



**FIRST NATIONAL ALARMCAP INCOME FUND**

**ANNUAL INFORMATION FORM  
AS OF DECEMBER 31, 2007**

**MARCH 27, 2008**

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## GLOSSARY OF TERMS

*Unless the context otherwise requires, the following terms which are used in this Annual Information Form are intended to have the meanings set forth below.*

“**Accredited Investors**” has the meaning ascribed thereto under Multilateral Investment 45-103 – *Capital Raising Exemptions* and Ontario Securities Commission Rule 45-501 – *Exempt Distributions*;

“**Additional Distributions**” has the meaning ascribed to such term in the section entitled “Description of the Fund – Distributions”;

“**Affiliate**” has the meaning ascribed thereto in the Securities Act;

“**Agency Agreement**” means the agency agreement dated February 24, 2005 between Mackie, Securex Investments Ltd, SMLP and AlarmCap GP;

“**Alarm Accounts**” means the accounts or agreements (and extensions or renewals thereof) together with the related accounts receivable and prepaid revenues of the Securex Business pursuant to the Dealer Funding and Management Agreements, including all files, records and other materials or information whatsoever relating thereto, pursuant to which security alarm system monitoring services and/or security alarm system leases (including rental or purchase agreements) and/or maintenance services and/or security alarm response services which are provided to the customers thereunder, together with any equipment comprising the security alarm system owned by Securex used in connection with such Alarm Accounts and located on the premises of such customer;

“**AlarmCap GP**” means First National AlarmCap GP Inc., a corporation incorporated under the *Canada Business Corporations Act* on February 1, 2005;

“**AlarmCap Group**” means AlarmCap LP, together with its general partner, AlarmCap GP;

“**AlarmCap LP**” means First National AlarmCap LP, a limited partnership formed under the laws of the Province of Manitoba pursuant to the AlarmCap LP Partnership Agreement and a declaration filed under *The Business Names Registration Act* (Manitoba) on March 4, 2005;

“**Arrangement**” means the arrangement of Microtec proposed under the QCA;

“**AlarmCap LP Partnership Agreement**” means the Limited Partnership Agreement in respect of AlarmCap LP dated March 4, 2005;

“**Assignment of Oak Hill Claim**” means the assignment made as of March 10, 2005, between J.F. Mackie & Company Holdings Ltd., in trust, and AlarmCap LP, whereby Mackie Holdings transferred and assigned the Oak Hill Claim to AlarmCap LP;

“**Branchaud transaction**” has the meaning ascribed to such term in the section entitled –“Market for the negotiation of securities”;

“**Canadian GAAP**” means, for those generally accepted accounting principles stated in the Handbook of the Canadian Institute of Chartered Accountants, such principles so stated;

“**CCAA**” means the *Companies Creditors Arrangement Act* (Canada) as now in effect and as it may be amended from time to time;

“**Consolidation Transaction**” means the consolidation transaction described under the heading “Description of the Fund – Consolidation Transaction”;

“**Court**” means the Superior Court of Québec;

“**Credit Agreement**” means the credit agreement dated as of March 11, 2005 among AlarmCap LP as borrower, National Bank of Canada, The Bank of Nova Scotia and any other lender from time to time a party to the Credit Agreement, as lenders, National Bank Financial as arranger and National Bank of Canada as agent, in the maximum amount of \$45,000,000;

“**Dealer(s)**” means persons who install security alarm systems or monitor security alarm systems and which own security alarm monitoring accounts in Canada;

**“Distributable Cash”** means the estimated cash available for distribution to holders of trust units of the Fund;

**“Distribution Priority”** has the meaning ascribed to such term in the section entitled “Description of Capital Structure”;

**“Distribution Priority Termination Event”** has the meaning ascribed to such term in the section entitled “Description of Capital Structure”;

**“Exchange”** means the exchange of Class A trust units for Exchangeable Shares as contemplated in the Exchange Agreement;

**“Exchange Agreement”** means the exchange agreement between Microtec, the Fund, AlarmCap LP and a depositary;

**“Exchange Notes”** means, together, the Series 2 Exchange Notes and the Series 3 Exchange Notes issued from time to time in exchange for Trust Notes in accordance with the Fund Declaration of Trust;

**“Exchangeable Share”** means a common share in the capital of Microtec, automatically exchangeable into 1.0004808 of a Fund Unit, in accordance with the Exchange Agreement;

**“Fund”** means First National AlarmCap Income Fund, an unincorporated, open-ended limited purpose trust established under the laws of the Province of Alberta pursuant to the Fund Declaration of Trust;

**“Fund Declaration of Trust”** means the first amended and restated declaration of trust dated March 4, 2005, pursuant to which the Fund is established, as may be amended from time to time;

**“GP Unit”** means the general partner units of AlarmCap LP;

**“LP Unit”** means the limited partner units of AlarmCap LP;

**“Mackie”** means J.F. Mackie & Company Ltd.;

**“Mackie Holdings”** means J.F. Mackie & Company Holdings Ltd. , in trust for certain unnamed beneficiaries;

**“Mackie Investors”** means the Accredited Investors who subscribed for Subscription Receipts pursuant to the Subscription Receipt Agreement in the aggregate amount of \$37,000,000;

**“Management Agreement”** means the management agreement entered into between SMLP and Securex Financial Corp. dated January 1, 2003, as amended by letter agreements dated January 15, 2004 and March 8, 2005;

**“Microtec”** means Microtec Enterprises Inc., a company amalgamated under Part IA of the QCA, or the Microtec Division of AlarmCap LP, as the context requires;

**“Microtec Asset Closing”** means the closing of the transaction whereby substantially all of the assets of Microtec were purchased by AlarmCap LP;

**“Microtec Asset Purchase Agreement”** means the asset purchase agreement between Microtec, certain of its subsidiaries named therein and AlarmCap LP dated as of March 14, 2005;

**“Oak Hill Claim”** means the certain rights in and to any and all claims, actions and rights or causes of actions, which Oak Hill Special Opportunities Management L.L.C., on its own behalf and as agent for Oak Hill Special Opportunities Fund L.P. (“**Oak Hill**”), and Sverica International Investment Fund L.P. (“**Sverica**”), on their own behalf and on behalf of their affiliates and subsidiaries had or may have had against Microtec and its affiliates and subsidiaries, by reason of any matter or thing whatsoever connected with or arising out of (a) that certain agreement entered into among Oak Hill, Sverica and Microtec, dated August 13, 2004, as amended from time to time, (b) the supplement to confidentiality Agreements entered into on September 9, 2004 among Oak Hill, Sverica, Protection Inc. and Microtec (and various confidentiality agreements referred to therein), or (c) the transactions contemplated in the above-noted agreements or resulting from the business dealings related thereto, which Oak Hill Claim was assigned to Mackie Holdings on or about January 27, 2005;

**“Person”** includes any individual, firm, partnership, joint venture, venture capital fund, association, trust, trustee, executor, administrator, legal personal representative, estate, group, body corporate, corporation, unincorporated association or organization, Governmental Entity, syndicate or other entity, whether or not having legal status;

**“Pre-Arrangement Agreement”** means the pre-arrangement agreement between Microtec, the Fund, the Trust, AlarmCap LP and AlarmCap GP dated as of March 14, 2005, which is attached hereto as Appendix C; **“QCA”**

means the *Companies Act* (Québec), as now in effect and as it may be amended from time to time prior to the Effective Date;

“**RMR**” means recurring monthly revenue;

“**SMLP**” means Securex Master Limited Partnership, a limited partnership formed under the laws of the Province of Manitoba pursuant to a limited partnership agreement dated December 19, 2002 as amended and restated by the amended and restated limited partnership agreement dated as of January 1, 2003 and a declaration filed under *The Business Names Registration Act* (Manitoba) on December 23, 2002;

“**SMLP Asset Closing**” means the closing of the transaction whereby substantially all of the assets of SMLP were purchased by AlarmCap LP;

“**SMLP Asset Purchase Agreement**” means the asset purchase agreement between SMLP and AlarmCap LP dated as of March 16, 2005;

“**Securex**” means the Securex Division of AlarmCap LP;

“**Securex Business**” means the business of SMLP as it was conducted prior to the SMLP Asset Closing and as now being conducted by Securex;

“**Securities Act**” means the *Securities Act* (Québec), as now in effect and as it may be amended from time to time;

“**Special Distribution**” has the meaning ascribed to such term in the section entitled “Distributions”;

“**Subscription Receipt Agreement**” means the subscription receipt agreement made as of February 24, 2005 between the Fund, Mackie and ComputerShare Trust Company of Canada;

“**Subscription Receipts**” means the subscription receipts subscribed for by the Mackie Investors pursuant to the Subscription Receipt Agreement;

“**Subsidiary**” has the meaning ascribed thereto in the Securities Act;

“**Tax Act**” means the *Income Tax Act* (Canada), as now in effect and as it may be amended from time to time;

“**Trust**” means First National AlarmCap Trust, an unincorporated, open-ended limited purpose trust established under the laws of the Province of Alberta pursuant to the Trust Declaration of Trust;

“**Trust Declaration of Trust**” means the declaration of trust dated March 4, 2005 pursuant to which the Trust is established, as may be amended from time to time;

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

“**Trust Notes**” means, collectively, the Series 1 Notes, the Series 2 Notes and the Series 3 Notes of the Trust issued pursuant to the note indenture made as of March 16, 2005, between the Trust, as Issuer, and CIBC Mellon Trust Company, as Indenture Trustee;

“**Trust’s Trustees**” means the trustees of the Trust;

“**Trust Unit**” means units of the Trust;

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

“**TSX**” means the Toronto Stock Exchange.

