



FIRST NATIONAL ALARMCAP INCOME FUND

THIRD QUARTER ENDED SEPTEMBER 30, 2008

AS AT NOVEMBER 11, 2008



Message to Unitholders

Management and Trustees of First National AlarmCap Income Fund are pleased to report results for the third quarter ending September 30, 2008.

The Fund has undergone significant changes in 2008. A new Board of Trustees, elected to office last June and composed primarily of independent trustees, has been working diligently to improve corporate governance and the financial performance of the Fund.

On October 21, 2008, Mr. Leonard Sudermann announced his resignation as President and Chief Executive Officer of the Fund. Mr. Sudermann continues to serve as a Director of the Fund.

As the Board considers new leadership possibilities for the Fund, it would like to share with unitholders the challenges and opportunities of the First National AlarmCap Income Fund investment.

Firstly, the Fund has been challenged in attempts to grow the top line revenue in a competitive security alarm industry. However, revenues are proving to be quite resilient in the increasingly difficult economic conditions currently enveloping North America and the world. Total revenues in Q308 were \$7,666,000 compared to \$7,731,000 in Q307, a 0.8% decrease. Residential and commercial security services remain in demand during adverse economic conditions.

The Fund's EBITDA reflects this resilience. The 3.0% decrease compared to the Q307 results relates primarily to the general and administrative costs associated with governance initiatives.

Secondly, the ultimate test of the Fund is its ability to generate cash on a sustainable basis. It is noteworthy that the Fund began the year with a negative working capital deficiency of \$2,527,000. As at September 30, the working capital was positive at \$1,791,000. This improvement is primarily due to a \$3,455,000 increase in cash (\$0.55/unit) generated by the business, or \$4,607,000 (\$0.73/ unit) annualized.

Finally, the increase in cash on the balance sheet has allowed the Fund to reduce its total funded debt to EBITDA to the 2.23 to 1. At this level, the Fund has greater financial flexibility to consider growth initiatives and, ultimately, distributions to Unitholders.

We wish to thank both the Board of Trustees and the staff for their efforts and hard work during this period of transition.

The Fund will keep Unitholders informed as developments occur with the leadership transition while it continues to execute a long term strategy to maximize Unitholder returns.

Don McPherson
Chair of the Board of directors
First National AlarmCap Income Fund

FIRST NATIONAL ALARMCAP INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

Third quarter ended September 30, 2008

As at November 11, 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 year ended December 31, 2007 and with the interim unaudited consolidated financial statements of the Fund for the quarters ended September 30, 2008. 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 1, 2005. The Fund was created to acquire substantially all of the assets and shares of Microtec Enterprises Inc. ("Microtec") and substantially all of the assets of Securex Master Limited Partnership ("SMLP"). Microtec, founded in 1989 in Quebec City, Quebec, is one of the largest full-service security alarm monitoring companies in Canada with some 81,019 subscribers as at September 30, 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. Total subscribers are a combined 97,019.

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 on the Fund's website (www.alarmcap.ca) and on SEDAR at www.sedar.com.

Non-GAAP measures

EBITDA and distributable cash are non-GAAP financial measures, but management believes they are useful in measuring the Fund's performance. In this document, EBITDA is earnings before interest, taxes, depreciation and amortization. Distributable Cash is EBITDA less subscriber replacement costs, interest on debt and sustaining capital expenditures. Readers are cautioned that these measures should not be construed as alternatives to net income or loss or other comparable measures determined in accordance with GAAP as an indicator of the Fund's performance or as a measure of the Fund's liquidity and cash flow. The Fund's method of calculating non-GAAP measures may differ from the methods used by other issuers and accordingly, the Fund's non-GAAP measures may not be comparable to similarly titled measures used by other issuers. Management believes that Distributable Cash is a useful measure of performance as it provides investors with an indication of the amount of cash available for distribution to Unitholders. Furthermore, the Fund's method of calculating Distributable Cash, including subscriber replacement costs, may not be comparable to other similarly named calculations.

