



FIRST NATIONAL ALARMCAP INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the six months ended June 30, 2009

As of August 13, 2009



Highlights

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

	Q2-2009	Q1-2009	Q2-2008	YTD - 2009	YTD - 2008
	\$	\$	\$	\$	\$
Monitoring revenues	6,992	6,992	7,258	13,984	14,423
Total revenues	7,424	7,384	7,819	14,808	15,400
Monitoring expenses	602	587	650	1,189	1,277
Customer service expenses	961	1,016	993	1,977	2,076
Installation, sales and marketing expenses	702	668	730	1,370	1,322
G&A	1,699	1,678	1,616	3,377	3,050
EBITDA	3,460	3,435	3,830	6,895	7,675
Future income taxes	22	22	230	44	405
Net income (loss)	969	720	419	1,689	1,453
Distributable cash	1,154	1,478	1,267	2,632	2,959
Distributed cash	-	700	-	700	-
Earnings (loss) per Unit	0.153	0.113	0.066	0.266	0.230
Distributions declared per Unit	0.02	-	-	0.02	-
Total assets	99,594	99,357	99,491	99,594	99,491
Total long-term debt	46,174	46,166	46,377	46,174	46,377
Unitholders' equity	43,609	42,743	44,897	43,609	44,897
RMR at the end of the period	2,263	2,267	2,277	2,263	2,277
Total Number of Customers	94,781	95,441	97,309	94,781	97,309
Net RMR Attrition Rate %(2)	10.10	8.18	9.07	9.14	8.60

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

(2) Net RMR Attrition Rate is defined as the gross RMR lost as a result of cancellations, reduced by the reconnection of existing customers, reconnection of existing premises, and cancellation guarantees as a percentage of the total recurring revenues during the period.



Message to Unitholders

The Management and Trustees of First National AlarmCap Income Fund are pleased to report results for the second quarter (Q2) of 2009.

Total revenues of the Fund for Q2 of 2009 were \$7.42 million compared to \$7.82 million for Q2 of 2008, a decrease of 5.0%. This is primarily due to a 2.6% decrease in the number of subscribers since Q2 of 2008 combined with lower installation revenues. The Fund has experienced a softening in demand in the commercial sector and higher residential customer attrition than anticipated. Operating expenses were \$25 thousand less in Q2 of 2009 versus Q2 of 2008 due to lower monitoring costs. EBITDA for the Fund in Q2 of 2009 was \$3.46 million compared to \$3.83 million for Q2 2008. This 9.7% drop in quarterly EBITDA is mainly attributable to lower revenues.

Cash on hand at the end of the first quarter was \$8.73 million as compared to \$7.37 million at December 31, 2008. This improvement in cash is largely the result of cash generated from our portfolio of monitored accounts and the reduced level of distributions to Unitholders since June 2007.

The Fund realized earning per unit of \$0.266 for the first half of the year, up from \$0.230 in the first half of 2008. Looking ahead, the Fund will continue to implement its business plan of improving customer service while implementing strategies to stabilize and grow the subscriber base and improve operating income. As part of this business plan, the Fund launched a new corporate website in June for the Fund (www.alarmcap.com) and a new customer website for its Microtec operating division (www.microtec.com). In addition, management is in the process of finalizing an expanded "dealer program" to generate account base growth while providing quality service to its customers for its monitoring services.

The Trustees were pleased to announce a distribution for the month of June in the amount of \$0.02 per unit. With regards to future distributions, the Trustees will continue to monitor, on a monthly basis, a number of relevant factors including compliance with all of the debt covenants of its Bank Credit Agreement, the projected profitability of the Fund, and the level of cash resources required to implement its business plan.

I remain both confident and optimistic that our business plan will have a positive impact on the growth and profitability of the Fund.

Fred W. Fong
President & CEO
First National AlarmCap Income Fund

FIRST NATIONAL ALARMCAP INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

Second Quarter ended June 30, 2009

As at August 13, 2009

Introduction

This report, dated August 13, 2009, 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 periods ended December 31, 2008 and 2007 and the unaudited consolidated interim financial statements of the Fund for the quarters ended June 30, 2009 and 2008.

