

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 months ended March 31, 2010, should be read in conjunction with the Fund's Annual Report for the year ended December 31, 2009, as well as the Management's Discussion and Analysis in the Fund's 2009 Annual Report and the Fund's 2009 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 May 12, 2010. 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 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 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., a vendor of Foremost Industries custom equipment to U.S. customers.

Headquartered in Calgary, the Fund's combined businesses, predominantly based in western Canada, currently employ approximately 555 people. Trust units of the Fund trade on the Toronto Stock Exchange under the symbol "**FMO.UN**".

OVERALL RESULTS

Q1-2010 operating results reflect stronger than anticipated revenues, lower gross profit margins due to competitive pressures and the stronger Canadian dollar and reduced selling, general and administrative expenses. Compared with Q1-2009, revenues for Q1-2010 increased 10.1% and the gross profit percentage declined 4.8%. Selling, general and administrative expenses decreased 11.5% reflecting the ongoing benefits of 2009 cost cutting initiatives. As a result, the Q1-2010 net income was \$3.1 million versus \$3.7 million for Q1-2009.

Q1-2010 consolidated revenues were \$42.9 million compared with \$38.9 million in Q1-2009. Consolidated Q1-2010 gross profit was \$8.4 million (19.6%) versus \$9.5 million (24.4%) for Q1-2009. The Q1-2010 \$3.1 million net income resulted in basic earnings per trust unit of \$0.15

as compared with \$3.7 million and \$0.17 per trust unit for Q1-2009. Funds flow from operations was \$4.2 million for Q1-2010 versus \$5.1 million for Q1-2009 due to the lower net income. Changes in Q1-2010 non-cash working capital items used \$5.2 million of cash versus the generation of \$5.7 million in cash during Q1-2009. Q1-2010 and Q1-2009 capital expenditures to maintain productive capacity were \$0.1 million. Q1-2010 and Q1-2009 trust unit distributions were \$2.1 million or \$0.10 per trust unit. The combination of operating, investing and financing activities resulted in a Q1-2010 decrease in cash of \$3.3 million versus an \$8.4 million increase in Q1-2009.

The Fund had \$33.8 million in cash at March 31, 2010 as compared with \$37.0 million at December 31, 2009 and \$9.2 million at March 31, 2009. The Fund had no long-term debt at any of these points in time.

OUTLOOK FOR 2010

As discussed in the 2009 annual report, Q1-2010 financial results reflect the Fund's expectations for challenging market conditions and its response to them. The Fund believes these conditions will continue to impact operating margins throughout fiscal 2010. Accordingly, the Fund will maintain its focus on cost control, operational efficiency, critical capital expenditures and trust unit distributions to maintain its balance sheet strength and cash position. As part of this focus, the Fund has maintained steps to control discretionary operating costs and manpower levels. These efforts are necessary to ensure the Fund can respond to any improvement in its core markets and continue the pursuit of 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 the current outlook, this pattern may not occur in fiscal 2010.

RESULTS OF OPERATIONS

Universal

Universal's Q1-2010 revenues were \$34.6 million compared with \$26.4 million in Q1-2009. Q1-2010 net income was \$2.3 million compared with \$1.3 million in Q1-2009. Q1-2010 gross profit was \$6.1 million (17.5% of revenues) versus \$5.4 million (20.4% of revenues) in Q1-2009. Q1-2010 selling, general and administrative expenses were \$2.1 million as compared with \$3.3 million in Q1-2009. The Q1-2010 revenue and gross profit dollar increase arose principally from higher vessel, field tank and shop tank revenues. The lower gross profit percentage reflects the impact of highly competitive market conditions. The decrease in selling, general and administrative expenses reflects ongoing benefits from fiscal 2009 cost cutting initiatives.

Foremost

The Foremost group Q1-2010 revenues were \$8.3 million as compared with \$12.5 million for Q1-2009. Q1-2010 net income was \$0.8 million versus \$2.4 million for Q1-2009. Q1-2010 gross profit was \$2.3 million (28.0% of revenues) versus \$4.1 million (32.8% of revenues) for Q1-2009. Q1-2010 selling, general and administrative expenses were \$1.2 million versus \$1.3 million for Q1-2009. The revenue decrease reflects lower vehicle sales and the impact of the stronger Canadian dollar on U.S. dollar denominated revenues. The Q1-2010 decrease in gross profit percentage is due to the combination of lower margin product revenues and the impact of the strengthening Canadian dollar. The decrease in selling, general and administrative expenses reflects the ongoing benefits of 2009 cost reduction initiatives.

