



**FIRST NATIONAL ALARMCAP INCOME FUND**

**FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009  
(Unaudited)**

**FIRST NATIONAL ALARMCAP INCOME FUND  
UNAUDITED CONSOLIDATED BALANCE SHEET  
AS AT SEPTEMBER 30, 2009**

(in thousands of dollars)

	<b>September 30, 2009</b>	December 31, 2008
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	9,888	7,373
Accounts receivable	2,019	2,427
Loan [note 4]	150	150
Inventories	408	444
Prepaid expenses	310	499
<b>Total current assets</b>	<b>12,775</b>	10,893
<b>Property, plant and equipment</b> [note 5]	<b>1,401</b>	1,471
<b>Subscriber accounts</b> [note 6]	<b>61,756</b>	63,264
<b>Goodwill</b>	<b>23,000</b>	23,000
<b>Other long-term assets</b> [note 7]	<b>182</b>	194
<b>Future income tax asset</b>	<b>917</b>	983
	<b>100,031</b>	99,805
<b>LIABILITIES AND UNITHOLDER'S EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	3,096	3,411
Distributions payable to unitholders	127	700
Unearned revenues	4,421	4,569
Short-term portion of long-term debt [note 8]	139	576
<b>Total current liabilities</b>	<b>7,782</b>	9,256
<b>Interest rate swaps</b> [notes 3 and 9]	<b>1,588</b>	2,368
<b>Long-term debt</b> [notes 3 and 8]	<b>46,182</b>	46,158
<b>Total liabilities</b>	<b>55,552</b>	57,782
<b>Unitholders' equity</b>	<b>44,478</b>	42,023
	<b>100,031</b>	99,805

The interim consolidated financial statements which are included in this report have not been subject to a review by the Fund's external auditors. 2008 numbers have been restated according to new CICA Handbook section 3064, Goodwill and intangible assets

**FIRST NATIONAL ALARMCAP INCOME FUND**  
**UNAUDITED CONSOLIDATED STATEMENT OF UNITHOLDERS' EQUITY**  
**AS AT SEPTEMBER 30, 2009**

(in thousands of dollars)

	<b>September 30,</b> <b>2009</b> \$	December 31, 2008 \$
<hr/>		
Unitholders' contributions [note 10]		
Balance, beginning of year	<b>59,329</b>	59,301
Future income tax recovery (expense)	—	(7)
Issuance of units	—	35
<b>Balance, end of year</b>	<b>59,329</b>	59,329
<hr/>		
Cumulative net income (loss)		
Balance, beginning of year	<b>(1,636)</b>	(126)
Adjustment for change in accounting policy [notes 2 and 15]	—	(761)
Unit option plan [note 10]	<b>47</b>	—
Net income	<b>2,916</b>	(749)
Balance, end of year	<b>1,327</b>	(1,636)
<hr/>		
Cumulative distributions		
Balance, beginning of year	<b>(15,670)</b>	(14,970)
Distributions to unitholders	<b>(508)</b>	(700)
Balance, end of year	<b>(16,178)</b>	(15,670)
<b>Accumulated deficit</b>	<b>(14,851)</b>	(17,306)
<hr/>		
Accumulated other comprehensive income		
Deferred financing costs		
Balance, beginning of year	—	70
Change for the year	—	(70)
<b>Balance, end of year</b>	—	—
<b>Unitholders' equity</b>	<b>44,478</b>	42,023

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**FIRST NATIONAL ALARMCAP INCOME FUND**  
**UNAUDITED STATEMENT OF INCOME AND COMPREHENSIVE INCOME**  
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009**

(in thousands of dollars, except per unit amounts)

