



FIRST NATIONAL ALARMCAP INCOME FUND

Year Ended December 31, 2006

As at April 2, 2007

FIRST NATIONAL ALARMCAP INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2006

As at April 2, 2007

Introduction

This management discussion and analysis ("MD&A") is a review of the financial condition and results of operations of First National AlarmCap Income Fund (the "Fund"). It should be read in conjunction with the audited consolidated financial statements and accompanying notes of the Fund for the period ended December 31, 2006 and with the audited financial statements and accompanying notes of the Fund for the 9-month period ended December 31, 2005. Results are reported in thousands of Canadian dollars unless otherwise stated and have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP").

Since the Fund commenced active operations on April 1, 2005, the following MD&A will compare the operating results of the Fund for the full 2006 year with a normalized twelve-month period for the 2005 year which was divided by the number of operating months (9) in 2005 and then multiplied it by 12. Also, we will compare the three-month period ended December 31, 2006 with the three-month period ended December 31, 2005.

Overview of the Fund

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Alberta pursuant to a declaration of trust dated February 24, 2005, as amended and restated on March 4, 2005. The Fund commenced active operations on April 1st, 2005. The Fund was created to acquire substantially all of the assets and shares of Microtec Enterprises Inc. ("Microtec") and substantially all of the assets of Securex Master Limited Partnership ("SMLP"). Microtec, founded in 1989 in Quebec City, Quebec, is one of the largest full-service security alarm monitoring companies in Canada with some 86,000 subscribers as at December 31, 2006. SMLP, founded in 1994 and based in Calgary, Alberta, with dealers across Canada, is an alternative credit and bundled service provider to independent alarm company dealers with 16,000 subscribers.

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

Consolidation of Units

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

Forward-Looking Statements

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

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

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this MD&A are made as of the date of this MD&A and none of the Fund,

the Trust, AlarmCap LP or AlarmCap GP undertake any obligation to publicly update or revise such forward-looking statements to reflect new information, subsequent events, results, circumstances or otherwise. Additional information in the Fund may be obtained in the following web site : www.sedar.com.

Supplemental Disclosure

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

Distributable Cash is not a defined term under Canadian GAAP but is determined by the Fund as EBITDA less subscriber replacement costs, interest on debt and sustaining capital expenditures. 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.

Financial Highlights (for the first 7 quarters of operation)

The following table presents selected financial information regarding the financial results of the Fund for the last seven quarters of operation. More detailed 2005 financial information is contained in the audited consolidated financial statements and accompanying notes of the Fund for the period ended December 31, 2005. For 2006, additional information is contained in the audited consolidated financial statements and accompanying notes of the Fund for the period ended December 31, 2006.

(in thousand of dollars, except amounts per Unit)

	Q4-2006	Q3-2006	Q2-2006	Q1-2006	Total 2006	Q4-2005	Q3-2005	Q2-2005	Total 9 months 2005	Total 2005 annualized
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Monitoring revenues	7,416	7,411	7,370	7,453	29,650	7,663	7,798	7,764	23,225	30,967
Installation revenues	735	514	859	546	2,654	507	532	578	1,617	2,156
Total revenues	8,151	7,925	8,229	7,999	32,304	8,170	8,330	8,342	24,842	33,123
Monitoring expenses	672	743	713	715	2,843	777	844	822	2,443	3,257
Customer service expenses	1,080	1,181	1,087	1,050	4,398	1,054	1,114	1,038	3,206	4,275
Installation, sales and marketing expenses	744	614	825	557	2,740	573	479	514	1,566	2,088
Income before G&A expenses and other items	5,655	5,387	5,604	5,677	22,323	5,766	5,893	5,968	17,627	23,503
G&A	1,632	1,804	1,586	1,528	6,550	1,434	1,476	1,492	4,402	5,869
EBITDA	4,023	3,583	4,018	4,149	15,773	4,332	4,417	4,476	13,225	17,633
Goodwill impairment	13,191	-	-	-	13,191	-	-	-	-	-
Net income (Loss)	(12,577)	340	929	1,226	(10,082)	2,304	785	1,056	4,145	5,527
Distributable cash flow	1,598	662	1,234	1,750	5,253	1,909	1,583	2,132	5,624	7,499
Distributed cash flow	1,344	1,581	2,056	1,924	6,905	1,917	1,933	1,975	5,825	7,767
Cash flow from operating activities	2,699	4,508	3,289	3,476	13,972	3,448	2,658	3,725	9,185	12,247
Earnings per Unit	(1.988)	0.054	0.147	0.194	(1.594)	0.368	0.126	0.185	0.683	
Distributions per Class A Unit	0.213	0.250	0.325	0.325	1.112	0.328	0.331	0.381	1.040	
Distributions per Class B Unit	0.213	0.250	0.325	0.250	1.037	0.252	0.252	0.249	0.753	
Total assets	101,605	114,765	115,196	115,027	101,605	115,309	114,894	116,692	115,309	115,309
Total long-term debt	50,380	50,000	50,000	48,500	50,380	48,500	48,405	48,399	48,500	48,500

Consolidated Statement of Income

Revenues

Monitoring and Services

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

Revenues from monitoring and services totalled \$7,416,000 for the fourth quarter of 2006 versus \$7,663,000 for the same quarter of 2005. Of the total monitoring and service revenues, \$7,044,000, or 95.0%, came from monitoring revenues and the balance of \$372,000 from service revenues for the fourth quarter of 2006 compared to \$7,302,000 or 95.3% and \$361,000 respectively for the same period last year. Monitoring decreased because the higher recruitment than attrition during the fourth quarter of 2006 was not enough to compensate the higher attrition than recruitment during the full 2006 fiscal year. The recurring monthly revenue ("RMR") at the end of the 2006 fourth quarter was \$1,933,000 as compared to an RMR of \$1,963,000 at the end of the 2005 fourth quarter. This decrease occurred even though the average RMR per customer increased from \$21.37 at the end of 2005 to \$22.42 at the end of 2006 as a result of price increases and more value-added services per customer. Service revenues decreased because of a decrease in service calls and in penalty revenues, mainly because the Microtec Division has decided, for public relations and marketing reasons, to waive certain penalties it used to collect from customers who are disconnecting its service.

For the 2006 year, revenues from monitoring and services totalled \$29,650,000 compared to \$30,967,000 during the 2005 annualized year. Monitoring revenues reached \$28,371,000 in 2006, a decrease of 4.3%, compared to the previous annualized year for the same reasons explaining the reduction in the fourth quarter. Service revenues reached \$1,279,000 and \$1,441,000 for these two same periods because the Fund did not focus as much on large commercial projects as it had done in 2005. At the end of the year, the Fund had 103,128 subscribers compared to 109,167 at the end of the same period last year, a decrease of 5.5%.

