit distributions is generally determined by taking cash flows from continuing operating activities and adjusting for the costs of property, plant and equipment upgrades and expansion, business acquisitions and the effect of changes in general business conditions on working capital. Taking into consideration the Fund's current market conditions, forecast earnings and related cash flows, the Q3-2009 trust unit distribution was reduced to \$0.10 per trust unit from the \$0.25 per trust unit in Q3-2008. This resulted in total cash payments of \$2.1 million as compared with \$5.4 million in Q3-2008. In order to manage the impact of the expected continuation of uncertain business conditions and the potential impact on cash flows from operating activities, the Fund will review future trust unit distributions on a quarter by quarter basis. Consequently, the amount of future quarterly trust unit distributions may vary significantly from quarter to quarter. The amount of trust unit distributions may also vary over time depending on anticipated working capital requirements, property, plant and equipment expenditures, acquisition opportunities and changing business conditions. Using the current 21,411,036 trust units outstanding and the Q3-2009 \$0.10 per trust unit distribution rate, the Fund would require approximately \$2.1 million in cash for future quarterly trust unit distributions.

Cash flows from operating activities are used to fund the cash portion of trust unit distributions with any shortfall financed with short-term bank indebtedness. A shortfall generally results from timing differences arising from the Fund's investment in non-cash working capital. Subsequent period cash flows generated from operating activities are expected to repay this bank indebtedness.

UNITHOLDERS' CAPITAL

Unitholders' capital at September 30, 2009 was \$62.1 million, unchanged from \$62.1 million at December 31, 2008 and September 30, 2008. No trust units have been issued or repurchased for the nine months ended September 30, 2009. During Q3-2009, 10,000 unit options were forfeited resulting in 27,500 unit options forfeited YTD-2009. At September 30, 2009 there were 21,411,036 issued and outstanding trust units and 661,000 unit options outstanding. There have been no changes to issued and outstanding trust units or unit options outstanding from September 30, 2009 to the date of this MD&A.

UNITHOLDERS' EQUITY

Unitholders' equity, comprised of unitholders' capital, contributed surplus and accumulated earnings was \$156.0 million at September 30, 2009 versus \$153.7 million at December 31, 2008 and \$150.3 million at September 30, 2008. The increase from December 31, 2008 is comprised of the YTD-2009 net income of \$8.6 million less \$6.4 million of trust unit distributions.

RELATED PARTY TRANSACTIONS

The Fund engages the consulting services of a company owned and managed by a trustee of the Fund in normal course operations. The consulting services consist of legal and professional advice and investor relations. For the nine months ended September 30, 2009, the total amount billed for these services was \$502,000 (2008 - \$491,000). For the nine months ended September 30, 2009, total payments for amounts billed YTD-2009 and amounts owing as at the beginning of YTD-2009 were \$1,117,000 (2008 - \$1,175,000). There were no unpaid balances at September 30, 2009 or 2008. This company also provides due diligence and business acquisition services when necessary. No amounts for these services were incurred during the nine months ended September 30, 2009 or 2008. These transactions were measured at fair value with these amounts agreed to by all parties.

OBLIGATIONS AND COMMITMENTS

At September 30, 2009, the Fund had no material outstanding obligations and commitments for capital expenditures. At September 30, 2009, the Fund had outstanding letters of guarantee in the amount of \$0.1 million related to performance obligations for a specific customer contract bid. The Fund has contingent purchase price adjustment liabilities that are based upon the earnings and revenue results of certain profit centres. The Fund has operating lease commitments for office space and service equipment, none of which individually, or in aggregate, are material.

FINANCIAL INSTRUMENTS

The Fund's financial assets and liabilities at September 30, 2009 continue to be accounted for at their historical value which approximates fair value due to the relative short-term to maturity. Foreign exchange forward contracts are accounted for at their fair value.

RISKS AND UNCERTAINTIES

The Fund's risks and uncertainties are described in detail in the December 31, 2008 MD&A. These risks include fluctuating revenues associated with the shifting levels of economic activity in the energy and mining industries, foreign currency risk, credit and interest rate risk, new product risk, skilled labour shortages, financing risk, the impact of the enactment of the proposed legislation to tax income distributions and risks associated with the ability to maintain current trust unit distributions. At September 30, 2009, the Fund's risks and uncertainties have not materially changed from those described in the December 31, 2008 Audited Consolidated Financial Statements.