SELLING, GENERAL AND ADMINISTRATIVE

The Funds Q1-2010 selling, general and administrative expenses amounted to \$4.1 million (9.5% of revenues) compared with \$4.6 million (11.8%) for Q1-2009. The \$0.5 million decrease primarily reflects ongoing benefits from fiscal 2009 cost cutting initiatives in all functional areas. The Fund expects Q2-2010 selling, general and administrative expenses to be similar to Q1-2010.

INTEREST

Q1-2010 net interest income was \$20,000 versus interest expense of \$5,000 for Q1-2009. The Fund earned interest income on its cash balances and did not incur interest expense as it did not utilize its operating loan during Q1-2010. At March 31, 2010, the Fund has no interest rate swap contracts or similar instruments to manage interest rate risk. The Fund expects to report net interest income for Q2-2010.

AMORTIZATION

Q1-2010 amortization was \$1.1 million, the same as for Q1-2009. Based on planned capital expenditures, Q2-2010 amortization is also expected to be approximately \$1.1 million.

FOREIGN EXCHANGE

The Fund reported a Q1-2010 foreign exchange loss of \$157,000 versus a Q1-2009 gain of \$80,000. At any time, the Fund generally holds a net U.S. dollar working capital position. The Q1-2010 exchange loss is the net effect of exchange rate fluctuations on the conversion of U.S. dollar balances into Canadian dollar balances during the period and the translation of foreign currency balances held at March 31, 2010 into equivalent Canadian dollar balances. Foreign exchange gains or losses will continue 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 normally enter into foreign exchange forward contracts or similar instruments to manage this risk. However, the Fund had a \$6.5 million foreign exchange forward contract outstanding on March 31, 2009 to manage the foreign exchange risk associated with an international capital equipment contract. This foreign exchange forward contract was accounted for on a marked to market basis with the gains or losses arising from the comparison of the contract rate with the foreign exchange rate at December 31, 2008 and March 31, 2009 being recorded. As at March 31, 2009, there was a \$0.2 million unrealized loss recognized on this contract. This loss arose because the U.S.-to-Canadian dollar exchange rate had changed from 1.22:1 at December 31, 2008 to 1.26:1 at March 31, 2009.

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.

On June 22, 2007, the Canadian government substantially 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 March 31, 2010 remains unchanged from December 31, 2009.

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 amended 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

Q1-2010 funds flow from continuing operations amounted to \$4.2 million versus \$5.1 million for Q1-2009. The decrease is primarily a result of the lower level of income from continuing operations. Changes in non-cash working capital, comprised of changes in accounts receivable, inventories, prepaid expenses, accounts payable and accrued liabilities and deferred revenue balances relative to December 31, 2009, resulted in the use of \$5.2 million of cash as compared with the generation of \$5.7 million of cash during Q1-2009. These changes reflect the impact of increased business activity during Q1-2010. As a result, cash flows used by continuing operations amounted to \$1.0 million for Q1-2010 versus the \$10.7 million generated for Q1-2009.

Q1-2010 and Q1-2009 investing activities resulted in capital expenditures of approximately \$0.1 million. The Q1-2010 capital expenditures were to maintain productive capacity necessary for current revenue requirements. The Fund's fiscal 2010 capital expenditure program to maintain anticipated productive capacity is still expected to be approximately \$0.8 million.

Q1-2010 financing activities were the \$2.1 million trust unit distribution (\$0.10 per unit). Q1-2009 financing activities consisted of the repayment of \$0.3 million of bank indebtedness and the \$2.1 million trust unit distribution payment. The Fund did not utilize its \$20.0 million operating facility during Q1-2010.

The Q1-2010 trust unit distribution was funded from the cash balances held by the Fund whereas for Q1-2009, cash flows from continuing operations were sufficient to fund the respective Q1-2009 trust unit distributions.