Installation

Installation revenues for the fourth quarter ended December 31, 2006 increased by 45.0% to \$735,000 compared to \$507,000 in the fourth quarter of 2005. These installation revenues were generated mainly from activation fees and equipment sold to new customers. On a yearly basis, these revenues totalled \$2,654,000 in 2006 compared to \$2,156,000 in the 2005 annualized year.

Operating Expenses

Operating expenses fall into these three major categories:

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

- General and administrative expenses include all costs related to managing the subscriber accounts of the Fund and its subsidiaries.

For the fourth quarter of 2006, total operating expenses amounted to \$4,128,000 or 50.6% of total revenues, an increase of 7.6% compared with \$3,838,000 or 47.0% for the same period last year. For the 2006 fiscal year, these expenses reached \$16,531,000 or 51.2% of total revenues compared with \$15,489,000 or 46.8% for the same annualized period last year, an increase of 6.7%.

Monitoring and Customer Service

In the fourth quarter of 2006, the monitoring and customer service expenses amounted to \$1,752,000 or 23.6% of total monitoring and service revenues compared to \$1,831,000 or 23.9% for the fourth quarter of 2005, a decrease of 4.3%. This decrease, both in dollar and percentage term, is due to the previously announced restructuring of the Fund's monitoring and customer service operations. As a result of various cost-reduction and efficiency-improvement initiatives, the cost of operating our monitoring stations decreased from \$777,000 to \$672,000 in the fourth quarter of 2006 compared to the fourth quarter of 2005. This decrease more than offset cost increases in the customer service department from \$1,054,000 to \$1,080,000. This increase is mainly attributable to higher payments to associated dealers as a result of the new associated-dealer program implemented last year which more than offset savings from a decrease in our internal salaries. As for the 2006 fiscal year, the monitoring and customer service expenses reached \$7,241,000 or 24.4% of total monitoring and service revenues compared with \$7,532,000 or 24.3% for the same annualized period last year for the same reasons.

Installation, Sales and Marketing Expenses

Installation, sales and marketing expenses totalled \$744,000 or 101.2% of the installation revenues in the fourth quarter of 2006 compared to \$573,000 or 113.0% in the fourth quarter of 2005. This decrease in percentage term is due to some major higher margin contracts realized during the fourth quarter of 2006. For fiscal 2006, these expenses reached \$2,740,000 or 103.2% compared with \$2,088,000 or 96.8% during the same annualized period in 2005. These higher expenses both in dollar and percentage terms are due to the creation of a new marketing department and the establishment of a residential sales force in 2006.

Income before G&A and other items

Income before G&A and other items was \$5,655,000 for the fourth quarter of 2006, or 69.4% of total revenues. This compares unfavourably to the same quarter last year which had a gross margin of \$5,766,000, or 70.6%. This was attributable to the aforementioned decrease in monitoring revenues and higher percentage of less profitable installation revenues on total revenues. This negative trend also happened in fiscal 2006 compared to annualized fiscal 2005 with income before G&A and other items reaching \$22,323,000 or 69.1% of total revenues compared with \$23,503,000 or 71.0% respectively, a decrease of 5.0%.

General and Administrative Expenses

General and administrative expenses were \$1,632,000, or 20.0% of total revenues at the end of the fourth quarter of 2006, higher by 13.8% than the \$1,434,000, or 17.6%, during the same period last year. These higher costs mainly came from the remuneration paid to the Executive Chairman of the Board and the President and Chief Executive Officer who were not remunerated by the AlarmCap Group in 2005 and professional fees. For fiscal 2006, these expenses reached \$6,550,000 or 20.3% of total revenues, an increase of 11.6% compared with \$5,869,000 or 17.7% for annualized fiscal 2005 for the same reasons as for the fourth quarter.

EBITDA

For the fourth quarter ended December 31, 2006, EBITDA was \$4,023,000, or 49.4% of total revenues, a reduction of 7.1% as compared to \$4,332,000, or 53.0% during the fourth quarter of 2005. EBITDA amounted to \$15,773,000 or 48.8% in fiscal 2006 and \$17,633,000 or 53.2% for the same annualized period last year, a reduction of 10.5%, mainly attributable to the lower revenues and higher general and administrative charges referred to above.

Amortization of Subscriber Accounts, Property and Equipment

For the fourth quarter ended December 31, 2006, total amortization expenses were \$2,405,000, an amount which includes \$46,000 of amortization of deferred financing costs presented in the interest on debt section. Amortization of the subscriber accounts was higher by \$1,109,000 than the fourth quarter ended December 31, 2005 as a result of (i) a valuation of the asset purchase price allocation and assets purchased that was completed after the end of the 2005 year and presented in the audited consolidated financial statements for 2005 and (ii) an increase of \$59,000 in amortization of financing costs related to transaction fees for a private placement of a principal amount of \$5,000,000 Series A 9% secured subordinated debentures of the Fund and a complete review of the Bank Credit Agreement. Subsequent to the valuation, amortization of the Microtec subscriber accounts is now calculated at a 12% declining-

balance rate and amortization of the Securex subscriber accounts is now calculated at a 10% declining-balance rate. For fiscal 2006, total amortization expenses reached \$9,481,000 compared with \$9,221,000 during the same annualized period in 2005.

Interest Expense and Amortization of Long-Term Assets

For the fourth quarter ended December 31, 2006, interest expense of \$802,000 (net of \$46,000 of amortization of deferred financing expenses) was \$72,000 higher than the fourth quarter of 2005. This increase is attributable to the private placement of Series A, 9%, secured subordinated debentures in the principal amount of \$5,000,000. The debentures mature in April 2011. The net proceeds were used to reimburse indebtedness owed to SMLP Master Limited Partnership in an amount of \$3,500,000 and for general corporate purposes. For fiscal 2006, interest expenses reached \$3,099,000 (net of \$471,000 of amortization of deferred financing expenses and deferred gain) compared with \$2,885,000 (net of \$553,000 of amortization of deferred financing expenses) in annualized fiscal 2005 as a result mainly of higher average interest rates paid because the Fund used bankers' acceptances in 2005 whereas it used more expensive floating rate instruments in 2006.

Goodwill and other intangible assets

The Fund completed its annual goodwill impairment test. Throughout 2006, the Fund did not meet its financial expectations in terms of revenues and net income. As a result and taking into account new financial forecasts and the possible impact of the proposed Canadian income tax rule changes, the Fund concluded that the carrying amount of goodwill was permanently impaired and a non-cash charge of \$13,191,000 was taken at December 31, 2006.

Net Income

Net loss for the quarter reached \$12,577,000 or \$1.99 per unit compared to a net income of \$2,304,000 or \$0.368 per unit in the corresponding period in 2005. For fiscal year 2006, net loss totalled \$10,082,000 or \$1.59 per unit compared to \$5,527,000 or \$0.910 per unit for annualized fiscal 2005. The difference for both periods was due to lower revenues, the \$13,191,000 goodwill impairment charge, the change in amortization and higher general and administrative expenses previously discussed.