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 1, 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 ("Securex"). The Microtec division, based in Quebec, is one of the largest full-service security alarm monitoring operations in Canada and has approximately 80,000 subscribers. The Securex assets represent approximately 14,800 subscribers which are managed by a related party contractor on behalf of the Fund. In total, the Fund has approximately 94,800 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 2008 Annual Information Form which is available on the Fund's website (www.alarmcap.ca) and on SEDAR at www.sedar.com.

Non-GAAP measures

EBITDA and distributable cash are non-GAAP financial measures, but management believes they are useful in measuring the Fund's performance. In this document, EBITDA is earnings before interest, taxes, depreciation and amortization. Distributable Cash is EBITDA less subscriber replacement costs, interest on debt and sustaining capital expenditures. 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. 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. Furthermore, the Fund's method of calculating Distributable Cash, including subscriber replacement costs, may not be comparable to other similarly named calculations used by other issuers.

Reconciliation of EBITDA and net income (restated)

(thousands of dollars)

	Three months ended		Six months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Net income (loss)	969	419	1,689	1,453
Plus :				
Income taxes (tax recovery)	22	230	44	405
Amortization and depreciation	2,016	2,077	3,990	4,111
Interest on debt	814	796	1,625	1,666
Change in the fair value of interest rate swaps	(361)	(308)	(453)	40
EBITDA	3,460	3,830	6,895	7,675

Supplemental Disclosure

Subscriber replacement costs represent management's estimates of costs to acquire new subscriber recurring monthly revenue ("RMR") to replace RMR lost through attrition. Subscriber replacement costs incurred may not be sufficient 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 Dealer 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 2009 and in fiscal 2008 are calculated based on the actual investment in accounts by recruitment channels for a particular month. 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. Management believes a level of \$38 thousand per month for fiscal 2009 is appropriate.

Financial Highlights (restated)

The following table presents selected financial information regarding the financial results of the Fund for the last eight quarters of operation. More detailed 2007 and 2008 financial information is contained in the audited consolidated financial statements and accompanying notes of the Fund for the years ended December 31, 2007 and 2008.

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

	Q2-2009	Q1-2009	Q4-2008	Q3-2008	Q2-2008	Q1-2008	Q4-2007	Q3-2007	Q2-2007
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Monitoring revenues	6,992	6,992	7,074	7,225	7,258	7,165	7,344	7,203	7,303
Total revenues	7,424	7,384	7,682	7,642	7,819	7,581	7,918	7,713	7,885
Monitoring expenses	602	587	667	627	650	627	634	614	590
Customer service expenses	961	1,016	1,054	959	993	1,083	1,202	1,084	1,149
Installation, sales and marketing expenses	702	668	644	666	730	592	600	520	615
Income before G&A expenses and other items	5,159	5,113	5,317	5,390	5,446	5,279	5,482	5,495	5,531
G&A	1,699	1,678	2,279	1,595	1,616	1,434	1,549	1,361	1,355
EBITDA	3,460	3,435	3,038	3,795	3,830	3,845	3,933	4,134	4,176
Future income taxes	22	22	287	368	230	175	721	147	(2,756)
Net income (loss)	969	720	(2,126)	(76)	419	1,034	(48)	715	3,884
Distributable cash	1,154	1,478	924	1,460	1,267	1,692	1,301	1,897	1,733
Distributed cash	-	700	-	-	-	-	-	-	1,344
Earnings (loss) per Unit	0.153	0.113	(0.336)	(0.012)	0.066	0.164	(0.008)	0.113	0.614
Distributions declared per Unit	0.020	-	0.110	-	-	-	-	-	0.142
Total assets	99,594	99,357	99,805	99,166	99,491	98,432	98,082	97,565	98,145
Total long-term debt	46,174	46,166	46,158	46,148	46,377	46,094	46,079	5,060	5,063
Unitholders' equity	43,609	42,743	42,023	44,821	44,897	44,478	43,514	43,329	42,614
RMR at the end of the period	2,263	2,267	2,270	2,267	2,277	2,275	2,293	2,282	2,296
Total Number of Customers	94,781	95,441	95,630	97,019	97,309	97,566	98,554	97,710	99,129
Net RMR Attrition Rate (%)⁽²⁾	10.10	8.18	8.47	9.46	9.07	8.18	8.65	9.90	11.23

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

(2) Net RMR Attrition Rate is defined as the gross RMR lost as a result of cancellations, reduced by the reconnection of existing customers, reconnection of existing premises, and cancellation guarantees as a percentage of the total recurring revenues during the period.