Supplemental Disclosure

Subscriber replacement costs represent management's estimates of costs to acquire new subscriber RMR (recurring monthly revenues) to replace RMR lost through attrition. Subscriber replacement costs incurred may not be sufficient to maintain the Fund's RMR and Distributable Cash at current levels. The Fund replaces some RMR reductions due to subscriber attrition by investing capital to acquire recurring monthly revenue through its Associated 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 so far in fiscal 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. Management estimates a level of \$30,000 per month for fiscal 2008 should be appropriate.

Subsequent events

The Fund announced on October, 21, 2008, that Mr. Leonard Sudermann has tendered his resignation as President and Chief Executive Officer of the Fund, effective immediately. Mr. Sudermann will be staying on as a member of the board of trustees of the Fund (the "Board"). The Board thanks Mr. Sudermann for his service to the Fund. The Fund expects to hire a new CEO within the next three months. The board is working closely with senior management to effect an orderly transition.

Pursuant to this management change, the Fund will record a provision of \$291,000 in the general and administrative expenses during the fourth quarter of 2008.

Financial Highlights

The following table presents selected financial information regarding the financial results of the Fund for the eight 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)							
	Q3-2008	Q2-2008	Q1-2008	Q4-2007	Q3-2007	Q2-2007	Q1-2007	Q4-2006
	\$	\$	\$	\$	\$	\$	\$	\$
Monitoring revenues	7,225	7,258	7,165	7,344	7,203	7,303	7,400	7,416
Total revenues	7,666	7,841	7,601	7,939	7,731	7,901	7,992	8,163
Monitoring expenses	627	650	627	634	614	590	670	670
Customer service expenses	959	993	1,083	1,202	1,084	1,149	1,018	1,138
Installation, sales and marketing expenses	403	567	442	544	463	558	576	744
Income before G&A expenses and other items	5,677	5,631	5,449	5,559	5,570	5,604	5,728	5,611
G&A	1,595	1,616	1,434	1,549	1,361	1,355	1,410	1,576
EBITDA	4,082	4,015	4,015	4,010	4,209	4,249	4,318	4,035
Goodwill impairment	-	-	-	-	-	-	-	13,191
Future income taxes	368	230	175	721	147	(2,756)	-	-
Net income (loss)	151	552	1,159	(14)	750	3,919	1,156	(12,577)
Distributable cash flow	1,719	1,426	1,838	1,356	1,969	1,791	2,027	1,608
Distributed cash flow	-	-	-	-	-	1,344	1,344	1,344
Cash flow from operating activities	3,116	3,227	2,363	3,243	2,510	3,056	2,924	2,699
Earnings (loss) per Unit	0.024	0.087	0.183	(0.002)	0.118	0.620	0.183	(1.988)
Distributions declared per Class A and B Unit	-	-	-	-	-	0.142	0.213	0.213
Total assets	101,172	101,227	99,977	99,466	98,873	99,369	100,103	102,023
Total long-term debt	45,880	45,843	45,805	45,597	5,682	5,625	5,523	50,000
Unitholders' equity	46,067	45,916	45,364	44,275	44,056	43,306	40,283	40,472
RMR at the end of the period	2,267	2,277	2,275	2,293	2,282	2,296	2,318	2,314
Customer Growth and Retention								
Total Number of Customers	97,019	97,309	97,566	98,554	97,710	99,129	101,561	102,196
Gross Attrition Rate (%) (2)	10.86	10.37	9.29	9.86	11.37	12.96	8.98	9.91
Net Attrition Rate (%) (3)	9.93	9.81	8.61	9.03	10.47	11.92	8.40	9.14

(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 \$7,225,000 for the third quarter of 2008 compared to \$7,203,000 for the same quarter of 2007, an increase of 0.3%. Of the total monitoring and service revenues, \$7,136,000, or 98.8%, came from monitoring revenues for the third quarter of 2008 compared to \$7,169,000 or 99.5% for the same period last year. For the first nine months of fiscal 2008, the Fund reported revenues from monitoring and services of \$21,648,000 compared to \$21,906,000, a decrease of 1.2%. Management expects relatively stable monitoring and service revenues in coming quarters. The Security industry in which the Fund operates is not really negatively affected by an economic slowdown because more people tend to better protect the assets they have and therefore offset the attrition from subscribers that have a cash flow problem.