Subscriber and Retention

The annualized gross attrition rate of RMR for the fourth quarter of 2006 was 9.91% compared to 13.43% during the same period last year. This represents a 26.2% reduction in the rate at which the customers cancel their monitoring service contracts. Net attrition, after resigning existing customers or reconnecting installed systems, was 9.14% for the fourth quarter of 2006 compared to 12.38% for the same quarter last year. For fiscal 2006, gross attrition rate reached 11.62% compared to 12.18% for fiscal 2005 and net attrition rate amounted to 10.73% and 10.99% respectively. Improving attrition rates are expected to have a favorable impact on the Fund's subscriber replacement costs in the future.

The RMR attrition rate represents the gross RMR lost as a result of cancellations, reduced by cancellation guarantees, as a percentage of the total recurring revenues during the period.

Liquidity and Capital Resources

As at December 31, 2006, the Fund had cash and cash equivalents of \$1,073,000, a decrease of \$599,000 compared to December 31, 2005. This decrease is mainly due to the fact that the distributable cash was lower than the distributed cash during fiscal year 2006.

Total assets as at December 31, 2006 amounted to \$101,605,000 compared to \$115,309,000 for the same period last year. This material decrease is due to the \$13,191,000 goodwill impairment charge.

Total liabilities of \$61,133,000 are 4.4% higher than those of the corresponding date last year and were primarily comprised of the long-term debt amounting to \$50,000,000 of which \$45,000,000 arose from the Bank Credit Agreement and \$5,000,000 from a private placement of Series A 9% secured subordinated debentures maturing in April 2011.

Unitholders' equity as at December 31, 2006 was \$40,472,000 compared to \$56,777,000 as at December 31, 2005. This 28.7% decrease is due to the goodwill impairment charge and higher cumulative distributions than cumulative net income.

For the quarter ended December 31, 2006, cash flow from operating activities totalled \$2,699,000 compare to \$3,448,000 reached during the same period last year. Lower net income more than offset higher amortization and goodwill impairment charge. For fiscal year 2006, it reached \$13,972,000 or 14.1% higher compared with \$12,247,000 in annualized year 2005, due to the improvement in net change in non-cash working capital items, goodwill impairment charge and higher amortization which more than offset lower net income.

Investing activities reached \$1,446,000 in the fourth quarter of 2006 compared to \$1,938,000 in the fourth quarter of 2005. This decrease is mainly due to lower increase in subscriber accounts during the fourth quarter of 2006. For fiscal year 2006, it reached \$8,879,000 compared with \$79,684,000 during the 9-month period of 2005. This decrease is due to the business acquisition in 2005.

Financing activities amounted to \$1,231,000 in the fourth quarter of 2006 compared to \$1,910,000 for the same period last year. This 35.5% decrease is mainly due to lower distributions to unitholders.

Cash Available for Distributions and Distributions

(in thousands of dollars, except amounts per Unit)

	Q4-2006	Q3-2006	Q2-2006	Q1-2006	Total 2006	Q4-2005	Q3-2005	Q2-2005	Total 9 months 2005
	\$	\$	\$	\$	\$	\$	\$	\$	\$
EBITDA	4,023	3,583	4,018	4,149	15,773	4,332	4,417	4,476	13,225
Non-Cash adjustment (Phantom Unit Plan)	(78)	11	67	-	-	-	-	-	-
Adjusted EBITDA	3,945	3,594	4,085	4,149	15,773	4,332	4,417	4,476	13,225
Less:									
Interest on debt	(812)	(823)	(754)	(719)	(3,099)	(732)	(739)	(693)	(2,164)
Sustaining capital expenditures	(60)	(150)	(200)	-	(410)	162	(142)	(20)	-
Subscriber replacement costs	(1,475)	(1,959)	(1,897)	(1,680)	(7,011)	(1,853)	(1,953)	(1,631)	(5,437)
Cash available for distributions	1,598	662	1,234	1,750	5,253	1,909	1,583	2,132	5,624
Cash available for distributions per Unit	0.253	0.105	0.195	0.277	0.831	0.305	0.253	0.374	0.926
Distributions declared	1,344	1,581	2,056	1,924	6,905	1,917	1,933	1,975	5,825
Distributions declared per Unit	0.213	0.250	0.325	0.305	1.092	0.307	0.309	0.346	0.959
Weighted average units outstanding during the period (in thousands)	6,324	6,324	6,324	6,324	6,324	6,254	6,254	5,703	6,072

Subscriber replacement costs represent management's estimates of the costs to acquire new subscribers to replace subscribers lost through attrition. Subscriber replacement costs are necessary to maintain the Fund's RMR and Distributable Cash at current levels. To maintain RMR, the Fund replaces 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 through price increases and the sale of new value-added services to its existing subscriber base.

During the fourth quarter of 2006, cash available for distributions was higher than the distributions declared by \$254,000. In the comparable period last year, cash available for distributions was lower than the distributions declared by \$8,000. During the fourth quarter of 2006, the reduction in distributions declared more than offset lower cash available for distributions compared to the same period last year. The decrease in cash available for distributions in fiscal 2006 compared to annualized fiscal 2005 is due to lower adjusted EBITDA, higher interest costs and higher sustainable capital expenditures which more than offset lower subscriber replacement costs. To better

match our distributable cash with our distributed cash, the company announced a distribution cut effective last September. Monthly distributions have been reduced by 35% from 0.10833 to 0.07083 per unit. Also, the Fund went through a restructuring at the end of September in which approximately 6% of the Fund's employees were laid off. Finally, AlarmCap realizes efficiencies from its investment in an upgraded telecom and IT platform and completes the previously announced plan to restore EBITDA to second quarter 2005 levels and reduces subscriber replacement costs in order to improve cash flow available for distribution.