Net working capital at March 31, 2010 was \$73.0 million compared to \$71.1 million at December 31, 2009 and \$68.1 million at March 31, 2009. The Fund's March 31, 2010 working capital ratio decreased slightly and debt-to-equity ratio improved slightly in relation to December 31, 2009. Relative to March 31, 2009, the working capital ratio improved significantly while the debt-to-equity ratio decreased slightly. The March 31, 2010 working capital ratio was 4.35:1 versus 4.49:1 at December 31, 2009 and 3.73:1 at March 31, 2009. The debt-to-equity ratio was 0.15:1 at March 31, 2010 compared with 0.14:1 at December 31, 2009, and 0.16:1 at March 31, 2009.

Book value per trust unit was \$6.66 at March 31, 2010, \$6.61 at December 31, 2009 and \$7.25 at March 31, 2009. The decline relative to March 31, 2009 is due to the Q4-2009 recognition of a \$13.5 million (\$0.63 per trust unit) goodwill impairment.

The Fund has no short-term or long-term debt and continues to use cash flow from operating activities, current cash balances and if necessary its operating facility to support non-cash working capital, investing and financing requirements. The Fund expects Q2-2010 cash flows from operations and cash balances will fund anticipated Q2-2010 working capital needs, planned capital expenditures and forecast trust unit distributions. The Fund does not expect to use its operating facility to fund current levels of operations during fiscal 2010.

The Fund's bank credit facility contains certain debt covenants. The Fund is well within these covenants at March 31, 2010 and expects to remain well within these covenants throughout the rest of fiscal 2010.

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 Q1-2010 trust unit distribution remained at \$0.10 per trust unit. This resulted in total cash payments of \$2.1 million for Q1-2010 and Q1-2009. 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 continue to review its trust unit distributions on a quarter by quarter basis. Consequently, the amount of quarterly trust unit distributions may vary significantly from quarter to quarter during fiscal 2010. The amount of trust unit distributions are also expected to continue to 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 Q1-2010 \$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 and cash balances 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 continuing operating activities are expected to repay this bank indebtedness.

UNITHOLDERS' CAPITAL

Unitholders' capital at March 31, 2010 was \$62.1 million, unchanged from December 31, 2009 and March 31, 2009. No trust units were issued or repurchased during Q1-2010. As at March 31, 2009 there were 21,411,036 issued and outstanding trust units and 601,000 unit options outstanding. Subsequent to the end of Q1-2010, 15,000 unit options with an exercise price of \$4.12 were exercised for total proceeds of \$61,800. As of the date of this MD&A, there were 21,426,036 trust units issued and outstanding and 586,000 unit options outstanding.

UNITHOLDERS' EQUITY

Unitholders' equity, comprised of unitholders' capital, contributed surplus and accumulated earnings was \$142.5 million at March 31, 2010 versus \$141.5 million at December 31, 2009 and \$155.3 million at March 31, 2009. The increase from December 31, 2009 is comprised of the Q1-2010 net income of \$3.1 million less \$2.1 million of trust unit distributions.

RELATED PARTY TRANSACTIONS

The Fund utilizes 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. As necessary, the Fund utilizes due diligence and business acquisition services from the same company. The consulting, due diligence and business acquisition services are measured at fair value with these amounts agreed to by all parties. For the three months ended March 31, 2010, the total amount invoiced for consulting services was \$131,000 (2009 - \$184,000). No amounts for due diligence or business acquisition services were incurred during Q1-2010 or Q1-2009. For the three months ended March 31, 2010, total payments for amounts invoiced during Q1-2010 and balances owing at the beginning of fiscal 2010 totaled \$131,000 (2009 - \$289,000). There were no amounts due or payable at March 31, 2010 (2009 - \$510,000).

OBLIGATIONS AND COMMITMENTS

At March 31, 2010, the Fund had no material outstanding obligations and commitments for capital expenditures. At March 31, 2010, the Fund had outstanding letters of guarantee in the amount of \$0.1 million related to performance of specific customer contracts or contract bids. The Fund has operating lease commitments for office space and service equipment, none of which individually, or in aggregate, are material.

FINANCIAL INSTRUMENTS

Except for foreign exchange forward contracts, the Fund's financial assets and liabilities at March 31, 2010 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. Transaction costs related to these financial instruments are expensed in the period incurred. There were no foreign exchange forward contracts or interest rate swap agreements outstanding at March 31, 2010.