“**ULC**” means Underwriter’s Laboratories of Canada;

“**Unitholders**” means holders of the Units;

“**Units**” mean collectively the Class A trust units and the Class B trust units of the Fund.

# **FIRST NATIONAL ALARMCAP INCOME FUND**

## **ANNUAL INFORMATION FORM 2007**

### **Introduction**

All capitalized terms used in this Annual Information Form but not otherwise defined herein have the meanings set forth under “*Glossary of Terms*”. Information contained in this Annual Information Form is given as of December 31, 2007 unless otherwise specifically stated.

### **Currency**

All references to “\$” or “dollar” in this Annual Information Form are in Canadian dollars, unless otherwise indicated.

### **Consolidation of Units**

As a result of the Consolidation Transaction discussed under the heading “Description of the Fund - Consolidation Transaction”, all references to numbers of Class A trust units, Class B trust units or Units herein refers to the numbers of Class A trust units, Class B trust units or Units after giving effect to the Consolidation Transaction.

### **Forward-Looking Statements**

This Annual Information Form contains forward-looking statements. All statements other than statements of historical fact contained in this Annual Information Form are forward-looking statements. 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 Annual Information Form. Although Microtec, the Fund, AlarmCap LP, AlarmCap GP, the Trust and Securex 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 Annual Information Form identifies additional factors that could affect the operating results and performance of the Fund and the AlarmCap Group. 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 Annual Information Form are made as of the date of this Annual Information Form and none of Microtec, the Fund, AlarmCap LP, AlarmCap GP, the Trust or Securex undertake any obligation to publicly update or revise such forward-looking statements to reflect new information, subsequent events, results, circumstances or otherwise.

### **Supplemental Disclosure**

Reference to “EBITDA” in this document are 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. 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 may not be comparable to other similarly named calculations.

## **ITEM 1 – NAME AND CORPORATE STRUCTURE**

### **History**

The Fund was established in 2005 for the purpose of acquiring substantially all of the assets of SMLP and substantially all the assets and shares of Microtec to constitute the third largest full-service commercial and residential alarm company in Canada.

Since 2003, Microtec had been making efforts to restructure its share capital due to the weight of its debt and resulting financial difficulties. In early May 2004, management of Microtec, in collaboration with its financial advisors, identified a number of investors who were interested in participating in Microtec's recapitalization. Efforts to negotiate an equity offer were unsuccessful. In late 2004, Microtec filed for protection under the CCAA and SMLP and Securex Investments Ltd. presented to Microtec a recapitalization proposal which was accepted by Microtec on December 7, 2004. This proposal included the setting up of an income fund structure, including the Fund, the Trust and the AlarmCap Group, the purchase by AlarmCap LP of substantially all of the assets of SMLP and substantially all of the assets and the shares of Microtec (as described under "Item 3 – Narrative Description of the Business – Description of AlarmCap Group") and an arrangement with the shareholders of Microtec providing for the Exchange of their Exchangeables Shares pursuant to the Exchange Agreement. In connection with Microtec's restructuring, Microtec signed the Pre-Arrangement Agreement with, among other parties, the Fund and AlarmCap LP, providing for the completion of the Arrangement and the Exchange. The proposal was ultimately approved by Microtec's shareholders and homologated by the Court in May 2005.

The purchase of the assets of Microtec and SMLP by AlarmCap LP, a wholly-owned indirect subsidiary of the Fund, resulted in the combining of Microtec's assets with those of SMLP into an income trust structure. AlarmCap Group now operates both the business of Microtec (as described under the heading "Description of Microtec") and the business of Securex (as described under the heading "Description of Securex") as separate business units in substantially the same manner as was formerly operated by Microtec and SMLP respectively. See "Item 3 – Narrative Description of the Business – Description of AlarmCap Group".

### **Structure of AlarmCap**

#### *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 pursuant to the Fund Declaration of Trust.

The principal head office of the Fund is located at 810 - 1122, 4th Street S.W., Calgary, Alberta T2R 1M1. It is intended that the Fund be qualified as a mutual fund trust for the purposes of the Tax Act. The Fund has been established to acquire and hold the Trust Units and the Trust Notes. It was the public vehicle used to fund

indirectly the acquisition of Microtec and SMLP and it intended to be used to fund future growth of the business of the AlarmCap Group.

### *The Trust*

The Trust is an unincorporated open-ended limited purpose trust established under the laws of the Province of Alberta pursuant to the Trust Declaration of Trust. All of the issued and outstanding Trust Units are owned by the Fund. The Trust has been established to acquire and hold all of the LP Units of AlarmCap LP and all of the issued and outstanding common shares of AlarmCap GP, the general partner of AlarmCap LP.

### *AlarmCap Group*

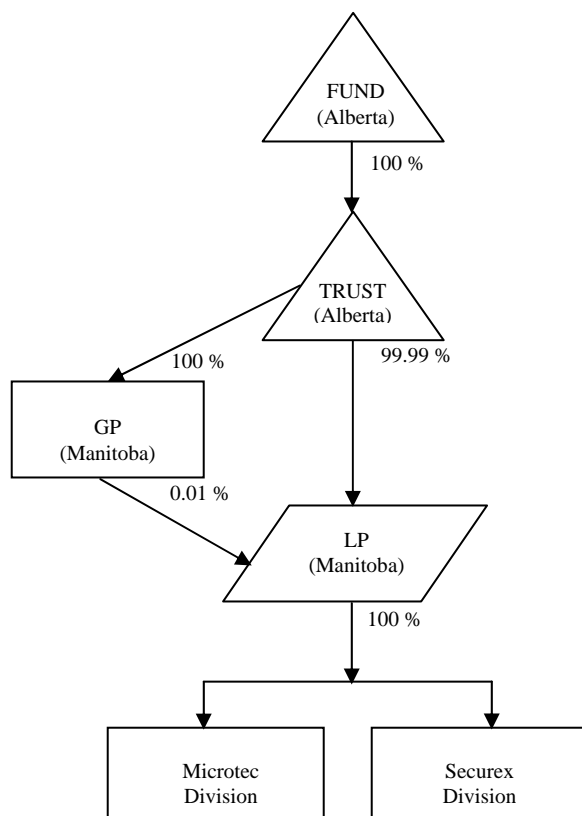
AlarmCap LP completed both the Microtec Asset Closing and the SMLP Asset Closing described under the heading “General Development of the Business - Significant Acquisitions and Significant Dispositions”. These closings resulted in the combination of Microtec’s assets with those of SMLP into an income trust structure. It is the operating entity of the business of the AlarmCap group.

The sole general partner of AlarmCap LP is AlarmCap GP. AlarmCap LP is an indirect wholly-owned subsidiary of the Fund while AlarmCap GP is a subsidiary of the Trust.

### **Inter-Corporate Relationships**

The following diagram sets out, on a simplified basis, the organizational structure of the Fund and its subsidiaries:

#### **FIRST NATIONAL ALARMCAP INCOME FUND**



## **ITEM 2 – GENERAL DEVELOPMENT OF THE BUSINESS**

### **BUSINESS OF ALARMCAP GROUP**

#### **Recent Developments**

The AlarmCap Group began operations in March 2005 when AlarmCap LP acquired substantially all of the assets of both Microtec and SMLP. AlarmCap Group has since then operated both the business of Securex (as described under the heading “Description of Securex”) and the business of Microtec (as described under the heading “Description of Microtec”) as separate business units in substantially the same manner as was formerly operated by Microtec and SMLP. The business units continue to operate under their respective names and trademarks.

#### **Significant Acquisitions and Significant Dispositions**

In October 2006, as a result of a thorough review of the real estate needs of the AlarmCap Group, the building on St-Vallier street, which housed the monitoring centre in Quebec, was disposed of for a sum of \$165,000. AlarmCap Group consolidated those operations in the St-Augustin-de-Desmaures location. Also, in December, the AlarmCap Group sold the Ottawa monitoring station building for a sum of \$160,000 and transferred all monitored Ontario customers to a third party monitoring service provider. Finally, the sale/leaseback of the Fund’s Saint-Augustin-de-Desmaures building has been finalized during the first quarter of 2007 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.

## **ITEM 3 – NARRATIVE DESCRIPTION OF THE BUSINESS**

### **DESCRIPTION OF THE FUND**

#### **Introduction**

Pursuant to the Microtec Asset Purchase Agreement, AlarmCap LP purchased substantially all of the assets of Microtec. The purchase price for the assets was \$74,000,000, financed partly by the credit facilities in favour of AlarmCap LP pursuant to the Credit Agreement and partly by the investment of an amount of \$37,000,000 in Subscription Receipts by the Mackie Investors who entered into the Subscription Receipt Agreement, which Subscription Receipts were later exchanged for Class A trust units of the Fund. The sale of Microtec’s assets to AlarmCap LP was approved by the Court on March 15, 2005. The Microtec Asset Closing took place on March 16, 2005. The Microtec Asset Closing enabled Microtec to repay in full its secured lenders.

On March 16, 2005, the SMLP Asset Closing also occurred. Pursuant to the SMLP Asset Purchase Agreement, AlarmCap LP purchased all of the Alarm Accounts and other assets and obligations of SMLP. The purchase price was \$22,000,000 and paid by AlarmCap LP as follows: (i) the transfer by AlarmCap LP to SMLP of 1,750,000 Class B trust units of the Fund, such Class B trust units having an aggregate value of \$17,500,000 (ii) a demand promissory note given by AlarmCap LP in favour of SMLP in the amount of \$1,000,000, which demand promissory note was paid in full upon completion of the SMLP Asset Closing; and (iii) a term promissory note given by AlarmCap LP in favour of SMLP in the amount of \$3,500,000, maturing on April 28, 2009 and bearing an interest rate of 9% per annum, payable after as well as before maturity and after as well as before default and judgment, with interest on amounts in default at the same rate, payable quarterly.