Consolidated Statements 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 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 facilities.

Since the end of the second quarter last year, the Fund has experienced a net decline from 97,309 subscribers to 94,781 subscribers. This is a decline of 2.6% and is due to more customers leaving the service than subscribing to the service. Monitoring and service revenues declined 3.7% to \$6.99 million in the second quarter of 2009 from \$7.26 million for the same quarter of 2008. This decline in monitoring and services revenue has been partially offset by rate increases on existing services and the sale of additional services to new and existing customers. Management expects monitoring and service revenues to be relatively stable in the coming quarters in spite of the current economic environment. For the six months of fiscal 2009, the Fund reported revenues from monitoring and services of \$13.98 million compared to \$14.42 million a decrease of 3.1%.

RMR at the end of the quarter was \$2.33 million compared to RMR of \$2.28 million at the end of the corresponding quarter in 2008. RMR per customer was \$23.88 at the end of this quarter compared to \$23.40 at the end of last year's comparable quarter due to price increases and new customers generating higher average RMR than customers lost to attrition.

Installation

Installation revenues for the second quarter of 2009 decreased by 23.0% to \$432 thousand compared to \$561 thousand in the second quarter of 2008. These installation revenues were generated mainly from activation fees and equipment sold to new customers. This decrease is due to a softening in the commercial installations segment of the business due to general economic conditions. For the six months of fiscal 2009, installation revenues were \$824 thousand, a 15.7% decrease compared to \$977 thousand during the same period last year.

Operating Expenses

Operating expenses fall into these three major categories:

- * Monitoring and customer service expenses include all costs associated with monitoring subscribers' premises, providing customer service, and responding to calls from subscribers. Monitoring services are offered from stations in Quebec City, Montreal, Ottawa, Toronto, Edmonton and Vancouver. Customer service centres are located in Quebec, Montreal and, in some cases, provided 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 customer premise equipment, installation labour, data entry, sales and marketing costs related to subscriber recruitment; and
- * General and administrative expenses (G&A) include all costs related to managing the subscriber accounts of the Fund and its subsidiaries.

For the second quarter of 2009, total operating expenses amounted to \$3.96 million, down from \$3.99 million for the same period last year. This 0.6% decrease is due primarily to lower monitoring and customer service expenses offset partially by higher G&A expenses. For the first two quarters of 2009, total operating expenses reached \$7.91 million or 53.4% of total revenues compared with \$7.73 million or 50.2% for the same period last year. Management expects total operating expenses for the remainder of the year to continue at approximately the same rate as the first half of the year.

Monitoring and Customer Service Expenses

In the second quarter of 2009, the monitoring and customer service expenses were \$1.56 million (22.4% of total monitoring and service revenues) compared to \$1.64 million (22.6% of total monitoring and services revenues) for the second quarter of 2008. This expense decrease is due to improved performance in the customer service department and lower monitoring costs. For the first six months of fiscal 2009, monitoring and customer service expenses reached \$3.17 million (22.6% of total monitoring and service revenues) compared to \$3.35 million (23.3% of total monitoring and services revenues) for the same period last year.

Installation, Sales and Marketing Expenses

Installation, sales and marketing expenses totalled \$702 thousand in the second quarter of 2009 compared to \$730 thousand in the second quarter of 2008. For the first six months of fiscal 2009, these expenses reached \$1.37 million compared to \$1.32 million for the same period last year.

General and Administrative Expenses

General and administrative expenses were \$1.70 million (22.9% of total revenues) in the second quarter compared to \$1.62 million (20.7% of total revenues) during the same quarter last year. This increase of \$83 thousand is the net result of a decrease in professional fees of \$145 thousand and an increase in management and trustee remuneration of \$228 thousand. Included in management remuneration in Q2 of 2009 is \$140 thousand of severance costs. For the first six months of fiscal 2009, general and administrative expenses totalled \$3.38 million (22.8% of total revenues) compared to \$3.05 million (19.8% of total revenues) for the same period last year.