DISCLOSURE CONTROLS AND PROCEDURES

The Fund's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for ensuring management establishes and maintains the Fund's disclosure controls and procedures to provide reasonable assurance that material information related to the Fund is made known to them and that information required to be disclosed by the Fund is reported within the time periods prescribed by the applicable securities legislation. The Fund's CEO and CFO conducted a review and evaluation of the effectiveness of the Fund's disclosure controls and procedures and concluded that as at September 30, 2009 the Fund's disclosure controls and procedures are adequate to provide reasonable assurance that material information related to the Fund is made known by others within the Fund and are adequate to ensure the information required to be disclosed in reports that are filed or submitted under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in those rules and forms.

INTERNAL CONTROLS AND PROCEDURES

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Management, including the CEO and CFO, assessed the design of the Fund's internal control over financial reporting as at September 30, 2009, and based on that assessment determined that the Fund's internal control over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

There have been no changes in the internal controls over financial reporting during the three months ended September 30, 2009 that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

CRITICAL ACCOUNTING POLICIES

The Fund's significant accounting policies are described in detail in the December 31, 2008, Audited Consolidated Financial Statements. The critical policies deal with revenue recognition, inventories, foreign currency translation, income taxes and financial instruments. At September 30, 2009, the Fund's critical accounting policies have not changed from those described in the December 31, 2008 Audited Consolidated Financial Statements.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

- i) Effective January 1, 2009, the Fund adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064: "Goodwill and Intangible Assets" which replaces existing Section 3062. Section 3064 establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this new standard had no impact on the Fund's financial results.
- ii) Effective September 30, 2009, the Fund retrospectively adopted the CICA amendments to Handbook Section 3855: "Financial Instruments – Recognition and Measurement," in relation to the impairment of financial assets. Amendments to this section have disallowed the classification of financial assets as loans and receivables if the instrument is quoted on an active market. The amendments also provide one method of assessing impairment for all financial assets regardless of classification. The adoption of these amendments had no impact on the Fund's financial results.

RECENT ACCOUNTING PRONOUNCEMENTS

i) Financial Instruments - Disclosures

In May 2009, the CICA amended Handbook Section 3862: "Financial Instruments – Disclosures" to include additional disclosure requirements regarding fair value measurements for financial instruments and liquidity risk disclosures. These amendments require the use of a three level hierarchy to reflect the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs, directly or indirectly, are observable. Level 3 valuations are based on inputs that are observable and significant to the overall fair value measurement. These amendments are effective for the Fund on December 31, 2009.

ii) International Financial Reporting Standards

In January 2006, the AcSB adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, accounting standards in Canada for publicly accountable enterprises are going to converge with International Financial Reporting Standards ("IFRS") at the beginning of 2011. The Fund continues to define the steps and resources necessary to effectively implement the transition from Canadian GAAP to IFRS using its 2008 initial assessment. The audit committee is receiving updates from management. Based on work conducted during the third quarter, the Fund expects to concentrate on accounting and disclosure issues related to property, plant and equipment, goodwill and intangibles, business acquisitions, related party transactions, provisions for bad debts and inventory obsolescence, contingent liabilities and commitments. Currently, the Fund cannot determine the full impact of this change on its financial statements, business processes, internal controls and information systems. The nature and extent of this project may also be impacted by changes in the strategic direction of the Fund or changes in IFRS. As the International Accounting Standard Board currently has projects underway which are expected to result in new pronouncements, today's IFRS may differ from that applied at the transition date.

CRITICAL ACCOUNTING ESTIMATES

The Fund's significant accounting estimates are described in detail in the December 31, 2008 Audited Consolidated Financial Statements. These estimates include the review of property, plant and equipment for potential impairment, the review of goodwill and intangibles for potential impairment, determination of net realizable values of inventory, estimation of warranty provisions, estimation of allowances for doubtful accounts and estimation of timing differences for future income taxes. Critical accounting estimates require management's judgment about future events. Management is required to make estimates and judgments that affect reported amounts within the consolidated financial statements and the related disclosure of contingencies. These estimates and judgments are based on historical experience and other assumptions believed to be reasonable in the circumstances. These estimates are evaluated regularly and revised as updated information becomes available. However, actual results may differ from these estimates under different assumptions or conditions. At September 30, 2009, the Fund's critical accounting estimates have not changed from those described in the December 31, 2008 Audited Consolidated Financial Statements.

