



FIRST NATIONAL ALARMCAP INCOME FUND

YEAR ENDED DECEMBER 31, 2007

AS AT MARCH 27, 2008



Message to Unitholders

The Financial Highlights for the year ended December 31, 2007 are as follows.

The Fund is pleased to report that the 2007 year end results confirm that the objectives set out in the third quarter of 2006 Message to Unitholders have been achieved and the Fund is delivering consistent and predictable EBITDA and distributable cash on behalf of its Unitholders. EBITDA in 2007 was \$977,000 higher than 2006 and represented 53.2% of total revenues compared to 48.9% for fiscal year 2006. Distributable cash increased by \$1,911,000. Notably the Fund stemmed the declining recurring monthly revenue ("RMR") trend. RMR declined by only \$21,000 over the year and indeed increased by \$11,000 over the fourth quarter due to an acquisition of about \$23,000 new RMR from an existing dealer of the Fund. The Fund has approximately \$145,000 in RMR that could potentially be acquired through its existing dealer network. The number of subscribers to the Fund's monitoring services declined by 3,642 over the course of the year although the Fund's subscriber base increased by 844 subscribers during the fourth quarter as a result of the acquisition.

Management's objective for 2008 is to achieve low risk organic growth in RMR. The RMR growth achieved during the fourth quarter demonstrates that the operating plan for achieving this objective is gaining traction. Nevertheless management does not expect this growth trend to be in evidence during the seasonally slower first quarter. Record snowfalls in Quebec are further hampering recruitment efforts.

The Fund is also pleased to announce the three-year renewal of its credit facility, which included a 25 basis point reduction in borrowing costs as the most recent credit facility, in a very challenging credit environment. The renewal is an endorsement by the Fund's lenders of management and its efforts in achieving the improved results. The Fund's lenders are the syndicate led by the National Bank with Scotia Bank as a partner.

The Fund looks forward to reinstating distributions to its Unitholders and will be providing additional guidance on this in the near future. As at year-end the debt to EBITDA ratio was 2.34:1. While this is below the bank covenant of 2.50:1, this ratio must be below 2.25:1 in order to reinstate distributions.

Leonard Sudermann
President and CEO

FIRST NATIONAL ALARMCAP INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2007

As at March 27, 2008

Introduction

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

Overview of the Fund

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Alberta pursuant to a declaration of trust dated February 24, 2005, as amended and restated on March 4, 2005. The Fund commenced active operations on April 1st, 2005. The Fund was created to acquire substantially all of the assets and shares of Microtec Enterprises Inc. ("Microtec") and substantially all of the assets of Securex Master Limited Partnership ("SMLP"). Microtec, founded in 1989 in Quebec City, Quebec, is one of the largest full-service security alarm monitoring companies in Canada with some 82,554 subscribers as at December 31, 2007. SMLP, founded in 1994 and based in Calgary, Alberta, with dealers across Canada, is an alternative credit and bundled service provider to independent alarm company dealers with about 16,000 subscribers.

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

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

Consolidation of Units

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

Forward-Looking Statements

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

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

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this MD&A are made as of the date of this MD&A and none of the Fund, the Trust, AlarmCap LP or AlarmCap GP undertake any obligation to publicly update or revise such forward-looking statements to reflect new information, subsequent events, results, circumstances or otherwise. Additional information on the Fund may be obtained in the following web sites: www.sedar.com or www.alarmcap.ca.

Non-GAAP measures

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

Supplemental Disclosure

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

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

The method to estimate subscriber replacement costs used by management in fiscal 2007 has changed relative to the first two quarters of fiscal 2006. To better compare fiscal 2007 with fiscal 2006, the reader should note that subscriber replacement costs for the first quarter of 2006 represented a multiplication of the attrition, net recruitment costs and EBITDA on a twelve months rolling average. In the second quarter of 2006, subscriber replacement costs were based on the actual investment in subscriber account for the period adjusted by management's estimate of the expected cost to replace the RMR shortfall that occurred during the period. Throughout the balance of 2006 and fiscal 2007, subscriber replacement costs were calculated based on the actual investment in accounts by recruitment channels for a particular month starting from the lowest costs to the highest costs of recruitment. If the same method in 2006 had been used for 2007, subscriber replacement costs would have been \$134,000 lower and distributable cash flow would have been higher by that same amount. Subscriber acquisition costs representing management's estimates of the costs to acquire new subscribers over and above attrition are added to subscriber replacement costs and totalled under "Subscriber Accounts" in the balance sheet.

Sustaining capital expenditures represent the amount of capital expenditures, which the Fund believes is required to maintain its assets in proper operating condition. While monthly depreciation of the physical assets is approximately \$33,500 per month, management believes that the sale of the building in St-Augustin-de-Desmaures as well as the significant new investments in information and communication technology will reduce the short-term investment requirements to a level of \$20,000 per month. Management believes that Distributable Cash is a useful measure of performance as it provides investors with an indication of the amount of cash available for distribution to Unitholders. Investors are cautioned, however, that Distributable Cash should not be construed as an alternate to using net earnings as a measure of profitability or the statement of cash flows. Furthermore, the Fund's method of calculating Distributable Cash, including subscriber replacement costs, may not be comparable to other similarly named calculations.

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

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

Subsequent events

On March 10, 2008, the Fund announced that the trustees of the Fund have resolved to align the governance structure of the Fund, its wholly-owned subsidiary First National AlarmCap Trust (the "Trust"), and the Trust's wholly-owned subsidiary First National AlarmCap GP Inc. (the GP). Consequently, the Trust's trustees since then are Oliver Plett, Leonard Sudermann and Timothy Whyte, who are also the existing trustees of the Fund. The directors of the GP are George Fink, Oliver Plett, Leonard Sudermann and Timothy Whyte.

On March 25, 2008, the Fund received a formal notice in relation to the change in the governance structure described above. In the management's opinion, based on the advice and information provided by its legal counsel, the severance costs that may incur cannot be determined at this time but may be material.

On March 17, 2008, the Fund entered into Bank Credit Agreement Amendment #5. This new amendment contains the same basis and ratio requirements as the Bank Credit Agreement #4 except that it covers a period of three years ending March 13, 2011.

The Bank Credit Agreement Amendment #5 has a maximum authorized amount of \$41,250,000 and bear interest at rates varying from 0.50% to 1.75% above the prime rate loans and from 1.75% to 3.0% above the bankers' acceptance rates depending on the debt to EBITDA ratio calculated on a monthly basis. This represents a reduction in the Fund's borrowing costs of 25 basis points. All other material terms remain the same as the most recent credit facility.

Financial Highlights

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

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

| | Q4-2007 | Q3-2007 | Q2-2007 | Q1-2007 | Q4-2006 | Q3-2006 | Q2-2006 | Q1-2006 | Q4-2005 | Q3-2005 | Q2-2005 |
|---|---------|---------|---------|---------|----------|---------|---------|---------|---------|---------|---------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Monitoring revenues | 7,344 | 7,203 | 7,303 | 7,400 | 7,416 | 7,411 | 7,370 | 7,453 | 7,663 | 7,798 | 7,764 |
| Total revenues | 7,939 | 7,731 | 7,901 | 7,992 | 8,163 | 7,941 | 8,231 | 8,005 | 8,175 | 8,333 | 8,343 |
| Monitoring expenses | 634 | 614 | 590 | 670 | 670 | 743 | 713 | 715 | 777 | 844 | 822 |
| Customer service expenses | 1,202 | 1,084 | 1,149 | 1,018 | 1,138 | 1,216 | 1,129 | 1,101 | 1,107 | 1,181 | 1,115 |
| Installation, sales and marketing expenses | 544 | 463 | 558 | 576 | 744 | 614 | 825 | 557 | 573 | 479 | 514 |
| Income before G&A expenses and other items | 5,559 | 5,570 | 5,604 | 5,728 | 5,611 | 5,368 | 5,564 | 5,632 | 5,718 | 5,829 | 5,892 |
| G&A | 1,549 | 1,361 | 1,355 | 1,410 | 1,576 | 1,769 | 1,544 | 1,477 | 1,381 | 1,409 | 1,415 |
| EBITDA | 4,010 | 4,209 | 4,249 | 4,318 | 4,035 | 3,599 | 4,020 | 4,155 | 4,337 | 4,420 | 4,477 |
| Goodwill impairment | - | - | - | - | 13,191 | - | - | - | - | - | - |
| Futur income taxes | 721 | 147 | (2,756) | - | - | - | - | - | - | - | - |
| Net income (Loss) | (14) | 750 | 3,919 | 1,156 | (12,577) | 340 | 929 | 1,226 | 2,304 | 785 | 1,056 |
| Distributable cash flow | 1,356 | 1,954 | 1,823 | 2,013 | 1,608 | 662 | 1,233 | 1,732 | 1,909 | 1,583 | 2,132 |
| Distributed cash flow | - | - | 1,344 | 1,344 | 1,344 | 1,818 | 2,012 | 1,929 | 1,896 | 1,917 | 1,349 |
| Cash flow from operating activities | 3,243 | 2,760 | 2,974 | 2,705 | 2,699 | 4,508 | 3,289 | 3,476 | 3,448 | 2,658 | 3,725 |
| Earnings per Unit | (0.002) | 0.118 | 0.620 | 0.183 | (1.988) | 0.054 | 0.147 | 0.194 | 0.368 | 0.126 | 0.185 |
| Distributions declared per Class A Unit | - | - | 0.142 | 0.213 | 0.213 | 0.250 | 0.325 | 0.325 | 0.328 | 0.331 | 0.381 |
| Distributions declared per Class B Unit | - | - | 0.142 | 0.213 | 0.213 | 0.250 | 0.325 | 0.250 | 0.252 | 0.252 | 0.249 |
| Total assets | 99,466 | 98,873 | 99,369 | 100,103 | 102,023 | 114,765 | 115,196 | 115,027 | 115,309 | 114,894 | 116,692 |
| Total long-term debt | 45,597 | 5,682 | 5,625 | 5,523 | 50,000 | 50,000 | 50,000 | 48,500 | 48,500 | 48,405 | 48,399 |
| Unitholders' equity | 44,275 | 44,056 | 43,306 | 40,283 | 40,472 | 54,472 | 55,702 | 56,762 | 56,777 | 56,376 | 57,524 |
| RMR at the end of the period | 2,293 | 2,282 | 2,296 | 2,318 | 2,314 | 2,322 | 2,340 | 2,356 | 2,348 | 2,351 | 2,375 |
| Customer Growth and Retention | | | | | | | | | | | |
| Total Number of Customers | 98,554 | 97,710 | 99,129 | 101,561 | 102,196 | 103,128 | 103,345 | 105,509 | 107,866 | 109,167 | 110,539 |
| Gross Attrition Rate (%) (2) | 8.63 | 9.57 | 11.16 | 8.00 | 9.91 | 10.82 | 12.16 | 12.58 | 13.43 | 13.22 | 12.03 |
| Net Attrition Rate (%) (3) | 7.80 | 8.66 | 10.12 | 7.42 | 9.14 | 9.87 | 11.27 | 11.71 | 12.38 | 11.60 | 10.84 |

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

(2) Gross Attrition Rate is defined as cancellations before reconnecting installed systems, reduced by cancellation guarantees.