Distributions Declared

During the year ended December 31, 2006, the Fund declared the following cash distributions:

Class A trust units

Period	Record Date	Payment Date	Distribution per Unit	Total \$
January 2006	January 31, 2006	February 28, 2006	0.10833	495,560
February 2006	February 28, 2006	March 31, 2006	0.10833	495,560
March 2006	March 31, 2006	April 30, 2006	0.10833	495,560
April 2006	April 30, 2006	May 31, 2006	0.10833	495,560
May 2006	May 31, 2006	June 30, 2006	0.10833	495,560
June 2006	June 30, 2006	July 31, 2006	0.10833	495,560
July 2006	July 31, 2006	August 31, 2006	0.10833	495,560
August 2006	August 31, 2006	September 30, 2006	0.07083	324,020
September 2006	September 30, 2006	October 31, 2006	0.07083	324,020
October 2006	October 31, 2006	November 30, 2006	0.07083	324,020
November 2006	November 30, 2006	December 31, 2006	0.07083	324,020
December 2006	December 31, 2006	January 31, 2007	0.07083	324,020
			1.11246	5,089,020

Class B trust units

Period	Record Date	Payment Date	Distribution per Unit	Total \$
January 2006	January 31, 2006	February 28, 2006	0.08333	145,833
February 2006	February 28, 2006	March 31, 2006	0.08333	145,833
March 2006	March 31, 2006	April 30, 2006	0.08333	145,833
April 2006	April 30, 2006	May 31, 2006	0.10833	189,583
May 2006	May 31, 2006	June 30, 2006	0.10833	189,583
June 2006	June 30, 2006	July 31, 2006	0.10833	189,583
July 2006	July 31, 2006	August 31, 2006	0.10833	189,583
August 2006	August 31, 2006	September 30, 2006	0.07083	123,958
September 2006	September 30, 2006	October 31, 2006	0.07083	123,958
October 2006	October 31, 2006	November 30, 2006	0.07083	123,958
November 2006	November 30, 2006	December 31, 2006	0.07083	123,958
December 2006	December 31, 2006	January 31, 2007	0.07083	123,958
			1.03746	1,815,621
Total declared distributions				6,904,641

Contractual Obligations

(in thousands of dollars)

	December 31, 2006	December 31, 2005
	\$	\$
Bank term loan ^(a)	45,000	45,000

Term note	-	3,500
Subordinated debenture ^(b)	5,000	
	50,000	48,500

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

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

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

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

The Bank Credit Agreement contains certain covenants. In addition, the Fund is committed to maintaining certain financial ratios. As at December 31, 2006 and during the three last quarters of fiscal year 2006, the Fund was not in compliance with certain financial ratio requirements. However, the Fund obtained the necessary waivers from its creditors or loan modifications for the non-compliance with the financial ratios. Consequently, the loan has not been reclassified as a current liability.

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

Contractual obligations (in thousands of dollars)	Payments by period			
	Total	Less than 1 year	1 to 3 years	4 to 5 years
Bank term loan	45,000	-	45,000	-
Subordinated debenture	5,000	-	-	5,000
Capital Lease	462	82	183	197
Total	50,462	82	45,183	5,197

Financial Instruments

As at December 31, 2006, the interest-rate swap agreements were detailed as follows:

(in thousands of dollars)

Purpose	Fixed rate payable	Floating rate receivable	Notional	Maturity	Fair value
Debt hedge	4.82% until April 2006 5.50% May 2006–April 2007 6.00% May 2007–March 2008 (effective rate 5.50%)	Bankers' Acceptances +2.25%	\$45,000	March 2008	\$330 (\$718 in 2005)

During the year 2006, the Fund has ceased to designate its interest rate swaps as hedged instruments because it has changed from bankers' acceptances during the third quarter to a more expensive floating rate instrument. As a result the interest rate swaps have been accounted for on the balance sheet for an amount of \$330,000.

Subsequent Events

On April 2, 2007, the Fund signed an amendment to the bank term loan agreement of \$45,000,000. The new agreement includes modifications to its financial ratio requirements and an increase varying from 0.25% to 0.75% of the interest rate applicable on either bank's prime rate or Bankers' acceptance rate.

The new agreement also foresees a prepayment on the bank term loan equivalent to the net amount obtained in relation with the specific events described in note 2 of the consolidated financial statements.

Off-Balance Sheet Arrangements

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

Related Party Transaction

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

(in thousands of dollars)	2006	2005
Statement of income:	\$	(9 months) \$
Monitoring and customer service	50	10
General and administrative expenses	742	441
Interest on debt including amortization of deferred financing costs	89	240
Balance Sheets :		
Accounts receivable	-	152
Subscriber accounts	70	52
Accounts payable	85	-
Demand note payable	-	198

Outstanding Unit Data

An unlimited number of Class A trust units and Class B trust units of the Fund may be issued pursuant to the Fund Declaration of Trust. Each Unit is transferable and, subject to special distributions given to the Class A trust units over the Class B trust units, represents an equal undivided beneficial interest in any distributions from the Fund, whether of net income, net realized capital gains (other than net realized capital gains distributed to redeeming Unitholders) or other amounts, and in the net assets of the Fund in the event of termination or winding-up of the Fund. The Units are not subject to future calls or assessments and entitle the holders thereof to one vote for each whole Unit held at all meetings of Unitholders. Except under certain circumstances, the Units have no conversion, retraction, redemption or pre-emptive rights. The holders of Class A trust units had, until April 30, 2006, priority over the holders of Class B trust units of the Fund to Distributable Cash payable in respect of each Unit which exceeded \$0.07916 per Unit but was less than \$0.10834 per Unit (the "**Distribution Priority**"). The Distribution Priority was to remain in effect until such time as the holders of the Class A trust units had received aggregate distributions (which included all forms of distributions other than the described below) paid by the Fund to the holders of the Class A trust units over a fiscal quarter which are equal to \$0.325 per Fund Unit for a period of four (4) consecutive fiscal quarters (the "**Distribution Priority Termination Event**"). Upon the occurrence of the Distribution Priority Termination Event, the holders of Class B trust units of the Fund have, at the option of each holder of Class B trust units of the Fund, the right to exchange their Class B trust units for Class A trust units on the basis of one (1) Class A trust unit for one (1) Class B trust unit of the Fund. On April 30, 2006, the holders of the Class A trust units having received distributions from the Fund equal to \$0.325 per Class A trust unit per quarter for a period of four consecutive quarters, a Distribution Priority Termination Event occurred and the Distribution Priority in favour of the holders of the Class A trust units over the holders of the Class B trust units terminated. Consequently, the holders of the Class B trust units now have the right to exchange their Class B trust units for Class A trust units on the basis of one (1) Class A trust unit for each Class B trust unit.

As at December 31, 2006, 4,574,401 Class A trust units and 1,750,000 Class B trust units were outstanding.

Fund's Phantom Unit Plan

Phantom Unit Plan

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

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

As at December 31, 2006, 160,417 Phantom Units had been awarded. However, because Management believes that performance based conditions will not be met, the charge of \$78,000 taken in the first three quarters was reversed in the last quarter. In the last quarter of 2006, the amounts that has been accounted for in the previous months was reversed because management now estimates that these phantom units will not meet the conditions under which they become vested.

Accounting Policies

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

Initial Adoption of Accounting Policies

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

Future Changes in Accounting Standards

The Fund reviews all revisions to the CICA Handbook when issued. The following is a summary of the relevant Handbook revisions that will become effective for the Fund's financial statements for the year ended December 31, 2007. Based on our review, we did not expect a material effect in the Fund's financial statements when we adopted these new standards on January 1, 2007.

Handbook Section 1530, Comprehensive Income, requires presenting comprehensive income and its components (defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources) in financial statements as well as net income.

