



**FOREMOST INCOME FUND**

**ANNUAL INFORMATION FORM**

*Date: March 31, 2006*

<b>DEFINITIONS .....</b>	<b>i</b>
<b>ORGANIZATION AND STRUCTURE OF FOREMOST INCOME FUND.....</b>	<b>1</b>
Foremost Income Fund .....	1
Foremost Commercial Trust .....	2
The Administrator: Foremost Industries Inc.....	2
Universal Industries (Foremost) Corp. ....	3
Foremost Industries LP.....	3
Foremost Universal LP .....	3
Stettler.....	3
The Reorganization.....	5
<b>THE BUSINESS.....</b>	<b>7</b>
General Development of the Business.....	7
Market Overview .....	7
Foremost Industries LP .....	7
<i>Products and Services</i> .....	8
<i>Sales and Marketing</i> .....	9
<i>Manufacturing</i> .....	9
<i>Strategy</i> .....	10
<i>Intellectual Property</i> .....	10
<i>Competition</i> .....	10
<i>Employees</i> .....	11
<i>Facilities</i> .....	11
<i>Material Contracts</i> .....	11
Foremost Universal LP .....	11
<i>Products and Services</i> .....	12
<i>Sales and Marketing</i> .....	13
<i>Manufacturing</i> .....	13
<i>Strategy</i> .....	13
<i>Intellectual Property</i> .....	13
<i>Competition</i> .....	13
<i>Facilities</i> .....	14
<i>Employees</i> .....	14
<b>RISK FACTORS.....</b>	<b>15</b>
Risks Related to the Business .....	15
Environmental, Health and Safety Regulation.....	15
Foreign Exchange Exposure .....	15
International Scope of Operations .....	15
Dependence on the Energy and Mining Industries .....	15
Development of New Products .....	15
Product Liability .....	16
Fixed Price Contracts.....	16
Competitive Environment.....	16
Reliance on Key Personnel.....	16
Uninsured and Underinsured Losses .....	16
Source of Supply of Raw Material and Third Party Components .....	17

Risks Related to Structure of the Fund .....	17
Dependence on the Business Operations .....	17
Distributions Are Not Guaranteed and Will Fluctuate with the Operational Performance ..	17
Nature of Trust Units .....	17
Distribution of Partnership Interests on Redemption or Termination of the Fund .....	17
Restrictions on Potential Growth .....	17
Investment Eligibility.....	18
Potential Conflicts of Interest .....	18
<b>SELECTED CONSOLIDATED FINANCIAL INFORMATION .....</b>	<b>19</b>
<b>MANAGEMENT DISCUSSION AND ANALYSIS .....</b>	<b>20</b>
<b>MARKET FOR SECURITIES.....</b>	<b>20</b>
<b>TRUSTEES AND OFFICERS.....</b>	<b>20</b>
The Fund .....	21
Directors and Officers of the Administrator .....	21
<b>CONFLICTS OF INTEREST .....</b>	<b>22</b>
<b>ADDITIONAL INFORMATION.....</b>	<b>22</b>
Income Tax Considerations .....	22
Other Additional Information .....	23

## DEFINITIONS

Capitalized terms in this Annual Information Form have the meanings set forth below:

**"Administrator"** means Foremost Industries Inc., a wholly owned subsidiary of Foremost Commercial Trust, as administrator of the Fund;

**"Board"** means the Board of Directors of the Administrator;

**"Business", "Business Operations" and "Foremost Business"** means the business conducted by Foremost Industries LP, and by Foremost Universal LP;

**"Corlac"** means Corlac Industries (1998) Ltd., a corporation incorporated under the laws of the Province of Alberta, the assets and business operations of which were purchased by Universal Industries Limited Partnership on July 1, 2004, and now form a division of Foremost Universal LP;

**"Declaration of Trust"** means the Amended and Restated Declaration of Trust of the Foremost Industries Income Fund dated June 8, 2005, between James T. Grenon, Roy Allen and Bruce Maclellan as Trustees and Ken Rogers, as initial Unitholder;

**"De-In Industries"** means De-In Industries Ltd., a corporation incorporated under the laws of the Province of Alberta and a wholly owned subsidiary of Foremost Universal LP;

**"Exempt Plans"** means trusts governed by registered retirement savings plans, registered retirement income funds, registered educational savings plans or deferred profit sharing plans which are exempt from tax under Part I of the Tax Act;

**"Foremost Industries Inc."** means Foremost Industries Inc., a corporation existing under the laws of the Province of Alberta and the general partner of Foremost Industries LP;

**"Foremost Industries LP"** means Foremost Industries LP, a limited partnership formed under the laws of the Province of Alberta;

**"General Partners"** means, collectively, Foremost Industries Inc. and Universal Industries (Foremost) Corp.;

**"Information Circular"** means the information circular and proxy statement dated November 29, 2005, together with all appendices thereto, distributed to Unitholders by the Foremost Industries Income Fund in connection with the Meeting;

**"Meeting"** means the special meeting of Unitholders of the Foremost Industries Income Fund held on December 28, 2005, and any adjournments thereof, to consider and vote on the Reorganization Resolution and the matters referred to in the Notice of Meeting;

**"Mobile Drilling"** means Mobile Drilling Company, Inc., a corporation incorporated under the laws of the State of Delaware and a wholly-owned subsidiary of Foremost Holdings;

**"Foremost Industries Limited Partnership"** means Foremost Industries Limited Partnership, a limited partnership formed under the laws of the Province of Alberta of which Foremost Industries Income Fund and Ventures Trust were the limited partners and Foremost Industries Inc. was the general partner.

**“Old Operating LP’s”** means, collectively, Foremost Industries Limited Partnership and Universal Industries Limited Partnership and their subsidiaries;

**“Universal Industries Limited Partnership”** means Foremost Universal Limited Partnership, a limited partnership formed under the laws of the Province of Alberta of which Ventures Trust was the limited partner and Universal Industries (Foremost) Corp. was the general partner;

**“Operating LP’s”** means, collectively, Foremost Industries LP and Foremost Universal LP and their subsidiaries;

**“Original Foremost”** means Foremost Industries Inc., incorporated under the laws of the Province of Alberta, as it existed and carried on business prior to the Plan of Arrangement;

**“Foremost Industries Income Fund”** means the Foremost Industries Income Fund, a trust established under the laws of the Province of Alberta pursuant to the Declaration of Trust;

**“Peace Land”** means Peace Land Fabricating and Supply Ltd., a corporation formed under the laws of the Province of Alberta and a wholly owned subsidiary of Foremost Universal LP;

**“Plan of Arrangement”** means the plan of arrangement undertaken pursuant to the prior section 186 of the *Business Corporations Act* (Alberta), which was approved by the shareholders of Foremost Industries Inc. and the Court of Queen's Bench of Alberta on December 18, 2001 and filed under the *Business Corporations Act* (Alberta) on December 27, 2001;

**“Plan of Arrangement IC”** means the Notice of Special Meeting and Notice of Petition and Management Information Circular filed by Original Foremost on November 16, 2001;

**“Reorganization”** means the proposed reorganization of the Foremost Industries Income Fund, the Old Operating LP’s and Ventures Trust, as described in the Information Circular;

**“Reorganization Resolution”** means the Extraordinary Resolution that was considered at the Meeting, the full text of which was set out at Appendix A to the Information Circular;

**“Stettler”** means Stettler Universal Limited Partnership, a limited partnership formed under the laws of the Province of Alberta of which Foremost Universal LP is the limited partner and Universal Industries (Foremost) Corp. is the general partner;

**“Tax Act”** means the *Income Tax Act*, R.S.C. 1985, c. 1 (5<sup>th</sup> Supp), as amended, including the regulations promulgated thereunder;

**“Trustees”** means the trustees of Fund;

**“Trust Units”** means the trust units of the Fund;

**“Unitholder”** means the holders of Trust Units;

**“Universal Industries (Foremost) Corp.”** means Universal Industries (Foremost) Corp., a corporation incorporated under the laws of the Province of Alberta that is the general partner of Foremost Universal LP and Stettler;

**“Universal Industries”** is a division of Foremost Universal LP operating out of Lloydminster, Alberta;

**"Foremost Universal LP"** means Foremost Universal LP, a limited partnership formed under the laws of the Province of Alberta;

**"Ventures Trust"** means the Foremost Ventures Trust, a trust established under the laws of the Province of Alberta;

**"Wilco"** means Wilco Industries Ltd., a corporation incorporated under the laws of the Province of Saskatchewan and a wholly owned subsidiary of Foremost Universal LP.