EBITDA

For the second quarter of 2009, EBITDA was \$3.46 million (a 46.6% margin) compared to \$3.83 million (a 49.0% margin) in the second quarter of 2008. This decline in EBITDA of \$370 thousand is due to the combination of lower revenues and higher operating costs as discussed above. For the first two quarters of 2009, EBITDA amounted to \$6.90 million (a 46.6% margin) compared to \$7.68 million (a 49.8% margin) for the same two quarters last year.

Amortization of Subscriber Accounts and other long-term assets

On January 1, 2009 the Fund adopted a new accounting policy for subscriber accounts and goodwill to conform to the new CICA Handbook Section 3064 entitled Goodwill and Other Intangibles. This policy has been adopted retroactively. Under the new policy, certain costs previously capitalized to subscriber accounts are now expensed. The impact of this adjustment has been reflected in the Financial Highlights section of the MD&A as well as all other financial information presented including the unaudited financial statements for the three and the six months ended June 30, 2009.

For the second quarter of 2009, total amortization expense (after adjusting for the change in accounting policy) was \$1.92 million compared to \$1.98 million (after adjusting for the change in accounting policy) for the same quarter last year. For the first six months of 2009, total amortization expense (after adjusting for the change in accounting policy) was 3.80 million compared to \$3.91 million (after adjusting for the change in accounting policy) for the same period last year.

Depreciation of Property Plant and Equipment

For the quarter ended June 30, 2009, depreciation of property plant and equipment expense was \$100 thousand compared to \$99 thousand for the same quarter last year. For the first six months of fiscal 2009, depreciation of property plant and equipment expense was \$192 thousand compared to \$197 thousand for the same period last year.

Interest Expense and Amortization of Long-Term Assets

For the second quarter of 2009, interest expense was \$814 thousand compared to \$796 thousand in the second quarter of 2008. In addition, the Trust has recorded a gain of \$361 thousand for the change in the fair value of the interest rate swaps entered into by the Trust. This gain reflects the change in market value of the swap agreements as at June 30, 2009.

For the first six months of 2009, interest expense was \$1.63 million compared to \$1.67 million in the same two quarter last year.

Net income and comprehensive income

Net Income for the second quarter of 2009 was \$969 thousand or \$0.153 per unit compared to net income of \$419 thousand or \$0.066 per unit in the second quarter of 2008. This increase in net income is mainly attributable to the change in the fair value of the interest rate swaps that more than offset the decrease in EBITDA. For the first six months of fiscal 2009, net income reached \$1.69 million or 0.266 per unit compared to \$1.45 million or 0.230 per unit for the same period last year.

Based on its assets and liabilities as at June 30, 2009, 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 \$4.62 million net taxable temporary differences would reverse after January 1, 2011, resulting in \$939 thousand of future income tax. The taxable temporary differences relate principally to the excess of the tax basis of the Fund's net asset over the net book value. A decrease of \$44 thousand in the future income tax asset has been recorded for the period. The Fund does not normally provision any current income tax in its financial statements. As an income trust, the Fund has traditionally paid out sufficient distributions to eliminate current taxable income.

Liquidity and Capital Resources

Current assets increased to \$11.80 million as at June 30, 2009 from \$10.89 million as at December 31, 2008 as a result of higher cash on hand which more than offset lower accounts receivables, inventories and prepaid expenses. The increase in cash on hand to \$8.73 million is mainly from ongoing cash flows from operations and the reduced level of distributions by the Fund. Total assets as at June 30, 2009 were \$99.59 million compared to \$99.81 million as at December 31, 2008. This decrease of \$211 thousand is mainly due to a \$1.04 million reduction in subscriber accounts as a result of subscriber account amortization exceeding new subscriber account additions less the increase in cash.

Current liabilities decreased to \$7.90 million as at June 30, 2009 from \$9.26 million as at December 31, 2008 due to i) a \$230 thousand decrease in accounts payable and accrued liabilities, ii) a \$573 thousand reduction in distributions payable to Unitholders, iii) a \$384 thousand decrease in the current portion of long-term debt and iv) a decrease of \$173 thousand in unearned revenues. Unearned revenues which represent customers that have paid more than one month in advance based on their monitoring contract agreement. Total liabilities were \$55.99 million, a 3.1% decrease from December 31, 2008. This is mainly due to the decrease in current liabilities and a reduction in the fair negative market value of the interest rate swaps.