Handbook Section 3855, Financial Instruments - Recognition and Measurement, establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It provides standards for the classification of financial instruments, related interest, dividends, losses and gains, the circumstances in which financial assets and financial liabilities are offset, and disclosures about financial instruments and non-financial derivatives.

Handbook Section 3865, Hedges, establishes standards for when and how hedge accounting may be applied, ensuring that counterbalancing gains, losses, revenues and expenses are recognized in net income in the same period or periods.

Handbook Section 3861, Financial Instruments - Disclosure and Presentation, replaces Handbook Section 3860, Financial Instruments - Disclosure and Presentation, and establishes standards for presentation of financial instruments and non-financial derivatives, and identifies information that should be disclosed.

Basis of presentation

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

Consolidation

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

Use of estimates

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

Revenue recognition

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

Inventories

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

Property, plant and equipment

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

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

Subscriber accounts

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

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

Goodwill

Goodwill represents the difference between the purchase price, including acquisition costs, of businesses acquired and the fair value of the identifiable net assets acquired. Goodwill is tested for impairment annually or more frequently

if events or circumstances indicate that the asset might be impaired. If the carrying value of a reporting unit, including the allocated goodwill, exceeds its fair value, based on a combination of valuation methods, goodwill impairment is measured as the excess of the carrying amount of the reporting unit's allocated goodwill over the implied fair value of the goodwill, based on the fair value of the identifiable assets and liabilities of the reporting unit.

Other long-term assets

Other long-term assets mainly consist of deferred financing costs which are recorded at cost and amortized on a straight-line basis over the terms of the related debt and restricted cash.

Impairment of long-lived assets

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

Leases

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

Unit-based compensation

As described in note 12, the Fund provides unit-based compensation, under a plan in the form of grants of phantom unit awards.

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

Earnings per unit

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

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

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

Hedge accounting

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

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

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

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

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

Management's Report on Internal Control over Financial Reporting

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

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

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

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

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

The Fund identified a weakness in the inventories counting procedures. Additional work was performed to ensure the amounts shown in the financial statements at year-end are accurate. The identified weakness will be corrected in the first quarter of 2007 by the addition of new procedures.

The Fund identified a weakness in the goodwill impairment evaluation process. This process should be performed early during the fiscal year so that any impairment can be identified and accounted for promptly. The Fund only performed this evaluation during the first quarter of 2007 for fiscal year 2006.

Because of the material weaknesses described above, Management has concluded that the design of the internal control over financial reporting and the disclosure controls and procedures were not effective. Notwithstanding these weaknesses, Management has concluded that the consolidated financial statements included in this report fairly present the Fund's consolidated financial position and the consolidated results of operation as of and for the year ended December 31, 2006.

Remediation plans

The Fund will develop new procedures and controls in the first quarter of 2007 to correct the above significant weaknesses.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the CEO and the CFO, on a timely basis so that appropriate

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

Risks and Uncertainties

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

At the end of each of the first three quarter of 2006, the Fund did not respect its bank covenants. However it obtained appropriate waivers from its secured creditors. As at December 31, 2006, the Fund did not respect its debt covenants. On April 2, 2007, the Fund signed an amendment to the bank term loan of \$45,000,000. This amendment includes modifications to the debt covenants, defining new ratios for the period from October 1st, 2006 to March 31, 2007, and more stringent ratios thereafter. The amendment also requires the prepayment of the loan in specific situations. With this amendment, the Fund now respects the new debt covenants as at December 31, 2006.

In order to meet the debt covenants for the periods after March 31, 2007, management will need to reimburse approximately \$5,000,000 of the bank term loan. This is expected to be done through the sale and leaseback of its building in Saint-Augustin-de-Desmaures and by obtaining additional new subordinated loan financing before the end of April 2007. The agreement for the sale of its building has been signed for an amount of \$2,880,000, net of sales commission, and the transaction is expected to close by April 16, 2007.

Management has had preliminary discussions with potential creditors. Based on these discussions, management believes they will be able to obtain the balance needed to reimburse \$5,000,000 of the \$45,000,000 term loan.

If the Fund is not able to finalize these transactions by April 30, 2007, it may not be in a position to meet its debt covenants, which would cause the \$45,000,000 bank term loan to become payable on demand, unless additional modifications are negotiated with the secured creditors. If these negotiations fail, this could impair the capabilities of the Fund to meet its future obligations.

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

Risks Related to Business of AlarmCap Group

Ability to Maintain Profitability and Manage Growth

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

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

Competition

The security industry is highly competitive and highly fragmented. The AlarmCap Group competes with larger companies, as well as smaller regional and local companies, in all of its operations. Furthermore, new competitors are

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

SMLP Asset Purchase Agreement

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

Expansion

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

Industry Risk and Economic Sensitivity

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

Dependence on Key Personnel

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

Dependence on Dealers

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

Technological Risk

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

Effectiveness and Efficiency of Advertising Expenditures

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

Increase in Interest Rates

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

Labour Relations

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

Risk of Liability from Operations

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

Possible Adverse Effect of "False Alarm" Ordinances

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

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

Possible Adverse effect of Futures Government Regulations: Risks of Litigation

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

AlarmCap Group's advertising and sales practices to a certain extent are regulated by consumer protection legislation. Such legislation includes restrictions on the manner in which AlarmCap Group may promote the sale of its

security systems and the obligation of AlarmCap Group to provide purchasers of its security systems with certain rescission rights. While AlarmCap Group believes that it has complied with this legislation in all material respects, there can be no assurance that such legislation was violated in connection with the solicitation of AlarmCap Group existing subscriber Alarm Accounts, particularly with respect to accounts acquired from fourth 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 fourth 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 will have fourth party debt service obligations under the Credit Agreement. The degree to which AlarmCap LP is leveraged could have important consequences to the Unitholders or potential Unitholders, including: (i) a portion of the AlarmCap Group's cash flow from operations will be dedicated to the payment of the principal of and interest on the indebtedness, thereby reducing funds available for future operations and distribution to the Fund, (ii) AlarmCap Group's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited. AlarmCap LP's ability to make scheduled payments of principal and interest on, or to refinance, its indebtedness will depend on its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control. These factors might inhibit the AlarmCap Group from refinancing the indebtedness at all or on favourable terms, which could have a negative impact on the Fund's ability to make distributions on its Units.

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

Restrictions on Potential Growth

The payout by AlarmCap LP of substantially all of its operating cash flow will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of such funds could limit the future growth of AlarmCap LP and the related cash flow to the Fund.

Unitholder Liability

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

Dilution of Existing Holders of Class A Trust Units

The Fund Declaration of Trust authorizes the Fund to issue an unlimited number of Class A trust units for that consideration and on those terms and conditions as shall be established by the Trustees without the approval of any holders of Class A trust units. The holders of Class A trust units will have no pre-emptive rights in connection with such further issues.