## **ORGANIZATION AND STRUCTURE OF FOREMOST INCOME FUND**

### **Foremost Income Fund**

Foremost Income Fund (the “Fund”) is an unincorporated open end mutual fund trust established under the laws of the Province of Alberta by a Deed of Trust, made as of November 12, 2005, between the Trustees and Mr. Craig Bell, as settlor. The Fund now carries on all of the business and operations of the former Foremost Industries Income Fund (see the discussion under “The Reorganization”).

The Fund was established for the purposes of indirectly investing in the securities of the several Operating LP’s and any other subsidiaries, and making distributions to holders of Trust Units. The holders of Trust Units are the sole beneficiaries of the Fund.

The Fund permits individual holders of Trust Units to participate in the cash flow from the Foremost Business to the extent such cash flow is distributed by the Fund. Each Trust Unit entitles the holder thereof to receive regular cash distributions, which the Fund is now paying on a quarterly basis.

As an open-end trust, the Fund is not restricted in the type of assets it holds or the type of acquisitions it undertakes in order to maintain its status under the Tax Act as a “unit trust” and as a “mutual fund trust” so long as a retraction right is attached to the Trust Units. As an open-end trust, the Business of the Fund can be expanded to such business that can be reasonably expected to provide distributions and long-term returns to holders of Trust Units.

The Fund indirectly owns a 99.99% limited partnership interest in Foremost Industries LP and in Foremost Universal LP, and is allocated (either directly or indirectly) 99.99% of the taxable income generated from these interests. The Fund, as a limited partner of each, does not participate in the management of Foremost Industries LP or Foremost Universal LP. As discussed below, the Administrator owns the remaining interests in Foremost Industries LP. The Administrator acts as the general partner for Foremost Industries LP, and a subsidiary of the Administrator acts as the general partner of Foremost Universal LP. The business conducted by Foremost Industries LP involves the design, manufacture, sales and service of heavy all-terrain vehicles and drilling equipment for the mineral exploration, waterwell, construction, transportation, energy and environmental industries and any other businesses which were related, ancillary or complementary thereto, and the business of Foremost Universal LP involved the manufacture of shop tanks, field tanks, and pressure vessel used within the energy and environmental industries.

The Trust Units do not represent a traditional investment and should not be viewed by investors as "shares" in either Foremost Industries LP, Foremost Universal LP, or the Fund. As holders of Trust Units in the Fund, Unitholders do not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions.

The Trust Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of that Act or any other legislation. Furthermore, the Fund is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

As at December 31, 2005 and March 31, 2006, the Trustees of the Fund are Mr. Roy H. Allen, Mr. James T. Grenon, Mr. Bruce J. Maclennan and Mr. Gordon M. Wiebe.

The Fund owns all of the issued and outstanding trust units of Foremost Commercial Trust.

### **Foremost Commercial Trust**

Foremost Commercial Trust is an unincorporated, open-end limited purpose trust established under the laws of the Province of Alberta pursuant to the its own trust deed. The head office of Foremost Commercial Trust is located at 1225 – 64th Avenue N.E., Calgary, Alberta, T2E 8P9. Foremost Commercial Trust holds a 99.99% limited partnership interest in each of Foremost Industries LP and Foremost Universal LP and all of the issued and outstanding shares in the Administrator, Foremost Industries Inc.

### **The Administrator: Foremost Industries Inc.**

The Administrator of the Fund, Foremost Industries Inc., was established pursuant to the laws of the Province of Alberta. The Administrator carries on business at 1225 64<sup>th</sup> Avenue NE., Calgary, Alberta T2E 8P9, from the same location as the Calgary operations of Foremost Industries Limited Partnership. Pat W. Breen, Glen E. Swail and Craig S. Bell are the Directors of the Administrator. All of the Directors and officers of the Administrator reside in Calgary, Alberta. The sole shareholder of the Administrator is Foremost Commercial Trust.

Pursuant to arrangements for administration of the Fund, the Administrator has agreed to act as administrator for the Fund, or arrange for the provision of services required in the administration of the Fund. The Administrator also provides investor relations services for the Fund, including the preparation and dissemination of information to investors as well as responding to investor inquiries.

The Trustees may pay or cause to be paid reasonable fees, costs and expenses incurred in connection with the administration and management of the Fund, including (without limitation) fees of auditors, accountants, lawyers, appraisers and other agents, consultants and professional advisors employed by or on behalf of the Fund and the cost of reporting or giving notices to Unitholders. All costs, charges and expenses properly incurred by the Trustees on behalf of the Fund shall be payable out of the assets of the Fund.

Pursuant to the terms of a management arrangement between the Administrator and the Fund, the Administrator supplies all management and operational personnel and incurs all operational expenses for the benefit of the Business Operations. The general duties of the Administrator under this management arrangement include all managerial and operational activities to ensure efficiency and profitability within the Business Operations, specifically including:

- a) strategic, tactical and operational planning;
- b) accounting and financial services, including negotiating banking and financing arrangements, preparation of financial statements and other financial reports, and assisting with tax matters;
- c) negotiating and communicating with third parties, including customers, suppliers and government agencies with respect to contractual and other matters;
- d) arranging external professional or non-professional services;
- e) providing personnel including plant production, sales & marketing, finance & accounting, engineering, production management, field service and quality assurance personnel as required for the efficient and profitable continued Business Operations;
- f) participating in evaluation and negotiation of potential acquisition prospects;
- g) managing the manufacturing facilities and activities;
- h) purchasing, warehousing and other material inventory functions;
- i) managing the operations of foreign subsidiaries; and
- j) all sales and marketing activities.

These are the same services that the Administrator performed for the predecessor Foremost Industries Income Fund.

Craig Bell, Glen Swail and Pat Breen are the Directors (“Directors”) of Foremost Industries Inc. Messrs. Swail and Bell reside in Calgary, Alberta, and Mr. Breen resides in Lloydminster, Alberta.

Foremost Industries Inc. holds all of the issued and outstanding shares of Universal Industries (Foremost) Corp. and is the general partner of Foremost Industries LP. Foremost Industries Inc. employs the employees and consultants that manage and administers Foremost Industries LP's assets and undertakings.

### **Universal Industries (Foremost) Corp.**

Universal Industries (Foremost) Corp. is a corporation incorporated under the laws of the Province of Alberta. Craig Bell, Glen Swail and Pat Breen are also the Directors of Universal Industries (Foremost) Corp. The sole shareholder of Universal Industries (Foremost) Corp. is Foremost Industries Inc. Universal Industries (Foremost) Corp. employs the employees and consultants that manage and administer Foremost Universal LP's assets and undertakings. It is the general partner of Foremost Universal LP and its subsidiary entity, Stettler Universal Limited Partnership.

### **Foremost Industries LP**

Foremost Industries LP is a limited partnership formed under the laws of the Province of Alberta. It was created to acquire and carry on the business and operations of Foremost Industries Limited Partnership. Foremost Industries LP owns all of the issued and outstanding shares of minor subsidiaries Foremost Holdings Inc. and 958499 Alberta Inc.

### **Foremost Universal LP**

Foremost Universal LP is a limited partnership formed under the laws of the Province of Alberta. It was created to acquire and carry on the business and operations of Universal Industries Limited Partnership. Foremost Universal LP owns all of the issued and outstanding shares of smaller subsidiary entities Peace Land Fabricating & Supply Ltd., Wilco Industries Ltd. and De-In Industries Ltd. It is the limited partner in Stettler Universal Limited Partnership and also holds all of the operating assets of the Universal Industries division.

The assets and business operations of Corlac Inc. were purchased by the predecessor Foremost Industries Income Fund through Universal Industries Limited Partnership on July 1, 2004. As a result of the Reorganization, Corlac is now a division of Foremost Universal LP.