	(3 months ended)		(9 months ended)	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
	\$	\$	\$	\$
<b>Revenues</b>				
Monitoring and services	<b>6,980</b>	7,225	<b>20,964</b>	21,648
Installation	<b>489</b>	417	<b>1,313</b>	1,394
	<b>7,469</b>	7,642	<b>22,277</b>	23,042
<b>Expenses</b>				
Monitoring and customer service	<b>1,453</b>	1,586	<b>4,619</b>	4,939
Installation, sales and marketing	<b>623</b>	666	<b>1,993</b>	1,988
General and administrative expenses	<b>1,580</b>	1,595	<b>4,957</b>	4,645
	<b>3,656</b>	3,847	<b>11,569</b>	11,572
Income from operations	<b>3,813</b>	3,795	<b>10,708</b>	11,470
Depreciation of property plant and equipment [note 5]	<b>104</b>	117	<b>296</b>	314
Amortization of subscriber accounts and other long-term assets [notes 6 and 7]	<b>1,971</b>	2,026	<b>5,769</b>	5,940
Interest on debt	<b>816</b>	812	<b>2,441</b>	2,478
Change in the fair value of interest rate swaps [note 9]	<b>(327)</b>	548	<b>(780)</b>	588
	<b>2,564</b>	3,503	<b>7,726</b>	9,320
<b>Net Income before income taxes</b>	<b>1,249</b>	292	<b>2,982</b>	2,150
Future income taxes	<b>22</b>	368	<b>66</b>	773
<b>Net and comprehensive income</b>	<b>1,227</b>	(76)	<b>2,916</b>	1,377
Earnings per unit	<b>0.193</b>	(0.012)	<b>0.459</b>	0.218
Weighted average number of units outstanding (in thousands)	<b>6,344</b>	6,324	<b>6,344</b>	6,324

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**FIRST NATIONAL ALARMCAP INCOME FUND  
UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009**

(in thousands of dollars)

	(3 months ended)		(9 months ended)	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>				
Net income for the period	1,227	(76)	2,916	1377
Items not affecting cash flows				
Amortization of subscriber accounts and other long-term assets	1,971	2,026	5,769	5,940
Depreciation of property, plant and equipment	104	117	296	314
Amortization of deferred financing cost and deferred gain on interest rate swaps	37	37	111	207
Unrealized change in the fair value of interest rate swaps [note 9 ]	(327)	547	(780)	587
Unit option plan	23	-	47	-
Future income tax (recovery)	22	368	66	773
	<b>3,057</b>	2,975	<b>8,425</b>	9,189
Net change in non-cash working capital items [note 11]	120	(43)	188	(850)
<b>Cash flows related to operating activities</b>	<b>3,177</b>	2,975	<b>8,613</b>	8,339
<b>INVESTING ACTIVITIES</b>				
Additions to property, plant and equipment [note 5]	(63)	(68)	(226)	(229)
Increase in subscriber accounts [note 6]	(1,496)	(1,180)	(4,231)	(4285)
Increase in other long-term assets [note 7]	—	—	(18)	—
<b>Cash flow relating to investing activities</b>	<b>(1,559)</b>	(1,248)	<b>(4,475)</b>	(4514)
<b>FINANCING ACTIVITIES</b>				
Financing cost	—	—	—	(206)
Repayment of long-term debt	(82)	(435)	(542)	(932)
Increase in long-term debt	—	—	—	766
Distributions to unitholders	(381)	—	(1,081)	—
<b>Cash flow relating to financing activities</b>	<b>(463)</b>	(435)	<b>(1,623)</b>	(372)
<b>Net increase in cash</b>	<b>1,155</b>	1,292	<b>12,515</b>	3,453
Cash and cash equivalent, beginning of period	8,733	4,347	7,373	2,186
<b>Cash and cash equivalent, end of period</b>	<b>9,888</b>	5,639	<b>9,888</b>	5,639
<b>Supplementary information</b>				
Interest paid	729	743	2,244	2,364

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# **First National AlarmCap Income Fund**

## **Notes to Unaudited Consolidated Financial Statements**

September 30, 2009 and 2008  
[tabular amounts in thousands of dollars, except per unit amounts]

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### **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 shares of Microtec Enterprises Inc. ("Microtec") and all the assets of Securex Master Limited Partnership ("Securex"), two entities that provide monitoring and related services for electronic security alarm systems for residential and commercial customers across Canada.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of Presentation**

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP), using the same accounting policies as the audited consolidated financial statements for the year ended December 31, 2008, except as disclosed below on note 3. Under Canadian GAAP, additional disclosures are required in annual financial statements and accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2008.