Investment Eligibility and Foreign Property

There can be no assurance that the Class A trust units will continue to be qualified investments for registered retirement savings plans, deferred profit sharing plans, registered retirement income funds and registered education savings plans of that the Class A trust units will not be foreign property under the Tax Act. The Tax Act imposes

penalties for the acquisition or holding of non-qualified or ineligible investments and on excess holdings of foreign property.

Income Tax Matters

On December 21, 2006, the Canadian Taxation Authorities released a draft legislation regarding the “Tax Fairness Plan” whereby the income tax rules applicable to publicly traded trusts and partnerships (the “proposed legislation”) will be significantly modified. According to the proposed legislation, income earned by these entities will be taxed in the same manner as the income earned by a corporation. The proposed legislation will be effective for the 2007 taxation year with respect to trusts that commenced public trading after October 31, 2006, but the application of the rules will be delayed to the 2011 taxation year with respect to trusts that were publicly traded prior to November 1, 2006 provided that certain “normal growth” guidelines are met.

Currently, the Fund is only taxable on amounts that are not distributed to Unitholders. If enacted in its current form, the proposed legislation will result in change in which the earnings of the fund will be subject to income tax regardless of whether amounts are distributed or not.

The Fund is currently considering the possible impact of the proposed legislation. The proposed legislation has not yet been substantively enacted, and therefore the impact of the implementation has not been recorded in the financial statements. However, the possible impact has been taken into account in the goodwill impairment test.

Debt

In order to finance the acquisition of the assets of Microtec and SMLP as well as the implementation of the income trust structure, AlarmCap LP has taken on debt. Amounts paid in principal and interest may impair the Funds ability to make cash distributions. The Bank Credit Agreement contains certain covenants. In addition, the Fund is committed to maintaining certain financial ratios. As at December 31, 2006 and during the three last quarters of fiscal year 2006, the Fund was not in compliance with certain financial ratio requirements. However, the Fund obtained the necessary waivers from its creditors or loan modifications for the non-compliance with the financial ratios. Consequently, the loan has not been reclassified as a current liability. The Credit Agreement, as amended, contains certain covenants which, in effect, restrict the payment of distributions to the level approved by the bank from operational cash flows only and, after February 28, 2007, to a level that is not more than 75% of Distributable Cash Flow on a month-by-month basis. If the Fund cannot meet these ratios or if the Fund is in default or an event of default has occurred and is continuing under the Credit Agreement, the Credit Agreement provides that the Fund must suspend the payment of distributions.

**FIRST NATIONAL ALARMCAP INCOME FUND
QUARTERLY REPORT**

UNAUDITED CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)

	December 31, 2006 \$	December 31, 2005 \$
ASSETS		
Current assets		
Cash	1,073	1,672
Accounts receivable	3,116	3,004
Inventories	607	616
Prepaid expenses	402	562
Total current assets	5,198	5,854
Property, plant and equipment	4,525	4,137
Subscriber accounts	67,394	67,938
Goodwill	23,000	36,191
Other long-term assets	1,488	1,189
	101,605	115,309
LIABILITIES AND UNITHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	4,802	2,980
Distributions payable to unitholders	448	646
Note payable	-	700
Demand note payable	-	198
Revenues collected in advance	5,029	5,276
Other deferred revenues	40	232
Current portion of Capital Lease	82	-
Total current liabilities	10,401	10,032
Deferred gain on interest rate swaps	352	-
Obligations under capital leases	380	-
Long-term debt [Note 3]	50,000	48,500
Unitholders' equity		
Unitholders' contributions [Note 4]	59,139	58,457
Cumulative net income	(5,937)	4,145
Cumulative distributions [Note 5]	(12,730)	(5,825)
Total unitholders' equity	40,472	56,777
	101,605	115,309

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

**FIRST NATIONAL ALARMCAP INCOME FUND
QUARTERLY REPORT**

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands of dollars, except per unit amounts)

	December 31, 2006 (3 months) (unaudited) \$	December 31, 2005 (3 months) (unaudited) \$	December 31, 2006 (12 months) (unaudited) \$	December 31, 2005(a) (9 months) \$
Revenues				
Monitoring and services	7,416	7,663	29,650	23,225
Installation	735	507	2,654	1,617
	8,151	8,170	32,304	24,842
Expenses				
Monitoring and customer service	1,752	1,831	7,241	5,649
Installation, sales and marketing	744	573	2,740	1,566
	2,496	2,404	9,981	7,215
Income before general and administrative expenses and other items	5,655	5,766	22,323	17,627
General and administrative expenses	1,632	1,434	6,550	4,402
	4,023	4,332	15,773	13,225
Amortization of subscriber accounts, depreciation of property plant and equipment	2,359	1,126	8,892	6,501
Goodwill impairment charge	13,191	-	13,191	-
Interest on debt including amortization of other long-term assets	848	902	3,570	2,579
Change in the fair value of interest rate swaps	140	-	140	-
Loss on disposal of property	62	-	62	-
	16,600	2,028	25,855	9,080
Net income	(12,577)	2,304	(10,082)	4,145
Earning per unit				
	(1.99)	0.368	(1.59)	0.683
Weighted average number of units outstanding (in thousands)				
	6,324	6,254	6,324	6,072

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

(a) The Fund commenced active operations on April 1, 2005.

**FIRST NATIONAL ALARMCAP INCOME FUND
QUARTERLY REPORT**

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of dollars)

	December 31, 2006 (3 months) (unaudited) \$	December 31, 2005 (3 months) (unaudited) \$	December 31, 2006 (12 months) (unaudited) \$	December 31, 2005(a) (9 months) \$
OPERATING ACTIVITIES				
Net income for the period	(12,577)	2,304	(10,082)	4,145
Items not affecting cash flows				
Amortization of subscriber accounts and depreciation of property, plant and equipment	2,359	1,126	8,892	6,501
Goodwill impairment charge	13,191	-	13,191	-
Amortization of other long-term assets and deferred gain	46	172	471	415
Gain on settlement of note payable	-	-	(18)	-
Change in the fair value of interest rate swaps	140	-	140	-
Loss on disposal of property	62	-	62	-
Phantom Unit Plan	(78)	-	-	-
Net change in non-cash working capital items	(444)	(154)	1,316	(1,876)
Cash flows relating from operating activities	2,699	3,448	13,972	9,185
INVESTING ACTIVITIES				
Business acquisitions	-	-	-	(72,940)
Additions to property, plant and equipment	(76)	(102)	(760)	(264)
Sales of property	352	582	352	582
Increase in subscriber accounts	(1,722)	(2,418)	(7,913)	(5,507)
Increase in other long-term assets	-	-	(558)	(1,555)
Cash flow relating to investing activities	(1,446)	(1,938)	(8,879)	(79,684)
FINANCING ACTIVITIES				
Repayment of the long-term debt	-	810	(3,500)	(300)
Repayment of demand note payable	4	(802)	(198)	(802)
Repayment of Capital Lease	(15)	-	(15)	-
Increase in long-term debt	-	(15)	5,000	45,000
Distributions to unitholders	(1,220)	(1,971)	(6,979)	(5,179)
Unitholders' contributions	-	14	-	33,452
Cash flow relating to financing activities	(1,231)	(1,910)	(5,692)	72,171
Net increase (decrease) in cash for the period	22	(400)	(599)	1,672
Cash – beginning of the period	1,051	2,072	1,672	-
Cash – end of period	1,073	1,672	1,073	1,672

Supplementary information

Interest paid for the period:	787	710	2,630	1,829
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The interim consolidated financial statements which are included in this report have not been subject to a review by the Fund's external auditors.

