



FIRST NATIONAL ALARMCAP INCOME FUND

SECOND QUARTER ENDED JUNE 30, 2007

AS AT AUGUST 10, 2007



Message to Unitholders

The Financial Highlights for the second quarter ended June 30, 2007 are as follows.

Message to Unitholders:

The second quarter results for 2007 continue to demonstrate that the plan announced in the third quarter of 2006 is being executed.

EBITDA of \$4,233,000 reflects the loss of rental income arising from the sale/leaseback of the St. Augustine office building for an amount of \$2,813,000, net of sales commission and other charges at the end of April, which negatively impacts EBITDA by \$40,000 per month or approximately \$80,000 during the quarter.

As anticipated distributable cash declined during the quarter to \$1,790,000 due to the aforesaid building sale and higher attrition and a net reduction in subscribers and associated recurring monthly revenues due to the moving season.

A plan is being considered to grow revenues organically by transitioning more subscriber account portfolios in non-core markets to the dealer model presently employed in certain markets and through various customer service initiatives.

On behalf of the Fund's Board of Trustees we would like to thank our Unitholders for their continued support.

FIRST NATIONAL ALARMCAP INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

Second Quarter Ended June 30, 2007

As at August 10, 2007

Introduction

This management's discussion and analysis ("MD&A") is a review of the financial condition and results of operations of First National AlarmCap Income Fund (the "Fund"). It should be read in conjunction with the unaudited consolidated financial statements and accompanying notes of the Fund for the period ended June 30, 2007 and the audited consolidated financial statements and accompanying notes of the Fund for the year ended December 31, 2006. Results are reported in thousands of Canadian dollars unless otherwise stated and have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP").

Overview of the Fund

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Alberta pursuant to a declaration of trust dated February 24, 2005, as amended and restated on March 4, 2005. The Fund commenced active operations on April 1st, 2005. The Fund was created to acquire substantially all of the assets and shares of Microtec Enterprises Inc. ("Microtec") and substantially all of the assets of Securex Master Limited Partnership ("SMLP"). Microtec, founded in 1989 in Quebec City, Quebec, is one of the largest full-service security alarm monitoring companies in Canada with some 84,000 subscribers as at June 30, 2007. SMLP, founded in 1994 and based in Calgary, Alberta, with dealers across Canada, is an alternative credit and bundled service provider to independent alarm company dealers with about 15,000 subscribers.

The Fund's Class A trust units trade on the Toronto Stock Exchange under the symbol FNA.UN.

Additional information concerning the Fund is contained in the Annual Information Form which is available either on the Fund's website (www.alarmcap.ca) or on SEDAR at www.sedar.com.

Consolidation of Units

The Class A trust units and the Class B trust units were consolidated on a 4-to-1 basis effective on December 16, 2005 and consequently, all references to numbers of units in this MD&A refer to the numbers of units after such consolidation.

Forward-Looking Statements

This MD&A contains forward-looking statements. All statements other than statements of historical fact contained in this MD&A are forward-looking statements. Holders of units of the Fund ("Unitholders") can identify many of these statements by looking for words such as "believe", "expects", "will", "intends", "projects", "anticipates", "estimates", "would", "could", "likely", "plans", "forecasts", "continues" or similar words or the negative thereof. There can be no assurance that the plans, intentions or expectations on which these forward-looking statements are based will occur. Forward-looking statements are subject to risks, uncertainties and assumptions, including those discussed elsewhere in this MD&A. Although the Fund, First National AlarmCap Trust (the "Trust"), First National AlarmCap LP ("AlarmCap LP") and First National AlarmCap GP Inc. ("AlarmCap GP" and, together with AlarmCap LP, the "AlarmCap Group") believe that the expectations represented in these forward-looking statements are reasonable, there can be no assurance that those expectations will prove to be correct. Risks which could affect future results and could cause results to differ materially from those expressed in the forward-looking statements contained herein can be found in the Section "Risk Factors".

The information contained in this MD&A identifies additional factors that could affect the operating results and performance of the Fund, the Trust, AlarmCap LP and AlarmCap GP. We urge you to carefully consider those factors.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this MD&A are made as of the date of this MD&A and none of the Fund, the Trust, AlarmCap LP or AlarmCap GP undertake any obligation to publicly update or revise such forward-looking

statements to reflect new information, subsequent events, results, circumstances or otherwise. Additional information on the Fund may be obtained in the following web sites: www.sedar.com or www.alarmcap.ca.

Non-GAAP measures

EBITDA and distributable cash are non-GAAP financial measures, but management believes they are useful in measuring the Fund's performance. Readers are cautioned that these measures should not be construed as alternatives to net income or loss or other comparable measures determined in accordance with GAAP as an indicator of the Fund's performance or as a measure of the Fund's liquidity and cash flow. The Fund's method of calculating non-GAAP measures may differ from the methods used by other issuers and accordingly, the Fund's non-GAAP measures may not be comparable to similarly titled measures used by other issuers.

Supplemental Disclosure

Reference to "EBITDA" in this document is to earnings before interest, taxes, depreciation and amortization. EBITDA is not a defined term under Canadian GAAP but the Fund believes that presentation of EBITDA enhances an understanding of financial condition, results of operations and cash flows because EBITDA is used by the Fund to satisfy its debt service obligations, its capital expenditures and other operational needs, as well as to provide funds for customer account growth. In addition, EBITDA is used by lenders and the investment community to determine the current borrowing capacity and to estimate the long-term value of companies with recurring cash flows from operations.

Distributable Cash is not a defined term under Canadian GAAP but is determined by the Fund as EBITDA less subscriber replacement costs, interest on debt and sustaining capital expenditures. Subscriber replacement costs represent management's estimates of the costs to acquire new subscribers RMR (recurring monthly revenues) to replace subscribers RMR lost through attrition during quarters were RMR increases but not accounting for any RMR shortfall were RMR decreases during the period. Subscriber replacement costs are not necessary to maintain the Fund's RMR and Distributable Cash at current levels. The Fund replaces some RMR reductions due to subscriber attrition by investing capital to acquire recurring monthly revenue through its Associated Dealers Network, internal sales teams, call centres, as well as through price increases and the sale of new value-added services to its existing subscriber base.

The method to estimate subscriber replacement costs used by management has changed between the two compared quarters and the two compared first six months of the fiscal year 2006 and 2007. For the second quarter of 2006, subscriber replacement costs represented an estimate based on the actual investment in subscriber account for the period adjusted based on the expected cost to replace any RMR shortfall that occurred during the period. As of the third quarter of 2006, subscriber replacement cost was based on the actual investment in subscriber account for the period without adjusting the expected cost to replace any RMR shortfall that occurred during the period. If the same method in the second quarter of 2006 had been used for the second quarter of 2007, subscriber replacement costs would have been \$381,000 higher and distributable cash flow would have been lower by that same amount.

To better compare the first six months of fiscal 2007 with the first six months of fiscal 2006, it is worth mentioning that subscriber replacement costs for the first quarter of 2006 represented a multiplication of the attrition, net recruitment costs and EBITDA on a twelve months rolling average. In the first quarter of 2007, subscriber replacement costs was calculated by replacing the particular monthly recruitment costs by different channels of recruitment starting from the lowest costs to the highest costs of recruitment. If the same method in the first six months of 2006 had been used for the first six months of 2007, subscriber replacement costs would have been \$134,000 lower and distributable cash flow would have been higher by that same amount.

Sustaining capital expenditures represent the amount of capital expenditures which the Fund believes is required to maintain its assets in proper operating condition. While monthly depreciation of the physical assets is approximately \$40,000 per month, management believes that the sale of the building in St-Augustin-de-Desmaures as well as the significant new investments in information and communication technology will reduce the short-term investment requirements to a level of \$20,000 per month. Management believes that Distributable Cash is a useful measure of performance as it provides investors with an indication of the amount of cash available for distribution to Unitholders. Investors are cautioned, however, that Distributable Cash should not be construed as an alternate to using net earnings as a measure of profitability or the statement of cash flows. Furthermore, the Fund's method of calculating Distributable Cash, including subscriber replacement costs, may not be comparable to other similarly named calculations.

Creation of a special committee to review strategic alternatives to maximize value for all Unitholders

On May 11, 2007, the Fund announced that it has created a special committee to review strategic alternatives to maximize value for all Unitholders. These options include, but are not limited to, looking for a possible acquirer or partners with a view to a merger or acquisition of the Fund or a recapitalization of the Fund to continue previously-announced restructuring initiatives and pursue organic growth or acquisition possibilities. The special committee is comprised of Adrien D. Pouliot, George Fink and Timothy G. Whyte. The Special Committee has retained independent legal counsel as well as J.F. Mackie & Company Ltd. as financial advisor for this process.

The Fund has taken several definitive steps to maximize Unitholder value. These steps include the following:

1. Upon the recommendation of the Special Committee the Board has decided to temporarily suspend the declaration of monthly cash distributions while the Special Committee pursues its mandate to maximize value for all Unitholders. The cash distributions not paid to Unitholders will be applied to reduce senior debt in order to move AlarmCap into compliance with its bank ratio covenant. The previously announced distributions for the month of May will be paid on June 30, 2007 to the holders of record on May 31, 2007;
2. The Special Committee, with the assistance of their advisors, has been preparing the marketing materials, template confidentiality agreements and data room information in order to proceed with the process of soliciting interest from potential partners or purchasers with a view to a merger, acquisition, strategic alliance or a recapitalization of AlarmCap; and
3. As previously disclosed, AlarmCap has closed a sale/leaseback of its building in St-Augustin on April 24, 2007 and has applied the net proceeds of the sale of \$2,813,000 against the term loan on April 30, 2007. The Special Committee's decision to suspend distributions will also further strengthen AlarmCap's balance sheet as it is expected that this decision will improve working capital and reduce senior bank indebtedness by approximately \$450,000 per month. As a result, interest costs are expected to drop by a total of 95 basis points or approximately \$33,000 monthly by year-end on the senior debt. The distribution suspension combined with the improvements in key performance benchmarks such as EBITDA, attrition, subscriber replacement costs and payout ratios over the past several months position AlarmCap well for maximizing shareholder value.

There can be no assurance that the review will result in any specific strategic or financial transactions and although no timetable has been set for its completion, the special committee has been requested to provide recommendations to the Board of Trustees as soon as possible.

Financial Highlights

The following table presents selected financial information regarding the financial results of the Fund for the last nine quarters of operation. More detailed 2005 and 2006 financial information is contained in the audited consolidated financial statements and accompanying notes of the Fund for the periods ended December 31, 2005 and 2006. For 2007, additional information is contained in the unaudited consolidated financial statements and accompanying notes of the Fund for the period ended June 30, 2007 presented after this analysis.