(3) Net Attrition Rate is equal to the Gross Attrition Rate net of the reconnection of installed systems.

Consolidated Statement of Income

Revenues

Monitoring and Services

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

Revenues from monitoring and services totalled \$7,344,000 for the fourth quarter of 2007 compared to \$7,416,000 for the same quarter of 2006, a decrease of 1.0%. Of the total monitoring and service revenues, \$7,160,000, or 97.5%, came from monitoring revenues and the balance of \$184,000 from other revenues for the fourth quarter of 2007 compared to \$7,043,000 or 95.0% and \$373,000 respectively for the same period last year. Revenues from monitoring decreased due to a reduction of the number of subscribers and lower RMR and revenues from services decreased due to the loss of rent revenues following the sale of the St-Augustin building last April. For the 2007 fiscal year, the Fund reported revenues from monitoring and services of \$29,250,000 compared to \$29,650,000, a slight decrease of 1.3% as a result of a reduction of the number of subscribers and lower RMR.

As compared to the corresponding quarter of 2006, the Fund decreased its total number of subscribers by approximately 3.6% from 102,196 to 98,554 subscribers because of higher attrition than recruitment. RMR at the end of the quarter was \$2,293,000 or 0.9% lower as compared to an RMR of \$2,314,000 at the end of the corresponding quarter in the previous fiscal year. Average RMR per customer was \$23.27 at the end of this quarter compared to \$22.64 at the end of last year's comparable quarter due to price increases and new customers generating higher average RMR than customers lost to attrition.

Installation

Installation revenues for the fourth quarter ended December 31, 2007 were lower at \$595,000 compared to \$747,000 in the fourth quarter of 2006 due to less important installation contracts in the fourth quarter of 2007 compared to the same period the year before. These installation revenues were generated mainly from activation fees and equipment sold to new customers. For fiscal year 2007, installation revenues reached \$2,313,000, a 14.0% decrease compared to \$2,690,000 reached during the last year. This drop in installation revenues is due to the same reason mentioned above.

Operating Expenses

Operating expenses fall into these three major categories:

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

For the fourth quarter of 2007, total operating expenses amounted to \$3,929,000 or 49.5% of total revenues, a 110 basis points decrease compared with \$4,128,000 or 50.6% for the same period last year. This improvement is mainly due to higher margin installation contracts and lower monitoring expenses. For the year of 2007, total

operating expenses reached \$14,777,000 or 46.8% of total revenues, a 430 basis points decrease compared with \$16,531,000 or 51.1% for the same period last year, due to the reasons mentioned above and lower G&A expenses.

Monitoring and Customer Service

In the fourth quarter of 2007, the monitoring and customer service expenses amounted to \$1,836,000 or 25.0% of total monitoring and service revenues compared to \$1,808,000 or 24.4% for the fourth quarter of 2006, an increase of 60 basis points. This small increase in percentage term is due to the 1.0% decrease in monitoring revenues between to two corresponding periods. As a result of various cost-reduction and efficiency-improvement initiatives, the cost of operating our monitoring stations decreased from \$670,000 to \$634,000 in the two comparable quarters and the cost of operating our customer service department increased from \$1,138,000 to \$1,202,000 for the same two comparable quarters mainly due to a severance package paid to the person that was in charge of that department. For fiscal year 2007, monitoring and customer service expenses reached \$6,961,000 or 23.8% of total monitoring and service revenues compared to \$7,425,000 or 25.0% for the same period in 2006, a decrease of 120 basis points, as a result of the same cost-reduction and efficiency-improvement initiatives.

Installation, Sales and Marketing Expenses

Installation, sales and marketing expenses totalled \$544,000 or 91.4% of the installation revenues in the fourth quarter of 2007 compared to \$744,000 or 99.6% in the fourth quarter of 2006 due to higher margin on installation contract during the fourth quarter of 2007. For the fiscal year 2007, these expenses reached \$2,141,000 or 92.6% compared to \$2,740,000 or 101.9% for last year as a result of lower margin contracts in the latter period.

Income before G&A and other items

Income before G&A and other items was \$5,559,000 for the fourth quarter of 2007, or 70.0% of total revenues. This compares favourably to the same quarter last year, which had a gross margin of \$5,611,000, or 68.7%. This was attributable to the aforementioned decrease in monitoring service expenses and higher margin on installation contracts. For the year of 2007, income before G&A and other items totalled \$22,461,000, or 71.2% of total revenues compared with \$22,175,000 or 68.6% for the year 2006 for the same reasons.

General and Administrative Expenses

General and administrative expenses were mostly stable at \$1,549,000, or 19.5% of total revenues at the end of the year 2007, compared to \$1,576,000, or 19.3% during the same period last year. For the 2007 fiscal year, general and administrative expenses totalled \$5,675,000, or 18.0% of total revenues, a 170 basis points improvement compared to \$6,366,000, or 19.7% for the same period last year due to last year third quarter restructuring charges.

EBITDA

For the fourth quarter ended December 31, 2007, EBITDA was \$4,010,000, or 50.5% of total revenues, an increase of 110 basis points as compared to \$4,035,000, or 49.4% during the fourth quarter of 2006, mainly attributable to lower operating expenses that more than compensated for lower total revenues. For fiscal year 2007, EBITDA amounted to \$16,786,000, or 53.2% of total revenues compared to \$15,809,000, or 48.9% for fiscal year 2006. This improvement is due again to lower operating expenses that more than compensated for lower total revenues.

Amortization of Subscriber Accounts, Depreciation of Property Plant and Equipment

For the fourth quarter ended December 31, 2007, total amortization expenses were \$2,420,000, an amount which includes \$211,000 of amortization of deferred financing costs. The amortization expense was reduced by \$70,000 from the amortization of deferred gain on interest rate swaps. As compared with the same period last year, the total amortization expenses were \$2,417,000, an amount that includes \$164,000 of amortization of deferred financing costs presented in the interest on debt section. The amortization expense was reduced by \$118,000 from the amortization of deferred gain on interest rate swaps. The increase in amortization of deferred financing costs of \$47,000 is related to the capitalization of \$144,000 in fees charged by the Fund's bankers in respect of a complete review of the Bank Credit Agreement.

Interest Expense and Amortization of Long-Term Assets

For the fourth quarter ended December 31, 2007, interest expense of \$755,000 (net of \$141,000 of amortization of deferred financing costs and deferred gain on interest rate swaps) was \$47,000 lower than the fourth quarter of 2006. The decrease is due to a \$59,000 decrease in interest paid on our Bank Term Debt as a result of lower rates charged by the bank as well as a reduction in the long-term debt that more than offset a \$10,000 increase in bank fees. For the fiscal year 2007, interest expenses reached \$3,386,000 (net of \$480,000 of amortization of deferred financing costs and deferred gain on interest rate swaps) or \$288,000 higher than the comparable period last year due to higher interest rates charged on our Bank Term Debt following the breach of certain financial ratios and to a private placement of Series A, 9%, secured subordinated debentures in the principal amount of \$5,000,000 during April 2006 which mature in April 2011. The net proceeds were used to reimburse indebtedness owed to Securex Master Limited Partnership in an amount of \$3,500,000 and for general corporate purposes.

Net Income (Loss)

Net loss for the quarter was at \$14,000 or \$0.002 per unit compared to a net loss of \$12,577,000 or \$1.990 per unit in the corresponding period in 2006 mainly attributable to the \$13,191,000 goodwill impairment charge in the fourth quarter last year and to lower operating expenses during the fourth quarter of 2007 which more than offset lower revenues. For the fiscal year 2007, net income reached \$5,811,000, or \$0.919 per unit compared with a net loss of \$10,082,000 and \$1.594 per unit for the corresponding period last year. This material increase in net income is due to temporary differences reversing before 2011, which will give rise to \$1,888,000 in future income taxes recovery and the reasons mentioned above. Based on its assets and liabilities as at December 31, 2007, the Fund has estimated the amount of its temporary differences, which were previously not subject to tax and has estimated the periods in which these differences will reverse. The Fund estimated that \$7,321,000 net taxable temporary differences would reverse after January 1, 2011, resulting in \$1,888,000 future income tax recovery in the income statement and a recovery of \$162,000 in the statement of equity. The taxable temporary differences relate principally to the excess of the tax basis of the Fund's net asset over the net book value. As the legislation gives rise to a change in the Fund's estimated future income tax asset in the period, the recognition of the asset reduction of \$857,000 is accounted for prospectively in the period and a decrease of \$559,000 in future income taxes recovery has been recorded for the period. Without the positive future income taxes recovery effect, net income for the fiscal 2007 would have reached \$3,923,000 or \$0.620 per unit.

Subscriber and Retention

The annualized gross attrition rate of RMR (defined as cancellations before reconnecting installed systems, reduced by cancellation guarantees) for the fourth quarter of 2007 was 8.63% compared to 9.91% during the same period last year. This represents a 12.9% reduction in the rate at which the subscribers cancel their monitoring service contracts. Net attrition, after resigning existing subscribers or reconnecting installed systems, was 7.80% for the fourth quarter of 2007 compared to 9.14% for the same quarter last year. The improvement is mainly due to the restructuring of the customer service department during the fourth quarter of fiscal 2006. Its first mandate is now to retain our existing subscribers, which are supported by a new compensation plan for our employees based on the retention success.

Third party monitored customers decreased by 2002 customers during the quarter to a total of 9,042 customers as at December 31, 2007.

Liquidity and Capital Resources

Short-term assets increased from \$5,198,000 as at December 31, 2006 to \$5,925,000 as at December 31, 2007 as a result of higher cash in hand which more than offset lower accounts receivable due to the Fund improvement in its collection effort to help its cash flows. Total assets as at December 31, 2007 amounted to \$99,466,000 compared to \$102,023,000 for December 31, 2006 mainly due to the sale of the St-Augustin building during the second quarter of 2007 which reduced the property, plant and equipment account from \$4,525,000 to \$1,512,000, the \$1,004,000 reduction in subscriber accounts and the \$1,388,000 decrease in other long term assets which more than offset the recognition of \$2,050,000 in future income tax assets. Subscriber accounts decreased from \$67,812,000 as at December 31, 2006 to \$66,808,000 as at December 30, 2007, as a result of lower recruitment costs during the year of 2007. Other long-term assets decreased by \$1,388,000 to \$100,000 as a result of the change in the accounting policies which reclassify deferred financing costs against the related debt for an impact of \$1,058,000 and the fair value of interest rate swaps that is now recognized as a short term asset.

