

**FIRST NATIONAL ALARMCAP INCOME FUND
QUARTERLY REPORT**

UNAUDITED CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)

	June 30, 2008 \$	December 31, 2007 \$
ASSETS <i>[note 12]</i>		
Current assets		
Cash	4,347	2,186
Accounts receivable	3,122	2,684
Inventories	576	561
Prepaid expenses	434	386
Interest rate swaps <i>[note 13]</i>	-	108
Total current assets	8,479	5,925
Advance <i>[note 17]</i>	71	71
Interest rate swaps <i>[note 13]</i>	67	-
Property, plant and equipment <i>[note 5]</i>	1,514	1,512
Subscriber accounts <i>[note 6]</i>	66,351	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>	1,645	2,050
	101,227	99,466
LIABILITIES AND UNITHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	3,085	3,251
Unearned revenues	4,530	4,605
Short-term portion of due to dealers <i>[note 9]</i>	472	503
Short-term portion of obligations under capital lease <i>[note 11]</i>	102	93
Total current liabilities	8,189	8,452
Due to dealers <i>[note 9]</i>	238	168
Obligations under capital leases <i>[note 11]</i>	296	314
Deferred subscription revenues <i>[note 10]</i>	717	623
Other long-term liabilities	28	37
Long-term debt <i>[note 4 and 12]</i>	45,843	45,597
Total unitholders' equity	45,916	44,275
	101,227	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)

	June 30, 2008 \$	December 31, 2007 \$
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Unitholders' contributions <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
<hr/>		
Cumulative net income (loss)		
Balance, beginning of year	(126)	(5,937)
Net income (loss)	1,711	5,811
Balance, end of year	1,585	(126)
<hr/>		
Cumulative distributions		
Balance, beginning of year	(14,970)	(12,730)
Distributions to unitholders	-	(2,240)
Balance, end of year	(14,970)	(14,970)
<hr/>		
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
<hr/>		
Unitholders' equity	45,916	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)

	June 30 2008 (3 months) (unaudited) \$	June 30 2007 (3 months) (unaudited) \$	June 30 2008 (6 months) (unaudited) \$	June 30 2007 (6 months) (unaudited) \$
Revenues				
Monitoring and services	7,258	7,303	14,423	14,703
Installation	583	598	1,019	1,190
	7,841	7,901	15,442	15,893
Expenses				
Monitoring and customer service	1,643	1,739	3,353	3,427
Installation, sales and marketing	567	558	1,009	1,134
	2,210	2,297	4,362	4,561
Income before general and administrative expenses and other items	5,631	5,604	11,080	11,332
General and administrative expenses	1,616	1,355	3,050	2,765
Income before under noted items	4,015	4,249	8,030	8,567
Amortization of subscriber accounts, depreciation of property plant and equipment	2,129	2,161	4,208	4,295
Amortization of monitoring vendor sales incentives	(5)	(3)	(9)	(3)
Interest on debt including amortization of other long-term assets and liabilities	801	986	1,299	1,936
Change in the fair value of interest rate swaps	308	(54)	416	24
Gain on disposal of property	-	(4)	-	(4)
	3,233	3,086	5,914	6,248
Income before income taxes	782	1,163	2,116	2,319
Future income taxes	230	(2,756)	405	(2,756)
Net income	552	3,919	1,711	5,075
Earning per unit				
Earning per unit	0.087	0.620	0.271	0.802
Weighted average number of units outstanding (in thousands)				
Weighted average number of units outstanding (in thousands)	6,324	6,324	6,324	6,324

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

**FIRST NATIONAL ALARMCAP INCOME FUND
QUARTERLY REPORT**

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of dollars)

