



***FIRST NATIONAL ALARMCAP INCOME FUND***

**QUARTERLY REPORT**

**2<sup>nd</sup> Quarter**

**For the Quarter Ended  
June 30, 2006**



## Message to Unitholders

The financial highlights for the second quarter ended June 30, 2006 are as follows:

- Total revenues reached \$8.2M, a decrease of \$0.1M compared to the same period last year. The 48.6% increase of \$0.3M in installation revenues was not enough to compensate for a 5.1% or \$0.4M decrease in monitoring and service revenues.
- Operating expenses amounted to \$4.2M or 51.1% of total revenues compared to \$3.9M or 46.3% for the same quarter last year. The 60.5% increase in installation, sales and marketing expenses combined with a 6.3% increase in general and administrative expenses more than offset a decrease of 3.2% in monitoring and customer service expenses.
- The second quarter EBITDA decreased by \$0.5M or 9.0% to \$4.0M compared to the same period last year. This unfavourable trend is explained by lower total revenues combined with higher operating costs.
- Distributable cash totalled \$1.2M, a drop of \$0.9M or 42% compared to the second quarter last year as a result of lower EBITDA combined with higher interest paid, capital expenditures and subscriber replacement costs.

These second quarter financial results are obviously not in line with our growth and profitability objectives. Despite lower results than expected, we continued to concentrate on improving efficiency and reshaping our operations to meet our long term financial objectives. The main accomplishments during the quarter are described below:

- The Montreal sales and technical service have been consolidated from two different locations to a single integrated office to better service our customers while reducing costs;
- A first affinity program since the creation of the Fund has been signed with a major Quebec retailer who is the third largest employer in Quebec; we will start marketing our products and services to this retailer's various franchisees and employees in the third quarter;
- The ramp-up of the new residential sales division has accelerated; this effort has increased costs during the quarter but will help us to increase future sales;
- The new Microtec brand with new alarm window stickers, vehicle lettering, uniforms, signage and promotional items has been rolled-out;
- Microtec has become a Honeywell master dealer for a complete line of closed circuit TV (CCTV);
- Account representatives have begun an attrition-reduction drive through a door-to-door customer contact program.

The Fund continues to execute on its strategy of putting in place the building blocks required to ensure future growth. In the next quarter, we will pursue our efforts to reduce customer churn by visiting as

many cancelling customers as possible while adding at least one new affinity channel partner that can deliver low cost leads. In addition, the new technology that we have implemented and the restructuring efforts that have been announced should reduce operating costs on a run-rate basis. We also expect to continue to unload unprofitable customers in non-desirable geographic locations and pursue our real estate rationalization plan. As part of a rigorous continuous improvement effort, the installation department will be restructured to update the skills of our subcontractors, increase service quality and reduce costs. Also, the third-quarter will see a rejuvenation of the third-party division (through which Microtec provides back-office white-label monitoring services to other alarm companies marketed under the AlarmCap brand). Finally, our whole communications infrastructure will be reviewed and refreshed to provide better customer service and reduce operating costs: installation of a new enterprise-wide digital and IP based phone system, renegotiation with our telecommunications suppliers to reduce voice and data communication expenses including the wide-area network infrastructure.

(signed)  
Adrien D. Pouliot  
Chairman of the Board

(signed)  
Leonard M. Sudermann  
President and Chief Executive Officer

Calgary, Alberta  
August 11, 2006

# FIRST NATIONAL ALARMCAP INCOME FUND

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Quarter Ended June 30, 2006

As at August 11, 2006

### Introduction

This management 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 unaudited consolidated financial statements and accompanying notes of the Fund for the period ended June 30, 2006 and with the audited financial statements and accompanying notes of the Fund for the 9-month period ended December 31, 2005. 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").

Since the Fund commenced active operations on April 1, 2005, the following MD&A will compare the operating results of the Fund for the three-month period ended June 30, 2006 with the three-month period ended June 30, 2005 only.

### 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<sup>st</sup>, 2005. The Fund was created to acquire substantially all of the assets and shares of Microtec Enterprises Inc. ("Microtec") and substantially all of the assets of Securex Master Limited Partnership ("Securex"). Microtec, founded in 1989 in Quebec City, Quebec, is one of the largest full-service security alarm monitoring companies in Canada with some 87,000 subscribers as at June 30, 2006. Securex, 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 16,000 subscribers.

The Fund's Class A trust units trade on the Toronto Stock Exchange under the symbol FNA.UN.

### Consolidation of Units

The Class A trust units and the Class B trust units were consolidated on a 4-to-1 basis effective on December 16, 2005 and consequently, all references to numbers of units in this MD&A refer to the numbers of units after such consolidation.

### Forward-Looking Statements

This MD&A contains forward-looking statements. All statements other than statements of historical fact contained in this MD&A are forward-looking statements. Holders of units of the Fund ("Unitholders") can identify many of these statements by looking for words such as "believe", "expects", "will", "intends", "projects", "anticipates", "estimates", "would", "could", "likely", "plans", "forecasts", "continues" or similar words or the negative thereof. There can be no assurance that the plans, intentions or expectations on which these forward-looking statements are based will occur. Forward-looking statements are subject to risks, uncertainties and assumptions, including those discussed elsewhere in this MD&A. Although the Fund, First National AlarmCap Trust (the "Trust"), First National AlarmCap LP ("AlarmCap LP") and First National AlarmCap GP Inc. ("AlarmCap GP" and, together with AlarmCap LP, the "AlarmCap Group") believe that the expectations represented in these forward-looking statements are reasonable, there can be no assurance that those expectations will prove to be correct. Risks which could affect future results and could cause results to differ materially from those expressed in the forward-looking statements contained herein can be found in the Section "Risk Factors".

The information contained in this MD&A identifies additional factors that could affect the operating results and performance of the Fund, the Trust, AlarmCap LP and AlarmCap GP. We urge you to carefully consider those factors.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this MD&A are made as of the date of this MD&A and none

of the Fund, the Trust, AlarmCap LP or AlarmCap GP undertake any obligation to publicly update or revise such forward-looking statements to reflect new information, subsequent events, results, circumstances or otherwise.

