



FIRST NATIONAL ALARMCAP INCOME FUND

FIRST QUARTER ENDED MARCH 31, 2008

AS AT MAY 13, 2008



Message to Unitholders

The Financial Highlights for the first quarter ended March 31, 2008 are as follows.

The Fund is pleased to report that in spite of a first quarter that was challenged by record levels of snowfall in Eastern Canada (which reduced sales and installation productivity) and a decline in lease revenues combined with a net increase in rent costs of \$120,000 owing to the sale of its office building, EBITDA in the first quarter of 2008 was \$4,015,000. As well, legal and professional costs were \$50,000 higher than the first quarter of 2007 due to the Special Committee's strategic review process and related matters. The Fund expects that legal and professional fees will continue to remain high and penalize EBITDA in the second quarter. First quarter EBITDA compares unfavorably to the EBITDA during the same period last year of \$4,318,000 for the reasons set out above as well to a decline in recurring monthly revenues from monitoring services since the first quarter of 2007. This is the single biggest challenge facing management and management believes this trend will be reversed during the third quarter.

These same factors adversely impacted distributable cash which was \$1,838,000 in the first quarter of 2008 versus \$2,027,000 in 2007 however the impact was mitigated by reduced account replacement costs and lower interest expenses. The Fund expects to benefit in future periods due to lower interest as a result of the renewal of the Fund's credit facility at the end of the quarter and locking in the interest rate at 5.88% for a three-year period ending in March of 2011 through a swap agreement.

Attrition remains at a historically low and very manageable level as a result of management's steadfast focus on customer service as its *raison d'être*. Management's objective for 2008 is to achieve low risk organic growth in RMR. The Fund has also been presented with several acquisition opportunities that it is studying.

The Fund looks forward to the reinstatement of distributions to its Unitholders in the coming months but is not in a position to provide definitive guidance at this time.

Leonard Sudermann
President and CEO

FIRST NATIONAL ALARMCAP INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

First quarter ended March 31, 2008

As at May 13, 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 years ended December 31, 2007 and 2006 and with the interim unaudited consolidated financial statements of the Fund for the quarters ended March 31, 2008 and 2007. 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 81,566 subscribers as at March 31, 2008. 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 and during the first quarter of 2008 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. 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. We estimated a level of \$30,000 per month for fiscal 2008 should be appropriate. 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.

On March 10, 2008 the mandate of it's the Special Committee was concluded and its operations terminated. The board of trustees of the Fund determined at that time that the strategic alternative most likely to maximize unit holder value and liquidity is to continue with the Fund's low risk organic growth initiative previously announced in the third quarter, 2007 MD&A.

Governance structure of the Fund

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 the Trust, and the Trust's wholly-owned subsidiary AlarmCap 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 AlarmCap GP are George Fink, Oliver Plett, Leonard Sudermann and Timothy Whyte. Messers Pouliot and Clerk no longer hold positions with the Fund, the Trust or AlarmCap GP. In the management's opinion, based on the advice and information provided by its legal counsel, any severance costs associated with the governance change that may be incurred cannot be determined at this time.

Subsequent events

On April 2, 2008, the Fund announced that it has received a requisition (the "Requisition") dated March 28, 2008 made pursuant to section 12.1 and 12.9 of the first amended and restated declaration of trust of the Fund dated March 4, 2005 (the "Declaration of Trust") from certain unitholders of the Fund (the "Requisitioning Unitholders"), together representing not less than 15% of the issued and outstanding trust units of the Fund, to call a special meeting of unitholders of the Fund for the purposes of : (i) appointing an inspector for the purposes of investigating the performance of the existing trustees; and (ii) removing all of the existing trustees of the Fund and electing new trustees of the Fund. The Fund's board of trustees considered the requisition at a meeting of the board of trustees on April 8, 2008 and provided a response thereafter within 21 days from the date the requisition was received, as contemplated by the Declaration of Trust.

On April 23, 2008, the Fund announced that the board of trustees of the Fund (the "Board") has called an annual and special meeting of unitholders of the Fund to be held on June 18, 2008 in Calgary, Alberta (the "Meeting"). The Board has set the record date for the Meeting as the close of business on May 19, 2008. The Meeting has been called in response to a requisition received by the Fund from certain unitholders of the Fund, as previously disclosed in the Fund's press release dated April 2, 2008. The Board determined that to minimize cost and inconvenience to its unitholders, a combined annual general meeting and special meeting should be held. The Fund's position on issues raised by the requisition received from the dissident unitholders, as well as the normal business to be conducted at an annual general meeting, will be set out in the management information circular to be distributed to unitholders of the Fund prior to the Meeting.

On May 6, 2008, a settlement agreement was reached with the Requisitioning Unitholders whereby:

- (i) the boards of the Fund, Trust and AlarmCap GP will be increased to six members;
- (ii) the following persons would be nominated at the annual general meeting to be held on June 18, 2008:
 - George Fink
 - Donald McPherson
 - David Richards
 - Dean Setoguchi
 - Leonard Sudermann
 - Timothy Whyte
- (iii) the Requisition was rescinded.