Short-term liabilities decreased from \$10,401,000 as at December 31, 2006 to \$8,452,000 as at December 31, 2007. Accounts payable and accrued liabilities decreased from \$4,802,000 to \$3,251,000 as a result of a reduction of outstanding day's payable which had built up as the Fund's cash flows during the third and fourth quarter last year were not sufficient to meet our payment requirements with our main suppliers. Distributions payable to unitholders decreased by \$448,000 due to the non accrual for distributions further to the decision of the Board to suspend distributions beginning in the month of July 2007. Unearned revenues, which represent customers that paid more than one month in advanced based on their monitoring contract agreement, varied from \$5,029,000 to \$4,605,000. Total liabilities of \$55,191,000 are 10.3% lower than December 31, 2006 due to the sale/leaseback of the Fund's Saint-Augustin-de-Desmaures building during the last quarter for an amount of \$2,837,000, net of sales commission and other charges, and the proceeds of which have been applied against the senior bank term loan as of April 30, 2007, the reduction in accounts payable and accrued liabilities, distributions payable to unit holders and revenues collected in advance.

The working capital deficiency decreased from \$5,203,000 as at December 31, 2006 to \$2,527,000 as at December 31, 2007 due to the same reasons mentioned above. The working capital deficiency can be attributed to revenues collected in advance from subscriber which does not represent a cash obligation but an obligation to provide monitoring services in the future the costs of which are reflected in the Funds operating expenses.

Unitholders' equity as at December 31, 2007 was \$44,275,000 or 9.4% higher compared to \$40,472,000 as at December 31, 2006 due to the recognition of \$2,050,000 in future income taxes recovery and an improvement in net income.

For the quarter ended December 31, 2007, cash flow from operating activities totaled \$3,243,000 compared to \$2,699,000 reached during the same period last year. This increase is mainly due to the \$453,000 variation of the net change in non-cash working capital item. For fiscal year 2007, cash flow from operating activities reached \$11,682,000 compared with \$13,972,000 for the same period last year due to the \$3,012,000 negative variation of the net change in non-cash working capital item, which more than compensate higher net income.

Investing activities were \$1,930,000 in the fourth quarter of 2007 compared to \$1,446,000 in the fourth quarter of 2006. This increase in investing activities is due to higher increase in subscriber accounts during the fourth quarter of 2007. For fiscal year 2007, investing activities amounted to \$6,801,000 compared to \$9,177,000 for the same period last year mainly due to lower increase in subscriber accounts.

Financing activities amounted to \$430,000 in the fourth quarter of 2007 compared to \$1,231,000 for the same period last year. This decrease is mainly due to the suspension of the distribution payments during the fourth quarter of 2007 which more than compensated a repayment on the long term debt. For fiscal year 2007, financing activities totalled \$3,768,000 compared to \$5,394,000 for the same period last year due to a \$5,000,000 increase in the long term debt in 2006 which partly offset lower distributions to unitholders in 2007. To better match our distributable cash with our distributed cash, the Fund announced a distribution cut effective September, 2006 when monthly distributions were reduced by 35% from \$0.10833 to \$0.07083 per unit. On June 20, 2007, the Fund announced that it had suspended the payment of distributions, effective after the payment at the end of June of the May distribution.

As at December 31, 2007, the Fund had cash and cash equivalents of \$2,186,000, an increase of \$1,113,000 compared to December 31, 2006. This increase is mainly due to the suspension of monthly distribution.

Cash Available for Distributions and Distributions

Statement of Distributable Cash (See "Supplemented disclosure")

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

Cash Available for Distributions and Distributions

(in thousands of dollars, except amounts per Unit)

| | Q4-2007 | Q3-2007 | Q2-2007 | Q1-2007 | Total 2007 | Q4-2006 | Q3-2006 | Q2-2006 | Q1-2006 | Total 2006 |
|--|--------------|--------------|--------------|--------------|---------------|--------------|------------|--------------|--------------|---------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Cash flow provided by operating activities | 3,243 | 2,760 | 2,974 | 2,705 | 11,682 | 2,699 | 4,508 | 3,289 | 3,476 | 13,972 |
| Subscriber replacement cost | (1,818) | (1,269) | (1,513) | (1,392) | (5,992) | (1,475) | (1,959) | (1,897) | (1,680) | (7,011) |
| Sustaining capital expenditure | (60) | (60) | (60) | (60) | (240) | (60) | (150) | (200) | - | (410) |
| Changes in working capital | (9) | 523 | 422 | 760 | 1,696 | 444 | (1,737) | 41 | (64) | (1,316) |
| Distributable Cash | 1,356 | 1,954 | 1,823 | 2,013 | 7,146 | 1,608 | 662 | 1,233 | 1,732 | 5,235 |
| Distributions paid | - | - | 1,344 | 1,344 | 2,688 | 1,344 | 1,818 | 2,012 | 1,929 | 7,103 |
| Net earnings per unit | 0.002 | 0.118 | 0.620 | 0.180 | 0.920 | (1.99) | 0.054 | 0.147 | 0.19 | (1.59) |
| Distributable cash per unit | 0.214 | 0.309 | 0.288 | 0.318 | 1.130 | 0.254 | 0.105 | 0.195 | 0.274 | 0.828 |
| Distributions paid per unit | - | - | 0.213 | 0.213 | 0.426 | 0.213 | 0.287 | 0.318 | 0.305 | 1.123 |
| Distributions paid/distributable cash | - % | - % | 75.1 % | 67.3 % | 37.6 % | 83.6 % | 274.6 % | 163.2 % | 111.4 % | 135.7 % |

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

For the fourth quarter of 2007, distributable cash reached \$1,356,000, a decrease of \$252,000 compared to the same period last year due to a \$343,000 higher subscriber replacement costs which more than offset higher net earnings. For fiscal year 2007, distributable cash reached \$7,146,000, an increase of \$1,911,000 compared to the same period last year due to a \$1,019,000 lower subscribers replacement cost, a \$170,000 lower sustaining capital expenditure and higher net earnings.

As discussed under "Supplemental Disclosure", the method to estimate subscriber replacement costs used by management in fiscal 2007 has changed relative to the first two quarters of fiscal 2006. To better compare fiscal 2007 with fiscal 2006, the reader should note that subscriber replacement costs for the first quarter of 2006 represented a multiplication of the attrition, net recruitment costs and EBITDA on a twelve months rolling average. In the second quarter of 2006, subscriber replacement costs were based on the actual investment in subscriber account for the period adjusted by managements estimate of the expected cost to replace the RMR shortfall that occurred during the period. Throughout the balance of 2006 and fiscal 2007, subscriber replacement costs were calculated based on the actual investment in accounts by recruitment channels for a particular month starting from the lowest costs to the highest costs of recruitment. If the same method in 2006 had been used for 2007, subscriber replacement costs would have been \$134,000 lower and distributable cash flow would have been higher by that same amount. Subscriber acquisition costs representing management's estimates of the costs to acquire new subscribers over and above attrition are added to subscriber replacement costs and totalled under "Subscriber Accounts" in the balance sheet.

To better match its distributable cash with its distributed cash, the Fund had announced a distribution reduction effective last September 2006. Monthly distributions had been reduced by 35% from \$0.10833 to \$0.07083 per unit.

The Bank Credit Agreement Amendment dated April 2, 2007 (the "Bank Credit Agreement Amendment #3") restricts the payment of distributions to unitholders. It requires that distributions be made from operational cash flows only and, effective March 28, 2007, shall be limited to 75% of Distributable Cash Flow calculated on a month-by-month basis. The Bank Credit Agreement Amendment #3 also provides that distributions shall not be made using the proceeds derived from the sale or alienation of any assets made out of the ordinary course of business and that no distribution shall be made should a default or an event of default have occurred or be continuing or result therefrom. During the second quarter of 2007, cash available for distributions was higher than the distributions paid by \$446,000. In May 2007, the Fund distributed 83.9% of its distributable cash flows, higher than the maximum of 75.0% allowed in the Bank Credit Agreement Amendment #3 dated April 2, 2007. In addition, as at June 30, 2007, the Fund was in default under one of its bank covenants and was therefore prohibited from making distributions. The Fund announced on June 20, 2007, its decision to suspend distributions effective after the payment at the end of June of the May distribution. The Bank Credit Agreement Amendment #4 dated July 27, 2007 (the "Bank Credit Agreement Amendment #4") additionally provides that the Fund shall not proceed with the repurchase of any of its units or distribute capital including distributions to unitholders if there is a default, if the repurchase or payment of such distributions results in a default or if its Funded Debt to EBITDA Ratio for of any given month is higher than 2.25:1. Distributed cash flow may not exceed budgeted distributions provided to and approved by the lenders on an annual basis and can only be made from operational cash flows. The Bank Credit Agreement Amendment #4 additionally provides that, in the event the Fund fails to maintain, at the end of any given month, the required funded debt to EBITDA ratio of 2.50:1, the Fund must apply an amount of \$450,000 for the prepayment of the bank term loan. During the third quarter of 2007, this ratio reached over the 2.50:1 threshold and therefore the Fund had to prepay \$675,000 on its Bank Term Debt. However, this ratio was under the 2.50:1 threshold at the end of September 30, 2007 and remained below 2.50:1 until the end of fiscal year 2007. As at the fiscal 2007 year end this ratio was 2.34:1.

Subsequent event

On March 17, 2008, the Fund entered into Bank Credit Agreement Amendment #5. This new amendment contains the same basis and ratio requirements as the Bank Credit Agreement #4 except that it covers a period of three years ending March 13, 2011.

The Bank Credit Agreement Amendment #5 has a maximum authorized amount of \$41,250,000 and bear interest at rates varying from 0.50% to 1.75% above the prime rate loans and from 1.75% to 3.0% above the bankers' acceptance rates depending on the debt to EBITDA ratio calculated on a monthly basis. This represents a reduction in the Fund's borrowing costs of 25 basis points. All other material terms remain the same as the most recent credit facility.

Distributions Declared

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

Class A trust units

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

Class B trust units

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

Contractual Obligations

(in thousands of dollars)

| | December 31, 2007 \$ | December 31, 2006 \$ |
|---|-------------------------|-------------------------|
| Bank term loan (excluding the net effect of financing costs) ^(a) | 41,038 | 45,000 |
| Subordinated debenture (excluding the net effect of financing costs) ^(b) | 5,000 | 5,000 |
| | 46,038 | 50,000 |

(a) The bank term loan has a maximum authorized amount of \$45,000,000, matures in March 2008 and bears interest at contractual rates ranging from 0.75% to 1.75% [effective rates ranging from 0.78% to 1.78%] above the bank's prime rate and from 2.00% to 3.00% [effective rates ranging from 2.03% to 3.03%] above the bankers' acceptance rate depending on a monthly financial ratio test.