Pursuant to the Exchange Agreement, the shares of Microtec were exchanged for Class A trust units of the Fund at a ratio of one Microtec share for 1.0004808 Fund Unit on June 20, 2005. Microtec then became an indirect wholly-owned subsidiary of the Fund.

## **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 pursuant to the Fund Declaration of Trust. The principal head office of the Fund is located at 810 - 1122, 4th Street S.W., Calgary, Alberta T2R 1M1. It is intended that the Fund be qualified as a mutual fund trust for the purposes of the Tax Act. The Fund has been established to acquire and hold the Trust Units and the Trust Notes. The following is a summary of the material attributes and characteristics of the Units and certain provisions of the Fund Declaration of Trust, which summary does not purport to be complete. Reference is made to the Fund Declaration of Trust for a complete description of the Units and the full text of its provisions.

## **Activities of the Fund**

The Fund Declaration of Trust provides that the Fund is restricted to:

- (i) investing in debt or equity securities of the Trust;
- (ii) temporarily holding cash in interest-bearing accounts, short-term government debt or short-term investment grade corporate debt for the purposes of paying the expenses and liabilities of the Fund, paying amounts payable by the Fund in connection with the redemption of any Units or other securities of the Fund and making distributions to Unitholders;
- (iii) issuing Units or other securities of the Trust (i) for cash, (ii) in satisfaction of any non-cash distribution, (iii) in order to acquire securities, (iv) pursuant to any distribution reinvestment plans, incentive option plans or other compensation plans, if any, established by the Fund; or (v) in respect of any rights of exchange given with respect to Units;
- (iv) issuing debt securities or otherwise borrowing and mortgaging, pledging or otherwise encumbering any of the Fund's assets as security therefor;
- (v) guaranteeing the payment of any indebtedness, liability or obligation of the Trust, AlarmCap LP or the affiliates of the Trust or AlarmCap LP or the performance of any obligation of any of them, and mortgaging, pledging, charging, granting a security interest in or otherwise encumbering all or any part of its assets as security for such guarantee, and subordinating its rights under the Trust Notes to other indebtedness;
- (vi) disposing of any part of the assets of the Fund;
- (vii) issuing or redeeming rights and Units pursuant to any unitholder rights plan adopted by the Fund;
- (viii) purchasing securities issued by the Trust, including Trust Units;
- (ix) satisfying the obligations, liabilities or indebtedness of the Fund; and
- (x) undertaking all other usual and customary actions for the conduct of the activities of the Fund in the ordinary course as are approved by the Trustees from time to time, or as are contemplated by the Fund Declaration of Trust.

However, the Fund shall not undertake any activity, take any action, omit to take any action or make any investment which would result in the Fund not being considered a “mutual fund trust” for purposes of the Tax Act, or would result in the Units being treated as “foreign property” for the purposes of the Tax Act.

### **Consolidation Transaction**

On December 9, 2005, and in accordance with the Fund Declaration of Trust, the Board of Trustees approved the consolidation of each of the Class A trust units on a four-for-one basis, such that immediately after consolidation of the outstanding Class A trust units, there were one-quarter (1/4) as many Class A trust units. While not publicly traded, a similar consolidation of each of the Fund’s Class B trust units occurred contemporaneously. The consolidation transaction became effective on December 16, 2005. All references to numbers of Class A trust units, Class B trust units or Units herein refers to the numbers of Class A trust units, Class B trust units or Units after giving effect to the Consolidation Transaction.

### **DESCRIPTION OF THE TRUST**

The Trust is an unincorporated open-ended limited purpose trust established under the laws of the Province of Alberta pursuant to the Trust Declaration of Trust. All of the issued and outstanding Trust Units are owned by the Fund. The principal head office of the Trust is located at 810 - 1122, 4th Street S.W., Calgary, Alberta. The Trust has been established to acquire and hold all of the LP Units of AlarmCap LP currently created and all of the issued and outstanding common shares of AlarmCap GP, the general partner of AlarmCap LP.

The Trust Declaration of Trust contains provisions substantially similar to those of the Fund Declaration of Trust relating to the Fund. The principal differences between the Trust Declaration of Trust and the Fund Declaration of Trust are those described below. The description below is a summary only and is qualified in its entirety by reference to the text of the Trust Declaration of Trust and the Fund Declaration of Trust.

#### **General**

The Trust is a limited purpose trust and its activities are restricted to, among other things:

- (i) investing in debt and equity securities of AlarmCap LP and AlarmCap GP;
- (ii) temporarily holding cash in interest-bearing accounts, short-term government debt or short-term investment grade corporate debt for the purposes of paying the expenses and liabilities of the Trust, paying amounts payable by the Trust in connection with the redemption of any Trust Units or other securities of the Trust and making distributions to Trust Unitholders;
- (iii) acquiring, investing in, holding, transferring, disposing of and otherwise dealing with securities of the Fund, including Units;
- (iv) issuing Trust Units and other securities of the Trust, including for the purposes of giving effect to the exercise of any rights of exchange given with respect to Trust Units;
- (v) issuing debt securities, including the Trust Notes;
- (vi) borrowing and mortgaging, pledging and otherwise encumbering any of the assets of the Trust as security therefore;
- (vii) disposing of any part of the assets of the Trust;
- (viii) redeeming Trust Units;

- (ix) purchasing securities issued by the Trust;
- (x) guaranteeing the obligations of AlarmCap LP, or any affiliate of the Trust or AlarmCap LP pursuant to any good faith debt for borrowed money incurred by AlarmCap LP or any affiliate of the Trust or AlarmCap LP, as the case may be, and mortgaging, pledging or otherwise encumbering all or any part of the assets of the Trust, including securities issued by AlarmCap LP or any affiliates of the Trust or AlarmCap LP, as security for such guarantee; and
- (xi) satisfying the obligations, liabilities or indebtedness of the Trust.

## **Trustees**

The Trustees of the Trust may unanimously consent to appoint a single corporate trustee in their place and all of such Trustees of the Trust shall immediately cease to be Trustees following such corporate trustee becoming the sole Trustee of the Trust. A corporate trustee shall at all times be a corporation incorporated under the laws of Canada or a province thereof and shall not be a non-resident of Canada. The corporate trustee must also, at all times when it is the Trustee of the Trust, be registered under the laws of Alberta to carry on business therein.

## **Cash Distributions**

The Trust intends to make monthly cash distributions to the Fund of its net monthly cash receipts, after satisfaction of its interest obligations, if any, and less any estimated cash amounts required for expenses and other obligations of the Trust, any cash redemptions or repurchases of Trust Units or Trust Notes and any tax liability. Such distributions will be made to Trust Unitholders of record on the last business day of each month in respect of the period commencing on the first day of that month and ending on such record date. The distributions shall be paid on or prior to the last day of the month subsequent to the month to which such distributions relate.

The distribution declared in respect of the month ending December 31 in each year includes such amount in respect of the taxable income and net realized capital gains, if any, of the Trust for such year as is necessary to ensure that the Trust will not be liable for ordinary income taxes under the Tax Act in such year.

If the Trust's Trustees determine that the Trust does not have cash in an amount sufficient to make payment of the full amount of any distribution, the payment may include the issuance of additional Trust Units having a value equal to the difference between the amount of such distribution and the amount of cash which has been determined by the Trust's Trustees, to be available for the payment of such distribution. The value of each Trust Unit so issued will be the redemption price thereof.

Any Trust Units transferred to Unitholders pursuant to a distribution in specie may be subject to resale and transfer restrictions and cannot be resold or transferred except as permitted by applicable securities law.

## **DESCRIPTION OF ALARMCAP GP**

### **General**

AlarmCap GP is a corporation incorporated under the Canada Business Corporations Act on February 1, 2005. The principal head office of AlarmCap GP is located at 810 - 1122, 4th Street S.W., Calgary, Alberta T2R 1M1. AlarmCap GP is a wholly-owned subsidiary of the Trust is the sole general partner of AlarmCap LP. All of the issued and outstanding shares of AlarmCap GP are owned by the Trust.

## **Functions and Powers of AlarmCap GP**

AlarmCap GP has exclusive authority to manage the business and affairs of AlarmCap LP, to make all decisions regarding the business of AlarmCap LP and to bind AlarmCap LP. AlarmCap GP is to exercise its powers and discharge its duties honestly, in good faith and in the best interests of AlarmCap LP and to exercise the care, diligence and skill of a reasonably prudent person in comparable circumstances. The authority and power vested in AlarmCap GP to manage the business and affairs of AlarmCap LP includes all authority necessary or incidental to carry out the objects, purposes and business of AlarmCap LP, including without limitation, the ability to engage agents to assist AlarmCap GP to carry out its management obligations or substantially administrative functions. AlarmCap GP cannot dissolve AlarmCap LP or wind up AlarmCap LP's affairs except in accordance with the provisions of the AlarmCap LP Partnership Agreement.

## **Withdrawal or Removal of AlarmCap GP**

AlarmCap GP may resign on not less than 180 days' written notice to the limited partners of AlarmCap LP, provided that AlarmCap GP will not resign if the effect would be to dissolve AlarmCap LP.