A press release confirming the settlement agreement was issued by the Fund on May 9, 2008.

Financial Highlights

The following table presents selected financial information regarding the financial results of the Fund for the last nine quarters of operation. More detailed 2006 and 2007 financial information is contained in the audited consolidated financial statements and accompanying notes of the Fund for the years ended December 31, 2006 and 2007.

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

	Q1-2008	Q4-2007	Q3-2007	Q2-2007	Q1-2007	Q4-2006	Q3-2006	Q2-2006	Q1-2006
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Monitoring revenues	7,165	7,344	7,203	7,303	7,400	7,416	7,411	7,370	7,453
Total revenues	7,601	7,939	7,731	7,901	7,992	8,163	7,941	8,231	8,005
Monitoring expenses	627	634	614	590	670	670	743	713	715
Customer service expenses	1,083	1,202	1,084	1,149	1,018	1,138	1,216	1,129	1,101
Installation, sales and marketing expenses	442	544	463	558	576	744	614	825	557
Income before G&A expenses and other items	5,449	5,559	5,570	5,604	5,728	5,611	5,368	5,564	5,632
G&A	1,434	1,549	1,361	1,355	1,410	1,576	1,769	1,544	1,477
EBITDA	4,015	4,010	4,209	4,249	4,318	4,035	3,599	4,020	4,155
Goodwill impairment	-	-	-	-	-	13,191	-	-	-
Future income taxes	175	721	147	(2,756)	-	-	-	-	-
Net income (Loss)	1,159	(14)	750	3,919	1,156	(12,577)	340	929	1,226
Distributable cash flow	1,838	1,356	2,191	1,823	2,027	1,608	662	1,233	1,732
Distributed cash flow	-	-	-	1,344	1,344	1,344	1,818	2,012	1,929
Cash flow from operating activities	2,363	3,243	2,760	2,974	2,924	2,699	4,508	3,289	3,476
Earnings per Unit	0.183	(0.002)	0.118	0.620	0.183	(1.988)	0.054	0.147	0.194
Distributions declared per Class A Unit	-	-	-	0.142	0.213	0.213	0.250	0.325	0.325
Distributions declared per Class B Unit	-	-	-	0.142	0.213	0.213	0.250	0.325	0.250
Total assets	99,977	99,466	98,873	99,369	100,103	102,023	114,765	115,196	115,027
Total long-term debt	45,805	45,597	5,682	5,625	5,523	50,000	50,000	50,000	48,500
Unitholders' equity	45,364	44,275	44,056	43,306	40,283	40,472	54,472	55,702	56,762
RMR at the end of the period	2,275	2,293	2,282	2,296	2,318	2,314	2,322	2,340	2,356
Customer Growth and Retention									
Total Number of Customers	97,566	98,554	97,710	99,129	101,561	102,196	103,128	103,345	105,509
Gross Attrition Rate (%) (2)	9.29	9.86	11.37	12.96	8.98	9.91	10.82	12.16	12.58
Net Attrition Rate (%) (3)	8.61	9.03	10.47	11.92	8.40	9.14	9.87	11.27	11.71

(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 \$7,165,000 for the first quarter of 2008 compared to \$7,400,000 for the same quarter of 2007, a decrease of 3.2 %. Of the total monitoring and service revenues, \$6,965,000, or 97.2%, came from monitoring revenues and the balance of \$200,000 from other revenues for the first quarter of 2008 compared to \$7,138,000 or 96.5% and \$262,000 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.

As compared to the corresponding quarter of 2007, the Fund decreased its total number of subscribers by approximately 3.9% from 101,561 to 97,566 subscribers because of higher attrition than recruitment. RMR at the end of the quarter was \$2,275,000 or 1.9% lower as compared to a RMR of \$2,318,000 at the end of the corresponding quarter in the previous fiscal year. Average RMR per customer was \$23.32 at the end of this quarter compared to \$22.82 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 first quarter ended March 31, 2008 were lower at \$436,000 compared to \$592,000 in the first quarter of 2007 due to less important installation contracts in the first quarter of 2008 compared to the same period the year before. These installation revenues were generated mainly from activation fees and equipment sold to new customers.

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 first quarter of 2008, total operating expenses amounted to \$3,586,000 or 47.2% of total revenues, a 120 basis points increase compared with \$3,674,000 or 46.0% for the same period last year. This worsening is mainly due to lower margin installation contracts and higher G&A and customer service expenses.

Monitoring and Customer Service

In the first quarter of 2008, the monitoring and customer service expenses amounted to \$1,710,000 or 23.9% of total monitoring and service revenues compared to \$1,688,000 or 22.8% for the first quarter of 2007, an increase of 110 basis points. This increase in percentage term is due to the 3.2% decrease in monitoring revenues between the 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 \$627,000 in the two comparable quarters. However, the cost of operating our customer service department increased from \$1,018,000 to \$1,083,000 for the same two comparable quarters mainly due to higher service and maintenance expenses provided to our current subscribers.

Installation, Sales and Marketing Expenses

Installation, sales and marketing expenses totalled \$442,000 or 101.4% of the installation revenues in the first quarter of 2008 compared to \$576,000 or 97.3% in the first quarter of 2007 due to higher margin on installation contract during the first quarter of 2007.

