

Foremost Income Fund Management's Discussion and Analysis

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

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

NON-GAAP MEASURES

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

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

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

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

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

OVERVIEW

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

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

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

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

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

On July 29, 2009, the Fund agreed to lease for three years with an option to purchase in the last two months of the lease the land and buildings at Universal's Wilco, Saskatchewan facility to a third party.

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

Headquartered in Calgary, the Fund's combined businesses, predominantly based in western Canada, employ approximately 400 people. Trust units of the Fund trade on the Toronto Stock Exchange under the symbol "**FMO.UN**".

OVERALL RESULTS

Both the Fund's balance sheet and statements of income reflect the impact of current market conditions and management's response to these conditions. From a balance sheet perspective, at June 30, 2009, the Fund had \$33.3 million of cash on hand as compared with \$3.8 million of bank indebtedness at June 30, 2008. The combined effect of lower business activity levels on working capital requirements plus specific initiatives to reduce operating costs to preserve cash generated \$21.8 million of cash from non-cash working capital items for Q2-2009 and \$27.7 million YTD-2009 compared with \$5.8 million and \$7.1 million for the respective periods in 2008. Working capital at June 30, 2009 was \$70.4 million, a \$13.5 million increase over the \$56.9 million reported for June 30, 2008. Unitholders' equity represented 87.9% of total assets at June 30, 2009 versus 79.9% at June 30, 2008.

Consistent with management's expectations, Q2-2009 and YTD-2009 revenues and net incomes were significantly lower compared with 2008. These results reflect current levels of activity in the Fund's core markets which continue to be impacted by lower oilsands activity, weak North American natural gas drilling activity and uncertain commodity markets. Revenues for Q2-2009 amounted to \$31.0 million versus \$53.0 million for Q2-2008. YTD-2009 revenues were \$70.0 million compared to \$102.8 for YTD-2008. Gross profit dollars declined as a result of the lower revenues. The Q2-2009 gross profit percentage of 29.6% was higher than the 28.1% for Q2-2008 due to a higher proportion of fieldwork revenues and the delivery of a large vehicle order. The YTD-2009 product mix generated a gross profit percentage of 26.7% virtually the same as the 26.4% for YTD-2008. Compared with the same periods in 2008, Q2-2009 and YTD-2009 selling, general and administrative expenses decreased \$0.5 million and \$1.4 million respectively because of manpower reductions, discretionary cost reductions and reduced levels of accrued bonuses. Q2-2009 and YTD-2009 foreign exchange losses arose from the stronger Canadian dollar relative to March 31, 2009 and December 31, 2008. Accounted for on a marked to market basis, the closing of the foreign exchange forward contract associated with the vehicle order delivered and paid for in June resulted in a realized gain of \$0.8 million for Q2-2009 and \$0.6 million YTD-2009. No significant disposals of property, plant and equipment have occurred in 2009 unlike 2008 when the sale of property, plant and equipment resulted in proceeds of \$3.9 million and a gain on disposal of \$2.3 million. Mobile's Q2-2008 and YTD-2008 net income of \$0.2 million and \$0.5 million has been reported as discontinued operations. The Fund's Q2-2009 net income was \$3.2 million versus \$7.6 million for Q2-2008. YTD-2009 net income was \$6.9 million as compared with \$15.8 million in 2008. Q2-2009 basic earnings per trust unit were \$0.15 per unit compared to \$0.35 for Q2-2008. YTD-2009 earnings per trust unit amount to \$0.32 per unit versus \$0.75 per trust unit for YTD-2008. Funds flow from operations has decreased as a result of lower earnings. Q2-2009 funds flow from operations was \$4.4 million compared to \$8.7 million in 2008. YTD-2009 funds flow from operations was \$9.2 million as compared with \$15.7 million for YTD-2008. In response to this, the Fund has reviewed its capital expenditure requirements and levels of trust unit distributions. Q2-2009 and YTD-2009 capital expenditures to maintain productive capacity were \$0.1 million and \$0.2 million respectively and are offset by the proceeds from the disposal of property, plant and equipment within each period. No trust units have been repurchased YTD-2009 whereas YTD-2008 included a \$3.0 million repurchase of trust units. All paid in cash, Q2-2009 trust unit distributions were \$2.1 million or \$0.10 per trust unit compared to Q2-2008 trust unit distributions of \$5.3 million or \$0.25 per trust unit. YTD-2009 trust units distributions are \$4.3 million or cumulatively \$0.20 per trust unit versus \$10.6 million or \$0.50 per trust unit YTD-2008. The combination of operating, investing and financing activities generated a Q2-2009 increase in cash of \$24.1 million versus \$0.6 million for Q2-2008 and \$32.5 million YTD-2009 (YTD-2008 - \$0).

OUTLOOK FOR 2009

As discussed in the 2008 annual report, Q2-2009 and the YTD-2009 financial results reflect the Fund's expectations for continued weakness in its core markets through the first half of 2009 and its response to these market conditions. The Fund now believes that this weakness will persist throughout 2009. 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 continues to look for ways to reduced operating costs, re-align manpower and monetize non-essential assets. These cash accumulation efforts will enable the Fund to meet the impact of increased business activity on working capital and to pursue accretive acquisitions.