RISKS AND UNCERTAINTIES

The Fund's risks and uncertainties are described in detail in the December 31, 2009 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 March 31, 2010, the Fund's risks and uncertainties have not materially changed from those described in the December 31, 2009 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 March 31, 2010 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 March 31, 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 March 31, 2010 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, 2009 Audited Consolidated Financial Statements. The critical policies deal with revenue recognition, inventories, foreign currency translation, income taxes and financial instruments. At March 31, 2010, the Fund's critical accounting policies have not changed from those described in the December 31, 2009 Audited Consolidated Financial Statements.

RECENT ACCOUNTING PRONOUNCEMENTS

i) In January 2009, the CICA issued Handbook Section 1582, Business Combinations that replaces the previous business combinations standard. Under the new standard, the purchase price used in a business combination is based on the fair values of shares exchanged at the marked price at acquisition date. Under the current standard, the purchase price used is based on the market price of shares for a reasonable period before and after the date the acquisition is agreed upon and announced. In addition, the new standard generally requires all acquisition costs to be expensed. Current standards allow for the capitalization of these costs as part of the purchase price. This new standard also addresses contingent liabilities, which will be required to be recognized at fair value on acquisition, and subsequently remeasured at each reporting period until settled. Current standards require only contingent liabilities that are due to be recognized. The new standard requires any negative goodwill to be recognized as a charge to earnings rather than the current standard which reduces the fair value of non-current assets in the purchase price allocation. The new standard applies prospectively to business combinations on or after January 1, 2011 with earlier application permitted. The Fund does not intend to early adopt the new standard. The Fund is in the process of evaluating the requirements of this new standard.

ii) In January 2009, the CICA issued Handbook Section 1601, Consolidated Financial Statements and Section 1602, Non-controlling interests. Section 1601 and 1602 together replace Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is the equivalent to the corresponding provisions of IFRS IAS 27 - Consolidated and Separate Financial Statements and applies to the interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. The Fund does not intend to early adopt these new standards. The Fund is in the process of evaluating the requirements of these new standards.

iii) In February 2008, Canada's Accounting Standards Board ("AcSB") confirmed that Canadian generally accepted accounting principles, as used by publicly accountable enterprises, will converge into International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") for reporting periods commencing on or after January 1, 2011. Accordingly, the Fund will report under IFRS commencing with the March 31, 2011 first quarter interim financial statements. The Fund will convert to these new standards according to the timetable set within these new rules and provided a comprehensive update as to the status of the Fund's progress regarding the implementation of IFRS in the December 31, 2009 MD&A. As at March 31, 2010, the Fund has progressed towards the final selection of applicable IFRS 1 policy selections and the quantification of IFRS disclosures for 2010. The Q1-2010 focus has been the establishment of the opening balance sheet as at January 1, 2010 under IFRS. During Q2-2010 and Q3-2010, efforts will be devoted to the development of a full set of pro-forma financial statements using Q1-2010 financial information to reflect the expected revised financial statements format and anticipated changes in note disclosure. Completion of this effort is expected to be in early Q4-2010. Staff training will continue throughout the remainder of 2010. System changes to support IFRS requirements are currently being evaluated, but are not expected to be significant at this time. As of the date of this MD&A, there have been no material changes to the internal control or disclosure control environments identified and the Audit Committee will continue to receive quarterly updates on the status of this project from management. The nature and extent of this project may be affected by changes in the strategic direction of the Fund or changes in IFRS. As the IASB has projects underway which could 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, 2009 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 March 31, 2010, the Fund's critical accounting estimates have not changed from those described in the December 31, 2009, Audited Consolidated Financial Statements.

SUMMARY OF QUARTERLY RESULTS (Unaudited)

(000's, except per trust unit amounts)

	2010		2009				2008			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	
Revenue	\$ 42,844	\$ 34,944	\$24,082	\$31,038	\$ 38,922	\$ 57,161	\$57,270	\$52,991	\$ 49,857	
Net income (loss)	\$ 3,121	\$ (12,424)	\$ 1,622	\$ 3,227	\$ 3,702	\$ 8,576	\$ 8,421	\$ 7,579	\$ 8,264	
Net income:										
Per trust unit, basic	\$ 0.15	\$ (0.58)	\$ 0.08	\$ 0.15	\$ 0.17	\$ 0.40	\$ 0.39	\$ 0.36	\$ 0.39	
Per trust unit, diluted	\$ 0.15	\$ (0.58)	\$ 0.08	\$ 0.15	\$ 0.17	\$ 0.40	\$ 0.39	\$ 0.35	\$ 0.39	

Q4 2009 net loss reflects a goodwill impairment charge of \$13,540 (\$0.63 per trust unit) recorded on December 31, 2009.