Income before G&A and other items

Income before G&A and other items was \$5,449,000 for the first quarter of 2008, or 71.7% of total revenues. In term of percentage, this is comparable to the same quarter last year, which had a gross margin of \$5,728,000, or 71.7%. The aforementioned decrease in monitoring service expenses were offset by lower margin on installation contracts and higher customer service expenses.

General and Administrative Expenses

General and administrative expenses were mostly stable in dollar terms at \$1,434,000, or 18.9% of total revenues at the end of the first quarter of 2008, compared to \$1,410,000, or 17.6% during the same quarter last year. However, in percentage term these expenses increased by 130 basis points due to a 4.9% drop in total revenues.

EBITDA

For the first quarter ended March 31, 2008, EBITDA was \$4,015,000, or 52.8% of total revenues, a decrease of 120 basis points as compared to \$4,318,000, or 54.0% during the first quarter of 2007, mainly attributable to higher operating expenses combined with lower total revenues.

Amortization of Subscriber Accounts, Depreciation of Property Plant and Equipment

For the first quarter ended March 31, 2008, total amortization expenses were \$2,211,000, an amount which includes \$202,000 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 \$2,229,000, an amount that includes \$165,000 of amortization of deferred financing costs presented in the interest on debt section. The amortization expense was reduced by \$70,000 from the amortization of deferred gain on interest rate swaps. The increase in amortization of deferred financing costs of \$37,000 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 first quarter ended March 31, 2008, interest expense of \$741,000 (net of \$132,000 of amortization of deferred financing costs and deferred gain on interest rate swaps) was \$114,000 lower than the first quarter of 2007. The decrease is due to a \$107,000 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 and to a \$7,000 decrease in bank fees.

Net Income and comprehensive income

Net income remains stable for the quarter of 2008 at \$1,159,000 or \$0.183 per unit compared to a net income of \$1,156,000 or \$0.183 per unit in the corresponding period in 2007. This similar result in net margin is mainly attributable to the reasons mentioned above, a gain of \$375,000 on the interest rate swap and the \$175,000

temporary differences reversing before 2011. Based on its assets and liabilities as at March, 2008, 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 \$6,698,000 net taxable temporary differences would reverse after January 1, 2011, resulting in \$1,875,000 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. 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 \$623,000 is accounted for prospectively in the period and a decrease of \$175,000 in future income taxes recovery has been recorded for the period. Without the negative impact of income taxes expense, net income for the first quarter of 2008 would have reached \$1,334,000 or \$0.211 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 first quarter of 2008 was 9.29% compared to 8.98% during the same period last year. This represents a 3.5% increase in the rate at which the subscribers cancel their monitoring service contracts. Net attrition, after resigning existing subscribers or reconnecting installed systems, was 8.61% for the first quarter of 2008 compared to 8.40% for the same quarter last year. Since the beginning of 2007, the Fund has changed its gross and net attrition rates calculation. The Fund now includes in the calculation the subscribers' attrition that was not replaced from the dealers.

Third party monitored customers decreased by 2,303 customers during the quarter to a total of 8,812 customers as at March 31, 2008.

Liquidity and Capital Resources

Short-term assets increased from \$5,925,000 as at December 31, 2007 to \$6,865,000 as at March 31, 2008 as a result of higher cash in hand, accounts receivable, inventories and prepaid expenses which more than offset lower interest rate swaps. Total assets as at March 31, 2008 increased slightly to \$99,977,000 compared to \$99,466,000 for December 31, 2007 mainly due to the \$767,000 increase in cash on hand which more than offset a \$621,000 reduction in subscriber accounts. Subscriber accounts decreased from \$66,808,000 as at December 31, 2007 to \$66,187,000 as at March 31, 2008, as a result of a decrease in the number of RMR under the Fund's management between the two periods.

Short-term liabilities decreased from \$8,452,000 as at December 31, 2007 to \$7,828,000 as at March 31, 2008. Accounts payable and accrued liabilities decreased from \$3,251,000 to \$2,814,000. Unearned revenues, which represent customers that paid more than one month in advanced based on their monitoring contract agreement, varied from \$4,605,000 to \$4,433,000. Total liabilities of \$54,613,000 are 1.0% lower than in December 31 mainly due to the reduction in accounts payable and accrued liabilities and lower unearned revenues.

The working capital deficiency decreased from \$2,527,000 as at December 31, 2007 to \$963,000 as at March 31, 2008 due to the same reasons mentioned above.

Unitholders' equity as at March 31, 2008 was \$45,364,000 or 2.5% higher compared to \$44,275,000 as at December 31, 2007 due to the \$784,000 net income and the \$375,000 transition adjustments of financial instrument.

For the quarter ended March 31, 2008, cash flow from operating activities totaled \$2,363,000 compared to \$2,924,000 reached during the same period last year. This decrease is due to the \$336,000 negative variation of the net change in non-cash working capital item and the \$372,000 lower net income between the two periods.