## Supplemental Disclosure

Reference to “EBITDA” in this document is to earnings before interest, taxes, depreciation and amortization. EBITDA is not a defined term under Canadian GAAP but the Fund believes that presentation of EBITDA enhances an understanding of financial condition, results of operations and cash flows because EBITDA is used by the Fund to satisfy its debt service obligations, its capital expenditures and other operational needs, as well as to provide funds for customer account growth. In addition, EBITDA is used by lenders and the investment community to determine the current borrowing capacity and to estimate the long-term value of companies with recurring cash flows from operations.

Distributable Cash is not a defined term under Canadian GAAP but is determined by the Fund as EBITDA less subscriber replacement costs, interest on debt and sustaining capital expenditures. Management believes that Distributable Cash is a useful measure of performance as it provides investors with an indication of the amount of cash available for distribution to Unitholders. Investors are cautioned, however, that Distributable Cash should not be construed as an alternate to using net earnings as a measure of profitability or the statement of cash flows. Furthermore, the Fund’s method of calculating Distributable Cash may not be comparable to other similarly named calculations.

## Financial Highlights (for the first 5 quarters of operation)

The following table presents selected financial information regarding the financial results of the Fund for the last five quarters of operation. More detailed 2005 financial information is contained in the audited consolidated financial statements and accompanying notes of the Fund for the period ended December 31, 2005. For 2006, additional information is contained in the unaudited consolidated financial statements and accompanying notes of the Fund for the period ended June 30, 2006.

(in thousand of dollars, except amounts per Unit)

|                                                   | Q2-2006 | Q1-2006 | Total<br>6 months<br>2006 | Q4-2005 | Q3-2005 | Q2-2005 | Total<br>9 months<br>2005 |
|---------------------------------------------------|---------|---------|---------------------------|---------|---------|---------|---------------------------|
|                                                   |         | \$      |                           | \$      | \$      | \$      | \$                        |
| <b>Monitoring revenues</b>                        | 7,370   | 7,453   | 14,823                    | 7,663   | 7,798   | 7,764   | 23,225                    |
| <b>Installation revenues</b>                      | 859     | 546     | 1,405                     | 507     | 532     | 578     | 1,617                     |
| <b>Total revenues</b>                             | 8,229   | 7,999   | 16,228                    | 8,170   | 8,330   | 8,342   | 24,842                    |
| <b>Monitoring expenses</b>                        | 713     | 715     | 1,428                     | 777     | 844     | 822     | 2,443                     |
| <b>Customer service expenses</b>                  | 1,087   | 1,050   | 2,137                     | 1,054   | 1,114   | 1,038   | 3,206                     |
| <b>Installation, sales and marketing expenses</b> | 825     | 557     | 1,382                     | 573     | 479     | 514     | 1,566                     |
| <b>Gross margin</b>                               | 5,604   | 5,677   | 11,281                    | 5,766   | 5,893   | 5,968   | 17,627                    |
| <b>EBITDA</b>                                     | 4,018   | 4,149   | 8,167                     | 4,332   | 4,417   | 4,476   | 13,225                    |
| <b>Net income</b>                                 | 929     | 1,226   | 2,155                     | 2,304   | 785     | 1,056   | 4,145                     |
| <b>Distributable cash flow</b>                    | 1,234   | 1,750   | 2,984                     | 1,909   | 1,583   | 2,132   | 5,624                     |
| <b>Distributed cash flow</b>                      | 2,056   | 1,924   | 3,980                     | 1,917   | 1,933   | 1,975   | 5,825                     |
| <b>Cash flow from operating activities</b>        | 3,289   | 3,476   | 6,765                     | 2,802   | 2,658   | 3,725   | 9,185                     |
| <b>Earnings per Unit</b>                          | 0.147   | 0.194   | 0.341                     | 0.368   | 0.126   | 0.185   | 0.683                     |
| <b>Distributions per Class A Unit</b>             | 0.325   | 0.325   | 0.650                     | 0.328   | 0.331   | 0.381   | 1.040                     |
| <b>Distributions per Class B Unit</b>             | 0.325   | 0.250   | 0.575                     | 0.252   | 0.252   | 0.249   | 0.753                     |
| <b>Total assets</b>                               | 115,196 | 115,027 | 115,196                   | 115,309 | 114,894 | 116,692 | 115,309                   |
| <b>Total long-term debt</b>                       | 50,000  | 48,500  | 50,000                    | 48,500  | 48,405  | 48,399  | 48,500                    |
| <b>Unitholders' equity</b>                        | 55,702  | 56,762  | 55,702                    | 56,777  | 56,376  | 57,524  | 56,777                    |

## Consolidated Statement of Income

### Revenues

#### *Monitoring and Services*

AlarmCap LP's revenues consist primarily of recurring payments under written contracts initially entered into for a long term with automatic yearly renewals after the initial term 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 \$7,370,000 for the second quarter of 2006 versus \$7,764,000 for the same quarter of 2005. Of the total monitoring and service revenues, \$7,082,000, or 96.1%, came from monitoring revenues and the balance of \$ 288,000 from service revenues for the second quarter of 2006 compared to \$7,430,000 and \$334,000 respectively for the same period last year. The decrease in monitoring and service revenues is explained by lower revenues in service calls, penalty revenues and higher attrition than recruitment. At the end of the quarter, the Fund had 103,096 subscribers compared to 109,733 at the end of the same period last year. Therefore, total RMR decreased from 2,381,000 to 2,323,000 during that twelve-month period.

#### *Installation*

Installation revenues for the second quarter ended June 30, 2006 were \$859,000 compared to \$578,000 in the second quarter of 2005. These installation revenues were generated mainly from activation fees and equipment sold to new customers. This 48.7% revenue increase is mainly attributable to the fact that the AlarmCap Group completed a major commercial alarm installation during the second quarter of 2006.

### 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 period, total operating expenses amounted to \$4,211,000 or 51.2% of total revenues compared with \$3,866,000 or 46.3% for the same period last year.