### **3. NEW ACCOUNTING POLICIES**

#### **Goodwill and Subscriber accounts**

Effective January 1, 2009, the Fund adopted the recently introduced Canadian Institute of Chartered Accountant (CICA) Handbook Section 3064, Goodwill and intangible assets, which replaces Section 3062, Goodwill and other intangible assets, as well as Section 3450, Research and development costs. The new standard 3064 states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an asset and the recognition criteria. Section 3064 also provides further information on the recognition of internally generated intangible assets, including research and development costs. As for subsequent measurement of intangible assets, goodwill and disclosure, Section 3064, carries forward the requirements of the old Section 3062. The new section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Fund adopted the new standards for its interim period and fiscal year beginning January 1, 2009 and adopted them on a retroactive basis.

The impact of these changes is reflected in note 15 to the consolidated financial statements.

## **First National AlarmCap Income Fund**

### **Notes to Unaudited Consolidated Financial Statements**

September 30, 2009 and 2008  
[tabular amounts in thousands of dollars, except per unit amounts]

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#### **Adopted in 2008**

Effective January 1, 2008, the Fund adopted the following recently introduced CICA Handbook Sections.

#### **Capital Disclosures**

Section 1535, Capital Disclosures, establishes standards for the disclosure of 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 and
- If the entity did not comply with these requirements, the consequence of such non-compliance

The impact of these changes is reflected in note 14 to the consolidated financial statements.

#### **Financial Instruments – Disclosures**

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.

#### **Financial Instruments – Presentation**

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

The impact of the adoption of sections 3862 and 3863 is reflected in note 13 to the consolidated financial statements.

#### **Inventories**

Section 3031, Inventories, replaces 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 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. The adoption of this new Section had no material effect on the results, financial position or cash flows of the Fund.

**First National AlarmCap Income Fund**  
**Notes to Unaudited Consolidated Financial Statements**

September 30, 2009 and 2008  
 [tabular amounts in thousands of dollars, except per unit amounts]

**Financial Statement Presentation**

Section 1400, General Standards of Financial Statement Presentation, was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The adoption of this new Section did not have impact on the consolidated financial statements.

**4. LOAN**

A loan to a dealer of \$150 thousand outstanding at December 31, 2008 and bearing interest at 12%, was repaid in the quarter.

During the second quarter of 2009, the Fund made a loan of \$150 thousand to a third party service provider. The loan bears interest at 10% and is repayable in monthly instalments of \$13 thousand commencing in December 2009.

**5. PROPERTY, PLANT AND EQUIPMENT**

	<u>September 30, 2009</u>		<u>December 31, 2008</u>	
	Cost \$	Accumulated depreciation \$	Cost \$	Accumulated depreciation \$
Furniture and equipment	1,053	573	1,003	498
Computer hardware & software	647	392	501	304
Leasehold improvements	691	313	661	236
Furniture and equipment under capital leases	545	257	545	201
	2,936	1,535	2,710	1,239
Accumulated depreciation	1,535		1,239	
Net book value	1,401		1,471	

**6. SUBSCRIBER ACCOUNTS**

Cost of subscriber accounts consists of the following items:

	<b>September 30, 2009</b> \$	<b>December 31, 2008</b> \$
Subscriber accounts	<b>99,517</b>	92,102
Revenues from initial subscription	<b>(1,187)</b>	(1,003)
	<b>98,330</b>	94,099
Accumulated amortization	<b>(36,574)</b>	(30,835)
	<b>61,756</b>	63,264

(Restated – notes 3 and 15)

**First National AlarmCap Income Fund**  
**Notes to Unaudited Consolidated Financial Statements**

September 30, 2009 and 2008  
 [tabular amounts in thousands of dollars, except per unit amounts]