Investing activities were \$1,456,000 in the first quarter of 2008 compared to \$1,672,000 in the first quarter of 2007 due to a \$279,000 lower subscriber accounts during the first quarter of 2008.

Financing activities amounted to \$140,000 in the first quarter of 2008 compared to \$1,316,000 for the same period last year. This decrease is mainly due to the suspension of the distribution payments during the first quarter of 2008. 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 March 31, 2008, the Fund had cash and cash equivalents of \$2,953,000, an increase of \$767,000 compared to December 31, 2007. 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)

	Q1-2008	Q4-2007	Q3-2007	Q2-2007	Q1-2007	Q4-2006	Q3-2006	Q2-2006	Q1-2006
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cash flow provided by operating activities	2,363	3,243	2,760	2,974	2,924	2,699	4,508	3,289	3,476
Subscriber replacement cost	(1,326)	(1,818)	(1,269)	(1,513)	(1,392)	(1,475)	(1,959)	(1,897)	(1,680)
Sustaining capital expenditure	(90)	(60)	(60)	(60)	(60)	(60)	(150)	(200)	-
Changes in working capital	891	(9)	760	422	555	444	(1,737)	41	(64)
Distributable Cash	1,838	1,356	2,191	1,823	2,027	1,608	662	1,233	1,732
Distributions paid	-	-	-	1,344	1,344	1,344	1,818	2,012	1,929
Net earnings per unit	0.183	0.002	0.118	0.620	0.183	(1.99)	0.054	0.147	0.19
Distributable cash per unit	0.291	0.214	0.346	0.288	0.321	0.254	0.105	0.195	0.274
Distributions paid per unit	-	-	-	0.213	0.213	0.213	0.287	0.318	0.305
Distributions paid/distributable cash	- %	- %	- %	75.1 %	67.3 %	83.6 %	274.6 %	163.2 %	111.4 %

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.

For the first quarter of 2008, distributable cash reached \$1,838,000, a decrease of \$189,000 compared to the same period last year due to lower subscriber replacement costs and net earnings which more than offset higher sustaining capital expenditure.

As discussed under “Supplemental Disclosure”, the method to estimate subscriber replacement costs used by management in fiscal 2007 and during the first quarter of 2008 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. 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 Fund temporarily suspended the declaration of distributions on June 20, 2007.

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 2.50:1. The Funded Debt to EBITDA Ratio must be reduced to 2.25:1 prior to the reinstatement of the distribution thereafter the continuation of the distribution is govern by a maximum Funded Debt to EBITDA Ratio of 2.50:1 and cannot exceed 75% of the distributable cash in a particular month. 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 per month 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 (one and a half month prepayment). 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 the first quarter of 2008. As at March 31, 2008, this ratio was 2.34:1.

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 2008, the Fund has not declared and paid any cash distributions.

Contractual Obligations

(in thousands of dollars)	March 31, 2008	December 31, 2007
	\$	\$
Bank term loan (excluding the net effect of financing costs) ^(a)	41,250	41,038
Subordinated debenture (excluding the net effect of financing costs) ^(b)	5,000	5,000
	46,250	46,038

(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% [effective rates ranging from 0.53% to 1.79%] above the bank's prime rate and from 1.75% to 3.00% [effective rates ranging from 1.78% to 3.04%] 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 Bank Credit Agreement contains certain covenants. In addition, the Fund is committed to maintaining certain financial ratios. As at March 31, 2008, the Fund was in compliance with all of its financial ratio requirements based on its Bank Credit Agreement Amendment #5.

(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	41,250	-	41,250	-
Subordinated debenture	5,000	-	5,000	-
Capital Lease	384	95	215	74
Total	46,634	95	46,465	74

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 March 31, 2008, 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 +2.25%	\$22,950	March 2011
	Scotia Bank 3.6225%		\$18,300	March 2011

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 \$375,000 as at March 31, 2008 [\$108,000 in 2007].

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:

	2008 \$	2007 \$
Statements of income		
Monitoring and customer service	50	16
General and administrative expenses	178	187
Balance sheets		
Accounts receivable	39	39
Advance	71	71
Subscriber accounts	70	70
Accounts payable and accrued liabilities	80	107

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.

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 March 31, 2008, 4,574,401 Class A trust units and 1,750,000 Class B trust units were outstanding.

Fund's Phantom Unit Plan

Phantom Unit Plan

The officers and key employees of AlarmCap and the trustees of the Trust and the Fund are eligible to participate in the Fund's Phantom Unit Plan ("Plan"). The purpose of the Plan is to provide eligible participants with compensation opportunities that will enhance the Fund's and AlarmCap's ability to attract, retain and motivate key trustees, directors and personnel and the continuous employment of the participant during the cycle as well as any other performance-based conditions determined at the date of the grant. Within ninety (90) days after approval of the Fund's audited financial statements for the last fiscal year in the three-year cycle, the vested Phantom Units are paid to the participant in Class A trust units issued from treasury in a number equal to the number of vested Phantom Units.

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 March 31, 2008, no phantom units had been granted [0 in 2007 and 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 March 31, 2008, 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 2007 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.

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.