#### *Monitoring and Customer Service*

In the second quarter of 2006, the monitoring and customer service expenses amounted to \$1,800,000 or 21.9% of total revenue compared to \$1,860,000 or 22.3% for the second quarter of 2005. This decrease came partly from the previously announced restructuring of our monitoring stations in 2005. As a result of various cost-reduction and efficiency-improvement initiatives that are now starting to pay off, the cost of operating our monitoring stations decreased from \$822,000 to \$713,000 in the second quarter of 2006 compared to the second quarter of 2005. This decrease more than offset the cost increase in the customer service department from \$1,038,000 to \$1,087,000. This \$49,000 customer service department increase is mainly attributable to higher payments to associated dealers as a result of the new associated-dealer program implemented last year and intended to attract

and retain the best dealers as well as the addition of three new associated dealers. As part of its previously-announced strategy to leverage its associated dealer network in non-strategic, less-desirable and less-concentrated geographic locations, some of the Fund's lower margin customers were transferred to associated dealers, therefore unloading the customer service and attrition responsibility to these dealers. In addition, the Fund's internal monitoring and customer service expenses decreased between the two periods as a result of the previously announced restructuring.

### *Installation, Sales and Marketing Expenses*

Installation, sales and marketing expenses totalled \$825,000 in the second quarter of 2006 compared to \$514,000 in the second quarter of 2005. This 60.5% increase is directly related to the increase of installation revenues.

### *Gross Margin*

Gross margin was \$5,604,000 for the second quarter of 2006, or 68.1% of total revenues, lower than the same quarter last year which was at \$5,968,000, or 71.5%, following the decrease in monitoring and service revenues.

### *General and Administrative Expenses*

General and administrative expenses were \$1,586,000, or 19.3% of total revenues at the end of the second quarter of 2006, higher than the \$1,492,000, or 17.9%, during the same period last year. These higher costs mainly came from the remuneration paid to the Executive Chairman of the Board and the President and Chief Executive Officer who were not remunerated by the AlarmCap Group in 2005 and the \$67,000 provision taken for the Phantom Units Plan approved by the unitholders at the Annual and General Meeting of Unitholders relating to the first two quarters of 2006 .

### EBITDA

For the second quarter ended June 30, 2006, EBITDA reached \$4,018,000, or 48.8% of total revenues, as compared to \$4,476,000, or 53.7% in the similar period last year

### Amortization of Subscriber Accounts, Property and Equipment

For the second quarter ended June 30, 2006, total amortization expenses were \$2,334,000, an amount which includes \$139,000 of amortization of deferred financing costs presented in the interest on debt section. Amortization of the subscriber accounts was lower by \$393,000 than the second quarter ended June 30, 2005 as a result of a valuation of the asset purchase price allocation and assets purchased that was completed after the end of the 2005 year and presented in the audited consolidated financial statements for 2005. Subsequent to the valuation, amortization of the Microtec subscriber accounts is now calculated at a 12% declining-balance rate and amortization of the Securex subscriber accounts is now calculated at a 10% declining-balance rate.

### Interest Expense and Amortization of Long-Term Assets

For the second quarter ended June 30, 2006, the interest expense of \$755,000 (net of \$139,000 of amortization of deferred financing expenses) was higher than the interest expense of \$693,000 during the second quarter of 2005. This increase is due to the private placement of a principal amount of \$5,000,000 Series A 9% secured subordinated debentures of the Fund. The net proceeds of the issue of these debentures, which mature in April 2011, was used to reimburse indebtedness owed to Securex Master Limited Partnership in an amount of \$3,500,000 and for general corporate purposes.

### Net Income

Net income for the quarter reached \$929,000 or \$0.147 per unit compared to \$1,056,000 or \$0.185 per unit in the corresponding period in 2005.

## Subscriber Growth and Retention

AlarmCap Group's recurring monthly revenues (RMR) attrition rate for the second quarter of 2006 remained stable at 12.1% compared to the same period last year and represents an improvement of 0.5% over the 12.6% reached during the first quarter. This percentage remains above management's target of 10%. As at the end of the second quarter of 2006, total RMR amounted to \$2,383,000, which represents a decline of \$9,450 compared to the end of the first quarter of 2006.

The RMR attrition rate represents the gross RMR lost as a result of cancellations, reduced by cancellation guarantees, as a percentage of the total recurring revenues during the period.

## Liquidity and Capital Resources

As at June 30, 2006, the Fund had cash and cash equivalents of \$656,000, a decrease of \$2,622,000 compared to June 30, 2005. This decrease is mainly explained by the fact that the distributable cash was lower than the distributed cash.

Total assets as at June 30, 2006 remained stable at \$115,196,000 compared to the same period last year.

Total liabilities of \$59,494,000, not materially different than those of the corresponding date last year, were primarily comprised of the long-term debt amounting to \$50,000,000 of which \$45,000,000 arose from the Bank Credit Agreement and \$5,000,000 from a private placement of Series A 9% secured subordinated debentures maturing in April 2011.

Unitholders' equity as at June 30, 2006 was \$55,702,000 compared to \$57,524,000 as at June 30, 2005.

For the quarter ended June 30, 2006, cash flow from operating activities totalled \$3,289,000, lower than the \$3,725,000 reached during the same period last year. This difference is mostly related to an increase in expenses.

Investing activities reached \$2,622,000 in the second quarter of 2006 compared to \$75,809,000 in the second quarter of 2005. This difference is mainly due to the Microtec and Securex business acquisition in 2005 and, to a lesser degree, the \$412,000 capital expenditures during the second quarter of 2006 related to the consolidation of the customer service centre in Montreal.

Financing activities amounted to \$758,000 in the second quarter of 2006 compared to \$75,362,000 for the same period last year. In 2005, the Fund issued \$88,400,000 of long-term debt and trust units to finance the Microtec and Securex business acquisitions. In 2006, the Fund issued \$5,000,000 of Series A 9% secured subordinated debentures, the net proceeds of which was used to reimburse \$3,500,000 principal amount of debentures owed to Securex Master Limited Partnership and a \$202,000 demand note owed to the same creditor. Furthermore, in the second quarter of 2006, the Fund increased the distributions to the Class B unitholders from \$146,000 to \$190,000 per month.