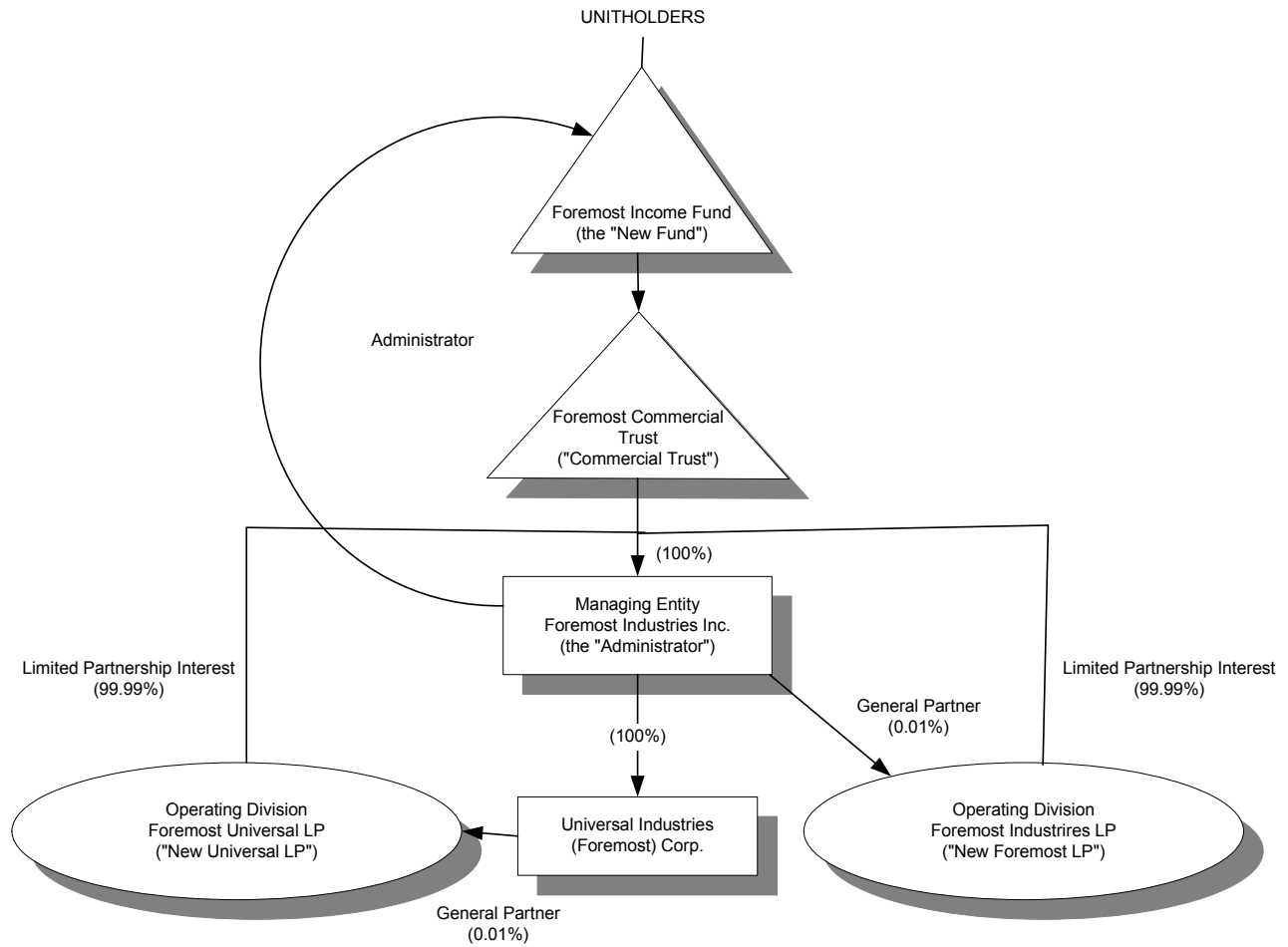
On August 3, 2005, Foremost Industries Income Fund, through Universal Industries Limited Partnership, acquired all of the issued and outstanding shares of De-In Industries Ltd. As a result of the Reorganization, De-In Industries is now a wholly owned subsidiary of Foremost Universal LP.

On July 15, 2005, Foremost Industries Income Fund, through Universal Industries Limited Partnership, acquired all of the issued and outstanding shares of Peace Land Fabricating and Supply Ltd. As a result of the Reorganization, Peace Land is now a wholly owned subsidiary of Foremost Universal LP.

### **Stettler**

Stettler was created by the registration of a Certificate of Partnership filed September 19, 2003 under the *Partnership Act* (Alberta). Foremost Universal LP is the limited partner of Stettler and Universal Industries (Foremost) Corp. is the general partner.

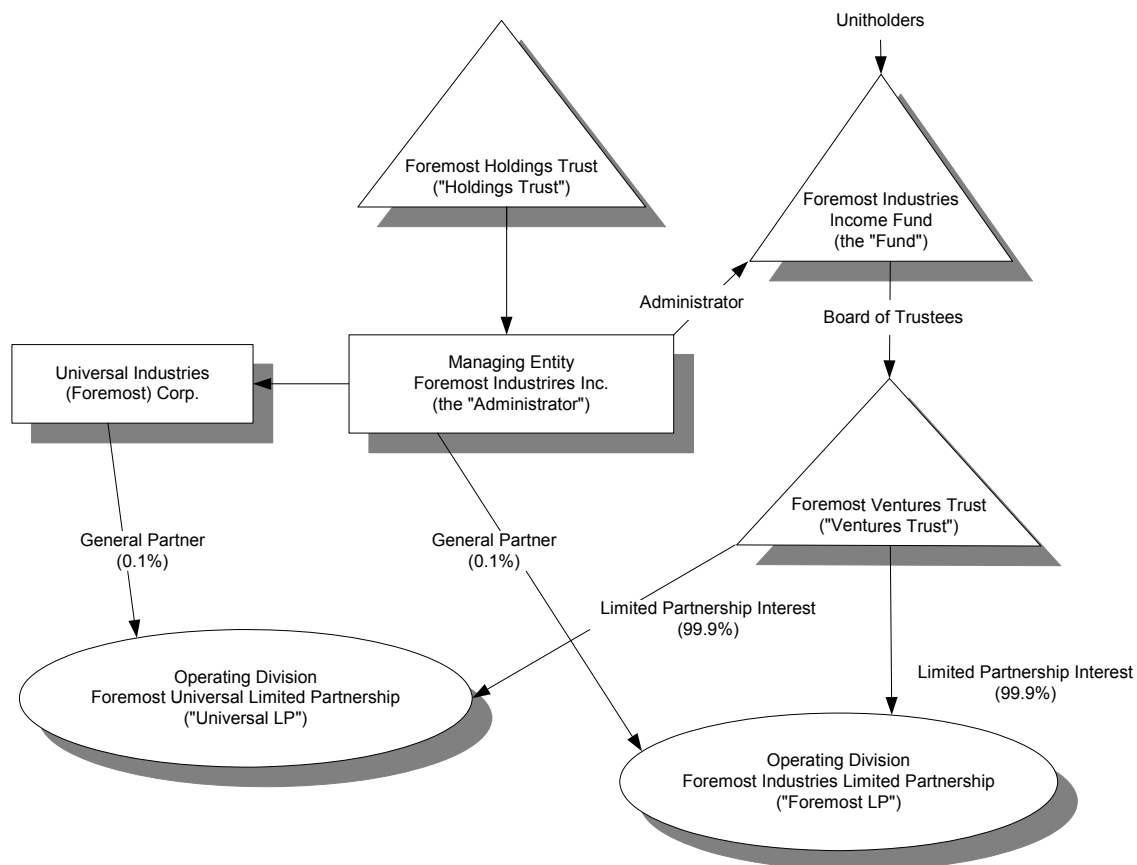
The general organizational structure of the Fund is as follows:



## The Reorganization

The Fund is a successor entity to Foremost Industries Income Fund.

Prior to December 28, 2005, the organizational structure of Foremost Industries Income Fund was as follows:



On November 29, 2005, Foremost Industries Income Fund issued a Notice of Special Meeting of Unitholders and an Information Circular proposing a reorganization involving Foremost Industries Income Fund, Foremost Holdings Trust, Foremost Ventures Trust, Foremost Universal Limited Partnership, Foremost Industries Limited Partnership, Foremost Income Fund, Foremost Industries LP, Foremost Universal LP and the Foremost Industries Income Fund unitholders (the "Reorganization").

The three primary advantages to the Reorganization were:

1. to simplify, somewhat, the organizational and governance structure of Foremost Industries Income Fund;
2. to increase the cost for tax purposes of the business assets, while there was certainty about tax laws, which may be useful should the rules regarding the taxation of income trusts ever be modified; and
3. most importantly, it was expected that the trading liquidity of the Trust Units would increase (as a result of a potential decrease of the income that needs to be allocated to Unitholders for tax purposes), thereby attracting a wider retail investor base beyond the current concentration in tax deferred plans.