(in thousand of dollars, except amounts per Unit)(1)

	Q2-2007	Q1-2007	Q4-2006	Q3-2006	Q2-2006	Q1-2006	Q4-2005	Q3-2005	Q2-2005
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Monitoring revenues	7,303	7,400	7,416	7,411	7,370	7,453	7,663	7,798	7,764
Total revenues	7,885	7,978	8,151	7,925	8,229	7,999	8,170	8,330	8,342
Monitoring expenses	590	670	672	743	713	715	777	844	822
Customer service expenses	1,149	1,018	1,138	1,214	1,129	1,101	1,107	1,181	1,115
Installation, sales and marketing expenses	558	576	744	614	825	557	573	479	514
Income before G&A expenses and other items	5,588	5,714	5,597	5,354	5,562	5,626	5,713	5,826	5,891
G&A	1,355	1,410	1,574	1,771	1,544	1,477	1,381	1,409	1,415
EBITDA	4,233	4,304	4,023	3,583	4,018	4,149	4,332	4,417	4,476
Goodwill impairment	-	-	13,191	-	-	-	-	-	-
Net income (Loss)	3,919	1,156	(12,577)	340	929	1,226	2,304	785	1,056
Distributable cash flow	1,790	1,998	1,608	662	1,233	1,732	1,909	1,583	2,132
Distributed cash flow	1,344	1,344	1,344	1,818	2,012	1,929	1,896	1,917	1,349
Cash flow from operating activities	2,935	3,049	2,699	4,508	3,289	3,476	3,448	2,658	3,725
Earnings per Unit	0.620	0.183	(1.988)	0.054	0.147	0.194	0.368	0.126	0.185
Distributions declared per Class A Unit	0.142	0.213	0.213	0.250	0.325	0.325	0.328	0.331	0.381
Distributions declared per Class B Unit	0.142	0.213	0.213	0.250	0.325	0.250	0.252	0.252	0.249
Total assets	99,369	100,103	100,965	114,765	115,196	115,027	115,309	114,894	116,692
Total long-term debt	5,625	5,523	50,092	50,000	50,000	48,500	48,500	48,405	48,399
Unitholders' equity	43,306	40,283	40,472	54,472	55,702	56,762	56,777	56,376	57,524
RMR at the end of the period	2,296	2,318	2,314	2,322	2,340	2,356	2,348	2,351	2,375
Customer Growth and Retention									
Total Number of Customers	99,129	101,561	102,196	103,128	103,345	105,509	107,866	109,167	110,539
Gross Attrition Rate (%)⁽²⁾	11.16	8.00	9.91	10.82	12.16	12.58	13.43	13.22	12.03
Net Attrition Rate (%)⁽³⁾	10.12	7.42	9.14	9.87	11.27	11.71	12.38	11.60	10.84

(1) Certain comparative figures have been reclassified to conform to the current period's presentation.

(2) Gross Attrition Rate is defined as cancellations before resigning existing customers or reconnecting installed systems reduced by cancellation guarantees.

(3) Net Attrition Rate is gross attrition after resigning existing customers or reconnecting installed systems.

Consolidated Statement of Income

Revenues

Monitoring and Services

The Fund's revenues consist primarily of recurring payments under written contracts with customers initially entered into for a term of three to five years with automatic yearly renewals thereafter. The contracts provide for the monitoring, maintenance and repair of security systems installed in customers' homes and businesses. The monitoring services are offered 24 hours a day, seven days a week, primarily through state-of-the-art, Underwriter's Laboratories of Canada (ULC) listed monitoring centres.

Revenues from monitoring and services totalled \$7,303,000 for the second quarter of 2007 versus \$7,370,000 for the same quarter of 2006, a decrease of 0,9 %. Of the total monitoring and service revenues, \$7,074,000, or 96.9%, came from monitoring revenues and the balance of \$229,000 from service revenues for the second quarter of 2007 compared to \$7,081,000 or 96.1% and \$289,000 respectively for the same period last year. Revenues from monitoring decreased due to a reduction of the number of customers and revenues from services decreased due to the loss of rent revenues following the sale of the St-Augustin building last April. For the first six months of fiscal 2007, the Fund reported revenues from monitoring and services of \$14,703,000 compared to \$14,823,000, a slight decrease of 0.8%.

As compared to the corresponding quarter of 2006, the Fund decreased its total number of customers by approximately 4.1% from 103,345 to 99,129 customers because of higher attrition than recruitment. RMR at the end of the quarter was \$2,296,000 or 1.9% lower as compared to an RMR of \$2,340,000 at the end of the corresponding quarter in the previous fiscal year. Average RMR per customer was \$23.16 at the end of this quarter compared to \$22.64 at the end of last year's comparable quarter due to price increases and new customers generating higher average RMR than customers lost to attrition.

Installation

Installation revenues for the second quarter ended June 30, 2007 decreased by 32.2% to \$582,000 compared to \$859,000 in the second quarter of 2006 due to less important major installation contracts. These installation revenues were generated mainly from activation fees and equipment sold to new customers. For the first six months of fiscal 2007, installation revenues reached \$1,160,000, a 17.4% decrease compared to \$1,405,000 reached during the same period last year. This drop in installation revenues is due to the same reason mentioned above.

Operating Expenses

Operating expenses fall into these three major categories:

- Monitoring and customer service expenses include all costs associated with monitoring subscribers' premises, providing customer service and responding to calls from subscribers. Monitoring services are offered from Quebec, Montreal, Ottawa, Toronto, Edmonton and Vancouver while customer service centres are offered in Quebec, Montreal and, in some cases, directly through the Dealers. Those services are supported by a network of repair technicians, authorized dealers and associated dealers in Vancouver, Edmonton, Calgary, Ottawa, Toronto and throughout the province of Quebec;
- Installation, sales and marketing expenses include certain equipment, installation, data entry, sales and marketing costs related to subscriber recruitment; and
- General and administrative expenses include all costs related to managing the subscriber accounts of the Fund and its subsidiaries.

For the second quarter of 2007, total operating expenses amounted to \$3,652,000 or 46.3% of total revenues, a 490 basis points decrease compared with \$4,211,000 or 51.2% for the same period last year. For the first two quarters of 2007, total operating expenses reached \$7,326,000 or 46.2% of total revenues, a 350 basis points decrease compared with \$8,061,000 or 49.7% for the same period last year.

Monitoring and Customer Service

In the second quarter of 2007, the monitoring and customer service expenses amounted to \$1,739,000 or 23.8% of total monitoring and service revenues compared to \$1,842,000 or 25.0% for the second quarter of 2006, a decrease of 120 basis points. This decrease, both in dollar and percentage term, is due to the previously announced restructuring of the Fund's monitoring and customer service operations which includes a one-time credit of \$73,000 received from our telecommunications supplier. As a result of various cost-reduction and efficiency-improvement initiatives, the cost of operating our monitoring stations decreased from \$713,000 to \$590,000 in the two comparable quarters and the cost of operating our customer service department remained stable at \$1,129,000 for the same two comparable quarters. For the first six months of fiscal 2007, monitoring and customer service expenses reached \$3,427,000 or 23.3% of total monitoring and service revenues compared to \$3,658,000 or 24.7% for the same period in 2006, a decrease of 80 basis points.

Installation, Sales and Marketing Expenses

Installation, sales and marketing expenses totalled \$558,000 or 95.9% of the installation revenues in the second quarter of 2007 compared to \$825,000 or 96.0% in the second quarter of 2006 as a consequence of lower cost of sales resulting from lower installation revenues. For the first six months of fiscal 2007, these expenses reached \$1,134,000 or 97.8% compared to \$1,382,000 or 98.4% for the same period last year.

Income before G&A and other items

Income before G&A and other items was \$5,588,000 for the second quarter of 2007, or 70.9% of total revenues. This compares favourably to the same quarter last year which had a gross margin of \$5,562,000, or 67.6%. This was attributable to the aforementioned decrease in monitoring service expenses. For the first two quarters of 2007, income before G&A and other items totalled \$11,302,000, or 71.2% of total revenues compared with \$11,188,000 or 68.9% for the same first two quarters in 2006.

General and Administrative Expenses

General and administrative expenses were \$1,355,000, or 17.2% of total revenues at the end of the second quarter of 2007, lower by 160 basis points than the \$1,544,000, or 18.8% during the same period last year due to the 35% or \$28,000 temporary remuneration reduction to the Executive Chairman of the Board and the President and Chief Executive Officer last November, a \$15,000 salary reduction in the Administrative department, a \$67,000 expense reduction relating to the phantom unit plan and a \$10,000 decrease in building expenses following the sale of three of our buildings. For the first six months of fiscal 2007, general and administrative expenses totalled \$2,765,000, or 17.4% of total revenues, a 120 basis points improvement compared to \$3,021,000, or 18.6% for the same period last year due to the 35% or \$56,000 temporary remuneration reduction to the Executive Chairman of the Board and the President and Chief Executive Officer last November, and for other reasons mentioned above.

EBITDA

For the second quarter ended June 30, 2007, EBITDA was \$4,233,000, or 53.7% of total revenues, an increase of 490 basis points as compared to \$4,018,000, or 48.8% during the second quarter of 2006, mainly attributable to lower operating expenses. For the first two quarters of 2007, EBITDA amounted to \$8,537,000, or 53.8% of total revenues compared to \$8,167,000, or 50.3% for the same two quarters in 2006.

Amortization of Subscriber Accounts, Depreciation of Property Plant and Equipment

For the second quarter ended June 30 2007, total amortization expenses were \$2,262,000, an amount which includes \$190,000 of amortization of deferred financing costs. The amortization expense was reduced by \$70,000 from the amortization of deferred gain on interest rate swaps. To compare with the same period last year, the total amortization expenses were \$2,334,000, an amount which includes \$139,000 of amortization of deferred financing costs presented in the interest on debt section. The increase in amortization of deferred financing costs of \$51,000 is related to a complete review of the Bank Credit Agreement.

Interest Expense and Amortization of Long-Term Assets

For the second quarter ended June 30, 2007, interest expense of \$866,000 (net of \$120,000 of amortization of deferred financing costs and deferred gain on interest rate swaps) was \$111,000 higher than the second quarter of 2006. The increase is due to an \$84,000 increase in interest rate paid on our Bank term debt, a \$9,000 increase from capital lease and a \$16,000 increase attributable to the private placement of Series A, 9%, secured subordinated debentures in the principal amount of \$5,000,000 during April 2006. The debentures mature in April 2011. The net proceeds were used to reimburse indebtedness owed to Securex Master Limited Partnership in an amount of \$3,500,000 and for general corporate purposes. For the first six months of fiscal 2007, interest expenses reached \$1,721,000 (net of \$215,000 of amortization of deferred financing costs and deferred gain on interest rate swaps) or \$247,000 higher than the comparable period last year for the same reasons mentioned above.

Net Income

Net income for the quarter reached \$3,919,000 or \$0.620 per unit compared to a net income of \$929,000 or \$0.147 per unit in the corresponding period in 2006. This material increase in net income is due to temporary differences reversing before 2011 which will give rise to \$2,756,000 in future income taxes recovery. Based on its assets and liabilities as at June 30, 2007, the Fund has estimated the amount of its temporary differences which were previously not subject to tax and has estimated the periods in which these differences will reverse. The Fund estimated that \$8,637,000 net taxable temporary differences will reverse after January 1, 2011, resulting in \$2,756,000 future income tax asset. The taxable temporary differences relate principally to the excess of the tax basis of the Fund's net asset over the net book value. As the legislation gives rise to a change in the Fund's estimated future income tax asset in the period, the recognition of the additional asset is accounted for prospectively in the period and an additional \$2,756,000 of future income tax recovery has been recorded for the period. Without the positive future income tax recovery effect, net income for the second quarter of 2007 would have reached \$1,163,000 or \$0.184.

For the first six months of fiscal 2007, net income reached \$5,075,000, or \$0.802 per unit or \$2,319,000 and \$0.367 per unit without the income tax recovery effect compared to \$2,155,000, or \$0.341 per unit for the same period last year.

Subscriber and Retention

The annualized gross attrition rate of RMR (defined as cancellations before resigning existing customers or reconnecting installed systems reduced by cancellation guarantees) for the second quarter of 2007 was 11.16% compared to 12.16% during the same period last year. This represents an 8.2% reduction in the rate at which the customers cancel their monitoring service contracts. Net attrition, after resigning existing customers or reconnecting installed systems, was 10.12% for the second quarter of 2007 compared to 11.27% for the same quarter last year. The improvement is mainly due to the restructuring of the customer service department during the fourth quarter last year. Its first mandate is now to retain our existing customers which is supported by a new compensation plan for our employees based on the retention success.

Third party monitored customers decreased by 10 customers during the quarter to a total of 10,845 customers as at June 30, 2007.

Liquidity and Capital Resources

Short-term assets decreased from \$5,198,000 as at December 31, 2006 to \$4,916,000 as at June 30, 2007 as a result of lower cash in hand, accounts receivable and prepaid expenses which more than offset an increase in other short-term assets related to the recognition of the value of the interest rate swap in the short term assets instead of in the long term assets as the Bank term debt is now recognized in the short term. Account receivable decreased because the Fund improved its collection effort to help its cash flows. Total assets as at June 30, 2007 amounted to \$99,369,000 compared to \$100,965,000 for December 31, 2006 mainly due to the sale of the St-Augustin building during the second quarter of 2007 which reduced the property, plant and equipment account from \$4,525,000 to \$1,606,000. The sale of this building more than offset the recognition of \$2,756,000 in future income taxes recovery. Subscriber accounts decreased from \$67,812,000 as at December 31, 2006 to \$66,991,000 as at June 30, 2007, as a result of lower recruitment costs during the second quarter of 2007. Other long-term assets decreased by \$330,000 to \$100,000 as a result of the change in the fair value of interest rate swaps that is now recognized as a short term asset.