Overall cash flows for the Fund increased by \$611 thousand during the second quarter of 2009. This is the net result of \$2.43 million of cash inflows from operations less \$1.63 million for investing activities (primarily subscriber account additions) and the \$184 thousand reduction in long-term debt.

Unitholders' equity increased to \$43.61 million as at June 30, 2009 from \$42.02 million as of December 31, 2008. This 3.8% increase is due to the net income for two first quarters of \$1.69 million.

Cash Available for Distributions and Distributions

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 (restated) (in thousands of dollars, except amounts per Unit)

	Q2-2009	Q1-2009	Q4-2008	Q3-2008	Q2-2008	Q1-2008	Q4-2007	Q3-2007	Q2-2007
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cash flow provided by operating activities	2,428	3,008	3,575	2,975	3,136	2,228	3,427	2,492	3,273
Subscriber replacement costs	(1,441)	(1,069)	(1,283)	(1,468)	(1,715)	(1,326)	(1,818)	(1,269)	(1,513)
Sustaining capital expenditures	(112)	(113)	(90)	(90)	(90)	(90)	(60)	(60)	(60)
Changes in working capital	279	(348)	(1,278)	43	(64)	880	(248)	734	33
Distributable Cash	1,154	1,478	924	1,460	1,267	1,692	1,301	1,897	1,733
Distributions paid	-	700	-	-	-	-	-	-	1,344
Net income (loss) per unit	0.153	0.113	(0.336)	(0.012)	0.066	0.164	(0.008)	0.113	0.614
Distributable cash per unit	0.182	0.233	0.146	0.231	0.200	0.268	0.206	0.300	0.274
Distributions paid per unit	-	0.110	-	-	-	-	-	-	0.213
Distributions paid/distributable cash	- %	47.4 %	- %	- %	- %	- %	- %	- %	75.1 %

Subscriber replacement costs represent management's estimates of costs to acquire new subscriber RMR to replace RMR lost through attrition. Subscriber replacement costs incurred may not be sufficient to maintain the Fund's RMR and Distributable Cash at current levels. The Fund replaces RMR lost due to subscriber attrition by investing capital to acquire monitoring contracts through its network of Associated Dealers, 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 second quarter of 2009, the Fund had distributable cash of \$1.15 million, a decrease of \$113 thousand compared to the same period last year. For the first six months of 2009, distributable cash amounted \$2.63 million, a decrease of \$327 thousand compared to the same period last year.

The Fund's distribution policy is determined at the discretion of the trustees of the Fund taking into account the relevant circumstances prevailing at the time of a distribution. On June 20th, 2009, the Fund declared a monthly distribution of \$0.02 per trust unit for the month of June, payable July 31, 2009.

Distributions Declared

During the year ended December 31, 2008 and the second quarter of 2009, the Fund declared the following cash distributions:

Period	Record Date	Payment Date	Distribution per Unit	Total \$(000)
October & November 2008 *	December 2008	January 31, 2009	0.110334	700
June 2009	July 09, 2009	July 31, 2009	0.020000	127

* As of December 31, 2008, 4,594,401 Class A trust units and 1,750,000 Class B trust units were outstanding.

On March 26, 2009, all of the issued and outstanding Class B Trust Units (1,750,000) were converted into Class A Trust Units of the Fund.

Contractual Obligations

Contractual obligations (in thousands of dollars)	Payments by period			
	Total	Less than 1 year	1 to 3 years	4 to 5 years
Bank term loan ^(a)	41,250	-	41,250	-
Subordinated debenture ^(b)	5,000	-	5,000	-
Capital Lease	295	112	165	18
Due to dealers	80	80	-	-
Total	46,625	192	46,415	18

(a) The bank term loan has a maximum authorized amount of \$41,250,000, matures in March 2011 and bears interest at contractual rates ranging from 0.50% to 1.75% above the bank's prime rate and from 1.75% to 3.00% above the bankers' acceptance rate depending on a monthly financial ratio test, bearing interest of 5.8% [weighted average effective rate 6.04%].