At the special meeting held on December 28, 2005, the requisite majority of the Unitholders approved the Reorganization. The Reorganization was completed that same day. Pursuant to the Reorganization, a new publicly-traded income fund called Foremost Income Fund was established by Foremost Industries Income Fund and indirectly acquired all of the existing assets and business operations that were presently being conducted by the subsidiary entities of Foremost Industries Income Fund. In addition, a new trust, Foremost Commercial Trust was established. As well, Foremost Industries LP was created to acquire and carry on the business of Foremost Industries Limited Partnership and Foremost Universal LP was created to acquire and carry on the business of Universal Industries Limited Partnership. Foremost Income Fund became the sole beneficiary of Foremost Commercial Trust and Foremost Commercial Trust became the holder of all of the outstanding shares of Foremost Industries Inc. and indirectly, Universal Industries (Foremost) Corp., and the sole limited partner of Foremost Industries LP and Foremost Universal LP; the Operating LP's. As a result, the business and operations that had been conducted by the subsidiary entities of Foremost Industries Income Fund were unaffected by the Reorganization and continue to be performed by the current management and employees of Foremost Income Fund and its subsidiary entities through the subsidiary entities of Foremost Income Fund. The Reorganization resulted in Unitholders receiving one trust unit in Foremost Income Fund (a "Trust Unit") for each common trust unit in Foremost Industries Income Fund they previously held.

Foremost Industries Income Fund made an application to cease to be a reporting issuer in each relevant securities jurisdiction, and received MRRS approval to cease to be a reporting issuer on January 19, 2006. On January 25, 2006, Foremost Industries Income Fund was terminated in accordance with its Declaration of Trust and the *Trustee Act* (Alberta).

## THE BUSINESS

The business conducted by Foremost Industries LP involves the design, manufacture, sale and servicing of heavy all-terrain vehicles and drilling equipment for use in the mineral exploration, waterwell, construction, transportation, energy, and environmental industries. Products and services are sold through Foremost Industries LP's direct sales force and through agents and distributors throughout the world. Products and services are distributed from Foremost Industries LP's two principal locations in Calgary, Alberta and Indianapolis, Indiana. Products are primarily sold in Canada, the United States, Latin America and the former Soviet Union.

A small subsidiary, Mobile Drilling, based in Indianapolis, Indiana, provides drill rigs and spare parts for light truck mounted drills used in environmental and geo-technical applications. Foremost provides sales, marketing and customer service for the Russian market through a head office in Nicosia, Cyprus and a branch sales office in Moscow, Russia.

### General Development of the Business

On July 1, 2003, Foremost Industries Income Fund acquired the assets and operations of Universal Industries Limited Partnership, which included the business of Stettler for total consideration of cash, issuance of 1,100,000 units, a note payable, the assumption of liabilities and a contingent consideration based upon earnings results for a five year period. Foremost Universal LP is the limited partner in Stettler Universal Limited Partnership and Universal Industries (Foremost) Corp. is the general partner. On November 26, 2003, Foremost Industries Income Fund, through Universal Industries Limited Partnership, acquired all of the shares of Wilco. Wilco is now a wholly owned subsidiary of Foremost Universal LP.

On July 1, 2004, Foremost Industries Income Fund, through Universal Industries Limited Partnership, acquired all of the assets and business operations of Corlac. Corlac is now a division of Foremost Universal LP.

On July 15, 2005, Foremost Industries Income Fund, through Universal Industries Limited Partnership, acquired all of the issued and outstanding shares of Peace Land Fabricating and Supply Ltd. Peace Land is now a wholly owned subsidiary of Foremost Universal LP.

On August 3, 2005, Foremost Industries Income Fund, through Universal Industries Limited Partnership, acquired all of the issued and outstanding shares of De-In Industries Ltd. De-In Industries is now a wholly owned subsidiary of Foremost Universal LP.

### Market Overview

#### Foremost Industries LP

The operation of Foremost Industries LP involves the design, manufacture, sale and servicing of heavy, all-terrain vehicles and drilling equipment for use in the mineral exploration, waterwell, construction, transportation, energy, and environmental industries. The sale of these products and services is accomplished through Foremost Industries LP's direct sales force and through agents and distributors throughout the world. Products are primarily sold in Canada, the United States, Latin America and the former Soviet Union, with some sales in other locations throughout the world.

A number of Foremost Industries LP's standard products are low volume niche products that require custom engineering to support the customer's needs. Foremost Industries LP also manufactures "engineered-to-order" special purpose drills on a proprietary basis for individual customers, particularly in the oil and gas sector.

## ***Products and Services***

Revenues increased by \$900,000 to \$63.6 million compared to \$62.7 million a year ago. The marginal increase is a combination of product mix and the facilities continued operations at full capacity. Specifically, Foremost Industries LP's product lines and details of their results are presented below.

### **Oilfield Equipment**

*(Revenues of \$23.1 million in 2005; \$29.8 million in 2004)*

This business sector refers to the Coil Tubing Rig ("CTR") units that Foremost Industries LP designs, manufactures and sells. These specialty drills are built to meet specific proprietary needs of customers within the oil and gas sector. These units are utilized in shallow oil and gas drilling applications. The number of Coiled Tubing Drill Rig (CTR) units completed in 2005 totaled eight as compared to fourteen last year. Six units delivered represent the completion of a major customer's fleet plan early in the year. In March 2005, an additional order for 20 units over a twenty month period was received and two units were delivered during the year with the balance to be delivered in 2006. The Explorer series of rigs with applications in shallow oil and gas, mineral exploration drilling has been included in this total.

### **Drills**

*(Revenues of \$17.6 million in 2005; \$12.2 million in 2004)*

Foremost Industries LP's drill rigs are designed and manufactured for use within: construction foundation and piling work, waterwell drilling, mineral exploration, geotechnical, and environmental sectors. The unique Dual Rotary (DR) line enables simultaneous drilling and casing through tough or unstable overburden. The Mobile line specializes in light truck-mounted drills for the environmental and geotechnical markets. Additional drill lines include the AP1000 for construction pile driving and the WS750 for all terrain mineral exploration. DR sales for the year increased to \$15.1 million (twenty units) from \$8.6 million (twelve units) mainly due to improvements in the U.S markets. Geotechnical and mineral exploration rig sales activity was \$2.5 million, down from \$3.6 million in 2004 and reflects changes in market demand. Significant year over year revenue variances are typical for this product category, impacted by construction activity, drought conditions and the relative strength of the Canadian dollar. Current expectations for 2006 are similar to 2004 activity and revenue levels.

### **Parts and Service**

*(Revenues of \$10.1 million in 2005; \$9.5 million in 2004)*

Foremost Industries LP manufactures complementary products to its vehicles and drills, including: a line of proprietary drilling accessories, such as rotary deck bushings, cushion connectors and floating cushion subs; rod handling systems to automatically load and unload drill pipe; and spare parts for all vehicles and drills manufactured by Foremost Industries LP. Foremost Industries LP also provides refurbishment and maintenance services to customers for drills and vehicles at its Calgary manufacturing facility. Parts and service revenues generally correlate to the number of rigs that are working in the industry. Parts and service revenues generally correlate to the number of rigs that are working in the industry. Since most of the rigs produced by Foremost Industries LP are working the revenues increase is expected. U.S. part sales were \$4.5 million as compared to Mobile \$4.3 million in 2004.

### **Tooling and Pipe**

*(Revenues of \$9.8 million in 2005; \$6.6 million in 2004)*

Included within this business sector is reverse circulation drill pipe, which is used in connection with mineral exploration and production; and environmental, waterwell and construction drilling. Revenues from this sector are mainly derived from the mineral exploration industry. The mineral exploration industry has seen a resurgence over the year, which, as mentioned in the Drills discussion above, has resulted in an increase in this year's revenues.

### Vehicles

*(Revenues of \$1.8 million in 2005; \$3.8 million in 2004)*

Foremost Industries LP's vehicle product line consists of approximately twenty different models, ranging in load capacity from five tons to seventy tons, designed for operation in sand, mud, swamp and snow where conventional equipment is ineffective. Contractors and end-users involved in oil exploration, pipelining, power-line construction, tourism or general freight handling use Foremost Industries LP's vehicles to transport personnel and equipment or to convey auxiliary equipment, such as cranes, backhoes and drills. Basic models are adapted to suit individual customer requirements. New products are introduced as new market opportunities are identified. Revenues for 2005 consisted of two new vehicles, represented by one Chieftain C and one Commander. Product line revenues remain highly unpredictable due to the cyclical demands of this niche market.

### Rental

*(Revenues of \$1.2 million in 2005; \$0.9 million in 2004)*

Foremost Industries LP also rents vehicles and drills to customers. The majority of this rental revenue is earned from one multi-year rental agreement for several large capacity wheeled off-road vehicles to an oil consortium in northern Alberta. Foremost Industries LP's rental income in 2005 remains consistent with its long-term operating agreement with the oil consortium.