**7. OTHER LONG-TERM ASSETS**

	September 30 , 2009 \$	December 31, 2008 \$
Restricted cash	100	100
Security system reprogramming costs	118	100
Accumulated amortization	(36)	(6)
	<b>182</b>	<b>194</b>

**8. LONG-TERM DEBT**

	September, 30 2009 \$	December 31, 2008 \$
Bank term loan, net of financing cost of \$120 thousand in 2009 [\$155 thousand in 2008]	41,131	41,095
Subordinated debentures, net of financing cost of \$139 thousand in 2009 [\$178 thousand in 2008]	4,897	4,822
Due to dealers	25	468
Obligations under capital lease agreements pertaining to furniture and equipment, repayable in monthly instalments totalling \$11 including interest varying from 7.33% to 10.78% (a weighted average of 7.98%) with maturities ranging from September 2011 to April 2013.	268	349
	<b>46,321</b>	<b>46,734</b>
Short-term portion of due to dealers	25	468
Short-term portion of obligations under capital leases	114	108
<b>Total short-term portion of long-term debt</b>	<b>139</b>	<b>576</b>
	<b>46,182</b>	<b>46,158</b>

**(a) Bank term loan**

The bank term loan has a maximum authorized amount of \$41.25 million, 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 [weighted average effective rate of 5.91% [6.13% in 2008]].

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

**First National AlarmCap Income Fund**  
**Notes to Unaudited Consolidated Financial Statements**

September 30, 2009 and 2008  
 [tabular amounts in thousands of dollars, except per unit amounts]

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

**(b) Subordinated debentures**

Five-year subordinated debentures bearing interest at a contractual rate of 9.00% [effective rate of 9.31%] total \$5 million and mature in April 2011.

**(c) Due to dealers**

Due to dealers are amounts owed to dealers for client lists purchased in 2008 that do not bear interest and are payable by instalments maturing in 2009.

**(d) Obligations under capital leases**

	\$
2009	33
2010	131
2011	113
2012	12
2013	4
	293
Amount representing interests	25
<b>Balance of the obligations</b>	<b>268</b>

**9. 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 September 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

Since August 2006, the Fund has 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 negative market value amount was \$1.588 million as at September 30, 2009 [\$2.368 million as at December 31, 2008].

**First National AlarmCap Income Fund**  
**Notes to Unaudited Consolidated Financial Statements**

September 30, 2009 and 2008  
 [tabular amounts in thousands of dollars, except per unit amounts]

**10. UNITHOLDERS' EQUITY**

- a) 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 March 26, 2009, the Class B trust unitholders exercised their option of conversion into Class A trust units.

	<b>September 30, 2009</b>	<b>December 31, 2008</b>
	\$	\$
Issued and outstanding		
6,344,401 Class A trust units [4,594,401 in 2009]	<b>62,722</b>	45,222
— Class B trust units [1,750,000 in 2008]	—	17,500
Less issuance costs net of an amount of \$155 of future income taxes	<b>(3,393)</b>	(3,393)
	<b>59,329</b>	59,329

**(b) Unit option plan**

On June 30, 2009, the Unitholders approved a new Unit Option Plan (the "Plan") for trustees and certain employees of the Fund. The Plan allows for 413,000 Class A units to be purchased at an exercise price of \$1.92.

As per September 30, 2009, no options were exercisable. The value of each option granted was determined using the Black-Scholes option pricing model.

**11. SUPPLEMENTARY CASH FLOW INFORMATION**

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

	3 months		9 months	
	<b>September 30, 2009</b>	September 30, 2008	<b>September 30, 2009</b>	September 30, 2008
Accounts receivable	<b>138</b>	224	<b>408</b>	(214)
Inventories	<b>16</b>	68	<b>36</b>	(53)
Prepaid expenses	<b>26</b>	(4)	<b>189</b>	52
Accounts payable and accrued liabilities	<b>(85)</b>	(302)	<b>(297)</b>	(531)
Unearned revenues	<b>25</b>	(29)	<b>(148)</b>	(104)
	<b>120</b>	(43)	<b>188</b>	(850)