## Cash Available for Distributions and Distributions

(in thousands of dollars, except amounts per Unit)

|                                                  | Q2-2006      | Q1-2006      | Total<br>6 months<br>2006 | Q4-2005      | Q3-2005      | Q2-2005      | Total<br>9 months<br>2005 |
|--------------------------------------------------|--------------|--------------|---------------------------|--------------|--------------|--------------|---------------------------|
|                                                  |              |              |                           | \$           | \$           | \$           | \$                        |
| <b>EBITDA</b>                                    | <b>4,018</b> | <b>4,149</b> | <b>8,167</b>              | <b>4,332</b> | <b>4,417</b> | <b>4,476</b> | <b>13,225</b>             |
| <b>Non-Cash adjustment ( Phantom Unit Plan )</b> | <b>67</b>    | <b>-</b>     | <b>67</b>                 | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>-</b>                  |
| <b>Adjusted EBITDA</b>                           | <b>4,085</b> | <b>4,149</b> | <b>8,234</b>              | <b>4,332</b> | <b>4,417</b> | <b>4,476</b> | <b>13,225</b>             |
| Less:                                            |              |              |                           |              |              |              |                           |
| Interest on debt                                 | (754)        | (719)        | (1,473)                   | (732)        | (739)        | (693)        | (2,164)                   |
| Sustaining capital expenditures                  | (200)        | -            | (200)                     | 162          | (142)        | (20)         | -                         |
| Subscriber replacement costs                     | (1,897)      | (1,680)      | (3,577)                   | (1,853)      | (1,953)      | (1,631)      | (5,437)                   |

## Cash Available for Distributions and Distributions (con't)

(in thousands of dollars, except amounts per Unit)

|                                                                     | Q2-2006      | Q1-2006      | Total<br>6 months<br>2006 | Q4-2005      | Q3-2005      | Q2-2005      | Total<br>9 months<br>2005 |
|---------------------------------------------------------------------|--------------|--------------|---------------------------|--------------|--------------|--------------|---------------------------|
|                                                                     |              |              |                           | \$           | \$           | \$           | \$                        |
| <b>Cash available for distributions</b>                             | <b>1,234</b> | <b>1,750</b> | <b>2,984</b>              | <b>1,909</b> | <b>1,583</b> | <b>2,132</b> | <b>5,624</b>              |
| Cash available for distributions per Unit                           | 0.195        | 0.277        | 0.472                     | 0.305        | 0.253        | 0.374        | 0.926                     |
| <b>Distributions declared</b>                                       | <b>2,056</b> | <b>1,924</b> | <b>3,980</b>              | <b>1,917</b> | <b>1,933</b> | <b>1,975</b> | <b>5,825</b>              |
| Distributions declared per Unit                                     | 0.325        | 0.305        | 0.629                     | 0.307        | 0.309        | 0.346        | 0.959                     |
| Weighted average units outstanding during the period (in thousands) | 6,324        | 6,324        | 6,324                     | 6,254        | 6,254        | 5,703        | 6,072                     |

Subscriber replacement costs represent management's estimates of the costs to acquire new subscribers to replace subscribers lost through attrition. This estimate is based on the actual investment in subscriber account for the period adjusted based on the expected cost to replace any RMR shortfall that occurred during the period. Subscriber replacement costs are necessary to maintain the Fund's RMR and Distributable Cash at current levels. To maintain RMR, the Fund replaces 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 through price increases and the sale of new value-added services to its existing subscriber base.

During the second quarter of 2006, cash available for distributions was lower than the distributions declared by \$822,000. This is mainly due to the actual 2006 attrition rate which was 12.1% compared to the 10% targeted attrition rate expected by management. This increased the subscriber replacement cost by \$266,000. The AlarmCap Group continues to strive to bring down the attrition rate to 10% by focusing on customer service in the restructured customer service departments and with new customer retention programs and strategies. In addition recruitment costs were higher than expected as a result of the start-up and development of the internal sales force in the first and second quarter.

## Distributions Declared

During the 6-month period ended June 30, 2006, the Fund declared the following cash distributions:

### Class A Trust Units:

| Period        | Record Date       | Payment Date      | Distribution<br>per Unit | Total<br>\$      |
|---------------|-------------------|-------------------|--------------------------|------------------|
| January 2006  | January 31, 2006  | February 28, 2006 | 0.10833                  | 495,560          |
| February 2006 | February 28, 2006 | March 31, 2006    | 0.10833                  | 495,560          |
| March 2006    | March 31, 2006    | April 30, 2006    | 0.10833                  | 495,560          |
| April 2006    | April 30, 2006    | May 31, 2006      | 0.10833                  | 495,560          |
| May 2006      | May 31, 2006      | June 30, 2006     | 0.10833                  | 495,560          |
| June 2006     | June 30, 2006     | July 31, 2006     | 0.10833                  | 495,560          |
|               |                   |                   | <u>0.64998</u>           | <u>2,973,360</u> |

### Class B Trust Units:

| Period                                        | Record Date       | Payment Date      | Distribution<br>per Unit | Total<br>\$      |
|-----------------------------------------------|-------------------|-------------------|--------------------------|------------------|
| January 2006                                  | January 31, 2006  | February 28, 2006 | 0.08333                  | 145,833          |
| February 2006                                 | February 28, 2006 | March 31, 2006    | 0.08333                  | 145,833          |
| March 2006                                    | March 31, 2006    | April 30, 2006    | 0.08333                  | 145,833          |
| April 2006                                    | April 30, 2006    | May 31, 2006      | 0.10833                  | 189,583          |
| May 2006                                      | May 31, 2006      | June 30, 2006     | 0.10833                  | 189,583          |
| June 2006                                     | June 30, 2006     | July 31, 2006     | 0.10833                  | 189,583          |
|                                               |                   |                   | <u>0.57498</u>           | <u>1,006,248</u> |
| <b>Total distribution as at June 30, 2006</b> |                   |                   |                          | <b>3,979,608</b> |

## Contractual Obligations

(in thousands of dollars)

|                               | June 30,<br>2006<br>(unaudited)<br>\$ | December 31,<br>2005<br>(audited)<br>\$ |
|-------------------------------|---------------------------------------|-----------------------------------------|
| Bank term loan <sup>(a)</sup> | 45,000                                | 45,000                                  |
| Term note <sup>(b)</sup>      | 5,000                                 | 3,500                                   |
|                               | 50,000                                | 48,500                                  |

- (a) The bank term loan has a maximum authorized amount of \$45,000,000, matures on March 2008 and bears interest at rates varying from 0.50% to 1.00% above the prime rate and from 1.75% to 2.25% above the bankers' acceptances depending on financial ratios calculated on a monthly basis. These interest rates do not factor in the hedging of derivative financial instruments.

The interest expense in the income statement is accounted for at the loan's effective rate of 5.50% which factors in the hedging of financial instruments.