AlarmCap GP may not be removed as general partner of AlarmCap LP unless: (i) AlarmCap GP has committed a material breach of the AlarmCap LP Partnership Agreement, which breach has continued for 30 days after notice, and that removal is also approved by Special Resolution of the partners of AlarmCap LP; or (ii) the shareholders or directors of AlarmCap GP pass a resolution in connection with the bankruptcy, dissolution, liquidation or winding-up of AlarmCap GP, or AlarmCap GP commits certain other acts of bankruptcy or ceases to be a subsisting corporation, provided that certain other conditions are satisfied, including a requirement that a successor general partner with the same ownership and governance structure at the relevant time agrees to act as general partner under the AlarmCap LP Partnership Agreement.

## **DESCRIPTION OF ALARMCAP LP**

### **General**

AlarmCap LP is a limited partnership formed under the laws of the Province of Manitoba pursuant to the AlarmCap LP Partnership Agreement and a declaration filed under *The Business Names Registration Act* on March 4, 2005. The principal head office of AlarmCap LP is located at 810 - 1122, 4th Street S.W., Calgary, Alberta T2R 1M1. The sole general partner of AlarmCap LP is AlarmCap GP.

The following is a summary of the material attributes and characteristics of the LP Units which will be issued under the AlarmCap LP Partnership Agreement. This summary is qualified in its entirety by reference to the provisions of the AlarmCap LP Partnership Agreement which contains a complete statement of those attributes and characteristics.

### **Capitalization**

AlarmCap LP may issue an unlimited number of LP Units to any person who becomes a limited partner of AlarmCap LP in accordance with the AlarmCap LP Partnership Agreement. All of the issued and outstanding LP Units are owned by the Trust. The interest of AlarmCap GP, which shall at all times not exceed 0.01% of the sum of all capital contributed to AlarmCap LP, shall be evidenced by GP Units. All of the issued and outstanding GP Units are owned by AlarmCap GP. The AlarmCap LP Partnership Agreement authorizes AlarmCap GP to cause AlarmCap LP to issue additional LP Units for any consideration and on any terms and conditions as are established by AlarmCap GP.

Pursuant to the terms of the AlarmCap LP Partnership Agreement, the general partner may from time to time in its discretion cause AlarmCap LP to create any new class or classes of LP Units with such rights, limitations and conditions ascribed thereto as the general partner may deem appropriate.

### **Distributions**

AlarmCap LP intends to make monthly cash distributions to holders of record of GP Units and LP Units on the last business day of each month. AlarmCap LP may, in addition, make a distribution at any other time.

### **Allocation of Net Income and Losses**

The income or loss for tax purposes of AlarmCap LP for a particular fiscal year will be allocated to AlarmCap GP in an amount calculated by multiplying the total income or loss for tax purposes from each source by 0.01%. The balance of the income or loss for tax purposes after the allocation made to AlarmCap GP shall be allocated to the limited partners in proportion to the number of LP Units held by each of them. The amount of income allocated to a partner may exceed or be less than the amount of cash distributed by AlarmCap LP to that partner.

Income and loss of AlarmCap LP for accounting purposes is allocated to each partner in the same proportion as income or loss is allocated for tax purposes.

### **Limited Liability**

AlarmCap LP operates in a manner as to ensure to the greatest extent possible the limited liability of the Trust. The Trust may lose its limited liability in certain circumstances. If limited liability is lost by reason of the negligence of AlarmCap GP in performing its duties and obligations under the AlarmCap LP Partnership Agreement, AlarmCap GP has agreed to indemnify the Trust against all claims arising from assertions that its liability is not limited as intended by the AlarmCap LP Partnership Agreement.

### **Transfer of LP Units**

The LP Units are transferable subject to compliance with applicable securities restrictions. However, an LP Unit is not transferable in part and no transfer of an LP Unit will be accepted by AlarmCap GP unless a transfer form, duly completed and signed by the registered holder of the LP Unit and the transferee, has been remitted to the registrar and transfer agent of AlarmCap LP. A transferee of an LP Unit will become a partner and will be subject to the obligations and entitled to the rights of a partner under the AlarmCap LP Partnership Agreement on the date on which the transfer is recorded.

### **Amendment**

The AlarmCap LP Partnership Agreement may be amended upon a written resolution of limited partners of AlarmCap LP holding in aggregate more than 80% of the LP Units, except for amendments, which require unanimous approval of holders of LP Units, including: (i) changing the liability of any limited partner; and (ii) changing AlarmCap LP from a limited partnership to a general partnership.

## **DESCRIPTION OF ALARMCAP GROUP**

### **Outlook**

The acquisition of the business of Microtec and of SMLP established AlarmCap LP as one of the largest security monitoring companies in Canada. AlarmCap LP provides electronic security alarm monitoring and services for burglary, fire, emergencies as well as energy management and other home automation services to residential and commercial subscribers. AlarmCap LP's subscriber network consists of approximately 100,000 subscribers.

AlarmCap LP's revenues consist primarily of recurring payments under written contracts initially entered into for a long term with automatic yearly renewals after the initial term for the monitoring, maintenance and repair of security systems installed in client homes and businesses. The monitoring services are offered 24 hours a day, seven days a week, primarily through state-of-the-art, ULC-listed monitoring centres.

The provision of monitoring services is characterized by a fixed cost structure such that additional subscribers can be added at little incremental cost. The related subscriber billing and collections function enjoys similar economies of scale.

AlarmCap LP aims to establish itself as the leading provider of monitoring services in each major center where AlarmCap LP does business. By achieving greater account density in its markets AlarmCap LP will be able to more effectively market or acquire security alarm monitoring agreements and deliver the repair, installation and support services to the installed subscriber portfolio more efficiently.

### **Business Strategy**

AlarmCap LP benefits from a strong position in its market and continues to explore opportunities to increase and leverage its subscriber base and infrastructure capacity through organic growth initiatives. AlarmCap LP will focus on achieving further operating efficiencies and increasing RMR, with a view to the generation of predictable increases in net cash flow.

AlarmCap LP also benefits from the network of Dealers established by both Microtec and Securex. Each Dealer has entered into agreements to sell and install residential security systems for Microtec and Securex. Such agreements have been assigned in favour of AlarmCap LP and have been since revised to return the more competitive program of payment for the Dealers. The use of this Dealer network to market and service security alarm systems is expected to reduce the overhead costs associated with the sale and customer service function.

AlarmCap LP recognizes that in order to minimize subscriber attrition it must pro-actively initiate customer contact and track customers who move to ensure customer retention in the new location and that a new subscriber is obtained at the existing location.

### **Organic Growth**

Organic growth consists of growth originating from the installed subscriber portfolio and internal sale forces. It typically comprises a combination of Alarm Account growth net of attrition, the sale of additional services, RMR increases, and general improvements to efficiency.

#### *Subscriber Retention*

Organic subscriber growth is derived from replacement Alarm Accounts and referral accounts. AlarmCap LP intends to emphasize low cost organic growth and Alarm Account retention programs over the sale of promotional accounts generated through expensive marketing programs and the deep discounting of security alarm system installations in an effort to drive growth rates beyond those achievable through organic growth. In this manner, AlarmCap LP expects to reduce capital expenditures on account replacement costs and higher cost account creation programs in favour of more modest growth yielding a predictable cash flow on behalf of the Fund.

Replacement accounts are generated through Alarm Account retention programs wherein AlarmCap LP's subscriber retention department tracks subscriber cancellations which occur when subscribers move to new premises and the reoccupation of a protected premise by a potential subscriber resulting in reduced net attrition rates. Referral accounts are generated when subscribers recommend AlarmCap LP to friends and associates through networking activities by AlarmCap LP's sales force. The subscriber retention departments also tracks

the referral inquiry on behalf of AlarmCap LP's sales department and deploys a member of the sales force to the premises to assess security alarm system requirements and make recommendations for the installation or the upgrade of the security alarm system. Replacements and referral Alarm Accounts typically have a lower cost to create than promotional accounts.

This heightened priority on subscriber retention is an important aspect of AlarmCap LP's strategy. As net attrition rates are reduced, the number of referral Alarm Accounts required to effect the RMR reduction due to net attrition is reduced accordingly resulting in lower Alarm Account replacement costs and higher organic growth.

#### *Additional Services*

Organic growth can also be obtained through the sale by AlarmCap LP of additional monitoring services, such as fire, low temperature, carbon monoxide, and other environmental functions, to the subscriber portfolio.

#### *Increases to RMR*

AlarmCap LP intends to also achieve organic growth through modest monitoring rate increases in order to gradually raise rates to a level consistent with the average monitoring rate for new Alarm Accounts in Canada.

#### *Subscriber Management*

In addition to tracking cancellations, referrals and service calls to better manage net attrition rates, the subscriber retention department will also be responsible for identifying low margin subscribers and developing strategies to improve gross margin on a per subscriber basis. This will permit the more effective allocation of resources, and expand currently available infrastructure capacity. Low margins are typically attributable to inadequate RMR but can also occur due to excess subscriber activity and frequently can result from a combination of these factors. In fact a low margin subscriber creating excess activity can divert resources from a higher margin subscriber resulting in reduced service levels to the high margin subscriber and a possible cancellation.

#### *Internal sale forces*

AlarmCap LP has slightly increased it's sales force and has re-oriented the sales force and subscriber retention initiatives.

AlarmCap LP continues to benefit from the well established internal sales force of Microtec, both in the commercial and residential sectors. When well managed and by avoiding large scale and expensive marketing programs and the deep discounting of security alarm system installations, internal sales forces are very effective in large cities. It will also allow AlarmCap LP to benefit from incremental business, particularly in the commercial sector with the expansion of digital camera and card access systems.