SEASONALITY

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

RESULTS OF OPERATIONS

Universal

Universal's Q2-2009 revenues were \$17.9 million compared with \$37.6 million in Q2-2008. Q2-2009 net income was \$1.0 million compared with \$5.1 million in Q2-2008. Q2-2009 gross profit was \$5.0 million (28.1% of revenues) versus \$10.1 million (26.9% of revenues) for Q2-2008. Q2-2009 selling, general and administrative expenses were \$3.3 million (18.4% of revenues) compared with \$3.8 million (10.1% of revenues) in Q2-2008. YTD-2009 revenues were \$44.3 million compared to \$71.2 million for YTD-2008. YTD-2009 net income was \$2.3 million versus \$10.8 million for YTD-2008. YTD-2009 gross profit was \$10.4 million (23.5% of revenues) versus \$18.3 million (25.7% of revenues) for YTD-2008. YTD-2009 selling general and administrative expenses amounted to \$6.6 million (14.9% of revenues) versus \$7.4 million (10.4% of revenues) for YTD-2008. Neither the Q2-2009 or YTD-2009 net incomes include significant gains from the disposal of property, plant and equipment whereas YTD-2008 includes a \$2.3 million gain on sale of property, plant and equipment. The decrease in Q2-2009 and YTD-2009 revenues, gross profit dollars, and net income relative to the same periods in 2008 reflect the impact of weaker market conditions on sales volumes and product mix. The decrease in selling, general and administrative expenses reflects reductions in manpower, discretionary costs and reductions in accrued bonuses and was partially offset by increases in legal expenses and international selling costs. The selling, general and administrative expenses have not and are not expected to decrease in direct proportion to revenues due to a significant portion of the remaining costs being relatively fixed in nature.

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

Foremost

Q2-2009 revenues for Foremost were \$13.2 million as compared with \$15.4 million for Q2-2008 (adjusted for Mobile discontinued operations). Q2-2009 net income was \$2.2 million versus \$2.5 million for Q2-2008. Q2-2009 gross profit was \$4.2 million (31.6% of revenues) versus \$5.4 million (31.1% of revenues) for Q2-2008. Q2-2009 selling, general and administrative expenses were \$2.2 million (16.7% of revenues) versus \$2.3 million (14.9% of revenues) for Q2-2008. YTD-2009 revenues were \$25.7 million as compared with \$31.6 million for YTD-2008 (adjusted for Mobile discontinued operations). YTD-2009 net income was \$4.7 million compared to \$5.0 million for YTD-2008. YTD-2009 gross profit was \$8.3 million (32.2% of revenues) compared to \$10.0 million (28.2% of revenues) for YTD-2008. YTD-2009 selling, general and administrative expenses were \$3.5 million (13.7% of revenues) compared to \$4.2 million (13.3% of revenues). Both the Q2-2009 and YTD-2009 revenue declines are due to lower overall sales in all product categories. The Q2-2009 increase in gross profit percentage reflects the effects of higher margin vehicle, parts and service revenues which were partially offset by the negative impact of the stronger Canadian dollar. In Q2-2009, a \$0.8 million gain was realized on a foreign exchange forward contract that was closed in late June when the related vehicle order was shipped and paid. As this contract was accounted for on a marked to market basis, the YTD-2009 realized gain was \$0.6 million. The second quarter is generally the time for tradeshows for Foremost products and therefore second quarter marketing expenditures are generally higher than other quarters. The decrease in selling, general and administrative expenses reflects lower tradeshow costs, lower costs from reductions in manpower and discretionary costs plus reductions in accrued bonuses. Partially offsetting these decreases are increased legal expenses and other international selling costs. The selling, general and administrative expenses have not and are not expected to decrease in direct proportion to revenues due to a significant portion of the remaining costs being relatively fixed in nature.

SELLING, GENERAL AND ADMINISTRATIVE

The Funds Q2-2009 selling, general and administrative expenses amounted to \$5.5 million (17.7% of revenues) compared with \$6.0 million (11.3%) for Q2-2008. YTD-2009 selling, general and administrative expenses were \$10.1 million (14.4% of revenues) versus \$11.5 million (11.2%) for YTD-2008. The Q2-2009 decrease of \$0.5 million relative to Q2-2008 reflects the impact of lower operating costs arising from reductions in manpower, discretionary operating costs and bonus accruals. The YTD-2009 decrease of \$1.4 million can be attributed to the same factors as Q2-2009. Partially offsetting these decreases were increased legal and international marketing expenses. Based on current revenue and operating expense forecasts, the combination of lower tradeshow expenditures, manpower and cost reductions and lower bonus accruals should result in Q3-2009 and Q4-2009 selling, general and administrative expenses which will be lower than Q3-2008, Q4-2008 and Q2-2009.

INTEREST EXPENSE

The Fund had no net interest expense in Q2-2009 versus \$85,000 for Q2-2008. YTD-2009 interest expense was \$5,000 compared to \$0.2 million for YTD-2008. The lower interest expense is due to the Fund having little or no bank indebtedness. The Fund's conservative investment policies requires funds be invested in low risk interest bearing instruments. The combination of this policy with current low interest rates will result in the Fund generating minimal interest income for the remainder of 2009. The Fund currently has no interest rate swap contracts or similar instruments to manage interest rate risk.

AMORTIZATION

Q2-2009 amortization was \$1.2 million versus \$1.3 million for Q2-2008. YTD-2009 amortization was \$2.3 million compared to \$2.6 million for YTD-2008. The lower YTD-2009 amortization reflects the 2008 sale of certain property, plant and equipment. Q3-2009 and Q4-2009 amortization is each expected to be approximately \$1.1 million.