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

The Credit Agreement contains certain covenants. In addition, the Fund is committed to maintaining certain financial ratios. As at June 30, 2006, the Fund didn't meet all financial ratios. The Fund has asked for and has obtained all necessary waivers from the bank. The Fund is presently in discussion with the bank, along with its annual negotiation process, regarding a revision of these financial covenants for the next 12 months.

- (b) In April 2006, the Fund completed a private placement of \$5,000,000 principal amount of Series A 9% secured subordinated debentures of the Fund. The debentures mature in April 2011.

## Financial Instruments

In accordance with its risk management strategy, the Fund uses derivative financial instruments to manage interest rate exposures. Derivative financial instruments consist mainly of interest-rate swap agreements. The Fund does not use derivative financial instruments for trading or speculative purposes.

The Fund enters into interest-rate swap agreements to reduce the impact of fluctuating interest rates on financial commitments.

These swaps are accounted for using the accrual method. Under this method, unrealized gains or losses are not recognized and net payments due or receivable on the derivative financial instruments are accrued as an adjustment to interest expense in the consolidated statement of income.

As at June 30, 2006, the interest-rate swap agreements were detailed as follows:

(in thousands of dollars)

| Purpose    | Fixed rate payable                                                                                         | Floating rate receivable       | Notional | Maturity   |
|------------|------------------------------------------------------------------------------------------------------------|--------------------------------|----------|------------|
| Debt hedge | 4.82% until April 2006<br>5.50% May 2006–April 2007<br>6.00% May 2007–March 2008<br>(effective rate 5.50%) | Bankers' acceptances<br>+2.25% | \$45,000 | March 2008 |

## Subsequent Events

On April 30, 2006, the holders of the Class A trust units having received distributions from the Fund equal to \$0.325 per Class A trust unit per quarter for a period of four consecutive quarters, the distribution priority in favour of the holders of the Class A trust units over the holders of the Class B trust units terminated. Consequently, the holders of the Class B trust units now have the right to exchange their Class B trust units for Class A trust units on the basis of one (1) Class A trust unit for each Class B trust unit.

The Credit Agreement contains certain covenants. In addition, the Fund is committed to maintaining certain financial ratios. As at June 30, 2006, certain financial ratios were not being met. The Fund has asked for and has obtained all necessary waivers from the bank. The Fund is presently in discussion with the bank, along with its annual negotiation process, regarding a revision of these financial covenants for the next 12 months.

### Off-Balance Sheet Arrangements

The Fund's off-balance sheet arrangements consist of operating leases. Operating leases are for facilities with market terms and do not have associated escalating rents that materially impact the financial statements.

### Related Party Transaction

During the period, the Fund entered into transactions with companies controlled by Unitholders who are also officers of the AlarmCap Group. 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 financial statements as follows:

| (in thousands of dollars)                                           | Q2-2006 |
|---------------------------------------------------------------------|---------|
| Monitoring and customer service expenses                            | \$201   |
| Interest on debt including amortization of deferred financing costs | \$ 10   |
| Accounts receivable                                                 | \$201   |

A demand note amounting to \$202,000 and a debenture in the amount of \$3.5M were paid during the quarter to an entity controlled by an officer of the AlarmCap Group.

### 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 certain priorities of Distributable Cash flow and 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. The holders of Class A trust units had until April 30, 2006 priority over the holders of Class B trust units of the Fund to Distributable Cash payable in respect of each Unit which exceeded \$0.07916 per Unit but was less than \$0.10834 per Unit (the "Distribution Priority"). The Distribution Priority was to remain in effect until such time as the holders of the Class A trust units had received aggregate distributions (which included all forms of distributions other than the described below) paid by the Fund to the holders of the Class A trust units over a fiscal quarter which are equal to \$0.325 per Fund Unit for a period of four (4) consecutive fiscal quarters (the "Distribution Priority Termination Event"). Upon the occurrence of the Distribution Priority Termination Event, the holders of Class B trust units of the Fund have, at the option of each holder of Class B trust units of the Fund, the right to exchange their Class B trust units for Class A trust units on the basis of one (1) Class A trust unit for one (1) Class B trust unit of the Fund. On April 30, 2006, the holders of the Class A trust units having received distributions from the Fund equal to \$0.325 per Class A trust unit per quarter for a period of four consecutive quarters, a Distribution Priority Termination Event occurred and the Distribution Priority in favour of the holders of the Class A trust units over the holders of the Class B trust units terminated. Consequently, the holders of the Class B trust units now have the right to exchange their Class B trust units for Class A trust units on the basis of one (1) Class A trust unit for each Class B trust unit.

As at June 30, 2006, 4,574,401 Class A trust units and 1,750,000 Class B trust units were outstanding.

## **Fund's Phantom Unit Plan**

### *Phantom Unit Plan*

The officers and key employees of AlarmCap and the trustees of the Trust and the Fund are eligible to participate in the Fund's Phantom Unit Plan ("Plan"). The purpose of the Plan is to provide eligible participants with compensation opportunities that will enhance the Fund's and AlarmCap's ability to attract, retain and motivate key trustees, directors and personnel and reward the Plan participants for above-average long-term performance and associated growth in distributable cash flow and to align the interests of the participants with those of the Unitholders.

The Plan provides that eligible employees and trustees may receive awards of phantom units under the Plan. The maximum number of phantom units which may be issued pursuant to this plan is equal to 10% of the number of units outstanding at any time. The Phantom Units vest if they meet certain vesting conditions, including 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.

As at June 30, 2006, 164,167 Phantom Units had been awarded.

An amount of \$67,000 representing the compensation expense of the Phantom Units for the first two quarters has been expensed in the results of the second quarter and a corresponding amount has been credited to contributed surplus.

## **Accounting Policies**

Since the Fund began its activities in 2005, all adopted accounting policies are disclosed in the December 2005 audited consolidated financial statements except as disclosed below.

### *Initial Adoption of Accounting Policies*

Under CICA handbook Section 3870, Stock-Based Compensation, the Fund used the fair value method to account for awards of phantom units. Under this method, the fair value of unit-based awards, as at the date of the award, is recognized as compensation expense over the applicable vesting period with a corresponding increase in contributed surplus. Upon vesting, the amount initially recorded in contributed surplus is recorded to unitholders' contributions.

## **Use of Estimates**

The Fund's financial statements have been prepared by management in accordance with Canadian GAAP. In preparing the financial statements of the Fund, management is required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. In management's opinion, the financial statements have been properly prepared using careful judgment within the reasonable limits of materiality and within the framework of the accounting policies summarized below.

