



Income Fund

Annual Information Form

For the year ended December 31, 2015

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## GLOSSARY OF TERMS

Whenever used in this Annual Information Form, unless the context otherwise requires, the following words and terms will have the indicated meanings:

"**Administrator**" means Foremost Industries Ltd. or its successor;

"**AIF**" means this Annual Information Form;

"**Audit Committee**" means the audit committee of the Trustees;

"**Business**" means the business conducted by Foremost Mobile Equipment and Energy Equipment;

"**Business Day**" means a day, other than a Saturday, Sunday, or statutory holiday when banks are generally open in the City of Calgary, Alberta, for the transaction of commercial banking business;

"**CFL**" means Canadian Foremost Ltd. as more particularly discussed on page 7;

"**Commercial Deed of Trust**" means the Deed of Trust dated November 29, 2005 pursuant to which Commercial Trust was established as amended, supplemented, or restated from time to time;

"**Commercial Trust**" means Foremost Commercial Trust, an unincorporated, open-end limited purpose trust established under the laws of the Province of Alberta, pursuant to the Commercial Deed of Trust;

"**CRA**" means the Canada Revenue Agency;

"**Credit Facility**" means the credit facility dated December 30, 2005 between Foremost Industries LP as borrower and Toronto-Dominion Bank as lender as amended, supplemented, restated or replaced from time to time and as more particularly discussed on page 28;

"**Declaration of Trust**" means the Amended and Restated Declaration of Trust, last amended June 8, 2005, pursuant to which Foremost Industries Income Fund was governed prior to the Reorganization;

"**Deed of Trust**" means the Deed of Trust dated November 12, 2005 and as amended and restated December 15, 2011 pursuant to which the Fund was established as amended, supplemented, or restated from time to time;

"**Distributable Cash Flow**" means all amounts determined by the Trustees as (see Deed of Trust, Section 5.1(b) for description) available for distribution to Unitholders during any applicable period;

"**Distribution Reinvestment Plan**" means the Distribution Reinvestment Plan established by the Fund on April 3, 2006, whereby for each quarterly Trust Unit Distribution, eligible Unitholders may elect to receive Trust Units instead of cash as payment;

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

"**FEE**" means Foremost Energy Equipment as more particularly discussed on page 13;

"**FME**" means Foremost Mobile Equipment as more particularly discussed on page 14;

"**Foremost**" means Foremost Industries LP and its subsidiary entities;

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

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

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

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

**"Foremost Industries Ltd."** means Foremost Industries Ltd., a corporation existing under the laws of the Province of Alberta;

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

**"Fund"** means Foremost Income Fund, a trust established under the laws of the Province of Alberta pursuant to the Deed of Trust and, where the context requires, refers collectively to the Fund and its subsidiary entities, all of which are noted in the table which appears on page 7;

**"GAAP"** means Canadian generally accepted accounting principles;

**"Non-Resident"** means (i) a Person who is not a resident of Canada for the purposes of the *Tax Act* or (ii) a partnership that is not a Canadian partnership for the purposes of the *Tax Act*;

**"IFRS"** means International Financial Reporting Standards;

**"Person"** means an individual, firm, partnership, joint venture, venture capital fund, limited liability company, unlimited liability company, association, trust, trustee, executor, administrator, legal personal representative, estate, group, corporate body, unincorporated association or organization, government body, regulatory authority, syndicate, or other entity whether or not having legal status;

**"Reorganization"** means the reorganization of the Foremost Industries Income Fund and its subsidiaries into the Fund, which took place on December 28, 2005;

**"Special Trust Unit Distribution"** means the final distribution of taxable income to Unitholders of record on December 31, 2011 which may be paid by way of cash or issuance of Trust Units which are immediately reconsolidated;

**"Tax Act"** means the *Income Tax Act*, R.S.C. 1985, c. 1 (5th Supp), as amended, including the regulations promulgated there under;

**"Trustees"** means the trustees of the Fund;

**"Trust Unit Distributions"** means the quarterly trust unit distributions as determined by the Trustees which include payment in the form of cash, in the form of Trust Units, or a combination thereof;

**"Trust Units"** means the Trust Units of the Fund;

**"Unitholder"** means the holders of Trust Units;

**"Universal"** means Foremost Universal LP and subsidiary entities;

**"Universal Industries (Foremost) Corp."** means the general partner of Foremost Universal LP.

*All dollar references herein are stated in Canadian funds, unless otherwise indicated.*

## **FORWARD-LOOKING STATEMENTS**

*This AIF contains forward-looking statements as defined under applicable Canadian securities legislation, including regulatory and statutory developments and their anticipated effects on our business. These statements include comments about matters such as future revenues by product, anticipated revenues by geographic segment, seasonality of revenues, use of existing manufacturing facilities, ongoing cost control initiatives, forecast capital expenditures, manpower requirements, future cash flows from operations, external financing requirements, the impact of the adoption of International Financial Reporting Standards ("IFRS"), considerations regarding the potential conversion options for the Fund, and levels of future trust unit distributions. These forward-looking statements typically contain words such as "anticipate", "could", "expect", "seek", "may", "intend", "will", "believe", "estimate", "plan", and other similar terms and expressions.*

*With respect to forward-looking statements contained in this AIF, we have made the following statements:*

All statements made under the heading "2016 OUTLOOK" starting on page 12 should be considered forward-looking.

"For 2016, expectations are for both revenues and gross profits to decrease as the market for oil and gas remain unsteady.", found under the 'FEE' heading on page 13.

"The wind-down of manufacturing at the Calgary South facility is expected to be complete by the spring of 2016.", found under the FEE heading on page 13.

"FEE's belief is that the continuation of improvement on its initiatives in these areas will allow further growth of market share.", found under the FEE heading on page 14.

"Based on the current commodity pricing, the 2016 revenue and gross profit percentage is expected to be lower than 2015.", found under the 'FME' heading on page 15.

*Forward-looking statements are based on current expectations, estimates, projections, and assumptions which we believe are reasonable but may prove to be incorrect; therefore, such forward-looking statements should not be unduly relied upon. In addition to other factors and assumptions which may be identified in this document, assumptions have been made regarding, among other things, industry activity, the general stability of the economic and political environment, future levels of oil and natural gas drilling activity, effect of market conditions and competitor actions on the demand for the Fund's products and services, ability to retain current employees and subcontractors, ability to hire additional skilled labour, timing and costs of capital expenditures to maintain productive capacity, foreign currency exchange rates, interest rates and safety, securities, taxation and other regulatory requirements.*

*Forward-looking statements are subject to a number of risks and uncertainties which could cause actual results to materially differ from those anticipated. The Fund can give no assurance that any of the events anticipated will transpire or, if any of them do, what benefits or costs will be derived. By their nature, forward-looking statements are subject to numerous risks and uncertainties including, but not limited to, the impact of general economic conditions, changing industry conditions, currency fluctuations, interest rate changes, competitor actions, labour shortages or disruptions, changes to safety, securities, taxation and other regulations, stock-market volatility, the Fund's ability to access sufficient capital from internal and external sources, and additional risk factors discussed in our AIF and other documents filed from time to time with securities regulatory authorities. Specific risks and uncertainties are discussed further in this AIF.*

*The forward-looking information contained in this AIF is expressly qualified by this cautionary statement. Our assumptions relating to the forward-looking statements referred to above are updated quarterly and, except as required by law, we do not undertake to update any other forward-looking statements.*

## **NON-GAAP MEASURES**

Management believes that two useful supplemental measures which are not defined under IFRS include standardized distributable cash and tangible book value per Trust Unit. None of these terms are intended to represent cash flow from operating activities, or net income or comprehensive income, nor should they be viewed as an alternative to cash flow from operating activities, net income, comprehensive income, or other measures of financial performance calculated in accordance with IFRS. As well, the Fund's method of calculating these supplemental measures may not be comparable to similarly titled amounts reported by other issuers.

Used throughout this AIF, their respective definitions and purpose are:

**Standardized distributable cash:** calculated as cash from operating activities (as defined by GAAP) less capital expenditure (as defined by GAAP). The Fund uses this calculation to indicate cash flow per unit available for distribution. We apply this standard as recommended by the CICA Canadian Performance Reporting Board; it should assist readers in per-unit comparison to other flow-through corporations. Refer to page 16 of the 2015 MD&A for the calculation.

**Tangible book value per Trust Unit:** determined as Unitholders' equity (as defined by GAAP) less intangibles and other assets, less deferred tax assets, then divided by the number of Trust Units outstanding at the end of the period. The Fund uses this value to indicate the growth or decline in Unitholders' equity on a per-unit basis for comparative periods. Refer to page 16 of the 2015 MD&A for the calculation.

## **FOREMOST INCOME FUND**

### **Foremost Income Fund**

Foremost Income Fund (the "Fund") is an unincorporated open-end mutual fund trust established under the laws of the Province of Alberta by a Deed of Trust, made as of November 12, 2005 and amended and restated on December 15, 2011 between the Trustees and Mr. Craig Bell as settlor. The head and principal office of the Fund is located at 1225 64<sup>th</sup> Avenue NE, Calgary, Alberta T2E 8P9. The Fund now carries on all of the business and operations of the former Foremost Industries Income Fund (see the discussion under "General Development of the Business").

The Fund was established for the purposes of (1) indirectly investing in the operations of several business divisions operating as limited partnerships and any other subsidiaries, and (2) distributing cash and income to holders of Trust Units. The holders of Trust Units are the sole beneficiaries of the Fund.

### **Trust Units**

The Fund permits individual holders of Trust Units to participate in the cash flow from the Business to the extent such cash flow is distributed by the Fund. Each Trust Unit entitles the holder thereof to receive Trust Unit Distributions with payment in cash, Trust Units, or a combination thereof, which the Fund is now making on an annual basis.

As an open-end trust, the Fund is not restricted in the type of assets it holds or the type of acquisitions it undertakes to maintain its status under the *Tax Act* as a "unit trust" and as a "mutual fund trust", so long as a retraction right is attached to the Trust Units. As an open-end trust, the Business can be expanded to include any such business that can be reasonably expected to provide returns to holders of Trust Units. The Fund is restricted from "undue expansion" pursuant to the proposals announced by the Federal Minister of Finance on October 31, 2006. See "Risk Factors – Changes in Legislation and Administrative Practices".

The Trust Units do not represent a traditional investment and should not be viewed by investors as "shares" in the Fund, Foremost Commercial Trust, Foremost Industries LP, Foremost Universal LP, Foremost Equipment LP, or any other subsidiary entity.

### **Intercorporate Relationships**

The Fund indirectly owns 99.99% of the limited partnership interests in Foremost Industries LP and Foremost Universal LP, and is indirectly allocated 99.99% of the taxable income generated from these interests. The Fund does not participate in the management of Foremost Industries LP or Foremost Universal LP. As discussed below, the Administrator owns the remaining interest in Foremost Industries LP. The Administrator is the general partner for Foremost Industries LP, and a subsidiary of the Administrator, Universal Industries (Foremost) Corp., is the general partner of Foremost Universal LP.

The Fund owns all of the issued and outstanding Trust Units of Commercial Trust and holds an interest bearing demand promissory note in the amount of \$276,842,000 CAD from Commercial Trust, all as of 2005 when the Fund was created.

### **Foremost Commercial Trust**

Commercial Trust is an unincorporated, open-end limited purpose trust established under the laws of the Province of Alberta pursuant to the Commercial Deed of Trust. Commercial Trust holds a direct 99.99% limited partnership interest in each of Foremost Industries LP and Foremost Universal LP, and all of the issued and outstanding shares of the Administrator, all as of 2005 when the Commercial Trust was created.



**Foremost Industries Ltd.**

Foremost Industries Ltd. is a corporation existing under the laws of the Province of Alberta and is the Administrator of the Fund. The sole shareholder of the Administrator is Commercial Trust.

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

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

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

The Administrator holds all of the issued and outstanding shares of Universal Industries (Foremost) Corp. and Foremost Industries Inc., and is the general partner of Foremost Industries LP.

**Universal Industries (Foremost) Corp.**

Universal Industries (Foremost) Corp. is a corporation existing pursuant to the laws of the Province of Alberta. Universal Industries (Foremost) Corp. is the general partner of Foremost Universal LP and owns all of the issued and outstanding shares of subsidiary Foremost Equipment G.P. Ltd.

**Foremost Industries LP**

Foremost Industries LP is a limited partnership formed under the laws of the Province of Alberta. Foremost Industries LP owns all of the issued and outstanding shares of subsidiaries Foremost Holdings Inc. and 958499 Alberta Inc. The operating entities within Foremost Industries LP include the Calgary based manufacturing facility referred to as Foremost Calgary North; Foremost Drilling Company, Inc. ("Foremost Drilling"), formerly Mobile Drilling Company, Inc. ("Mobile"), a wholly-owned subsidiary of Foremost Holdings Inc.; Maloney Industries (Cyprus) Limited.; Foremost (Cyprus) Limited and Foremost Maloney Industries LLC, wholly-owned subsidiaries of 958499 Alberta Inc. These entities constitute Foremost.

**Foremost Universal LP**

Foremost Universal LP is a limited partnership formed under the laws of the Province of Alberta. Foremost Universal LP owns Alberta-based operating facilities in Lloydminster, Bonnyville, Calgary, Hythe, Edmonton, and Stettler, all of the issued and outstanding shares of subsidiary Foremost Brahma Ltd. ("Brahma"), and 99.9% of the limited partnership interests in Foremost Equipment LP. These entities constitute Universal.