SUMMARY OF QUARTERLY RESULTS

(000's, except per trust unit amounts)

	2009			2008			2007		
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	\$ 24,082	\$ 31,038	\$ 38,922	\$ 57,161	\$ 57,270	\$ 52,991	\$ 49,857	\$ 53,654	\$ 58,052
Income from continuing operations before income taxes	\$ 1,622	\$ 3,227	\$ 3,702	\$ 6,715	\$ 8,334	\$ 7,362	\$ 7,987	\$ 9,170	\$ 8,947
Income from continuing operations	\$ 1,622	\$ 3,227	\$ 3,702	\$ 6,715	\$ 8,334	\$ 7,362	\$ 7,987	\$ 9,170	\$ 9,422
Net income	\$ 1,622	\$ 3,227	\$ 3,702	\$ 8,576	\$ 8,421	\$ 7,579	\$ 8,264	\$ 9,630	\$ 9,493
Income from continuing operations:									
Per trust unit, basic	\$ 0.08	\$ 0.15	\$ 0.17	\$ 0.31	\$ 0.39	\$ 0.35	\$ 0.38	\$ 0.44	\$ 0.46
Per trust unit, diluted	\$ 0.08	\$ 0.15	\$ 0.17	\$ 0.31	\$ 0.39	\$ 0.35	\$ 0.37	\$ 0.43	\$ 0.45
Net income:									
Per trust unit, basic	\$ 0.08	\$ 0.15	\$ 0.17	\$ 0.40	\$ 0.39	\$ 0.36	\$ 0.39	\$ 0.46	\$ 0.46
Per trust unit, diluted	\$ 0.08	\$ 0.15	\$ 0.17	\$ 0.40	\$ 0.39	\$ 0.35	\$ 0.39	\$ 0.45	\$ 0.45

PERFORMANCE SUMMARY*(000's, except per trust unit amounts)*

For the	NINE months ended		Year ended	NINE months ended		
	September 30, 2009		December 31, 2008	September 30, 2008		
Revenue	\$	94,042	\$	217,279	\$	160,118
Income from continuing operations	\$	8,551	\$	30,398	\$	23,683
Net income	\$	8,551	\$	32,840	\$	24,264
Funds flow from continuing operations	\$	12,068	\$	33,074	\$	25,270
Earnings from continuing operations, basic	\$	0.40	\$	1.43	\$	1.11
Earnings per trust unit, basic	\$	0.40	\$	1.54	\$	1.14
Funds flow from continuing operations, per trust unit	\$	0.56	\$	1.54	\$	1.18
Number of trust units, end of period		21,411,036		21,411,036		21,411,036

CASH LIQUIDITY AND KEY FINANCIAL RATIOS*(000's, except per trust unit amounts and trust units outstanding)*

As at:	September 30, 2009	December 31, 2008	September 30, 2008
Working capital ratio			
Current assets	\$ 89,863	\$ 100,249	\$ 100,881
Current liabilities	18,848	34,933	39,679
Working capital	\$ 71,015	\$ 65,316	\$ 61,202
Ratio	4.77:1	2.87:1	2.54:1
Debt-to-equity ratio			
Total debt	\$ 18,848	\$ 34,933	\$ 39,679
Unitholders' equity	\$ 156,025	\$ 153,664	\$ 150,337
Ratio	0.12:1	0.23:1	0.26:1
Book value per trust unit			
Unitholders' equity	\$ 156,025	\$ 153,664	\$ 150,337
Trust units outstanding	21,411,036	21,411,036	21,411,036
Book value per trust unit	\$ 7.29	\$ 7.18	\$ 7.02

FOREMOST INCOME FUND
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS*(000's) (Unaudited)*

As at:	September 30, 2009	December 31, 2008	September 30, 2008
Assets			
Current assets			
Cash (note 4)	\$ 34,870	\$ 497	\$ -
Accounts receivable	15,948	42,118	31,577
Assets held for sale	-	-	3,594
Inventories (note 2)	38,622	56,448	65,029
Prepaid expenses	423	1,186	681
	89,863	100,249	100,881
Property, plant and equipment	50,503	53,687	54,440
Future income taxes	19,485	19,485	19,485
Goodwill and intangibles	15,022	15,176	15,226
	\$ 174,873	\$ 188,597	\$ 190,032
Liabilities and Unitholders' Equity			
Current liabilities			
Bank indebtedness (note 4)	\$ -	\$ -	\$ 15,452
Accounts payable and accrued liabilities	12,506	22,484	19,465
Liabilities held for sale	-	-	703
Deferred revenue	6,342	12,449	4,059
	18,848	34,933	39,679
Unitholders' equity (note 3)			
Unitholders' capital	62,115	62,115	62,115
Contributed surplus	1,360	1,127	1,039
Accumulated earnings	92,550	90,422	87,199
	156,025	153,664	150,353
	\$ 174,873	\$ 188,597	\$ 190,032

Commitments and contingencies (note 11)

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME AND ACCUMULATED EARNINGS*(000's, except per trust unit amounts) (Unaudited)*