### Property, Plant and Equipment

Property, plant and equipment are recorded at cost and depreciated over their estimated useful lives.

### 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 net of revenues from the initial subscription. 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 method and rates below:

|                              | Method            | Rate |
|------------------------------|-------------------|------|
| Microtec subscriber accounts | Declining balance | 12%  |
| Securex subscriber accounts  | Declining balance | 10%  |

### Goodwill

Goodwill represents the difference between the purchase price, including acquisition costs, of businesses acquired and the fair value of the identifiable net assets acquired. Goodwill is tested for impairment annually or more frequently if events or circumstances indicate that the asset might be impaired. If the carrying value of a reporting unit, including the allocated goodwill, exceeds its fair value, 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 assets and liabilities of the reporting unit.

### Depreciation 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.

### **Disclosure Controls and Procedures**

As defined in Multilateral Instrument 52-109, disclosure controls and procedures means controls and other procedures designed to provide reasonable assurance that the material financial and non-financial information required to be disclosed is recorded, processed, summarized and reported to management and disclosed on a timely basis in accordance with securities legislation.

The Fund has designed and evaluated the effectiveness of its disclosure controls and procedures, as defined, and concluded that they were effective as of the end of the period covered by this report.

### **Risks and Uncertainties**

The following are certain factors relating to the business of the Fund which the Unitholders or potential Unitholders should carefully consider. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this MD&A. These risks and uncertainties are not the only ones facing AlarmCap Group and the Fund. Additional risks and uncertainties not presently known to AlarmCap Group or the Fund, or that AlarmCap Group or the Fund currently deems immaterial, may also impair the operations of AlarmCap Group or the Fund. If any such risks actually occur, the business, financial condition, or liquidity and results of operations of AlarmCap Group could be materially adversely affected and the ability of the Fund to make distributions on the Units could be adversely affected.

### **Risks Related to Business of AlarmCap Group**

#### *Ability to Maintain Profitability and Manage Growth*

There can be no assurances that AlarmCap Group's business and growth strategy will enable AlarmCap Group to achieve or sustain profitability in the future. The AlarmCap Group's future operating results will depend on a number of factors, including (i) the efficiency and effectiveness of the AlarmCap Group's marketing programs, (ii) the AlarmCap Group's ability to continuously improve its service to achieve new and enhanced customer benefits, better quality service and reduced costs, (iii) the AlarmCap Group's ability to successfully identify and respond to emerging trends in the security industry, (iv) the level of competition in the security industry and (v) the ability to manage attrition level.

There can be no assurance that the AlarmCap Group will be able to effectively manage its growth, and any failure to do so could have a material adverse effect on the AlarmCap Group's business, financial condition, liquidity and results of operations.

### *Competition*

The security industry is highly competitive and highly fragmented. The AlarmCap Group competes with larger companies, as well as smaller regional and local companies, in all of its operations. Furthermore, new competitors are continuing to enter the security industry and the AlarmCap Group may encounter additional competition from such future industry new comers. Certain of the AlarmCap Group's current competitors have, and new competitors may have, greater financial resources than the AlarmCap Group. In addition, other security services companies have adopted a strategy similar to the AlarmCap Group's that entails the aggressive purchase of security monitoring accounts through acquisitions of portfolios of subscriber accounts. Some of these companies may be willing to offer higher prices than the AlarmCap Group is prepared to offer to purchase security subscriber accounts. The effect of such competition may be to reduce the volume of sales and the purchase opportunities available to the AlarmCap Group, thus increasing the price paid by the AlarmCap Group for security subscriber accounts, which would adversely affect the AlarmCap Group's cash distributions and its results of operations.

### *Securex Asset Purchase Agreement*

The Securex Asset Purchase Agreement contained certain customary representations and warranties and related indemnities. The representations and warranties are to survive the closing of the transaction contemplated by the Securex Asset Purchase Agreement for a period of three years. There can be no assurances of recovery by the Alarm Group from Securex for breaches of such representations and warranties, given that there can be no assurance that the assets or financial resources of Securex will be sufficient to satisfy such obligations.

### *Expansion*

The success of the AlarmCap Group's planned expansion will depend upon many factors, including the ability of the AlarmCap Group to access capital, find suitable acquisition candidates, maintain acceptable Alarm Account creation costs and attrition rates and control of operating costs. There can be no assurance that the AlarmCap Group will be able to grow or achieve its planned expansion. Such risks, if they materialize, could have a material adverse effect on the AlarmCap Group's business, financial condition, liquidity and results of operations.

### *Industry Risk and Economic Sensitivity*

The AlarmCap Group's business is impacted by the health of the economy in the regional markets in which the AlarmCap Group operates and as such the AlarmCap Group's financial results are sensitive to consumer confidence and the level of unemployment, among other factors. Although the AlarmCap Group cannot specifically correlate the impact of macro-economic conditions on its sales activities, the AlarmCap Group believes that a decline in economic conditions in Canada or in any of the regions in which the AlarmCap Group operates may result in decreased demand for the products/services that it sells and, to the extent that this decline continues or increases in severity, the AlarmCap Group's business, financial condition, liquidity and results of operations could be materially adversely affected.

### *Dependence on Key Personnel*

The Fund's success will be substantially dependent on the continued services of senior management of the AlarmCap Group. The loss of the services of one or more key members of senior management of the AlarmCap Group could adversely affect the AlarmCap Group's financial results. In addition the AlarmCap Group's continued growth depends on the ability of the AlarmCap Group to attract and retain skilled managers and employees and the ability of its personnel to manage the AlarmCap Group's growth. The inability to attract and retain key personnel could have an adverse effect on the AlarmCap Group's business, financial condition, liquidity and results of operations.

### *Dependence on Dealers*

The Fund's success will be substantially dependent on the Dealers of the AlarmCap Group. The loss of some key Dealers of the AlarmCap Group could adversely affect the AlarmCap Group's financial results. In addition the

AlarmCap Group's continued growth depends on the ability of the AlarmCap Group to attract and retain Dealers. The inability to attract and retain Dealers could have an adverse effect on the AlarmCap Group's business, financial condition, growth and results of operations.