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

The sale/leaseback of the Fund's Saint-Augustin-de-Desmaures building was finalized during the second quarter of 2007 for \$2,837,000, net of sales commissions and other charges, and the proceeds thereof have been applied against the senior bank term loan as of April 30, 2007. This transaction has no monetary impact and is therefore not presented in the consolidated statement of cash flows.

The Bank Credit Agreement contains certain covenants. In addition, the Fund is committed to maintaining certain financial ratios. As at December 31, 2007, the Fund was in compliance with all of its financial ratio requirements based on its Bank Credit Agreement Amendment #4.

(b) Five-year subordinated debentures bearing interest at a contractual rate of 9.00% [effective rate of 9.49%] total \$5,000,000 and 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 | 41,038 | 41,038 | - | - |
| Subordinated debenture | 5,000 | - | - | 5,000 |
| Capital Lease | 407 | 93 | 211 | 103 |
| Total | 46,445 | 41,131 | 211 | 5,103 |

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, 2007, the interest rate swap agreements were detailed as follows:

| Purpose | Fixed rate payable | Floating rate receivable | Notional | Maturity |
|------------|--|--------------------------------|----------|------------|
| 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 |

During the year 2006, the Fund ceased to designate its interest rate swaps as hedging instruments. As a result the interest rate swaps have been accounted for in the balance sheet. The fair market value amounts to \$108,000 as at December 31, 2007 [\$330,000 in 2006].

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

| | 2007 \$ | 2006 \$ |
|--|------------|------------|
| Statements of income | | |
| Monitoring and customer service | 50 | 50 |
| General and administrative expenses | 730 | 742 |
| Interest on debt | — | 89 |
| Balance sheets | | |
| Accounts receivable | 39 | — |
| Advance | 71 | — |
| Subscriber accounts | 70 | 70 |
| Accounts payable and accrued liabilities | 107 | 303 |

2007

A \$71,000 advance is receivable from an officer of the Fund. This advance bears no interest and has no specific terms of repayment.

2006

A \$700,000 note payable to an officer of the Fund resulted from the acquisition of Microtec. 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 the note payable [note 14].

In November 2006, distributions payable to unitholders of Class B trust units totalling \$124,000 were settled against accounts payable to an entity controlled by an officer of the Fund.

These two transactions had no monetary impact and are therefore not presented in the consolidated statements of cash flows.

In 2006, a \$3,500,000 term note was payable to an entity controlled by an officer of Fund. This amount has been repaid out of the proceeds from the issuance of the five-year subordinated debentures bearing interest at 9% for a total amount of \$5,000,000.

Outstanding Unit Data

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

As at December 31, 2007, 4,574,401 Class A trust units and 1,750,000 Class B trust units were outstanding.

Fund's Phantom Unit Plan

Phantom Unit Plan

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, 2007, no phantom units had been granted [160,417 in 2006]. In 2006, no compensation expense has been considered in the statement of income since management does not believe that they will vest. As at December 31, 2007 and 2006, 160,417 phantom units were outstanding.

Accounting Policies

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

Initial Adoption of Accounting Policies

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

Basis of presentation

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

Consolidation

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

Use of estimates

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

Revenue recognition

Installation revenues are recognized upon completion of the installation. Revenues from remote monitoring activities and services are recognized when the services are rendered. Unearned revenues 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 signature are recorded as deferred subscription revenues.

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. 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 following method and rates:

| | 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 consisted in 2006 of deferred financing costs recorded at cost and amortized on a straight-line basis over the terms of the related debt. As stated in note 4, as required with the new accounting standards on financial instruments, these transactions costs must be deducted from the related financial liabilities and amortized using the effective interest rate method over the estimated lives of these liabilities.

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.

Other long-term liabilities

Other long-term liabilities consist of monitoring vendor sales incentives received and are amortized using the straight-line method over the term of the agreement.

Income taxes

The Fund currently qualifies as a mutual fund trust for income tax purposes. The Fund has distributed all of its taxable income to unitholders and is entitled to deduct such distributions for income tax purposes. Accordingly, no provision for current income tax payable is required.

Future income taxes are accounted for using the liability method. This method requires the Trust to:

- i. Determine its temporary differences;
- ii. Determine the periods over which those temporary differences are expected to reverse; and
- iii. Apply the tax rates enacted at the balance sheet date that will apply in the periods in which the temporary differences are expected to reverse [note 15].

Deferred subscription revenues

The deferred subscription revenues consisting of revenues received from the initial subscription, are amortized at 12% using the declining balance method and included in installation revenues.

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 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 14, 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, calculated using the treasury stock method, take into account all items 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.

Derivative financial instruments

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. Any change in the fair value of these derivative instruments is recorded in net income.

Designation as a hedge is only allowed if, both at the inception of the hedge and throughout the life of the hedge, 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.

In order to qualify for hedge accounting, the Fund is required to document all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions.

The Fund had been using hedge accounting until August 2006, at which point it was discontinued.

Derivative instruments that were ineffective or that were not designated as a hedge were 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 were recorded in income.

Realized and unrealized gains or losses associated with derivative instruments previously designated as hedges that had been terminated or had ceased to be effective prior to maturity were recognized in income as interest on debt in the period in which the underlying hedged transaction was recognized. In 2006, the unamortized portion of these realized or unrealized gains or losses were shown on balance sheet. As at January 1, 2007, the unamortized portion of \$352,000 has been reclassified to Accumulated other comprehensive income as a result of the adoption of the new accounting standards on financial instruments.

New accounting policies

On January 1, 2007, the Fund adopted the new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA):

The Section 1530, Comprehensive Income, introduces a new financial statement which shows the change in equity or net assets of an enterprise during a period from transactions and other events and circumstances from non-owner sources.

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

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

The Fund has implemented the following classification:

- Cash and cash equivalents are classified in the “Financial assets held for trading” category. They are presented at their fair value and the gains/losses arising on the revaluation at the end of each period are included in net income.
- Accounts receivable and advance are classified in the “Loans and receivables” category. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Fund, the measured amount generally corresponds to cost.
- Bank loans, accounts payable and accrued liabilities, distributions payable to unitholders, due to a dealer, obligations under capital leases and long-term debt are classified in the “Other financial liabilities” category. They are initially presented at their fair value. Subsequent measurements are at cost, net of amortization, using the effective interest rate method. For the Fund, that value generally represents cost.

These new standards had to be applied without restatement of prior period amounts. Upon initial application, all adjustments to the carrying amount of financial assets and liabilities were recognized as an adjustment to the opening balance of cumulative net income or accumulated other comprehensive income, depending on the classification of existing financial assets and liabilities.

Section 3855 also provides guidelines for the accounting of transaction costs incurred from issuance of debt instruments. These transaction costs must be deducted from financial liabilities and amortized using effective interest rate method over estimated life of the related liabilities.

The Section 3865, Hedges, specifies the criteria under which hedge accounting may be applied, how hedge accounting should be performed under permitted hedging strategies and the required disclosures. Since the Fund ceased using hedge accounting in 2006, this standard did not have an impact on the Fund for the year ended December 31, 2007, other than for the reclassification of the deferred derivative gain to accumulated other comprehensive income related to the interest rate swaps that were designated as hedges up to August 2006.

The following table summarizes the adjustments made to the consolidated balance sheet as of January 1, 2007, upon the adoption.

Increase (decrease) in:

| | 2007 |
|--|---------|
| | \$ |
| Deferred financing cost | (1,058) |
| Deferred gain on interest rate swaps | (352) |
| Long-term debt | (1,058) |
| Accumulated other comprehensive income | 352 |

Recently issued accounting standards

The CICA recently issued new Handbook sections that will be applied for the interim and annual financial statements starting with the first quarter of 2008. The Fund does not foresee that these new sections will have a significant impact on its results, financial position and cash flows.

The Section 1535, Capital Disclosures, establishes standards for the disclosure of the information about an entity’s capital and how it is managed. These standards require the following disclosure:

- The objectives, policies and processes for managing capital;
- Summary quantitative data about what is managed as capital;
- Whether during the period, the entity complied with externally imposed capital requirements;
- If the entity did not comply with these requirements, the consequence of such non-compliance.

The Section 3862, Financial Instruments – Disclosures, modifies the disclosure requirements for financial instruments that were included in Section 3861, Financial Instruments – Disclosure and Presentation. The new standards require the disclosure in the financial statements that will allow the users to evaluate:

- The significance of financial instruments for the entity's financial position and performance;
- The nature and extent of risk arising from financial instruments to which the entity is exposed during the period and at the balance sheet, date and how it manages those risks.

The Section 3863, Financial Instruments – Presentation, carries forward unchanged the presentation of the Section 3861 Financial instruments – Disclosure and Presentation.

The Section 3031, Inventories, will replace the Section 3030, Inventories. The new Section stipulates that the inventories must be valued at the lower of cost or net realizable value. It gives guidance on determining cost, allows the use of the retail method, prohibits the use of the last-in, first-out (LIFO) method in the future and requires the reversal of previous write-downs when there is evidence of an increase in value of the inventories. It also requires greater disclosure regarding the inventories and the cost of sale.

Management's Report on Internal Control over Financial Reporting

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

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

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

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

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the CEO and the CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. The CEO and CFO have evaluated the effectiveness of the Fund's disclosure controls and procedures and assess the design of the Fund's internal control over financial reporting as of December 31, 2007, pursuant to certification requirement of the Multilateral Instrument 52-109.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the CEO and the CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. An evaluation of the effectiveness of the design and operation of the Fund's disclosure controls and procedures was conducted as of December 31, 2007, by and under the supervision of the Fund's management, including the CEO and the CFO. Based on this evaluation, the CEO and the

CFO have concluded that the Fund's disclosure controls and procedures, as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, are effective to ensure that information required to be disclosed in reports that the Fund files or submits under Canadian securities legislation and the Exchange Act is recorded, processed, summarized and reported within the time periods specified in those rules and forms.

Risks and Uncertainties

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

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

In order to meet the new debt covenants for the periods after March 31, 2007, management needed to reimburse up to approximately \$5,000,000 of the bank term loan. This was expected to be done through the sale and leaseback of the Fund's building in Saint-Augustin-de-Desmaures and by obtaining additional new subordinated loan financing before the end of April 2007, the proceeds of which would be applied against the senior bank term loan. The sale/leaseback of its building has been finalized for an amount of \$2,837,000, net of sales commission and other charges, which have been applied against the senior bank term loan as of April 30, 2007. The Fund has elected not to proceed with issuance of additional subordinated debt in the amount of \$2,000 000 as it was not satisfied with the commercial terms proposed. The Fund announced on June 20, 2007, its decision to suspend distributions effective after the payment at the end of June of the May distribution. The Bank Credit Agreement Amendment #4 dated July 27, 2007 (the "Bank Credit Agreement Amendment #4") additionally provides that the Fund shall not proceed with the repurchase of any of its units or distribute capital including distributions if there is a default, if the repurchase or payment of such distributions results in a default or if its Funded Debt to EBITDA Ratio for of any given month is equal or higher than 2.25:1. Distributed cash flow may not exceed budgeted distributions provided to and approved by the lenders on an annual basis and can only be made from operational cash flows. The Bank Credit Agreement Amendment #4 additionally provides that, in the event the Fund fails to maintain, at the end of any given month, the required funded debt to EBITDA ratio of 2.50:1, the Fund must apply an amount of \$450,000 for the prepayment of the bank term loan. During the third quarter of 2007, this ratio reached over the 2.50:1 threshold and therefore the Fund had to prepay \$675,000 on its Bank Term Debt. However, this ratio reached under the 2.50:1 threshold at the end of September 30, 2007 and remain so until the end of fiscal year 2007. As at the fiscal 2007 year end this ratio was 2.34:1.