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

The Bank Credit Agreement contains certain covenants. In addition, the Fund is committed to maintaining certain financial ratios. As at June 30, 2009, the Fund was in compliance with all of its financial ratio requirements based on its Bank Credit Agreement.

(b) Five-year subordinated debentures bearing interest at a contractual rate of 9.00% [effective rate of 9.31%] and maturing in April 2011.

Liquidity Management

In order to ensure sufficient liquidity, the Fund announced on June 20, 2007 its decision to suspend distributions effective after the payment of the May distribution. The Bank Credit Agreement was amended on July 27, 2007 such 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 any given month is higher than 2.50:1. If a default occurs, the Funded Debt to EBITDA Ratio must be reduced to 2.25:1 prior to the reinstatement of any distributions. In addition, 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.

On March 17, 2008, the Fund renewed its bank term loan through Bank Credit Agreement Amendment #5 for a three-year period. This new amendment includes modifications to its financial ratio requirements and a decrease of 0.25% in the interest rate applicable on either bank's prime rate or banker's acceptance rate.

On December 17, 2008, the Fund announced cash distributions for the final quarter of 2008 in the total amount of \$0.110334 per Class A and Class B trust unit of the Fund. The distribution was paid on January 31, 2009. On June 29th, 2009, the Fund declared a monthly distribution of \$0.02 per trust unit. Management is confident that the Fund will continue to meet all of its debt covenants.

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 major customers. In addition, accounts receivable comprise amounts receivable from numerous customers whose individual balances are generally immaterial (less than 1%). However, as of June 30, 2009, one account represented 8.0% of the Fund's trade receivable. No other accounts were considered material.

Management reviews the allowance for doubtful accounts at each balance sheet date. The Fund updates the estimate of the allowance for doubtful accounts based on the evaluation of the recoverability of the accounts receivable balances taking into account historic trends of past due accounts. Uncollectable accounts are written off.

Accounts receivable are detailed as follow as of June 30, 2009:

<i>Trade Receivables (\$000) :</i>	
Current	926
30 - 90 days	637
90 days and over	1,573
	3,136
<hr/>	
Provision for doubtful accounts	(978)
Total of accounts receivable	2,157

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity.

The Fund assesses at each reporting period whether impairment has to be recognized on its financial assets (other than those held for trading). Any impairment loss is included in the net earning.

The Fund immediately expenses any transaction costs incurred in relation of a financial asset or liability.

Derivative Financial instruments

The Fund entered into interest rate swap agreements to convert the bank term loan from variable to fixed interest rates. As at June 30, 2009, the interest rate swap agreements were detailed as follows:

Purpose	Fixed rate payable	Floating rate receivable	Notional	Maturity
Debt hedge	National Bank 3.6300%	Bankers' Acceptances	\$22,950	March 2011
Debt hedge	Scotia Bank 3.6225%	+2.25%	\$18,300	March 2011

The Fund does not designate its interest rate swaps as hedging instruments. As a result the interest rate swaps have been accounted for on the balance sheet. The fair market value amount represented \$1.92 million of unrealized gains as at June 30, 2009 [\$2.37 million as at December 31, 2008].

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 financial statements.

Related Party Transactions

During the year, the Fund entered into transactions with parties controlled by Unitholders who are also Trustees or 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:

	June 30, 2009 \$(000)	June 30, 2008 \$(000)
Statements of income		
Monitoring and customer service	26	25
General and administrative expenses		
Management fees	357	358
Board fees	98	-
	June 30, 2009	December 31, 2008
	\$(000)	\$(000)
Balance sheets		
Accounts receivable	39	39
Subscriber accounts	243	194
Accounts payable and accrued liabilities		
Board fees	31	56

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 as the distribution threshold of \$0.325 per trust unit per quarter contained in the Fund Declaration of Trust was achieved on April 30, 2006.

On December 8, 2008, the Fund issued to its new CEO 20,000 Class A trust units at a price of \$1.75 per unit.

As of December 31, 2008, 4,594,401 Class A trust units and 1,750,000 Class B trust units were outstanding.