Short-term liabilities increased from \$10,401,000 as at December 31, 2006 to \$50,438,000 as at June 30, 2007. Accounts payable and accrued liabilities decreased from \$4,802,000 to \$3,792,000 as a result of shorter outstanding days payable as per our supplier credit agreements. The Fund's cash flows during the third and fourth quarter last year were not sufficient to meet our payment requirements with our main suppliers. Distributions payable to unitholders decreased by \$448,000 due to the non accrual for distributions further to the decision of the Board to suspend distributions. Revenues collected in advance, which represent customers that paid more than one month in advanced based on their monitoring contract agreement, varied from \$5,029,000 to \$4,670,000. Other short term debt increased by \$41,674,000 as the Bank term debt was reclassified from the long term liabilities to the short term liabilities since the Bank loan agreement expires in less than 12 months on March 2008. Total liabilities of \$56,063,000 are 7.3% lower than December 31, 2006 due to the sale/leaseback of the Fund's Saint-Augustin-de-Desmaures building during the last quarter for an amount of \$2,813,000, net of sales commission and other charges, and the proceeds of which have been applied against the senior bank term loan as of April 30, 2007, and the reduction in accounts payable and accrued liabilities.

Working capital deficiency increased from \$5,203,000 as at December 31, 2006 to \$45,522,000 as at June 30, 2007 as a result of the reclassification of the \$41,674,000 Bank term debt as a short term liability during the first quarter of 2007 combined with a \$320,000 decrease in the accounts receivable which more than offset a \$1,010,000 reduction of the accounts payable and accrued liabilities and a \$448,000 reduction in distributions payable to unit holders.

Unitholders' equity as at June 30, 2007 was \$43,306,000 or 7.0% higher compared to \$40,472,000 as at December 31, 2006 due to the recognition of \$2,756,000 in future income taxes recovery.

For the quarter ended June 30, 2007, cash flow from operating activities totaled \$2,935,000 compared to \$3,289,000 reached during the same period last year. This decrease is mainly due to the \$387,000 variation of the net change in non-cash working capital item. For the first six months of fiscal 2007, cash flow from operating activities reached \$5,984,000 compared with \$6,765,000 for the same period last year due to the \$829,000 variation of the net change in non-cash working capital item.

Investing activities were positive at \$1,119,000 in the second quarter of 2007 compared to a negative \$2,622,000 in the second quarter of 2006. This increase is due to the sale of property for an amount of \$2,879,000 and lower increase in subscriber accounts during the first quarter of 2007. This trend is similar for the first two quarters of fiscal 2007 as the investing activities amounted to \$504,000 compared to \$5,099,000 for the same quarters last year.

Financing activities amounted to \$4,155,000 in the second quarter of 2007 compared to \$758,000 for the same period last year. This increase is mainly due to a \$2,813,000 repayment of the long term debt during the second quarter of 2007 while there was a \$1,298,000 increase in the long term debt and demand note payable during the same quarter last year which more than offset lower distributions to unit holders during the past quarter. To better match our distributable cash with our distributed cash, the Fund announced a distribution cut effective September, 2006 when monthly distributions were reduced by 35% from \$0.10833 to \$0.07083 per unit. On June 20, 2007, the Fund announced that it had suspended the payment of distributions, effective after the payment at the end of June of the May distribution. For the first six months of fiscal 2007, financing activities totalled \$5,645,000 compared to \$2,682,000 for the same period last year due to the reasons mentioned above.

As at June 30, 2007, the Fund had cash and cash equivalents of \$908,000, a decrease of \$165,000 compared to December 31, 2006. This decrease is mainly due to the fact that even as operating results improved during the past two quarters, the Fund used its cash to reduce its working capital deficiency by \$1,355,000 (excluding the Bank term loan that is now recognized as a short term liability).

Cash Available for Distributions and Distributions

Statement of Distributable Cash (See "Supplemented disclosure")

On August 4, 2006, the Canadian Securities Administrators issued CSA Staff Notice 52-306 (Revised) – Non-GAAP Financial Measures (the "Notice"). In that Notice, the CSA concluded that distributable cash is a cash flow measure and therefore should be reconciled to cash flows provided by operating activities. Distributable cash is a useful measure of performance, as it provides investors with an indication of the amount of cash available for distribution to unitholders. As distributable cash is not a defined term under Canadian GAAP, the Fund's method of calculating distributable cash may not be comparable to other similarly named calculations. As required by the Notice, detailed

below is a reconciliation of distributable cash to cash flows provided by operating activities as reported in the Fund's financial statements.

Cash Available for Distributions and Distributions
(in thousands of dollars, except amounts per Unit)

	Q2-2007	Q1-2007	Q4-2006	Q3-2006	Q2-2006	Q1-2006	Total 2006
	\$	\$	\$	\$	\$	\$	\$
Cash flow provided by operating activities	2,935	3,049	2,699	4,508	3,289	3,476	13,972
Subscriber replacement cost	(1,513)	(1,392)	(1,475)	(1,959)	(1,897)	(1,680)	(7,011)
Sustaining capital expenditure	(60)	(60)	(60)	(150)	(200)	-	(410)
Changes in working capital	428	401	444	(1,737)	41	(64)	(1,316)
Distributable Cash	1,790	1,998	1,608	662	1,233	1,732	5,235
Distributions paid	1,344	1,344	1,344	1,818	2,012	1,929	7,103
Net earnings per unit	0.62	0.18	(1.99)	0.054	0.147	0.19	(1.59)
Distributable cash per unit	0.283	0.316	0.254	0.105	0.195	0.274	0.828
Distributions paid per unit	0.213	0.213	0.213	0.287	0.318	0.305	1.123
Distributions paid/distributable cash	75.1 %	67.3 %	83.6 %	274.6 %	163.2 %	111.4 %	135.7 %

Subscriber replacement costs represent management's estimates of the costs to acquire new subscribers RMR (recurring monthly revenues) to replace subscribers RMR lost through attrition during quarters were RMR increases but not accounting for any RMR shortfall were RMR decreases during the period. Subscriber replacement costs are not necessary to maintain the Fund's RMR and Distributable Cash at current levels. The Fund replaces some RMR reductions due to subscriber attrition by investing capital to acquire recurring monthly revenue through its Associated Dealers Network, internal sales teams, call centres, as well as through price increases and the sale of new value-added services to its existing subscriber base.

As discussed under "Supplemental Disclosure", the method to estimate subscriber replacement costs used by management has changed as between the two compared quarters. For the second quarter of 2006, subscriber replacement costs represented an estimate based on the actual investment in subscriber account for the period adjusted based on the expected cost to replace any RMR shortfall that occurred during the period. As of the second quarter of 2007, subscriber replacement cost was based on the actual investment in subscriber account for the period without adjusting the expected cost to replace any RMR shortfall that occurred during the period. If the same method in the second quarter of 2006 had been used for the second quarter of 2007, subscriber replacement costs would have been \$381,000 higher and distributable cash flow would have been lower by that same amount. Subscriber replacement costs for the first quarter of 2006 represented a multiplication of the attrition, net recruitment costs and EBITDA on a twelve months rolling average. In the first quarter of 2007, subscriber replacement costs was calculated by replacing the particular monthly recruitment costs by different channels of recruitment starting from the lowest costs to the highest costs of recruitment. If the same method in the first six months of 2006 had been used for the first six months of 2007, subscriber replacement costs would have been \$134,000 lower and distributable cash flow would have been higher by that same amount. Subscriber acquisition costs representing management's estimates of the costs to acquire new subscribers over and above attrition are added to subscriber replacement costs and totalled under "Subscriber Accounts" in the balance sheet.

The Bank Credit Agreement Amendment dated April 2, 2007 (the "Bank Credit Agreement Amendment #3") restricts the payment of distributions. It requires that distributions be made from operational cash flows only and, effective March 28, 2007, shall be limited to 75% of Distributable Cash Flow calculated on a month by month basis. The Bank Credit Agreement Amendment #3 also provides that distributions shall not be made using the proceeds derived from the sale or alienation of any assets made out of the ordinary course of business and that no distribution shall be made

should a default or an event of default have occurred or be continuing or result therefrom. During the second quarter of 2007, cash available for distributions was higher than the distributions paid by \$446,000. In May, 2007, the Fund distributed 83.9% of its distributable cash flows, higher than the maximum of 75.0% allowed in the Bank Credit Agreement Amendment #3 dated April 2, 2007. In addition, as at June 30, 2007, the Fund was in default under one of its bank covenants and was therefore prohibited from making distributions. The Fund announced on June 20, 2007, its decision to suspend distributions effective after the payment at the end of June of the May distribution. In the comparable period last year, cash available for distributions was lower than the distributions distributed by \$779,000. This \$1,225,000 improvement in the distributable cash less the distributed cash is due to the reduction of \$668,000 in distributions paid combined with \$384,000 lower subscriber replacement cost and \$140,000 lower sustaining capital expenditure which more than offset a \$387,000 reduction in changes in working capital and a \$354,000 reduction of cash flow provided by operating activities. To better match its distributable cash with its distributed cash, the Fund had announced a distribution reduction effective last September 2006. Monthly distributions had been reduced by 35% from \$0.10833 to \$0.07083 per unit. The Bank Credit Agreement Amendment #4 dated July 27, 2007 (the "Bank Credit Agreement Amendment #4") additionally provides that the Fund shall not proceed with the repurchase of any of its units or distribute capital including distributions if there is a default, if the repurchase or payment of such distributions results in a default or if its Funded Debt to EBITDA Ratio for of any given month is equal or higher than 2.25:1. Distributed cash flow may not exceed budgeted distributions provided to and approved by the lenders on an annual basis and can only be made from operational cash flows. The Bank Credit Agreement Amendment #4 additionally provides that, in the event the Fund fails to maintain, at the end of any given month, the required funded debt to EBITDA ratio of 2.50:1, the Fund must apply an amount of \$450,000 for the prepayment of the bank term loan.

For the first six months of fiscal 2007, cash available for distributions was higher than the distributions paid by \$1,027,000 or a 72.4% ratio but lower by \$976,000 or a 132.0% ratio for the same period last year.

Distributions Declared

Since the beginning of the fiscal year, the Fund has declared the following cash distributions:

Class A trust units

Period	Record Date	Payment Date	Distribution per Unit	Total \$
January 2007	January 31, 2007	February 28, 2007	0.07083	324,020
February 2007	February 28, 2007	March 31, 2007	0.07083	324,020
March 2007	March 31, 2007	April 30, 2007	0.07083	324,020
April 2007	April 30, 2007	May 31, 2007	0.07083	324,020
May 2007	May 31, 2007	June 30, 2007	0.07083	324,020
			0.35415	1,620,100

Class B trust units

Period	Record Date	Payment Date	Distribution per Unit	Total \$
January 2007	January 31, 2007	February 28, 2007	0.07083	123,958
February 2007	February 28, 2007	March 31, 2007	0.07083	123,958
March 2007	March 31, 2007	April 30, 2007	0.07083	123,958
April 2007	April 30, 2007	May 31, 2007	0.07083	123,958
May 2007	May 31, 2007	June 30, 2007	0.07083	123,958
			0.35415	619,790
Total declared distributions				2,239,890

Contractual Obligations

(in thousands of dollars)

	June 30, 2007 \$	December 31, 2006 \$
Bank term loan ^(a)	42,187	45,000
Subordinated debenture ^(b)	5,000	5,000
	47,187	50,000

- (a) The bank term loan has a maximum authorized amount of \$45,000,000, matures on March 2008 and bears interest at rates varying from 0.50% to 1.00% above the prime rate and from 1.75% to 2.25% above the bankers' acceptances depending on financial ratios calculated on a monthly basis. These interest rates do not factor in the hedging of derivative financial instruments.