For additional information on the business segments for the year ended December 31, 2005, refer to Note 17 of the Notes to the Consolidated Financial Statements contained in the Fund's 2005 Annual Report.

### ***Sales and Marketing***

Foremost Industries LP handles sales and marketing from three locations: its main office in Calgary, Indianapolis and Moscow. It employs a direct sales staff (including managers), many of whom have strong engineering and manufacturing backgrounds. In addition, regional representatives are engaged periodically to cover specific territories, regions or countries. Currently, a regional office exists in Vancouver, WA.

The diversity and inherent differences between Foremost Industries LP's many products necessitate a sales and marketing approach for each segment that is tailored to its particular characteristics and requirements. Foremost Industries LP uses demonstration events and industry trade show attendance, with advertising and direct sales activities, to stimulate demand. Foremost Industries LP's success in the Russian market is attributed to its investment in designing vehicles specifically for Russian conditions and to its permanent sales office in Moscow, which is staffed by Russian nationals. Some market segments, typically niche markets for very specialized equipment, receive little sales and marketing resources. Foremost Industries LP relies on its reputation as a specialty manufacturer to generate sales in these niches.

### ***Manufacturing***

Engineering, fabrication, machining and testing of Foremost Industries LP's products are all done at its Calgary manufacturing facility with the exception of Geotechnical Drills which we started manufacturing in Indianapolis in 2005. An Enterprise Resource Planning (ERP) system controls the flow of work through the plant, facilitating material requirement planning, production management and financial reporting. The engineering department utilizes state-of-the-art 3D solid modeling design software and 2D engineering drafting software. Foremost Industries LP employs a rigorous Quality Assurance (QA) program to drive its continuous improvement in quality.

## ***Strategy***

Foremost Industries LP's strategy is to develop and expand a portfolio of product lines where growth and profitability are dependent upon its areas of strength and, taken as a whole, the product line portfolio is not particularly dependent upon any one industry, customer or geographic area. Within the product portfolio, Foremost Industries LP also manages its mix between "blue-chip" product lines (strong predictable revenue and contribution margins), "medium risk" product lines (greater volatility but generally dependable annual sales) and "home run" product lines (high uncertainty but potential for large sales).

To support this strategy, Foremost Industries LP has developed administrative, technical and production management systems that can readily manage rapidly changing production requirements. Foremost Industries LP's people are also critical to the organizational flexibility demanded by its strategy. Foremost Industries LP has been successful in maintaining low turn-over in key positions, retaining the talent and experience of employees with a broad range product knowledge, including its low volume specialized niche products.

## ***Intellectual Property***

Foremost Industries LP owns certain patents, trademarks, trade names, service marks and copyrights, both domestic and foreign, in or as reasonably required for the proper carrying on of its business. Where appropriate, all registrations and filings as considered necessary to preserve its rights have been made and are in good standing.

## ***Competition***

### ***Drilling Rigs & Equipment***

Foremost Industries LP faces competition from several manufacturers of drill rigs and products used in the waterwell energy, mineral exploration, construction and environmental industries. The features of Foremost Industries LP's products provide, to various degrees, advantages in the marketplace. In certain cases, such as the Dual Rotary Drill, these features are so significant that Foremost Industries LP's products enjoy a dominant position in distinct sub-markets.

### ***Other Products and Services***

A significant installed base of Foremost Industries LP's vehicles and drill rigs created over the last 30 years require ongoing parts and service support. Some are proprietary parts manufactured by Foremost Industries LP (the "Foremost Parts") while other parts ("Third Party Parts") are manufactured by third parties and sold by Foremost Industries LP.

While Foremost Industries LP is often the preferred supplier of Foremost Parts, competition exists. Calgary-based competitors offer parts for off-road vehicles used in seismic exploration. A number of competitive sources exist for parts for vehicles sold to the Russian market. Few competitive sources exist for drilling accessories. One such accessory, being the Cushion Connector product line manufactured by Foremost Industries LP is patent protected in several countries. Within the drilling parts market, competitive supply sources are most common for consumable items such as augers, down-hole cutting heads, and casing shoes.

Many sources of supply exist for Third Party Parts. These competitive sources may be cheaper, or provide better selection, availability, or convenience. Foremost Industries LP attracts sales of Third Party Parts particularly when customers value the convenience of one-stop sourcing or when the Third Party Part is a component of a technical application.

### Vehicles

The degree of competition in the vehicle product line varies by the size of the vehicle. Little competition exists for Foremost Industries LP's large tracked and rubber tired vehicles. Several Russian plants produce tracked vehicles, but typically of lower quality in design and production. Two American manufacturers have products that compete directly with Foremost Industries LP's mid-sized medium sized rubber-tired vehicles. Two Canadian manufacturers have products that compete with Foremost Industries LP's smaller (less than fifteen tons) tracked vehicles. Other Canadian companies produce desert/big bed wheeled trucks that compete with Foremost Industries LP's products in some oilfield applications. These competitive products are often comparably priced or less expensive, but Foremost Industries LP's products are generally recognized as being more robust and superior in extreme off-road applications.

A number of Foremost Industries LP's standard products are low volume niche products that require custom engineering to support the customer's needs. Foremost Industries LP also manufactures "engineered-to-order" special purpose drills on a proprietary basis for individual customers, particularly in the oil and gas sector.

### ***Employees***

As at December 31, 2005, Foremost Industries LP and its subsidiaries consisted of a total of 392 employees, 259 in Calgary, 29 in Indianapolis and 4 at the Cyprus and Moscow locations. Calgary-based plant personnel are members of the Canadian Automotive Workers' (CAW) union.

### ***Facilities***

Foremost Industries LP owns a manufacturing facility in Calgary, Alberta and its subsidiary, Foremost Mobile owns a manufacturing facility in Indianapolis, Indiana.

### ***Material Contracts***

Neither Foremost Industries Income Fund, the Fund nor their operational businesses have entered into any material contracts other than in the ordinary course of business.

### Foremost Universal LP

Foremost Universal LP includes the following business units:

#### *Universal Industries*

Universal Industries has been supplying its customers with quality products since 1949, offering a full line of oil and gas processing equipment supported by an experienced engineering, drafting and design team.

Located in Lloydminster, Alberta, Universal Industries is a fully integrated fabricator of oilfield production equipment. Universal's products as designed, manufactured, and sold include the following: shop tanks, field tanks, emulsion treaters, free water knock outs, vortex clusters, filter separators, steam generators, and custom fabrication items. Services include: project management, field construction, crane service, tank moving, CADD drafting, design engineering, electric contracting, procurement, construction equipment, equipment inspection, machining, trouble shooting & maintenance, and on-site repairs.

#### *Stettler*

Universal Industries Limited Partnership acquired Stettler (which is located in Stettler, Alberta) in January 2003 to further diversify their product lines into natural gas production equipment.

#### *Wilco*

Wilco, located in Neilburg, Saskatchewan, was acquired in November 2003 and is a shop tank fabricator.

### Corlac

The assets and business operations of Corlac, located in Lloydminster and Nisku, Alberta, were acquired by Universal Industries Limited Partnership on July 1, 2004. This purchase has provided additional growth opportunities for Foremost Universal LP with respect to revenues and manufacturing capacity.

### Peace Land

Peace Land, located in Hythe, Alberta, was acquired in July 2005 and is a shop tank fabricator.

### De-In

De-In Industries, located in DeBolt, Alberta, was acquired in August 2005 and is a shop tank fabricator.

## ***Products and Services***

Foremost Universal LP's consolidated revenue, which includes the Universal Industries, Stettler, Wilco and Corlac, Peace Land (5.5 months) and De-In Industries (5 months) operations for 2005 was \$143.9 million. This represents an increase of \$45.9 million from last year's revenues of \$98.0 million. This increase is attributable to the acquisition of Peace Land and De-In Industries early in the third quarter as well as the full year impact of the 2004 Corlac acquisition. The balance of the increase resulted from the combination of facility expansion and increased market share of specific products at Universal's other facilities. Foremost Universal LP's product groups can be segregated into four main lines; shop tanks, gas separators, field tanks and vessels.

### Shop Tanks

*(Revenue \$65.0 million in 2005; \$35.4 million in 2004)*

In 2005, shop tank revenues were provided by Universal Industries, Wilco, Corlac, Peace Land and De-In Industries. This product line represented the most significant revenue increase in 2004. It was also the largest revenue generator of Universal comprising approximately 40 percent of its total revenue.