As compared to the corresponding quarter of 2007, the Fund decreased its total number of subscribers by approximately 1.6% from 98,554 to 97,019 subscribers because of higher attrition than recruitment. RMR at the end of the quarter was \$2,267,000 or 0.7% lower as compared to a RMR of \$2,282,000 at the end of the corresponding quarter in the previous fiscal year. Average RMR per customer was \$23.37 at the end of this quarter compared to \$23.15 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 third quarter ended September 30, 2008 decreased by 16.5% to \$441,000 compared to \$528,000 in the third quarter of 2007. These installation revenues were generated mainly from activation fees and equipment sold to new customers. For the first nine months of fiscal 2008, installation revenues reached \$1,460,000, a 15.0% decrease compared to \$1,718,000 reached during the same period last year. This drop in installation revenues is due to smaller revenue installation contracts signed in the commercial division during the first nine months of fiscal 2008 compared to the same period in fiscal 2007. Management expects installation revenues to reach about \$500,000 in average in coming quarters.

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 third quarter of 2008, total operating expenses amounted to \$3,584,000 or 46.8% of total revenues, a 120 basis points increase compared with \$3,522,000 or 45.6% for the same period last year. This increase is mainly due to lower margin on installation contracts and higher G&A and monitoring expenses which more than offset lower

customer service expenses. For the first three quarters of 2008, total operating expenses reached \$10,996,000 or 47.6% of total revenues, a 170 basis points increase compared with \$10,848,000 or 45.9% for the same period last year.

Monitoring and Customer Service

In the third quarter of 2008, the monitoring and customer service expenses amounted to \$1,586,000 or 22.0% of total monitoring and service revenues compared to \$1,698,000 or 23.6% for the third quarter of 2007, a decrease of 160 basis points. This decrease in percentage term is due to improve performance in the customer service department and the transfer of an \$84,000 customer service expense into recruitment costs which more than offset higher monitoring expenses between the two corresponding periods. As a result of various cost-reductions, efficiency-improvement initiatives and the transfer of some expenses to recruitment costs, the cost of operating our customer service department decreased from \$1,084,000 to \$959,000 in the two comparable quarters. However, the cost of operating our monitoring stations increased slightly from \$614,000 to \$627,000 for the same two comparable quarters. For the first nine months of fiscal 2008, monitoring and customer service expenses reached \$4,939,000 or 22.8% of total monitoring and service revenues compared to \$5,125,000 or 23.4% for the same period in 2007 for reasons stated above.

Installation, Sales and Marketing Expenses

Installation, sales and marketing expenses totalled \$403,000 or 91.4% of the installation revenues in the third quarter of 2008 compared to \$463,000 or 87.7% in the third quarter of 2007 due to lower margin on installation contracts during the third quarter of 2008. For the first nine months of fiscal 2008, these expenses reached \$1,412,000 or 96.7% compared to \$1,597,000 or 93.0% for the same period last year.

Income before G&A expenses and other items

Income before G&A expenses and other items was \$5,677,000 for the third quarter of 2008, or 74.1% of total revenues. In term of percentage, this is higher by 210 basis points compared to the same quarter last year, which had a gross margin of \$5,570,000, or 72.0%. For the first three quarters of 2008, income before G&A and other items totalled \$16,757,000 or 72.5% of total revenues compared with \$16,902,000 or 71.5% for the same three quarters in 2007. Excluding the \$168,000 of non-recurring revenues and the transfer of a \$140,000 expense to recruitment costs, income before G&A and other items would have reached \$16,449,000 or 71.2% for the first three quarters of 2008.

General and Administrative Expenses

General and administrative expenses reached \$1,595,000, or 20.8% of total revenues at the end of the third quarter of 2008, compared to \$1,361,000, or 17.6% during the same quarter last year, representing a 320 basis points increase. This material increase in general and administrative expenses is due to a \$130,000 increase in professional fees associated with the strategic review process and a \$70,000 additional bad debt provision. These general and administrative expenses will remain high next quarter since the Fund will record a \$291,000 provision during the fourth quarter of 2008 following Mr. Leonard Sudermann resignation as President and Chief Executive Officer of the Fund as of October 21, 2008. For the first nine months of fiscal 2008, general and administrative expenses totalled \$4,645,000 or 20.1% of total revenues, a 260 basis points increase compared to \$4,126,000 or 17.5% for the same period last year due to a \$305,000 increase in professional fees associated with the strategic review process, a \$70,000 additional bad debt provision and an increase of \$66,000 in rent expenses following the sale of the St-Augustin's building in April 2007.