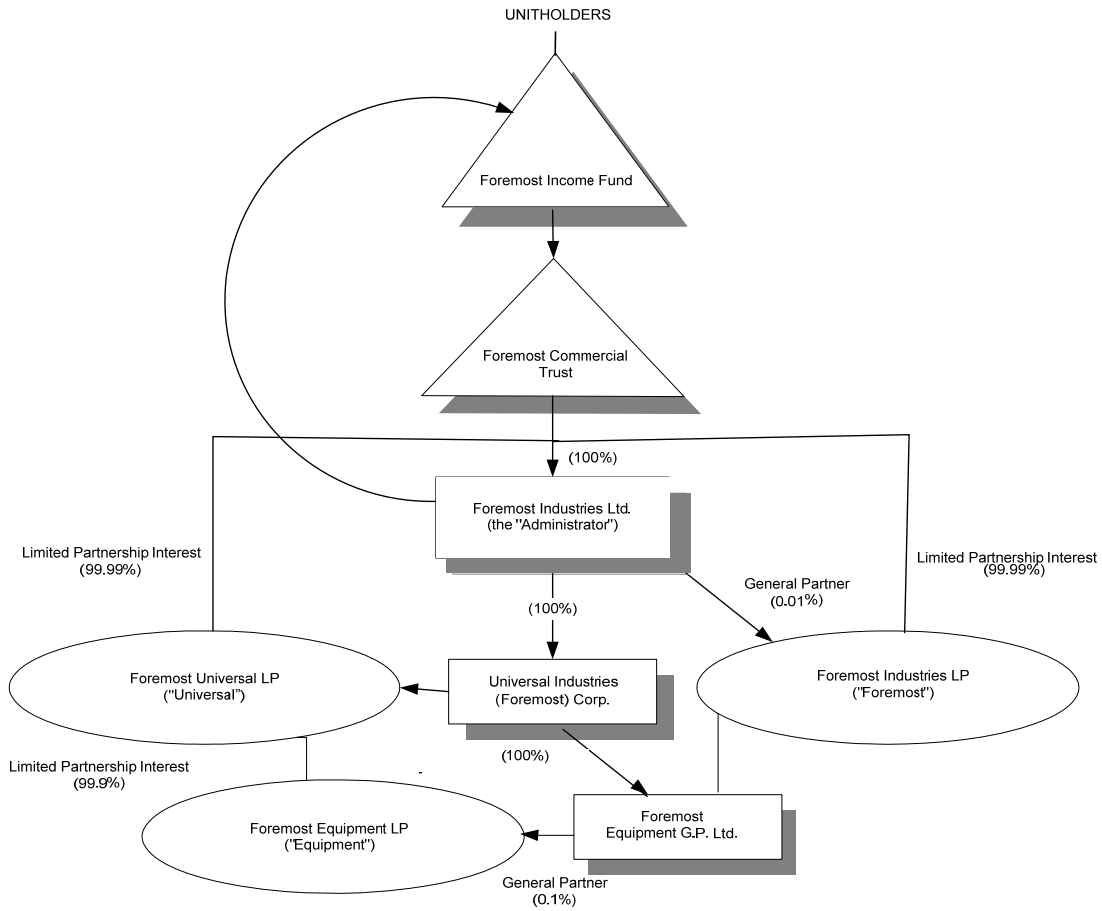
**Foremost Equipment LP**

Foremost Equipment LP is a limited partnership formed under the laws of the Province of Alberta. Foremost Equipment LP operates out of facilities in Edmonton and Stettler. These entities constitute Equipment.

**Foremost Equipment G.P. Ltd.**

Foremost Equipment G.P. Ltd. is a corporation existing pursuant to the laws of the Province of Alberta and is the general partner of Foremost Equipment LP.

The following diagram shows the organizational structure of the Fund as of December 31, 2015.



The following table presents the name, the percentage of voting securities owned, and the jurisdiction of incorporation, continuance, or formation of the Fund's subsidiary entities as at December 31, 2015.

Subsidiaries & Partnerships	Percentage Owned <sup>(1)</sup>	Jurisdiction of Incorporation, Continuance, or Formation
Air & Gas GP Ltd.	100	Alberta
Drill Systems Inc.	100	Nevada
Foremost (Cyprus) Limited	100	Cyprus
Foremost Commercial Trust	100	Alberta
Foremost Brahma Ltd. *	100	Alberta
Foremost Drilling Company, Inc.	100	Delaware
Foremost Holdings Inc.	100	Delaware
Foremost Industries LP	100	Alberta
Foremost Industries Ltd.	100	Alberta
Foremost Maloney Industries LLC	100	Russia
Foremost Resources Ltd.	100	Alberta
Foremost Track Vehicles Limited	100	Alberta
Foremost Universal LP	100	Alberta
Maloney Industries (Cyprus) Limited	100	Cyprus
Universal Industries (Foremost) Corp.	100	Alberta
Universal Technical Ltd.	100	Alberta
958499 Alberta Ltd.	100	Alberta
Foremost Industries Inc.	100	Alberta
Foremost Equipment LP	100	Alberta
Foremost Equipment G.P. Ltd.	100	Alberta

\*Renamed Foremost Financial Ltd. January 1, 2016

#### OVERVIEW OF THE BUSINESS

Throughout 2015 the Fund conducted business through three limited partnerships, Foremost Industries LP, Foremost Universal LP and Foremost Equipment LP. In early 2016, the assets of Foremost Brahma Ltd. were sold into Foremost Universal LP in order to consolidate business activities under the limited partnerships. The referenced asset sale was done in conjunction with the current renegotiation and restructure of Foremost's Credit Facility with Toronto Dominion Bank in order to better align with inter-entity lending practices. In connection with such restructuring, Foremost Brahma Ltd. was subsequently renamed Foremost Financial Ltd. and serves as the principal borrower under the Credit Facility

The above-referenced limited partnerships comprise two customer – facing business divisions (1) Foremost Mobile Equipment (FME) comprised of Foremost Industries LP & Foremost Equipment LP and operating Foremost's Mobile Equipment product lines and (2) Foremost Energy Equipment (FEE) comprised of Foremost Universal LP operating Foremost's Energy Equipment product lines.

#### GENERAL DEVELOPMENT OF THE BUSINESS

From a historical perspective, the current composition of the Fund operating units emanated from entities originating on the FEE side back in the 1800's (Foremost Maloney's ownership history—see below) and on the FME side in the mid 1950's with the company responsible for manufacturing the historic Nodwell vehicles.

More specifically, FME evolved from Canadian Foremost Ltd. (CFL), a listed public company formed in 1978. At that time, CFL was a manufacturer of high mobility all-terrain vehicles serving the oil and gas and mineral exploration industries. Over the years, CFL acquired a number of industry-related businesses to a point where its refined product line was similar to what is now produced by Foremost.

In 1994, CFL changed its name to Foremost Industries Inc.

On December 11, 2001, Foremost Industries Inc. was converted into Foremost Industries Income Fund through a shareholder approved Plan of Arrangement. Participating shareholders converted their common share holdings to Trust Units on a one-for-one basis.

On July 1, 2003, Foremost Industries Income Fund acquired the assets and operations of Universal Industries Limited Partnership for total consideration of cash, issuance of 1,100,000 Trust Units, a note payable, the assumption of liabilities, and a contingent consideration based upon earnings results for a five-year period.

On July 1, 2004, the Fund acquired the assets and business operations of Corlac Industries (1998) Ltd. ("Corlac") for total consideration of cash, issuance of 25,000 Trust Units of the Fund, the assumption of liabilities, and a five-year contingent consideration based upon a percentage of revenue of a particular product line.

On July 15, 2005, Foremost Industries Income Fund, through Foremost Universal Limited Partnership, acquired all of the issued and outstanding shares of Peace Land, a manufacturer of fluid storage tanks. Total consideration was \$1,669,000 in cash plus contingent consideration based upon earnings results for a five-year period. Peace Land is now a wholly-owned subsidiary of Foremost Universal LP.

On August 3, 2005, Foremost Industries Income Fund, through Foremost Universal Limited Partnership, acquired all of the issued and outstanding shares of De-In, a manufacturer of fluid storage tanks. Total consideration consisted of cash, issuance of 186,048 Trust Units, and contingent consideration based upon earnings results for a five-year period.

The Fund is the successor entity to Foremost Industries Income Fund. On December 28, 2005, Foremost Industries Income Fund completed a reorganization involving Foremost Industries Income Fund, Foremost Holdings Trust, Foremost Ventures Trust, Foremost Universal Limited Partnership, Foremost Industries Limited Partnership, Foremost Income Fund, Foremost Commercial Trust, Foremost Industries LP, Foremost Universal LP, and the holders of Foremost Industries Income Fund units (the "Reorganization") resulting in the creation of the Fund as the successor entity. The Reorganization was completed pursuant to the terms of the Reorganization Agreement as described in the Information Circular of Foremost Industries Income Fund dated November 29, 2005.

At the special meeting held on December 28, 2005, the requisite majority of the holders of Foremost Industries Income Fund units approved the Reorganization. Pursuant to the Reorganization, Foremost Industries Income Fund created the Fund as a new publicly traded income fund, and the Fund indirectly acquired all of the existing assets and business operations that were being conducted by the subsidiary entities of Foremost Industries Income Fund. In addition, a new trust, Commercial Trust, was established. As well, Foremost Industries LP was created to acquire and carry on the business of Foremost Industries Limited Partnership, and Foremost Universal LP was created to acquire the assets and carry on the business of Universal Industries Limited Partnership. As a result, the business and operations that had been conducted by the subsidiary entities of Foremost Industries Income Fund were continued by the management and employees of the Fund and its subsidiary entities. The Reorganization resulted in Unitholders receiving one Trust Unit for each common trust unit in Foremost Industries Income Fund they previously held.

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

On May 3, 2006, the Fund, through Foremost Universal LP, acquired the business operations and certain assets of Maloney Industries from Hanover Canada Corporation, whose assets and business operations constitute a business unit of Foremost Universal LP, now referenced as Foremost Energy Equipment or FEE. Maloney Industries was located in Calgary, Alberta and its business consisted of designing, engineering, and manufacturing medium- to large-scale oil and gas process treating equipment. The purchase price, including acquisition costs of \$0.4 million, was \$11.6 million, with \$10.9 million allocated to property, plant, and equipment, and \$0.7 million allocated to inventory. The transaction was funded entirely by cash.

On September 5, 2006, Foremost Industries Ltd. replaced Foremost Industries Inc. as the general partner of Foremost Industries LP and the Administrator of the Fund.

On February 22, 2007, the Fund filed a Normal Course Issuer Bid ("NCIB"). Pursuant to securities regulation, commencing February 26, 2007 the Fund was entitled to purchase, for one year from that date, up to 5% of the 20,039,981 outstanding Trust Units back from current Unitholders. No purchases occurred during 2007.

On June 13, 2007, pursuant to Unitholder approval, the Deed of Trust was amended and restated with respect to the timing of the declaration and payment of Trust Unit Distributions. As a result of the amendment, Trust Unit Distributions are now declared on the 15<sup>th</sup> business day of the last month of the quarter, with payment on the last business day of the respective quarter.

On June 22, 2007, *Bill C-52 Budget Implementation Act, 2007* ("Bill C-52") was substantively enacted by the Canadian government and imposes a tax on certain distributions from publicly traded specified income flow-through trusts ("SIFT") entities. The SIFT tax measures took effect January 1, 2011, or earlier if an entity exceeded certain permitted growth guidelines established by the Canadian Department of Finance. The substantial enactment of Bill C-52 resulted in the Fund having to recognize, on a prospective basis, future income tax assets or liabilities based on the estimated temporary differences (differences between the accounting basis and the tax basis of the assets and liabilities) at December 31, 2007. To estimate these temporary differences at December 31, 2007, the Fund used assumptions that included no changes to the Fund's organizational structure, no changes to existing tax deduction pool balances, use of current Trust Unit distribution amounts, and estimates of operating results and substantially enacted income tax rates for the years ended 2008-2012. Initially measured at the proposed combined federal and provincial income tax rate of 31.5%, these differences have been subsequently measured at the new substantially enacted rate of 25% for 2012 and thereafter (Bill C-28 - December 14, 2007).

In January 2008, the Fund, pursuant to the NCIB filed February 22, 2007, repurchased 351,700 Trust Units at an average price of \$8.63 per Trust Unit or a total cost of approximately \$3.0 million. As a result, Unitholders' capital was reduced by \$1.0 million and accumulated earnings reduced by the remainder.

In March 2008, the Fund sold its Nisku manufacturing facility for net proceeds of \$3.9 million, resulting in a gain of \$2.4 million.

Effective as of March 31, 2008 quarterly Trust Unit Distribution, the Fund suspended indefinitely its Distribution Reinvestment Plan ("DRIP"). As a result, the 2008 Trust Unit distributions totaling \$21.3 million were all paid in cash. The 2008 Trust Unit distribution amounted to \$0.25 per Trust Unit for each quarter. Subsequent to the end of the year, the Trust Distribution was reduced to \$0.10 per Trust Unit commencing with the March 31, 2009 quarterly distribution.

In October 2008, the Fund sold the operations and certain assets and liabilities of Mobile, located in Indianapolis, Indiana, for net proceeds of approximately \$4.9 million resulting in a gain of \$1.8 million. Subsequent to closing, Mobile changed its name to Foremost Drilling Company, Inc.

The Fund, in accordance with its accounting policy, conducted a goodwill impairment test at December 31, 2009. It was determined that goodwill was impaired and a charge of \$13.5 million was recorded at that date. As a result, the Fund reported a net loss for the year of \$3.9 million.

In July 2009, the Fund entered into a three-year lease for the land and buildings of Wilco. These facilities are located in Neilburg, Saskatchewan and were leased to a non-competing manufacturer. The monthly lease rate was \$6,500 per month and the lessee was granted an option to purchase the land and buildings for \$850,000 during the last two months of the lease. The lessee subsequently purchased this property in mid-2013.

On July 7, 2010, Foremost Universal acquired 100% of the outstanding shares of Brahma Compression Ltd. and Air & Gas GP Ltd. Total consideration consisted of \$3.3 million in cash, the assumption of \$4.0 million in debt, and contingent consideration based upon earnings results for a five-year period. Brahma and Air & Gas GP are now wholly-owned subsidiaries of Foremost Universal LP.

At a special meeting held on November 26, 2010, a majority of the Unitholders approved an amendment to the Deed of Trust regarding trading rights of Unitholders, cash redemptions, and redemption limits. A majority of Unitholders also

ratified the application made by the Fund to the Toronto Stock Exchange ('TSX') to voluntarily delist the Funds' Trust Units from trading on the TSX. The amendment to trading rights now limits the Unitholders' ability to sell, transfer, consign, mortgage, pledge, or dispose of any Trust Units in any manner whatsoever, other than a transfer to a similar beneficiary, without the prior written consent of the Board of Trustees. The amendment to cash redemptions included changes to the calculation of the cash redemption value. The cash redemption value is now calculated as plus or minus ten percent of the tangible book value of the Fund. The Board of Trustees will review the posted redemption price on an ongoing basis. The amendment to redemption limits increased cash available for redemption purposes to \$1.5 million per month.

As a result of the voluntary delisting by the Fund effective December 15, 2010, the Fund would not be deemed a SIFT Trust and is therefore no longer subject to the SIFT tax legislation that passed in Bill C-52 in June 2007. The SIFT legislation otherwise provided that the Fund would be subject to a tax on distributions. Under the new status for the non-listed Fund, distributions remain deductible and the SIFT distribution tax does not apply. Management intends that the Fund will distribute taxable income to the Unitholders to eliminate any taxable income in the Fund. This results in an effective tax rate of zero for the Fund's flow-through entities.

On May 19, 2011, Foremost Universal acquired a manufacturing facility and associated manufacturing equipment north of Bonnyville, Alberta. Total consideration consisted of \$7.7 million in cash. Foremost Bonnyville is an operating division of Foremost Universal LP.

On July 28, 2011, Foremost Universal acquired a manufacturing facility and associated manufacturing equipment in Stettler, Alberta. Total consideration consisted of \$4.8 million in cash. The Fund moved its manufacturing operations in Stettler to the new facility.

The Fund maintained a quarterly \$0.10 per Trust Unit Distribution through the first quarter of 2011. As of that distribution date, the Fund suspended quarterly distributions. The Fund redeemed 758,098 units through its monthly redemption program for proceeds of \$4.9 million.