### Gas Separation

*(Revenue of \$42.4 million in 2005; \$29.8 million in 2004)*

This revenue, derived from the sale of well-site gas separation equipment, is generated solely from the Stettler business unit. It is expected that these revenues will continue to increase in 2006 with additional production facilities presently being constructed to better handle customer demand.

### Field Tanks

*(Revenue of \$24.5 million in 2005; \$17.4 million in 2004)*

This product segment, mainly generated by Universal Industries, increased significantly during the year principally from determined efforts to focus on this previously under-serviced market. The success of these efforts is evidenced by the current backlog of orders with delivery dates into 2007.

### Vessels

*(Revenue of \$8.5 million in 2004; \$12.0 million in 2004)*

Vessels, used for oil treating equipment, are largely produced by Universal Industries and Corlac. The decline in revenues over 2004 reflect the increase in vessels supplied to a related party which are eliminated for reporting purposes and normal year to year variance.

### Parts, Service and Rentals

*(Revenue of \$3.5 million in 2005; \$3.8 million in 2004)*

These miscellaneous revenues are comprised from all the business units of Foremost Universal LP and can include various forms of servicing to customers' well sites and over-the-counter part sales.

### ***Sales and Marketing***

Foremost Universal LP handles sales and marketing from the seven manufacturing sites, two of which are in Lloydminster (Alberta), one of which is in Nisku (Alberta), one of which is in Stettler (Alberta), and one of which is in Neilburg (Saskatchewan), one of which is in Hythe (Alberta), one of which is in DeBolt (Alberta) and a sales office located in Calgary, Alberta. The traditional heavy oil product line of tanks and treating equipment is well known within the industry simply due to Universal's physical location in the heart of western Canada's heavy oil area and the 54 year history of meeting customer's needs. Attendance at trade shows and the 2003 overhaul of the website have served to increase exposure to other producing areas in the world. Stettler has a strong presence in central Alberta, and with the assistance of Foremost Universal LP's sales staff, it is expanding its geographical coverage. The 2005 acquisition of Peace Land and De-In Industries provided a strategic presence in the high activity oil and gas areas of NW Alberta, NE British Columbia and the Northwest Territories.

### ***Manufacturing***

Fabrication work is conducted at all seven locations. Stettler is devoted to gas separation equipment, whereas Neilburg, Hythe and DeBolt are dedicated as a small tank fabrication shops. All other products are built at the Lloydminster facilities, with the exception of large storage tanks. These tanks are constructed at customer sites throughout western Canada. Purchasing, safety, engineering and quality control services are located in Lloydminster where resources are allocated to the other sites as required. Universal maintains an American Society of Mechanical Engineers (ASME) U&S certification at its Lloydminster shop. This program is reviewed every second year to ensure that manufacturers adhere to ASME's strict fabrication codes.

### ***Strategy***

Foremost Universal LP's strategy is to offer its customers a full line of quality products at competitive prices. Foremost Universal LP's objective is to become the provider of choice for key customers, in order that they are able to purchase all of their tank and vessel requirements from one, single supplier. Through acquisitions and new product development, product lines have been expanded to meet these needs. New products introduced in 2003 include: gas separators, double wall tanks, secondary containment systems and steam generators. The high utilization at all shops since the last half of 2003 at all shops has been attributed in part to this new strategic direction. The acquisition of Corlac during 2004 and Peace Land and De-In Industries in 2005 was consistent with this strategy and provided additional growth opportunities for Foremost Universal LP with respect to revenues and manufacturing capacity.

### ***Intellectual Property***

Foremost Universal LP owns certain patents, trademarks, trade names, service marks and copyrights in or as reasonably required for the proper carrying on of its business. Where appropriate, all registrations and filings as considered necessary to preserve its rights have been made and are in good standing.

### ***Competition***

#### ***Oilfield equipment***

This product is highly competitive, especially the less technical products such as small tanks, where the barriers to market entry are minimal. Foremost Universal LP's ASME certification sets it apart from most of its tank manufacturing competitors and assures customers of a higher standard of quality. In-house design, process and structural engineers combined with the practical expertise developed from residing in the field are what set Foremost Universal LP apart from competitors in the vessel business. Foremost Universal LP's success is dependant upon maintaining price, quality, product diversification and service. Foremost Universal LP's belief is that the continuation of improvement on its initiatives, in these areas will allow further growth for its market share.

***Facilities***

Foremost Universal LP manufactures, sells and rents: oil treating systems, pressure vessels, petroleum storage tanks, gas separation and steam generation equipment from seven facilities, two of which are in Lloydminster (Alberta), one of which is in Nisku (Alberta), one of which is in Stettler (Alberta), and one of which is in Neilburg (Saskatchewan), one of which is in Hythe (Alberta) and one of which is in DeBolt (Alberta).

***Employees***

As at December 31, 2005, Foremost Universal LP and its subsidiaries consisted of a total of 492 employees, 286 in Lloydminster, 5 in Calgary, 50 in Stettler, 34 in Nisku, 24 in Neilburg, 37 in Hythe and 56 in DeBolt. The plant employees of Universal in Lloydminster are members of the Boilermakers Union.

## **RISK FACTORS**

### **Risks Related to the Business**

#### Environmental, Health and Safety Regulation

The Fund's Business Operations, past and present, are subject to federal, provincial, state, municipal and local statutes, regulations and by-laws and other requirements with respect to workers' health and safety and environmental matters in both Canada and the United States.

Environmental legislation, orders, permits, approvals, common law and other requirements impose obligations relating to, among other things: the release of substances into the natural environment; the production, processing, preparation, handling, storage, transportation, disposal, and management of substances; and the prevention and remediation of environmental impacts such as the contamination of soil and water. As a result of these requirements, the operations and ownership of the Business Operations carry a risk of environmental liability (including potential civil actions, compliance or remediation orders, fines and other penalties).

Workers' health and safety legislation and other requirements impose a number of obligations on the Operating LPs.

#### Foreign Exchange Exposure

A portion of the Foremost Business is conducted in foreign markets with the U.S. dollar as the negotiating currency. These transactions include sales of products and the purchase of parts and components required to manufacture products. This dependence on U.S. currency for both sales and purchases exposes the business to risks of currency fluctuations. Exchange rate fluctuations are beyond the Fund's control and there can be no assurance that such fluctuations will not have a material adverse effect on reported results.

#### International Scope of Operations

From time to time, a portion of revenue is earned from foreign customers susceptible to political and economic forces. Associated risks are mitigated for larger contracts with contractual credit terms that require a considerable cash deposit and/or letter of credit to guarantee payment of contract amounts. Additionally, in many cases, the Operating LP's utilize the Export Development Corporation ("EDC") to insure foreign contracts and receivables. However, if a situation requires reliance on EDC coverage, realization can be significantly postponed and may be less than total contract amounts.

#### Dependence on the Energy and Mining Industries

The products of the Foremost Business are sold to customers that operate in industries that can experience extreme deviations in activity. The dependence of the Foremost Business on customers in these industries exposes them to potentially erratic revenue from year to year.

#### Development of New Products

From time to time, the Foremost Business develops new products of a specialized nature that have inherent risks. The major risks include:

- a) technical risk that either the product does not perform as desired or unacceptable reliability issues render the new product un-merchantable; and
- b) supplier risk that required modules, components and engines procured from third party vendors, do not perform in an acceptable manner, thereby having an adverse impact on marketability of such new products and the Foremost Business' product liability.

#### Product Liability

The Foremost Business is subject to potential product liabilities connected with its operations, including liabilities and expenses associated with product defects. These Business Operations have product liability and other insurance coverage that management of the Fund believes is generally in accordance with the market practice in its industry, but there can be no assurance that the Foremost Business will always be adequately insured against all such potential liabilities.

#### Fixed Price Contracts

The Business Operations enter into fixed price manufacturing contracts based upon estimates of technical risks and total production costs. These estimates, if materially inaccurate, can result in potentially large losses related to fulfilling the Operating LP's contractual obligations.

#### Competitive Environment

There can be no assurance that the Foremost Business will be able to compete successfully against their current or future competitors, or that such competition will not have a material adverse effect on the financial condition and results of operations of the Foremost Business. For additional information regarding the competitive environment in which Foremost Industries LP and Foremost Universal LP operate, refer to "The Business – Market Overview – Competition" above.

#### Reliance on Key Personnel

The Business Operations are dependent on the abilities, experience and efforts of its senior management. If any of these persons become unable or unwilling to continue their employment, that may have a material adverse effect on the Fund's financial condition, results of operations and business prospects.