The interest expense in the income statement is accounted for at the loan's effective rate of 5.50% to 5.90% which factors in the hedging of financial instruments.

These rates may change depending on the renegotiation of the debt.

The loan is secured by a hypothec on the universality of movable and immovable current and future assets of the Fund.

The sale/leaseback of the Fund's Saint-Augustin-de-Desmaures building has been finalized during the first quarter for an amount of \$2,813,000, net of sales commission and other charges, and the proceeds thereof have been applied against the senior bank term loan as of April 30, 2007.

The Bank Credit Agreement contains certain covenants. In addition, the Fund is committed to maintaining certain financial ratios. As at June 30, 2007, the Fund was not in compliance with all of its financial ratio requirements. However, the Fund has entered into Bank Credit Agreement Amendment #4 and with this new amendment, the Fund was in compliance with its financial ratios for the second quarter of fiscal year 2007.

The Bank term loan has been reclassified as a current liability during the first quarter of 2007 since it matures in less than a year, March 2008.

- (b) In April 2006, the Fund completed a private placement of \$5,000,000 principal amount of Series A 9% secured subordinated debentures of the Fund. The debentures mature in April 2011.

Contractual obligations (in thousands of dollars)	Payments by period			
	Total	Less than 1 year	1 to 3 years	4 to 5 years
Bank term loan ^(a)	42,187	42,187	-	-
Subordinated debenture	5,000	-	-	5,000
Capital Lease	451	90	202	159
Total	47,638	42,277	202	5,159

- (a) The Bank term loan has been reclassified as a current liability since it matures in less than a year, i.e. in March 2008.

Financial Instruments

As at June 30, 2007, the interest-rate swap agreements were detailed as follows:

(in thousands of dollars)

Purpose	Fixed rate payable	Floating rate receivable	Notional	Maturity	Fair value
Debt hedge	4.82% until April 2006 5.50% May 2006–April 2007 6.00% May 2007–March 2008	Bankers' Acceptances +2.25%	\$42,187	March 2008	\$306 ((\$330 in December 2006))
	(effective rate 5.50%)				

During the year 2006, the Fund has ceased to designate its interest rate swaps as hedged instruments because it has changed from bankers' acceptances during the third quarter to a more expensive floating rate instrument. As a result the interest rate swaps have been accounted for on the balance sheet for an amount of \$306,000.

Off-Balance Sheet Arrangements

The Fund's off-balance sheet arrangements consist of operating leases. Operating leases are for facilities with market terms and do not have associated escalating rents that materially impact the financial statements.

Related Party Transaction

During the period, the Fund entered into transactions with companies controlled by Unitholders who are also officers of the AlarmCap Group. These transactions were in the normal course of business and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. These transactions were reflected in the financial statements as follows:

(in thousands of dollars)	June 30, 2007	Year 2006
Statement of income:	\$	\$
Monitoring and customer service	4	69
General and administrative expenses	183	742
Interest on debt including amortization of deferred financing costs	0	89
Balance Sheets :		
Accounts payable	222	-
Subscriber accounts	0	70

Outstanding Unit Data

An unlimited number of Class A trust units and Class B trust units of the Fund may be issued pursuant to the Fund Declaration of Trust. Each Unit is transferable and, subject to special distributions given to the Class A trust units over the Class B trust units, represents an equal undivided beneficial interest in any distributions from the Fund, whether of net income, net realized capital gains (other than net realized capital gains distributed to redeeming Unitholders) or other amounts, and in the net assets of the Fund in the event of termination or winding-up of the Fund. The Units are not subject to future calls or assessments and entitle the holders thereof to one vote for each whole Unit held at all meetings of Unitholders. Except under certain circumstances, the Units have no conversion, retraction, redemption or pre-emptive rights. Class B trust units are convertible into Class A trust units on a 1:1 basis since the distribution threshold of \$0.325 per trust unit per quarter contained in the Fund Declaration of Trust has been reached on April 30, 2006.

As at June 30, 2007, 4,574,401 Class A trust units and 1,750,000 Class B trust units were outstanding.

Fund's Phantom Unit Plan

Phantom Unit Plan

The officers and key employees of AlarmCap and the trustees of the Trust and the Fund are eligible to participate in the Fund's Phantom Unit Plan ("Plan"). The purpose of the Plan is to provide eligible participants with compensation opportunities that will enhance the Fund's and AlarmCap's ability to attract, retain and motivate key trustees, directors and personnel and reward the Plan participants for above-average long-term performance and associated growth in distributable cash flow and to align the interests of the participants with those of the Unitholders.

The Plan provides that eligible employees and trustees may receive awards of phantom units under the Plan. The maximum number of phantom units which may be issued pursuant to this plan is equal to 10% of the number of units outstanding at any time. The Phantom Units vest if they meet certain vesting conditions, including the continuous employment of the participant during the cycle as well as any other performance-based conditions determined at the date of the grant. Within ninety (90) days after approval of the Fund's audited financial statements for the last fiscal year in the three-year cycle, the vested Phantom Units are paid to the participant in Class A trust units issued from treasury in a number equal to the number of vested Phantom Units.

As at June 30, 2006, 160,417 phantom units had been awarded. No compensation expense has been considered in the statement of income since management does not believe that they will vest. In the last quarter of 2006, the amount that had been accounted for in the previous months was reversed because management estimated that these phantom units will not meet the conditions under which they become vested.

Accounting Policies

Since the Fund began its activities in 2005, all adopted accounting policies are disclosed in the December 2006 audited consolidated financial statements as disclosed below.

Initial Adoption of Accounting Policies

Under CICA handbook Section 3870, Stock-Based Compensation, the Fund used the fair value method to account for awards of phantom units. Under this method, the fair value of unit-based awards, as at the date of the award, is recognized as compensation expense over the applicable vesting period with a corresponding increase in contributed surplus. Upon vesting, the amount initially recorded in contributed surplus is recorded to unitholders' contributions.

Basis of presentation

The Fund's consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP").

Consolidation

These consolidated financial statements include the accounts of the Fund and those of its wholly-owned subsidiaries.

Use of estimates

In preparing these consolidated financial statements, management is required to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. In management's opinion, the consolidated financial statements have been prepared using careful judgment within the reasonable limits of materiality and within the framework of the accounting policies summarized below.

Revenue recognition

Installation revenues are recognized upon completion of the installation. Revenues from remote monitoring activities and services are recognized when the services are rendered. Revenues received in advance in respect of services to be rendered in the coming year are presented in current liabilities. Revenues from the initial subscription received from customers upon contract signing are recorded as deferred revenues and are amortized on the same basis as subscriber accounts.

Inventories

Inventories are valued at the lower of cost, determined using the first-in, first-out method, and replacement cost.

Property, plant and equipment

Property, plant and equipment are recorded at cost and depreciated over their estimated useful lives using the following methods and rates:

	Method	Rate
Buildings	Declining balance	4%
Furniture and equipment	Declining balance	20%
Computer hardware and software	Straight-line	33 1/3%
Leasehold improvements	Straight-line	lease term

Subscriber accounts

Subscriber accounts are initially stated at the amount of direct costs related to recruiting or acquiring subscriber contracts. Direct recruiting costs comprise costs directly related to subscriber contract execution net of revenues received from the initial subscription. They primarily consist of equipment, installation and initial direct costs, such as commissions, payments to independent recruiting agents and network connection costs. Direct costs of recruiting and acquiring subscriber contracts are amortized over their estimated useful lives using the method and rates stated below:

	Method	Rate
Microtec subscriber accounts	Declining balance	12%
Securex subscriber accounts	Declining balance	10%

Goodwill

Goodwill represents the difference between the purchase price, including acquisition costs, of businesses acquired and the fair value of the identifiable net assets acquired. Goodwill is tested for impairment annually or more frequently if events or circumstances indicate that the asset might be impaired. If the carrying value of a reporting unit, including the allocated goodwill, exceeds its fair value, based on a combination of valuation methods, goodwill impairment is measured as the excess of the carrying amount of the reporting unit's allocated goodwill over the implied fair value of the goodwill, based on the fair value of the identifiable assets and liabilities of the reporting unit.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset with its expected future net undiscounted cash flows from use together with its residual value. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds its fair value.

Leases

Leases are classified as either capital or operating in nature. Capital leases are those that substantially transfer the benefits and risks of ownership to the lessee. Assets acquired under capital leases are amortized over their expected useful lives using the declining balance method. Obligations recorded under capital leases are reduced by the principal portion of lease payments. The imputed interest portion of lease payments is charged to expense.

Unit-based compensation

As described in note 8, the Fund provides unit-based compensation under a plan in the form of grants of phantom unit awards.

The Fund uses the fair value method to account for these grants. Under this method, the fair value of unit-based awards, based on market value at the date of the grant, is recognized as compensation expense over the applicable vesting period with a corresponding increase in contributed surplus. Upon vesting, the amount initially recorded in contributed surplus is transferred to unitholders' contributions.

Earnings per unit

Earnings per unit are calculated based on the weighted average number of Class A and Class B trust units outstanding for the year.

Fully diluted earnings per share are calculated using the treasury stock method and take into account all the elements that have a dilutive effect.

The effect of the Funds' phantom units potentially exercisable on earnings per unit was anti-dilutive, therefore basic and diluted earnings per unit are the same.

Hedge accounting

The Fund enters into interest rate swap agreements to reduce the impact of fluctuating interest rates on financial commitments. The Fund does not use derivative financial instruments for trading or speculative purposes.

Designation as a hedge is only allowed if, both at the inception of the hedge and throughout the hedge period, the changes in the fair value or cash flows of the derivative instrument are expected to substantially offset the changes in the fair value or cash flows of the hedged item.

The Fund formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivatives. The Fund also formally documents and assesses, both at the hedge's inception and on an ongoing basis, whether the derivative financial instruments used in hedging transactions are highly effective in offsetting changes in fair value or cash flows of hedged items.

Realized and unrealized gains or losses associated with derivative instruments previously designated as hedges that have been terminated or have ceased to be effective prior to maturity are recognized in income [interest on debt] in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or has matured prior to the termination of the related derivative instrument, any realized or unrealized gains or losses on related derivative hedging instruments are recognized in income.

Derivative instruments that are ineffective or that are not designated as a hedge are reported on a mark-to-market basis as a separate item in the consolidated financial statements. Any change in the fair value of these derivative instruments is recorded in income.

Changes in accounting policies

During the first quarter of 2007, the Fund adopted the recommendations in the following Sections of the Canadian Institute of Chartered Accountants Handbook (CICA Handbook):

The Section 1530, Comprehensive Income introduces a new measurement of results – comprehensive income -which is the change in equity or net assets of an enterprise during a period from transactions from non-owner sources.

The Section 3855, Financial Instruments – Recognition and Measurement and Section 3861, Financial Instruments – Disclosure and Presentation requires an entity to record its financial assets and liabilities at fair value at each closing date, apart from exception; establish rules determining when a financial asset or liability should be recognized in the balance sheet and establish specific standards for recognition and presentation of transaction costs relating to long-term debt, as well as the subsequent expensing thereof.

The adoption of these standards requires classifying all of the Fund's financial assets and liabilities in categories for which clearly defined rules determine the standards to be applied. However, the rules may differ when a different regulatory treatment is applied. The Fund made the following classifications:

- Cash and cash equivalents have been classified as "Assets or liabilities held for trading". They are presented at their fair value and the gains/losses arising on the revaluation at the end of each period are included in consolidated income.
- Receivables from customers are classified under "Loans and receivables". They are normally recorded at their original cost, which was their fair value at that time.
- Bank borrowings, accounts payable and accrued liabilities, capital lease and long-term debt are classified under "Other financial liabilities". They are initially presented at their fair value. Subsequent measurements are at cost, net of amortization, using the effective interest rate method. For the Fund, that value corresponds to cost.