	June 30, 2008 (3 months) (unaudited) \$	June 30, 2007 (3 months) (unaudited) \$	June 30, 2008 (6 months) (unaudited) \$	June 30, 2007 (6 months) (unaudited) \$
OPERATING ACTIVITIES				
Net income for the period	552	3,919	1,711	5,075
Items not affecting cash flows				
Amortization of subscriber accounts and depreciation of property, plant and equipment	2,129	2,157	4,208	4,291
Amortization of deferred subscription revenues	(21)	(16)	(41)	(30)
Amortization of monitoring vendor sales incentives	(5)	(2)	(9)	(6)
Amortization of other long-term assets and deferred gain	38	136	(205)	231
Gain on disposal of property	-	(4)		(4)
Change in the fair value of interest rate swaps	308	(70)	416	8
Monitoring vendor sales incentives		-		34
Future income taxes	230	(2,756)	405	(2,756)
	3,231	3,364	6,485	6,843
Net change in non-cash working capital items	(4)	(308)	(895)	(863)
Cash flows relating from operating activities	3,227	3,056	5,590	5,980
INVESTING ACTIVITIES				
Additions to property, plant and equipment	(71)	(102)	(161)	(129)
Sales of property		4		4
Increase in subscriber accounts	(1,700)	(1,609)	(3,066)	(3,254)
Advance		(71)		(71)
Cash flow relating to investing activities	(1,771)	(1,778)	(3,227)	(3,450)
FINANCING ACTIVITIES				
Repayment of dealer	(118)	-	(296)	-
Repayment of obligations under capital lease	(24)	(20)	(47)	(42)
Increase in deferred subscription revenue	80	71	135	143
Financing cost	-	(85)	(206)	(108)
Increase in long-term debt	-	-	212	-
Distributions to unit holders	-	(1,345)	-	(2,688)
Cash flow relating to financing activities	(62)	(1,379)	(202)	(2,695)
Net increase (decrease) in cash for the period	1,394	(101)	2,161	(165)
Cash – beginning of the period	2,953	1,009	2,186	1,073
Cash – end of period	4,347	908	4,347	908
Supplementary information				
Interest paid for the period:	716	875	1,621	1,679

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

June 30, 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 second quarter of 2008. As at June 30, 2008, this ratio was 2.29:1.

First National AlarmCap Income Fund

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 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 June 30, 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

June 30, 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

June 30, 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

June 30, 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

June 30, 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

June 30, 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

June 30, 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

June 30, 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 two first quarters 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

June 30, 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

June 30, 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>June 30, 2008</u>		<u>December 31, 2007</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
	\$	\$	\$	\$
Furniture and equipment	969	435	939	377
Computer hardware and software	414	236	315	179
Leasehold improvements	607	191	575	149
Furniture and equipment under capital leases	545	159	507	119
	2,535	1,021	2,336	824
Accumulated depreciation	1,021		824	
	1,514		1,512	

Depreciation of property, plant and equipment amounted to \$99,000 for the quarter ended June 30, 2008 [\$96,000 in 2007].

In the quarter ended June 30, 2008, the Fund acquired furniture and equipment under capital leases valued at \$38,000 [\$30,000 in 2007].

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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[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	93,474	89,921
Accumulated amortization	(27,123)	(23,113)
	66,351	66,808

Amortization of subscriber accounts amounted to \$2,030,000 for the second quarter of 2008 [\$2,061,000 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

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

9. DUE TO DEALERS

	2008	2007
	\$	\$
Due to dealers	710	671
Short term portion	472	503
Long term portion	238	168

On June 30, 2008, the Fund acquired a list of clients from dealers for a total of \$514,000 net of \$28,000 in unearned revenues. These acquisitions are payable by instalments from July 2008 to June 2011. These transactions have no monetary impact and are therefore not presented in the consolidated statement of cash flows.

10. DEFERRED SUBSCRIPTION REVENUES

	2008	2007
	\$	\$
Deferred subscription revenues	871	736
Accumulated amortization	(154)	(113)
	717	623

Amortization of deferred subscription revenues amounted to \$21,000 for the second quarter of 2008 [\$16,000 in 2007].

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

11. OBLIGATIONS UNDER CAPITAL LEASES

	2008	2007
	\$	\$
Capital lease agreements pertaining to furniture and equipment, repayable in monthly instalments totalling \$10,934 including interest varying from 7.33% to 10.78% with maturities ranging from September 2011 to March 2013.	398	407
Short-term portion	102	93
	<u>296</u>	<u>314</u>

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

	\$
2008	66
2009	131
2010	131
2011	104
2012	11
2013	2
	<u>445</u>
Amount representing interest	47
Balance of the obligations	<u>398</u>

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

12. LONG-TERM DEBT

	2008	2007
	\$	\$
Bank term loan [net of financing costs of \$189 in 2008 and \$183 in 2007]	41,061	40,855
Subordinated debentures [net of financing costs of \$218 in 2008 and \$258 in 2007]	4,782	4,742
	45,843	45,597

(a) Bank term loan

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 June 30, 2008, the Fund was in compliance with all of its financial ratio requirements based on its Bank Credit Agreement Amendment #5.

(b) Subordinated debentures

Five-year subordinated debentures bearing interest at a contractual rate of 9.00% [effective rate of 9.41%] total \$5,000,000 and mature in April 2011.

First National AlarmCap Income Fund

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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 June 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

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 \$67,000 as at June 30, 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 June 30, 2008, the Class B trust unitholders have not used the option of conversion into Class A trust units.

	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

First National AlarmCap Income Fund

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

14. UNITHOLDERS' CONTRIBUTIONS [Cont'd]

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 June 30, 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 June 30, 2008, 160,417 phantom units were outstanding.