#### *Associates Program*

The associates program represents the continuation and evolution of the business acquired by AlarmCap LP from SMLP and Microtec. The existing Securex and Microtec Dealer networks will form the nucleus of the program.

AlarmCap LP intends to accelerate the implementation of the associates program in the Microtec division and as such partly replicate the business model historically applied by Securex.

## **Description of Microtec**

### **General Development of the Business**

#### *Overview*

Microtec operates in the security industry and in home automation services. Its subscriber network, as at December 31, 2007, included some 82,554 subscribers.

Microtec began marketing its services in 1989 and rapidly established itself as one of the largest residential security monitoring companies in Canada. Microtec's revenues consist primarily of recurring payments under written long-term contracts with automatic yearly renewals after the initial term for the monitoring, maintenance and repair of security systems. The monitoring services are offered 24 hours a day, seven days a week, primarily through three state-of-the-art monitoring centres located in Montreal and Quebec City, with a total monitoring capacity of approximately 165,000 security subscribers.

Over the years, Microtec has pursued an expansion strategy. From 18,000 subscribers at the beginning of 1992, its security network has grown to 82,554 subscribers as at December 31, 2007, representing an annual growth rate of about 11%.

Microtec has maintained its penetration in Ontario with a subscriber network of about 8,000 customers.

#### *Outlook*

The security industry continues to evolve in a very favourable context. Now more than ever, citizens are concerned for their safety and well being. While product evolution has made security more accessible, technological developments have made it possible to offer additional services that are tailored to specific needs. It is within this positive environment, yet highly restrictive financial framework, that Microtec has defined and executed its business plan over the last few years.

Microtec has concentrated on improving its profitability while limiting its investments. Moreover, the review of each of the business's activities resulted in the trimming of such expense categories as monitoring, customer service and administrative fees, and improvement in the quality of services offered.

A major reorganization of its development activities has significantly decreased recruiting costs. Emphasis was placed on consolidating Microtec's traditional subscriber acquisition networks. Special initiatives were taken to offer customers additional products and services. Microtec is pursuing its strategy to increase the profitability of newly recruited subscribers by adjusting its prices to current market conditions and offering new subscribers additional services.

#### *Residential security*

Microtec's current operations consist mainly of providing monitoring services for break-ins, fire, emergencies, to its residential and commercial customers.

#### *Commercial Products and Services*

Microtec sells, installs and monitors commercial and industrial security systems using computer technology to combine security and access control, closed-circuit television surveillance and fire detection. It currently serves approximately 14,500 security subscribers in the commercial and industrial market, which generated approximately 27% of Microtec's revenues in 2007. Microtec views its services to this market segment as complementary to its line of residential security products and services.

### *Monitoring Agreements*

Microtec usually enters into monitoring agreements with its security subscribers. Generally, these agreements have initial terms of five years. Microtec maintains an individual file with a signed copy of the agreement for each of its subscribers, and information about each subscriber's system is contained in a fully computerized customer database. Most of Microtec's security monitoring agreements for the residential market (approximately 83% of Microtec's total subscriber network) call for subscriber payments of between \$15 and \$35 per month, depending on whether the customer makes an initial payment or not. Microtec's commercial subscribers typically pay from \$20 to \$50 per month, depending on the services offered.

### *Monitoring Centres*

All of Microtec's products are equipped with a transmitter which sends a digital signal over telephone lines to a receiver at a monitoring centre. Microtec monitors most of its subscriber premises from its two monitoring centres in Quebec City and Montreal. As currently configured, each of these monitoring centres has the capacity to monitor about 80,000 to 90,000 security subscribers, for a combined capacity of approximately 165,000 security subscribers. In case of network failure, all of Microtec's subscriber premises can be monitored from any of the two centres.

The equipment at the two monitoring centres includes sophisticated telephone switching equipment, digital receivers that process the incoming signals, computers with built-in redundancy, and backup generators. These monitoring centres incorporate the use of advanced communications and computer systems that route incoming emergency signals and telephone calls to operators. Monitoring operators sit in front of a computer terminal that provides immediate information concerning the nature of the emergency signal, the subscriber whose security system has been activated and the premises where the system is located.

Microtec's Montreal and Quebec City monitoring centres are listed by the ULC as protective signalling service centres. ULC specifications for monitoring centres include building integrity, back-up systems, staffing and standard operating procedures. ULC listing is required by some commercial subscribers' insurance companies as a condition for coverage.

### *Recruitment Program*

As part of its strategy to expand its subscriber base and geographical coverage in Quebec and Ontario, Microtec is actively prospecting and recruiting new security subscribers through the acquisition of subscriber networks as well as through the efforts of its authorized dealers, its sales team and Affinity Programs.

### *Acquisition of Subscriber Networks*

Potential portfolio acquisitions are generally identified through two sources: recommendations from employees, suppliers or former owners, and solicitation by Microtec. Acquisition opportunities have, since 1994, been evaluated by a dedicated team. Each acquisition's potential is evaluated on the basis of the number of security subscriber accounts, the monthly recurrent revenues of such accounts, profit margins and the reputation of the business to be acquired. In the past years, Microtec has expanded its activities in Ontario by acquiring subscriber networks in the Toronto and Ottawa areas and thereafter, slowed down its activities.

### *Dealers*

Since March 1995, Microtec has also relied on subscriber growth generated by dealers. These agents are generally former Microtec employees or owners of small security companies purchased by Microtec who specialize in the installation of residential security systems. Microtec enters into recruiting agreements with each agent for a given territory whereby it agrees to pay a fixed price for each additional security subscriber recruited by the agent and added to Microtec's subscriber base. These recruiting agreements are for a period ranging from

12 to 60 months. Under the terms of these agreements, the recruiting agents agree not to sell competing products manufactured by other companies during the entire term of the agreement and for a period of approximately three years thereafter. The recruiting agent assumes at all times all the costs related to the sale and installation of the security system. By recruiting security subscribers through independent agents, Microtec generates additional monitoring revenues and has the opportunity of selling its high-margin products and services to new customers without incurring certain costs inherent in having its own direct sales force, such as recruitment, training and retention of competent sales personnel.

### *Internal sales force and Affinity Programs*

Microtec currently employs 27 representatives in Quebec who actively market Microtec products and services to potential subscribers. Since 2000, Microtec has also set up several Affinity programs.

### *Facilities*

The following table gives information on Microtec's facilities:

<u>Location</u>	<u>Type of Facility</u>	<u>Square Footage</u>	<u>Type of Occupancy</u>
4780-4790 St. Felix Street Saint-Augustin-de-Desmaures, Quebec G3A 2J9	Executive Office, Administrative Centre, Customer Service Centre and Monitoring Centre	65,000	Leaseholder
10090-10092 St.Laurent Blvd Montreal, Quebec H3L 2N7	Monitoring Centre	1,800	Leaseholder
10390 Louis-H.-Lafontaine Blvd. Anjou, Quebec H1J 2T3	Sales Office and Customer Service Centre	9,958	Leaseholder

### *Competition*

The security industry is an established industry characterized by a high level of fragmentation as well as by the presence of major security companies with substantial financial resources. Microtec estimates that the North American industry is comprised of approximately 17,000 security monitoring companies, of which 2,000 are currently offering security monitoring services in Canada (over 400 in Quebec). The large number of competitors causes the emphasis to be on the reliability of monitoring services and equipment, market visibility, reputation for quality of customer service and price.

The development of the security industry illustrates the reasons for its current fragmentation. Requiring only a small initial investment, the security business offers good opportunities for small, family-owned companies. Because barriers to entry are not significant, the industry was rapidly composed of a large number of local and regional security service companies.

1980s saw the entrance of big companies. These companies, using their substantial financial resources, entered the residential security market by offering low-cost security systems and installation fees to capture clients and secure multi-year monitoring contracts which assured recurring monthly revenues. This aggressive marketing strategy was intended to acquire the monitoring contract by subsidizing a new subscriber's security system and installation costs. As the price of security systems and their installation became the industry's major marketing thrust, security companies needed to generate high margin long-term recurring revenues in their search for profitability.

Microtec estimates that the number of companies operating in this industry in Quebec has dropped from over 800 to 400 since early 1992. Many of the companies that have ceased operations have sold their subscriber base to larger providers. Because of their small size, higher overhead expenses as a percentage of revenues, and lack of access to capital on attractive terms, Microtec believes that many security companies will continue to be acquisition opportunities for larger companies.

Consequently, in addition to smaller regional and local companies, Microtec now competes with other major firms with substantial financial resources, including ADT Ltd. In Quebec, Protectron inc. is a major competitor of Microtec.

In spite of the entry of major firms into the security industry over the past 15 years, the key competitive feature of this industry has been and remains the absence of highly visible, well-known market leaders with the power to dominate the industry. Microtec believes that it can take advantage of the current state of the industry through its strategy that targets the residential market and its continued efforts to develop products and services tailored to that specific market, its reputation for reliable equipment and services, its concentrated presence in the areas surrounding its regional offices, its ability to offer bundled services and its low cost structure.

#### *Customer Service*

Microtec recognizes that superior customer service is necessary to minimize subscriber attrition and ensure Microtec's success. Accordingly, Microtec has implemented a customer service centre where all its subscribers can obtain the necessary information on Microtec's products and services and receive prompt and reliable service. Microtec's customer and technical service centres are located in Quebec City and Montreal and employ about 53 representatives. These centres are equipped with a fully computerized database that provides instant access to subscriber information such as the nature of the services provided, the type of equipment installed, the most recent service calls made and the status of the subscriber's account. The centres offer 24-hour service, seven days a week, to all Microtec subscribers. Customer service representatives can be contacted via toll-free telephone lines.