On December 15, 2011, pursuant to Unitholder approval, the Deed of Trust was amended and restated with respect to the timing of the declaration and payment of Trust Unit Distributions. As a result of the amendment, a special redemption and accompanying distribution may take place annually, distributing the balance of taxable income to Unitholders. The special redemption resulted in 1,844,075 Trust Units being redeemed for proceeds of \$18,441. On the 1,844,075 Trust Units redeemed, the Fund distributed \$10.99 of income per Trust Unit with gross proceeds of \$20.3 million.

In 2011, the Fund completed its transition from GAAP to IFRS. Detailed information regarding the conversion and any accompanying effects on the financial statements can be found by consulting the Fund's December 31, 2011 Consolidated Financial Statements. The statements are filed electronically on [www.sedar.com](http://www.sedar.com).

In February 2012, the Fund entered into an agreement to acquire the operating assets and debt facilities of Steelhead Welding Ltd. (Steelhead), a hydrovac and vacuum truck manufacturer in Edmonton, Alberta, for proceeds of \$500,000. Pursuant to a separate agreement, the Fund acquired and subsequently leased back all of the operating assets of Steelhead.

In February 2012, the Fund sold its Debolt manufacturing facility for proceeds of \$700,000. This resulted in a gain of \$573,000 as an impairment allowance had previously been booked against this property.

In July 2012, the Fund renewed the lease agreement for the land and buildings located in Neilburg, Saskatchewan. This new one-year lease agreement automatically renews unless cancelled by one of the parties. The current monthly lease rate is \$13,000 per month, of which 50% will be applied to the purchase price if that option is exercised. The lessee has been granted an option to purchase the land and buildings for \$850,000 at any time during the term of the lease. In August 2013 the lessee purchased this property.

At year end in 2012, and immediately subsequent to it, Foremost Universal LP completed an internal reorganization. This change was effected to clarify and make consistent the legal structure, which resulted in fewer wholly-owned subsidiaries and a corresponding increase in operating divisions. This restructuring transaction also resulted in simplified and streamlined processes for both external (including customers and vendors), and internal users.

## **THREE YEAR HISTORY**

### **2013**

Throughout the year the Fund redefined its strategic plan. This plan focused on the continued development of current product lines, strengthening internal processes, capital management, and renewed focus on corporate values.

Effective January 1, 2013 Foremost Industries Ltd. reacquired the shares of Foremost Industries Inc.

The Fund, in accordance with its accounting policy, conducted a goodwill impairment test at September 30, 2013. It was determined that from the Brahma acquisition, goodwill was impaired and a charge of \$3.1 million was recorded at that date.

In November 2013, the Fund finalized the purchase of the Steelhead assets for \$6.2 million. This amount represents the loan balance outstanding as at the purchase date. This transaction resulted in goodwill of \$1.0 million.

Throughout the year, the Fund sold two underutilized properties resulting in a gain of \$550,000.

Effective December 31, 2013 the Fund dissolved two inactive subsidiaries in the Universal segment: Wilco Industries Ltd. and Maloney Industries Canada Inc.

### **2014**

In early 2014 a new interim CEO and President was named, which led to the focus of improving overall performance, defining the Fund's vision and mission, and redefining strategic objectives.

The Fund incurred an impairment loss of \$11.7 million as a result of economic conditions, specifically soft oil and gas prices, which impacted the future cash flows generated by specific assets. This was recorded at December 31, 2014.

The Fund, in accordance with its accounting policy, conducted a goodwill impairment test at December 31, 2014. It was determined that goodwill, from the Steelhead acquisition, was impaired and a charge of \$1.0 million was recorded at that date.

In 2014, the Fund entered into two leases for facilities located in Edmonton, Alberta. These leases are both for four years and provide shop space for manufacturing and servicing of hydrovac and vacuum trucks. Combined, the monthly lease amounts are \$53,000.

As a result of continued financial losses at the Bonnyville location, the Fund ceased operations in late 2014 and listed the property for sale or lease.

### **2015**

In early 2015, the Fund's Edmonton and Stettler operations were reorganized into Foremost Equipment LP, a newly-formed, wholly-owned subsidiary of Foremost Universal LP. The reorganization was undertaken to support the expansion of Foremost's hydro-vacuum and vacuum truck manufacturing and service business since the Edmonton and Stettler locations are predominately dedicated to that business.

As a result of low commodity prices and decreasing customer backlog, the Fund reviewed opportunities to consolidate manufacturing capacity during 2015. The wind-down of activity occurred at both the Calgary South and Edmonton South facilities, allowing the Fund to continue to reduce overhead and operating costs.

In September, the Board of Trustees announced that effective January 1, 2016, Kevin Johnson, VP Foremost Mobile Equipment, would become President of the Administrator, and Bevan May, Interim CEO, will return to his role as Chairman of the Board.

Effective December 31, 2015 the Fund distributed its 2015 taxable income via a special non-cash distribution equal to \$0.54 per unit in units of the Fund, which were then immediately consolidated as discussed in more detail in the related press releases and SEDAR filings.

## **2016 OUTLOOK**

The Fund currently expects that low commodity prices, primarily oil and gas, will continue to reduce sales in both operating segments for 2016. The Fund continues to focus on manufacturing and operational efficiencies, inventory management, reducing discretionary spending, and supply chain management initiatives, specifically global sourcing.

The Fund plans to:

- continue to manage working capital.
- minimize external financing.
- aggressively search for domestic and international revenue opportunities.
- evaluate new products.
- maintain tight control over operational expenditures and manpower levels.
- undertake capital expenditures necessary to optimize productive capacity.
- determine Trust Unit distributions commensurate with annual business performance.

In doing so, the Fund believes it will be in a strong position to capitalize on current and future business opportunities as market conditions stabilize and eventually improve.

The Fund intends to distribute its income via an annual distribution.

## **DESCRIPTION OF THE BUSINESS**

### **Segments**

The Fund carries on business in two segments: Foremost Energy Equipment (FEE) and Foremost Mobile Equipment (FME).

The business conducted by FEE involves the design, manufacture, sale and service of shop fabricated tanks, pressure vessels, field erected tanks, gas separation units, oil treating systems, gas processing systems, gas compression units and steam generators used within the energy industry. Energy Equipment also offers rental programs for certain shop tank, compression, and process equipment. Products and services are sold through its direct sales force. Currently, products and services are distributed from six active manufacturing locations in Alberta (Lloydminster (2), Stettler, Calgary (2) and Hythe). Products manufactured by FEE are primarily sold in Canada.

The business conducted by FME involves the design, manufacture, sale, and servicing of hydrovac and vacuum trucks, heavy all-terrain vehicles, and drilling equipment for use in the mineral exploration, water well, construction, transportation, energy, and environmental industries and any other businesses which are related, ancillary, or complementary thereto. FME products and services are manufactured and distributed from Foremost's Alberta locations including Calgary, Edmonton, and Stettler. Products, parts, and services are sold worldwide through its Canadian-based direct sales force and through representatives, agents, and distributors throughout the world.

### **Seasonality and Cyclical**

Historically, the Fund's financial results reflect the seasonal and cyclical nature of the oil and gas and resource markets, which are consumers of the Fund's products and services. Generally, this means that revenues and net earnings reported in the first two quarters are lower than the third and fourth quarters. The 2015 results reflect higher revenue in the first two quarters as commodity prices continued to drop during the year.



## **Foremost Energy Equipment (FEE)**

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

Revenue for FEE is generated from the following product categories: shop tanks, gas separation units, pressure vessels, field tanks, oil treating units, gas processing units, compression equipment and steam generators. FEE also offers supporting part sales and service programs, and specific equipment rentals. While product sales are coordinated from a Calgary sales office, the products are currently manufactured at sites throughout Alberta including Lloydminster, Stettler, Hythe, Edmonton, and Calgary. Manufacturing of sales orders is assigned to the location that best fits the product specifications, required labour skills, customer site proximity, and delivery times.

FEE's 2015 revenues were \$109.4 million compared with \$134.7 in 2014. This decrease is a result of a large drop in demand for the shop tank fabrication product line and an overall decrease in compression, vessel, and gas separation lines.

Gross profit during the year amounted to \$12.6 million compared with \$13.6 million in 2014. FEE's average gross profit percentage was 12% of revenue in 2015, consistent with 10% in 2014.

For 2016, expectations are for both revenues and gross profits to decrease as the market for oil and gas remains unsteady.

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

Sales efforts are conducted by a direct sales force located at the Calgary, Alberta based sales office and management at each of the six active manufacturing locations. The traditional heavy oil product line of tanks and treating equipment is well known within the industry. Attendance at trade shows and the use of its website have served to increase exposure to other producing areas in the world, however FEE's product sales and service is predominantly targeted in Western Canada. Acquisitions have provided a strategic presence in the high activity oil and gas areas of NW Alberta, NE British Columbia, and the Northwest Territories. Products manufactured at the Stettler and Calgary locations have attracted international interest.

### ***Manufacturing***

FEE currently owns six separate, all currently active, manufacturing locations. Lloydminster (both locations) and Hythe primarily manufacture shop tanks and vessels. Gas separation units are manufactured at Stettler, compression equipment service and rental primarily out of Calgary East, and vessels, compression equipment, and specific components for field tank projects at Calgary South. The wind-down of manufacturing at the Calgary South facility is expected to be complete by the spring of 2016. Lloydminster manufactures the majority of field tank components which are then transported to the customer's site where they are assembled by field crews. FEE also owns a manufacturing facility in Bonnyville, Alberta which is no longer operational and is currently listed for sale or lease.

FEE's contract administration, production allocation, production management, purchasing, safety, engineering, and quality control services are managed from both the Calgary North and Lloydminster offices. To meet specific product requirements, certain functions are maintained at each facility. Fabrication work is conducted at all six active locations. One Lloydminster and one Calgary site maintain American Society of Mechanical Engineers (ASME) certifications at their facilities. This program is reviewed every second year to ensure that manufacturers adhere to ASME's strict fabrication codes. Six of the active manufacturing facilities are certified under the Canadian Welding Board Standards program, which enables FEE to meet current market expectations for structural fabrication.

### ***Strategy***

FEE's strategy is to be a strong, dynamic, and growing company that is the preferred supplier of a diverse line of quality industrial and energy related equipment, products, and services. Current products offered include shop tanks ranging from 400- to 3,000-bbl capacities, field tanks with capacities up to 250,000-bbl, a wide variety of fluid treating vessel systems, gas separation units, 100- or 200-bbl double wall tanks, secondary containment systems, steam generators, and compression units up to 200-horsepower. Manufacturing capacity is sufficient to meet the current and anticipated demand for these products.

### ***Intellectual Property***

FEE owns certain patents, trademarks, trade names, service marks, and copyrights considered necessary for the proper carrying on of its business. Where appropriate, all registrations and filings to preserve its rights have been made and are in good standing. FEE intends to take all appropriate steps to protect its interests in its intellectual property.

### ***Competition***

Most of FEE's markets are highly competitive, especially the less technical products such as shop tanks, natural gas separation packages, and low horsepower compression where the barriers to market entry are minimal.

Manufacturing capacity and geographic diversity set FEE apart from its competition in shop tank markets, enabling it to fulfill major orders across Alberta and Northern Saskatchewan while minimizing transportation costs. FEE leverages a competitive advantage on separation packages through in-house ASME certifications for pressure vessel components, large volume production capacity, and in-house design and engineering capabilities.

Competition to FEE's field construction is not as prevalent as the product lines above but still exists. FEE sets itself apart by offering long-term, experienced construction personnel, in-house design and engineering, and in-house fabrication of components required for these projects.

FEE is a major pressure vessel player in Alberta. There is significant competition for these products, however, FEE maintains a competitive advantage through very experienced design and engineering personnel, plant capacities that can handle the largest of projects in this market, and an array of quality certifications through ASME, ABSA, and CWB. FEE's Lloydminster shops are also uniquely positioned along a high-load shipping corridor that allows access for the largest possible loads to Northern Alberta's Oil Sands construction sites.

FEE's success is dependent upon maintaining price, quality, product diversification, and service. FEE's belief is that the continuation of improvement on its initiatives in these areas will allow further growth of market share.

### ***Employees***

As at December 31, 2015, FEE and its divisions had a total of 274 employees: 187 at Foremost Lloydminster, 34 at Calgary, and 53 at Hythe. To accommodate temporary fluctuations in manufacturing, Universal also uses subcontractors. At December 31, 2015 there were 30 subcontractors which were providing services at the Lloydminster facilities.

As at the date of this filing, FEE and its divisions had a total of 243 employees: 172 at Lloydminster, 33 at Calgary, and 38 at Hythe. There were also 31 subcontractors providing services at the Lloydminster facilities.

### ***Segmented Information***

For additional information on the business segments for the year ended December 31, 2015, refer to Note 9 of the notes to Consolidated Financial Statements contained in the Fund's Consolidated Financial Statements.

### ***Changes in the Business since 2015***

In early 2016, the assets of Foremost Brahma Ltd. were sold into Foremost Universal LP in order to consolidate business activities under the limited partnerships. The referenced asset sale was done in conjunction with a renegotiation and restructure of Foremost's Credit Facility with Toronto Dominion Bank in order to better align with inter-entity lending practices. In connection with such restructuring, Foremost Brahma Ltd. was subsequently renamed Foremost Financial Ltd. and serves as the principal borrower under the Credit Facility.

### ***Foremost Mobile Equipment (FME)***

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

Revenues are classified into four product categories: Hydrovac and vacuum trucks, drills, vehicles, and parts and service. These products and services are used worldwide in the oil, mineral, and water well drilling industries. All of these products are currently manufactured and distributed from facilities located in Calgary, Edmonton, and Stettler. Each category is subject to significant fluctuations in activity and revenue. These fluctuations often require significant reallocation of manufacturing resources, skilled labour force, and multi-functional facilities.

FME generated revenues of \$82.7 million for 2015 versus \$101.2 million for 2014. Gross profit for 2015 amounted to \$15.9 million as compared with \$17.2 million for 2014. The gross profit for Foremost is and was affected by changes in product mix, sales volume, selling price, fluctuations in exchange rates between the Canadian and U.S. dollar, manufacturing cost reductions, and manufacturing efficiencies. The drop in revenue for the FME segment was primarily due to the lower volume of trucks sold when compared to 2014. Gross profit margin increased from 17% in 2014 to 19% in 2015 as parts, drills, and truck margin increased year over year.

FME's diverse product line coupled with the high degree of customer modifications within these products can cause gross profit to vary significantly from year to year. FME continues to devote efforts to obtain orders for multiple units and allocate resources to higher margin products. Based on the current commodity pricing, the 2016 revenue and gross profit percentage is expected to be lower than 2015.

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

FME handles sales and marketing from multiple locations: its main office in Calgary, manufacturing and service locations in Stettler and Edmonton and its representative office in Moscow. It employs a direct sales staff (including managers), many of which have strong engineering and manufacturing backgrounds. In addition, regional agents and distributors are engaged periodically to cover specific territories, regions, or countries. Notably, early in 2015 Foremost Equipment LP entered a distributorship agreement covering the United States for its hydrovac truck products. This distributorship is intended to support growth of FME's hydrovac truck business into the United States markets.