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.

Subsequent event

On March 17, 2008, the Fund entered into Bank Credit Agreement Amendment #5. This new amendment contains the same basis and ratio requirements as the Bank Credit Agreement #4 except that it covers a period of three years ending March 13, 2011.

The Bank Credit Agreement Amendment #5 has a maximum authorized amount of \$41,250,000 and bear interest at rates varying from 0.50% to 1.75% above the prime rate loans and from 1.75% to 3.0% above the bankers' acceptance rates depending on the debt to EBITDA ratio calculated on a monthly basis. This represents a reduction in the Fund's borrowing costs of 25 basis points. All other material terms remain the same as the most recent credit facility.

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 first parties, or that no such violation will occur in the future.

Insurance

The AlarmCap Group maintains insurance coverage in respect of its potential liabilities, including theft, fire damage, accidental loss of value of its assets and personal injury, in amounts, with such insurers, and on such terms as it considers appropriate, taking into account all relevant factors. However, there are certain types of losses, generally of a catastrophic nature, such as earthquakes and floods, that may be uninsurable or not economically insurable. The AlarmCap Group will use its discretion in determining amounts, coverage limits and deductibility provisions of insurance, with a view to maintaining appropriate insurance coverage on the AlarmCap Group's assets and the business at a reasonable cost and on suitable terms. This may result in insurance coverage that, in the event of a substantial loss, would not be sufficient to pay the full current market value or current replacement cost of the AlarmCap Group's lost investment. Certain factors also might make it unattractive to use insurance proceeds to replace the property after such property has been damaged or destroyed. Under such circumstances, the insurance proceeds received by the AlarmCap Group might not be adequate to restore its economic position with respect to such property. There are no assurances that the AlarmCap Group's insurance coverage will continue to be available to it on reasonable terms, including reasonable premium, deductible and co-insurance requirements or that the AlarmCap Group's insurer will not disclaim coverage of any future claim. The AlarmCap Group's business, financial condition, liquidity and results of operations could be materially adversely affected if any of the foregoing developments were to occur.

Risks Related to the Structure of the Fund

Dependence on Operations

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

or the Fund to make cash distributions or other payments or advances further is subject to applicable laws and regulations and contractual restrictions contained in the instruments governing any indebtedness of those entities.

Credit Facilities and Restrictive Covenants

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

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

Although the Fund intends to distribute the cash distributions received in respect of the Class A trust units, less expenses and amounts, if any, paid by the Fund in connection with the redemption of Class A trust units, there can be no assurance regarding the amounts of income to be generated by the AlarmCap Group's business or ultimately distributed to the Fund. The actual amount distributed in respect of the Units is not guaranteed and will depend upon numerous factors, including the AlarmCap Group's profitability, its ability to sustain EBITDA margins and the fluctuations in the AlarmCap Group's working capital and capital expenditures, all of which are susceptible to a number of risks. For example, to better match its distributable cash with its distributed cash, the Fund announced a distribution reduction effective September 2006. Monthly distributions were reduced by 35% from \$0.10833 to \$0.07083 per unit. Then, on June 20, 2007, the Fund announced its decision to suspend distributions all together effective after the payment at the end of June of the May distribution. There is no assurance that distributions will be reinstated and if so, when and to what extent they might be reinstated. In addition, Bank Credit Agreement Amendment #3 requires that distributions be made from operational cash flows only and, effective March 28, 2007, shall be limited to 75% of Distributable Cash Flow calculated on a month-by-month basis. It also provides that distributions shall not be made using the proceeds derived from the sale or alienation of any assets made out of the ordinary course of business and that no distribution shall be made should a default or an event of default have occurred or be continuing or result therefrom. As at June 30, 2007, the Fund was in default under its bank covenants and was therefore prohibited from making distributions. However, the Fund has entered into Bank Credit Agreement #4 and with this new amendment, the Fund was in compliance with its financial ratios for the last three quarters of fiscal year 2007. The Bank Credit Agreement #4 additionally provides that the Fund shall not proceed with the repurchase of any of its units or distribute capital including distributions if there is a default, if the repurchase or payment of such distributions results in a default or if its Funded Debt to EBITDA Ratio for of any given month is equal or higher than 2.25:1. Distributed cash flow may not exceed budgeted distributions provided to and approved by the lenders on an annual basis and can only be made from operational cash flows. As at December 31, 2007, the Funded Debt to EBITDA ratio was 2.34:1. The Bank Credit Agreement Amendment #4 additionally provides that, in the event the Fund fails to maintain, at the end of any given month, the required funded debt to EBITDA ratio, the Fund must apply an amount of \$450,000 for the prepayment of the bank term loan. During the third quarter of 2007, this ratio reached over the 2.50:1 threshold and therefore the Fund had to prepay \$675,000 on its Bank Term Debt. However, this ratio reached under the 2.50:1 threshold at the end of September 30, 2007 and remain so until the end of fiscal year 2007. As at the fiscal 2007 year end this ratio was 2.34:1.

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

Subsequent event

On March 17, 2008, the Fund entered into Bank Credit Agreement Amendment #5. This new amendment contains the same basis and ratio requirements as the Bank Credit Agreement #4 except that it covers a period of three years ending March 13, 2011.

The Bank Credit Agreement Amendment #5 has a maximum authorized amount of \$41,250,000 and bear interest at rates varying from 0.50% to 1.75% above the prime rate loans and from 1.75% to 3.0% above the bankers' acceptance rates depending on the debt to EBITDA ratio calculated on a monthly basis. This represents a reduction in the Fund's borrowing costs of 25 basis points. All other material terms remain the same as the most recent credit facility.

Nature of Class A Trust Units

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

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

Distribution of Securities on Redemption or Termination of the Fund

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

Restrictions on Potential Growth

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

Unitholder Liability

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

Dilution of Existing Holders of Class A Trust Units

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

Investment Eligibility and Foreign Property

There can be no assurance that the Class A trust units will continue to be qualified investments for registered retirement savings plans, deferred profit sharing plans, registered retirement income funds and registered education

savings plans of that the Class A trust units will not be foreign property under the Tax Act. The Tax Act imposes penalties for the acquisition or holding of non-qualified or ineligible investments and on excess holdings of foreign property.

Income Tax Matters

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

Future income tax assets for the period decreased by \$559,000 to reach \$2,050,000 as at December 2007 upon the enactment of new tax legislation. Until June 2007, the Fund had been tax effecting the reversal of taxable temporary differences at a nil tax rate on the assumption that the Fund would make sufficient tax deductible cash distributions to unitholders such that the Fund's taxable income would be nil for the foreseeable future. The new legislation limits the tax deductibility of cash distributions such that income taxes may become payable in the future.

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

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

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

Debt

In order to finance the acquisition of the assets of Microtec and SMLP as well as the implementation of the income trust structure, AlarmCap LP has taken on debt. Amounts paid in principal and interest may impair the Funds ability to make cash distributions. The Bank Credit Agreement contains certain covenants. In addition, the Fund is committed to maintaining certain financial ratios. As at March 31, 2007 and during the three last quarters of fiscal year 2006, the Fund was not in compliance with certain financial ratio requirements. However, the Fund obtained the necessary waivers from its creditors or loan modifications for the non-compliance with the financial ratios. The Credit Agreement, as amended, contains certain covenants, which, in effect, restrict the payment of distributions to the level approved by the bank from operational cash flows only and, after February 28, 2007, to a level that is not more than 75% of Distributable Cash Flow on a month-by-month basis. If the Fund cannot meet these ratios or if the Fund is in default or an event of default has occurred and is continuing under the Credit Agreement, the Credit Agreement provides that the Fund must suspend the payment of distributions. Since the Fund was not able to meet all of these new ratios during the second quarter of 2007, the Fund was in default as at June 30, 2007 and announced on June 20, 2007 that it was suspending its distributions. However, the Fund has entered into Bank Credit Agreement #4 and with this new amendment the Fund was in compliance with its financial ratios for the second quarter of fiscal year 2007. The Bank Credit Agreement #4 additionally provides that the Fund shall not proceed with the repurchase of any of its units or distribute capital including distributions if there is a default, if the repurchase or payment of such distributions results in a default or if its Funded Debt to EBITDA Ratio for of any given month is equal or higher than 2.25:1. As at September 30, 2007, the Funded Debt to EBITDA ratio was 2.44:1. Distributed cash flow may not exceed budgeted distributions provided to and approved by the lenders on an annual basis and can only be made from operational cash flows. The Bank Credit Agreement Amendment #4 additionally provides that, in the event the Fund fails to maintain, at the end of any given month, the required funded debt to EBITDA ratio, the Fund must apply an amount of \$450,000 for the prepayment of the bank term loan. During the third quarter of 2007, this ratio reached over the 2.50:1 threshold and therefore the Fund had to prepay \$675,000 on its Bank Term Debt. However, this ratio reached under the 2.50:1 threshold at the end of September 30, 2007 and remain so until the end of fiscal year 2007. As at the fiscal 2007 year end this ratio was 2.34:1.

Subsequent event

On March 17, 2008, the Fund entered into Bank Credit Agreement Amendment #5. This new amendment contains the same basis and ratio requirements as the Bank Credit Agreement #4 except that it covers a period of three years ending March 13, 2011.

The Bank Credit Agreement Amendment #5 has a maximum authorized amount of \$41,250,000 and bear interest at rates varying from 0.50% to 1.75% above the prime rate loans and from 1.75% to 3.0% above the bankers' acceptance rates depending on the debt to EBITDA ratio calculated on a monthly basis. This represents a reduction in the Fund's borrowing costs of 25 basis points. All other material terms remain the same as the most recent credit facility.