(a) The Fund commenced active operations on April 1, 2005

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

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

DESCRIPTION OF THE FUND

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

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

2. GOING CONCERN UNCERTAINTY

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.

At the end of each of the first three quarters of 2006, the Fund did not respect its bank covenants. However it obtained appropriate waivers from its secured creditors. As at December 31, 2006, the Fund did not respect its debt covenants. On April 2, 2007, the Fund signed an amendment to the bank term loan of \$45,000,000. This amendment includes modifications to the debt covenants, defining new ratios for the period from October 1st, 2006 to March 31, 2007, and more stringent ratios thereafter. The amendment also requires the prepayment of the loan in specific situations. With this amendment, the Fund now respects the new debt covenants as at December 31, 2006.

In order to meet the debt covenants for the periods after March 31, 2007, management will need to reimburse approximately \$5,000,000 of the bank term loan. This is expected to be done through the sale and leaseback of its building in Saint-Augustin-de-Desmaures and by obtaining additional new subordinated loan financing before the end of April 2007. The agreement for the sale of its building has been signed for an amount of \$2,880,000, net of sales commission, and the transaction is expected to close by April 16, 2007.

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

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

Management has had preliminary discussions with potential creditors and obtain the balance needed to reimburse \$5,000,000 of the \$45,000,000 term loan.

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

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

2. GOING CONCERN UNCERTAINTY [Cont'd]

If the Fund is not able to finalize these transactions by April 30, 2007, it may not be in a position to meet its debt covenants, which would cause the \$45,000,000 bank term loan to become payable on demand, unless additional modifications are negotiated with the secured creditors. If these negotiations fail, this could impair the capabilities of the Fund to meet its future obligations.

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

3. PURCHASE PRICE ALLOCATION OF MICROTEC AND SMLP

The acquisition of Microtec and SMLP was accounted for using the purchase method and the fair value of the assets acquired and liabilities assumed as at March 16, 2005.

	Microtec	SMLP	Total
	\$	\$	\$
Cash	2,000	—	2,000
Accounts receivable	580	542	1,122
Prepaid expenses	201	—	201
Property, plant and equipment	4,626	75	4,701
Other long-term assets	—	49	49
Subscriber accounts	58,000	10,686	68,686
Goodwill	24,389	11,802	36,191
Accounts payable and accrued liabilities	(1,243)	(464)	(1,707)
Revenues collected in advance	(4,708)	(690)	(5,398)
Other deferred revenues	(400)	—	(400)
	83,445	22,000	105,445
Consideration paid			
Cash	74,940	—	74,940
Issuance of trust units	7,505	17,500	25,005
Note payable	1,000	—	1,000
Demand note payable	—	1,000	1,000
Term note payable	—	3,500	3,500
	83,445	22,000	105,445

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

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

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

Consolidation

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

Use of estimates

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

Revenue recognition

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

Inventories

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

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

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

4. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Property, plant and equipment

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

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

Subscriber accounts

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

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

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

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

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

Goodwill

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

Other long-term assets

Other long-term assets mainly consist of deferred financing costs which are recorded at cost and amortized on a straight-line basis over the terms of the related debt and restricted cash.

Impairment of long-lived assets

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

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

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

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

Leases

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

Unit-based compensation

As described in note 12, the Fund provides unit-based compensation, under a plan in the form of grants of phantom unit awards.

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

Earnings per unit

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

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

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

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

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

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

Hedge accounting

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

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

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

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

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

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

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

5. PROPERTY, PLANT AND EQUIPMENT

	2006		2005	
	Cost \$	Accumulated depreciation \$	Cost \$	Accumulated depreciation \$
Land	88	—	110	—
Buildings	3,009	207	3,294	112
Furniture and equipment	886	241	709	101
Computer hardware and software	233	92	144	24
Leasehold improvements	471	75	126	9
Furniture and equipment under capital leases	477	24	—	—
	5,164	639	4,383	246
Accumulated depreciation	639		246	
	4,525		4,137	

Depreciation of property, plant and equipment amounted to \$435,000 for the year [\$246,000 in 2005].

During the year, the Fund acquired furniture and equipment under capital leases for a value of \$477,000.

6. SUBSCRIBER ACCOUNTS

Cost of subscriber accounts consists of the following items:

	2006 \$	2005 \$
Subscriber accounts related to acquisitions <i>[note 3]</i>	82,106	74,193
Accumulated amortization	(14,712)	(6,255)
Subscriber accounts	67,394	67,938

Amortization of subscriber accounts amounted to \$8,457,000 for the year [\$6,255,000 in 2005].

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

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

7. GOODWILL

The Fund completed its annual goodwill impairment test. Throughout 2006, the Fund did not meet its financial expectations in terms of revenues and net income. As a result and taking into account the possible impact of the proposed Canadian income tax rule changes [note 13], the Fund concluded that the carrying amount of goodwill was permanently impaired and a charge of \$13,191,000 was taken to earnings at December 31, 2006.

8. OTHER LONG-TERM ASSETS

	2006	2005
	\$	\$
Deferred financing costs, at amortized cost	1,058	1,089
Restricted cash	100	100
Interest rate swaps [note 11]	330	—
	1,488	1,189

Amortization of deferred financing costs amounted to \$589,000 for the year [\$415,000 in 2005].

9. OBLIGATIONS UNDER CAPITAL LEASES

	2006	2005
	\$	\$
Capital lease agreements pertaining to furniture and equipment, repayable in monthly instalments totalling \$9,521 including interest varying from 7.23% to 8.76% with maturities ranging from September 2011 to December 2011.	462	—
Short-term portion	82	—
	380	—

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

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

9. OBLIGATIONS UNDER CAPITAL LEASES [Cont'd]

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

	\$
2007	114
2008	114
2009	114
2010	114
2011	96
	552
Amount representing interest	90
Balance of the obligations	462

10. LONG-TERM DEBT

	2006	2005
	\$	\$
Bank term loan	45,000	45,000
Subordinated debentures	5,000	—
Term note	—	3,500
	50,000	48,500

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

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

10. LONG-TERM DEBT [Cont'd]

(a) Bank term loan [note 20]

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

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

The Fund must maintain certain financial ratios. As at December 31, 2006 and during the three last quarters of fiscal year 2006, the Fund was not in compliance with certain financial ratio requirements. However, the Fund obtained the necessary waivers from its creditors or loan modifications for the non-compliance with the financial ratios. Consequently, the loan has not been reclassified as a current liability.