15. INCOME TAXES

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

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

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

15. INCOME TAXES [Cont'd]

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.

	June 30, 2008	December 31, 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	1,448	1,882
Units' issuance cost	162	162
Other	35	6
Future income tax assets	1,645	2,050

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

First National AlarmCap Income Fund

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

15. INCOME TAXES [Cont'd]

	June 30, 2008 \$	June 30, 2007 \$
Statements of income		
Increase in future income tax recovery from a change in tax status in June 2007	456	(2,756)
Decrease in future income tax recovery resulting from tax rate change in December 2007	(51)	-
Future income tax recovery	405	(2,756)

16. SUPPLEMENTARY CASH FLOW INFORMATION

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

	2008 (3 months) \$	2007 (3 months) \$	2008 (6 months) \$	2007 (6 months) \$
Accounts receivable	(490)	59	(588)	372
Inventories	29	7	(15)	(11)
Prepaid expenses	92	214	(48)	185
Accounts payable and accrued liabilities	270	(452)	(166)	(1,010)
Unearned revenues	95	(136)	(78)	(359)
Other deferred revenues	-	-	-	(40)
	(4)	(308)	(895)	(863)

First National AlarmCap Income Fund

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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[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	25	20
General and administrative expenses	358	370
<hr/>		
Balance Sheets :		
Accounts receivable	39	39
Subscriber accounts	81	70
Advance	71	71
Accounts payable	61	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

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

18. FINANCIAL INSTRUMENTS [Cont'd]

(a) Fair value

The carrying amounts of the 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 June 30, 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 June 30, 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

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[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

First National AlarmCap Income Fund

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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

19. CAPITAL MANAGEMENT [Cont'd]

threshold at the end of September 30, 2007 and remained below 2.50:1 until the end of the second quarter of 2008. As at June 30, 2008, this ratio was 2.29:1.

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
	\$	\$	\$	\$	\$	\$
	June 30, 2008	June 30, 2008	June 30, 2008	June 30, 2007	June 30, 2007	June 30, 2007
	3 months	3 months	3 months	3 months	3 months	3 months
Revenues						
Monitoring and services	6,094	1,164	7,258	6,153	1,150	7,303
Installation	583	-	583	598	-	598
	6,677	1,164	7,841	6,751	1,150	7,901
Expenses						
Monitoring and customer service	1,407	236	1,643	1,500	239	1,739
Installation, sales and marketing	567	-	567	558	-	558
	1,974	236	2,210	2,058	239	2,297
Income before general and administrative expenses and other items	4,703	928	5,631	4,693	911	5,604

First National AlarmCap Income Fund

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

20. SEGMENTED INFORMATION [Cont'd]

	Microtec	Securex	Total	Microtec	Securex	Total
	\$	\$	\$	\$	\$	\$
	June 30, 2008	June 30, 2008	June 30, 2008	June 30, 2007	June 30, 2007	June 30, 2007
	6 months	6 months	6 months	6 months	6 months	6 months
Revenues						
Monitoring and services	12,134	2,289	14,423	12,366	2,337	14,703
Installation	1,019	-	1,019	1,190	-	1,190
	<u>13,153</u>	<u>2,289</u>	<u>15,442</u>	<u>13,556</u>	<u>2,337</u>	<u>15,893</u>
Expenses						
Monitoring and customer service	2,883	470	3,353	2,945	482	3,427
Installation, sales and marketing	1,009	-	1,009	1,134	-	1,134
	<u>3,892</u>	<u>470</u>	<u>4,362</u>	<u>4,079</u>	<u>482</u>	<u>4,561</u>
Income before general and administrative expenses and other items	9,261	1,819	11,080	9,477	1,855	11,332

Depreciation of property, plant and equipment amounted to \$97,000 as at June 30, 2008 [\$93,000 for the second quarter 2007] for the Fund's Microtec division and \$2,000 as at June 30, 2008 [\$3,000 for the second quarter 2007] for its Securex division.

Amortization of subscriber accounts amounted to \$1,769,000 for the second quarter of 2008 [\$1,795,000 for 2007] for the Fund's Microtec division and \$260,000 for the second quarter of 2008 [\$266,000 in 2007] for its Securex division.

Amortization of deferred subscription revenues amounted to \$21,000 for the second quarter of 2008 [\$16,000 for 2007] for the Fund's Microtec division and none for its Securex division.

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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:

	June 30, 2008
	\$
2009	508
2010	451
2011	428
2012	399
2013	326
2014 and thereafter	25

22. CONTINGENCIES

a) On March 25, 2008, the Fund received a formal notice in relation to the change in the governance structure. 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 the information currently available, management believes that the outcome of these lawsuits will not have a significant impact on the Fund.

23. COMPARATIVE FIGURES

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