Microtec offers maintenance of security systems through its repair team, independent recruiting agents and other subcontractors. These subcontractors are trained by Microtec to provide repair services for the various types of security systems. By outsourcing its maintenance and repair services, Microtec aims to provide faster field response and support services in all regions where Microtec has subscribers.

#### *Employees*

Microtec employed a total of 181 employees. In addition to its employees, some 185 people provided installation, technical support and monitoring services to Microtec and its subscribers for a total of 366 people. The table below shows the distribution of employees and sub-contractors by the various Microtec functions.

<b><u>Function</u></b>	<b>Employees</b>	<b>Sub-Contractors</b>	<b>Total</b>
Management	13	-	13
Sales and Marketing	30	81	111
Administration	45	-	45
Customer and Technical Services	53	41	94
Installation and Repair	9	56	65
Monitoring	31	7	38
<b>Total</b>	<b>181</b>	<b>185</b>	<b>366</b>

Microtec is of the opinion that its relations with its employees are good.

## Description of Securex

### *Overview*

Securex is engaged in the business of acquiring, directly or indirectly, Alarm Accounts relating to security alarm monitoring agreements from Dealers or otherwise providing financing to Dealers with a view to earning income and making a profit from such business activities. The monitoring services provided pursuant to such Alarm Accounts are offered 24 hours a day, seven days a week, pursuant to third party alarm monitoring contracts (which are managed by Securex Financial Corp.) between either Securex or Securex Financial Corp., as manager of Securex, and monitoring companies such as Consolidated Monitoring Ltd., SecurityLink Ltd. and API Alarm Inc. Securex Financial Corp. (formerly Securex Services Ltd.) is a corporation incorporated under the laws of the province of Alberta and is owned by Securex Ltd., a corporation incorporated under the laws of the province of Alberta.

### *Business*

Securex is an alternative credit provider to Dealers and owns Alarm Accounts, which generate RMR. Securex offers bundled financial, billing / back office and monitoring services to independent Dealers throughout Canada.

### *Business Model*

Securex generally enters into agreements with Dealer's wherein it acquires Alarm Accounts from Dealers and, in consideration for the payment of the purchase price, the Dealer further agrees to perform all customer communications, correspondence, collections, system repair and maintenance and receives a customer service fee for such services.

Securex identifies Alarm Account portfolios with acceptable credit profiles and Dealers with operational infrastructure capable of managing Alarm Accounts with little incremental cost. The fees paid to the Dealers are structured based on a percentage of RMR. Monitoring services for the aggregated Alarm Account portfolio are likewise subcontracted at a fixed rate per Account to ULC approved service providers based on their marginal cost. Securex Financial Corp., a company related to Securex Investments Ltd., provides billing services for a fixed per Account fee and general management services based on a percentage of the RMR. See “- Management Agreement”.

### *Management Agreement*

SMLP entered into the Management Agreement with Securex Financial Corp. on January 1, 2003, as amended by letter agreements dated January 15, 2004 and March 8, 2005, whereby Securex Financial Corp. manages and operates all of the Alarm Accounts business of Securex, including providing administrative facilities.

Pursuant to the Management Agreement, Securex Financial Corp. is engaged as an independent contractor to carry out the supervision, direction and control of the management and operation of the business of Securex (as described under the heading “Description of Securex”) on behalf of Securex, which includes without limitation, the following duties:

- To ensure that SMLP is and continues to be duly licensed, registered and qualified as a limited partnership, and otherwise, to carry on business in each jurisdiction which it owns or leases property or carries on its business;
- To ensure that monitoring services are being provided by reputable service providers in accordance with industry standards on commercially reasonable terms which, among other things, preclude the service provider from soliciting Alarm Accounts and protect Securex's confidential proprietary information;

- To ensure that billings and collections as required under the Alarm Accounts are being performed in a timely and accurate manner and that appropriate records are being kept;
- To provide timely and accurate financial information to each of the limited partners of SMLP;
- To monitor the operation of the Dealers who have been contracted to provide customer service and relationship management in connection with the Alarm Accounts, on a regular basis to ensure that they are complying with the provisions of the management agreements executed by them;
- To ensure that the Alarm Accounts managed by the Dealers are subject to written agreements which, among other things, include appropriate Alarm Account non-solicitation provisions and protect Securex's confidential proprietary information;
- To ensure that Securex has appropriate monitoring liability insurance in place to cover potential liability under the Alarm Accounts that may be acquired from; and
- To otherwise protect and preserve Securex's investment in the Alarm Accounts.

In consideration of the services performed by Securex Financial Corp. pursuant to the Management Agreement, Securex pays Securex Financial Corp. management fees equal to the following:

- (a) 10% multiplied by the RMR from the Alarm Accounts collected in the month; and
- (b) a monthly fee equal to \$1.50 per Alarm Account for billings and collection services.

#### *Employees of Securex*

Pursuant to the Management Agreement as described under the heading "Management Agreement", Securex is fully operated through the contracting out of all services. As such, Securex itself does not have any employees.

#### *Monitoring Agreements*

The monitoring services provided pursuant to the Alarm Accounts owned by Securex, are offered 24 hours a day, seven days a week, pursuant to third party alarm monitoring contracts between either Securex or Securex Financial Corp., as manager of Securex, and monitoring companies such as API Alarm Inc., Consolidated Monitoring Ltd., Security 24 Monitoring, SecurityLink Ltd and Lanvac (the "**Service Providers**").

These Service Providers are engaged to monitor the signals received from alarm panels of the Alarm Accounts and to promptly notify the police, fire department or other authority or other such persons as directed by subscribers. The monitoring services provided include, but are not limited to, burglary and fire monitoring, open and closed monitoring and reporting, and other environmental monitoring functions. In addition, these Service Providers are required to offer Securex's Dealers secured remote access to the monitoring database in order to enable them to provide customer service to Securex's Alarm Accounts. For each calendar month, a monitoring fee on favourable terms and discounted pricing is charged to Securex by each of the Service Providers, based on the number of Securex's Alarm Accounts that are monitored by such Service Provider.

## **RISK FACTORS**

The following are certain factors relating to the business of the Fund which the Unitholders or potential Unitholders should carefully consider. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Annual Information Form. These risks and uncertainties are not the only ones facing AlarmCap Group and the Fund. Additional risks and uncertainties not presently known to AlarmCap Group or the Fund, or that AlarmCap Group or the Fund currently deems immaterial, may also impair the operations of AlarmCap Group or the Fund. If any such risks actually occur, the business, financial condition, or liquidity and results of operations of AlarmCap Group could be materially adversely affected and the ability of the Fund to make distributions on the Units could be adversely affected.

### **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, subscriber replacement costs and subscriber acquisition costs.

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 newcomers. 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 as 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) licencing 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 licencing requirements of federal, provincial, municipal authorities and ULC. 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 third 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 third 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 third 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.

The Credit Agreement 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.

#### *Going concern uncertainty*

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 Fund will be able to generate sufficient funds to discharge its obligation during normal business operations for the foreseeable future.

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 and third 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 per quarter for the prepayment of the bank term loan. During fiscal year 2007, this ratio reached over the 2.50:1 threshold and therefore the Fund had to repay \$1,125,000 on its Bank Term Debt. With this new Bank Credit Amendment no #4, the Fund was in compliance with its financial ratios for fiscal year 2007.

On March 17, 2008, the Fund renewed its Bank Credit Agreement on the same basis and ratios' requirement for a period of three years. Management is confident that the Fund will meet all the requirements in the future.

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 operation as a going concern.

#### *Cash Distributions Are not Guaranteed and Will Fluctuate with the Business Performance*

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, subscriber replacement costs, subscriber acquisition costs and to control subscriber attrition and the fluctuations in the AlarmCap Group's working capital and capital expenditures, all of which are susceptible to a number of risks.

#### *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, 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.

#### *Class A trust units 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*

There can be no assurance that Canadian federal income tax laws and administrative policies respecting the treatment of mutual fund trusts will not be changed in a manner which adversely affects the holders of Class A trust units. If the Fund ceases to qualify as a “mutual fund trust” under the Tax Act, the income tax considerations described herein under the heading “Certain Canadian Federal Income Tax Considerations” would be materially and adversely different in certain respects.

The Fund Declaration of Trust provides that a sufficient amount of the Fund's net income and net realized capital gains will be distributed each year to holders of Class A trust units in order to eliminate the Fund's liability for tax under Part 1 of the Tax Act. Where such amount of net income and net realized capital gains of the Fund in a taxation year exceeds the cash available for distribution in the year, such excess net income and net realized capital gains will be distributed to holders of Class A trust units in the form of additional Class A trust units.

Holders of Class A trust units will generally be required to include an amount equal to the fair market value of those Class A trust units in their taxable income, in circumstances when they do not directly receive a cash distribution.

Due to its structure, the Fund qualifies as a mutual fund trust under the Income Tax Act (Canada) and, as a result, is not subject to income tax to the extent that its taxable income and taxable gains are distributed or to be distributed to its unitholders. Certain subsidiaries of the Fund are subject to income tax at the statutory corporate tax rate. The Fund did not report any income taxes or temporary differences in the accounts of its subsidiaries because it intends, and is contractually bound, to distribute to unitholders all or substantially all of the taxable income and taxable capital gains that would otherwise have been taxable in the Fund. The tax basis of the Fund's net assets as at December 31, 2007, exceeds their carrying amount by approximately \$5,921,000 [\$9,690,000 in 2006].