### *Technological Risk*

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

### *Effectiveness and Efficiency of Advertising Expenditures*

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

### *Increase in Interest Rates*

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

### *Labour Relations*

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

### *Risk of Liability from Operations*

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

### *Possible Adverse Effect of "False Alarm" Ordinances*

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

A number of municipalities have considered or are considering adopting various measures aimed at reducing the number of false alarms. Such measures include: (i) subjecting monitoring companies to fines or penalties for transmitting false alarms, (ii) licensing individual security systems and the revocation of such licences following a specified number of false alarms, (iii) imposing fines on security subscribers for false alarms, (iv) imposing limitations on the number of times the police will respond to alarms at a particular respond. Enactment of such measures could adversely affect AlarmCap Group future business and operations.

## *Possible Adverse effect of Futures Government Regulations: Risks of Litigation*

AlarmCap Group's operations are subject to a variety of laws, regulations and licensing requirements of federal, provincial, municipal authorities and Underwriter's Laboratories of Canada. The loss of such licences, or the imposition of conditions to the granting or retention of such licences, could have a material adverse effect on AlarmCap Group. AlarmCap Group believes that it is in material compliance with applicable laws and regulations requirements.

AlarmCap Group's advertising and sales practices to a certain extent are regulated by consumer protection legislation. Such legislation includes restrictions on the manner in which AlarmCap Group may promote the sale of its security systems and the obligation of AlarmCap Group to provide purchasers of its security systems with certain rescission rights. While AlarmCap Group believes that it has complied with this legislation in all material respects, there can be no assurance that such legislation was violated in connection with the solicitation of AlarmCap Group existing subscriber Alarm Accounts, particularly with respect to accounts acquired from third parties, or that no such violation will occur in the future.

## *Insurance*

The AlarmCap Group maintains insurance coverage in respect of its potential liabilities, including theft, fire damage, accidental loss of value of its assets and personal injury, in amounts, with such insurers, and on such terms as it considers appropriate, taking into account all relevant factors. However, there are certain types of losses, generally of a catastrophic nature, such as earthquakes and floods, that may be uninsurable or not economically insurable. The AlarmCap Group will use its discretion in determining amounts, coverage limits and deductibility provisions of insurance, with a view to maintaining appropriate insurance coverage on the AlarmCap Group's assets and the business at a reasonable cost and on suitable terms. This may result in insurance coverage that, in the event of a substantial loss, would not be sufficient to pay the full current market value or current replacement cost of the AlarmCap Group's lost investment. Certain factors also might make it unattractive to use insurance proceeds to replace the property after such property has been damaged or destroyed. Under such circumstances, the insurance proceeds received by the AlarmCap Group might not be adequate to restore its economic position with respect to such property. There are no assurances that the AlarmCap Group's insurance coverage will continue to be available to it on reasonable terms, including reasonable premium, deductible and co-insurance requirements or that the AlarmCap Group's insurer will not disclaim coverage of any future claim. The AlarmCap Group's business, financial condition, liquidity and results of operations could be materially adversely affected if any of the foregoing developments were to occur.

## **Risks Related to the Structure of the Fund**

### *Dependence on Operations*

The Fund is an unincorporated open-ended, limited purpose trust which will be entirely dependent on the operations and the assets acquired from Microtec and Securex as a result of the Microtec Asset Closing and the Securex Asset Closing, respectively. Cash distributions to holders of Class A trust units will be dependent on, among other things, the ability of the Fund to make cash distributions in respect of the Class A trust units, which, in turn, is dependent on AlarmCap LP, the owner of the assets of Microtec and Securex, making cash distributions. In the conduct of its business, AlarmCap LP pays expenses and incurs debt and obligations to third parties. These expenses, debts and obligations could impact the ability of AlarmCap LP to produce positive operating results. The ability of AlarmCap LP or the Fund to make cash distributions or other payments or advances further is subject to applicable laws and regulations and contractual restrictions contained in the instruments governing any indebtedness of those entities.

### *Credit Facilities and Restrictive Covenants*

AlarmCap LP will have third party debt service obligations under the Credit Agreement. The degree to which AlarmCap LP is leveraged could have important consequences to the Unitholders or potential Unitholders, including: (i) a portion of the AlarmCap Group's cash flow from operations will be dedicated to the payment of the principal of and interest on the indebtedness, thereby reducing funds available for future operations and distribution to the Fund, (ii) AlarmCap Group's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited. AlarmCap LP's ability to make scheduled payments of principal and interest on, or to refinance, its indebtedness will depend on its future operating performance and cash flow, which

are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control. These factors might inhibit the AlarmCap Group from refinancing the indebtedness at all or on favourable terms, which could have a negative impact on the Fund's ability to make distributions on its Units.

### *Cash Distributions Are not Guaranteed and Will Fluctuate with the Business Performance*

Although the Fund intends to distribute the cash distributions received in respect of the Class A trust units, less expenses and amounts, if any, paid by the Fund in connection with the redemption of Class A trust units, there can be no assurance regarding the amounts of income to be generated by the AlarmCap Group's business or ultimately distributed to the Fund. The actual amount distributed in respect of the Units is not guaranteed and will depend upon numerous factors, including the AlarmCap Group's profitability, its ability to sustain EBITDA margins and the fluctuations in the AlarmCap Group's working capital and capital expenditures, all of which are susceptible to a number of risks.

### *Nature of Class A Trust Units*

Securities like the Class A trust units are hybrids in that they share certain attributes common to both equity securities and debt instruments. The Class A trust units do not represent a direct investment in the AlarmCap Group's business. Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The Class A trust units represent a fractional interest in the Fund. The price per Fund Unit is a function of anticipated distributable income.

The Class A trust units are not "deposits" within the meaning of the Canada Deposit Insurance Corporations Act (Canada) and are not insured under the provisions of that Act or any other legislation. Furthermore, the Fund is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

### *Distribution of Securities on Redemption or Termination of the Fund*

Upon redemption of Units or termination of the Fund, the Trustees may distribute the Exchange Notes (i.e., together, the Series 2 Exchange Notes and the Series 3 Exchange Notes issued from time to time in exchange for the Series 1 Notes, the Series 2 Notes and the Series 3 Notes of First National AlarmCap Trust issued pursuant to the note indenture made as of March 16, 2005, between such Trust, as Issuer, and CIBC Mellon Trust Company, as Indenture Trustee (the "Trust Notes") the Trust Notes or the Trust Units directly to the Unitholders, subject to obtaining all required regulatory approvals. There is currently no market for the Exchange Notes, the Trust Notes or the Trust Units. In addition, Exchange Notes, Trust Notes and Trust Units are not freely tradable or listed on any stock exchange. The Exchange Notes so distributed may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education saving plans, depending upon the circumstances at the time. The Trust Notes and the Trust Units would not be qualified investments for such plans.