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 3251, Equity, describes standards for the presentation of equity and changes in reporting period as a result of the application of Section 1530, Comprehensive Income.

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 and for the first quarter of 2008, 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. These new sections do not have a significant impact on results of the Fund, its financial position and its 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.

Future accounting changes

The Section 3064, *Goodwill and Intangible Assets*, will replace the current Section 3062, *Goodwill and Other Intangible Assets*, and will be effective for fiscal years beginning on or after October 1, 2008. This new section establishes revised standards for recognizing, measuring, presenting and disclosing goodwill and intangible assets. The Fund is currently assessing the impacts of these new standards on its consolidated financials statements.

The Accounting Standard Board of Canada has announced the Canadian GAAP will be converged to International Financial Reporting Standards (“IFRS”) for Publicly Accountable Enterprises. The transition period is expected to be completed by 2011. The Fund is currently assessing the impacts of these new standards on its consolidated financials statements.

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 March 31, 2008 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 March 31, 2008, 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 temporarily 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 2.50:1. The Funded Debt to EBITDA Ratio must be reduced to 2.25:1 prior to the reinstatement of the distributions, thereafter the continuation of the distribution is governed by a maximum Funded Debt to EBITDA Ratio of 2.50:1 and cannot exceed 75% of the distributable cash in a particular month. 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 per month 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 (one and a half month prepayment). 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 the first quarter of 2008. As at March 31, 2008, this ratio was 2.34:1.

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The Bank Credit Agreement Amendment #5 has a maximum authorized amount of \$41,250,000 and bears 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 an adverse effect on the AlarmCap Group's business, financial condition, growth and results of operations.

Technological Risk

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

Effectiveness and Efficiency of Advertising Expenditures

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

Increase in Interest Rates

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

Labour Relations

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

Risk of Liability from Operations

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

Possible Adverse Effect of "False Alarm" Ordinances

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

A number of municipalities have considered or are considering adopting various measures aimed at reducing the number of false alarms. Such measures include: (i) subjecting monitoring companies to fines or penalties for transmitting false alarms, (ii) 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 2.50:1. 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 of 2.50:1, the Fund must apply an amount of \$450,000 per month 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 (one and a half month prepayment). 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 the first quarter of 2008. As at March 31, 2008, this ratio was 2.34:1.

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.

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

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.

Upon the enactment of new tax legislation, future income tax assets for the period decreased by \$175,000 to reach \$1,875,000 as at March 31, 2008. 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 2.50:1. The Funded Debt to EBITDA Ratio must be reduced to 2.25:1 prior to the reinstatement of the distribution thereafter the continuation of the distribution is govern by a maximum Funded Debt to EBITDA Ratio of 2.50:1 and cannot exceed

75% of the distributable cash in a particular month. 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 per month 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 (one and a half month prepayment). 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 the first quarter of 2008. As at March 31, 2008, this ratio was 2.34:1.

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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DISCLOSURE OF AUDITOR REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The interim consolidated financial statements of First National AlarmCap Income Fund (the "Fund") for the three-month periods ended March 31, 2008 and 2007 have not been reviewed by the auditors of the Fund.

**FIRST NATIONAL ALARMCAP INCOME FUND
QUARTERLY REPORT**

UNAUDITED CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)

	March 31, 2008 \$	December 31, 2007 \$
ASSETS <i>[note 12]</i>		
Current assets		
Cash	2,953	2,186
Accounts receivable	2,782	2,684
Inventories	605	561
Prepaid expenses	525	386
Interest rate swaps <i>[note 13]</i>	-	108
Total current assets	6,865	5,925
Advance <i>[note 17]</i>	71	71
Interest rate swaps <i>[note 13]</i>	375	-
Property, plant and equipment <i>[note 5]</i>	1,504	1,512
Subscriber accounts <i>[note 6]</i>	66,187	66,808
Goodwill <i>[note 7]</i>	23,000	23,000
Other long-term assets <i>[note 4 and 8]</i>	100	100
Future income tax asset <i>[note 15]</i>	1,875	2,050
	99,977	99,466
LIABILITIES AND UNITHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	2,814	3,251
Unearned revenues	4,433	4,605
Short-term portion of due to a dealer	486	503
Short-term portion of obligations under capital lease <i>[note 11]</i>	95	93
Total current liabilities	7,828	8,452
Due to a dealer <i>[note 9]</i>	-	168
Obligations under capital leases <i>[note 11]</i>	289	314
Deferred subscription revenues <i>[note 10]</i>	659	623
Other long-term liabilities	32	37
Long-term debt <i>[note 4 and 12]</i>	45,805	45,597
Total unitholders' equity	45,364	44,275
	99,977	99,466

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)

	March 31, 2008 \$	December 31, 2007 \$
Unitholders' contribution <i>[note 14]</i>		
Balance, beginning of year	59,301	59,139
Transaction adjustments of future income taxes <i>[note 15]</i>	-	162
Balance, end of year	59,301	59,301
Cumulative net income (loss)		
Balance, beginning of year	(126)	(5,937)
Net income (loss)	1,159	5,811
Balance, end of year	1,033	(126)
Cumulative distributions		
Balance, beginning of year	(14,970)	(12,730)
Distributions to unitholders	-	(2,240)
Balance, end of year	(14,970)	(14,970)
Accumulated other comprehensive income <i>[note 4]</i>		
Balance, beginning of year	70	-
Transition adjustments of financial instruments	-	352
Change for the year	(70)	(282)
Balance, end of year	-	70
Unitholders' equity	45,364	44,275