The diversity and inherent differences between FME's many products necessitate a sales and marketing approach for each business sector that is tailored to that sector's particular characteristics and requirements. FME uses demonstration events and attendance at industry trade shows, with advertising and direct sales activities to market its products and services. FME's work in the Russian market is attributed to its investment in designing vehicles specifically for Russian conditions, and to its representative office in Moscow which is staffed by Russian nationals. Some market segments, typically niche markets for very specialized equipment, receive little sales and marketing resources. FME relies on its reputation as a specialty manufacturer of this equipment and on limited competition to generate sales in these specialty niches.

### ***Manufacturing***

Engineering, fabrication, machining, and testing of FME's products are done at its Calgary, Edmonton, and Stettler manufacturing facilities. An Enterprise Resource Planning (ERP) system controls the flow of work through the manufacturing process and facilitates material requirement planning, production management, and financial reporting. The engineering department out of Calgary uses state-of-the-art 3D solid modeling design software. Foremost Calgary North employs a rigorous Quality Assurance (QA) program to drive its continuous improvement. It obtained its API and ISO 9001 certifications during 2011. FME offers a standard warranty that can be customized to address specific concerns for its various products and supports its products with a field service team.

### ***Strategy***

FME's strategy is to be a strong, dynamic, and growing company that is the preferred supplier of a diverse line of quality industrial and mobile equipment, products, and services. Within the product portfolio, FME also manages its mix between "generally reliable" product lines (strong predictable revenue and contribution margins), "somewhat uncertain" product lines (greater volatility but generally dependable annual sales), and "highly unpredictable" product lines (high uncertainty but potential for large sales).

To support this strategy, FME has developed administrative, technical, and production management systems that can readily manage rapidly changing production requirements. Employees are also critical to the organizational flexibility demanded by its strategy. FME has successfully maintained low turnover in key positions and retained the talent and experience of employees with a broad range of product knowledge, which includes its low-volume specialized niche products.

### ***Intellectual Property***

FME owns certain patents, trademarks, trade names, service marks, and copyrights both domestic and foreign which are believed critical to properly carry on its business. Where appropriate, all registrations and filings to preserve its rights have

been made and are in good standing. FME intends to take all appropriate steps to protect its interests in its intellectual property.

### **Competition**

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

A significant existing base of FME's vehicles and drill rigs created over the last 30 years requires ongoing parts and service support. FME manufactures some proprietary parts, while other parts are manufactured by third parties which FME then sells.

While FME is often the preferred supplier of parts, competition exists. Calgary-based competitors offer parts for all-terrain vehicles used in seismic exploration. A number of competitive sources exist for parts for vehicles sold to the Russian market. Few competitive sources exist for drilling accessories.

Competitive sources of parts may be cheaper or may provide better selection, availability, or convenience.

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

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

FME has progressed to become one of the largest producers of vacuum trucks in Western Canada. Vacuum trucks, including Hydrovacs and code vacuum trucks, are versatile mobile equipment used in industrial construction, oil and gas production, utility construction, and pipeline installation work. Vacuum trucks have seen phenomenal growth in North America, and FME is positioned to be a strong player in the market.

FME competes in Western Canada with smaller competitors producing lower volumes of trucks. One such competitor is located in Stettler, but is much smaller than FME.

In the United States there are numerous manufacturers of vacuum trucks. The market is geographically segregated and FME competes through its exclusive US distributor mainly in the Northwest and Midwest US. In this region FME competes with large national manufacturers as well as smaller niche players.

### **Employees**

As at December 31, 2015, FME and its subsidiary entities had a total of 258 employees: 138 in Calgary, 103 in Stettler, 13 in Edmonton, and 4 at the Cyprus and Moscow locations.

As at the date of this filing, Foremost and its subsidiary entities had a total of 246 employees: 131 in Calgary, 99 in Stettler, 12 in Edmonton, and 4 at the Cyprus and Moscow locations.

### **Facilities**

Foremost owns manufacturing facilities in Calgary, Alberta and one in Indianapolis, Indiana (presently leased to a third party). The two Edmonton facilities, and the Stettler facility are leased (Stettler is owned by Universal), one of which was vacant at the end of 2015. As of December 31, 2015 the Indianapolis facility is being leased to a non-competing manufacturer.

### ***Segmented Information***

For additional information on the business segments for the year ended December 31, 2015, refer to Note 9 of the notes to Consolidated Financial Statements contained in the Fund's Consolidated Financial Statements.

### ***Changes in the Business since 2015***

Effective January 1, 2016, Kevin Johnson, VP Mobile Equipment, moved into the role of President of the Administrator.

## **RISK FACTORS**

The following is a summary of certain risk factors relating to the activities of the Fund and its subsidiaries and to the ownership of Trust Units.

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

#### ***General***

Certain activities of the Fund are affected by factors that are beyond its control or influence. The business and activities of the Fund are directly affected by fluctuations in the levels of oil and natural gas exploration, development, and production carried on by its customers. Its customers' activities are, in turn, influenced by numerous factors that include world commodity prices and government policies. Any addition to, or elimination or curtailment of, government incentives or other material changes to government regulation of the energy industry in Canada could have a significant impact on the oilfield manufacturing industry in Canada.

#### ***Industry Conditions***

The Fund is highly reliant on the levels of capital expenditures made by oil and gas producers and explorers. Exploration and production companies base their capital expenditures on various factors including, but not limited to, world commodity prices, exploration and development prospects in various jurisdictions, production levels of their reserves, and access to capital. Oil and gas producers and explorers tend to examine long-term fundamentals affecting the foregoing factors before they adjust their capital expenditure plans. Risk factors associated with the Fund's operations include business factors and changes in government regulation. Should one or more of these risks materialize, actual results may vary materially from those currently anticipated. In recent years, commodity prices, and therefore the levels of drilling, production, and exploration activity have been volatile. Any substantial reduction or increase in commodity prices will likely affect the activity levels of the exploration and production companies and therefore the demand for the Fund's products and services. A significant prolonged decline in commodity prices could have a material adverse effect on the Fund's business, results of operations, and financial condition, including the Fund's ability to maintain its current level of distributions to Unitholders.

#### ***Credit Risk***

The Fund's principal financial assets subject to credit risk are cash and accounts receivable. Therefore, their respective carrying amounts are considered the Fund's maximum credit exposure. The Fund's credit risk associated with accounts receivable arises from balances due to the Fund from customers in the oil and gas industry. The Fund uses a variety of steps to manage this risk. Initial cash deposits and confirmed letters of credit are principal methods of payment 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 allowances for doubtful accounts. The Fund does not have significant exposure to any individual customer or counter-party. Although collection of these receivables can be influenced by economic factors affecting this industry, management considers the risk of significant loss individually or in aggregate to be low at this time.

#### ***Foreign Exchange Exposure***

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

It should be noted that such fluctuations can be mitigated under some circumstances. The Fund management actively considers and, where appropriate, engages currency hedges in cases where sales orders are received in foreign currencies. The Fund management also considers currency hedges when meaningful sales contracts and manufacturing material supply purchases are in different currencies.

The Fund does not otherwise engage in speculative currency hedging activity unrelated to specific contract activity.

#### ***Competitive Environment***

There can be no assurance that the Fund will be able to compete successfully against its current or future competitors, or that such competition will not have a material adverse effect on the financial condition and results of operations of the Fund. For additional information regarding the competitive environment in which FEE and FME operate, refer to "Description of the Business – Foremost Energy Equipment – Competition" above and "Description of the Business – Foremost Mobile Equipment – Competition".

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

Significantly, all raw material and third party components required for the manufacturing of products by the Fund or its subsidiary entities can be procured from multiple sources at competitive prices. Certain third-party components are not readily available "off-the-shelf" and are subject to significant lead-times from suppliers. These lead-times may cause delays in the production of products that may result in cost overruns and/or trigger penalty payments to customers. The Fund endeavors to confirm price and delivery for all critical components prior to entering into contracts with customers. In its continued efforts to control costs and secure a balanced and reliable supply chain, FME aggressively sources its component inputs and raw materials from both domestic and international suppliers. International suppliers include suppliers in the United States, China, and Russia.

#### ***Development of New Products***

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

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

#### ***Reliance on Key Personnel***

The Fund is dependent on the abilities, experience, and efforts of its senior management. If any of these persons becomes unable or unwilling to continue, a material adverse effect on the Fund's financial condition, results of operations, and business prospects may occur.

#### ***Shortage of Qualified Personnel, Parts, and Raw Materials***

From time to time, the Fund has encountered a shortage of skilled labour and other qualified personnel. In addition, supplier adjustments to inventory levels in response to market conditions means certain raw materials and parts can be in short supply or have long lead-times. New oil and gas projects may result in the Fund experiencing difficulties in finding and hiring the appropriate skilled labour and difficulties in obtaining required parts and materials on a timely basis. The Fund is continuously seeking ways to hire the personnel it needs, including project managers, trades people and other employees with the required skills. The Fund is continuously seeking ways to obtain the required parts and raw materials. Dedicated suppliers, commitments to purchase quantity, and increasing inventories are some of the ways the Fund is attempting to ensure parts and raw materials are available when required. The inability to retain or recruit skilled personnel or obtain key parts and raw materials could have a material adverse effect on the Fund's business, financial condition, results of operations, and cash flows.

#### ***Environmental, Health and Safety Regulation***

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

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

Environmental concerns and issues may result in future laws and regulations applicable to the oil and gas industry's environmental impacts. In particular, the development of Alberta's oil sands resource and its greenhouse gas emissions, water usage, air quality and tailings processing, and reclamation may be affected by future legislation and regulation which could either limit development or increase the costs of development.

The direct or indirect costs of complying with changes or new environmental laws and regulations may adversely affect the oil and gas industry on a worldwide basis, which in turn may adversely affect the Fund's potential earnings and revenues generated from these markets.

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

#### ***International Scope of Operations***

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

#### ***Product Liability***

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

#### ***Fixed Price Contracts***

The Fund enters into fixed price manufacturing contracts based upon estimates of technical risks and total production costs. These estimates, if materially inaccurate, can result in potentially large losses related to fulfilling the contractual obligations of the Fund. The Fund utilizes cost escalation clauses for material and labour in the majority of its contracts that have a term of one year or greater.

#### ***Uninsured and Underinsured Losses***

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

#### ***Access to Additional Financing***

The Fund may find it necessary in the future to obtain additional debt or equity to support ongoing operations, to undertake capital expenditures, or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Fund when needed or on terms acceptable to the Fund. The Fund's inability to raise financing to support ongoing operations or to fund capital expenditures or acquisitions could limit the Fund's growth and may have a material adverse effect upon the Fund.

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

### ***Nature of Trust Units***

The Trust Units do not represent a traditional investment and should not be viewed by investors as shares in the Fund. The Trust Units represent a fractional interest in the Fund. As holders of Trust Units, Unitholders have many of the same protections, rights, and remedies as a shareholder would have under the *Canada Business Corporations Act*. However, a Unitholder will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. A Unitholder is also not entitled to "dissent rights".

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

### ***Return of Capital***

Cash distributions do not represent a "yield" in the traditional sense, as they may represent both a return of capital and a return on investment.

### ***Debt Service***

The Fund may finance a significant portion of its operations through debt. Amounts paid in respect of interest and principal on debt incurred may impair the Fund's ability to satisfy its obligations under any credit agreements. Variations in interest rates and scheduled principal repayments could result in significant changes in the amount required to be applied to debt service before payment by the Fund of its obligations under any credit agreements. Ultimately, this may result in lower levels of Distributable Cash for the Fund.

Lenders have been and will be provided with security over all of the assets of the Fund. If the Fund becomes unable to pay its debt service charges or otherwise commits an event of default such as bankruptcy, a lender may foreclose on or sell the assets of the Fund.

### ***Redemption Right***

Unitholders have a limited right to require the Fund to repurchase their Trust Units, which is referred to as a redemption right. Cash redemptions are subject to limitations. As previously disclosed, effective May 1, 2014 and applying to all notices of redemption received in the months of May through October 2014 inclusive, and February 2015 through March 2016 inclusive, the Trustees of the Fund exercised their discretion pursuant to section 6.4(ii)(B) to reduce the Monthly Limit for cash redemptions to \$0.00, and to \$500,000 for the months of November and December 2014 and January 2015. All notices of redemption received in these months were paid by promissory notes to the extent they exceeded the Monthly Limit, provided however that Unitholders tendering notices of redemption were provided with an opportunity to withdraw such notices. The Trustees have undertaken to review the Monthly Limit in respect of the month of April, 2016 on or before April 15, 2016. Note that the foregoing discussion is intended for summary purposes only and is subject in all respects to the Deed of Trust. The income and other tax consequences of holding, redeeming, or disposing of units and acquiring promissory notes will vary depending on the Unitholder's particular circumstances, including the jurisdiction(s) in which the Unitholder resides or carries on business, and whether the Unitholder is an RRSP, RESP, RRIF, PPSP, or TFSA. All Unitholders should consult their own legal and tax advisors prior to redeeming units of the Fund.

### ***Trust Unit Distributions***

The Fund declares Trust Unit Distributions to Unitholders on an annual basis. The amount of the Trust Unit Distributions is generally determined by taking cash flow from operating activities and adjusting for the costs of property, plant, and equipment upgrades and expansion, business acquisitions, non-cash transactions, and the effect of changes in general business conditions on working capital. Payment of these Trust Unit Distributions can be in the form of cash or additional Trust Units, or a combination thereof. The DRIP was suspended throughout 2011 and remains indefinitely suspended. The actual amount distributed, if any, is at the discretion of the Trustees. Distributions by the Fund to Unitholders are not guaranteed.



The Fund, in accordance with the terms of its Deed of Trust, is also obligated to allocate all Canadian taxable income and realized capital gains to its Unitholders. Therefore, when there is taxable income in excess of total Trust Unit Distributions to date, the Fund will issue a Special Distribution in the amount necessary to allocate all remaining taxable income and realized capital gains to Unitholders of record for the fourth quarter distribution in December. Distribution of this taxable income can be in the form of cash, through the issuance of additional Trust Units, or a combination thereof. Under the terms of the Deed of Trust, if taxable income is distributed in the form of additional Trust Units there will be an immediate reconsolidation of the number of Trust Units outstanding. After the consolidation, each Unitholder will hold the same number of Trust Units as held before the distribution of additional Trust Units.

The cash component of the Trust Unit Distributions, as calculated above, are included under the definition of Distributable Cash Flow section 5.1(b) of the Deed of Trust.