	For the THREE months ended September 30,		For the NINE months ended September 30,	
	2009	2008	2009	2008
Revenue	\$ 24,082	\$ 57,270	\$ 94,042	\$ 160,118
Cost of sales	17,348	41,641	68,614	117,297
	6,734	15,629	25,428	42,821
Selling, general and administrative	3,663	6,195	13,752	17,696
Interest	(7)	22	(2)	259
Amortization	1,152	1,163	3,429	3,740
Foreign exchange loss (gain)	303	(54)	457	(194)
Realized gain on forward exchange contracts	-	-	(614)	-
Loss (gain) on disposal of property, plant and equipment	1	(31)	(145)	(2,363)
	5,112	7,295	16,877	19,138
Income from continuing operations before income taxes	1,622	8,334	8,551	23,683
Future income tax provision	-	-	-	-
Income from continuing operations	1,622	8,334	8,551	23,683
Discontinued operations (note 12)	-	87	-	581
Net income and comprehensive income	1,622	8,421	8,551	24,264
Accumulated earnings, beginning of period	93,069	84,130	90,422	80,908
Premium on repurchase of trust units	-	-	-	(2,026)
Distributions to unitholders	(2,141)	(5,352)	(6,423)	(15,947)
Accumulated earnings, end of period	\$ 92,550	\$ 87,199	\$ 92,550	\$ 87,199
Earnings per trust unit from continuing operations (note 10)				
Basic	\$ 0.08	\$ 0.39	\$ 0.40	\$ 1.11
Diluted	\$ 0.08	\$ 0.39	\$ 0.40	\$ 1.10
Earnings per trust unit (note 10)				
Basic	\$ 0.08	\$ 0.39	\$ 0.40	\$ 1.14
Diluted	\$ 0.08	\$ 0.39	\$ 0.40	\$ 1.13

See accompanying notes to interim consolidated financial statements

FOREMOST INCOME FUND
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CASH FLOWS

(000's) (Unaudited)

For the **THREE** months
ended September 30,
2009 2008

For the **NINE** months
ended September 30,
2009 2008

Cash flows provided by (used in):

Continuing operations:

Income from continuing operations	\$ 1,622	\$ 8,334	\$ 8,551	\$ 23,683
Items not involving cash:				
Amortization	1,152	1,163	3,429	3,740
Loss (gain) on disposal of property, plant and equipment	1	(31)	(145)	(2,363)
Trust units based compensation	75	80	233	210
	2,850	9,546	12,068	25,270

Change in non-cash working capital:

Accounts receivable	1,550	(1,638)	26,170	8,232
Inventories	1,845	(5,570)	17,826	(5,657)
Prepaid expenses	228	222	763	(20)
Accounts payable and accrued liabilities	(1,702)	(3,468)	(9,978)	(684)
Deferred revenue	(976)	(5,410)	(6,107)	(10,992)
	945	(15,864)	28,674	(9,121)
	3,795	(6,318)	40,742	16,149

Discontinued operations:

Cash used by discontinued operations	-	207	-	1,209
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Investments:

Purchase of property, plant and equipment	(108)	(734)	(265)	(2,240)
Increase in goodwill and other intangibles	-	(25)	-	(220)
Proceeds from sale of property, plant and equipment	1	201	319	4,097
	(107)	(558)	54	1,637

Financing:

Bank indebtedness repayments	-	11,118	(343)	(1,144)
Issuance of trust units	-	401	-	589
Repurchase of trust units	-	-	-	(3,042)
Distributions to unitholders	(2,141)	(5,352)	(6,423)	(15,947)
	(2,141)	6,167	(6,766)	(19,544)

Net change in cash during the period	1,547	(502)	34,030	(549)
Cash, beginning of period	33,323	1,088	840	1,135
Cash, end of period	\$ 34,870	\$ 586	\$ 34,870	\$ 586

Supplemental disclosure of cash flow information

Interest paid (received)	\$ (7)	\$ 22	\$ (2)	259
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See accompanying notes to interim consolidated financial statements

FOREMOST INCOME FUND
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Accounting Policies

a. Basis of consolidation

Foremost Income Fund (the "Fund") prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). These interim consolidated financial statements follow the same accounting policies and methods of computation as the most recently audited December 31, 2008 consolidated financial statements, except as noted below. As these interim unaudited financial statements do not include all of the disclosure requirements of GAAP for annual financial statements, they should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2008.

b. Change in accounting policies

i) Effective January 1, 2009, the Fund adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064: "Goodwill and Intangible Assets" which replaces existing Section 3062. Section 3064 establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this new standard had no impact on the Fund's financial results.