FOREIGN EXCHANGE

The Fund reported a Q2-2009 foreign exchange loss of \$0.2 million compared with \$0.1 million for Q2-2008. YTD-2009 reflects a \$0.2 million loss as compared with a \$0.1 million gain for YTD-2008. At any time, the Fund generally holds a net U.S. dollar working capital position. The Q2-2009 and YTD-2009 exchange loss is the net effect of exchange rate fluctuations on the conversion of U.S. dollar balances into Canadian dollar balances during the three and six month periods plus the translation of foreign currency balances held at June 30, 2009 into equivalent Canadian dollar balances. Foreign exchange gains or losses will arise as long as the U.S.-to-Canadian dollar exchange rates fluctuate. Because the majority of foreign exchange is with the U.S. dollar, operating results will be influenced by rapid and significant changes in these exchange rates.

The Fund does not usually enter into foreign exchange contracts or similar instruments to manage exchange risk. However, the Fund entered into two foreign exchange forward contracts in 2008 to manage the foreign exchange risk associated with \$10.9 million of international capital equipment contracts. One contract worth \$4.4 million was closed out during Q1-2009. The remaining \$6.5 million contract had an exchange rate to convert U.S. dollars to Canadian dollars of 1.27:1 and was closed when the related customer payment was received in late June 2009. Accounted for on a marked to market basis, foreign exchange forward contracts will generate a gain or loss from the comparison of the contract rate with the foreign exchange rate at each period end and at the closing date. As a result, the closing of this contract realized a gain of \$0.8 million for Q2-2009 and \$0.6 million for YTD-2009. The respective gains reflect the impact of the U.S.-to-Canadian dollar exchange rates of 1.22:1 at December 31, 2008, 1.26:1 at March 31, 2009 and 1.09:1 at the closing date. At June 20, 2009, there were no other foreign exchange forward contracts.

INCOME TAXES

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

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 or 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 June 30, 2009 remains unchanged from December 31, 2008.

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

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

CASH LIQUIDITY AND KEY FINANCIAL RATIOS

Q2-2009 funds flow from continuing operations amounted to \$4.4 million versus \$8.7 million for Q2-2008. The \$4.3 million decrease reflects the comparative difference in income from continuing operations. Q2-2009 changes in non-cash working capital reflects the changes in accounts receivable, inventories, prepaid expenses, accounts payable and accrued liabilities and deferred revenue balances relative to March 31, 2009. These changes resulted in the generation of \$21.8 million in cash for Q2-2009 versus \$5.8 million for Q2-2008. YTD-2009 funds flow from operations amounted to \$9.2 million versus \$18.0 million for YTD-2008 after adjusting for the Q1-2008 \$2.3 million gain on disposal of property, plant and equipment. The \$8.8 million decrease is directly due to the reduction in income from continuing operations. YTD-2009 changes in non-cash working capital accounts relative to December 31, 2008 resulted in the generation of \$27.7 million in cash versus \$7.1 million for YTD-2008. The cash generated from working capital changes in Q2-2009 and YTD-2009 reflect the effects of reduced revenues and the corresponding reduction in accounts receivable, concentrated efforts to collect accounts receivable, completion and delivery of previous periods work in progress, lower purchases of inventory on account due to lower business activity, lower receipts of cash deposits and progress payments on equipment sales contracts, and payments of accounts payable and accrued liabilities. As a result, cash flows provided by continuing operations amounted to \$26.2 million in Q2-2009 versus \$15.7 million for Q2-2008. YTD-2009 cash flows provided by continuing operations were \$36.9 million compared with \$22.8 million for YTD-2008. The discontinued operations of Mobile generated \$1.1 million in cash for Q2-2008 and \$0.7 million for YTD-2008.

Q2-2009 investing activities consist of capital expenditures of approximately \$0.1 million and proceeds on disposal of certain property, plant and equipment of \$0.1 million. This compares with Q2-2008 capital expenditures of \$0.8 million, increased goodwill of \$0.2 million related to purchase price adjustments and \$0.1 million of proceeds from disposals of certain property, plant and equipment. YTD-2009 capital expenditures were \$0.2 million compared to \$1.5 million for YTD-2008. YTD-2009 disposals of property, plant and equipment generated proceeds of \$0.3 million versus \$3.9 million in YTD-2008. Capital expenditures in 2009 maintain productive capacity necessary for current revenue requirements. The Fund's capital expenditures forecast to maintain anticipated productive capacity for the balance of fiscal 2009 is expected to result in full year capital expenditures of approximately \$0.5 million.

Q2-2009 financing activities consisted of the cash payments of \$2.1 million of trust unit distributions (\$0.10 per unit). Q2-2008 financing activities consisted of the repayment of \$10.2 million of bank indebtedness, cash payments of \$5.3 million of trust unit distributions and the issuance of \$0.2 million in trust units from the exercise of unit options. YTD-2009 financing activities consisted of the repayment of \$0.3 million of bank indebtedness and the cash payment of \$4.3 million of trust unit distributions. YTD-2008 financing activities also included the repurchase of trust units for \$3.0 million pursuant to a Normal Course Issuer Bid, \$10.6 million in cash payments for trust unit distributions and the repayment of \$12.3 million of bank indebtedness.

The Q2-2009 and Q2-2008 cash flows provided by continuing operations were sufficient to fund the respective Q2-2009 and Q2-2008 trust unit distributions. As well, YTD-2009 and YTD-2008 cash flows provided by continuing operations have been sufficient to fund YTD-2009 and YTD-2008 trust unit distributions.