***Investment Eligibility and Mutual Fund Trust Status***

It is intended that the Fund qualify at all times as a mutual fund trust for the purposes of the *Tax Act*. The Fund may not, however, always be able to satisfy future requirements for the maintenance of mutual fund trust status. Should the status of the Fund as a mutual fund trust be lost or successfully challenged by a relevant tax authority, certain adverse consequences may arise for the Fund and Unitholders. Some of the significant consequences of losing mutual fund trust status are as follows:

- a) the Trust Units would cease to be a qualified investment for trusts governed by Exempt Plans. Where, at the end of a month, a trust governed by an RRSP, a DPSP, an RESP, or an RRIF holds Trust Units that ceased to be a qualified investment, the Exempt Plan must, in respect of that month, pay a tax under Part XI.1 of the *Tax Act* equal to 1% of the fair market value of the Trust Units at the time such Trust Units were acquired by the Exempt Plan. In addition, trusts governed by an RRSP or RRIF which hold Trust Units that are not qualified investments will be subject to tax on the income attributable to the Trust Units while they are non-qualified investments, including the full capital gains, if any, realized on the disposition of such Trust Units. Where a trust governed by an RRSP or RRIF acquires Trust Units that are not qualified investments, the fair market value of the investment will be included in the income of the annuitant for the year of the acquisition. Where a trust governed by a DPSP acquires Trust Units that are not qualified investments, the trust will be liable to a tax on the fair market value of the investment. Trusts governed by RESPs which hold Trust Units that are not qualified investments can have their registration revoked by the CRA;
- b) the Fund would be required to pay a tax under Part XII.2 of the *Tax Act*. The payment of Part XII.2 tax by the Fund may have adverse income tax consequences for certain Unitholders, including Non-Residents and residents of Canada who are exempt from Part I tax;
- c) the Fund would cease to be eligible for the capital gains refund mechanism available under Canadian tax laws; and
- d) Trust Units would become taxable Canadian property. As a result, Non-Resident Unitholders would be subject to Canadian income tax on any gains realized on a disposition of Trust Units held by them.

In addition, the Fund may take certain measures in the future to the extent the Fund believes such measures are necessary to maintain the Fund's status as a mutual fund trust. These measures could be adverse to certain Unitholders.

***Non-Resident Ownership of Trust Units***

Currently, in order for the Fund to maintain its status as a mutual fund trust under the *Tax Act*, the Fund must not be established or maintained primarily for the benefit of Non-Residents, subject to some exceptions. The Deed of Trust provides that if at any time the Trustees or the Fund become aware that the beneficial owners of 45% or more of the Trust Units then outstanding are or may be Non-Residents or that such a situation is imminent, the Trustee, by or through the Fund on the Trustees' behalf, shall take such action as may be necessary to carry out the foregoing intention, provided that where the Trustees have received any of an opinion, advance ruling, or comfort letter, based on which the Trustees reasonably believe that failure to exercise the protective measures provided in the Deed of Trust will not result in the Fund losing its mutual fund trust status under the *Tax Act*, no action shall be taken.

These measures could be adverse to certain Unitholders and may not be effective to avoid the Fund losing its status as a mutual fund trust for the purposes of the *Tax Act*.

***Dependence on the Business***

The Fund is ultimately entirely dependent on the operations and assets of the Business through its direct or indirect ownership of Universal and Foremost. Accordingly, the cash and other distributions to the Unitholders will be dependent on the ability of the operational businesses to make cash distributions or other distributions to the Fund.

***Distribution of Assets on Redemption or Termination of the Fund***

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

***Restrictions on Potential Growth***

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

***Taxation of the Fund***

The Fund is subject to taxation in each taxation year on its income for the year. The Fund may deduct, in computing its income for tax purposes, the full amount available for deduction in each year associated with the undepreciated capital cost ("UCC") of its property plus UCC created by capital expenditures of the Fund. If there is not sufficient UCC to shelter the income of the Fund, then cash taxes would be payable by the Fund. The Deed of Trust provides that an amount equal to the taxable income of the Trust will be distributed each year as a Special Distribution to Unitholders in order to reduce the Fund's taxable income to zero. The Deed of Trust provides that any additional amount necessary to be distributed to Unitholders may be distributed in the form of Trust Units rather than in cash. Unitholders will be required to include an amount equal to the fair market value of those Trust Units in their taxable income even though they may not receive a cash distribution.

***Changes in Legislation and Administrative Practices***

There can be no assurance that income tax laws and government incentive programs relating to mutual fund trusts and to the oil and gas industry will not be changed in a manner which materially adversely affects the Fund and the Unitholders. There can be no assurance that the CRA will agree with how the Fund calculates its income for tax purposes or that the CRA will not change its administrative practices to the detriment of the Fund or the Unitholders.

**MARKET FOR SECURITIES**

The outstanding common Trust Units of the Fund are no longer listed on the Toronto Stock Exchange. There is no market in which the Funds' Trust Units are transacted. The Amended and Restated Deed of Trust limits the Unitholder's ability to sell, transfer, consign, mortgage, pledge, or dispose of any Trust Units in any manner whatsoever, other than a transfer to a similar beneficiary, without the prior written consent of the Board of Trustees. Consent from the Board of Trustees will be evidenced by a resolution, and any attempt to do so shall be void without such approval.

**RECORD OF TRUST DISTRIBUTIONS**

**General**

Pursuant to the Amended and Restated Deed of Trust, the Fund's Trust Unit Distributions may be paid to Unitholders of record on the last business day of each calendar quarter. The Fund also has the option of a special redemption and distribution at the discretion of the Trustees. It is the Fund's intention to distribute income on an annual basis.

**Distributions Paid By the Trust**

The Trustees determine the amount of each distribution based on current and expected business performance and other expected cash needs of the Fund. Accordingly, the historical amount of Trust Unit Distributions has varied from quarter to quarter. Future amounts of Trust Unit distributions are also expected to vary. The past three years of Trust Unit Distributions reflect this variation and are as follows:

### Three Year History

<i>Payable Date</i>	<i>Record Date</i>	<i>Ex-distribution Date</i>	<i>Distribution Amount</i>
December 31, 2015*	December 28, 2015	December 31, 2015	\$0.54 / unit
December 30, 2014	December 16, 2014	December 30, 2014	\$0.32 / unit
December 6, 2013	November 22, 2013	December 6, 2013	\$0.32 / unit

\*Special non-cash distribution for 2015

#### Restrictions on Trust Unit Distributions

The ability of the Fund to make Trust Unit Distributions to holders of Trust Units may be directly or indirectly affected by certain events or as a result of certain restrictions. Trust Unit Distributions are not guaranteed and will fluctuate with the performance of the Fund, which is dependent upon commodity prices, demand for its products and services, key personnel and workforce availability, among other risk factors. See "Risk Factors" for a discussion of the risks that could cause actual results to vary.

The Credit Facility restricts the ability of the Fund to make Trust Unit Distributions to holders of Trust Units in certain circumstances. See "Credit Facility".

#### CREDIT FACILITY

The Credit Facility was amended in 2009, 2011 and 2013. As a part of the amendments the borrowing limit, subject to certain covenants, was increased from \$20 million to \$50 million, and equity securities in certain subsidiaries were pledged to the lender. Further, security over all of the assets of certain of the Fund's operating subsidiaries was granted to the lender in priority to the security of the Fund in those operating subsidiaries. As well, cross guarantees by the Fund's subsidiaries, the Administrator, Foremost Industries LP, Universal Industries (Foremost) Corp., Foremost Universal LP, Brahma (and in early 2015 Foremost Equipment LP) have been provided to the lender. The ability of the Fund to make cash distributions is subject to certain financial and other covenants and limitations under the Credit Facility. The interest rate applicable to the Credit Facility ranges from the bank's prime plus 0.25%, or prime plus 0.50%, subject to the value of a certain covenant ratio.

The Fund is currently renegotiating the Credit Facility with a view to leveraging the Fund's balance sheet strength as the basis of the covenants contained in the Credit Facility.

#### INFORMATION CONCERNING THE FUND

##### General

The Fund is an unincorporated, open-end mutual fund trust established under the laws of the Province of Alberta pursuant to the Deed of Trust. The following is a summary only of the material attributes and characteristics of the Trust Units and certain provisions contained in the Deed of Trust which was most recently amended and restated as of December 15, 2011, and is qualified entirely by reference to the Deed of Trust. Reference is made to the Deed of Trust for a complete description of the Trust Units and the full text of its provisions. Defined terms used in this section "Information Concerning the Fund" not otherwise defined in this section shall have the same meanings attributed to such terms in the Deed of Trust. A copy of the Amended and Restated Deed of Trust is available at [www.sedar.com](http://www.sedar.com).

##### Activities of the Fund

The Deed of Trust provides that the activities of the Fund are limited to:

- a) participating in the Reorganization;
- b) acquiring, investing in, holding, transferring, disposing of, and otherwise dealing with, directly or indirectly, any of the securities issued by Commercial Trust or its subsidiary entities, and borrowing funds for that purpose;
- c) investing in any other securities and in any other business or investments as the Trustees may determine, and borrowing funds for that purpose;

- d) temporarily holding cash in interest-bearing accounts and short-term investments for the purposes of making investments, paying the expenses and the liabilities of the Fund, paying amounts payable by the Fund in connection with the redemption of any Trust Units or securities of the Fund, and making distributions to Unitholders;
- e) issuing Trust Units, convertible securities, or securities exchangeable for Units for the purpose of obtaining funds to conduct any of the activities of the Fund, completing any acquisition of securities or any other assets for the benefit of the Fund, implementing Unitholder rights plans, distribution reinvestment plans, unit purchase plans, incentive option plans or other incentive or compensation plans, if any, established by the Trustees for the benefit of the Fund, and making non-cash distributions to Unitholders as contemplated by the Deed of Trust including pursuant to distribution reinvestment plans or distribution reinvestment and unit purchase plans, if any, established by the Fund;
- f) issuing debt securities, provided recourse shall be limited to the assets of the Fund (including debt securities convertible into, or exchangeable for, Trust Units or other securities of the Fund) or otherwise borrowing and mortgaging, pledging, charging, granting a security interest in or otherwise encumbering any of the assets of the Fund as security;
- g) as part of its undertaking of investing in funds, guaranteeing (as guarantor, surety, or co-principal obligor) the payment of any indebtedness, liability, or obligation of any Person and mortgaging, pledging, charging, granting a security interest in, or otherwise encumbering all or any part of the assets of the Fund including securities issued by Commercial Trust or any subsidiary entity, as security for that guarantee;
- h) disposing of all or any part of the assets of the Fund;
- i) issuing or redeeming rights and Trust Units pursuant to any Unitholder rights plan adopted by the Fund;
- j) repurchasing, redeeming, or otherwise acquiring securities of the Fund, including pursuant to any issuer bid made by the Fund;
- k) satisfying the obligations, liabilities, or indebtedness of the Fund;
- l) performing all acts necessary, incidental, ancillary, or related to any of the foregoing subsections (a) to (k); and
- m) undertaking such other activities or taking such other actions to conduct the business of the Fund as shall be approved by the Trustees from time to time provided, however, that the fund shall not undertake any activity, take any action, or make or retain any investment which would result (or fail to take any action where that failure would result) in:
  - a) the Fund not being considered a "unit trust" or a "mutual fund trust" for purposes of the *Tax Act*; or
  - b) the Trust Units constituting "foreign property" for purposes of Part XI of the *Tax Act* if the *Tax Act* contains restrictions on the cost amount of foreign property which may be held by Persons subject to tax under Part XI of the *Tax Act*.

#### **Trust Units**

An unlimited number of Trust Units may be issued pursuant to the Deed of Trust.

Each Trust Unit is transferable and represents an equal undivided beneficial interest in any distribution from the Fund and in any of the net assets of the Fund in the event of termination or winding-up of the Fund. All Trust Units are of the same class with equal rights and privileges. Each Trust Unit entitles the holder thereof to one vote at all meetings of Unitholders or in respect of any written resolution of Unitholders. The issued and outstanding Trust Units may be subdivided or consolidated from time to time by the Trustees without notice to or approval from the Unitholders.

#### **Nature of Trust Units**

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

#### **Issuance of Trust Units**

Trust Units may be issued at the times, to the Persons, for the consideration, and on the terms and conditions that the Trustees determine. At the option of the Trustees, Trust Units may be issued in satisfaction of any distribution of the Fund to Unitholders on a *pro rata* basis. Immediately after any *pro rata* distribution of additional Units to all Unitholders, the number of the outstanding Trust Units will automatically be consolidated such that each Unitholder will hold the same number of Trust Units after the consolidation as the Unitholder held before the distribution of additional Trust Units. In

such circumstances, each Trust Unit certificate representing a number of Trust Units prior to the distribution of additional Trust Units is deemed to represent the same number of Trust Units after the distribution of additional Trust Units and the consolidation.

### **Distributions**

The Fund will make regular Trust Unit Distributions which may be in the form of all cash, all Trust Units, or a combination thereof. Until June 30, 2007, these Trust Unit Distributions were paid on a quarterly basis on or about the 15<sup>th</sup> day of the month immediately following the distribution record date. Pursuant to Unitholder approval on June 13, 2007 of the amended and restated Deed of Trust, distributions were paid on the last business day of each quarter. Pursuant to Unitholder approval on December 15, 2011, quarterly Trust Unit Distributions have been suspended as the Fund intends to distribute cash and income on an annual basis.

The Distributable Cash Flow of the Fund will equal all cash amounts received by the Fund for, and in respect of, the Distribution Period (as defined in the Deed of Trust) (including, without limitation, distributions received from Commercial Trust, interest, dividends, other distributions, proceeds from the disposition of securities, returns of capital and repayments of indebtedness, and all amounts received by the Fund in any prior Distribution Period to the extent those amounts were not included in the calculation of Distributable Cash Flow in that prior Distribution Period and were not previously distributed) less (i) all costs, expenses, liabilities, obligations, or amounts of the Fund which, in the opinion of the Trustees, may reasonably be considered to have accrued and become owing by the Fund in respect of, or which relate to, such Distribution Period or a prior Distribution Period if not accrued or deducted in determining the Distributable Cash Flow in that prior period, including, without limitation, any interest payable by the Fund on any indebtedness of the Fund and any tax liabilities of the Fund; (ii) all amounts which relate to the redemption or purchase of Trust Units or other securities of the Fund by the Fund and which have been paid or became payable in cash by the Fund in such Distribution Period; (iii) the net proceeds of any issuance of Trust Units or securities of the Fund or borrowings by the Fund after deducting any associated expenses or commissions shall not be included in the calculation; and (iv) less any amount which the Trustees may reasonably consider to be necessary to provide for the payment of any costs, expenses, liabilities, obligations, or amounts which are reasonably expected to be incurred by the Fund, be retained by the Fund, or contained in any loan agreement(s) entered into by the Fund, Commercial Trust, or any other subsidiary or affiliate of the Fund, retain for a reserve to stabilize distributions, make allowances for contingencies or for working capital, investments or acquisitions, and provide for the payment of any income tax liability of the Fund.

In addition to distributions of Distributable Cash Flow, the Trustees may declare to be payable and make distributions to Unitholders, from time to time, out of income for the year determined pursuant to the provisions of the *Tax Act*, net realized capital gains of the Fund, the capital of the Fund or otherwise, in any year, in such amount or amounts, and on such dates as the Trustees may determine, to Unitholders at the record date for the distribution.