EBITDA

For the third quarter ended September 30, 2008, EBITDA was \$4,082,000, or 53.2% of total revenues, a decrease of 120 basis points as compared to \$4,209,000, or 54.4% during the third quarter of 2007, mainly due to higher general and administrative expenses combined with lower total revenues. For the first three quarters of 2008, EBITDA amounted to \$12,112,000, or 52.4% of total revenues compared to \$12,776,000, or 54.1% for the same period in 2007 for the same reasons mentioned above.

Amortization of Subscriber Accounts, Depreciation of Property Plant and Equipment

For the third quarter ended September 30, 2008, total amortization expenses were \$2,240,000, an amount which includes \$37,000 of amortization of deferred financing costs. As compared with the same period last year, total amortization expenses were \$2,329,000, an amount that includes \$195,000 of amortization of deferred financing costs presented in the interest on debt section. The amortization expense was reduced by \$71,000 from the amortization of deferred gain on interest rate swaps.

Interest Expense and Amortization of Long-Term Assets

For the third quarter ended September 30, 2008, interest expense of \$779,000 (net of \$37,000 of amortization of deferred financing costs) was \$129,000 lower than the third quarter of 2007. The decrease is due to a \$112,000 decrease in interest paid on our Bank Term Debt as a result of lower rates charged by the bank as well as a \$587,000 reduction in the long-term debt. For the first nine months of fiscal 2007, interest expenses reached 2,284,000 (net of \$169,000 of amortization of deferred financing costs and deferred gain on interest rate swaps) or \$347,000 lower than the comparable period last year. The decrease is mainly due to a \$326,000 reduction of the interest paid on our Bank Term Debt as a result of lower rates charged by the bank as well as a \$1,756,000 average reduction in the long-term debt.

Net Income and comprehensive income

Net income for the third quarter of 2008 reached \$151,000 or \$0.024 per unit compared to a net income of \$750,000 or \$0.118 per unit in the corresponding period in 2007. This material decrease in net income is mainly attributable a \$234,000 increase in general and administrative expenses, a \$469,000 change in the swap value and a \$221,000 temporary income taxes recovery differences between the two comparable quarters which more than offset a \$216,000 decrease in interest on debt including amortization of other long-term assets and liabilities.

Based on its assets and liabilities as at September 30, 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 \$4,559,000 net taxable temporary differences would reverse after January 1, 2011, resulting in \$1,277,000 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 \$1,314,000 is accounted for prospectively in the period and a decrease of \$368,000 in future income taxes recovery has been recorded for the period. The Fund does not provision any current income tax in its financial statements. As an income trust, the Fund has traditionally paid out distributions to Unitholders, reducing taxable income. The Fund is endeavouring to maintain this practice in 2008. In order to distribute enough not to be taxable, the Fund will need to get a waiver from its credit provider. The fund is currently in discussions with the credit provider to attempt to obtain this waiver

For the first nine months of fiscal 2008, net income reached \$1,862,000, or \$0.294 per unit or \$2,635,000 and \$0.417 per unit without the income tax effect compared to \$5,825,000, or \$0.921 per unit or \$3,216,000 and \$0.509 per unit without the income tax effect for the same period last year.

Subscriber and Retention

The annualized gross attrition rate of RMR (defined as cancellations before reconnecting installed systems, reduced by cancellation guarantees) for the third quarter of 2008 was 10.86% compared to 11.37% during the same period last year. This represents a 4.5% decrease in the rate at which subscribers cancel their monitoring service contracts. Net attrition, after resigning existing subscribers or reconnecting installed systems, was 9.93% for the third quarter of 2008 compared to 10.47% 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 which increases the attrition compared to our previous calculation.

Third party monitored customers increased by 512 customers during the quarter to a total of 9,465 customers as at September 30, 2008.