**First National AlarmCap Income Fund**  
**Notes to Unaudited Consolidated Financial Statements**

September 30, 2009 and 2008  
 [tabular amounts in thousands of dollars, except per unit amounts]

Cash and cash equivalents comprised of:

	<b>September 30, 2009</b>	<b>December 31, 2008</b>
	\$	\$
Cash	2,388	3,868
Short-term investment, 0.6% interest rate	7,500	3,505
	<b>9,888</b>	<b>7,373</b>

**12. RELATED PARTY TRANSACTIONS**

During the year, the Fund entered into transactions with companies controlled by unitholders who are trustees of the Fund or directly with 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:

	<b>September 30, 2009</b>	<b>September 30, 2008</b>
	\$	\$
<b>Statements of income</b>		
Monitoring and customer service	39	38
General and administrative expenses		
Management fees	533	543
Board fees	81	-

	<b>september 30, 2009</b>	<b>December 30, 2008</b>
	\$	\$
<b>Balance sheets</b>		
Accounts receivable.	39	39
Subscriber accounts net of accumulated amortization	254	219
Accounts payable and accrued liabilities		
Board fees	-	56

**First National AlarmCap Income Fund**  
**Notes to Unaudited Consolidated Financial Statements**

September 30, 2009 and 2008  
 [tabular amounts in thousands of dollars, except per unit amounts]

**13. FINANCIAL INSTRUMENTS**

**(a) Fair value**

Fair value amounts disclosed in these consolidated financial statements represent the Fund's estimate of the price at which a financial instrument could be exchanged in a market in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. They are point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors.

The carrying amounts of the Fund's short-term financial assets and liabilities, such as cash and cash equivalents, accounts receivable, loan to a dealer, advance, accounts payable and accrued liabilities, distributions payable to unitholders and due to dealers, approximate their fair values as at September 30, 2009 and December 31, 2008 due to their short-term maturities.

The carrying amounts of bank term loan and subordinated debentures approximate their fair values since they bear interest at floating rates and current market rates, respectively.

The fair value of derivative financial instruments approximates the amounts for which the financial instruments could be exchanged between willing parties, based on current market rate for similar instruments. As estimates must be used to determine fair value, the latter must not be interpreted as being realizable in the event of an immediate settlement of the instruments.

**Classification**

The classification of financial instruments and their respective carrying values and fair values are as follows:

	September 30, 2009		December 31, 2008	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
<b>Financial assets</b>				
<b>Financial assets held for trading</b>				
Cash and cash equivalents	9,888	9,888	7,373	7,373
<b>Loans and receivables</b>				
Accounts receivable	2,019	2,019	2,427	2,427
Loan	150	150	150	150
Restricted cash	100	100	100	100
<b>Total financial assets</b>	<b>12,157</b>	<b>12,157</b>	<b>10,050</b>	<b>10,050</b>

**First National AlarmCap Income Fund**  
**Notes to Unaudited Consolidated Financial Statements**

September 30, 2009 and 2008  
 [tabular amounts in thousands of dollars, except per unit amounts]

	September 30, 2009		December 31, 2008	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
<b>Financial liabilities</b>				
<b>Other financial liabilities</b>				
Accounts payable and accrued liabilities <sup>(1)</sup>	2,938	2,938	3,080	3,080
Distributions payable to unitholders	127	127	700	700
Bank term loan	41,250	41,250	41,250	41,250
Subordinated debentures	5,000	5,000	5,000	5,000
Due to dealers	25	25	468	468
<b>Total financial liabilities</b>	<b>49,340</b>	<b>49,340</b>	<b>50,498</b>	<b>50,498</b>

(1) Excludes commodity taxes of \$158 thousand and \$331 thousand at September 30, 2009 and December 31, 2008 respectively, as these amounts are not a contractual obligation to deliver cash.