Having regard to the present intention of the Trustees to allocate, distribute, and make payable to Unitholders by way of a Special Distribution all of the income of the Fund, net realized capital gains of and any other applicable amounts so that Fund will not have any liability for tax under Part I of the Tax Act in any taxation year, the following amounts shall, unless otherwise determined by the Trustees, without any further actions on the part of the Trustees, be due and payable to Unitholders on December 31 in each such year: (i) an amount equal to the amount, if any, by which the income of the Fund for such year exceeds the aggregate of the portions, if any, of each distribution paid or payable by the Fund which have been determined by the Trustees to have been payable by the Fund out of the income of the Fund for such year; and (ii) an amount equal to the amount, if any, by which the net realized capital gains of the Fund for such year exceeds the aggregate of the portions, if any, of each distribution paid or payable by the Fund which have been determined by the Trustees to have been payable by the Fund out of net realized capital gains for such year.

If the Trustees determine that the Fund does not have available cash in an amount sufficient to make payment of the full amount of any distribution which has been declared to be payable pursuant to the Deed of Trust on the due date for such payment, or if any cash distribution should be contrary to any agreement to which the Fund is a party, the payment may, at the option of the Trustees and subject to any Applicable Laws and the receipt of necessary approvals, include: (i) the *pro rata* issuance of additional Trust Units, (ii) the *pro rata* distribution of assets of the Fund, and/or (iii) the *pro rata* issuance of demand unsecured promissory notes, having a value equal to the difference between the amount of such distribution and the amount of cash which has been determined by the Trustees to be available for the payment of such distribution. The

value of each Trust Unit issued shall be the Cash Redemption Price (as defined below) on the applicable distribution record date.

The Trustees may deduct or withhold from distributions payable to any Unitholder all amounts required by applicable law to be withheld from such distributions, whether those distributions are in the form of cash, additional Trust Units, or otherwise.

#### **Redemption of Trust Units**

Trust Units are redeemable in whole or in part at any time on demand by the holders thereof. Upon receipt of a duly completed and properly executed redemption notice along with the Trust Unit certificate(s) representing the Trust Units to be redeemed, the Unitholder shall thereafter cease to have any rights with respect to the Trust Units tendered for redemption (other than to receive the redemption payment therefore) including the right to receive any distributions thereon which are declared payable to the Unitholders of record on a date which is subsequent to the day of receipt by the Fund of such notice. Trust Units shall be considered to be tendered for redemption on the date that the Fund has, to the satisfaction of the Trustees, received the notice, Trust Unit certificates, and other required documents or evidence as aforesaid. Notwithstanding the foregoing, the Trustees may permit the Unitholder to withdraw the Unitholder's notice of redemption if the Unitholder is advised by the Fund or the Administrator after providing its notice of redemption that all or a portion of the Redemption Price will not be paid in cash. If the Unitholder determines to so withdraw all or a portion of its notice of redemption, including on a *pro rata* basis, and provides the Fund with notice thereof, the Unitholder will be deemed not to have provided a notice of redemption with respect to the amount withdrawn, and the Fund shall return any notice, Unit Certificates, and other documents provided by the Unitholder who had sought redemption with respect to such Units for which redemption has been withdrawn.

Upon receipt by the Fund of the notice to redeem Trust Units given in accordance with the foregoing requirements, the holder of the Trust Units tendered for redemption shall be entitled to receive a price per Trust Unit (the "Cash Redemption Price") equal to plus or minus ten percent of the tangible book value per Trust Unit. Tangible book value is derived by taking total unit holder equity, less future income taxes, goodwill, and intangibles.

The Cash Redemption Price payable in respect of the Trust Units surrendered for redemption during any calendar month shall be paid by cheque, drawn on a Canadian chartered bank or a trust company in lawful money of Canada, payable at par to or to the order of the Unitholder who exercised the right of redemption no later than the last day of the calendar month following the month in which the day the Trust Units were tendered for redemption falls. Payments made by the Fund of the Cash Redemption Price are conclusively deemed to have been made upon the mailing of a cheque in a postage prepaid envelope addressed to the former Unitholder unless such cheque is dishonoured upon presentment. Upon such payment, the Fund shall be discharged from all liability to the former Unitholder in respect of the Trust Units so redeemed, except with respect to any outstanding payments in respect of the Trust Units tendered for redemption pertaining to distributions declared payable thereon to such former Unitholders of record on a date which was prior to the Redemption Date.

As previously disclosed, effective May 1, 2014 and applying to all notices of redemption received in the months of May through October 2014 inclusive, and February 2015 through March 2016 inclusive, the Trustees of the Fund exercised their discretion pursuant to section 6.4(ii)(B) to reduce the Monthly Limit for cash redemptions to \$0.00, and to \$500,000 for the months of November and December 2014 and January 2015. All notices of redemption received in these months were paid by promissory notes to the extent they exceeded the Monthly Limit, provided however that Unitholders tendering notices of redemption were provided with an opportunity to withdraw such notices. The Trustees have undertaken to review the Monthly Limit in respect of the month of April, 2016 on or before April 15, 2016. Note that the foregoing discussion is intended for summary purposes only and is subject in all respects to the Deed of Trust. The income and other tax consequences of holding, redeeming, or disposing of units and acquiring promissory notes will vary depending on the Unitholder's particular circumstances, including the jurisdiction(s) in which the Unitholder resides or carries on business,

and whether the Unitholder is an RRSP, RESP, RRIF, PPSP, or TFSA. All unitholders should consult their own legal and tax advisors prior to redeeming units of the Fund.

### **Meetings of Unitholders**

The Deed of Trust provides that meetings of Unitholders must be held annually on or before June 30 for the presentation of the audited consolidated financial statements of the Fund for the immediately preceding fiscal year, the appointment of the Trustees, the appointment of the auditors of the Fund, and the transaction of other business as the Unitholders may be entitled to vote upon pursuant to the Deed of Trust.

A special meeting of Unitholders may be convened at any time and for any purpose by the Trustees and must be convened if requisitioned by the holders of not less than 15% of all votes entitled to be voted at any meeting of Unitholders. A requisition must specify in reasonable detail the purpose(s) for which such meeting is to be called.

Unitholders may attend and vote at all meetings of Unitholders either in person or by proxy, and a proxyholder need not be a Unitholder. Two persons present in person and either holding personally or representing as proxies not less than 5% of all votes entitled to be voted at the meeting shall constitute a quorum for the transaction of business at all such meetings.

A resolution in writing executed by Unitholders holding a proportion of Trust Units equal to or greater than the proportion of Trust Units required to vote in favour thereof at a meeting of Unitholders at any time shall be as valid and binding for all purposes as if such resolution had been passed at a meeting of Unitholders.

The Deed of Trust contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Unitholders.

### **Limitations on Non-Resident Ownership**

In order for the Fund to maintain its status as a mutual fund trust under the *Tax Act*, the Fund must not be established or maintained primarily for the benefit of Non-Residents of Canada within the meaning of the *Tax Act* and, pursuant to certain proposed amendments to the *Tax Act*, not more than 50% of the aggregate fair market value of the Trust Units may be held by non-residents of Canada and/or partnerships (other than Canadian partnerships as defined in the *Tax Act*). Accordingly, the Deed of Trust provides that at no time may Non-Residents be the beneficial owners of more than 45% of the Units (on both a non-diluted and fully diluted basis).

The Trustees may require declarations as to the jurisdictions in which beneficial owners of the Trust Units are resident. If the Trustees become aware, as a result of acquiring such declarations or otherwise, that the beneficial owners of 45% or more of the Trust Units (or rights to acquire Trust Units) then outstanding are, or may be, Non-Residents, or that such a situation is imminent, the Trustees may make a public announcement thereof and shall not accept a subscription for Trust Units from, or issue or register a transfer of Trust Units to, a person unless such person provides a declaration in form and content satisfactory to the Trustees that such person and, if applicable, the proposed beneficial owner of such Trust Units, is not a Non-Resident. If, notwithstanding the foregoing, the Trustees determine that more than 45% of the Trust Units are held by Non-Residents, the Trustees may send a notice to the registered holders of the Trust Units beneficially owned by Non-Residents, chosen in inverse order to the order of acquisition or registration or in such other manner as the Trustees may consider equitable and practicable, requiring them to sell their Trust Units or a specified portion thereof to a resident or residents within a specified period of not more than 60 days. If the Unitholders receiving such notice have not, within such period, sold the specified number of Units to a resident or residents or provided the Trustees with satisfactory evidence that the beneficial owners of such Units are not Non-Residents, the Trustees may, as agents and attorneys acting on behalf of such Unitholders and/or such beneficial owners, sell such Trust Units and, in the interim, the Trustees shall suspend the voting and distribution rights attached to such Trust Units. Upon such sale, the affected Unitholders shall cease to be holders of the relevant Trust Units and their rights shall be limited to receiving the net proceeds of sale upon surrender of the Unit Certificates representing such Units. The Fund may direct the Transfer Agent to do any of the foregoing.

Notwithstanding the foregoing, where the Trustees have received any of an opinion, advance ruling, or comfort letter based on which the Trustees reasonably believe that the failure to take the foregoing steps will not result in the Fund losing its mutual fund trust status under the *Tax Act*, no action shall be taken.

If the *Tax Act* is (or is proposed to be) amended in a manner which places new restrictions on Non-Residents beneficially owning Trust Units, the Trustees may take any action they consider necessary to ensure, to the extent possible, that the Fund maintains its status as a "mutual fund trust" for the purposes of the *Tax Act*.

On September 16, 2004, the Minister of Finance (Canada) released proposed amendments to the *Tax Act* relating to the circumstances under which the ownership of units of a trust by Non-Resident persons and partnerships other than Canadian partnerships would cause the trust to lose its status as a mutual fund trust. Under the draft amendments, a trust would lose its status as a mutual fund trust if the aggregate fair market value of all units issued by the trust held by one or more Non-Resident persons or partnerships that are not Canadian partnerships is more than 50% of the aggregate fair market value of all the units issued by the trust. The draft amendments do not currently provide any means of rectifying a loss of mutual fund trust status such that if, at any time, the Fund were to lose its mutual fund trust status as a result of the application of the draft amendments, the Fund would permanently cease to be a mutual fund trust. On December 6, 2004, the Minister of Finance (Canada) tabled a Notice of Ways and Means Motion which did not include these proposed amendments, and it was announced on such date and in the 2005 Federal Budget that further discussions will take place with the private sector before a decision is made concerning whether the proposed amendments will be enacted. Depending on the final form of the draft amendments as enacted, it may be necessary to amend the Deed of Trust to take into account these new restrictions. This amendment may be made without Unitholder approval.

#### **Information and Reports**

The Fund will furnish to Unitholders, in accordance with applicable laws, all financial statements of the Fund (including quarterly and annual financial statements) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders' tax returns under the *Tax Act* and equivalent provincial legislation.

Prior to each meeting of Unitholders, the Trustees will provide the Unitholders with a form of proxy (along with notice of such meeting) and all other information required by applicable laws and the Deed of Trust.

#### **Take-over Bids**

The Deed of Trust contains provisions to the effect that if a take-over bid is made for the Trust Units, and not less than 90% of the Trust Units (other than Trust Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Trust Units held by Unitholders who did not accept the take-over bid on the terms offered by the offeror.

#### **The Trustees**

The Deed of Trust provides that, subject to the specific limitations contained therein, the Trustees shall have, without further or other action or consent, and free from any power or control on the part of the Unitholders, full, absolute, and exclusive power, control, and authority over the assets of the Fund and over the affairs of the Fund to the same extent as if the Trustees were the sole and absolute beneficial owners of the assets of the Fund in their own right, to do all acts and things as in their sole judgment and discretion are necessary or incidental to, or desirable for, carrying out the trust created under the Deed of Trust. Subject to such terms and conditions, the Trustees are responsible, among other things:

- a) to supervise the activities and manage the investments and affairs of the Fund;
- b) to manage the assets of the Fund;
- c) to maintain records and provide reports to Unitholders; and
- d) to effect payment of distributions to the Unitholders.

The Trustees shall be paid such reasonable remuneration for their services as the Trustees may from time to time determine. The Trustees shall be entitled to be reimbursed for reasonable travel and other expenses properly incurred by them to attend meetings of the Trustees or any committee thereof or in connection with their services as Trustees.



### **Liability of the Trustees**

The Trustees and officers of the Fund shall not be liable to any Unitholder for any action taken or not taken in good faith in reliance on any documents that are, *prima facie*, properly executed, for any depreciation of, or loss to, the Fund incurred by reason of the sale of any asset, for the loss or disposition of monies or securities, or for any other action or failure to act including, without limitation, the failure to compel in any way any former Trustees to redress any breach of trust or any failure by any Person to perform the duties delegated to it under the Deed of Trust or any failure by Commercial Trust or any subsidiary entities to pay monies owed to the Fund, except for a breach of the standard of care, diligence, and skill as set out in the Deed of Trust. If the Trustees have retained an appropriate expert, advisor, or legal counsel with respect to any matter connected with their duties under the Deed of Trust, the Trustees may act or refuse to act based on the advice of such expert, advisor, or legal counsel and, notwithstanding any provision of the Deed of Trust, including, without limitation, the standard of care, diligence, and skill referred to above, the Trustees shall not be liable for any action or refusal to act based on the advice of any such expert, advisor, or legal counsel, including without limitation, where the Trustees have received any of an opinion, advance ruling, or comfort letter in connection with the restrictions on foreign ownership of Units and the effects of such ownership on the Fund's mutual fund trust status under the *Tax Act*.

Each Trustee, each former Trustee, each officer of the Fund, and each former officer of the Fund shall be entitled to be and shall be indemnified and reimbursed out of the assets of the Fund in respect of any and all taxes (other than taxes on compensation), penalties, or interest in respect of unpaid taxes or other governmental charges imposed upon the Trustees, former Trustees, officer, or former officer of the Fund in consequence of his or her performance of his or her duties under the Deed of Trust and in respect of any and all costs, charges, and expenses, including amounts paid to settle an action or satisfy a judgment reasonably incurred in respect of any civil, criminal, or administrative action or proceeding to which the Trustee, former Trustee, officer, or former officer of the Fund is made a party or against whom any such claim, action, or proceeding is commenced or proposed by reason of being or having been a Trustee or officer of the Fund or, at the request of the Fund, a director or officer of any direct or indirect subsidiary of the Fund; provided that a Trustee, former Trustee, officer, or former officer of the Fund shall not be indemnified out of the assets of the Fund in respect of unpaid taxes or other governmental charges or in respect of such costs, charges, and expenses that arise principally and directly out of his or her gross negligence, willful default or fraud, or in breach of the standard of care set forth in the Deed of Trust. A Trustee, former Trustee, officer, or former officer of the Fund shall not be entitled to satisfy any right of indemnity or reimbursement granted under the Deed of Trust, or otherwise existing under applicable law, except out of the assets of the Fund, and no Unitholder or other Trustee or officer of the Fund shall be personally liable to any Person with respect to any claim for such indemnity or reimbursement as aforesaid.

### **Amendments to the Deed of Trust**

The Deed of Trust contains provisions that allow it to be amended or altered from time to time by the Trustees with the consent of the Unitholders by a Special Resolution.