Liquidity and Capital Resources

Short-term assets increased from \$5,925,000 as at December 31, 2007 to \$9,485,000 as at September 30, 2008 as a result of higher cash on hand, accounts receivable and prepaid expenses which more than offset lower interest rate swaps and inventories. The \$3,455,000 cash on hand increase is due to the suspension of monthly distributions. Total assets as at September 30, 2008, increased to \$101,172,000 compared to \$99,466,000 as at December 31, 2007, mainly due to the \$3,455,000 increase in cash on hand which more than offset a \$1,034,000 reduction in subscriber accounts and a \$773,000 decrease in future income tax asset. Subscriber accounts decreased from \$66,808,000 as at December 31, 2007 to \$65,774,000 as at September 30, 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 \$7,694,000 as at September 30, 2008. Accounts payable and accrued liabilities decreased from \$3,251,000 to \$2,707,000. Unearned revenues, which represent customers that paid more than one month in advanced based on their monitoring contract agreement, decreased from \$4,605,000 to \$4,501,000. Total liabilities of \$55,105,000 are relatively stable compared as of December 31, 2007, due to the \$283,000 increase in long term debt mainly for negotiation fees relating to the Fund's Bank Credit Agreement Amendment #5 and a \$480,000 increase in interest rate swaps which partly offset a \$544,000 reduction in accounts payable and accrued liabilities and a \$291,000 decrease in due to dealers.

As a result, the working capital increased from a deficiency of \$2,527,000 as at December 31, 2007 to a positive working capital of \$1,791,000 as at September 30, 2008. This improvement is due to a \$3,455,000 increase on cash on hand representing \$0.546 per unit during this nine month period or \$4,607,000 on an annualized basis representing \$0.728 per unit.

Unitholders' equity as at September 30, 2008 was \$46,067,000 or 4.0% higher compared to \$44,275,000 as of December 31, 2007 due to the \$1,862,000 net income.

For the quarter ended September 30, 2008, cash flow from operating activities totaled \$3,116,000 compared to \$2,510,000 reached during the same period last year. This increase is mainly due to the \$627,000 positive variation of the net change in non-cash working capital item. For the first nine months of fiscal 2008, cash flow from operating activities reached \$8,706,000 compared with \$8,491,000 for the same period last year due to lower net income.

Investing activities reached \$1,691,000 in the third quarter of 2008, higher compared to \$1,448,000 in the same period last year. Subscriber accounts amounted to \$1,623,000 in the third quarter of 2008 compared to \$1,385,000 during the same period last year. For the first nine months of fiscal 2008, investing activities amounted to \$4,918,000 compared to \$4,898,000 for the same period last year mainly due to lower increase in subscriber accounts which totalled \$4,689,000 for the first three quarters in 2008 compared to \$4,639,000 for the same quarters in 2007.

Financing activities amounted to \$131,000 in the third quarter of 2008 compared to \$667,000 for the same period last year. This decrease is due to the suspension of the distribution payments since June 2007. To better match our distributable cash with our distributed cash, the Fund announced a distribution cut effective September, 2006 when monthly distributions were reduced by 35% from \$0.10833 to \$0.07083 per unit. On June 20, 2007, the Fund announced that it had suspended the payment of distributions, effective after the payment at the end of June of the May distribution. For the first nine months of fiscal 2008, financing activities totalled \$333,000 compared to \$3,363,000 for the same period last year due to the reason mentioned above.

As of September 30, 2008, the Fund had cash and cash equivalents of \$5,641,000, an increase of \$3,455,000 compared to December 31, 2007. This increase is mainly due to the suspension of monthly distributions.

Cash Available for Distributions and Distributions

Detailed below is a reconciliation of distributable cash to cash flows provided by operating activities as reported in the Fund's financial statements.

Cash Available for Distributions and Distributions (in thousands of dollars, except amounts per Unit)								
	Q3-2008	Q2-2008	Q1-2008	Q4-2007	Q3-2007	Q2-2007	Q1-2007	Q4-2006
	\$	\$	\$	\$	\$	\$	\$	\$
Cash flow provided by operating activities	3,116	3,227	2,363	3,243	2,510	3,056	2,924	2,699
Subscriber replacement cost	(1,468)	(1,715)	(1,326)	(1,818)	(1,269)	(1,513)	(1,392)	(1,475)
Sustaining capital expenditure	(90)	(90)	(90)	(60)	(60)	(60)	(60)	(60)
Changes in working capital	161	4	891	(9)	788	308	555	444
Distributable Cash	1,719	1,426	1,838	1,356	1,969	1,791	2,027	1,608
Distributions paid	-	-	-	-	-	1,344	1,344	1,344
Net earnings per unit	0.024	0.087	0.183	0.002	0.118	0.620	0.183	(1.99)
Distributable cash per unit	0.272	0.225	0.291	0.214	0.346	0.283	0.321	0.254
Distributions paid per unit	-	-	-	-	-	0.213	0.213	0.213
Distributions paid/distributable cash	- %	- %	- %	- %	- %	75.0 %	67.3 %	83.6 %