ii) Effective September 30, 2009, the Fund retrospectively adopted the CICA amendments to Handbook Section 3855: "Financial Instruments – Recognition and Measurement," in relation to the impairment of financial assets. Amendments to this section have disallowed the classification of financial assets as loans and receivables if the instrument is quoted on an active market. The amendments also provide one method of assessing impairment for all financial assets regardless of classification. The adoption of these amendments had no impact on the Fund's financial results.

c. Recent pronouncements

i) Financial Instruments - Disclosures

In May 2009, the CICA amended Handbook Section 3862: "Financial Instruments – Disclosures" to include additional disclosure requirements regarding fair value measurements for financial instruments and liquidity risk disclosures. These amendments require the use of a three level hierarchy to reflect the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs, directly or indirectly, are observable. Level 3 valuations are based on inputs that are observable and significant to the overall fair value measurement. These amendments are effective for the Fund on December 31, 2009.

ii) International Financial Reporting Standards

In January 2006, the AcSB adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, accounting standards in Canada for publicly accountable enterprises are going to converge with International Financial Reporting Standards ("IFRS") at the beginning of 2011. The Fund continues to define the steps and resources necessary to effectively implement the transition from Canadian GAAP to IFRS using its 2008 initial assessment. The audit committee is receiving updates from management. Based on work conducted during the third quarter, the Fund expects to concentrate on accounting and disclosure issues related to property, plant and equipment, goodwill and intangibles, business acquisitions, related party transactions, provisions for bad debts and inventory obsolescence, contingent liabilities and commitments. Currently, the Fund cannot determine the full impact of this change on its financial statements, business processes, internal controls and information systems. The nature and extent of this project may also be impacted by changes in the strategic direction of the Fund or changes in IFRS. As the International Accounting Standard Board currently has projects underway which are expected to result in new pronouncements, today's IFRS may differ from that applied at the transition date.

2. Inventories

Raw materials for manufacturing purposes and repair parts are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis. Net realizable value is the estimated selling price in the ordinary course of business less any estimated costs necessary to make the sale.

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 accrued revenue on a contract by contract basis.

Other work in progress and finished goods are valued at the lower of cost and net realizable value. The cost of other work in progress includes raw materials and related portions of labour and manufacturing overhead. Net realizable value is the estimated selling price in the ordinary course of business less any costs of completion and estimated costs necessary to make the sale.

At September 30, 2009, raw materials amounted to \$17.8 million of which approximately \$1.7 million was valued at net realizable value, \$25.4 million at December 31, 2008 of which approximately \$1.4 million was valued at estimated net realizable value and after adjusting for Mobile, \$28.0 million at September 30, 2008 of which approximately \$1.2 million was valued at estimated net realizable value. Work in progress amounted to \$15.8 million at September 30, 2009, \$26.1 million at December 31, 2008 and after adjusting for Mobile \$31.4 million at September 30, 2008. Finished goods amounted to \$5.0 million at September 30, 2009 of which approximately \$0.4 million was valued at estimated net realizable value, \$4.9 million at December 31, 2008 of which \$0.4 million was valued at estimated net realizable value and \$5.6 million at September 30, 2008 of which \$0.7 million was valued at estimated net realizable value.

FOREMOST INCOME FUND
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The amount of inventories charged to cost of sales for the three months ended September 30, 2009 was \$17.4 million (2008 – \$37.8 million). The amount of inventories charged to cost of sales for the nine months ended September 30, 2009 was \$63.7 million (2008 - \$112.2 million).

A write-down of inventory of \$0.1 million was charged to cost of sales for the three months ended September 30, 2009 (2008 - \$0.2 million). For the nine months ended September 30, 2009 inventory write-downs of \$0.4 million (2008 - \$0.5 million) were charged to cost of sales.

3. Unitholders' Equity

(000's for stated values, except trust units outstanding)

a. Unitholders' capital

Authorized:

The Fund is authorized to issue an unlimited number of trust units and an unlimited number of special voting units.