Financing costs

Since January 2007, the financing costs relating to the long-term debt are deducted from long-term debt and are amortized using the effective interest rate method. Deferred charges and long-term debt have been reduced by \$811,000 as at June 30, 2007 and \$1,058,000 as at December 31, 2006. The impact related to the use of a different expensing method is not significant.

Management's Report on Internal Control over Financial Reporting

Management is responsible for certifying the design of the Fund's internal control over financial reporting and disclosure controls and procedures as required by Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings.

The Fund's internal control over financial reporting is intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Fund's financial statements for external purposes in accordance with applicable GAAP. Internal control over financial reporting should include those policies and procedures that:

- pertain to the maintenance of records in reasonable detail, that accurately and fairly reflect the transactions and disposition of the assets of the Fund;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with applicable GAAP;
- provide reasonable assurance that receipts and expenditures of the Fund are only being made in accordance with authorizations of management and the Board of Trustees; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Fund's assets that could have a material effect on the annual financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the CEO and the CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. The CEO and CFO have evaluated the effectiveness of the Fund's disclosure controls and procedures and assess the design of the Fund's internal control over financial reporting as of December 31, 2006, pursuant to certification requirement of the Multilateral Instrument 52-109.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the CEO and the CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. An evaluation of the effectiveness of the design and operation of the Fund's disclosure controls and procedures was conducted as of December 31, 2006, by and under the supervision of the Fund's management, including the CEO and the CFO. Based on this evaluation, the CEO and the CFO have concluded that the Fund's disclosure controls and procedures, as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, are effective to ensure that information required to be disclosed in reports that the Fund files or submits under Canadian securities legislation and the Exchange Act is recorded, processed, summarized and reported within the time periods specified in those rules and forms.

Risks and Uncertainties

The consolidated financial statements were prepared by management in conformity with Canadian generally accepted accounting principles based on the going concern concept, which assumes the Funds will be able to generate sufficient funds to discharge its obligation during normal business operations for foreseeable future.

At the end of each of the last three quarter of 2006, the Fund did not comply with its bank covenants. However it obtained appropriate waivers from its secured creditors. As at March 31, 2007, the Fund did not comply with its debt covenants. On April 2, 2007, the Fund signed the Bank Credit Agreement Amendment #3 which included modifications to the debt covenants, defining new ratios for the period from October 1st, 2006 to March 31, 2007, and more stringent ratios thereafter. The Bank Credit Agreement Amendment #3 also required the prepayment of the loan in specific situations. With this amendment, the Fund did comply with the new debt covenants as at March 31, 2007.

In order to meet the new debt covenants for the periods after March 31, 2007, management needed to reimburse up to approximately \$5,000,000 of the bank term loan. This was expected to be done through the sale and leaseback of the Fund's building in Saint-Augustin-de-Desmaures and by obtaining additional new subordinated loan financing before the end of April 2007, the proceeds of which would be applied against the senior bank term loan. The sale/leaseback of its building has been finalized for an amount of \$2,813,000, net of sales commission and other charges, which have been applied against the senior bank term loan as of April 30, 2007. The Fund has elected not to proceed with issuance of additional subordinated debt in the amount of \$2 million as it was not satisfied with the commercial terms proposed. The Fund announced on June 20, 2007, its decision to suspend distributions effective after the payment at the end of June of the May distribution. These consolidated financial statements do not give effect to any adjustments or reclassification of assets or liabilities that would be necessary if the Fund demonstrated an inability to continue its operations as a going concern.

Risks Related to Business of AlarmCap Group

Ability to Maintain Profitability and Manage Growth

There can be no assurances that AlarmCap Group's business and growth strategy will enable AlarmCap Group to achieve or sustain profitability in the future. The AlarmCap Group's future operating results will depend on a number of factors, including (i) the efficiency and effectiveness of the AlarmCap Group's marketing programs, (ii) the AlarmCap Group's ability to continuously improve its service to achieve new and enhanced customer benefits, better quality service and reduced costs, (iii) the AlarmCap Group's ability to successfully identify and respond to emerging trends in the security industry, (iv) the level of competition in the security industry and (v) the ability to manage attrition level.

There can be no assurance that the AlarmCap Group will be able to effectively manage its growth, and any failure to do so could have a material adverse effect on the AlarmCap Group's business, financial condition, liquidity and results of operations.

Competition

The security industry is highly competitive and highly fragmented. The AlarmCap Group competes with larger companies, as well as smaller regional and local companies, in all of its operations. Furthermore, new competitors are continuing to enter the security industry and the AlarmCap Group may encounter additional competition from such future industry new comers. Certain of the AlarmCap Group's current competitors have, and new competitors may have, greater financial resources than the AlarmCap Group. In addition, other security services companies have adopted a strategy similar to the AlarmCap Group's that entails the aggressive purchase of security monitoring accounts through acquisitions of portfolios of subscriber accounts. Some of these companies may be willing to offer higher prices than the AlarmCap Group is prepared to offer to purchase security subscriber accounts. The effect of such competition may be to reduce the volume of sales and the purchase opportunities available to the AlarmCap Group, thus increasing the price paid by the AlarmCap Group for security subscriber accounts, which would adversely affect the AlarmCap Group's cash distributions and its results of operations.

SMLP Asset Purchase Agreement

The SMLP Asset Purchase Agreement contained certain customary representations and warranties and related indemnities. The representations and warranties are to survive the closing of the transaction contemplated by the SMLP Asset Purchase Agreement for a period of three years. There can be no assurances of recovery by the Alarm Group from SMLP for breaches of such representations and warranties, given that there can be no assurance that the assets or financial resources of SMLP will be sufficient to satisfy such obligations.

Expansion

The success of the AlarmCap Group's planned expansion will depend upon many factors, including the ability of the AlarmCap Group to access capital, find suitable acquisition candidates, maintain acceptable Alarm Account creation costs and attrition rates and control of operating costs. There can be no assurance that the AlarmCap Group will be able to grow or achieve its planned expansion. Such risks, if they materialize, could have a material adverse effect on the AlarmCap Group's business, financial condition, liquidity and results of operations.

Industry Risk and Economic Sensitivity

The AlarmCap Group's business is impacted by the health of the economy in the regional markets in which the AlarmCap Group operates and as such the AlarmCap Group's financial results are sensitive to consumer confidence and the level of unemployment, among other factors. Although the AlarmCap Group cannot specifically correlate the impact of macro-economic conditions on its sales activities, the AlarmCap Group believes that a decline in economic conditions in Canada or in any of the regions in which the AlarmCap Group operates may result in decreased demand for the products/services that it sells and, to the extent that this decline continues or increases in severity, the AlarmCap Group's business, financial condition, liquidity and results of operations could be materially adversely affected.

Dependence on Key Personnel

The Fund's success will be substantially dependent on the continued services of senior management of the AlarmCap Group. The loss of the services of one or more key members of senior management of the AlarmCap Group could adversely affect the AlarmCap Group's financial results. In addition the AlarmCap Group's continued growth depends on the ability of the AlarmCap Group to attract and retain skilled managers and employees and the ability of its personnel to manage the AlarmCap Group's growth. The inability to attract and retain key personnel could have an adverse effect on the AlarmCap Group's business, financial condition, liquidity and results of operations.

Dependence on Dealers

The Fund's success will be substantially dependent on the Dealers of the AlarmCap Group. The loss of some key Dealers of the AlarmCap Group could adversely affect the AlarmCap Group's financial results. In addition the AlarmCap Group's continued growth depends on the ability of the AlarmCap Group to attract and retain Dealers. The inability to attract and retain Dealers could have an adverse effect on the AlarmCap Group's business, financial condition, growth and results of operations.

Technological Risk

Technology in the security industry and in the telecommunications industry evolves continually and, while AlarmCap Group intends to attempt to keep abreast of changing technology, there is no assurance that the AlarmCap Group's products, or its services, will continue to be competitive.

Effectiveness and Efficiency of Advertising Expenditures

The AlarmCap Group's future growth and profitability will be dependent in part on the effectiveness and efficiency of the AlarmCap Group's advertising expenditures, including the ability of the AlarmCap Group to (i) create greater awareness of the AlarmCap Group's products and services, (ii) determine the appropriate creative message and media mix for future advertising expenditures, and (iii) effectively manage advertising costs in order to maintain acceptable operating margins. There can be no assurance that the AlarmCap Group will experience benefits from advertising expenditures in the future. In addition, no assurance can be given that the AlarmCap Group's planned advertising expenditures will result in increased sales, will generate sufficient levels of product and service awareness or that the AlarmCap Group will be able to manage such advertising expenditures on a cost-effective basis.

Increase in Interest Rates

One of the factors that may influence the price of the Class A trust units in public trading markets will be the annual cash-on-cash return from distributions of the Fund on the Class A trust units compared to cash-on-cash returns on other financial instruments. Thus an increase in market interest rates will result in higher cash-on-cash return on other financial instruments, which could adversely affect the market price of the Class A trust units.

Labour Relations

None of the AlarmCap Group's employees are unionized and the AlarmCap Group is of the opinion that its relations with its employees are good. A deterioration of its labour relations could negatively impact its operating results.

Risk of Liability from Operations

The nature of the services provided by AlarmCap Group potentially exposes it to greater risks of liability for employee acts or omissions or system failures that may be inherent in other businesses. Most of Microtec's alarm monitoring agreements and other agreements pursuant to which AlarmCap Group sells its products and services contain provisions limiting liability to subscribers in an attempt to reduce this risk. Also, AlarmCap Group benefits from Insurance coverage. However, in the event of litigation with respect to such matters, there can be no assurance that these limitations will be enforced, and the costs of such litigation could have an adverse effect on AlarmCap Group.

Possible Adverse Effect of "False Alarm" Ordinances

According to American industry sources, approximately 95% of alarm activations that result in the dispatch of police or fire department personnel are not emergencies, and thus are "false alarms". Significant concern has arisen in certain municipalities about this high incidence of false alarms. This concern could cause a decrease in the likelihood or timeliness of police response to alarm activations and thereby decrease the propensity of consumers to purchase or maintain security monitoring services.

A number of municipalities have considered or are considering adopting various measures aimed at reducing the number of false alarms. Such measures include: (i) subjecting monitoring companies to fines or penalties for transmitting false alarms, (ii) licensing individual security systems and the revocation of such licences following a specified number of false alarms, (iii) imposing fines on security subscribers for false alarms, (iv) imposing limitations on the number of times the police will respond to alarms at a particular respond. Enactment of such measures could adversely affect AlarmCap Group future business and operations.

Possible Adverse effect of Futures Government Regulations: Risks of Litigation

AlarmCap Group's operations are subject to a variety of laws, regulations and licensing requirements of federal, provincial, municipal authorities and Underwriter's Laboratories of Canada. The loss of such licences, or the imposition of conditions to the granting or retention of such licences, could have a material adverse effect on AlarmCap Group. For example, AlarmCap Group expects that legislation will be passed in the next year requiring that smoke detectors that have more than ten year of age need to be changed. AlarmCap Group estimates that it has approximately 16,000 such smoke detectors. AlarmCap Group believes that it is in material compliance with applicable laws and regulations requirements.

AlarmCap Group's advertising and sales practices to a certain extent are regulated by consumer protection legislation. Such legislation includes restrictions on the manner in which AlarmCap Group may promote the sale of its security systems and the obligation of AlarmCap Group to provide purchasers of its security systems with certain rescission rights. While AlarmCap Group believes that it has complied with this legislation in all material respects, there can be no assurance that such legislation was violated in connection with the solicitation of AlarmCap Group existing subscriber Alarm Accounts, particularly with respect to accounts acquired from first parties, or that no such violation will occur in the future.