Net working capital at June 30, 2009 was \$70.4 million compared to \$65.3 million at December 31, 2008 and \$56.9 million at June 30, 2008. The Fund's working capital and debt-to-equity ratios improved relative to December 31, 2008 and June 30, 2008. The June 30, 2009 working capital ratio was 4.27:1 versus 2.87:1 at December 31, 2008 and 2.54:1 at June 30, 2008. The debt-to-equity ratio was 0.14:1 at June 30, 2009 compared with 0.23:1 at December 31, 2008, and 0.25:1 at June 30, 2008.

Book value per trust unit increased to \$7.31 at June 30, 2009 from \$7.18 at December 31, 2008 and \$6.91 at June 30, 2008.

The Fund has no short-term or long-term debt and continues to use cash flow from operating activities and short-term bank indebtedness to support non-cash working capital, investing and financing requirements. The Fund expects the combination of its June 30, 2009 cash balances and Q3-2009 cash flows from operations will fund anticipated Q3-2009 and Q4-2009 working capital, planned capital expenditures and forecast trust unit distributions.

The Fund's bank credit facility contains certain debt covenants. The Fund is well within these covenants at June 30, 2009 and expects to remain well within these covenants throughout fiscal 2009. The Fund's bank credit facility expired in July 2009. The Fund is currently negotiating a new credit facility with the bank and based on its cash position at June 30, 2009 and forecast cash requirements the Fund expects to renew its credit facility with the bank.

TRUST UNIT DISTRIBUTIONS

The Fund declares trust unit distributions to unitholders on a quarterly basis. The amount of trust unit distributions is generally determined by taking cash flows from continuing operating activities and adjusting for the costs of property, plant and equipment upgrades and expansion, business acquisitions and the effect of changes in general business conditions on working capital. Taking into consideration the Fund's current market conditions, forecast earnings and related cash flows, the Q2-2009 trust unit distribution was reduced to \$0.10 per trust unit from the

\$0.25 per trust unit in Q2-2008. This resulted in total cash payments of \$2.1 million as compared with \$5.3 million in Q2-2008. In order to manage the impact of the expected continuation of uncertain business conditions and the potential impact on cash flows from operating activities, the Fund will review future trust unit distributions on a quarter by quarter basis. Consequently, the amount of quarterly trust unit distributions may vary significantly from quarter to quarter during the remainder of fiscal 2009. The amount of trust unit distributions may also vary over time depending on anticipated working capital requirements, property, plant and equipment expenditures, acquisition opportunities and changing business conditions. Using the current 21,411,036 trust units outstanding and the Q2-2009 \$0.10 per trust unit distribution rate, the Fund would require approximately \$2.1 million in cash for future quarterly trust unit distributions.

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

UNITHOLDERS' CAPITAL

Unitholders' capital at June 30, 2009 was \$62.1 million, unchanged from \$62.1 million at December 31, 2008 and up \$0.7 million from the \$61.4 million at June 30, 2008. No trust units have been issued or repurchased for the six months ended June 30, 2009. No unit options were forfeited during Q2-2009 with 17,500 unit options forfeited during Q1-2009. At June 30, 2009 there were 21,411,036 issued and outstanding trust units and 671,000 unit options outstanding. There have been no changes to issued and outstanding trust units or unit options outstanding from June 30, 2009 to the date of this MD&A.

UNITHOLDERS' EQUITY

Unitholders' equity, comprised of unitholders' capital, contributed surplus and accumulated earnings was \$156.5 million at June 30, 2009 versus \$153.7 million at December 31, 2008 and \$146.8 million at June 30, 2008. The increase from December 31, 2008 is comprised of the YTD-2009 net income of \$6.9 million less \$4.3 million of trust unit distributions.

RELATED PARTY TRANSACTIONS

The Fund utilized the consulting services of a company owned and managed by a trustee of the Fund in normal course operations. The consulting services consist of legal and professional advice and investor relations. For the six months ended June 30, 2009, consideration paid for these services was \$919,000 (2008 - \$951,000). Due diligence and business acquisition services may also be utilized from the same company. No amounts have been incurred for these services during the six months ended June 30, 2009 or 2008. These transactions were measured at fair value amounts agreed to by all parties. At June 30, 2009, balances payable amounted to \$28,500 (2008 - \$0).

OBLIGATIONS AND COMMITMENTS

At June 30, 2009, the Fund had no material outstanding obligations and commitments for capital expenditures. At June 30, 2009, the Fund had an outstanding letter of guarantee in the amount of \$1.7 million related to performance obligations in a specific customer contract. In July 2009, the customer determined these performance obligations were substantially met and the letter of guarantee expired. The Fund also has contingent purchase price adjustment liabilities that are based upon the earnings and revenue results of certain profit centres. The Fund has operating lease commitments for office space and service equipment, none of which individually, or in aggregate, are material.