Subscriber replacement costs represent management's estimates of costs to acquire new subscriber RMR (recurring monthly revenues) to replace RMR lost through attrition. Subscriber replacement costs incurred may not be sufficient to maintain the Fund's RMR and Distributable Cash at current levels. The Fund replaces some RMR reductions due to subscriber attrition by investing capital to acquire recurring monthly revenue through its Associated 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 third quarter of 2008, distributable cash reached \$1,719,000, a decrease of \$250,000 compared to the same period last year. High G&A expenditures, an increase in subscriber replacement costs and sustaining capital expenditures reduced profitability, and therefore, distributable cash. For the first nine months of 2008, distributable cash amounted to \$4,983,000, a decrease of \$804,000 compared to the same period last year for the same reasons mentioned above.

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 announced on June 20, 2007, its decision to suspend distributions effective after the payment at the end of June of the May distribution. 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 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. As at September 30, 2008, this ratio was 2.23:1.

On a going forward basis, the Fund has sufficient cash to meet its operating and capital needs given management's assessment of the business outlook. Accumulated cash has more than doubled from \$2,186,000 to \$5,641,000 from December 31, 2007 to September 30, 2008. Management is fully aware of the global economic slowdown but do not foresee any material impacts on its business and / or liquidity situation.

Contractual Obligations

(in thousands of dollars)

	September 30, 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 0.50% to 1.76%] above the bank's prime rate and from 1.75% to 3.00% [effective rates ranging from 1.76% to 3.01%] 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 September 30, 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 9.37%] 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	374	106	239	29
Due to dealers	366	366	-	-
Total	46,990	472	46,489	29

Liquidity Management

In order to ensure sufficient liquidity, 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 third quarter of 2008. As at September 30, 2008, this ratio was 2.23:1.

Since the Fund had reached the 2.50:1 threshold, it had been building up cash and cash equivalents over \$1,000,000 per quarter up to \$5,641,000 as at September 30, 2008. Since the Fund is endeavouring to distribute sufficient money to reduce its taxable income to a minimal amount, part of the cash build up and cash equivalent will be used to that effect before the end of fiscal year 2008 if the Fund is able to get the creditor to provide a waiver of the limitation of distributing 75% of its distributable cash in a particular month. The Fund expects to resume regular distributions in the future taking into consideration the restriction mentioned above. Since the Fund cannot distribute more than 75% of its distributable cash in a particular month, the liquidity that will be used for future regular distributions will come

from current operations. The remaining cash on the balance sheet will be kept for development of business and acquisitions.

The Fund does not have any other restrictions or requirements on its liquidities.

The Fund is exposed to credit risk with regard to its accounts receivable. In order to reduce this risk, the Fund performs credit evaluations of its major customers. In addition, accounts receivable comprise amounts receivable from numerous customers whose individual balances are generally immaterial (less than 1%). However, as of September 30, 2008, one account represented 8.1% of the Fund's trade receivable and no other accounts were material compared to 7.1% for two accounts as of December 2007.

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

Accounts receivable are detailed as follow as at September 30, 2008:

<i>Trade Receivable :</i>	
Current	991
Past due less than 90 days	753
Past due over 90 days	1,272
	<hr/>
	3,016
<i>Authorised dealers :</i>	
Current	6
Past due less than 90 days	3
Past due over 90 days	8
Miscellaneous	100
	<hr/>
	117
<i>Other Receivables :</i>	
Current	17
Past due less than 90 days	6
Past due over 90 days	107
	<hr/>
	130
Deposit	388
Provision for doubtful accounts	(753)
Total of accounts receivables	<hr/>
	2,898

The contractual maturities of the Fund's financial liabilities are described in details in the "Contractual obligation" section of this MD&A.