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**FIRST NATIONAL ALARMCAP INCOME FUND
QUARTERLY REPORT**

UNAUDITED CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)

| | December 31, 2007 \$ | December 31, 2006 \$ |
|--|----------------------------|----------------------------|
| ASSETS <i>[note 12]</i> | | |
| Current assets | | |
| Cash | 2,186 | 1,073 |
| Accounts receivable | 2,684 | 3,116 |
| Inventories | 561 | 607 |
| Prepaid expenses | 386 | 402 |
| Interest rate swaps <i>[note 13]</i> | 108 | - |
| Total current assets | 5,925 | 5,198 |
| Advance <i>[note 17]</i> | 71 | - |
| Property, plant and equipment <i>[note 5]</i> | 1,512 | 4,525 |
| Subscriber accounts <i>[note 6]</i> | 66,808 | 67,812 |
| Goodwill <i>[note 7]</i> | 23,000 | 23,000 |
| Other long-term assets <i>[note 4 and 8]</i> | 100 | 1,488 |
| Future income tax asset <i>[note 15]</i> | 2,050 | - |
| | 99,466 | 102,023 |
| LIABILITIES AND UNITHOLDER'S EQUITY | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 3,251 | 4,802 |
| Distributions payable to unitholders | - | 448 |
| Unearned revenues | 4,605 | 5,029 |
| Other deferred revenues | - | 40 |
| Short-term portion of due to a dealer | 503 | - |
| Short-term portion of obligations under capital lease <i>[note 11]</i> | 93 | 82 |
| Total current liabilities | 8,452 | 10,401 |
| Deferred gain on interest rate swaps <i>[note 4 and 13]</i> | - | 352 |
| Due to a dealer <i>[note 9]</i> | 168 | - |
| Obligations under capital leases <i>[note 10]</i> | 314 | 380 |
| Deferred subscription revenues <i>[note 11]</i> | 623 | 418 |
| Other long-term liabilities | 37 | - |
| Long-term debt <i>[note 4, 12, 17 and 22b]</i> | 45,597 | 50,000 |
| Total unitholders' equity | 44,275 | 40,472 |
| | 99,466 | 102,023 |

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 STATEMENT OF UNITHOLDERS' EQUITY
(in thousands of dollars)

| | December 31, 2007 \$ | December 31, 2006 \$ |
|--|----------------------------|----------------------------|
| Unitholders' contribution [note 14] | | |
| Balance, beginning of year | 59,139 | 58,457 |
| Transaction adjustments of future income taxes [note 15] | 162 | - |
| Issuance of units | - | 682 |
| Balance, end of year | 59,301 | 59,139 |
| Cumulative net income (loss) | | |
| Balance, beginning of year | (5,937) | 4,145 |
| Net income (loss) | 5,811 | (10,082) |
| Balance, end of year | (126) | (5,937) |
| Cumulative distributions | | |
| Balance, beginning of year | (12,730) | (5,825) |
| Distributions to unitholders | (2,240) | (6,905) |
| Balance, end of year | (14,970) | (12,730) |
| Accumulated other comprehensive income [note 15] | | |
| Balance, beginning of year | - | - |
| Transition adjustments of financial instruments | 352 | - |
| Change for the year | (282) | - |
| Balance, end of year | 70 | - |
| Unitholders' equity | 44,275 | 40,472 |

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 STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME

(in thousands of dollars, except per unit amounts)

| | December 31, 2007 (3 months) (unaudited) \$ | December 31 2006 (3 months) (unaudited) \$ | December 31 2007 (12 months) (unaudited) \$ | December 31 2006 (12 months) (unaudited) \$ |
|---|---|--|---|---|
| Revenues | | | | |
| Monitoring and services | 7,344 | 7,416 | 29,250 | 29,650 |
| Installation | 595 | 747 | 2,313 | 2,690 |
| | 7,939 | 8,163 | 31,563 | 32,340 |
| Expenses | | | | |
| Monitoring and customer service | 1,836 | 1,808 | 6,961 | 7,425 |
| Installation, sales and marketing | 544 | 744 | 2,141 | 2,740 |
| | 2,380 | 2,552 | 9,102 | 10,165 |
| Income before general and administrative expenses and other items | 5,559 | 5,611 | 22,461 | 22,175 |
| General and administrative expenses | 1,549 | 1,576 | 5,675 | 6,366 |
| Income before under noted items | 4,010 | 4,035 | 16,786 | 15,809 |
| Amortization of subscriber accounts, depreciation of property plant and equipment | 2,279 | 2,371 | 8,777 | 8,928 |
| Amortization of monitoring vendor sales incentives | (4) | - | (11) | - |
| Goodwill impairment charge | - | 13,191 | - | 13,191 |
| Interest on debt including amortization of other long-term assets and liabilities | 896 | 848 | 3,866 | 3,570 |
| Change in the fair value of interest rate swaps | 119 | 140 | 222 | 140 |
| Loss on disposal of property | 13 | 62 | 9 | 62 |
| | 3,303 | 16,612 | 12,863 | 25,891 |
| Income before income taxes | 707 | (12,577) | 3,923 | (10,082) |
| Future income taxes | 721 | - | (1,888) | - |
| Net income | (14) | (12,577) | 5,811 | (10,082) |
| Earning per unit | | | | |
| | (0.002) | (1.990) | 0.919 | (1.594) |
| Weighted average number of units outstanding (in thousands) | | | | |
| | 6,324 | 6,324 | 6,324 | 6,324 |

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

**FIRST NATIONAL ALARMCAP INCOME FUND
QUARTERLY REPORT**

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of dollars)

| | December 31, 2007 (3 months) (unaudited) \$ | December 31, 2006 (3 months) (unaudited) \$ | December 31, 2007 (12 months) (unaudited) \$ | December 31, 2006 (12 months) (unaudited) \$ |
|---|---|---|--|--|
| OPERATING ACTIVITIES | | | | |
| Net income for the period | (14) | (12,577) | 5,811 | (10,082) |
| Items not affecting cash flows | | | | |
| Amortization of subscriber accounts and depreciation of property, plant and equipment | 2,279 | 2,371 | 8,777 | 8,928 |
| Amortization of deferred subscription revenues | (20) | (12) | (69) | (36) |
| Amortization of monitoring vendor sales incentives | (4) | - | (11) | - |
| Goodwill impairment charge | - | 13,191 | - | 13,191 |
| Amortization of other long-term assets and deferred gain | 140 | 46 | 479 | 471 |
| Gain on settlement of note payable | - | - | - | (18) |
| Change in the fair value of interest rate swaps | 119 | 140 | 222 | 140 |
| Loss on disposal of property | 13 | 62 | 9 | 62 |
| Monitoring vendor sales incentives | - | - | 48 | - |
| Phantom Unit Plan | - | (78) | - | - |
| Future income taxes | 721 | - | (1,888) | - |
| | 3,234 | 3,143 | 13,378 | 12,656 |
| Net change in non-cash working capital items | 9 | (444) | (1,696) | 1,316 |
| Cash flows relating from operating activities | 3,243 | 2,699 | 11,682 | 13,972 |
| INVESTING ACTIVITIES | | | | |
| Advance | - | - | (71) | - |
| Additions to property, plant and equipment | (49) | (76) | (241) | (760) |
| Sales of property | (13) | 352 | 18 | 352 |
| Increase in subscriber accounts | (1,868) | (1,722) | (6,507) | (8,211) |
| Increase in other assets | - | - | - | (558) |
| Cash flow relating to investing activities | (1,930) | (1,446) | (6,801) | (9,177) |
| FINANCING ACTIVITIES | | | | |
| Repayment of note payable | - | - | - | (3,500) |
| Repayment of demand note payable | - | 4 | - | (198) |
| Repayment of obligations under capital lease | (22) | (15) | (85) | (15) |
| Increase in deferred subscription revenue | 62 | - | 274 | 298 |
| Financing cost | (20) | - | (144) | - |
| Repayment of long-term debt | (450) | - | (1,125) | - |
| Increase in long-term debt | - | - | - | 5,000 |
| Distributions to unitholders | - | (1,220) | (2,688) | (6,979) |
| Cash flow relating to financing activities | (430) | (1,231) | (3,768) | (5,394) |
| Net increase (decrease) in cash for the period | 883 | 22 | 1,113 | (599) |
| Cash – beginning of the period | 1,303 | 1,051 | 1,073 | 1,672 |
| Cash – end of period | 2,186 | 1,073 | 2,186 | 1,073 |
| Supplementary information | | | | |
| Interest paid for the period: | 721 | 787 | 3,567 | 2,630 |

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

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 and 2006

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

1. DESCRIPTION OF THE FUND

First National AlarmCap Income Fund (the "Fund") is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Alberta pursuant to a Declaration of Trust dated February 24, 2005, as amended and restated on March 4, 2005. The Fund began commercial operations 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 ("Securex"), 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 accordance with Canadian generally accepted accounting principles based on the going concern concept, which assumes the Fund will be able to generate sufficient funds to discharge its obligation during normal business operations for the foreseeable future.

Effective July 27, 2007, the Fund entered into Bank Credit Agreement Amendment #4. With this new amendment, the Fund was in compliance with its financial ratios for the second and third quarter of fiscal 2007. The Bank Credit Agreement Amendment #4 provides that the Fund shall not proceed with the repurchase of any of its units or distribute capital including distributions if there is a default, if the repurchase or payment of such distributions results in a default or if its funded debt to EBITDA ratio for any given month is equal or higher than 2.25:1. Distributed cash flow may not exceed budgeted distributions provided to and approved by the lenders on an annual basis and can only be made from cash flows from operations. The Bank Credit Agreement Amendment #4 additionally provides that, in the event the Fund fails to maintain, at the end of any given month, the required funded debt to EBITDA ratio, the Fund must apply an amount of \$450,000 per quarter for the prepayment of the bank term loan. During fiscal 2007, this ratio exceeded the 2.50:1 threshold and therefore the Fund had to repay \$1,125,000 on its Bank Term Debt. With this new Bank Credit Amendment no #4, the Fund was in compliance with its financial ratios for fiscal 2007.

As mentioned in note 22, on March 17, 2008, the Fund renewed its Bank Credit Agreement for a three-year period. Management is confident that the Fund will meet all the requirements in the future.

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

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 and 2006

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

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

Consolidation

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

Use of estimates

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

Revenue recognition

Installation revenues are recognized upon completion of the installation. Revenues from remote monitoring activities and services are recognized when the services are rendered. Unearned revenues 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 signature are recorded as deferred subscription revenues.

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, 2007 and 2006

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

3. 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. 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 following method and rates:

| | 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, 2007 and 2006

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

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

Goodwill

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

Other long-term assets

Other long-term assets mainly consisted in 2006 of deferred financing costs recorded at cost and amortized on a straight-line basis over the terms of the related debt. As stated in note 4, as required with the new accounting standards on financial instruments, these transactions costs must be deducted from the related financial liabilities and amortized using the effective interest rate method over the estimated lives of these liabilities.

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.

Other long-term liabilities

Other long-term liabilities consist of monitoring vendor sales incentives received and are amortized using the straight-line method over the term of the agreement.

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 and 2006

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

3. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Income taxes

The Fund currently qualifies as a mutual fund trust for income tax purposes. The Fund has distributed all of its taxable income to unitholders and is entitled to deduct such distributions for income tax purposes. Accordingly, no provision for current income tax payable is required.