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 AND COMPREHENSIVE INCOME

(in thousands of dollars, except per unit amounts)

	March 31, 2008 (3 months) (unaudited) \$	March 31 2007 (3 months) (unaudited) \$
Revenues		
Monitoring and services	7,165	7,400
Installation	436	592
	7,601	7,992
Expenses		
Monitoring and customer service	1,710	1,688
Installation, sales and marketing	442	576
	2,152	2,264
Income before general and administrative expenses and other items	5,449	5,728
General and administrative expenses	1,434	1,410
Income before under noted items	4,015	4,318
Amortization of subscriber accounts, depreciation of property plant and equipment	2,079	2,134
Amortization of monitoring vendor sales incentives	(4)	-
Interest on debt including amortization of other long-term assets and liabilities	873	950
Gain on interest rate swaps	(375)	-
Change in the fair value of interest rate swaps	108	78
	2,681	3,162
Income before income taxes	1,334	1,156
Future income taxes	175	-
Net income	1,159	1,156
Earning per unit		
Earning per unit	0.183	0.183
Weighted average number of units outstanding (in thousands)		
Weighted average number of units outstanding (in thousands)	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)

	March 31, 2008 (3 months) (unaudited) \$	March 31, 2007 (3 months) (unaudited) \$
OPERATING ACTIVITIES		
Net income for the period	1,159	1,156
Items not affecting cash flows		
Amortization of subscriber accounts and depreciation of property, plant and equipment	2,079	2,134
Amortization of deferred subscription revenues	(20)	(14)
Amortization of monitoring vendor sales incentives	(4)	(4)
Amortization of other long-term assets and deferred gain	132	95
Gain on interest rate swaps	(375)	-
Change in the fair value of interest rate swaps	108	78
Monitoring vendor sales incentives	-	34
Future income taxes	175	-
	3,254	3,479
Net change in non-cash working capital items	(891)	(555)
Cash flows relating from operating activities	2,363	2,924
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(90)	(27)
Increase in subscriber accounts	(1,366)	(1,645)
Cash flow relating to investing activities	(1,456)	(1,672)
FINANCING ACTIVITIES		
Repayment of dealer	(178)	-
Repayment of obligations under capital lease	(23)	(22)
Increase in deferred subscription revenue	55	72
Financing cost	(206)	(23)
Increase in long-term debt	212	-
Distributions to unit holders	-	(1,343)
Cash flow relating to financing activities	(140)	(1,316)
Net increase (decrease) in cash for the period	767	(64)
Cash – beginning of the period	2,186	1,051
Cash – end of period	2,953	1,073
Supplementary information		
Interest paid for the period:	905	804

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 UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

[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 2.50:1. The Funded Debt to EBITDA Ratio must be reduced to 2.25:1 prior to the reinstatement of the distribution thereafter the continuation of the distribution is govern by a maximum Funded Debt to EBITDA Ratio of 2.50:1 and cannot exceed 75% of the distributable cash in a particular month. 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 per month 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 (one and a half month prepayment). 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 the first quarter of 2008. As at March 31, 2008, this ratio was 2.34:1.

First National AlarmCap Income Fund

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

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

2. GOING CONCERN UNCERTAINTY [Cont'd]

As mentioned in note 22, on March 17, 2008, the Fund renewed its Bank Credit Agreement for a three-year period. As at March 31, 2008, the Fund was in compliance

with its financial ratios. 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.

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.

First National AlarmCap Income Fund

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

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

3. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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%

First National AlarmCap Income Fund

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

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

3. 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.

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:

First National AlarmCap Income Fund

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

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

3. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Income taxes [cont'd]

- 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.

First National AlarmCap Income Fund

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

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

3. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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.

First National AlarmCap Income Fund

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

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

3. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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.

First National AlarmCap Income Fund

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

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

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 3251, *Equity*, describes standards for the presentation of equity and changes in reporting period as a result of the application of Section 1530, *Comprehensive Income*.

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

First National AlarmCap Income Fund

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

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

4. NEW ACCOUNTING POLICIES [Cont'd]

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 and for the first quarter of 2008, 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 [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 apply for the interim and annual financial statements starting with the first quarter of 2008. These new sections do not have a significant impact on results of the Fund, its financial position and its 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;

First National AlarmCap Income Fund

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

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

4. NEW ACCOUNTING POLICIES [Cont'd]

Recently issued accounting standards [Cont'd]

- 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.

Future accounting changes

The Section 3064, *Goodwill and Intangible Assets*, will replace the current Section 3062, *Goodwill and Other Intangible Assets*, and will be effective for fiscal years beginning on or after October 1, 2008. This new section establishes revised standards for recognizing, measuring, presenting and disclosing goodwill and intangible assets. The Fund is

First National AlarmCap Income Fund

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

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

4. NEW ACCOUNTING POLICIES [Cont'd]

Future accounting change [Cont'd]

currently assessing the impacts of these new standards on its consolidated financials statements.