FINANCIAL INSTRUMENTS

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

RISKS AND UNCERTAINTIES

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

DISCLOSURE CONTROLS AND PROCEDURES

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

INTERNAL CONTROLS AND PROCEDURES

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

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future

periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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

CRITICAL ACCOUNTING POLICIES

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

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

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

RECENT ACCOUNTING PRONOUNCEMENTS

i) Financial Instruments - Disclosures

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

ii) International Financial Reporting Standards

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

CRITICAL ACCOUNTING ESTIMATES

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

SUMMARY OF QUARTERLY RESULTS

(000's, except per trust unit amounts)

	2009			2008			2007		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	\$ 31,038	\$ 38,922	\$ 57,161	\$ 57,270	\$ 52,991	\$ 49,857	\$ 53,654	\$ 58,052	\$ 51,212
Income from continuing operations before income taxes	\$ 3,227	\$ 3,702	\$ 6,715	\$ 8,334	\$ 7,362	\$ 7,987	\$ 9,170	\$ 8,947	\$ 7,840
Income from continuing operations	\$ 3,227	\$ 3,702	\$ 6,715	\$ 8,334	\$ 7,362	\$ 7,987	\$ 9,170	\$ 9,422	\$ 26,945
Net income	\$ 3,227	\$ 3,702	\$ 8,576	\$ 8,421	\$ 7,579	\$ 8,264	\$ 9,630	\$ 9,493	\$ 27,613
Income from continuing operations:									
Per trust unit, basic	\$ 0.15	\$ 0.17	\$ 0.31	\$ 0.39	\$ 0.35	\$ 0.38	\$ 0.44	\$ 0.46	\$ 1.33
Per trust unit, diluted	\$ 0.15	\$ 0.17	\$ 0.31	\$ 0.39	\$ 0.35	\$ 0.37	\$ 0.43	\$ 0.45	\$ 1.31
Net income:									
Per trust unit, basic	\$ 0.15	\$ 0.17	\$ 0.40	\$ 0.39	\$ 0.36	\$ 0.39	\$ 0.46	\$ 0.46	\$ 1.35
Per trust unit, diluted	\$ 0.15	\$ 0.17	\$ 0.40	\$ 0.39	\$ 0.35	\$ 0.39	\$ 0.45	\$ 0.45	\$ 1.35

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

For the	SIX months ended June 30, 2009	Year ended December 31, 2008	SIX months ended June 30, 2008
Revenue	\$ 69,960	\$ 217,279	\$ 102,848
Income from continuing operations	\$ 6,929	\$ 30,398	\$ 15,349
Net income	\$ 6,929	\$ 32,840	\$ 15,843
Funds flow from continuing operations	\$ 9,218	\$ 33,074	\$ 15,724
Earnings from continuing operations, basic	\$ 0.15	\$ 1.43	\$ 0.73
Earnings per trust unit, basic	\$ 0.15	\$ 1.54	\$ 0.75
Funds flow from continuing operations, per trust unit	\$ 0.43	\$ 1.54	\$ 0.74
Number of trust units, end of period	21,411,036	21,411,036	21,231,036

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

As at:	June 30, 2009	December 31, 2008	June 30, 2008
Working capital ratio			
Current assets	\$ 91,939	\$ 100,249	\$ 93,717
Current liabilities	21,526	34,933	36,865
Working capital	\$ 70,413	\$ 65,316	\$ 56,852
Ratio	4.27:1	2.87:1	2.54:1
Debt-to-equity ratio			
Total debt	\$ 21,526	\$ 34,933	\$ 36,865
Unitholders' equity	\$ 156,469	\$ 153,664	\$ 146,802
Ratio	0.14:1	0.23:1	0.25:1
Book value per trust unit			
Unitholders' equity	\$ 156,469	\$ 153,664	\$ 146,802
Trust units outstanding	21,411,036	21,411,036	21,231,036
Book value per trust unit	\$ 7.31	\$ 7.18	\$ 6.91

FOREMOST INCOME FUND
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

As at:	June 30, 2009	December 31, 2008	June 30, 2008
Assets			
Current assets			
Cash (note 4)	\$ 33,323	\$ 497	\$ -
Accounts receivable	17,498	42,118	30,666
Inventories (note 2)	40,467	56,448	62,148
Prepaid expenses	651	1,186	903
	91,939	100,249	93,717
Property, plant and equipment	51,497	53,687	55,212
Future income taxes	19,485	19,485	19,485
Goodwill and intangibles	15,074	15,176	15,253
	\$ 177,995	\$ 188,597	\$ 183,667
Liabilities and Unitholders' Equity			
Current liabilities			
Bank indebtedness (note 4)	\$ -	\$ -	\$ 3,832
Accounts payable and accrued liabilities	14,208	22,484	23,614
Deferred revenue	7,318	12,449	9,419
	21,526	34,933	36,865
Unitholders' equity (note 3)			
Unitholders' capital	62,115	62,115	61,373
Contributed surplus	1,285	1,127	1,299
Accumulated earnings	93,069	90,422	84,130
	156,469	153,664	146,802
	\$ 177,995	\$ 188,597	\$ 183,667

Commitments and contingencies (note 11)

Subsequent event (note 13)