PERFORMANCE SUMMARY

(000's, except per trust unit amounts)

For the	THREE months ended	Year ended	THREE months ended
	March 31, 2010	December 31, 2009	March 31, 2009
Revenue	\$ 42,884	\$ 128,986	\$ 38,922
Net income (loss)	\$ 3,121	\$ (3,873)	\$ 3,702
Funds flow from continuing operations	\$ 4,207	\$ 14,382	\$ 5,053
Earnings (loss) per trust unit, basic	\$ 0.15	\$ (0.18)	\$ 0.17
Funds flow from operations, per trust unit	\$ 0.20	\$ 0.67	\$ 0.23
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:	March 31, 2010	December 31, 2009	March 31, 2009
Working capital ratio			
Current assets	\$ 94,841	\$ 91,395	\$ 93,055
Current liabilities	21,813	20,338	24,932
Working capital	\$ 73,028	\$ 71,057	\$ 68,123
Ratio	4.35:1	4.49:1	3.73:1
Debt-to-equity ratio			
Total debt	\$ 21,813	\$ 20,338	\$ 24,932
Unitholders' equity	\$ 142,544	\$ 141,528	\$ 155,304
Ratio	0.15:1	0.14:1	0.16:1
Book value per trust unit			
Unitholders' equity	\$ 142,544	\$ 141,528	\$ 155,304
Trust units outstanding	21,411,036	21,411,036	21,411,036
Book value per trust unit	\$ 6.66	\$ 6.61	\$ 7.25

FOREMOST INCOME FUND
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

(000's) (Unaudited)

As at:	March 31, 2010	December 31, 2009	March 31, 2009
Assets			
Current assets			
Cash (note 4)	\$ 33,758	\$ 37,035	\$ 9,198
Accounts receivable	20,942	19,444	30,738
Inventories (note 2)	39,481	34,563	51,884
Prepaid expenses	660	353	1,235
	94,841	91,395	93,055
Property, plant and equipment	48,652	49,555	52,571
Future income taxes	19,485	19,485	19,485
Goodwill and intangibles	1,379	1,431	15,125
	\$ 164,357	\$ 161,866	\$ 180,236
Liabilities and Unitholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	\$ 16,032	\$ 13,871	\$ 14,862
Deferred revenue	5,781	6,467	10,070
	21,813	20,338	24,932
Unitholders' equity (note 3)			
Unitholders' capital	62,115	62,115	62,115
Contributed surplus	1,464	1,428	1,206
Accumulated earnings	78,965	77,985	91,983
	142,544	141,528	155,304
	\$ 164,357	\$ 161,866	\$ 180,236

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 March 31,	
	2010	2009
Revenue	\$ 42,884	\$ 38,922
Cost of sales	34,500	29,417
	8,384	9,505
Selling, general and administrative	4,076	4,606
Interest expense (income)	(20)	5
Amortization	1,051	1,125
Foreign exchange loss (gain)	157	(80)
Unrealized loss on forward exchange contracts	-	204
Gain on disposal of property, plant and equipment	(1)	(57)
	5,263	5,803
Net income and comprehensive income	3,121	3,702
Accumulated earnings, beginning of period	77,985	90,422
Distributions to unitholders	(2,141)	(2,141)
Accumulated earnings, end of period	\$ 78,965	\$ 91,983
Earnings per trust unit (note 10)		
Basic	\$ 0.15	\$ 0.17
Diluted	\$ 0.15	\$ 0.17

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 March 31,
2010 2009

Cash flows provided by (used in):

Operating:

Income from continuing operations	\$ 3,121	\$ 3,702
Items not involving cash:		
Amortization	1,051	1,125
Gain on disposal of property, plant and equipment	(1)	(57)
Unrealized loss on forward exchange contracts	-	204
Trust units based compensation	36	79
	<u>4,207</u>	<u>5,053</u>