On March 26, 2009, all of the issued and outstanding Class B Trust Units (1,750,000) were converted into Class A Trust Units of the Fund.

As of June 30, 2009, 6,344,401 Class A trust units and no Class B trust units were outstanding.

Fund's Unit Option Plan

In the prior year, the Fund had a Phantom Option Unit Plan. As at December 31, 2008, all phantom units granted had expired and the plan was terminated without any units being issued under the plan.

On June 30, 2009, the Unitholders approved a resolution to adopt a new Unit Option Plan (the "Plan") for trustees and senior management of the Fund. The Plan allows for 413,000 Class A units to be purchased at an exercise price of \$1.92. As per June 30, 2009, no options were exercisable. The value of each option granted was determined using the Black-Scholes option pricing model.

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.

Accounting policies

All adopted accounting policies are disclosed in the June 30, 2009 unaudited consolidated financial statements. The accounting policies and procedures used in preparing these unaudited consolidated financial statements include the new accounting policy described below.

Effective January 1, 2009, the Fund adopted CICA Handbook Section 3064, *Goodwill and Intangible Assets*, which replaced the old Section 3062. This new section establishes revised standards for recognizing, measuring, presenting and disclosing goodwill and intangible assets. The impacts are described in a note in the quarterly financial report.

In January 2006, the Canada's Accounting Standards Board (AcSB) announced its decision to replace Canadian generally accepting accounting standards (GAAP) with International Financial Reporting Standards (IFRS) for all Canadian publicly accountable enterprises, which includes public enterprises. To ensure that enterprises have enough time to prepare for the changeover, the AcSB announced a five-year transition period with the changeover date set for January 1, 2011. This means that as of January 1, 2011 the financial statements of Canadian publicly accountable enterprises will have to be presented according to IFRS, including comparative figures. A compliant opening balance sheet dated January 1, 2010 is also required.

The transition from current GAAP to IFRS is a large-scale operation that could have a significant impact on the financial position and activities of First National AlarmCap Income Fund (the "Fund"). In addition to bringing about radical changes in the presentation of financial information, the conversion will have repercussions on all aspects of the Fund, including potential consequences for certain management functions among other things.

The objectives of the Fund's adoption plan are as follows:

- Develop a strategy for the conversion to IFRS to mobilize the necessary personnel for the restatement of accounts in the financial statements;
- Identify the main differences in accounting principles used by the Fund to establish these accounts according to international standards;
- Estimate the main impacts;
- Adapt management and information systems processes;
- Organize action plans for training.

The identification of IFRS applicable to the Fund and analysis of the differences between current GAAP and IFRS have been completed. They were in the form of an analysis that addresses items presented in the financial statements and specific topics. In addition, the analysis identifies potential options based on the international standards and IFRS 1 First-time Adoption of IFRS. Under IFRS 1, all financial information in financial statements must be restated retroactively, except for certain items (possible optional exemptions).

After the preliminary examination of the Fund's financial statements, the following standards were deemed the most likely to have repercussions on the Fund:

- IAS 12 Income Taxes
- IAS 16 Property, Plant and Equipment
- IAS 17 Leases
- IAS 19 Employee Benefits
- IAS 32 Financial Instruments: Presentation
- IAS 36 Impairment of Assets
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- IAS 38 Intangible Assets

The list above is preliminary and not exhaustive. The Fund will gather all the information needed to gain an in-depth understanding of operations, evaluate the potential impacts of the application of IFRS and develop solutions.

We will continue to report on the key elements and timing of our IFRS implementation plan in our future quarterly MD&A's.

Management's Report on Internal controls over Financial Reporting

Integrity of Disclosure

Our management assumes the responsibility for the existence of appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete and reliable. The Board of Trustees' duties include the assessment of the integrity of the Fund's internal control and information system.

AlarmCap has a formal Corporate Disclosure Policy whose goal is to raise awareness of the Fund's approach to disclosure among the Board of Trustees, senior management and employees. The Board of Trustees has assigned the Audit Committee to be responsible for all regulatory disclosure requirements and overseeing the Fund's disclosure practices.