(b) Subordinated debentures

Five-year subordinated debentures bearing interest at 9% for a total amount of \$5,000,000 maturing in April 2011 [note 15].

(c) Term note

The term note, bearing interest at 9%, in favour of Securex Master Limited Partnership was reimbursed in 2006 [note 15].

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

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

11. DERIVATIVE FINANCIAL INSTRUMENTS

The Fund entered into interest rate swap agreements to convert the bank term loan from variable to fixed interest rates. As at December 31, 2006, the interest rate swap agreements were detailed as follows:

Purpose	Fixed rate payable	Floating rate receivable	Notional	Maturity	Fair value
Debt hedge	4.82% until April 2006 5.50% May 2006–April 2007 6.00% May 2007–March 2008 (effective rate 5.50%)	Bankers' acceptances +2.25%	\$45,000	March 2008	\$330 [\$718 in 2005]

During the year 2006, the Fund has ceased to designate its interest rate swaps as hedged instruments. As a result the interest rate swaps have been accounted for on the balance sheet for an amount of \$330,000.

12. UNITHOLDERS' CONTRIBUTIONS

The Fund is authorized to issue an unlimited number of Class A and Class B trust units. Each unit is transferable and, subject to certain priorities of distributable cash flows and special distributions made to the Class A trust unitholders in priority to Class B trust unitholders, represents an equal undivided beneficial interest in any distributions from the Fund. Class B trust units are convertible into Class A trust units on a 1:1 basis since the distribution threshold of \$0.325 per trust unit per quarter has been reached for four consecutive quarters. The Class B trust unitholders have consequently the same rights as the Class A trust unitholders. Also as at December 31, 2006, the Class B trust unitholders have not used the option of conversion into Class A trust units.

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

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

12. UNITHOLDERS' CONTRIBUTIONS [Cont'd]

	2006	2005
	\$	\$
Issued and outstanding		
4,574,401 Class A trust units [4,504,401 in 2005]	45,187	44,505
1,750,000 Class B trust units	17,500	17,500
Less issuance costs	(3,548)	(3,548)
	59,139	58,457

The trust units were issued as follows:

2006

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 the balance of a \$700,000 note payable resulting from the acquisition of Microtec from an officer of the Fund [notes 3 and 15].

2005

On December 16, 2005, Class A and Class B trust units were consolidated on a 4:1 basis, such that after consolidation of the outstanding Class A and Class B trust units, one-quarter (1/4) of said units remained. Consequently, all references to units below refer to the number of units after such consolidation.

- (a) On March 10, 2005, 153,846 Class A trust units were issued to an investor in consideration for the transfer and assignment to the Fund by said investor of certain rights and claims which another group of potential investors had against Microtec Enterprises Inc. for a fair value of \$1,000,000.

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

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

12. UNITHOLDERS' CONTRIBUTIONS [Cont'd]

2005 [Cont'd]

- (b) On March 16, 2005, 3,700,000 Class A trust units were issued to various accredited investors pursuant to a private placement at \$10.00 per Class A trust unit for a gross cash consideration of \$37,000,000.
- (c) On March 16, 2005, 1,750,000 Class B trust units having an aggregate value of \$17,500,000 were issued in connection with the acquisition of the assets of Securex Master Limited Partnership.
- (d) On June 17, 2005, 650,555 Class A trust units having a fair value of \$6,505,000 were issued in exchange for all of the subordinated voting shares and all of the multiple voting shares of the share capital of Microtec Enterprises Inc.

Unit issuance costs totalling \$3,548,000 were recorded as a reduction of unitholders' contributions.

Unit-based compensation

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

As at December 31, 2006, 160,417 phantom units had been awarded [— in 2005]. No compensation expense has been considered in the statement of income since management does not believe that they will vest. In the last quarter of 2006, the amount that had been accounted for in the previous months was reversed because management estimated that these phantom units will not meet the conditions under which they become vested.

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

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

13. INCOME TAXES

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, 2006 exceeds their carrying amount by approximately \$9,690,000 [carrying amount exceeded their tax basis by \$54,000 in 2005].

Proposed Canadian income tax rule changes

On December 21, 2006, the Canadian Taxation Authorities released a draft legislation regarding the "Tax Fairness Plan" whereby the income tax rules applicable to publicly traded trusts and partnerships (the "proposed legislation") will be significantly modified. According to the proposed legislation, income earned by these entities will be taxed in the same manner as the income earned by a corporation. The proposed legislation will be effective for the 2007 taxation year with respect to trusts that commenced public trading after October 31, 2006, but the application of the rules will be delayed to the 2011 taxation year with respect to trusts that were publicly traded prior to November 1, 2006 provided that certain "normal growth" guidelines are met.

Currently, the Fund is only taxable on amounts that are not distributed to Unitholders. If enacted in its current form, the proposed legislation will result in change in which the earnings of the Fund will be subject to income tax regardless of whether amounts are distributed or not.

The Fund is currently considering the possible impact of the proposed legislation. The proposed legislation has not yet been substantively enacted, and therefore the impact of the implementation has not been recorded in the financial statements. However, the possible impact has been taken into account in the goodwill impairment test.

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

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

14. FINANCIAL INSTRUMENTS

(a) Fair value

The carrying amounts of Fund's financial assets and liabilities, such as cash, accounts receivable, accounts payable, distributions payable to unitholders, note payable and demand note payable, approximate their fair value as at December 31, 2006 due to their short-term maturities.

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

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

The fair value of the interest rate swaps is disclosed in note 11.

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

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

14. FINANCIAL INSTRUMENTS [Cont'd]

(b) Credit risk

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

(c) Interest rate risk

The Fund entered into interest rate swap agreements to manage interest rate risk [note 11].

15. COMMITMENTS

The Fund has entered into lease agreements for its place of business, some equipment and vehicles. The commitments totalled \$1,408 and the annual minimum rent payments for the next five years are as follows:

	\$
2007	342
2008	276
2009	249
2010	229
2011	192
2012 and thereafter	120

16. CONTINGENCIES

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

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

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

17. SUBSEQUENT EVENTS

On April 2, 2007, the Fund signed an amendment to the bank term loan agreement of \$45,000,000. The new agreement includes modifications to its financial ratio requirements and an increase varying from 0.25% to 0.75% of the interest rate applicable on either bank's prime rate or Bankers' acceptance rate.

The new agreement also foresees a prepayment on the bank term loan equivalent to the net amount obtained in relation with the specific events related in note 2.