Issued:

	THREE months ended September 30, 2009		TWELVE months ended December 31, 2008		THREE months ended September 30, 2008	
	Number	Stated Value	Number	Stated Value	Number	Stated Value
Unitholders' capital, beginning of period	21,411,036	\$ 62,115	21,498,736	\$ 62,043	21,231,036	\$ 61,373
Trust units issued on exercise of options	-	-	264,000	589	180,000	402
Contributed surplus on options exercised	-	-	-	499	-	340
Trust units repurchased for cancellation	-	-	(351,700)	(1,016)	-	-
Unitholders' capital, end of period	21,411,036	\$ 62,115	21,411,036	\$ 62,115	21,411,036	\$ 62,115

	NINE months ended September 30, 2009		TWELVE months ended December 31, 2008		NINE months ended September 30, 2008	
	Number	Stated Value	Number	Stated Value	Number	Stated Value
Unitholders' capital, beginning of period	21,411,036	\$ 62,115	21,498,736	\$ 62,043	21,498,736	\$ 62,043
Trust units issued on exercise of options	-	-	264,000	589	264,000	589
Contributed surplus on options exercised	-	-	-	499	-	499
Trust units repurchased for cancellation	-	-	(351,700)	(1,016)	(351,700)	(1,016)
Unitholders' capital, end of period	21,411,036	\$ 62,115	21,411,036	\$ 62,115	21,411,036	\$ 62,115

b. Contributed surplus

	THREE months ended September 30, 2009	TWELVE months ended December 31, 2008	THREE months ended September 30, 2008
Contributed surplus, beginning of period	\$ 1,285	\$ 1,328	\$ 1,299
Trust unit based compensation expense	75	298	80
Unit options exercised	-	(499)	(340)
Contributed surplus, end of period	\$ 1,360	\$ 1,127	\$ 1,039

	NINE months ended September 30, 2009	TWELVE months ended December 31, 2008	NINE months ended September 30, 2008
Contributed surplus, beginning of period	\$ 1,127	\$ 1,328	\$ 1,328
Trust unit based compensation expense	233	298	210
Unit options exercised	-	(499)	(499)
Contributed surplus, end of period	\$ 1,360	\$ 1,127	\$ 1,039

c. Trust units based compensation plan

No unit options were granted during the three months or for the nine months ended September 30, 2009. There were 10,000 options forfeited during the three months ended September 30, 2009 resulting in 27,500 unit options forfeited over the nine months ended September 30, 2009. As of September 30, 2009, 661,000 unit options were issued and outstanding.

d. Trust unit distributions

The trust unit distributions for the three months ended September 30, 2009 and September 30, 2008 were paid in cash and amounted to \$2.1 million (\$0.10 per trust unit) and \$5.4 million (\$0.25 per trust unit) respectively. Trust unit distributions for the nine months ended September 30, 2009 and September 30, 2008 were paid in cash and amounted to \$6.4 million and \$15.9 million respectively.

FOREMOST INCOME FUND
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

e. Normal course issuer bid

Pursuant to the filing of a Normal Course Issuer Bid (NCIB) in January 2008, 351,700 trust units were repurchased and cancelled at an average price of \$8.63 per trust unit for a total of \$3.0 million. This repurchase and cancellation resulted in a reduction of unitholders' capital of \$1.0 million and a charge against accumulated earnings of \$2.0 million in 2008. There are no Normal Course Issuer Bid's outstanding at September 30, 2009 and no additional applications have been filed during the nine months ended September 30, 2009.

4. Cash (Bank indebtedness)

Cash (Bank indebtedness) is comprised of:

	As at September 30, 2009	As at December 31, 2008	As at September 30, 2008
Cash (Bank indebtedness)	\$ 34,870	\$ 840	\$ (586)
Operating loan	-	(343)	16,038
Revolving facility	-	-	-
	<u>\$ 34,870</u>	<u>\$ 497</u>	<u>\$ 15,452</u>

The Fund's \$50.0 million committed bank credit facility expired in July 2009. The Fund has entered into a one year \$20.0 million uncommitted credit facility with its bank.

5. Financial Instruments

a. Fair values

The Fund's financial assets and liabilities are accounted for at their historical cost which approximates fair value. For accounts receivable, accounts payable and accrued liabilities the carrying amounts at September 30, 2009, December 31, 2008 and September 30, 2008 approximate fair value due to the near term maturity of these financial instruments. Bank indebtedness approximates fair market value due to the short-term maturity of this instrument. Foreign exchange future contracts are accounted for at fair value.