Change in non-cash working capital:

Accounts receivable	(1,498)	11,176
Inventories	(4,918)	4,564
Prepaid expenses	(307)	(49)
Accounts payable and accrued liabilities	2,161	(7,622)
Deferred revenue	(686)	(2,379)
	<u>(5,248)</u>	<u>5,690</u>
	<u>(1,041)</u>	<u>10,743</u>

Investments:

Purchase of property, plant and equipment	(96)	(87)
Proceeds from sale of property, plant and equipment	1	186
	<u>(95)</u>	<u>99</u>

Financing:

Bank indebtedness repayments	-	(343)
Distributions to unitholders	(2,141)	(2,141)
	<u>(2,141)</u>	<u>(2,484)</u>

Net change in cash during the year	(3,277)	8,358
Cash, beginning of year	37,035	840
Cash, end of year	<u>\$ 33,758</u>	<u>\$ 9,198</u>

Supplemental disclosure of cash flow information

Interest received (paid)	\$ 20	\$ (5)
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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, 2009 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, 2009.

b. Recent pronouncements

The Fund is continually assessing new and revised accounting pronouncements that have been issued but are not yet effective. Based on these assessments, the following pronouncements may have a significant impact on the Fund:

i) In January 2009, the CICA issued Handbook Section 1582, Business Combinations that replaces the previous business combinations standard. Under the new standard, the purchase price used in a business combination is based on the fair values of shares exchanged at the marked price at acquisition date. Under the current standard, the purchase price used is based on the market price of shares for a reasonable period before and after the date the acquisition is agreed upon and announced. In addition, the new standard generally requires all acquisition costs to be expensed. Current standards allow for the capitalization of these costs as part of the purchase price. This new standard also addresses contingent liabilities, which will be required to be recognized at fair value on acquisition, and subsequently remeasured at each reporting period until settled. Current standards require only contingent liabilities that are due to be recognized. The new standard requires any negative goodwill to be recognized as a charge to earnings rather than the current standard which reduces the fair value of non-current assets in the purchase price allocation. The new standard applies prospectively to business combinations on or after January 1, 2011 with earlier application permitted. The Fund does not intend to early adopt the new standard. The Fund is in the process of evaluating the requirements of this new standard.

ii) In January 2009, the CICA issued Handbook Section 1601, Consolidated Financial Statements and Section 1602, Non-controlling interests. Section 1601 and 1602 together replace Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is the equivalent to the corresponding provisions of IFRS IAS 27 - Consolidated and Separate Financial Statements and applies to the interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. The Fund does not intend to early adopt these new standards. The Fund is in the process of evaluating the requirements of these new standards.

iii) In February 2008, Canada's Accounting Standards Board ("AcSB") confirmed that Canadian generally accepted accounting principles, as used by publicly accountable enterprises, will be fully converged into International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") for reporting periods commencing on or after January 1, 2011. Accordingly, the Fund will report under IFRS commencing with the March 31, 2011 first quarter interim financial statements. The Fund will convert to these new standards according to the timetable set within these new rules. The Fund continues to evaluate and adapt to the impact of this change on its financial statements, business processes, internal controls and information systems and is not yet able to determine the total impact. Furthermore, the nature and extent of this project may be affected by changes in the strategic direction of the Fund or changes in IFRS. As the IASB has projects underway which could 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 March 31, 2010, raw materials amounted to \$17.7 million of which approximately \$1.6 million was valued at net realizable value, \$17.0 million at December 31, 2009 of which approximately \$1.6 million was valued at estimated net realizable value and \$23.2 million at March 31, 2009 of which approximately \$1.3 million was valued at estimated net realizable value. Work in progress amounted to \$19.3 million at March 31, 2010, \$13.6 million at December 31, 2009 and \$23.6 million at March 31, 2009. Finished goods amounted to \$2.5 million at March 31, 2010 of which approximately \$2.3 million was valued at estimated net realizable value, \$3.9 million at December 31, 2009 of which \$3.0 million was valued at estimated net realizable value and \$5.1 million at March 31, 2009 of which \$0.4 million was valued at estimated net realizable value.

FOREMOST INCOME FUND
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The amount of inventories charged to cost of sales for the three months ended March 31, 2010 was \$33.6 million (March 31, 2009 – \$27.4 million).