The Audit Committee of AlarmCap is composed entirely of independent directors who meet the independence and experience requirements of the Canadian securities regulation. The responsibilities of our Audit Committee includes: a) the review of all our public disclosure documents containing audited or unaudited financial information; b) identifying and examining the financial and operating risks to which we are exposed and reviewing the various policies and practices that are intended to manage those risks; c) the review and assessment of the effectiveness of our accounting policies and practices concerning financial reporting; d) the review and monitoring of our internal control procedures, programs and policies and assessment of the adequacy and effectiveness thereof; e) reviewing the adequacy of our internal audit resources including the mandate and objectives of the internal auditor; f) recommendation to the Board of Trustees of AlarmCap on the appointment of external auditors, the assertion of the external auditors' independence, the review of the terms of their engagement as well as maintaining ongoing discussions with them; g) the review of the audit procedures; h) the review of related party transactions; and i) such other responsibilities usually attributed to audit committee or as directed by our Board of Trustees.

The Fund evaluated the effectiveness of its disclosure controls and internal controls over financial reporting, supervised by and with the participation of the Chief Executive Officer and the Chief Financial Officer as of June 30, 2009. The CEO and CFO concluded that, based on this evaluation, the Fund's disclosure controls and procedures and internal controls over financial reporting were adequate, effective and without any material weaknesses, at a reasonable level of assurance, to ensure that material information related to the Fund and its consolidated subsidiaries would be made known to them by others within those entities. For the period commencing on April 1, 2009 and ended on June 30, 2009, there was no change in our internal control over financial reporting that materially affected, or is reasonably likely to materially affect the Fund's internal controls over financial reporting.

Risks and Uncertainties

The Board requires that our senior management identify and properly manage the principal risks related to our business operations.

Industry Risk and Economic Sensitivity

Management expects relatively stable monitoring and service revenues in coming quarters in spite of the current economic environment. In terms of the number of subscribers, there may be some attrition but people may tend to better protect the assets they have and therefore offset such attrition.

AlarmCap has put in place certain guidelines in order to manage the risks to which it may be exposed. Please refer to the 2008 Annual Information Form for a complete description of these risk factors. For more information, please refer to that document.

Cautionary statement regarding forward-looking information and statements

Certain statements contained in this report, including statements that contain words such as "could", "should", "can", "anticipate", "expect", "believe", "will", "may" and similar expressions and statements relating to matters that are not historical facts constitute "forward-looking information" within the meaning of applicable Canadian securities legislation.

In particular, forward-looking information and statements include:

- subscriber replacement costs incurred may not be sufficient to maintain the Fund's RMR and Distributable Cash at current levels
- sustaining capital expenditures represent the amount of capital expenditures, which the Fund believes is required to maintain its assets in proper operating condition
- management expects relatively stable monitoring and service revenues in coming quarters in spite of the current economic environment
- the Fund has estimated the amount of its temporary differences for future income tax purpose; on a going forward basis
- the Fund has sufficient cash to meet its operating and capital needs given management's assessment of the business outlook; management is fully aware of the global economic slowdown but do not foresee any material impacts on its business and / or liquidity situation
- the Fund updates the estimate of the allowance for doubtful accounts taken into account historic trends.

These statements include, but are not limited to, the demand for the Fund's services. These statements are based on certain assumptions and analysis made by the Fund in light of its experience and its perception of historical trends, current conditions and expected future developments as well as other factors it believes are appropriate in the circumstances. However, whether actual results, performance or achievements will conform to the Fund's expectations and predictions is subject to a number of known and unknown risks and uncertainties which could cause actual results to differ materially from the Fund's expectations. Such risks and uncertainties include, but are not limited to: fluctuations in the demand for monitoring and installation of security systems, general economic, market or business conditions; changes in laws or regulations, including taxation and environmental; the lack of availability of qualified personnel or management; and other unforeseen conditions which could impact the use of services supplied by the Fund. See also the Fund's Annual Information Form dated March 26, 2009, available on the Fund's website (www.alarmcap.ca) and on SEDAR at www.sedar.com for a comprehensive set of risk factors related to the Fund.

Consequently, all of the forward-looking information and statements made in this report are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Fund will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Fund or its business or operations. Except as may be required by law, the Fund assumes no obligation to update publicly any such forward-looking information and statements, whether as a result of new information, future events or otherwise.