Insurance

The AlarmCap Group maintains insurance coverage in respect of its potential liabilities, including theft, fire damage, accidental loss of value of its assets and personal injury, in amounts, with such insurers, and on such terms as it considers appropriate, taking into account all relevant factors. However, there are certain types of losses, generally of a catastrophic nature, such as earthquakes and floods, that may be uninsurable or not economically insurable. The AlarmCap Group will use its discretion in determining amounts, coverage limits and deductibility provisions of

insurance, with a view to maintaining appropriate insurance coverage on the AlarmCap Group's assets and the business at a reasonable cost and on suitable terms. This may result in insurance coverage that, in the event of a substantial loss, would not be sufficient to pay the full current market value or current replacement cost of the

AlarmCap Group's lost investment. Certain factors also might make it unattractive to use insurance proceeds to replace the property after such property has been damaged or destroyed. Under such circumstances, the insurance proceeds received by the AlarmCap Group might not be adequate to restore its economic position with respect to such property. There are no assurances that the AlarmCap Group's insurance coverage will continue to be available to it on reasonable terms, including reasonable premium, deductible and co-insurance requirements or that the AlarmCap Group's insurer will not disclaim coverage of any future claim. The AlarmCap Group's business, financial condition, liquidity and results of operations could be materially adversely affected if any of the foregoing developments were to occur.

Risks Related to the Structure of the Fund

Dependence on Operations

The Fund is an unincorporated open-ended, limited purpose trust which will be entirely dependent on the operations and the assets acquired from Microtec and SMLP as a result of the Microtec Asset Closing and the SMLP Asset Closing, respectively. Cash distributions to holders of Class A trust units will be dependent on, among other things, the ability of the Fund to make cash distributions in respect of the Class A trust units, which, in turn, is dependent on AlarmCap LP, the owner of the assets of Microtec and SMLP, making cash distributions. In the conduct of its business, AlarmCap LP pays expenses and incurs debt and obligations to first parties. These expenses, debts and obligations could impact the ability of AlarmCap LP to produce positive operating results. The ability of AlarmCap LP or the Fund to make cash distributions or other payments or advances further is subject to applicable laws and regulations and contractual restrictions contained in the instruments governing any indebtedness of those entities.

Credit Facilities and Restrictive Covenants

AlarmCap LP has first party debt service obligations under the Credit Agreement. The degree to which AlarmCap LP is leveraged could have important consequences to the Unitholders or potential Unitholders, including: (i) a portion of the AlarmCap Group's cash flow from operations will be dedicated to the payment of the principal of and interest on the indebtedness, thereby reducing funds available for future operations and distribution to the Fund, (ii) AlarmCap Group's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited. AlarmCap LP's ability to make scheduled payments of principal and interest on, or to refinance, its indebtedness will depend on its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control. These factors might inhibit the AlarmCap Group from refinancing the indebtedness at all or on favourable terms, which could have a negative impact on the Fund's ability to make distributions on its Units.

Cash Distributions Are not Guaranteed, Will Fluctuate with the Business Performance and Are Subject to Bank Agreement Restrictions

Although the Fund intends to distribute the cash distributions received in respect of the Class A trust units, less expenses and amounts, if any, paid by the Fund in connection with the redemption of Class A trust units, there can be no assurance regarding the amounts of income to be generated by the AlarmCap Group's business or ultimately distributed to the Fund. The actual amount distributed in respect of the Units is not guaranteed and will depend upon numerous factors, including the AlarmCap Group's profitability, its ability to sustain EBITDA margins and the fluctuations in the AlarmCap Group's working capital and capital expenditures, all of which are susceptible to a number of risks. For example, to better match its distributable cash with its distributed cash, the Fund announced a distribution reduction effective September 2006. Monthly distributions were reduced by 35% from \$0.10833 to \$0.07083 per unit. Then, on June 20, 2007, the Fund announced its decision to suspend distributions altogether effective after the payment at the end of June of the May distribution. There is no assurance that distributions will be reinstated and if so, when and to what extent they might be reinstated. In addition, Bank Credit Agreement Amendment #3 requires that distributions be made from operational cash flows only and, effective March 28, 2007, shall be limited to 75% of Distributable Cash Flow calculated on a month by month basis. It also provides that distributions shall not be made using the proceeds derived from the sale or alienation of any assets made out of the ordinary course of business and that no distribution shall be made should a default or an event of default have occurred or be continuing or result therefrom. As at June 30, 2007, the Fund was in default under its bank covenants and was therefore prohibited from making distributions. However, the Fund has entered into Bank Credit Agreement #4 and with this new amendment, the Fund was in compliance with its financial ratios for the second quarter of fiscal year 2007. The Bank Credit Agreement #4 additionally provides that the Fund shall not proceed with the repurchase

of any of its units or distribute capital including distributions if there is a default, if the repurchase or payment of such distributions results in a default or if its Funded Debt to EBITDA Ratio for of any given month is equal or higher than 2.25:1. Distributed cash flow may not exceed budgeted distributions provided to and approved by the lenders on an annual basis and can only be made from operational cash flows. As at June 30, 2007, the Funded Debt to EBITDA ratio was 2.60:1. The Bank Credit Agreement Amendment #4 additionally provides that, in the event the Fund fails to maintain, at the end of any given month, the required funded debt to EBITDA ratio, the Fund must apply an amount of \$450,000 for the prepayment of the bank term loan.

There is no certainty as to if and when the Fund will meet these covenants and be authorized to make distributions in the future.

Nature of Class A Trust Units

Securities like the Class A trust units are hybrids in that they share certain attributes common to both equity securities and debt instruments. The Class A trust units do not represent a direct investment in the AlarmCap Group's business. Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The Class A trust units represent a fractional interest in the Fund. The price per Fund Unit is a function of anticipated distributable income.

The Class A trust units are not "deposits" within the meaning of the Canada Deposit Insurance Corporations 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.

Distribution of Securities on Redemption or Termination of the Fund

Upon redemption of Units or termination of the Fund, the Trustees may distribute the Exchange Notes (i.e., together, the Series 2 Exchange Notes and the Series 3 Exchange Notes issued from time to time in exchange for the Series 1 Notes, the Series 2 Notes and the Series 3 Notes of First National AlarmCap Trust issued pursuant to the note indenture made as of March 16, 2005, between such Trust, as Issuer, and CIBC Mellon Trust Company, as Indenture Trustee (the "Trust Notes") the Trust Notes or the Trust Units directly to the Unitholders, subject to obtaining all required regulatory approvals. There is currently no market for the Exchange Notes, the Trust Notes or the Trust Units. In addition, Exchange Notes, Trust Notes and Trust Units are not freely tradable or listed on any stock exchange. The Exchange Notes so distributed may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education saving plans, depending upon the circumstances at the time. The Trust Notes and the Trust Units would not be qualified investments for such plans.

Restrictions on Potential Growth

The payout by AlarmCap LP of substantially all of its operating cash flow 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 future growth of AlarmCap LP and the related cash flow to the Fund.

Unitholder Liability

The Fund Declaration of Trust provides that no holder of Class A trust units will be subject to any liability whatsoever to any person in connection with a holding of Class A trust units. However, there remains a risk, which is considered by the Fund to be remote in the circumstances, that a holder of Class A trust units could be held personally liable, despite such statement in the Fund Declaration of Trust, for the obligations of the Fund to the extent that claims are not satisfied out of the assets of the Fund. It is intended that the affairs of the Fund will be conducted to seek to minimize such risk wherever possible.

Dilution of Existing Holders of Class A Trust Units

The Fund Declaration of Trust authorizes the Fund to issue an unlimited number of Class A trust units for that consideration and on those terms and conditions as shall be established by the Trustees without the approval of any

holders of Class A trust units. The holders of Class A trust units will have no pre-emptive rights in connection with such further issues.

Investment Eligibility and Foreign Property

There can be no assurance that the Class A trust units will continue to be qualified investments for registered retirement savings plans, deferred profit sharing plans, registered retirement income funds and registered education savings plans of that the Class A trust units will not be foreign property under the Tax Act. The Tax Act imposes penalties for the acquisition or holding of non-qualified or ineligible investments and on excess holdings of foreign property.

Income Tax Matters

As described in the Fund's financial statements, in June 2007 the Government of Canada enacted legislation imposing additional income taxes on the Fund for taxation years commencing January 1, 2011. The Fund is currently evaluating the new legislation and the Fund's organizational alternatives in order to maximize shareholder value.

Future income tax assets for the period increased by \$2,756,000 upon the June 2007 enactment of new tax legislation. Until June 2007, the Fund had been tax effecting the reversal of taxable temporary differences at a nil tax rate on the assumption that the Fund would make sufficient tax deductible cash distributions to unitholders such that the Fund's taxable income would be nil for the foreseeable future. The new legislation limits the tax deductibility of cash distributions such that income taxes may become payable in the future.

The Fund has estimated its future income taxes based on its best estimates of results of operations and tax pool claims and cash distributions in the future assuming no material change to the Fund's current organizational structure. As currently interpreted, Canadian GAAP does not permit the Fund's estimate of future income taxes to incorporate any assumptions related to a change in organizational structure until such structures are given legal effect.

The Fund's estimate of its future income taxes will vary as do the Fund's assumptions pertaining to the factors described above, and such variations may be material.

Until 2011, the new legislation does not directly affect the Fund's cash flows from operations, and accordingly, the Fund's financial condition.

Debt

In order to finance the acquisition of the assets of Microtec and SMLP as well as the implementation of the income trust structure, AlarmCap LP has taken on debt. Amounts paid in principal and interest may impair the Funds ability to make cash distributions. The Bank Credit Agreement contains certain covenants. In addition, the Fund is committed to maintaining certain financial ratios. As at March 31, 2007 and during the three last quarters of fiscal year 2006, the Fund was not in compliance with certain financial ratio requirements. However, the Fund obtained the necessary waivers from its creditors or loan modifications for the non-compliance with the financial ratios. The Credit Agreement, as amended, contains certain covenants which, in effect, restrict the payment of distributions to the level approved by the bank from operational cash flows only and, after February 28, 2007, to a level that is not more than 75% of Distributable Cash Flow on a month-by-month basis. If the Fund cannot meet these ratios or if the Fund is in default or an event of default has occurred and is continuing under the Credit Agreement, the Credit Agreement provides that the Fund must suspend the payment of distributions. Since the Fund was not able to meet all of these new ratios during the second quarter of 2007, the Fund was in default as at June 30, 2007 and announced on June 20, 2007 that it was suspending its distributions. However, the Fund has entered into Bank Credit Agreement #4 and with this new amendment the Fund was in compliance with its financial ratios for the second quarter of fiscal year 2007. The Bank Credit Agreement #4 additionally provides that the Fund shall not proceed with the repurchase of any of its units or distribute capital including distributions if there is a default, if the repurchase or payment of such distributions results in a default or if its Funded Debt to EBITDA Ratio for of any given month is equal or higher than 2.25:1. As at June 30, 2007, the Funded Debt to EBITDA ratio was 2.60:1. Distributed cash flow may not exceed budgeted distributions provided to and approved by the lenders on an annual basis and can only be made from operational cash flows. The Bank Credit Agreement Amendment #4 additionally provides that, in the event the Fund fails to maintain, at the end of any given month, the required funded debt to EBITDA ratio, the Fund must apply an amount of \$450,000 for the prepayment of the bank term loan.

The Bank term loan has been reclassified as a current liability since it matures in less than a year, March 2008.

The interim consolidated financial statements which are included in this Report have not been subject to a review by the Fund's external auditors

**FIRST NATIONAL ALARMCAP INCOME FUND
QUARTERLY REPORT**

UNAUDITED CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)

	June 30, 2007 \$	December 31, 2006 \$
ASSETS		
Current assets		
Cash	908	1,073
Accounts receivable	2,796	3,116
Inventories	618	607
Prepaid expenses	288	402
Other short-term assets	306	-
Total current assets	4,916	5,198
Property, plant and equipment	1,606	4,525
Subscriber accounts	66,991	67,812
Goodwill	23,000	23,000
Other long-term assets	100	430
Future income tax asset [Note 10]	2,756	-
	99,369	100,965
LIABILITIES AND UNITHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	3,792	4,802
Distributions payable to unitholders	-	448
Revenues collected in advance	4,670	5,029
Other deferred revenues	-	40
Deferred gain on interest rate swaps	212	-
Other short-term debt [Note 6]	41,674	-
Current portion of Capital Lease	90	82
Total current liabilities	50,438	10,401
Deferred gain on interest rate swaps	-	352
Obligations under capital leases [Note 5]	361	380
Deferred subscription revenues	532	418
Other long-term liabilities	30	-
Long-term debt [Note 6]	4,702	48,942
Unitholders' equity		
Unitholders' contributions [Note 7]	59,139	59,139
Cumulative net income	(864)	(5,937)
Cumulative distributions	(14,969)	(12,730)
Total unitholders' equity	43,306	40,472
	99,369	100,965

The interim consolidated financial statements which are included in this report have not been subject to a review by the Fund's external auditors.