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 the annual MD&A.

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 earning.

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

Derivative Financial instruments

The Fund entered into interest rate swap agreements to convert the bank term loan from variable to fixed interest rates. As at September 30, 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

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 amount was negative \$480,000 as at September 30, 2008 [positive market value amount of \$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 financial statements.

Related Party Transaction

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

	2008 \$	2007 \$
Statements of income		
Monitoring and customer service – Securex Financial Corp	38	(4)
General and administrative expenses - Securex Financial Corp	543	552
Professional fees - Director	50	0
Balance sheets		
Accounts receivable - Securex Financial Corp	39	39
Advance - Officer	71	71
Subscriber accounts - Securex Financial Corp	53	70
Accounts payable and accrued liabilities - Securex Financial Corp	41	153

A \$71,000 advance is receivable from an officer of the Fund. This advance bears no interest and has to be repaid upon the officer leaving the employment of the Fund.

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 September 30 and as at November 11, 2008, 4,574,401 Class A trust units and 1,750,000 Class B trust units were outstanding.

Fund's Phantom Unit Plan

There has been no change in the Fund's Phantom Unit Plan since our last annual MD&A ended December 31, 2007. The Plan is due to expire on December 31, 2008. No Units will be issued based on the performance criteria outlined in the Plan. This interim MD&A should be read along with the annual MD&A.

Accounting Policies

Basis of presentation

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

Consolidation

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

Accounting policies

The accounting policies and procedures used in preparing these unaudited interim consolidated financial statements are the same as those used in preparing the audited annual consolidated financial statements for the year ended December 31, 2007, except for the new accounting policies described below. The unaudited interim consolidated financial statements should be read along with the audited annual consolidated financial statements and notes to the statements for the year ended December 31, 2007.

New accounting policies

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;
- 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.

Risks and Uncertainties

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

The AlarmCap Group has put in place certain guidelines in order to manage the risks to which it may be exposed. Please refer to the 2007 Annual Information Form for a complete description of these risk factors. Our risks and uncertainties have not changed since the release of our MD&A for the year ended December 31, 2007. For more information, please refer to that document.

Cautionary statement regarding forward-looking information and statements

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

In particular, forward-looking information and statements include: subscriber replacement costs incurred may not be sufficient to maintain the Fund's RMR and Distributable Cash at current levels; sustaining capital expenditures represent the amount of capital expenditures, which the Fund believes is required to maintain its assets in proper operating condition; management expects relatively stable monitoring and service revenues in coming quarters; management expects installation revenues to reach about \$500,000 in average in coming quarters; general and administrative expenses will remain high next quarter; the Fund has estimated the amount of its temporary differences for future income tax purpose; the Fund is endeavouring to pay a special distribution to Unitholders, reducing income tax in 2008; if the Fund is able to get the creditor to provide a waiver of the limitation of distributing 75% of its distributable cash in a particular month; on a going forward basis, the Fund has sufficient cash to meet its operating and capital needs given management's assessment of the business outlook; management is fully aware of the global economic slowdown but do not foresee any material impacts on its business and / or liquidity situation; the Fund expects to resume regular distributions in a near future; the Fund updates the estimate of the allowance for doubtful accounts taken into account historic trends.

These statements include, but are not limited to, the demand for the Fund's services. These statements are based on certain assumptions and analysis made by the Fund in light of its experience and its perception of historical trends, current conditions and expected future developments as well as other factors it believes are appropriate in the circumstances. However, whether actual results, performance or achievements will conform to the Fund's expectations and predictions is subject to a number of known and unknown risks and uncertainties which could cause actual results to differ materially from the Fund's expectations. Such risks and uncertainties include, but are not limited to: fluctuations in the demand for monitoring and installation of security systems, general economic, market or business conditions; changes in laws or regulations, including taxation and environmental; the lack of availability of qualified personnel or management; and other unforeseen conditions which could impact the use of services supplied by the Fund. See also the Fund's Annual Information Form dated March 27, 2008, available on the Fund's website (www.alarmcap.ca) and on SEDAR at www.sedar.com for a comprehensive set of risk factors related to the Fund.

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