The Trustees may, without the consent of the Unitholders or any other person, amend the Deed of Trust for the purpose of:

- a) making amendments which, in the opinion of the Trustees, are necessary in order for the Fund to qualify or continue to qualify as a "mutual fund trust" for purposes of the *Tax Act*; ensuring continuing compliance with applicable laws (including the *Tax Act*), regulations, requirements, or policies of any governmental authority having jurisdiction over the Trustees or the Fund;
- b) making amendments which, in the opinion of the Trustees, provide additional protection or added benefits for the Unitholders;
- c) removing any conflicts or inconsistencies in the Deed of Trust or making minor changes or corrections including the correction or rectification of any ambiguities, defective provisions, errors, mistakes, or omissions which are, in the opinion of the Trustees, necessary or desirable and not prejudicial to the Unitholders;
- d) making amendments which, in the opinion of the Trustees, are necessary or desirable and in the interests of the Unitholders as a result of changes in taxation laws or policies of any governmental authority having jurisdiction over the Trustees or Fund;

- e) for any purpose (except one in respect of which a vote by Unitholders is specifically otherwise required) if the Trustees are of the opinion that the amendment is not prejudicial to Unitholders and is necessary or desirable; or
- f) to provide for the electronic delivery by the Fund to the Unitholders of documents relating to the Fund (including annual and quarterly reports and financial statements and proxy-related materials) in accordance with applicable laws from time to time.

Notwithstanding the foregoing, no such amendment shall be adopted without the consent of the Unitholders given which causes:

- a) the Fund to fail to qualify as a "mutual fund trust" under the *Tax Act*, and
- b) the Trust Units will not be "foreign property" within the meaning of Part XI of the *Tax Act* if the *Tax Act* contains restrictions on the cost amount of foreign property which may be held by Persons subject to tax under Part XI of the *Tax Act*.

In addition, no such amendment shall modify the right to one vote per Unit or reduce the fractional undivided interest in the Fund Assets represented by any Trust Unit without the consent of the holder of such Unit, and no amendment shall reduce the percentage of votes required to be cast at a meeting of the Unitholders or alter the acquisition provisions set forth in the Deed of Trust without the unanimous consent of the Unitholders.

**Limitations on the Powers of the Trustees**

The Deed of Trust provides that the Trustees shall not under any circumstances whatsoever authorize, without the approval of 66 2/3% of the votes cast at a meeting of the Unitholders:

- a) any amalgamation, arrangement, or other merger of a subsidiary of the Fund with any other Person, except with one or more direct or indirect wholly-owned subsidiaries or affiliates of the Fund or in conjunction with an internal reorganization with an affiliate or subsidiary of Commercial Trust;
- b) the winding-up or dissolution of Commercial Trust or its subsidiaries prior to the end of the term of the Fund, except in conjunction with an internal reorganization with an affiliate or subsidiary of the Fund, Commercial Trust, or its subsidiaries;
- c) any sale, lease, or exchange of all or substantially all of the assets of the Fund other than pursuant to a redemption of Units in accordance with the terms of the Deed of Trust or pursuant to any security granted by the Fund or pursuant to any internal reorganization of the direct or indirect assets of the Fund as a result of which the Fund has the same interest, whether direct or indirect, in the assets as the interest, whether direct or indirect, that it had prior to the reorganization, and other than any such sale, lease, or exchange is effected between or among the Fund and any one or more of: (i) any corporation, partnership, firm, or other form of entity or organization that is, directly or indirectly, wholly-owned by the Fund; (ii) any trust or trusts, the sole beneficiaries of which are the Fund and/or any of the Persons referred to above; and (iii) any partnership, the only partners of which are Persons referred to in (i) and (ii) above;
- d) any sale, lease, or exchange of all or substantially all of the assets of a subsidiary of the Fund except pursuant to any security granted by the subsidiary of the Fund other than pursuant to any internal reorganization with an affiliate or subsidiary of the Fund, and other than any such sale, lease, or exchange is effected between or among any one or more of:
  - i. the Fund;
  - ii. any corporation, partnership, firm, or other form of entity or organization that is directly or indirectly wholly-owned by the Fund;

- iii. any trust or trusts, the sole beneficiaries of which are the Fund and/or any of the Persons referred to in (i) and (ii) above; and
- iv. any partnership, the only partners of which are Persons referred to in (i), (ii), and (iii) above;
- e) or any material amendment to the Commercial Deed of Trust, the declarations of limited partnerships, and/or the limited partnership agreements in regards to Foremost Industries LP and Foremost Universal LP respectively, in any case, in a manner which may be prejudicial to the Fund or the Unitholders respectively.

**Liability of Unitholder**

The Deed of Trust provides that no Unitholder, in its capacity as such, shall be subject to any personal liability whatsoever in tort, contract, or otherwise to any Person in connection with the Fund or the obligations or the affairs of the Fund or with respect to any act performed by or omission of the Trustees or any other person pursuant to the Deed of Trust, nor shall any Unitholder be liable to indemnify the Trustees or any other person with respect to any such liability or liabilities and all such persons shall look solely to the assets of the Fund for satisfaction of claims of any nature arising out of or in connection therewith and the assets of the Fund only shall be subject to levy or execution.

**Term**

The Fund shall exist for a term ending 21 years after the date of death of the last surviving issue of Her Majesty, Queen Elizabeth II, alive on November 12, 2005 unless terminated prior to such time in accordance with the terms of the Deed of Trust.

**Financial Year End**

The financial year end of the Fund is December 31.

## TRUSTEES OF THE FUND AND OFFICERS

### Trustees of the Fund

The following table sets forth information with respect to the Trustees. The Trustees hold office until the next annual meeting of Unitholders or until their successors are duly elected or appointed.

<i><b>Name and Municipality of Residence</b></i>	<i><b>Position</b></i>	<i><b>Principal Occupation During Past 5 Years</b></i>	<i><b>Trustee Since</b></i>
John Paul Grenon Calgary, Alberta	Trustee	Businessman	June, 2014
Bruce J. MacLennan Calgary, Alberta (4)(5)	Trustee	President, Century Services Inc.	December, 2005  (Trustee of Foremost Industries Income Fund since 2001)
Bevan May Calgary, Alberta (1)(3)(5)(6)(7)	Trustee	Businessman	December, 2012
Gordon M. Wiebe Winnipeg, Manitoba (2)(4)(5)	Trustee	President, Corpfin Services Inc.	December, 2005

As at December 31, 2015, the Trustees beneficially owned, directly or indirectly, 163,771 Trust Units comprising 0.9% of the issued and outstanding Trust Units on that date. The information as to Trust Units beneficially owned, not being within the knowledge of the Fund or the Administrator, has been furnished by the respective Trustees individually.

As at December 31, 2015 and the date of this AIF, the Trustees of the Fund were Mr. Bevan May, Mr. Bruce J. MacLennan, Mr. Gordon M. Wiebe and Mr. John P. Grenon.

#### Notes:

1. Lead Trustee
2. Chair of the Audit Committee
3. Chair of the Compensation Committee
4. Member of the Audit Committee
5. Member of the Compensation Committee
6. Interim CEO and President
7. Member of the Audit Committee effective January 1, 2016

**Officers**

The following table sets forth information with respect to the principal officers of material subsidiaries of the Fund (the "Principal Officers").

<i>Name and Municipality of Residence</i>	<i>Position</i>	<i>Principal Occupation During Past 5 Years</i>	<i>Officer Since</i>
Bevan May Calgary, Alberta	Chairman of the Board and Interim Chief Executive Officer of the Administrator	Businessman	Board Chairman since November 30, 2012  Interim CEO effective March 26, 2014
Jackie Schenn Lloydminster, Alberta	Chief Financial Officer of the Administrator	VP Finance, Controller and other financial positions of the Fund for the past five years	Officer of a subsidiary of the Fund since June, 2012

Note that as of January 1, 2016, Kevin Johnson of Calgary, Alberta was appointed President of the Administrator. Kevin joined Foremost mid-2012 and held various management positions within the FME division prior to his role as President.

**Cease Trade Orders, Bankruptcies, Penalties, or Sanctions**

In the ten years preceding the date of this AIF, none of the Trustees or insiders of the Fund, Principal Officers, or shareholders holding a sufficient number of securities to materially affect control of the Fund are or have been a director or officer of any other issuer that, while acting in such capacity (a) was the subject of a cease trade or similar order or an order that denied the issuer access to any statutory exemptions for a period of more than 30 consecutive days; or (b) was within a year of that person ceasing to act in that capacity declared bankrupt or made a voluntary assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy and insolvency, or been subject to or instituted any proceedings, arrangement, or compromise with creditors or had a receiver, receiver manager, or trustee appointed to hold assets of that person.

None of the Trustees or insiders of the Fund, Principal Officers, or Unitholders holding a sufficient number of securities to materially affect control of the Fund are subject to any penalties or sanctions under securities legislation.

None of the Trustees of the Fund, Principal Officers, or Unitholders holding a sufficient number of securities to materially affect control of the Fund have in the ten years preceding the date of this AIF become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or been subject to or instituted any proceedings, arrangements, or compromise with creditors or had a receiver, receiver manager, or trustee appointed to hold their assets.

**CONFLICTS OF INTEREST**

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

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

**INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

To the knowledge of the Fund, no Trustee, Principal Officer, or Person that is the direct or indirect beneficial owner of, or who exercises control or direction over, more than ten percent of the outstanding Trust Units or any associate or affiliate of

any of such Persons has had any material interest, direct or indirect, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or will materially affect the Fund.

There may be situations in which the interests of the Administrator or one of the Trustees will conflict with those of Unitholders. The Trustees do not act on behalf of Unitholders on a full-time basis and, when acting on behalf of others, the Trustees may at times act in contradiction to or in competition with the interests of Unitholders.

In resolving any conflicts, decisions will be made on a basis consistent with the objectives and funds of each group of interested parties and the time limitations on investment of such funds, all consistent with the duty of the Trustees to deal fairly and in good faith with each such group of persons. In the event that the interests of the Trustees are in conflict with those of Unitholders, the Trustees are obliged to make decisions acting in good faith, having regard to the best interests of Unitholders, and in a manner that would not contravene their fiduciary obligations to Unitholders.

Properties will not be acquired from Trustees or the officers or directors of the Administrator or persons not at arm's length with such persons at prices which are greater than fair market value, nor will properties be sold to Trustees or officers or directors of the Administrator, or persons not at arm's length with such persons at prices which are less than fair market value.

Circumstances may arise where the Trustees or officers or directors of the Administrator serve as officers and/or directors of other entities which are in competition to the interests of the Fund. No assurances can be given that opportunities identified by the Trustees or by such officers or directors of the Administrator will be provided to the Fund.

#### **Compensation of the Administrator**

Pursuant to arrangements for administration of the Fund, the Administrator, an indirect wholly-owned subsidiary of the Fund, has agreed to act as Administrator for the Fund, or arrange for the provision of services required in the administration of the Fund and the day-to-day management of the businesses of the Fund, for an annual fee of \$20,000 plus reimbursement of all expenses incurred by the Administrator in connection with such services. Included in this annual fee, the Administrator also provides investor relations services for the Fund which include preparing and disseminating information to investors as well as responding to investor inquiries. In addition to the administration arrangements, the Trustees may pay or cause to be paid reasonable fees, costs, and expenses incurred in connection with the administration and management of the Fund, including (without limitation) fees of auditors, accountants, lawyers, appraisers and other agents, consultants, and professional advisors employed by or on behalf of the Fund and the cost of reporting or giving notices to Unitholders. All costs, charges, and expenses properly incurred by the Trustees on behalf of the Fund shall be payable out of the assets of the Fund.

#### **Compensation for Management Services provided to the Fund and its subsidiaries**

Consulting services, including legal, other professional advice, investor relations services and due diligence, and business acquisition services as required are provided to the Fund and its subsidiary entities by a company owned by the majority Unitholder of the Fund. In 2015, as a part of the executive leadership transition process, and as may occur from time to time, some full-time senior employees were engaged by the Fund through TOM Capital. The consideration paid for these services amounted to \$1.3 million for the period ending December 31, 2015 and was not more than could be expected from unrelated parties.

### **AUDIT COMMITTEE INFORMATION**

#### **Audit Committee Charter**

The Fund's Audit Committee charter sets out the committee's purpose, organization, and reporting duties and responsibilities. A copy of the charter is attached hereto as Appendix "A".

#### **Composition of Audit Committee**

The Fund's Audit Committee is comprised of Gordon M. Wiebe (Chair) and Bruce J. Maclennan, all of whom are financially literate and independent, as such terms are defined in Multilateral Instrument 52-110 – *Audit Committees* ("MI 52-110"). Bevan May joined the Audit Committee effective January 1, 2016.

**Relevant Education and Experience**

**John Paul Grenon** – Businessman who previously held senior leadership roles at Husky Energy responsible for P&L and operating performance of a large operating field in the Western Canadian Sedimentary Basin. JP is trained as an engineer.

**Bruce J. MacLennan** – President of Century Services Inc., a firm specializing in auction, liquidation, valuation, and financing services. Founded in 1983, this company is headquartered in Calgary, Alberta and has offices in several locations across Canada.

**Bevan May** – Interim President and CEO, Chairman of the Board of Trustees of the Fund. Bevan also serves as Managing Director at TOM Capital which provides board-level stewardship of a range of operating businesses across North America. Previously, he was a senior regional manager at Honeywell Inc. and more recently owner of a Calgary-based plastics products manufacturing business. Bevan was trained as an engineer and holds an MBA from Queen’s University.

**Gordon M. Wiebe** – A Chartered Accountant by training, President of Corpfin Services Inc. and a person who is experienced in most areas of commercial real estate investments in both the U.S. and Canada. Previously, he was a director and CFO of a TSE publicly listed real estate company and the owner/manager of one of the largest property leasing and management companies in western Canada.

**Pre-Approval Policies and Procedures**

The Fund's Audit Committee charter requires the Audit Committee to pre-approve all non-audit services to be provided to the Fund or any of its subsidiary entities by the Fund's external auditor or the external auditor of the Fund's subsidiary entities, provided that the Audit Committee may satisfy the pre-approval requirement by either delegating to one or more members of the Audit Committee the authority to pre-approve non-audit services or adopting specific policies and procedures for the engagement of non-audit services.

**External Audit Fees by Category**

In December, 2008, KPMG LLP were appointed auditors of the Fund after the resignation of Grant Thornton LLP. The fees paid or payable up to the date of the AIF with respect to each fiscal year end to KPMG LLP by category for the past two fiscal years are:

	Year Ended	
	December 31, 2015	December 31, 2014
Audit and Quarterly Review Fees	\$199,725	\$ 222,481
Tax-related Fees	15,496	15,550
	\$215,221	\$238,031

**Audit Fees**

Fees for professional services rendered by the Fund’s auditors for the audit and review of the Fund’s financial statements or services that are normally provided by the auditors in connection with statutory and regulatory filings or engagements.