Future income taxes are accounted for using the liability method. This method requires the Trust to:

- i. Determine its temporary differences;
- ii. Determine the periods over which those temporary differences are expected to reverse; and
- iii. Apply the tax rates enacted at the balance sheet date that will apply in the periods in which the temporary differences are expected to reverse *[note 15]*.

Deferred subscription revenues

The deferred subscription revenues consisting of revenues received from the initial subscription, are amortized at 12% using the declining balance method and included in installation revenues.

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 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 14, 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

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 and 2006

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

3. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Unit-based compensation [Cont'd]

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, calculated using the treasury stock method, take into account all items 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.

Derivative financial instruments

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. Any change in the fair value of these derivative instruments is recorded in net income.

Designation as a hedge is only allowed if, both at the inception of the hedge and throughout the life of the hedge, 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.

In order to qualify for hedge accounting, the Fund is required to document all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions.

The Fund had been using hedge accounting until August 2006, at which point it was discontinued.

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 and 2006

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

3. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Derivative financial instruments [Cont'd]

Derivative instruments that were ineffective or that were not designated as a hedge were 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 were recorded in income.

Realized and unrealized gains or losses associated with derivative instruments previously designated as hedges that had been terminated or had ceased to be effective prior to maturity were recognized in income as interest on debt in the period in which the underlying hedged transaction was recognized. In 2006, the unamortized portion of these realized or unrealized gains or losses were shown on balance sheet. As at January 1, 2007, the unamortized portion of \$352,000 has been reclassified to Accumulated other comprehensive income as a result of the adoption of the new accounting standards on financial instruments.

4. NEW ACCOUNTING POLICIES

On January 1, 2007, the Fund adopted the new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA):

The Section 1530, *Comprehensive Income*, introduces a new financial statement which shows the change in equity or net assets of an enterprise during a period from transactions and other events and circumstances from non-owner sources.

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

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 and 2006

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

4. NEW ACCOUNTING POLICIES [Cont'd]

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

The Fund has implemented the following classification:

- Cash and cash equivalents are classified in the "Financial assets held for trading" category. They are presented at their fair value and the gains/losses arising on the revaluation at the end of each period are included in net income.
- Accounts receivable and advance are classified in the "Loans and receivables" category. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Fund, the measured amount generally corresponds to cost.
- Bank loans, accounts payable and accrued liabilities, distributions payable to unitholders, due to a dealer, obligations under capital leases and long-term debt are classified in the "Other financial liabilities" category. They are initially presented at their fair value. Subsequent measurements are at cost, net of amortization, using the effective interest rate method. For the Fund, that value generally represents cost.

These new standards had to be applied without restatement of prior period amounts. Upon initial application, all adjustments to the carrying amount of financial assets and liabilities were recognized as an adjustment to the opening balance of cumulative net income or accumulated other comprehensive income, depending on the classification of existing financial assets and liabilities.

Section 3855 also provides guidelines for the accounting of transaction costs incurred from issuance of debt instruments. These transaction costs must be deducted from financial liabilities and amortized using effective interest rate method over estimated life of the related liabilities.

The Section 3865, *Hedges*, specifies the criteria under which hedge accounting may be applied, how hedge accounting should be performed under permitted hedging strategies and the required disclosures. Since the Fund ceased using hedge accounting in 2006, this standard did not have an impact on the Fund for the year ended December 31, 2007, other than for the reclassification of the deferred derivative gain to accumulated other comprehensive income related to the interest rate swaps that were designated as hedges up to August 2006.

The following table summarizes the adjustments made to the consolidated balance sheet as of January 1, 2007, upon the adoption.

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 and 2006

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

4. NEW ACCOUNTING POLICIES [Cont'd]

Increase (decrease) in:

| | 2007 \$ |
|--|------------|
| Deferred financing cost [note 8] | (1,058) |
| Deferred gain on interest rate swaps | (352) |
| Long-term debt | (1,058) |
| Accumulated other comprehensive income | 352 |

Recently issued accounting standards

The CICA recently issued new *Handbook* sections that will be applied for the interim and annual financial statements starting with the first quarter of 2008. The Fund does not foresee that these new sections will have a significant impact on its results, financial position and cash flows.

The Section 1535, *Capital Disclosures*, establishes standards for the disclosure of the information about an entity's capital and how it is managed. These standards require the following disclosure:

- The objectives, policies and processes for managing capital;
- Summary quantitative data about what is managed as capital;
- Whether during the period, the entity complied with externally imposed capital requirements;
- If the entity did not comply with these requirements, the consequence of such non-compliance.

The Section 3862, *Financial Instruments – Disclosures*, modifies the disclosure requirements for financial instruments that were included in Section 3861, *Financial Instruments – Disclosure and Presentation*. The new standards require the disclosure in the financial statements that will allow the users to evaluate:

- The significance of financial instruments for the entity's financial position and performance;
- The nature and extent of risk arising from financial instruments to which the entity is exposed during the period and at the balance sheet, date and how it manages those risks.

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 and 2006

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

4. NEW ACCOUNTING POLICIES [Cont'd]

Recently issued new policies [Cont'd]

The Section 3863, *Financial Instruments – Presentation*, carries forward unchanged the presentation of the Section 3861 *Financial instruments – Disclosure and Presentation*.

The Section 3031, *Inventories*, will replace the Section 3030, *Inventories*. The new Section stipulates that the inventories must be valued at the lower of cost or net realizable value. It gives guidance on determining cost, allows the use of the retail method, prohibits the use of the last-in, first-out (LIFO) method in the future and requires the reversal of previous write-downs when there is evidence of an increase in value of the inventories. It also requires greater disclosure regarding the inventories and the cost of sale.

5. PROPERTY, PLANT AND EQUIPMENT

| | 2007 | | 2006 | |
|--|-------|--------------------------|-------|--------------------------|
| | Cost | Accumulated depreciation | Cost | Accumulated depreciation |
| | \$ | \$ | \$ | \$ |
| Land | — | — | 88 | — |
| Buildings | — | — | 3,009 | 207 |
| Furniture and equipment | 939 | 377 | 886 | 241 |
| Computer hardware and software | 315 | 179 | 233 | 92 |
| Leasehold improvements | 575 | 149 | 471 | 75 |
| Furniture and equipment under capital leases | 507 | 119 | 477 | 24 |
| | 2,336 | 824 | 5,164 | 639 |
| Accumulated depreciation | 824 | | 639 | |
| | 1,512 | | 4,525 | |

Depreciation of property, plant and equipment amounted to \$420,000 for the year ended December 31, 2007 [\$435,000 in 2006].

In 2007, the Fund acquired furniture and equipment under capital leases valued at \$30,000 [\$477,000 in 2006].

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 and 2006

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

6. SUBSCRIBER ACCOUNTS

Cost of subscriber accounts consists of the following items:

| | 2007 \$ | 2006 \$ |
|--------------------------|-----------------|------------|
| Subscriber accounts | 89,921 | 82,568 |
| Accumulated amortization | (23,113) | (14,756) |
| | 66,808 | 67,812 |

Amortization of subscriber accounts amounted to \$8,357,000 for the year [\$8,493,000 in 2006].

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 which received royal assent in 2007 [note 15], the Fund concluded that the carrying amount of goodwill had to be impaired by \$13,191,000 as at December 31, 2006. No impairment has been considered necessary as at December 31, 2007.

8. OTHER LONG-TERM ASSETS

| | 2007 \$ | 2006 \$ |
|---|------------|------------|
| Deferred financing cost, at amortized cost [note 4] | — | 1,058 |
| Restricted cash | 100 | 100 |
| Interest rate swaps [note 13] | — | 330 |
| | 100 | 1,488 |

Amortization of deferred financing costs amounted to \$589,000 in 2006.

9. DUE TO A DEALER

| | 2007 \$ | 2006 \$ |
|--------------------|------------|------------|
| Due to a dealer | 671 | — |
| Short term portion | 503 | — |
| | 168 | — |

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 and 2006

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

On December 31, 2007, the Fund acquired a list of clients from a dealer for a total of \$671,000 net of \$175,000 in unearned revenues. This acquisition is payable in eight interest-free instalments, seven of which are payable in 2008; the last is payable in March 2009.

This transaction has no monetary impact and is therefore not presented in the consolidated statement of cash flows.

10. DEFERRED SUBSCRIPTION REVENUES

| | 2007 | 2006 |
|--------------------------------|------------|------------|
| | \$ | \$ |
| Deferred subscription revenues | 736 | 462 |
| Accumulated amortization | (113) | (44) |
| | 623 | 418 |

Amortization of deferred subscription revenues amounted to \$69,000 for the year [\$36,000 in 2006].

11. OBLIGATIONS UNDER CAPITAL LEASES

| | 2007 | 2006 |
|--|------------|------------|
| | \$ | \$ |
| Capital lease agreements pertaining to furniture and equipment, repayable in monthly instalments totalling \$10,160 including interest varying from 7.33% to 10.78% with maturities ranging from September 2011 to May 2012. | 407 | 462 |
| Short-term portion | 93 | 82 |
| | 314 | 380 |

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

| | \$ |
|------------------------------|------------|
| 2008 | 122 |
| 2009 | 122 |
| 2010 | 122 |
| 2011 | 94 |
| 2012 | 2 |
| | 462 |
| Amount representing interest | 55 |

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 and 2006

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

| | |
|-----------------------------------|------------|
| Balance of the obligations | 407 |
|-----------------------------------|------------|

12. LONG-TERM DEBT

| | 2007 | 2006 |
|---|---------------|--------|
| | \$ | \$ |
| Bank term loan [net of financing costs of \$183 in 2007] | 40,855 | 45,000 |
| Subordinated debentures [net of financing costs of \$258 in 2007] | 4,742 | 5,000 |
| | 45,597 | 50,000 |

(a) Bank term loan [note 22]

The bank term loan has a maximum authorized amount of \$45,000,000, matures in March 2008 and bears interest at contractual rates ranging from 0.75% to 1.75% [effective rates ranging from 0.78% to 1.78%] above the bank's prime rate and from 2.00% to 3.00% [effective rates ranging from 2.03% to 3.03%] above the bankers' acceptance rate depending on a monthly financial ratio test.

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

The sale/leaseback of the Fund's Saint-Augustin-de-Desmaures building was finalized during the second quarter of 2007 for \$2,837,000, net of sales commissions and other charges, and the proceeds thereof have been applied against the senior bank term loan as of April 30, 2007. This transaction has no monetary impact and is therefore not presented in the consolidated statement of cash flows.

The Bank Credit Agreement contains certain covenants. In addition, the Fund is committed to maintaining certain financial ratios. As at December 31, 2007, the Fund was in compliance with all of its financial ratio requirements based on its Bank Credit Agreement Amendment #4.

(b) Subordinated debentures

Five-year subordinated debentures bearing interest at a contractual rate of 9.00% [effective rate of 9.49%] total \$5,000,000 and mature in April 2011 [note 17].