#### *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.

#### **ITEM 4 – DISTRIBUTIONS**

The Fund intends to make distributions of its available cash to the maximum extent possible to the Unitholders. The Fund intends to make monthly cash distributions to Unitholders of record on the last business day of each month, less estimated cash amounts required for expenses and other obligations of the Fund and cash redemptions of Units and any tax liability.

During the year ended December 31, 2007, the Fund declared the following cash distributions:

##### **Class A trust units**

<b>Period</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Distribution per Unit</b>	<b>Total \$</b>
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**

<b>Period</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Distribution per Unit</b>	<b>Total \$</b>
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	619,790
<b>Total declared distributions</b>				<b>2,239,890</b>

The Fund may make additional distributions in excess of monthly distributions during the year (“**Additional Distributions**”), as the Trustees may determine. Further, the Trustees may make a special Additional Distribution out of the capital of the Trust to holders of the Class A trust units, as a return of capital (the “**Special Distribution**”). The Special Distribution shall be paid in such amounts and on such dates as the Trustees may determine to the holders of the Class A trust units at the record date for such distribution. The Special Distribution shall be paid through the issuance to such holders of the Class A trust units, on a prorata basis, of additional Class A trust units.

Monthly cash distributions shall be made to Unitholders of record on the last business day of a month in respect of the period commencing on the first day of that month and ending on such record date. The distributions shall be paid on or prior to the last day of the month subsequent to the month to which such distributions relate.

Holders of Units who are non-residents of Canada will be required to pay all withholding taxes payable in respect of any distributions of income by the Fund, whether those distributions are in the form of cash or additional Units. Non-residents should consult their own tax advisors regarding the tax consequences of investing in the Units.

**Cash Available for Distributions and Distributions**

(in thousands of dollars, except amounts per Unit)

	Q4-2007	Q3-2007	Q2-2007	Q1-2007	Total 2007
	\$	\$	\$	\$	\$
Cash flow provided by operating activities	3,243	2,760	2,974	2,705	11,682
Subscriber replacement cost (b)	(1,818)	(1,269)	(1,513)	(1,392)	(5,992)
Sustaining capital expenditure (a)	(60)	(60)	(60)	(60)	(240)
Changes in working capital	(9)	523	422	760	1,696
<b>Distributable Cash</b>	<b>1,356</b>	<b>1,954</b>	<b>1,823</b>	<b>2,013</b>	<b>7,146</b>
Distributions paid	-	-	1,344	1,344	2,688
Distributable cash per unit	0.214	0.309	0.288	0.318	1.130
Distributions paid per unit	-	-	0.213	0.213	0.426

(a) 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 \$33,500 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.

(b) Subscriber replacement costs represent management's estimates of the costs to acquire new subscribers RMR 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.

## **ITEM 5 – DESCRIPTION OF CAPITAL STRUCTURE**

### **Capital Structure of the Fund**

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. The Class B trust units of the Fund shall, at the option of each holder of Class B trust units of the Fund, be exchangeable for Class A trust units on the basis of one (1) Fund Unit for one (1) Class B trust unit of the Fund. Each Unit is transferable and 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.

The following table sets forth the capitalization of the Fund as of December 31, 2007.

<b><u>Designation</u></b>	<b><u>Authorized</u></b>	<b><u>As at December 31, 2007</u></b>
Class A trust units	Unlimited	\$45,187,940 (4,574,401 Class A trust units)
Class B trust units	Unlimited	\$17,500,000 (1,750,000 Class B trust units)

Under the Fund's Phantom Unit Plan, phantom units can be granted to certain executives and directors of the AlarmCap Group and the Trustees and the Trust's Trustees. Phantom units are granted without 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 10% of the number of Units outstanding at any time. As at December 31, 2007, there were 160,417 phantom units outstanding under the plan. No compensation expense has been considered in the statement of income in 2007 since management does not believe that they will vest.

### **Limitation on Non-Resident Ownership**

In order for the Fund to maintain its status as a mutual fund trust under the Tax Act, the Fund must not be established or maintained primarily for the benefit of non-residents of Canada within the meaning of the Tax Act. Accordingly, the Fund Declaration of Trust provides that at no time may non-residents of Canada be the beneficial owners of more than 49.9% of the Units. This 49.9% limitation will be applied with respect to the issued and outstanding Units of the Fund on both (i) a non-diluted basis and (ii) a fully-diluted basis. The Trustees, in their sole discretion, may require declarations as to the jurisdictions in which beneficial owners of Units are resident. If the Trustees become aware, as a result of requiring such declarations as to beneficial ownership, that the beneficial owners of at least 49.9% of the Units then outstanding are, or may be, non-residents or that such a situation is imminent, the transfer agent and registrar may make a public announcement thereof and shall not accept a subscription for Units from, or issue or register a transfer of Units to, a person unless the person provides a declaration that the person is not a non-resident. If, notwithstanding the foregoing, the Trustees, in their sole discretion, determine that 49.9% or more of the Units are held by non-residents, the Trustees may send a notice to non-resident holders of Units, chosen in inverse order to the order of acquisition or registration or in such manner as the Trustees may consider equitable and practicable, requiring them to sell their Units or a portion thereof within a specified period of not less than 60 days. If the persons receiving such

notice have not sold the specified number of Units or provided the Trustees with satisfactory evidence that they are not non-residents within such period, the Trustees may, on behalf of such persons, sell such Units and, in the interim, shall suspend the voting and distribution rights attached to such Units. Upon such sale, the affected holders shall cease to be holders of the Units and their rights shall be limited to receiving the net proceeds of such sale.

Under a proposed amendment to the Tax Act, in order for the Fund to maintain its status as a mutual fund trust, at no time may more than 50% of the fair market value of the Units be held by non resident persons or partnerships that are not “Canadian Partnerships” (as defined in the Tax Act).

## **ITEM 6 – MARKET FOR THE NEGOCIATION OF SECURITIES**

The Class A trust units of the Fund are listed on the Toronto Stock Exchange under the symbol “FNA.UN”. The following table identifies the price range and volume traded on such exchange on a monthly basis during the fiscal year 2007.

	TSX		Volume
	High \$	Low \$	
2007			
January	5.20	4.01	21,839
February	5.40	4.75	161,466
March	5.00	4.55	32,217
April	5.30	4.18	46,602
May	6.70	5.25	111,315
June	6.83	6.00	200,237
July	6.35	6.00	132,847
August	6.46	5.71	106,134
September	6.35	6.12	11,575
October	6.16	5.25	56,710
November	5.01	4.50	135,896
December	4.60	4.25	74,487

On March 16, 2005, AlarmCap LP purchased from Robert Branchaud, then President and Chief Executive Officer of Microtec Sécuri-T Commercial Inc., all of his interest in the share capital of Microtec Sécuri-T Commercial Inc., a subsidiary of Microtec which was 87.5% owned by Microtec and 12.5% owned by Robert Branchaud. The purchase price was \$1,000,000, \$300,000 of which was paid to him on March 16, 2005 and the balance of \$700,000 was paid by the transfer to him of 70,000 Class A trust units of the Fund on January 1, 2006 (the “Branchaud Transaction”).

## **ITEM 7 – ESCROWED SECURITIES**

To the knowledge of the Fund, there are no securities held in escrow.

## **ITEM 8 – TRUSTEES, DIRECTORS AND MANAGEMENT**

### **Trustees and Directors**

The table below sets forth the name, municipality of residence, the year he first started serving as a director or trustee, the position with the entity of each Director, Trustee and Trust's Trustee and the number and percentage of Class A trust units and Class B trust units beneficially owned, directly or indirectly, or over which control or direction is exercised, by each of them:

<b>Name and Municipality of Residence</b>	<b>Director/Trustee since</b>	<b>Principal Occupation</b>	<b>Number and percentage of Class A trust units</b>	<b>Number and percentage of Class B trust units</b>
Leonard SUDERMANN Calgary (Alberta)	2005	Trustee of the Fund and Director and President and Chief Executive Officer of AlarmCap GP	147,900 3.23%	1,750,000 100%
Oliver PLETT <sup>(3)</sup> Winnipeg (Manitoba)	2005	Private Investor	55,921 1.22%	-
Adrien POULIOT <sup>(4)</sup> Montreal (Quebec)	2005	Chairman of the Board and Director of AlarmCap GP and Trustee of the Trust	263,588 <sup>(2)</sup> 5.76%	-
Timothy G. WHYTE <sup>(1)</sup> Calgary (Alberta)	2005	President of Simpson's Num-Ti-Jah Lodge Ltd.	-	-
Jean E. CLERK <sup>(4)</sup> Montreal (Quebec)	2005	Partner, Heenan Blaikie LLP, law firm	250 0.005%	-
George FINK <sup>(1)</sup> Calgary (Alberta)	2005	President and Chief Executive Officer; Bonterra Energy Income Trust, Comaplex Minerals Corp. and Pine Cliff Energy Ltd.	15,000 0.32%	-

(1) Members of the Audit Committee, of the Compensation Committee and of the Corporate Governance and Nominating Committee.

(2) 30,770 of these securities are held by a family trust.

(3) Oliver Plett has direct or indirect holdings in Securex Investments Ltd. and each of SMIP's III, IV, V, VI, VII and XI, each of which is a limited partner of SMLP.

(4) Pursuant to a decision of the trustees of the Fund to align the governance structure of the Fund, the Trust and AlarmCap GP, as of March 10, 2008, Messrs Pouliot and Clerk no longer hold positions with the Fund, the Trust or AlarmCap GP.