The Accounting Standard Board of Canada has announced the Canadian GAAP will be converged to International Financial Reporting Standards ("IFRS") for Publicly Accountable Enterprises. The transition period is expected to be completed by 2011. The Fund is currently assessing the impacts of these new standards on its consolidated financials statements.

5. PROPERTY, PLANT AND EQUIPMENT

	<u>March 31, 2008</u>		<u>December 31, 2007</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
	\$	\$	\$	\$
Furniture and equipment	958	405	939	377
Computer hardware and software	385	209	315	179
Leasehold improvements	576	169	575	149
Furniture and equipment under capital leases	507	138	507	119
	<u>2,425</u>	<u>921</u>	<u>2,336</u>	<u>824</u>
Accumulated depreciation	921		824	
	<u>1,504</u>		<u>1,512</u>	

Depreciation of property, plant and equipment amounted to \$98,000 for the quarter ended March 31, 2008 [\$120,000 in 2007].

In 2007, the Fund acquired furniture and equipment under capital leases valued at \$30,000.

First National AlarmCap Income Fund

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

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

6. SUBSCRIBER ACCOUNTS

Cost of subscriber accounts consists of the following items:

	2008	2007
	\$	\$
Subscriber accounts	91,281	89,921
Accumulated amortization	(25,094)	(23,113)
	66,184	66,808

Amortization of subscriber accounts amounted to \$1,981,000 for the first quarter of 2008 [\$2,014,000 in 2007].

7. GOODWILL

The Fund completes its goodwill impairment test on annual basis. 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

	2008	2007
	\$	\$
Restricted cash	100	100
	100	100

First National AlarmCap Income Fund

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

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

9. DUE TO A DEALER

	2008	2007
	\$	\$
Due to a dealer	486	671
Short term portion	486	503
Long term portion	—	168

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.

10. DEFERRED SUBSCRIPTION REVENUES

	2008	2007
	\$	\$
Deferred subscription revenues	791	736
Accumulated amortization	(132)	(113)
	659	623

Amortization of deferred subscription revenues amounted to \$20,000 for the first quarter of 2008 [\$14,000 in 2007].

11. OBLIGATIONS UNDER CAPITAL LEASES

	2008	2007
	\$	\$
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.	384	407
Short-term portion	95	93
	289	314

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

\$

First National AlarmCap Income Fund

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

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

11. OBLIGATIONS UNDER CAPITAL LEASES [Cont'd]

2008	92
2009	122
2010	122
2011	94
2012	2
	<hr/>
	432
Amount representing interest	48
Balance of the obligations	384

12. LONG-TERM DEBT

	2008	2007
	\$	\$
Bank term loan [net of financing costs of \$206 in 2008 and 183 in 2007]	41,044	40,855
Subordinated debentures [net of financing costs of \$239 in 2008 and 258 in 2007]	4,761	4,742
	<hr/>	<hr/>
	45,805	45,597

(a) Bank term loan

The bank term loan has a maximum authorized amount of \$41,250,000, matures in March 2008 and bears interest at contractual rates ranging from 0.50% to 1.75% [effective rates ranging from 0.53% to 1.79%] above the bank's prime rate and from 1.75% to 3.00% [effective rates ranging from 1.78% to 3.04%] 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 Bank Credit Agreement contains certain covenants. In addition, the Fund is committed to maintaining certain financial ratios. As at March 31, 2008, the Fund was in compliance with all of its financial ratio requirements based on its Bank Credit Agreement Amendment #5.

First National AlarmCap Income Fund

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

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

12. LONG-TERM DEBT [Cont'd]

(b) Subordinated debentures

Five-year subordinated debentures bearing interest at a contractual rate of 9.00% [effective rate of 9.45%] total \$5,000,000 and mature in April 2011.

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 March 31, 2008, 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
	Scotia Bank 3.6225%	+2.25%	\$18,300	March 2011

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 \$375,000 as at March 31, 2008 [\$108,000 as at December 31, 2007].

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 trusts unitholders. As at March 31, 2008, the Class B trust unitholders have not used the option of conversion into Class A trust units.

First National AlarmCap Income Fund

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

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

14. UNITHOLDERS' CONTRIBUTIONS [Cont'd]

	2008	2007
	\$	\$
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 [note 15]	(3,386)	(3,386)
	59,301	59,301

Unit-based compensation

The officers and key employees of AlarmCap and the trustees of the Trust and the Fund are eligible to participate in the Fund's Phantom Unit Plan ("Plan"). The purpose of the Plan is to provide eligible participants with compensation opportunities that will enhance the Fund's and AlarmCap's ability to attract, retain and motivate key trustees, directors and personnel and the continuous employment of the participant during the cycle as well as any other performance-based conditions determined at the date of the grant. Within ninety (90) days after approval of the Fund's audited financial statements for the last fiscal year in the three-year cycle, the vested Phantom Units are paid to the participant in Class A trust units issued from treasury in a number equal to the number of vested Phantom Units.