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 and 2006

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

13. 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, 2007, the interest rate swap agreements were detailed as follows:

| Purpose | Fixed rate payable | Floating rate receivable | Notional | Maturity |
|------------|--|--------------------------------|----------|------------|
| 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 |

During the year 2006, the Fund ceased to designate its interest rate swaps as hedging instruments. As a result the interest rate swaps have been accounted for in the balance sheet. The fair market value amounts to \$108,000 as at December 31, 2007 [\$330,000 as at December 31, 2006 *[note 8]*].

14. 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 in 2006. The Class B trust unitholders have consequently the same rights as the Class A trust unitholders. As at December 31, 2007, the Class B trust unitholders have not used the option of conversion into Class A trust units.

| | 2007 | 2006 |
|---|----------------|---------|
| | \$ | \$ |
| Issued and outstanding | | |
| 4,574,401 Class A trust units | 45,187 | 45,187 |
| 1,750,000 Class B trust units | 17,500 | 17,500 |
| Less issuance costs net of an amount of \$162 of future income taxes in 2007 <i>[note 15]</i> | (3,386) | (3,548) |
| | 59,301 | 59,139 |

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 and 2006

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

14. UNITHOLDERS' CONTRIBUTIONS [Cont'd]

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 [note 17].

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, 2007, no phantom units had been granted [160,417 in 2006]. In 2006, no compensation expense has been considered in the statement of income since management does not believe that they will vest. As at December 31, 2007 and 2006, 160,417 phantom units were outstanding.

15. INCOME TAXES

In June 2007, the Government of Canada enacted new legislation imposing additional income taxes upon publicly traded trusts. This new legislation will not apply to AlarmCap until 2011 as it provides for a transition period for publicly traded entities that existed prior to November 1, 2006.

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15. INCOME TAXES [Cont'd]

According to this new legislation, certain distributions will not be deductible in the computation of the income for tax purposes. As a result, the Fund will be subject to tax at a rate substantially equivalent to the general corporate income tax rate beginning January 1, 2011. In October 2007, the Government of Canada announced general income tax rate reductions that will apply in the calculation of the Fund's future income taxes. These proposals received royal assent in December 2007. Consequently, in accordance with the Fund's future income taxes, the impact of these tax rate changes from 31.5% to 29.5% for 2011 and 28% for 2012 and thereafter have been applied in the periods in which the temporary differences are expected to reverse.

The Fund recognizes future income tax assets and liabilities based on temporary differences that are expected to reverse after January 1, 2011 on the basis of its structure as at the balance sheet date. The Fund does not take into consideration changes that may arise in its structure in the future.

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

| | 2007 | 2006 |
|--|------|------|
| | \$ | \$ |

Components of future income taxes on a consolidated basis:

Balance sheets

Tax effected temporary differences between accounting and tax basis of:

| | | |
|----------------------------------|--------------|----------|
| Subscriber accounts and goodwill | 1,882 | — |
| Units' issuance cost | 162 | — |
| Other | 6 | — |
| Future income tax assets | 2,050 | — |

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15. INCOME TAXES [Cont'd]

| | 2007 \$ | 2006 \$ |
|--|--------------|------------|
| Statements of unitholders' equity | | |
| Increase in future income tax recovery from a change in tax status in June 2007 | 182 | — |
| Decrease in future income tax recovery resulting from tax rate change in December 2007 | (20) | — |
| Future income tax recovery | 162 | — |
| Statements of income | | |
| Increase in future income tax recovery from a change in tax status in June 2007 | 2,124 | — |
| Decrease in future income tax recovery resulting from tax rate change in December 2007 | (236) | — |
| Future income tax recovery | 1,888 | — |

16. SUPPLEMENTARY CASH FLOW INFORMATION

Change in non-cash operating working capital items is as follows:

| | 2007 \$ | 2006 \$ |
|--|----------------|--------------|
| Accounts receivable | 432 | (112) |
| Inventories | 46 | 9 |
| Prepaid expenses | 16 | 160 |
| Accounts payable and accrued liabilities | (1,551) | 1,698 |
| Unearned revenues | (599) | (247) |
| Other deferred revenues | (40) | (192) |
| | (1,696) | 1,316 |

Part of the change in unearned revenues was related to the acquisition of a subscriber contract for \$175,000.

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17. RELATED PARTY TRANSACTIONS

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

| (in thousands of dollars) | 2007 | 2006 |
|-------------------------------------|------|------|
| <hr/> | | |
| Statement of income: | \$ | \$ |
| Monitoring and customer service | 50 | 50 |
| General and administrative expenses | 730 | 742 |
| Interest on debt | - | 89 |
| <hr/> | | |
| Balance Sheets : | | |
| Accounts receivable | 39 | - |
| Subscriber accounts | 70 | 70 |
| Advance | 71 | - |
| Accounts payable | 107 | 303 |

2007

A \$71,000 advance is receivable from an officer of the Fund. This advance bears no interest and has no specific terms of repayment.

2006

A \$700,000 note payable to an officer of the Fund resulted from the acquisition of Microtec. 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 the note payable [note 14].

In November 2006, distributions payable to unitholders of Class B trust units totalling \$124,000 were settled against accounts payable to an entity controlled by an officer of the Fund.

These two transactions had no monetary impact and are therefore not presented in the consolidated statements of cash flows.

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In 2006, a \$3,500,000 term note was payable to an entity controlled by an officer of Fund. This amount has been repaid out of the proceeds from the issuance of the five-year subordinated debentures bearing interest at 9% for a total amount of \$5,000,000 [note 12].

18. FINANCIAL INSTRUMENTS

(a) Fair value

The carrying amounts of Fund's financial assets and liabilities, such as cash, accounts receivable, accounts payable and distributions payable to unitholders, approximate their fair values as at December 31, 2007 and 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 fair value of the interest rate swaps is disclosed in note 13.

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

The carrying amounts of the advance to an officer of the Fund and the amount due to a dealer approximate their fair values as at December 31, 2007.

(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 immaterial. 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 13].

First National AlarmCap Income Fund

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19. SEGMENTED INFORMATION

The Fund operates in one segment represented by Microtec and Securex divisions. The following table discloses supplementary financial information for both divisions:

| | Microtec \$ | Securex \$ | Total \$ | Microtec \$ | Securex \$ | Total \$ |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | December 31, 2007 | December 31, 2007 | December 31, 2007 | December 31, 2006 | December 31, 2006 | December 31, 2006 |
| | 3 months | 3 months | 3 months | 3 months | 3 months | 3 months |
| Revenues | | | | | | |
| Monitoring and services | 6,207 | 1,137 | 7,344 | 6,286 | 1,130 | 7,416 |
| Installation | 595 | - | 595 | 747 | - | 747 |
| | 6,802 | 1,137 | 7,939 | 7,033 | 1,130 | 8,163 |
| Expenses | | | | | | |
| Monitoring and customer service | 1,596 | 240 | 1,836 | 1,558 | 250 | 1,808 |
| Installation, sales and marketing | 544 | - | 544 | 744 | - | 744 |
| | 2,140 | 240 | 2,380 | 2,302 | 250 | 2,552 |
| Income before general and administrative expenses and other items | 4,662 | 897 | 5,559 | 4,731 | 880 | 5,611 |
| | | | | | | |
| | Microtec \$ | Securex \$ | Total \$ | Microtec \$ | Securex \$ | Total \$ |
| | December 31, 2007 | December 31, 2007 | December 31, 2007 | December 31, 2006 | December 31, 2006 | December 31, 2006 |
| | 12 months | 12 months | 12 months | 12 months | 12 months | 12 months |
| Revenues | | | | | | |
| Monitoring and services | 24,624 | 4,626 | 29,250 | 24,994 | 4,656 | 29,650 |
| Installation | 2,313 | - | 2,313 | 2,690 | - | 2,690 |
| | 26,937 | 4,626 | 31,563 | 27,684 | 4,656 | 32,340 |
| Expenses | | | | | | |
| Monitoring and customer service | 6,002 | 959 | 6,961 | 6,464 | 961 | 7,425 |
| Installation, sales and marketing | 2,141 | - | 2,141 | 2,740 | - | 2,740 |
| | 8,143 | 959 | 9,102 | 9,204 | 961 | 10,165 |
| Income before general and administrative expenses and other items | 18,794 | 3,667 | 22,461 | 18,480 | 3,695 | 22,175 |

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19. SEGMENTED INFORMATION [CONT'D]

Depreciation of property, plant and equipment amounted to \$410,000 in 2007 [\$422,000 in 2006] for the Fund's Microtec division and \$10,000 [\$13,000 in 2006] for its Securex division

Amortization of subscriber accounts amounted to \$7,269,000 in 2007 [\$7,366,000 in 2006] for the Fund's Microtec division and \$1,088,000 [\$1,127,000 in 2006] for its Securex division.

Amortization of deferred subscription revenues amounted to \$69,000 in 2007 [\$36,000 in 2006] for the Fund's Microtec division and none for its Securex division.

20. COMMITMENTS

The Fund has entered into lease agreements for its place of business, some equipment and vehicles. The commitments totalled \$2,554,000, and the annual minimum rent payments for the next five years and thereafter are as follows:

| | 2007 \$ |
|---------------------|------------|
| 2008 | 490 |
| 2009 | 456 |
| 2010 | 437 |
| 2011 | 421 |
| 2012 | 399 |
| 2013 and thereafter | 351 |

21. CONTINGENCIES

a) On March 25, 2008, the Fund received a formal notice in relation to the change in the governance structure described below. In the management's opinion, based on the advice and information provided by its legal counsel, the severance costs that may incur cannot be determined at this time but may be material.

b) Furthermore, 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.

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22. SUBSEQUENT EVENTS

a) On March 10, 2008, the Fund announced that the trustees of the Fund have resolved to align the governance structure of the Fund, its wholly-owned subsidiary First National AlarmCap Trust (the "Trust"), and the Trust's wholly-owned subsidiary First National AlarmCap GP Inc. (the GP). Consequently, the Trust's trustees are since then Oliver Plett, Leonard Sudermann and Timothy Whyte, who are also the existing trustees of the Fund. The directors of the GP are George Fink, Oliver Plett, Leonard Sudermann and Timothy Whyte.

b) On March 17, 2008, the Fund entered into Bank Credit Agreement Amendment #5. This new amendment includes modifications to its financial ratio requirements and a decrease of 0.25% of the interest rate applicable on either bank's prime rate or Bankers' acceptance rate. It covers a three-year period.

c) The Bank Credit Agreement Amendment #5 has a maximum authorized amount of \$41,250,000, expiring in March 2011 and bearing interest at rates varying from 0.50% to 1.75% above the prime rate loans and from 1.75% to 3.0% above the bankers' acceptances rate depending on a monthly financial ratio test.

23. COMPARATIVE FIGURES

Certain 2006 figures have been reclassified to conform to the current year presentation.