### **Executive Officers**

The table below sets forth the name, municipality of residence, the first year of employment with AlarmCap Group and the position with the entity of each executive officer:

<b>Name and Municipality of Residence</b>	<b>Executive Officer since</b>	<b>Principal Occupation</b>	<b>Number and percentage of Class A trust units</b>	<b>Number and percentage of Class B trust units</b>
Robert BRANCHAUD <sup>(1)</sup> Saint-Augustin-de-Desmaures (Quebec)	2005	Executive Vice President and Chief Operating Officer, Microtec Division, First National AlarmCap GP Inc.	56,900 1.24%	-
Pierre MATTE <sup>(2)</sup> Quebec (Quebec)	2005	Vice President, Data Systems and Telecommunication, First National AlarmCap GP Inc.	3,250 0.07 %	-
Frédéric CÔTÉ <sup>(3)</sup> Lévis (Quebec)	2006	Vice President Finance and Administration and Chief Financial Officer, First National AlarmCap GP Inc.	-	-

Adrien POULIOT <sup>(4)</sup> Montreal (Quebec)	2005	Chairman of the Board and Director, First National AlarmCap GP Inc. and Trustee of the Trust	263,588 <sup>(5)</sup> 5.76%	-
Leonard SUDERMANN <sup>(6)</sup> Calgary (Alberta)	2005	Trustee of the Fund and Director and President and Chief Executive Officer, First National AlarmCap GP Inc.	147,900 3.23%	1,750,000 100%
Karen CHARTERS <sup>(7)</sup> Vancouver (British Columbia)	2005	Executive Vice President, Securex Division, First National AlarmCap GP Inc.	2,400 0.05%	-

- (1) For the last 5 years, Robert Branchaud was the President and Chief Executive Officer of Microtec Securi-T Commercial Inc.
- (2) For the last 5 years, Pierre Matte was the Executive Vice President, Research and Development of Microtec Technologies Inc.
- (3) For the last 5 years, Frédéric Côté was the Vice President Finance and Administration and Chief Finance Officer of IPL Inc. and prior to 2003, was Vice-President, Analyst Forest and Industrial Products of Desjardins Securities.
- (4) Adrien Pouliot was the Chairman, President and Chief Executive Officer of Entourage Technology Solutions Inc. from 1999 to 2005.
- (5) 30,770 of these securities are held by a family trust.
- (6) For the last 5 years, Leonard Sudermann was and continues to be a director and officer of Securex Ltd. Securex Ltd. was subject to a cease trade order on June 10, 1999, and subsequently revoked in January 2002. Securex Ltd. was also in CCAA proceedings. Leonard Sudermann indirectly exercises control or direction over 100% of the Class B trust units.
- (7) For the last 5 years, Karen Charters was and continues to be Vice President of Securex Investments Ltd., and of Securex Financial Corp.

## Conflicts of interest

The Fund Declaration of Trust contains “conflict of interest” provisions that serve to protect Unitholders without creating undue limitations on the Fund. The Fund Declaration of Trust contains provisions, similar to those contained in the *Canada Business Corporations Act*, that require each Trustee to disclose to the Fund, as applicable, any interest in a material contract or transaction or proposed material contract or transaction with the Fund, or the fact that such person is a director or officer of, or otherwise has a material interest in, any person who is a party to a material contract or transaction or proposed material contract or transaction with the Fund. In any case, a Trustee who has made disclosure to the foregoing effect is not entitled to vote on any resolution to approve the contract or transaction unless the contract or transaction is one relating primarily to (i) his remuneration as a Trustee or officer of the Fund, as applicable, (ii) insurance or indemnity, or (iii) a contract or transaction with the Trust.

Securex Investments Ltd., a wholly-owned subsidiary of Securex Ltd., owns 33.13% of SMLP which owns all of the Class B Units. Leonard Sudermann, a trustee of the Fund and director, President and Chief Operating Officer of AlarmCap GP, indirectly owns or controls a majority of the shares of Securex Investments Ltd. Furthermore, Leonard Sudermann indirectly and directly owns or controls a majority of the shares of Securex G.P. Ltd., the general partner of SMLP. Securex G.P. Ltd. is also the general partner of the individual limited partnerships, which make up the majority of the limited partners of SMLP. As such, Leonard Sudermann indirectly exercises direction and control over all of the issued and outstanding units of SMLP and thereby, the Class B Units.

Ms. Karen Charters, Executive Vice President of AlarmCap, Securex Division, and also a Vice President of Securex Financial Corp. and Securex Investments Ltd., indirectly holds an interest of 1.9% in Securex Financial Corp., a wholly-owned subsidiary of Securex Ltd.

On January 1, 2003, SMLP concluded with Securex Financial Corp. the Management Agreement (described under the heading “Description of Securex – Management Agreement”, by which Securex Financial Corp. manages and controls the activities of Securex related to the portfolios of Alarm Accounts, including the provision of administrative and billing services.

In consideration of the services rendered by Securex Financial Corp. under the terms of the Management Agreement, Securex pays administrative fees in corresponding to what follows :

- a) 10 % of the RMR coming from the accounts of alarm recovered during the month; and

- b) monthly expenses corresponding to 1,50 \$ per account of alarm with regard to the services of covering and invoicing of the accounts of alarm.

Mrs. Linda Sudermann, who is Mr. Leonard Sudermann's spouse, owns and controls Golden Ears Alarm Systems Ltd. which is an AlarmCap Dealer.

### **ITEM 9 – LEGAL PROCEEDINGS**

Management is not aware of any litigation outstanding, threatened or pending as of the date hereof by or against the Fund, the Trust or AlarmCap LP, or their respective subsidiaries which would have a material effect on the Units.

### **ITEM 10 – INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Except for the Management Agreement, the SMLP Asset Purchase Agreement, the Microtec Asset Purchase Agreement and the Branchaud Transaction, management does not have a material interest in any transaction that has materially affected the Fund other than as follows:

- A demand note amounting to \$198,000 bearing interest at 9%, without specific repayment terms, payable to SMLP, over which Mr. Leonard Sudermann exercises control or direction. This amount was reimbursed in 2006;
- A term note amounting to \$3,500,000 was also payable to SMLP, over which Mr. Leonard Sudermann exercises control or direction. This amount has been reimbursed by the issuance of a five-year subordinated debentures bearing interest at 9% for a total amount of \$5,000,000; and
- A note payable amounting to \$700,000 bearing interest at 12%, without specific terms of repayments, was payable to Mr. Robert Branchaud as at December 31, 2005. On January 1, 2006, the Fund issued, by way of a private placement, 70,000 Class A trust units valued at \$682,500 to settle such note.
- An advance amounting to \$71,000 was receivable in 2007 from Mr. Robert Branchaud. This advance bears no interest and has no specific term of repayment.

During the year, the Fund entered into transactions with companies controlled by unitholders who are also officers of the Fund. 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 consolidated financial statements as follows:

(in thousands of dollars)	2007	2006
<hr/>		
Statement of income:	\$	\$
Monitoring and customer service	50	10
General and administrative expenses	730	441
Interest on debt including amortization of deferred financing costs	-	240
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Balance Sheets :		
Accounts receivable	39	-
Subscriber accounts	70	70
Advance to a manager	71	-
Accounts payable	107	85

## **ITEM 11 – TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar for the Units is Equity Transfer Services Inc., at its principal transfer office located at 200 University Avenue, Suite 400, Toronto ON M5H 4H1.

## **ITEM 12 – MATERIAL CONTRACTS**

The only material contracts entered into by the Fund or its subsidiaries during the most recently complete financial year or before the most completed financial year but which is still in effect, other than in the ordinary course of business, are as follows:

1. The Fund Declaration of Trust, described under the heading “Description of the Fund” and in the Glossary of terms;
2. The Trust Declaration of Trust, described under the heading “Description of the Trust” and in the Glossary of terms;
3. The AlarmCap LP Partnership Agreement, described under the heading “Description of AlarmCap LP” and in the Glossary of Terms;
4. The Credit Agreement, described in the Glossary Terms;
5. The Management Agreement, described under the heading “Description of Securex – Management Agreement”; and
6. The agreement implementing the Branchaud Transaction described under the heading “Market for the Negotiation of Securities”.
7. The sale of the real estate and the subcontracting of the monitoring of the Ontario accounts to a third party monitoring service provider as referred to under “Item 2 – General Development of the Business – Significant Acquisitions and Dispositions”.

Copies of the foregoing documents may be examined during normal business hours at the office of the Fund located at 1122, 4th Street SW, Suite 810, Calgary, Alberta T2R 1M1.

## **ITEM 13– ADDITIONAL INFORMATION**

### **Available documentation**

Additional information concerning the Fund is available either on the Fund’s website ([www.alarmcap.ca](http://www.alarmcap.ca)) or on SEDAR at [www.sedar.com](http://www.sedar.com). The Fund is a reporting issuer in certain provinces of Canada and is thereby required to file financial statements and information circulars with the various securities commissions in such provinces. The Fund will also file its annual information forms annually with such securities commissions. Copies of the Fund’s most recent annual information form, information circular, financial statements and management’s discussion and analysis may be obtained on request from the Corporate Secretary of the Fund once they have been published. The Fund may require the payment of a reasonable charge when the request is made by someone other than a holder of securities of the Fund. The financial information of the Fund will be available in the comparative financial statements and management’s discussion and analysis for our last financial year on SEDAR once they are filed within the prescribed delays.