#### Uninsured and Underinsured Losses

The Business Operations obtain and maintain, at all times insurance coverage in respect of potential liabilities of the Business Operations and the accidental loss of value of the assets from risks, in amounts, with such insurers, and on such terms as the Business Operations consider appropriate, taking into account all relevant factors including the practices of owners of similar assets and operations. Management believes that the Business Operations' maintained insurance coverage amounts are sufficient to repair or replace any assets physically damaged or destroyed, including coverage for resultant business interruption losses, or extra expenses sustained, and to cover claims for bodily injury or property damage arising out of assets or operations. However, not all risk factors are covered by insurance, and no assurance can be given that insurance will be consistently available on an economically feasible basis or that the amounts of insurance will at all times be sufficient to cover each and every loss or claim that may occur involving the assets or Business Operations of the Fund.

### Source of Supply of Raw Material and Third Party Components

Significantly, all raw material and third party components required for the manufacturing of products by the Business Operations or their subsidiaries can be procured from multiple sources at competitive prices. Certain third party components are not readily available "off-the-shelf" and are subject to significant lead-times from suppliers. These lead times may cause delays in the production of products that may result in cost overruns and/or trigger penalty payments to customers. The Business Operations endeavor to confirm price and delivery for all critical components prior to entering into contracts with customers.

### **Risks Related to Structure of the Fund**

#### Dependence on the Business Operations

The Fund will initially be entirely dependent on the operations and assets of its Business Operations through its direct or indirect ownership of the partnership interests in Foremost Industries LP and Foremost Universal LP. Accordingly, the cash and other distributions to the Unitholders will be dependent on the ability the operational businesses to make cash distributions or other distributions to the Fund.

#### Distributions Are Not Guaranteed and Will Fluctuate with the Operational Performance

There can be no assurance regarding the amounts of income that will be generated by the operational businesses and paid to the Fund. The actual cash amount distributed in respect of the Trust Units will depend upon numerous factors, including profitability, determination of taxable income and taxes payable, fluctuations in working capital, the sustainability of margins and capital expenditures as well as the actual cash amount distributed from the operational businesses to the Fund.

#### Nature of Trust Units

Units of mutual fund trusts such as the Trust Units are hybrids in that they share certain attributes common to both equity common shares and debt instruments. The Trust Units do not represent a direct investment in the Business and should not be viewed by investors as ownership interest in the operational businesses or their subsidiaries. As holders of Trust Units, Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The Trust Units represent a fractional interest in the Fund. The price per Trust Unit is a function of anticipated distributable income.

#### Distribution of Partnership Interests on Redemption or Termination of the Fund

Upon a redemption of Trust Units or termination of the Fund, the Trustees may distribute partnership units in Foremost Industries LP and/or Foremost Universal LP directly to the holders of Trust Units, subject to obtaining all required regulatory approvals. There is currently no market for such partnership units. Partnership units so distributed may not be qualified investments for Exempt Plans, depending upon the circumstances at the time.

#### Restrictions on Potential Growth

The payout by the Fund of significant cash in any year will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of such funds could limit the Fund's future growth, and cash flow.

### Investment Eligibility

The Trustees will seek to ensure that the Trust Units are qualified investments for Exempt Plans. There can be no assurance that the conditions prescribed for such qualified or eligible investments will be adhered to at any particular time. If the Fund ceases to qualify at any relevant time as a "mutual fund trust" under the Tax Act, the Trust Units will cease to be qualified investments for Exempt Plans. Where at the end of any month an Exempt Plan holds Trust Units that are not qualified investments, the Exempt Plan must, in respect of that month, pay a tax under Part XI.1 of the Tax Act equal to 1% of the fair market value of the Trust Units at the time such Trust Units were acquired by the Exempt Plan. In addition, where a trust governed by an RRSP holds Trust Units, that are not qualified investments, the trust will become taxable on its income attributable to the Trust Units while they are not qualified investments. If the Fund ceases to qualify as a "mutual fund trust" under the Tax Act, it may also be subject to taxation under Part XII.2 of the Tax Act to the extent Trust Units are held by non-resident persons.

### Potential Conflicts of Interest

There may be situations in which the interests of the Administrator or one of the Trustees will conflict with those of holders of the Trust Units. The Trustees will not carry on their full-time activities on behalf of the Fund and, when acting on behalf of others, may at times act in contradiction to or in competition with the interests of holders of the Trust Units. In resolving any conflicts, decisions will be made on a basis consistent with the objectives and funds of each group of interested parties and the time limitations on investment of such funds, all consistent with the duty of the Trustees to deal fairly and in good faith with each such group of persons. In the event that the interests of the Trustees are in conflict with those of holders of the Trust Units, the Trustees are obliged to make decisions acting in good faith, having regard to the best interests of holders of the Trust Units and in a manner that would not contravene their fiduciary obligations to holders of the Trust Units.

Circumstances may arise where the Trustees or members of the Board of the Administrator serve as Directors or officers of corporations that are in competition to the interests of the Fund. No assurances can be given that opportunities identified by the Trustees or by such board members of the Administrator will be provided to the Fund.

**SELECTED CONSOLIDATED FINANCIAL INFORMATION**

The following is a summary of selected financial information for the periods indicated.

**Five Year Financial Summary** (\$000s, except per trust unit/share amounts)

<b>Financial Results</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>Continuing Operations</b>					
Revenue	207,504	160,752	70,679	46,690	50,163
Income (loss) before income taxes	29,979	20,296	6,619	5,868	8,631
Income taxes (recovery)	—	—	—	—	78
Net income (loss)	29,979	20,296	6,619	5,868	8,533
Net income per trust unit/share – basic	1.49	1.09	0.39	0.39	0.53
Net income per trust unit/share – diluted	1.45	1.05	0.39	0.38	0.51
<b>Financial Position:</b>					
Total assets	140,531	108,040	58,221	32,848	36,519
Liabilities	71,015	58,325	21,928	6,300	12,210
Unitholders' equity	69,516	49,715	36,293	26,548	24,309
Long-term debt (includes current portion)	—	—	3,098	—	—
Working capital	29,583	17,995	14,270	19,373	16,197
Property, plant and equipment assets	28,589	24,324	18,898	7,175	7,303

**Quarterly Financial Summary** (\$000s, except per trust unit amounts)

<b>2005 Financial Results</b>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>	<b>Total</b>
Revenue	41,959	46,131	51,816	67,598	207,504
Net income	4,507	6,406	6,813	10,253	27,979
Net income per trust unit	0.24	.34	0.36	0.55	1.49
Cash flow from operations	5,037	7,112	7,561	11,150	30,860
<b>Financial Position:</b>					
Assets	109,634	114,658	131,426	140,531	
Liabilities	57,744	59,129	69,511	71,015	
Unitholders' equity	51,890	55,529	61,905	69,516	
Working capital	20,480	24,291	23,702	29,583	
Property, plant and equipment	24,037	23,933	28,034	28,589	

<b>2004 Financial Results</b>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>	<b>Total</b>
Revenue	30,723	34,491	40,138	67,598	207,504
Net income	3,816	6,209	5,130	10,253	27,979
Net income per trust unit	0.21	.33	0.27	0.28	1.09
Cash flow from operations	4,224	6,725	5,778	5,685	22,412
<b>Financial Position:</b>					
Assets	67,263	76,911	95,825	108,040	
Liabilities	28,044	33,341	49,034	58,325	
Unitholders' equity	39,219	43,570	46,791	49,715	
Working capital	17,342	21,752	18,196	17,355	
Property, plant and equipment	18,565	18,318	23,286	24,324	

On May 14, 2002 the Foremost Industries Income Fund announced a policy of paying regular distributions. The distribution for March 2004 was set at \$0.125 per unit. In June 2005, the distribution was set at \$0.15 per unit and remained the same for September and December 2005 distributions. In March 2006, the distribution was set at \$0.25 per unit. Total distributions for 2005 amounted to \$.575 per unit.

Distributions are to be paid to Unitholders of record on the 15<sup>th</sup> day of the month following each calendar quarter. The policy of the Fund is to set the distribution at a conservative amount that the Trustees feel is sustainable over a full business cycle.