An additional write-down of inventory of \$0.1 million was charged to cost of sales for the three months ended March 31, 2010 as compared with a \$0.2 million recovery for the same period in 2009.

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 March 31, 2010		TWELVE months ended December 31, 2009		THREE months ended March 31, 2009	
	Number	Stated Value	Number	Stated Value	Number	Stated Value
Unitholders' capital, beginning and end of period	21,411,036	\$ 62,115	21,411,036	\$ 62,115	21,411,036	\$ 62,115

b. Contributed surplus

	THREE months ended March 31, 2010	TWELVE months ended December 31, 2009	THREE months ended March 31, 2009
Contributed surplus, beginning of period	\$ 1,428	\$ 1,127	\$ 1,127
Trust unit based compensation expense	36	301	79
Contributed surplus, end of period	\$ 1,464	\$ 1,428	\$ 1,206

c. Trust units based compensation plan

No unit options were granted or forfeited during the three months ended March 31, 2010. There were 601,000 unit options outstanding at March 31, 2010.

Subsequent to the end of Q1-2010, 15,000 unit options with an exercise price of \$4.12 were exercised for total proceeds of \$61,800.

d. Trust unit distributions

The March 31, 2010 and March 31, 2009 trust unit distributions were paid in cash and amounted to \$2.1 million (\$0.10 per trust unit) and \$5.3 million (\$0.25 per trust unit), respectively.

4. Cash and Operating Loan

The Fund's credit facility, a \$20.0 million uncommitted operating facility was not utilized during Q1-2010 except to support approximately \$0.1 million of letters of guarantee (note 11).

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 March 31, 2010, December 31, 2009 and March 31, 2009 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. Derivative instruments such as foreign exchange future contracts are recorded in the balance sheet at fair value. Transaction costs associated with financial instruments 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 Fund continues to manage the credit risk associated with cash by holding these assets with reputable financial institutions and therefore considers the risk of loss to be low. The principal source of credit risk remains accounts receivable balances with oil and gas industry customers. Risk management for accounts receivable includes the use of letters of credit, up front cash deposits and progress payments and export insurance for capital equipment sales contracts. For parts, service or other open credit sales, the Fund utilizes export insurance and routinely reviews customer credit limits, collections patterns and its aged accounts receivable listing. In assessing the current level of credit risk associated with accounts receivable, the Fund initially takes into consideration balances which are reported as 60 days or more past due. As at March 31, 2010, accounts receivable in excess of 60 days amounted to 18% of accounts receivable as compared with 15% at December 31, 2009 and 43% at March 31, 2009. The Fund then

FOREMOST INCOME FUND
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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reviews the accounts to understand why the amount is past due and if subsequent payments have been received. This analysis also generates the allowance for doubtful accounts which represents the Funds estimate of accounts receivable credit risk at that point in time. The estimated allowance for doubtful accounts at March 31, 2010 is \$0.6 million (2009 - \$0.6 million) and is down \$0.1 million from December 31, 2009. Bad debt recovery for the three months ended March 31, 2010 was \$0.1 million versus an expense of \$0.1 million for the same period last year.

c. Foreign currency risk

A significant portion of the Fund's revenues, expenses, accounts receivable and accounts payable are denominated U.S. dollars, and consequently the Fund is subject to the risk of fluctuating exchange rates. The Fund estimates that based on current U.S. dollar based revenues, a 1% increase or decrease in the Canadian dollar to U.S. dollar relationship would impact earnings by approximately \$0.2 million. At March 31, 2009, the Fund had a foreign exchange forward contract worth \$6.5 million which resulted in the recording of a \$0.2 million unrealized loss as a result of the change in market value of the contract when comparing the prevailing foreign exchange rate at March 31, 2009 versus December 31, 2009. This contract was subsequently closed in Q2-2009. There were no contracts in place at March 31, 2010.

d. Interest rate risk

The Fund's short-term bank borrowings are subject to floating interest rates. This floating rate debt is subject to interest rate risk, as the required cash flow to service the debt will fluctuate as a result of changes in market rates. The Fund has not used any interest rate swap contracts to manage this risk. Currently, the Fund has no short-term borrowings and is therefore not subject to significant interest rate risk. If the Fund were to borrow the maximum amount of its current operating facility of \$20.0 million, each 1% increase or decrease in interest rates would increase or decrease interest expense by approximately \$0.2 million.