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 March 31, 2008, no phantom units had been granted [0 in 2007 and 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 March 31, 2008, 160,417 phantom units were outstanding.

First National AlarmCap Income Fund

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

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

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.

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.

	2008	2007
	\$	\$

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	1,693	1,882
Units' issuance cost	162	162
Other	20	6
Future income tax assets	1,875	2,050

First National AlarmCap Income Fund

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

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

15. INCOME TAXES [Cont'd]

	2008	2007
	\$	\$
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	196	-
Decrease in future income tax recovery resulting from tax rate change in December 2007	(21)	-
Future income tax recovery	175	-

16. SUPPLEMENTARY CASH FLOW INFORMATION

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

	2008	2007
	\$	\$
Accounts receivable	(98)	313
Inventories	(44)	(18)
Prepaid expenses	(140)	(29)
Accounts payable and accrued liabilities	(436)	(558)
Unearned revenues	(173)	(223)
Other deferred revenues	-	(40)
	(891)	(555)

First National AlarmCap Income Fund

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

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

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)	2008	2007
<hr/>		
Statement of income:	\$	\$
Monitoring and customer service	50	16
General and administrative expenses	178	187
<hr/>		
Balance Sheets :		
Accounts receivable	39	39
Subscriber accounts	70	70
Advance	71	71
Accounts payable	80	107

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.

18. 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 identified its various financial assets and liabilities in each category and explains its measurement methods in Note 4 of these financial statements.

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

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

First National AlarmCap Income Fund

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

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

18. FINANCIAL INSTRUMENTS [Cont'd]

(a) Fair value

The carrying amounts of Fund's financial assets and liabilities, such as cash, accounts receivable, accounts payable and distributions payable to unit holders, approximate their fair values as at March 31, 2008 and as at December 31, 2007 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 March 31, 2008 and 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) 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 13].

First National AlarmCap Income Fund

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

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

19. CAPITAL MANAGEMENT

The Fund's objectives when managing capital are:

- To safeguard the Fund's ability to continue as a going concern;
- To maintain appropriate cash reserves on hand to support continued operations and unit holder returns.

The capital structure of the Fund consist of long-term debt, cash and unit holders' equity (excluding accumulated other comprehensive income).

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 2.50:1. The Funded Debt to EBITDA Ratio must be reduced to 2.25:1 prior to the reinstatement of the distribution thereafter the continuation of the distribution is govern by a maximum Funded Debt to EBITDA Ratio of 2.50:1 and cannot exceed 75% of the distributable cash in a particular month. 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 per month 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 (one and a half month prepayment). However, this ratio was under the 2.50:1

First National AlarmCap Income Fund

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

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

19. CAPITAL MANAGEMENT [Cont'd]

threshold at the end of September 30, 2007 and remained below 2.50:1 until the end of the first quarter of 2008. As at March 31, 2008, this ratio was 2.34:1.

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. Management is confident that the Fund will meet all the requirements in the future.

20. 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 \$
	March 31, 2008 3 months	March 31, 2008 3 months	March 31, 2008 3 months	March 31, 2007 3 months	March 31, 2007 3 months	March 31, 2007 3 months
Revenues						
Monitoring and services	6,040	1,125	7,165	6,213	1,187	7,400
Installation	436	-	436	592	-	592
	6,476	1,125	7,601	6,805	1,187	7,992
Expenses						
Monitoring and customer service	1,476	234	1,710	1,445	243	1,688
Installation, sales and marketing	442	-	442	576	-	576
	1,918	234	2,152	2,021	243	2,264
Income before general and administrative expenses and other items	4,558	891	5,449	4,784	944	5,728

First National AlarmCap Income Fund

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

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

20. SEGMENTED INFORMATION [Cont'd]

Depreciation of property, plant and equipment amounted to \$96,000 at March 31, 2008 [\$117,000 for the first quarter 2007] for the Fund's Microtec division and \$2,000 at March 31, 2008 [\$3,000 for the first quarter 2007] for its Securex division

Amortization of subscriber accounts amounted to \$1,727,000 for the first quarter of 2008 [\$1,750,000 for 2007] for the Fund's Microtec division and \$254,000 for the first quarter of 2008 [\$264,000 in 2007] for its Securex division.

Amortization of deferred subscription revenues amounted to \$20,000 for the first quarter of 2008 [\$14,000 for 2007] for the Fund's Microtec division and none for its Securex division.

21. COMMITMENTS

The Fund has entered into lease agreements for its place of business, some equipment and vehicles. The commitments totalled \$2,137,000, and the annual minimum rent payments for the next five years and thereafter are as follows:

	March
31, 2008	\$
<hr/>	
2009	508
2010	451
2011	428
2012	399
2013	326
2014 and thereafter	25
<hr/>	

22. 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.

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

First National AlarmCap Income Fund

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

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

22. CONTINGENCIES [Cont'd]

the information currently available, management believes that the outcome of these lawsuits will not have a significant impact on the Fund.

c) 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.

23. COMPARATIVE FIGURES

Certain 2007 figures have been reclassified to conform to the current year presentation.