**FIRST NATIONAL ALARMCAP INCOME FUND
QUARTERLY REPORT**

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands of dollars, except per unit amounts)

	June 30, 2007 (3 months) (unaudited)	June 30, 2006 (3 months) (unaudited)	June 30, 2007 (6 months) (unaudited) \$	June 30, 2006 (6 months) (unaudited) \$
Revenues				
Monitoring and services	7,303	7,370	14,703	14,823
Installation	582	859	1,160	1,405
	7,885	8,229	15,863	16,228
Expenses				
Monitoring and customer service	1,739	1,842	3,427	3,658
Installation, sales and marketing	558	825	1,134	1,382
	2,297	2,667	4,561	5,040
Income before general and administrative expenses and other items	5,588	5,562	11,302	11,188
General and administrative expenses	1,355	1,544	2,765	3,021
	4,233	4,018	8,537	8,167
Amortization of subscriber accounts, depreciation of property plant and equipment	2,142	2,195	4,262	4,277
Interest on debt including amortization of other long-term assets and liabilities	986	894	1,936	1,735
Change in the fair value of interest rate swaps	(54)	-	24	-
Gain on disposal of property	(4)	-	(4)	-
	3,070	3,089	6,218	6,012
Income before income taxes	1,163	929	2,319	2,155
Future income taxes	(2,756)	-	(2,756)	-
Net income	3,919	929	5,075	2,155
Earning per unit	0.620	0.147	0.803	0.341
Weighted average number of units outstanding (in thousands)	6,324	6,324	6,324	6,324

The interim consolidated financial statements which are included in this report have not been subject to a review by the Fund's external auditors.

**FIRST NATIONAL ALARMCAP INCOME FUND
QUARTERLY REPORT**

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of dollars)

	June 30, 2007 (3 months) (unaudited) \$	June 30, 2006 (3 months) (unaudited) \$	June 30, 2007 (6 months) (unaudited) \$	June 30, 2006 (6 months) (unaudited) \$
OPERATING ACTIVITIES				
Net income for the period	3,919	929	5,075	2,155
Items not affecting cash flows				
Amortization of subscriber accounts and depreciation of property, plant and equipment	2,142	2,195	4,262	4,277
Gain on disposal of property	(4)	-	(4)	-
Change in the fair value of interest rate swaps	(54)	-	24	-
Amortization of other long-term assets, liabilities and deferred gain	116	139	212	261
Phantom Unit Plan	-	67	-	67
Future income taxes	(2,756)	-	(2,756)	-
Net change in non-cash working capital items	(428)	(41)	(829)	5
Cash flows relating from operating activities	2,935	3,289	5,984	6,765
INVESTING ACTIVITIES				
Additions to property, plant and equipment	(138)	(412)	(164)	(533)
Sales of property	2,879	-	2,879	-
Increase in subscriber accounts	(1,537)	(1,814)	(3,110)	(4,170)
Increase in other long-term assets	(85)	(396)	(109)	(396)
Cash flow relating to investing activities	1,119	(2,622)	(504)	(5,099)
FINANCING ACTIVITIES				
Repayment of the long-term debt	(2,813)	(3,500)	(2,820)	(3,500)
Repayment of demand note payable	-	(202)	-	(202)
Repayment of Capital Lease	(21)	-	(36)	-
Increase in long-term debt	-	5,000	-	5,000
Increase of Capital Lease	23	-	23	-
Distributions to unitholders	(1,344)	(2,056)	(2,812)	(3,980)
Cash flow relating to financing activities	(4,155)	(758)	(5,645)	(2,682)
Net increase (decrease) in cash for the period	(101)	(91)	(165)	(1,016)
Cash – beginning of the period	1,009	747	1,073	1,672
Cash – end of period	908	656	908	656
Supplementary information				
Interest paid for the period:	875	600	1,679	1,222

The interim consolidated financial statements which are included in this report have not been subject to a review by the Fund's external auditors.

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

[Tabular figures are in thousands of dollars, except per unit amounts]

1. DESCRIPTION OF THE FUND

First National AlarmCap Income Fund (the "Fund") is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Alberta pursuant to a declaration of trust dated February 24, 2005, as amended and restated on March 4, 2005. The Fund began commercial activities on April 1, 2005.

The Fund was established to acquire substantially all the assets and shares of Microtec Enterprises Inc. ("Microtec") and all the assets of Securex Master Limited Partnership ("SMLP"), two entities that provide residential and commercial remote monitoring services in Canada.

2. GOING CONCERN UNCERTAINTY

Effective July 27, 2007, the Fund entered into Bank Credit Agreement Amendment #4. With this new amendment, the Fund was in compliance with its financial ratios for the second quarter of fiscal year 2007. The Bank Credit Agreement Amendment #4 provides that the Fund shall not proceed with the repurchase of any of its units or distribute capital including distributions if there is a default, if the repurchase or payment of such distributions results in a default or if its Funded Debt to EBITDA Ratio for any given month is equal or higher than 2.25:1. Distributed cash flow may not exceed budgeted distributions provided to and approved by the lenders on an annual basis and can only be made from operational cash flows. The Bank Credit Agreement Amendment #4 additionally provides that, in the event the Fund fails to maintain, at the end of any given month, the required funded debt to EBITDA ratio, the Fund must apply an amount of \$450,000 for the prepayment of the bank term loan.

These consolidated financial statements do not give effect to any adjustments or reclassification of assets or liabilities that would be necessary if the Fund demonstrated an inability to continue its operations as a going concern.

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

[Tabular figures are in thousands of dollars, except per unit amounts]

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Fund's consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP").

Consolidation

These consolidated financial statements include the accounts of the Fund and those of its wholly-owned subsidiaries.

Use of estimates

In preparing these consolidated financial statements, management is required to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. In management's opinion, the consolidated financial statements have been prepared using careful judgment within the reasonable limits of materiality and within the framework of the accounting policies summarized below.

Revenue recognition

Installation revenues are recognized upon completion of the installation. Revenues from remote monitoring activities and services are recognized when the services are rendered. Revenues received in advance in respect of services to be rendered in the coming year are presented in current liabilities. Revenues from the initial subscription received from customers upon contract signing are recorded as deferred revenues and are amortized on the same basis as subscriber accounts.

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

[Tabular figures are in thousands of dollars, except per unit amounts]

3. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Inventories

Inventories are valued at the lower of cost, determined using the first-in, first-out method, and replacement cost.

Property, plant and equipment

Property, plant and equipment are recorded at cost and depreciated over their estimated useful lives using the following methods and rates:

	Method	Rate
Buildings	Declining balance	4%
Furniture and equipment	Declining balance	20%
Computer hardware and software	Straight-line	33 1/3%
Leasehold improvements	Straight-line	lease term

Subscriber accounts

Subscriber accounts are initially stated at the amount of direct costs related to recruiting or acquiring subscriber contracts. Direct recruiting costs comprise costs directly related to subscriber contract execution net of revenues received from the initial subscription. They primarily consist of equipment, installation and initial direct costs, such as commissions, payments to independent recruiting agents and network connection costs. Direct costs of recruiting and acquiring subscriber contracts are amortized over their estimated useful lives using the method and rates stated below:

	Method	Rate
Microtec subscriber accounts	Declining balance	12%
Securex subscriber accounts	Declining balance	10%

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

[Tabular figures are in thousands of dollars, except per unit amounts]

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Goodwill

Goodwill represents the difference between the purchase price, including acquisition costs, of businesses acquired and the fair value of the identifiable net assets acquired. Goodwill is tested for impairment annually or more frequently if events or circumstances indicate that the asset might be impaired. If the carrying value of a reporting unit, including the allocated goodwill, exceeds its fair value, based on a combination of valuation methods, goodwill impairment is measured as the excess of the carrying amount of the reporting unit's allocated goodwill over the implied fair value of the goodwill, based on the fair value of the identifiable assets and liabilities of the reporting unit.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset with its expected future net undiscounted cash flows from use together with its residual value. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds its fair value.

Leases

Leases are classified as either capital or operating in nature. Capital leases are those that substantially transfer the benefits and risks of ownership to the lessee. Assets acquired under capital leases are amortized over their expected useful lives using the declining balance method. Obligations recorded under capital leases are reduced by the principal portion of lease payments. The imputed interest portion of lease payments is charged to expense.

Unit-based compensation

As described in note 8, the Fund provides unit-based compensation, under a plan in the form of grants of phantom unit awards.

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

[Tabular figures are in thousands of dollars, except per unit amounts]

3. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Unit-based compensation (*Con'd*)

The Fund uses the fair value method to account for these grants. Under this method, the fair value of unit-based awards, based on market value at the date of the grant, is recognized as compensation expense over the applicable vesting period with a corresponding increase in contributed surplus. Upon vesting, the amount initially recorded in contributed surplus is transferred to unitholders' contributions.

Earnings per unit

Earnings per unit are calculated based on the weighted average number of Class A and Class B trust units outstanding for the year.

Fully diluted earnings per share are calculated using the treasury stock method and take into account all the elements that have a dilutive effect.

The effect of the Funds' phantom units potentially exercisable on earnings per unit was anti-dilutive, therefore basic and diluted earnings per unit are the same.

Hedge accounting

The Fund enters into interest rate swap agreements to reduce the impact of fluctuating interest rates on financial commitments. The Fund does not use derivative financial instruments for trading or speculative purposes.

Designation as a hedge is only allowed if, both at the inception of the hedge and throughout the hedge period, the changes in the fair value or cash flows of the derivative instrument are expected to substantially offset the changes in the fair value or cash flows of the hedged item.

The Fund formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivatives. The Fund also formally documents and assesses, both at the hedge's inception and on an ongoing basis, whether the derivative financial instruments used in hedging transactions are highly effective in offsetting changes in fair value or cash flows of hedged items.

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

[Tabular figures are in thousands of dollars, except per unit amounts]

3. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Realized and unrealized gains or losses associated with derivative instruments previously designated as hedges that have been terminated or have ceased to be effective prior to maturity are recognized in income [interest on debt] in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or has matured prior to the termination of the related derivative instrument, any realized or unrealized gains or losses on related derivative hedging instruments are recognized in income.

Derivative instruments that are ineffective or that are not designated as a hedge are reported on a mark-to-market basis as a separate item in the consolidated financial statements. Any change in the fair value of these derivative instruments is recorded in income.

4. CHANGES IN ACCOUNTING POLICIES

During the first quarter of 2007, the Fund adopted the recommendations in the following Sections of the Canadian Institute of Chartered Accountants Handbook (CICA Handbook):

The Section 1530, *Comprehensive Income* introduces a new measurement of results – comprehensive income -which is the change in equity or net assets of an enterprise during a period from transactions from non-owner sources.

The Section 3855, *Financial Instruments – Recognition and Measurement* and Section 3861, *Financial Instruments – Disclosure and Presentation* requires an entity to record its financial assets and liabilities at fair value at each closing date, apart from exception; establish rules determining when a financial asset or liability should be recognized in the balance sheet and establish specific standards for recognition and presentation of transaction costs relating to long-term debt, as well as the subsequent expensing thereof.