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, operating loan and revolving 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 March 31, 2010 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 utilizes 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. As necessary, the Fund utilizes due diligence and business acquisition services from the same company. The consulting, due diligence and business acquisition services are measured at fair value with these amounts agreed to by all parties. For the three months ended March 31, 2010, the total amount invoiced for consulting services was \$131,000 (2009 - \$184,000). No amounts for due diligence or business acquisition services were incurred during Q1-2010 or Q1-2009. For the three months ended March 31, 2010, total payments for amounts invoiced during Q1-2010 and balances owing at the beginning of fiscal 2010 totaled \$131,000 (2009 - \$289,000). There were no amounts due or payable at March 31, 2010 (2009 - \$510,000).

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

For the THREE months ended March 31,	Universal		Foremost		Total	
	2010	2009	2010	2009	2010	2009
Revenue	34,556	26,403	8,328	12,519	42,884	38,922
Interest expense income	(13)	3	(7)	2	(20)	5
Amortization	828	892	223	233	1,051	1,125
Income before income taxes	2,394	1,253	727	2,449	3,121	3,702
Net income	2,394	1,253	727	2,449	3,121	3,702
Property, plant and equipment expenditures	77	47	19	40	96	87

	Universal			Foremost			Total		
	Mar. 31 2010	Dec. 31 2009	Mar. 31 2009	Mar. 31 2010	Dec. 31 2009	Mar. 31 2009	Mar. 31 2010	Dec. 31 2009	Mar. 31 2009
Property, plant and equipment	38,297	38,996	41,200	10,355	10,559	11,371	48,652	49,555	52,571
Goodwill and intangibles	1,379	1,431	15,125	-	-	-	1,379	1,431	15,125
Total assets	106,844	103,320	136,101	57,513	58,546	44,135	164,357	161,866	180,236

FOREMOST INCOME FUND
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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8. Geographic Segments – Continuing Operations (000's)

	For the THREE months ended March 31,	
	2010	2009
Revenue		
Canada	\$ 36,758	\$ 29,808
United States	1,885	903
International	4,241	8,211
	\$ 42,884	\$ 38,922

	March 31 2010	December 31 2009	March 31 2009
Property, plant and equipment, goodwill and intangibles			
Canada	\$ 49,555	\$ 50,508	\$ 67,210
United States	476	476	476
International	-	2	10
	\$ 50,031	\$ 50,986	\$ 67,696

The Fund recorded a goodwill impairment of \$13.5 million on December 31, 2009 and therefore only intangibles of \$1.4 million as at March 31, 2010 and December 31, 2009. All intangibles are located in Canada.

9. Management of Capital

The Fund's objectives when managing capital are to safeguard the Fund's ability to continue as a going concern in order to provide returns to unitholders and benefits for other stakeholders, 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:

	March 31 2010	December 31 2009	March 31 2009
Working capital ratio	4.35:1	4.49:1	3.73:1
Debt-to-equity ratio	0.15:1	0.14:1	0.16:1

The Fund calculates its working capital ratio by dividing the total of all current assets by the total of all current liabilities. The Fund calculates its debt-to-equity ratio by dividing total liabilities (current and long-term) by total unitholders' equity.

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 March 31, 2010.

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. The Fund continues to assess its options with no specific changes to the capital structure of the Fund or the nature of the Fund itself having yet been determined.

FOREMOST INCOME FUND
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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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	
	March 31,	
	2010	2009
Basic weighted average trust units	21,411,036	21,411,036
Effect of dilutive trust unit options	5,329	2,428
Diluted weighted average trust units	21,416,365	21,413,464

11. Commitments and Contingent Liabilities

As at March 31, 2010, there were no material commitments for capital expenditures.

At March 31, 2010, the Fund has outstanding letters of guarantee of approximately \$0.1 million related to performance of specific customer contracts and contract bids.

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

The Fund is involved in various legal claims arising in the ordinary course of business. It is management's opinion that these claims, once settled or otherwise determined, are not expected to materially affect the Fund's financial position. Any costs to the Fund arising from these claims will be charged to income in the year in which they occur.