**(b) Credit risk**

The Fund is exposed to credit risk in 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% of the Fund's trade receivable). However, as of September 30, 2009, one account represented 8.2% (7.4% December 2008) of the Fund's trade receivable and no other accounts were 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 at September 30, 2009:

	\$
Trade Receivable	
Current	941
30-90 days	678
90 days and over	1,418
	<b>3,037</b>
Provision for doubtful accounts	(1,018)
<b>Total of accounts receivables</b>	<b>2,019</b>

**First National AlarmCap Income Fund**  
**Notes to Unaudited Consolidated Financial Statements**

September 30, 2009 and 2008  
 [tabular amounts in thousands of dollars, except per unit amounts]

The Fund's maximum credit risk exposure corresponds to the carrying value of its cash and cash equivalents, accounts receivable and loan.

**(c) Market risk**

Market risk is the risk that changes in market prices such as foreign exchange rates, commodity prices and interest rates will affect the Fund's net earnings or the value of its financial instruments. The fund is not subject to any market risks other than the interest rate risk.

The Fund entered into interest rate swap agreements to manage interest rate risk [note 9].

**(d) Liquidity risk**

Liquidity risk is the possibility of not having sufficient debt and equity capital available to the Fund to fund its growth and to refinance its debts as they mature. The Fund manages the liquidity risk through the management of its capital as explained in Note 14 - Capital Management.

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's objective is to provide for expected cash requirements and accommodate for changes in liquidity needs.

The Fund manages this risk by managing its capital structure, through continuous monitoring of its actual and projected cash flows, and by abiding by its investment policy.

	Carrying value \$	Maturities		
		Less than 1 year \$	1 to 5 years \$	Greater than 5 years \$
Accounts payable and accrued liabilities	2,938	2,938	—	—
Bank term loan	41,250	—	41,250	—
Subordinated debenture	5,000	—	5,000	—
Due to dealers	25	25	—	—
	49,213	2,963	46,250	—

**14. CAPITAL MANAGEMENT**

The Fund's objectives when managing capital are:

- To safeguard the Fund's ability to continue as a going concern.

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- To maintain appropriate cash reserves on hand to support continued operations and unitholder returns.

The capital structure of the Fund consists of long-term debt, cash and cash equivalents and unitholders' equity (excluding accumulated other comprehensive income) and is summarized as follow:

	September 30, 2009 \$	December 31, 2008 \$
Cash and cash equivalents	9,888	7,373
Long-term debt <i>[note 8]</i>	46,182	46,734
Total net debt	36,294	39,361
Unitholders' contributions	59,329	59,329
Accumulated deficit	(14,851)	(17,306)
Equity	44,478	42,023
<b>Total capitalization</b>	<b>80,772</b>	<b>81,384</b>

**15. IMPACT OF CHANGE IN ACCOUNTING POLICY FOR GOODWILL AND SUBSCRIBER ACCOUNTS**

(Handbook Section 3064 – Goodwill and intangible assets)

**Balance Sheet**

Impact of restatement as at December 31, 2008 (in thousands \$)	Increase (decrease)
Subscriber accounts	(1,296)

**Statement of Unitholders' Equity**

Impact of restatement of operating cumulative net income (loss)	Increase (decrease)
Cumulative net loss	(761)

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**STATEMENT OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)**

Impact of restatement (in thousands \$)	For the three months ended				For the year ended
	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008	December 31, 2008
Increase (decrease)					
Installation, sales and marketing expense	150	163	263	91	667
Amortization of subscriber accounts, depreciation of property plant and equipment	(25)	(30)	(36)	(41)	(132)
Net loss and comprehensive loss	(125)	(133)	(227)	(50)	(535)
Basic and diluted loss per unit	(0.02)	(0.02)	(0.04)	(0.01)	(0.08)

**16. COMMITMENTS**

The Fund has entered into lease agreements for its place of business, some equipment and vehicles. The commitments totalled \$1,9 million and the annual minimum rent payments for the next five years are as follows:

	\$
2009 (for the last 3 months)	132
2010	505
2011	482
2012	433
2013	349
2014 and thereafter	25

**17. CONTINGENCIES**

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

**18. COMPARATIVE FIGURES**

Certain 2008 figures have been reclassified to conform to the current year presentation.