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

	For the THREE months ended June 30,		For the SIX months ended June 30,	
	2009	2008	2009	2008
Revenue	\$ 31,038	\$ 52,991	\$ 69,960	\$ 102,848
Cost of sales	21,849	38,096	51,266	75,656
	9,189	14,895	18,694	27,192
Selling, general and administrative	5,483	5,979	10,089	11,501
Interest	-	85	5	237
Amortization	1,152	1,325	2,277	2,577
Foreign exchange loss (gain)	234	147	154	(140)
Realized gain on forward exchange contracts	(818)	-	(614)	-
Gain on disposal of property, plant and equipment	(89)	(3)	(146)	(2,332)
	5,962	7,533	11,765	11,843
Income from continuing operations before income taxes	3,227	7,362	6,929	15,349
Future income tax provision	-	-	-	-
Income from continuing operations	3,227	7,362	6,929	15,349
Discontinued operations (note 12)	-	217	-	494
Net income and comprehensive income	3,227	7,579	6,929	15,843
Accumulated earnings, beginning of period	91,983	81,866	90,422	80,908
Premium on repurchase of trust units	-	(7)	-	(2,026)
Distributions to unitholders	(2,141)	(5,308)	(4,282)	(10,595)
Accumulated earnings, end of period	\$ 93,069	\$ 84,130	\$ 93,069	\$ 84,130
Earnings per trust unit from continuing operations (note 10)				
Basic	\$ 0.15	\$ 0.35	\$ 0.32	\$ 0.73
Diluted	\$ 0.15	\$ 0.35	\$ 0.32	\$ 0.72
Earnings per trust unit (note 10)				
Basic	\$ 0.15	\$ 0.36	\$ 0.32	\$ 0.75
Diluted	\$ 0.15	\$ 0.35	\$ 0.32	\$ 0.74

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 June 30,
2009 2008

For the **SIX** months
ended June 30,
2009 2008

Cash flows provided by (used in):

Continuing operations:

Income from continuing operations	\$ 3,227	\$ 7,362	\$ 6,929	\$ 15,349
Items not involving cash:				
Amortization	1,152	1,325	2,277	2,577
Gain on disposal of property, plant and equipment	(89)	(3)	(146)	(2,332)
Trust units based compensation	79	65	158	130
	4,369	8,749	9,218	15,724

Change in non-cash working capital:

Accounts receivable	13,240	7,273	24,620	9,367
Inventories	11,417	(349)	15,981	(88)
Prepaid expenses	584	46	535	261
Accounts payable and accrued liabilities	(654)	2,515	(8,276)	2,886
Deferred revenue	(2,752)	(3,655)	(5,131)	(5,336)
	21,835	5,830	27,729	7,090
	26,204	14,579	36,947	22,814

Discontinued operations:

Cash used by discontinued operations	-	1,102	-	655
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Investments:

Purchase of property, plant and equipment	(69)	(787)	(157)	(1,504)
Increase in goodwill and other intangibles	-	(195)	-	(195)
Proceeds from sale of property, plant and equipment	131	27	318	3,895
	62	(955)	161	2,196

Financing:

Bank indebtedness repayments	-	(10,173)	(343)	(12,262)
Issuance of trust units	-	187	-	187
Repurchase of trust units	-	(7)	-	(3,042)
Distributions to unitholders	(2,141)	(5,308)	(4,282)	(10,595)
	(2,141)	(15,301)	(4,625)	(25,712)

Net change in cash during the period	24,125	(575)	32,483	(47)
Cash, beginning of period	9,198	1,663	840	1,135
Cash, end of period	\$ 33,323	\$ 1,088	\$ 33,323	\$ 1,088

Supplemental disclosure of cash flow information

Interest paid	\$ -	\$ 85	\$ 5	237
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See accompanying notes to interim consolidated financial statements

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

1. Accounting Policies

a. Basis of consolidation

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

b. Change in accounting policies

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

c. Recent pronouncements

i) Financial Instruments - Disclosures

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

ii) International Financial Reporting Standards

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

2. Inventories

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

Work in progress related to capital equipment contract sales is determined using the percentage-of-completion method and includes material, labour and manufacturing overhead, and is recorded net of related accrued revenue on a contract by contract basis.

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

At June 30, 2009, raw materials amounted to \$20.1 million of which approximately \$1.5 million was valued at net realizable value, \$25.4 million at December 31, 2008 of which approximately \$1.4 million was valued at estimated net realizable value and after adjusting for Mobile, \$29.0 million at June 30, 2008 of which approximately \$1.4 million was valued at estimated net realizable value. Work in progress amounted to \$15.2 million at June 30, 2009, \$26.1 million at December 31, 2008 and after adjusting for Mobile \$25.5 million at June 30, 2008. Finished goods amounted to \$5.2 million at June 30, 2009 of which approximately \$0.4 million was valued at estimated net realizable value, \$4.9 million at December 31, 2008 of which \$0.4 million was valued at estimated net realizable value and \$4.9 million at June 30, 2008 of which \$0.7 million was valued at estimated net realizable value.

The amount of inventories charged to cost of sales for the three months ended June 30, 2009 was \$19.0 million (2008 – \$37.1 million). The amount of inventories charged to cost of sales for the six months ended June 30, 2009 was \$46.4 million (2008 - \$72.4 million).

A write-down of inventory of \$0.2 million was charged to cost of sales for the three months ended June 30, 2009 (2008 - \$0.1 million). For the six months ended June 30, 2009 and 2008 inventory write-downs of \$0.3 million were charged to cost of sales.