The Fund classified and measures its financial instruments as follows:

Loans and receivables - initially measured at fair value, subsequently measured at amortized cost using the effective interest method
 Accounts receivable

Other financial liabilities - initially measured at fair value, subsequently measured at amortized cost using the effective interest method
 Accounts payable and accrued liabilities
 Bank indebtedness

Held-for-trading - measured at fair value with realized and unrealized gains and losses included in net income in the period incurred
 Cash
 Foreign forward exchange contracts

Transaction costs are charged to net income in the period incurred.

b. Credit risk

The Fund's principal assets subject to credit risk are cash and accounts receivable and their respective carrying amounts are considered the Fund's maximum credit exposure. The principal source of credit risk is associated with accounts receivable balances with oil and gas industry customers. To manage this risk, the Fund uses combinations of letters of credit, up front cash deposits and progress payments for material international projects. Capital equipment sales contracts normally require initial cash deposits and subsequent progress payments. For parts, service or other open credit sales, the Fund uses available credit information, export insurance and customer collection patterns to manage credit and assess its allowance for doubtful accounts. The estimated allowance for doubtful accounts at September 30, 2009 is \$0.7 million (2008 - \$0.9 million), increasing approximately \$0.2 million from December 31, 2008 and decreasing \$0.1 million since June 30, 2009. Bad debt expense for the three months ended September 30, 2009 and 2008 was less than \$0.1 million. Bad debt expense for the nine months ended September 30, 2009 was approximately \$0.2 million and less than \$0.1 million for same period in 2008.

c. Foreign currency risk

A significant portion of the Fund's revenues, expenses, accounts receivable and accounts payable are denominated in U.S. dollars, and consequently the Fund is subject to risks associated with fluctuating exchange rates. Using current U.S. dollar based revenues and taking into account its current U.S. dollar net asset position, a 1% increase or decrease in Canadian dollar to U.S. dollar would impact earnings by approximately \$0.2 million. During 2008, the Fund entered into two foreign exchange forward contracts to manage a portion of the exchange risk associated with two specific contracts. One contract closed during the three months ended March 31, 2009. The remaining contract was closed in June, 2009 resulting in a gain of approximately \$0.6 million for the nine months ended September 30, 2009.

FOREMOST INCOME FUND
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

This gain is a result of the change in market value of the contracts when comparing the spot foreign exchange rate at the date the contract was closed against the December 31, 2008 spot foreign exchange rates. There were no other foreign exchange forward contracts at September 30, 2009.

d. Interest rate risk

The Fund's short-term borrowings are subject to floating interest rates which results in interest rate risk as the required cash flow to service the debt will fluctuate in accordance with market rate changes. The Fund has no interest rate swap contracts to manage this risk. The Fund has no short-term borrowings at September 30, 2009 thus interest rate risk is considered low.

e. Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they become due. The Fund manages its liquidity risk by continually monitoring forecast and actual cash requirements for operations, capital expenditures and trust unit distributions. The Fund principally uses its cash flow from operations and bank credit facility to fund current financial obligations. Requirements for major capital expenditures or business acquisitions may result in the use of some combination of additional long-term debt and equity. Based on the debt-to-equity ratio as at September 30, 2009 and current cash forecasts, liquidity risk is considered low. The balance of accounts payable and accrued liabilities are all due within one year. Subject to the annual renewal of the credit facility, bank indebtedness is considered repayable within one year.

6. Related Party Transactions

The Fund engages the consulting services of a company owned and managed by a trustee of the Fund in normal course operations. The consulting services consist of legal and professional advice and investor relations. For the nine months ended September 30, 2009, the total amount billed for these services was \$502,000 (2008 - \$491,000). For the nine months ended September 30, 2009, total payments for amounts billed YTD-2009 and amounts owing as at the beginning of YTD-2009 were \$1,117,000 (2008 - \$1,175,000). There were no unpaid balances at September 30, 2009 or 2008. This company also provides due diligence and business acquisition services when necessary. No amounts for these services were incurred during the nine months ended September 30, 2009 or 2008. These transactions were measured at fair value with these amounts agreed to by all parties.

7. Business Segments – Continuing Operations (\$000's)

For the THREE months ended September 30,	Universal		Foremost		Total	
	2009	2008	2009	2008	2009	2008
Revenue	19,789	41,833	4,293	15,437	24,082	57,270
Interest expense (income)	(4)	1	(3)	21	(7)	22
Amortization	867	911	285	252	1,152	1,163
Income from continuing operations before income taxes	1,538	5,412	84	2,922	1,622	8,334
Income from continuing operations	1,538	5,412	84	2,922	1,622	8,334
Net income	1,538	5,412	84	3,009	1,622	8,421
Property, plant and equipment expenditures	107	663	1	71	108	734

For the NINE months ended September 30,	Universal		Foremost		Total	
	2009	2008	2009	2008	2009	2008
Revenue	64,050	113,048	29,992	47,070	94,042	160,118
Interest expense (income)	(1)	155	(1)	104	(2)	259
Amortization	2,598	2,934	831	806	3,429	3,740
Income from continuing operations before income taxes	3,801	16,238	4,750	7,445	8,551	23,683
Income from continuing operations	3,801	16,238	4,750	7,445	8,551	23,683
Net income	3,801	16,238	4,750	8,026	8,551	24,264
Property, plant and equipment expenditures	191	1,859	74	381	265	2,240