**Audit-related Fees**

Audit-related fees consist of fees for assurance and related services that are related to the performance of the audit or review of the Fund's financial statements and are not reported as Audit Fees.

**Tax-related Fees**

Tax-related fees consist of fees for tax compliance services, tax advice, and tax planning for the Fund and its subsidiaries.

**MATERIAL CONTRACTS****General**

There are no contracts entered into outside the ordinary course of business that are material to the Fund and its subsidiaries and that were entered into during the most recently completed financial year (or prior to the most recently completed financial year but subsequent to December 31, 2014 if such material contract is still in effect) other than the following:

- a) the Deed of Trust described under "Information Concerning the Fund";
- b) the Credit Facility described under "Credit Facility"; and
- c) the Reorganization Agreement described under "Reorganization".

**LEGAL PROCEEDINGS**

The operating entities of the Fund are from time to time involved in various claims and litigation arising in the normal course of business. There are no legal proceedings currently in progress which are of a nature or amount that require being disclosed.

**TRANSFER AGENT AND REGISTRAR**

Computershare Trust Company of Canada is the transfer agent and registrar for the Trust Units at its principal offices in Calgary, Alberta and Toronto, Ontario.

**INTERESTS OF EXPERTS**

KPMG LLP are the auditors of the Fund and have confirmed that they are independent with respect to the Fund within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulations.

**ADDITIONAL INFORMATION**

Additional information, including information as to the remuneration of Trustees, and directors and officers of the Administrator and information concerning principal holders of the Fund's securities, is contained in the Management Proxy Circular of the Trust dated May 29, 2015. Additional financial information is provided in the Fund's financial statements and MD&A for the year ended December 31, 2015 which, together with other information concerning the Fund, may be found on SEDAR at [www.sedar.com](http://www.sedar.com).



**APPENDIX "A"**  
**AUDIT COMMITTEE CHARTER**

**Establishment of Audit Committee**

The board of trustees (the "Board") of Foremost Income Fund (the "Fund") hereby establishes a committee to be called the Audit Committee.

**Composition of Audit Committee**

The membership of the Audit Committee shall be as follows:

- a) the Audit Committee shall be composed of not less than three members or such greater number as the Board may from time to time determine.
- b) all members of the Audit Committee shall be independent within the meaning set forth under Multilateral Instrument 52-110 Audit Committees as amended from time to time ("MI 52-110"). Currently, a member of the Audit Committee is independent if the member has no direct or indirect material relationship with the Fund. A "material relationship" means a relationship which could, in the view of the Board, reasonably interfere with the exercise of a member's independent judgment.
- c) each member of the Audit Committee shall be financially literate within the meaning set forth under MI 52-110. Currently, "financially literate" means the ability to read and understand a set of financial statements that present the breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can be reasonably expected to be raised by the Fund's financial statements. An Audit Committee member who is not financially literate may be appointed to the Audit Committee provided that the member becomes financially literate within a reasonable period of time following his or her appointment.
- d) members shall be appointed annually by the Board. The Chair of the Audit Committee shall be appointed by the Board. A member of the Audit Committee shall *ipso facto* cease to be a member of the Audit Committee upon ceasing to be a Trustee.

**Relationship with External Auditors**

The Audit Committee shall advise the external auditors of their accountability to the Audit Committee and the Board as representatives of the Unitholders of the Fund to whom the external auditors are ultimately accountable. The external auditors of the Fund shall report directly to the Audit Committee.

**Duties and Responsibilities of Audit Committee**

Subject to the powers and duties of the Board and in addition to any other duties and responsibilities assigned to the Audit Committee from time to time by the Board, the Audit Committee shall have the following duties and responsibilities:

**Financial Statements and Other Financial Information**

The primary responsibility of the Audit Committee shall be to assist the Board in the proper discharge of its duties and responsibilities to the Fund relating to the review of:

- a) the Fund's financial statements;
- b) any other financial information relating to the Fund to be provided to Unitholders; and
- c) all audit processes.

The Audit Committee shall also be responsible for:

- a) ensuring its compliance with all of the applicable requirements of MI 52-110 and for reporting any non-compliance with such requirements to the Board, including the reasons for such non-compliance.
- b) reviewing the Fund's financial statements, management's discussion and analysis, and annual and interim earnings press releases before the Fund publicly discloses this information. The Audit Committee shall recommend for approval to the Board the Fund's audited annual financial statements, related management's discussion and analysis, and annual earnings press releases. The Audit Committee shall recommend for approval to the Board the Fund's interim financial statements and related management's discussion and analysis and interim earnings press releases.
- c) ensuring that adequate procedures are in place for the review of the Fund's public disclosure of financial information extracted or derived from the Fund's financial statements, other than the public disclosure referred to in paragraph (b) above, and periodically assessing the adequacy of those procedures.

The Audit Committee shall be responsible for establishing procedures for:

- a) the receipt, retention, and treatment of complaints received by the Fund regarding accounting, internal accounting controls, or auditing matters; and
- b) the confidential, anonymous submission by employees of the Administrator or other subsidiaries of the Fund of concerns regarding questionable accounting or auditing matters.

The Audit Committee shall review with the external auditors of the Fund:

- a) the scope of the audit;
- b) significant changes to the Fund's accounting principles, practices, or policies;
- c) new or pending developments in accounting principles, reporting matters, or industry practices which may materially affect the Fund; and
- d) the quality of the Fund's accounting principles, practices, or policies as applied in the Fund's financial statements in terms of disclosure quality and evaluation methods, including the degree of conservatism or aggressiveness of such accounting principles, practices, or policies and the underlying estimates and other significant decisions made by management of the Fund in preparing the Fund's financial statements.
- e) the Audit Committee shall review with the external auditors of the Fund and/or management of the Administrator the results of the annual audit and make appropriate recommendations to the Board having regard to, among other things:
- f) the financial statements;
- g) management's discussion and analysis and related financial disclosure contained in continuous disclosure documents;
- h) significant changes, if any, to the initial audit plan;
- i) accounting and reporting decisions relating to significant current year events and transactions;
- j) the management letter, if any, outlining the external auditors' findings and recommendations together with management's response with respect to internal controls and accounting procedures; and
- k) any other matters relating to the conduct of the audit, including such other matters which should be communicated to the Audit Committee under generally accepted auditing standards.

The Audit Committee shall review with management of the Administrator and, if requested by the Audit Committee, the external auditors of the Fund, the interim financial statements and any other matters relating thereto.

#### ***External Auditors***

The Audit Committee must recommend to the Board:

- a) the external auditors to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review, or attest services for the Fund; and
- b) the compensation of the external auditors.

The Audit Committee shall be directly responsible for overseeing the work of the external auditors engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review, or attest services for the Fund, including the resolution of disagreements between management of the Administrator and the external auditors regarding financial reporting.

#### ***Pre-Approval of Non-Audit Services***

The Audit Committee shall be responsible for pre-approving all non-audit services to be provided to the Fund or its subsidiaries by the Fund's external auditors. The Audit Committee shall adopt specific policies and procedures for the engagement of non-audit services and any pre-approval policies and procedures shall be detailed as to the particular service and require that the Audit Committee be informed of each non-audit service. Such policies and procedures shall not include delegation of the Audit Committee's responsibilities to management of the Administrator. The Audit Committee may delegate to one or more independent members the authority to pre-approve non-audit services. The pre-approval of non-audit services by any member of the Audit Committee to whom authority has been delegated must be presented to the Audit Committee at its first scheduled meeting following such pre-approval.

#### ***Reporting Obligations***

The Audit Committee shall be responsible for reviewing the disclosure contained in the Fund's annual information form as required by Form 52-110F1 Audit Committee Information Required in an AIF attached to MI 52-110. If management of the Administrator solicits proxies from Unitholders of the Fund for the purpose of recommending persons to be elected as directors

of the Administrator, the Audit Committee shall be responsible for ensuring that the Fund's information circular includes a cross-reference to the sections in the Fund's annual information form that contain the information required by Form 52- 110F1.

***Auditor Oversight and Independence***

The Audit Committee shall be responsible for:

- a) ensuring compliance by the Fund's external auditors with the requirements set forth in National Instrument 52-108 Auditor Oversight;
- b) ensuring that the Fund's external auditors are participants in good standing with the Canadian Public Accountability Board ("CPAB") and participate in the oversight programs established by the CPAB from time to time and that the external auditors have complied with any restrictions or sanctions imposed by the CPAB as of the date of the applicable auditor's report relating to the Fund's annual audited financial statements; and
- c) obtaining from the external auditors of the Fund a formal written statement describing in detail all of the relationships between the external auditors and the Fund, determining whether the non-audit services performed by the external auditors during the year have impacted their independence, ensuring that no relationship between the external auditors and the Fund exists which may affect the independence of the external auditors, and taking appropriate action to ensure the independence of the external auditors.

***Authority of the Audit Committee***

The Audit Committee shall have the authority to:

- a) engage independent counsel and other advisors as it determines necessary to carry out its duties;
- b) set and pay the compensation for any advisors employed by the Audit Committee; and
- c) communicate directly with the internal (if any) and external auditors of the Fund.

***Internal Controls, Information Systems, and Risk Management***

The Audit Committee shall review with the external auditors of the Fund the adequacy of internal control procedures and management information systems and make inquiries to management of the Administrator and the external auditors of the Fund about significant risks and exposures to the Fund that may have a material adverse impact on the Fund's financial statements and about the efforts of the management of the Administrator to mitigate such risks and exposures.

***Supervision of Certification of Annual Filings and Interim Filings***

The Audit Committee shall be responsible for:

- a) supervising the preparation and filing of each annual certificate in Form 52-109F1 and each interim certificate in Form 52-109F2 to be signed by each of the Chief Executive Officer and Chief Financial Officer of the Administrator in accordance with the requirements set forth under Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings as amended from time to time ("MI 52-109"). These certificates require each of the Chief Executive Officer and the Chief Financial Officer of the Administrator to certify, among other things, that based on their knowledge:
- b) the annual filings and interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made with respect to the period covered by the annual filings or interim filings; and
- c) the annual financial statements and the interim financial statements of the Fund, together with the other financial information included in the annual filings or interim filings, fairly present in all material respects the financial condition, results of operations, and cash flows of the Fund as of the date and for the periods presented in the annual filings or interim filings.

The Audit Committee is responsible for ensuring that management of the Administrator:

- establishes and maintains disclosure controls and procedures for the Fund that are designed to provide reasonable assurance that material information relating to the Fund, including its consolidated subsidiaries, is made known to management of the Administrator by others within those entities, particularly during the period in which the annual filings or interim filings are being prepared.
- establishes and maintains internal control over financial reporting for the Fund that has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Fund's generally accepted accounting principles.
- in respect of annual filings only, evaluates the effectiveness of the Fund's disclosure controls and procedures as of the end of the period covered by the annual filings, and has caused the Fund to disclose in the annual management's discussion and analysis its conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by the annual filings based on such evaluation.

The terms "annual filings," "interim filings," "disclosure controls and procedures" and "internal control over financial reporting" shall have the meanings set forth under MI 52-109.

The Audit Committee is also responsible for monitoring any changes in the Fund's internal control over financial reporting, and for ensuring that any change that occurred during the Fund's most recent interim period that has materially affected, or is reasonably likely to materially affect, the Fund's internal control over financial reporting is disclosed in the Fund's annual management's discussion and analysis.

***Other***

The Audit Committee must review and approve the Fund's hiring policies regarding partners, employees, and former partners and employees of the present and former external auditors of the Fund.

The Audit Committee shall monitor policies and procedures relating to directors' and officers' expenses and the reimbursement thereof and relating to any prerequisites paid to directors and officers.

**Administrative Matters**

The following general provisions shall have application to the Audit Committee:

- a) a quorum of the Audit Committee shall be the attendance of a majority of members thereof present in person or by telephone. No business may be transacted by the Audit Committee except at a meeting of its members at which a quorum of the Audit Committee is present or by a resolution in writing signed by all the members of the Audit Committee. Meetings of the Audit Committee shall be held at least quarterly and more often as the Chair of the Audit Committee may determine or upon the request of the Board, a member of the Audit Committee, an officer of the Administrator, or the external auditors of the Fund.
- b) any member of the Audit Committee may be removed or replaced at any time by resolution of the Board. The Board may fill vacancies on the Audit Committee by appointment from among the members of the Board. If and whenever a vacancy shall exist on the Audit Committee, the remaining members may exercise all its powers so long as a quorum remains. Subject to the foregoing, each member of the Audit Committee shall hold such office until the close of the annual meeting of Unitholders of the Fund next following the date of appointment as a member of the Audit Committee or until a successor is duly appointed. Any member of the Board who has served as a member of the Audit Committee may be re-appointed as a member of the Audit Committee following the expiration of his or her term.
- c) the Audit Committee may invite such officers, directors, and employees of the Administrator and its subsidiaries as it may see fit from time to time to attend at meetings of the Audit Committee and to assist thereat in the discussion of matters being considered by the Audit Committee. The external auditors of the Fund shall appear before the Audit Committee when requested to do so by the Audit Committee. The Audit Committee shall meet with the external auditors of the Fund independent of management of the Administrator at least annually and at such other times as the Chair of the Audit Committee may determine, or upon the request of a member of the Audit Committee or the external auditors of the Fund.
- d) the time at which and the place where the meetings of the Audit Committee shall be held, the calling of meetings, and the procedure at such meetings shall be determined by the Audit Committee, having regard to the by-laws of the Administrator. Notice of each meeting of the Audit Committee shall be given to each member of the Audit Committee and to the external auditors of the Fund who shall be entitled to attend and to be heard at each meeting of the Audit

Committee. A meeting of the Audit Committee may be held at any time without notice if all of the members are present or, if any members are absent, those absent have waived notice or otherwise signified their consent in writing to the meeting being held in their absence.

- e) the Chair shall preside at all meetings of the Audit Committee. In the absence of the Chair, the other members of the Audit Committee shall appoint one of their members to act as Chair for the particular meeting.
- f) the Audit Committee shall report to the Board on such matters and questions relating to the financial position of the Fund and its subsidiaries as the Board may from time to time refer to the Audit Committee.
- g) the members of the Audit Committee shall, for the purpose of performing their duties, have the right to inspect all the books and records of the Fund and its subsidiaries and to discuss such books and records that are in any way related to the financial position of the Fund and its subsidiaries with the officers, directors, and employees of the Administrator and its subsidiaries and with the external auditor of the Fund.
- h) the Chair of each meeting of the Audit Committee shall appoint a person to act as recording secretary to keep the minutes of the meeting. The recording secretary need not be a member of the Audit Committee.
- i) minutes of the Audit Committee will be recorded and maintained and signed by the Chair and the secretary of the meeting. The Chair of the Audit Committee will report to the Board on the activities of the Audit Committee and/or the minutes will promptly be circulated to the members of the Board who are not members of the Audit Committee or otherwise made available at the next meeting of the Board.

Unless the Audit Committee has been provided with express instructions from the Board, the Audit Committee shall function primarily to make assessments and determinations with respect to the purposes mandated herein and its decisions shall serve as recommendations for consideration by the Board.