### One year History

<i>Payable Date</i>	<i>Record Date</i>	<i>Ex-distribution Date</i>	<i>Distribution Amount</i>
December 30, 2005	December 19, 2005	December 15, 2005	\$0.15 / unit
September 30, 2005	September 23, 2005	September 21, 2005	\$0.15 / unit
June 30, 2005	June 17, 2005	June 15, 2005	\$0.15 / unit
March 31, 2005	March 24, 2005	March 22, 2005	\$0.125 / unit

### TRUST UNIT TRADING VOLUMES

#### One year History

Date	Open	High	Low	Close	Volume
December 1, 2005	\$ 14.50	\$ 14.60	\$ 14.50	\$ 14.60	14,800
November 1, 2005	13.00	13.00	13.00	13.00	-
October 3, 2005	13.70	13.70	13.35	13.55	2,900
September 1, 2005	13.39	13.65	13.25	13.25	8,400
August 2, 2005	13.00	13.10	13.00	13.00	1,500
July 4, 2005	13.14	13.14	12.75	12.75	3,100
June 1, 2005	10.58	10.75	10.58	10.75	97,500
May 2, 2005	9.58	9.67	9.55	9.67	5,700
April 1, 2005	10.92	10.92	10.90	10.92	4,800
March 1, 2005	11.17	11.50	11.00	11.42	15,300
February 1, 2005	9.40	9.58	9.40	9.58	22,800
January 4, 2005	10.33	10.41	10.33	10.33	5,100
December 31, 2004	10.42	10.42	10.42	10.42	1,500

### MANAGEMENT DISCUSSION AND ANALYSIS

The information contained in the Management's Discussion and Analysis relating to the Fund's financial statements for the year ended December 31, 2005 is incorporated herein by reference and forms an integral part of this Annual Information Form.

### MARKET FOR SECURITIES

The outstanding common Trust Units of the Fund are listed and posted for trading on the Toronto Stock Exchange (TSX) under the symbol "FMO.UN".

### TRUSTEES AND OFFICERS

The names, municipalities of residence, and principal occupations of the Trustees of the Fund, and year each Trustee first became a Trustee are shown below.

***The Fund***

The name, municipality of residence, position with the Fund, and principal occupation of each of the Trustees of the Fund are as follows:

<i>Name and Municipality of Residence</i>	<i>Position</i>	<i>Principal Occupation</i>	<i>Trustee Since</i>
Roy H. Allen Cochrane, Alberta	Trustee	Retired	December, 2005
James T. Grenon Calgary, Alberta	Trustee	Managing Director, TOM Capital Associates Inc.	December, 2005
Bruce J. MacLennan Calgary, Alberta	Trustee	President, Century Services Inc.	December, 2005
Gordon M. Wiebe Calgary, Alberta	Trustee	President, Corpfin Services Ltd.	December, 2005

The Fund has a separate audit committee. Messrs. Allen, MacLennan and Wiebe are members of the audit committee. All members of the Trustees attend to executive matters.

Each of the Trustees has had the same principal occupation for the previous six years. The term of each Trustee shall expire at the next Annual General Meeting of the Unitholders. As at December 31, 2005, the Trustees beneficially own, directly or indirectly 11,317,706 Trust Units, controlling 59.83% percent of the issued and outstanding Trust Units.

***Directors and Officers of the Administrator***

The name, municipality of residence, position with Foremost Industries Inc., and principal occupation of each of the Directors and officers of the Administrator are as follows:

<i>Name and Municipality of Residence</i>	<i>Position</i>	<i>Principal Occupation</i>	<i>Director Since</i>
Glen E. Swail Calgary, Alberta	Director	Vice President, TOM Capital Associates Inc.	May 2000
Craig A.. Bell Calgary, Alberta	Director	Independent Barrister & Solicitor	September 2003
Pat. W. Breen Lloydminster, Alberta	Director, and President	President of the Administrator	September 2003

Glen E. Swail has held the same principal occupation for the previous seven years.

Craig, A. Bell is a Chartered Accountant and Lawyer, who maintains a private practice in Calgary, Alberta. Mr. Bell has held the same principal occupation for the previous seven years.

Pat W. Breen – Mr. Breen’s history with Foremost Universal LP began five years ago, as General Manager. During 2003, Mr. Breen became President of the Administrator. Prior to his employ with the Fund’s operating groups, Mr. Breen held the position of Operations Manager at Husky Oil’s Lloydminster, Alberta location.

The Administrator may, directly or indirectly, pay any of all of the Directors for management services which any or all of the Directors may provide to the Administrator from time to time.

## **CONFLICTS OF INTEREST**

There may be situations in which the interests of the Administrator or one of the Trustees will conflict with those of holders of the Trust Units. The Trustees will not carry on their full-time activities on behalf of the Fund and, when acting on behalf of others, may at times act in contradiction to or in competition with the interests of holders of the Trust Units. In resolving any conflicts, decisions will be made on a basis consistent with the objectives and funds of each group of interested parties and the time limitations on investment of such funds, all consistent with the duty of the Trustees to deal fairly and in good faith with each such group of persons. In the event that the interests of the Trustees are in conflict with those of holders of the Trust Units, the Trustees are obliged to make decisions acting in good faith, having regard to the best interests of holders of the Trust Units and in a manner that would not contravene their fiduciary obligations to holders of the Trust Units.

Circumstances may arise where the Trustees or members of the Board of the Administrator serve as Directors or officers of corporations which are in competition to the interests of the Fund. No assurances can be given that opportunities identified by the Trustees or by such board members of the Administrator will be provided to the Fund.

## **ADDITIONAL INFORMATION**

### **Income Tax Considerations**

Within the time required under the Tax Act, the Fund will provide to holders of Trust Units who received distributions from the Fund in the prior calendar year, such information and forms as may be needed by such holders of Trust Units in order to complete their tax returns in respect of the prior calendar year under the Tax Act and equivalent provincial legislation in Canada.

#### Income Tax: Obligations of the Trustees

The Trustees shall satisfy, perform and discharge all obligations and responsibilities of the Trustees under the Income Tax Act (including any obligations of the Fund under Part XIII of the said Act) and neither the Fund nor the Trustees shall be accountable or liable to any Unitholder by reason of any act or acts of the Trustees consistent with any such obligations or responsibilities.

#### Income Tax: Designations

In the return of its income under Part I of the Tax Act for each fiscal year, the Fund shall make such designations, determinations and allocations with respect to any amounts or portions of amounts which it has received, distributed, declared payable or allocated to holders of Trust Units in the year including, without restricting the generality of the foregoing, designations with respect to dividend income and realized capital gains or with respect to any expenses incurred by the Fund or any tax deductions to which the Fund may be entitled, all as the Trustees in their discretion shall deem to be reasonable and equitable.

#### Income Tax: Deductions

The Trustees shall claim the maximum deductions available to the Fund or such lesser amounts as the Trustees may determine to be in the best interests of the holders of Trust Units for the purposes of computing its income pursuant to the provisions of the Income Tax Act to the extent required to reduce the taxable income of the Fund to nil.

## Other Additional Information

Additional information, including information concerning remuneration and indebtedness of the Trustees and the Directors and Officers of the Administrator, principal holders of the Trust Units, any rights to purchase Trust Units, and interests of insiders in material transactions, if applicable, is contained in Foremost Industries Income Fund's Information Circular dated, May 12, 2004 relating to the Meeting of Unitholders of the Foremost Industries Income Fund which was held on June 16, 2004, and the Information Circular dated November 29, 2005 relating to the Meeting of the Unitholders for the Foremost Industries Income Fund that was held on December 28, 2005.

Additional financial information is contained in the consolidated financial statements of the Fund for the period ended December 31, 2005. Further information can be viewed by accessing the SEDAR website at: <http://www.sedar.com>.

The Fund will provide to any person, upon request to the Administrator of the Fund, at 1225 – 64th Avenue NE, Calgary, Alberta, T2E 8P9:

- a) when the securities of the Fund are in the course of a distribution pursuant to a short form prospectus or if a preliminary short form prospectus has been filed in respect of a distribution of its securities:
  - i. one copy of this annual information form together with one copy of any document, or the pertinent pages of any document, incorporated by reference in this annual information form;
  - ii. one copy of the comparative consolidated financial statements of the Fund for the period ended December 31, 2005, together with the accompanying report of the auditor and one copy of any subsequent interim financial statements;
  - iii. one copy of Foremost Industries Income Fund's information circular in respect of its most recent Annual & Special Meeting of holders of Trust Units that involved the election of Trustees or one copy of any annual filing prepared instead of the information circular, as appropriate; and
  - iv. one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under clauses (i), (ii) or (iii); or
- b) at any other time, one copy of any documents referred to in clauses (a) (i), (ii) and (iii), provided that the Administrator may require the payment of a reasonable charge if the request is made by a person or company who is not a holder of Trust Units.

The President of the Administrator can be contacted as follows:

Foremost Industries Inc.  
1225 64th Avenue NE  
Calgary, Alberta T2E 8P9

Tel: 403 295-5800; or 1 800 661-9190 (Toll Free - Canada/US) - Fax: 403 295-5832