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

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 June 30, 2009		TWELVE months ended December 31, 2008		THREE months ended June 30, 2008	
	Number	Stated Value	Number	Stated Value	Number	Stated Value
Unitholders' capital, beginning of period	21,411,036	\$ 62,115	21,498,736	\$ 62,043	21,147,036	\$ 61,027
Trust units issued on exercise of options	-	-	264,000	589	84,000	187
Contributed surplus on options exercised	-	-	-	499	-	159
Trust units repurchased for cancellation	-	-	(351,700)	(1,016)	-	-
Unitholders' capital, end of period	21,411,036	\$ 62,115	21,411,036	\$ 62,115	21,231,036	\$ 61,373

	SIX months ended June 30, 2009		TWELVE months ended December 31, 2008		SIX months ended June 30, 2008	
	Number	Stated Value	Number	Stated Value	Number	Stated Value
Unitholders' capital, beginning of period	21,411,036	\$ 62,115	21,498,736	\$ 62,043	21,498,736	\$ 62,043
Trust units issued on exercise of options	-	-	264,000	589	84,000	187
Contributed surplus on options exercised	-	-	-	499	-	159
Trust units repurchased for cancellation	-	-	(351,700)	(1,016)	(351,700)	(1,016)
Unitholders' capital, end of period	21,411,036	\$ 62,115	21,411,036	\$ 62,115	21,231,036	\$ 61,373

b. Contributed surplus

	THREE months ended June 30, 2009	TWELVE months ended December 31, 2008	THREE months ended June 30, 2008
Contributed surplus, beginning of period	\$ 1,206	\$ 1,328	\$ 1,393
Trust unit based compensation expense	79	298	65
Unit options exercised	-	(499)	(159)
Contributed surplus, end of period	\$ 1,285	\$ 1,127	\$ 1,299

	SIX months ended June 30, 2009	TWELVE months ended December 31, 2008	SIX months ended June 30, 2008
Contributed surplus, beginning of period	\$ 1,127	\$ 1,328	\$ 1,328
Trust unit based compensation expense	158	298	130
Unit options exercised	-	(499)	(159)
Contributed surplus, end of period	\$ 1,285	\$ 1,127	\$ 1,299

c. Trust units based compensation plan

No unit options were granted or forfeited during the three months ended June 30, 2009. No options were granted and 17,500 unit options were forfeited in the unit option plan during the six months ended June 30, 2009. As of June 30, 2009, 671,000 unit options were issued and outstanding.

d. Trust unit distributions

The trust unit distributions for the three months ended June 30, 2009 and June 30, 2008 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. Trust unit distributions for the six months ended June 30, 2009 and June 30, 2008 were paid in cash and amounted to \$4.2 million and \$10.6 million respectively.

e. Normal course issuer bid

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

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

4. Cash (Bank indebtedness)

Cash (Bank indebtedness) is comprised of:

	As at June 30, 2009	As at December 31, 2008	As at June 30, 2008
Cash	\$ 33,323	\$ 840	\$ 1,088
Operating loan	-	(343)	(4,920)
Revolving facility	-	-	-
	<u>\$ 33,323</u>	<u>\$ 497</u>	<u>\$ (3,832)</u>

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 June 30, 2009, December 31, 2008 and June 30, 2008 approximate fair value due to the near term maturity of these financial instruments. Bank indebtedness approximates fair market value due to the short-term maturity of this instrument. Foreign exchange future contracts are accounted for at fair value.

The Fund classified and measures its financial instruments as follows:

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

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

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

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

b. Credit risk

The Fund's principal assets subject to credit risk are cash and accounts receivable and their respective carrying amounts are considered the Fund's maximum credit exposure. The principal source of credit risk remains accounts receivable balances with oil and gas industry customers. Addressing this risk, the Fund continues to require combinations of letters of credit, up front cash deposits and progress payments for material international projects. Initial cash deposits and subsequent progress payments are usually required on 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 allowance for doubtful accounts. The estimated allowance for doubtful accounts at June 30, 2009 is \$0.8 million (2008 - \$0.9 million), increasing approximately \$0.3 million from December 31, 2008 and \$0.1 million since March 31, 2009. Bad debt expense for the three months ended June 30, 2009 and 2008 was less than \$0.1 million. Bad debt expense for the six months ended June 30, 2009 was approximately \$0.2 million and less than \$0.1 million for same period in 2008.

c. Foreign currency risk

A significant portion of the Fund's revenues, expenses, accounts receivable and accounts payable are denominated in U.S. dollars, and consequently the Fund is subject to risks associated with fluctuating exchange rates. Using current U.S. dollar based revenues and taking into account its current U.S. dollar net asset position, a 1% increase or decrease in Canadian dollar to U.S. dollar would impact earnings by approximately \$0.2 million. During 2008, the Fund entered into two foreign exchange forward contracts to manage a portion of the risk associated with two specific contracts. One contract closed during the three months ended March 31, 2009. The remaining contract was closed in June, 2009 resulting in a gain of approximately \$0.8 million and \$0.6 million for the respective three and six months ended June 30, 2009. This gain is a result of the change in market value of the contracts when comparing the spot foreign exchange rate at the date the contract was closed against the March 31, 2009 and December 31, 2008 spot foreign exchange rates. There were no other foreign exchange forward contracts at June 30, 2009 or June 30, 2008.

d. Interest rate risk

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

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

5. Financial Instruments

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 June 30, 2009 and current cash forecasts, liquidity risk is considered low. The balance of accounts payable and accrued liabilities are all due within one year. Subject to the annual renewal of the credit facility, bank indebtedness is considered repayable within one year.

6. Related Party Transactions

The Fund engages the consulting services of a company owned and managed by a trustee of the Fund in normal course operations. The consulting services consist of legal and professional advice and investor relations. For the six months ended June 30, 2009, consideration paid for these services was \$919,000 (2008 - \$951,000). This company also provides due diligence and business acquisition services when necessary. No amounts for these services were incurred during the six months ended June 30, 2009 or 2008. The balance payable at June 30, 2009 was \$28,500 (2008 - \$0). These transactions were measured at fair value with these amounts agreed to by all parties.