	Universal			Foremost			Total		
	Sept. 30, 2009	Dec. 31, 2008	Sept. 30, 2008	Sept. 30, 2009	Dec. 31, 2008	Sept. 30, 2008	Sept. 30, 2009	Dec. 31, 2008	Sept. 30, 2008
Property, plant and equipment	39,706	42,117	42,639	10,797	11,570	11,801	50,503	53,687	54,440
Goodwill and intangibles	15,022	15,176	15,226	-	-	-	15,022	15,176	15,226
Total assets	117,394	144,601	146,463	57,479	43,996	43,569	174,873	188,597	190,032

FOREMOST INCOME FUND
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

8. Geographic Segments – Continuing Operations (000's)

	For the THREE months ended		For the NINE months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Revenue				
Canada	\$ 21,576	\$ 46,933	\$ 73,697	\$ 126,974
United States	1,653	5,181	4,554	16,122
International	853	5,156	15,791	17,022
	\$ 24,082	\$ 57,270	\$ 94,042	\$ 160,118

	September 30,	December 31,	September 30,
	2009	2008	2008
Property, plant and equipment, goodwill and intangibles			
Canada	\$ 65,042	\$ 68,375	\$ 69,177
United States	476	476	476
International	7	12	13
	\$ 65,525	\$ 68,863	\$ 69,666

9. Management of Capital

The Fund's objectives when managing capital are to safeguard cash as well as maintain financial liquidity and flexibility in order to fulfill existing financial obligations, support capital requirements of current operations, pay trust unit distributions in cash and provide capital necessary to pursue accretive acquisitions.

In the definition of capital, the Fund includes unitholders' capital, contributed surplus, accumulated earnings, long-term debt (including any current portion), bank indebtedness, 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. In order to maintain or adjust its capital structure, the Fund may issue new trust units, redeem trust units, repay outstanding debt, issue new debt, refinance existing 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 Fund monitors its capital using the following financial metrics calculated on a quarterly basis:

	September 30,	December 31,	September 30,
	2009	2008	2008
Working capital ratio	4.77:1	2.87:1	2.54:1
Debt-to-equity ratio	0.12:1	0.23:1	0.26:1

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 at September 30, 2009.

The Fund will become subject to Canadian income taxes beginning in 2011. This may result in changes to the capital structure of the Fund or the nature of the Fund itself.

10. Earnings per Trust Unit

Earnings per trust unit is 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 THREE months ended		For the NINE months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Basic weighted average trust units	21,411,036	21,386,058	21,411,036	21,265,799
Effect of dilutive trust unit options	3,385	137,849	3,385	229,325
Diluted weighted average trust units	21,414,421	21,523,907	21,414,421	21,495,124

FOREMOST INCOME FUND
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(Unaudited)

11. Commitments and Contingencies

There were no material commitments for capital expenditures at September 30, 2009.

At September 30, 2009, the Fund had outstanding letters of guarantee of approximately \$0.1 million related to performance obligations for a specific customer contract bid.

The Fund has contingent purchase price adjustment liabilities based upon the earnings and revenue results of certain profit centres.

The Fund has operating lease commitments for office space and service equipment, none of which individually, or in aggregate, are material.

12. Discontinued Operations

On October 9, 2008, the Fund sold its Indianapolis, Indiana, USA based geotechnical drill rig product line. For comparative purposes the operations for the three and six months ended June 30, 2008 have been classified as discontinued operations. The net book values of the discontinued assets and liabilities at September 30, 2008 were: Accounts receivable - \$0.7 million, Inventories - \$2.7 million, Equipment - \$0.3 million, Accounts payable and accrued liabilities - \$0.7 million. Changes in non-cash working capital items for the three and nine months ended September 30, 2008 provided cash of \$0.1 million and cash of \$0.6 million respectively. The income from discontinued operations is:

	For the THREE months ended September 30,		For the NINE months ended September 30,	
	2009	2008	2009	2008
Revenues	\$ -	\$ 1,503	\$ -	\$ 5,332
Cost of sales	-	1,041	-	3,737
Gross profit	-	462	-	1,595
Selling, general and administrative	-	362	-	976
Amortization	-	13	-	38
	-	375	-	1,014
Income from discontinued operations before income taxes	-	87	-	581
Current income taxes	-	-	-	-
Future income taxes	-	-	-	-
	-	-	-	-
Income from discontinued operations	\$ -	\$ 87	\$ -	\$ 581