The adoption of these standards requires classifying all of the Fund's financial assets and liabilities in categories for which clearly defined rules determine the standards to be applied. However, the rules may differ when a different regulatory treatment is applied. The Fund made the following classifications:

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

[Tabular figures are in thousands of dollars, except per unit amounts]

4. CHANGES IN ACCOUNTING POLICIES [Cont'd]

- Cash and cash equivalents have been classified as "Assets or liabilities held for trading". They are presented at their fair value and the gains/losses arising on the revaluation at the end of each period are included in consolidated income.
- Receivables from customers are classified under "Loans and receivables". They are normally recorded at their original cost, which was their fair value at that time.
- Bank borrowings, accounts payable and accrued liabilities, capital lease and long-term debt are classified under "Other financial liabilities". They are initially presented at their fair value. Subsequent measurements are at cost, net of amortization, using the effective interest rate method. For the Fund, that value corresponds to cost.

Financing costs

Since January 2007, the financing costs relating to the long-term debt are deducted from long-term debt and are amortized using the effective interest rate method. Deferred charges and long-term debt have been reduced by \$811,000 as at June 30, 2007 and \$1,058,000 as at December 31, 2006. The impact related to the use of a different expensing method is not significant.

5. OBLIGATIONS UNDER CAPITAL LEASES

	June 30 2007	December 31 2006
	\$	\$
Capital lease agreements pertaining to furniture and equipment, repayable in monthly instalments totalling \$10,520 including interest varying from 7.33% to 10.78% with maturities ranging from September 2011 to June 2012	451	462
Short-term portion	90	82
	361	380

The future minimum lease payments under the capital lease agreements are:

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

[Tabular figures are in thousands of dollars, except per unit amounts]

5. OBLIGATIONS UNDER CAPITAL LEASES [Cont'd]

	\$	\$
2007	61	114
2008	122	114
2009	122	114
2010	122	114
2011	104	96
2012	2	
	533	552
Amount representing interest	82	90
Balance of the obligations	451	462

6. LONG-TERM DEBT

	June 30 2007 \$	December 31 2006 \$
Bank term loan (net of financing cost of \$513 (\$721 in 2006))	41,674	44,279
Subordinated debentures (net of financing cost of \$298 (\$337 in 2006))	4,702	4,663
	46,376	48,942
Short-term portion	41,674	—
Total long-term debt	4,702	48,942

(a) Bank term loan

The bank term loan has a maximum authorized amount of \$45,000,000, matures on March 2008 and bears interest at rates varying from 0.50% to 1.00% above the bank's prime rate and from 1.75% to 2.25% above the bankers' acceptance rate depending on a financial ratio on a monthly basis.

The loan is secured by a hypothec on the universality of movable and immovable current and future assets of the Fund.

The sale/leaseback of the Fund's Saint-Augustin-de-Desmaures building has been finalized during the first quarter for an amount of \$2,813,000, net of sales commission and other charges, and the proceeds thereof have been applied against the senior bank term loan as of April 30, 2007.

The Fund must maintain certain financial ratios. As at June 30, 2007 the Fund was not in compliance with all of the financial ratio requirements. However, the Fund has negotiated a new Bank credit agreement amendment dated July 27, 2007. With this new amendment, the Fund was in compliance with its financial ratios for the second quarter of fiscal year 2007.

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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[Tabular figures are in thousands of dollars, except per unit amounts]

The bank term loan has been reclassified as a current liability during the first quarter of 2007 since it matures in less than a year, March 2008.

(b) Subordinated debentures

Five-year subordinated debentures bearing interest at 9% for a total amount of \$5,000,000 maturing in April 2011.

7. DERIVATIVE FINANCIAL INSTRUMENTS

The Fund entered into interest rate swap agreements to convert the bank term loan from variable to fixed interest rates. As at June 30, 2006, the interest rate swap agreements were detailed as follows:

Purpose	Fixed rate payable	Floating rate receivable	Notional	Maturity	Fair value
Debt hedge	4.82% until April 2006 5.50% May 2006–April 2007 6.00% May 2007–March 2008 (effective rate 5.50%)	Bankers' acceptances +2.25%	\$42,187	March 2008	\$306 [\$330 in December 2006]

During the year 2006, the Fund has ceased to designate its interest rate swaps as hedged instruments. As a result the interest rate swaps have been accounted for on the balance sheet for an amount of \$306,000.

8. UNITHOLDERS' CONTRIBUTIONS

The Fund is authorized to issue an unlimited number of Class A and Class B trust units. Each unit is transferable and, subject to certain priorities of distributable cash flows and special distributions made to the Class A trust unitholders in priority to Class B trust unitholders, represents an equal undivided beneficial interest in any distributions from the Fund. Class B trust units are convertible into Class A trust units on a 1:1 basis since the distribution threshold of \$0.325 per trust unit per quarter has been reached for four consecutive quarters. The Class B trust unitholders have consequently the same rights as the Class A trust unitholders. Also as at June 30, 2007, the Class B trust unitholders have not used the option of conversion into Class A trust units.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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[Tabular figures are in thousands of dollars, except per unit amounts]

	June 30 2007 \$	December 31 2006 \$
Issued and outstanding		
4,574,401 Class A trust units [4,504,401 in 2005]	45,187	45,187
1,750,000 Class B trust units	17,500	17,500
Less issuance costs	(3,548)	(3,548)
	59,139	59,139

8. UNITHOLDERS' CONTRIBUTIONS [Cont'd]

Unit-based compensation

Under the Fund's Phantom Unit Plan, phantom units can be granted to certain executives and trustees. Phantom units are granted without any monetary consideration being payable to the Fund and their vesting is entirely based on the level of achievement of certain financial performance targets measured over the cycle (as defined in the plan) beginning with the fiscal year of their grant. Upon vesting, each phantom unit is convertible into a fully paid Class A trust unit. The maximum number of phantom units which may be issued pursuant to this plan is equal to ten percent (10%) of the number of trust units outstanding at any time.

As at June 30, 2006, 160,417 phantom units had been awarded. No compensation expense has been considered in the statement of income since management does not believe that they will vest. In the last quarter of 2006, the amount that had been accounted for in the previous months was reversed because management estimated that these phantom units will not meet the conditions under which they become vested.

9. DISTRIBUTIONS

The amount of the Fund's distributions is determined by the Board of Trustees. The Credit Agreement, as amended, contains certain covenants which, in effect, restrict the payment of distributions to the level approved by the bank from operational cash flows only and, after February 28, 2007, to a level that is not more than 75% of Distributable Cash Flow on a month-by-month basis or if its Funded Debt to EBITDA Ratio for of any given month is equal or higher than 2.25:1. If the Fund cannot meet these ratios or if the Fund is in default or an event of default has occurred and is continuing under the Credit

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

[Tabular figures are in thousands of dollars, except per unit amounts]

Agreement, the Credit Agreement provides that the Fund must suspend the payment of distributions and must apply \$450,000 for each month of default to the reduction of the Bank term loan. Since the Fund was not able to meet all of these new ratios during the second quarter of 2007, the Fund announced on June 20, 2007, that it was suspending its distributions. The distributable cash generally means the EBITDA less interest, sustaining capital expenditure and subscriber replacement cost.

	June 30 2007 \$	December 31 2006 \$
Distributions to unitholders	1,344	1,344
Distributions per unit	0.213	0.213

10. INCOME TAXES

Proposed Canadian income tax rule changes

In June 2007 the Government of Canada enacted new legislation imposing additional income taxes upon publicly traded income trusts, including AlarmCap, effective January 1, 2011. Prior to June 2007, the Fund estimated the future income tax on certain temporary differences between amounts recorded on its balance sheet for book and tax purposes at a nil effective tax rate. Under the legislation, the Fund now estimates the effective tax rate on the post 2010 reversal of these temporary differences to be 31.9%. Temporary differences reversing before 2011 will give rise to \$2,756,000 in future income taxes recovery.

Based on its assets and liabilities as at June 30, 2007, the Fund has estimated the amount of its temporary differences which were previously not subject to tax and has estimated the periods in which these differences will reverse. The Fund estimated that \$8,637,000 net taxable temporary differences will reverse after January 1, 2011, resulting in \$2,756,000 future income tax asset. The taxable temporary differences relate principally to the excess of the tax basis of the Fund's net asset over the net book value.

As the legislation gives rise to a change in the Fund's estimated future income tax asset in the period, the recognition of the additional asset is accounted for prospectively in the period and an additional \$2,756,000 of future income tax recovery has been recorded for the period.

First National AlarmCap Income Fund

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[Tabular figures are in thousands of dollars, except per unit amounts]

While the Fund believes it will be subject to additional tax under the new legislation, the estimated effective tax rate on temporary difference reversals after 2011 may change in future periods. As the legislation is new, future technical interpretations of the legislation could occur and could materially affect management's estimate of the future income tax asset.

The amount and timing of reversals of temporary differences will also depend on the Fund's future operating results, acquisitions and dispositions of assets and liabilities, and distribution policy. A significant change in any of the preceding assumptions could materially affect the Trust's estimate of the future tax asset.

11. SEGMENT INFORMATION

The Fund's operations consist of its Microtec and Securex divisions, which are operated as separate business units. The following table discloses financial information for the two divisions:

	Microtec	Securex	Total	Microtec	Securex	Total
	\$	\$	\$	\$	\$	\$
	June 30, 2007	June 30, 2007	June 30, 2007	June 30, 2006	June 30, 2006	June 30, 2006
	3 months	3 months	3 months	3 months	3 months	3 months
Revenues						
Monitoring and services	6,153	1,150	7,303	6,212	1,158	7,370
Installation	582	-	582	859	-	859
	6,735	1,150	7,885	7,071	1,158	8,229
Expenses						
Monitoring and customer service	1,500	239	1,739	1,557	243	1,800
Installation, sales and marketing	558	-	558	825	-	825
	2,058	239	2,297	2,382	243	2,625
Income before general and administrative expenses and other items	4,677	911	5,588	4,689	915	5,604

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

[Tabular figures are in thousands of dollars, except per unit amounts]

	Microtec	Securex	Total	Microtec	Securex	Total
	\$	\$	\$	\$	\$	\$
	June 30, 2007	June 30, 2007	June 30, 2007	June 30, 2006	June 30, 2006	June 30, 2006
	6 months	6 months	6 months	6 months	6 months	6 months
Revenues						
Monitoring and services	12,366	2,337	14,703	12,474	2,349	14,823
Installation	1,159	-	1,159	1,405	-	1,405
	<u>13,525</u>	<u>2,337</u>	<u>15,862</u>	<u>13,879</u>	<u>2,349</u>	<u>16,228</u>
Expenses						
Monitoring and customer service	2,945	482	3,427	3,093	472	3,565
Installation, sales and marketing	1,134	-	1,134	1,382	-	1,382
	<u>4,079</u>	<u>482</u>	<u>4,561</u>	<u>4,475</u>	<u>472</u>	<u>4,947</u>
Income before general and administrative expenses and other items	9,446	1,855	11,301	9,404	1,877	11,281

12. FINANCIAL INSTRUMENTS

(a) Fair value

The carrying amounts of Fund's financial assets and liabilities, such as cash, accounts receivable, accounts payable, distributions payable to unitholders, note payable and demand note payable, approximate their fair value as at June 30, 2007 due to their short-term maturities.

The restricted cash presented in other long-term assets is also carried at an amount indicative of fair value.

The carrying amounts of long-term debt and of the obligations under capital leases approximate respectively their fair value since they bear interest at floating rates and current market rates, respectively.

The fair value of the interest rate swaps is disclosed in note 7.

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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[Tabular figures are in thousands of dollars, except per unit amounts]

12. FINANCIAL INSTRUMENTS [Cont'd]

(b) Credit risk

The Fund is exposed to credit risk with regard to its accounts receivable. In order to reduce this risk, the Fund performs credit evaluations of its customers. In addition, accounts receivable comprise amounts receivable from numerous customers whose individual balances are insignificant. The Fund constitutes and maintains allowances for potential losses.

(c) Interest rate risk

The Fund entered into interest rate swap agreements to manage interest rate risk *[note 7]*.

13. CONTINGENCIES

The Fund is subject to some lawsuits brought against it in the normal course of business, the outcome of which cannot be predicted with certainty. Based on the information currently available, management believes that the outcome of these lawsuits will not have a significant impact on the Fund.

14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's presentation.