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

For the THREE months ended June 30,	Universal		Foremost		Total	
	2009	2008	2009	2008	2009	2008
Revenue	17,858	37,635	13,180	15,356	31,038	52,991
Interest expense	-	55	-	30	-	85
Amortization	839	1,011	313	314	1,152	1,325
Income from continuing operations before income taxes	1,010	5,067	2,217	2,295	3,227	7,362
Income from continuing operations	1,010	5,067	2,217	2,295	3,227	7,362
Net income	1,010	5,067	2,217	2,512	3,227	7,579
Property, plant and equipment expenditures	36	699	33	88	69	787

For the SIX months ended June 30,	Universal		Foremost		Total	
	2009	2008	2009	2008	2009	2008
Revenue	44,261	71,215	25,699	31,633	69,960	102,848
Interest expense	3	154	2	83	5	237
Amortization	1,731	2,023	546	554	2,277	2,577
Income from continuing operations before income taxes	2,263	10,826	4,666	4,523	6,929	15,349
Income from continuing operations	2,263	10,826	4,666	4,523	6,929	15,349
Net income	2,263	10,826	4,666	5,017	6,929	15,843
Property, plant and equipment expenditures	84	1,193	73	311	157	1,504

	Universal			Foremost			Total		
	June 30, 2009	December 31, 2008	June 30, 2008	June 30, 2009	December 31, 2008	June 30, 2008	June 30, 2009	December 31, 2008	June 30, 2008
Property, plant and equipment	40,399	42,117	42,933	11,098	11,570	12,279	51,497	53,687	55,212
Goodwill and intangibles	15,074	15,176	15,253	-	-	-	15,074	15,176	15,253
Total assets	132,313	144,601	141,122	45,682	43,996	42,545	177,995	188,597	183,667

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

	For the THREE months ended June 30,		For the SIX months ended June 30,	
	2009	2008	2009	2008
Revenue				
Canada	\$ 22,313	\$ 40,596	\$ 52,121	\$ 80,041
United States	1,998	6,647	2,901	10,941
International	6,727	5,748	14,938	11,866
	\$ 31,038	\$ 52,991	\$ 69,960	\$ 102,848

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

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

	June 30, 2009	December 31, 2008	June 30, 2008
Property, plant and equipment, goodwill and intangibles			
Canada	\$ 66,088	\$ 68,375	\$ 69,753
United States	476	476	700
International	7	12	12
	<u>\$ 66,571</u>	<u>\$ 68,863</u>	<u>\$ 70,465</u>

9. Management of Capital

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

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

The Fund's financial strategy is designed to maintain a flexible capital structure consistent with the objectives stated above and to respond to growth opportunities or changes in economic conditions. In order to maintain or adjust its capital structure, the Fund may issue new trust units, redeem trust units, repay outstanding debt, issue new debt, refinance existing debt, acquire or dispose of assets, adjust trust unit distribution amounts or the form of payment, or adjust the amount of cash and short-term investment balances.

The Fund monitors its capital using the following financial metrics calculated on a quarterly basis:

	June 30, 2009	December 31, 2008	June 30, 2008
Working capital ratio	4.27:1	2.87:1	2.54:1
Debt-to-equity ratio	0.14:1	0.23:1	0.25:1

The Fund is not subject to any externally imposed capital requirements. The Fund is subject to certain covenants under its credit facility and is compliant at June 30, 2009.

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

10. Earnings per Trust Unit

Earnings per trust unit is calculated using the weighted-average number of trust units outstanding. The reconciliation of the denominators used to determine the basic earnings per trust unit and diluted earnings per trust unit is below:

	For the THREE months ended		For the SIX months ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Basic weighted average trust units	21,411,036	21,189,498	21,411,036	21,226,239
Effect of dilutive trust unit options	2,773	191,560	2,773	208,133
Diluted weighted average trust units	<u>21,413,809</u>	<u>21,381,058</u>	<u>21,413,809</u>	<u>21,434,372</u>

11. Commitments and Contingent Liabilities

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

At June 30, 2009, the Fund had an outstanding letter of guarantee of approximately \$1.7 million related to performance obligations for a specific customer contract. In July 2009, the customer determined these performance obligations were substantially met and the letter of guarantee expired.

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

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

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12. Discontinued Operations

On October 9, 2008, the Fund sold its Indianapolis, Indiana, USA based geotechnical drill rig product line. For comparative purposes the operations for the three and six months ended June 30, 2008 have been classified as discontinued operations. The net book values of the discontinued assets and liabilities at June 30, 2008 were: Accounts receivable - \$0.7 million, Inventories - \$2.7 million, Equipment - \$0.2 million, Accounts payable and accrued liabilities - \$0.8 million and Deferred revenue - \$0.1 million. Changes in non-cash working capital items for the three and six months ended June 30, 2008 provided cash of \$0.9 million and cash of \$0.2 million respectively. The income from discontinued operations is:

	For the THREE months ended		For the SIX months ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Revenues	\$ -	\$ 1,919	\$ -	\$ 3,829
Cost of sales	-	1,334	-	2,696
Gross profit	-	585	-	1,133
Selling, general and administrative	-	356	-	614
Amortization	-	12	-	25
	-	368	-	639
Income from discontinued operations before income taxes	-	217	-	494
Current income taxes	-	-	-	-
Future income taxes	-	-	-	-
	-	-	-	-
Income from discontinued operations	\$ -	\$ 217	\$ -	\$ 494

13. Subsequent Event

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