### *Restrictions on Potential Growth*

The payout by AlarmCap LP of substantially all of its operating cash flow will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of such funds could limit the future growth of AlarmCap LP and the related cash flow to the Fund.

### *Unitholder Liability*

The Fund Declaration of Trust provides that no holder of Class A trust units will be subject to any liability whatsoever to any person in connection with a holding of Class A trust units. However, there remains a risk, which is considered by the Fund to be remote in the circumstances, that a holder of Class A trust units could be held personally liable, despite such statement in the Fund Declaration of Trust, for the obligations of the Fund to the extent that claims are not satisfied out of the assets of the Fund. It is intended that the affairs of the Fund will be conducted to seek to minimize such risk wherever possible.

### *Dilution of Existing Holders of Class A Trust Units*

The Fund Declaration of Trust authorizes the Fund to issue an unlimited number of Class A trust units for that consideration and on those terms and conditions as shall be established by the Trustees without the approval of any holders of Class A trust units. The holders of Class A trust units will have no pre-emptive rights in connection with such further issues.

### *Investment Eligibility and Foreign Property*

There can be no assurance that the Class A trust units will continue to be qualified investments for registered retirement savings plans, deferred profit sharing plans, registered retirement income funds and registered education savings plans of that the Class A trust units will not be foreign property under the Tax Act. The Tax Act imposes penalties for the acquisition or holding of non-qualified or ineligible investments and on excess holdings of foreign property.

### *Income Tax Matters*

There can be no assurance that Canadian federal income tax laws and administrative policies respecting the treatment of mutual fund trusts will not be changed in a manner which adversely affects the holders of Class A trust units. If the Fund ceases to qualify as a "mutual fund trust" under the Tax Act, the income tax considerations described herein under the heading "Certain Canadian Federal Income Tax Considerations" would be materially and adversely different in certain respects.

The Fund Declaration of Trust provides that a sufficient amount of the Fund's net income and net realized capital gains will be distributed each year to holders of Class A trust units in order to eliminate the Fund's liability for tax under Part 1 of the Tax Act. Where such amount of net income and net realized capital gains of the Fund in a taxation year exceeds the cash available for distribution in the year, such excess net income and net realized capital gains will be distributed to holders of Class A trust units in the form of additional Class A trust units. Holders of Class A trust units will generally be required to include an amount equal to the fair market value of those Class A trust units in their taxable income, in circumstances when they do not directly receive a cash distribution.

### *Debt*

In order to finance the acquisition of the assets of Microtec and Securex as well as the implementation of the income trust structure, AlarmCap LP has taken on debt. Amounts paid in principal and interest may impair the Funds ability to make cash distributions. The Fund is committed to maintaining certain financial ratios. As at June 30, 2006, the Fund didn't meet all financial ratios, The Fund has asked for and has obtained all necessary waivers from the bank. The Fund is presently in discussion with the bank, along with its annual negotiation process, regarding a revision of these financial covenants for the next 12 months.

**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**

**CONSOLIDATED BALANCE SHEETS**  
(in thousands of dollars)

|                                            | June 30,<br>2006<br>(unaudited)<br>\$ | December 31,<br>2005<br>\$ |
|--------------------------------------------|---------------------------------------|----------------------------|
| <b>ASSETS</b>                              |                                       |                            |
| <b>Current assets</b>                      |                                       |                            |
| Cash                                       | 656                                   | 1,672                      |
| Accounts receivable                        | 3,369                                 | 3,004                      |
| Inventories                                | 697                                   | 616                        |
| Prepaid expenses                           | 458                                   | 562                        |
| <b>Total current assets</b>                | <b>5,180</b>                          | <b>5,854</b>               |
| <b>Property, plant and equipment</b>       | <b>4,484</b>                          | <b>4,137</b>               |
| <b>Subscriber accounts</b>                 | <b>68,017</b>                         | <b>67,938</b>              |
| <b>Goodwill</b>                            | <b>36,191</b>                         | <b>36,191</b>              |
| <b>Other long-term assets</b>              | <b>1,324</b>                          | <b>1,189</b>               |
|                                            | <b>115,196</b>                        | <b>115,309</b>             |
| <b>LIABILITIES AND UNITHOLDER'S EQUITY</b> |                                       |                            |
| <b>Current liabilities</b>                 |                                       |                            |
| Accounts payable and accrued liabilities   | 3,046                                 | 2,980                      |
| Distributions payable to unitholders       | 685                                   | 646                        |
| Note payable                               | -                                     | 700                        |
| Demand note payable                        | -                                     | 198                        |
| Revenues collected in advance              | 5,030                                 | 5,276                      |
| Other deferred revenues                    | 132                                   | 232                        |
| Acquisition debt                           | 601                                   | -                          |
| <b>Total current liabilities</b>           | <b>9,494</b>                          | <b>10,032</b>              |
| <b>Long-term debt [Note 3]</b>             | <b>50,000</b>                         | <b>48,500</b>              |
| <b>Unitholders' equity</b>                 |                                       |                            |
| Unitholders' contributions [Note 4]        | 59,140                                | 58,457                     |
| Contributed surplus                        | 67                                    | -                          |
| Cumulative net income                      | 6,300                                 | 4,145                      |
| Cumulative distributions [Note 5]          | (9,805)                               | (5,825)                    |
| <b>Total unitholders' equity</b>           | <b>55,702</b>                         | <b>56,777</b>              |
|                                            | <b>115,196</b>                        | <b>115,309</b>             |

*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**

**CONSOLIDATED STATEMENTS OF  
OPERATIONS**

(in thousands of dollars, except per unit amounts)

|                                                                                      | June 30,<br>2006<br>(3 months)<br>(unaudited)<br>\$ | June 30,<br>2005<br>(3 months)<br>(unaudited)<br>\$ | June 30,<br>2006<br>(6 months)<br>(unaudited)<br>\$ | June 30, (a)<br>2005<br>(3 months)<br>(unaudited)<br>\$ |
|--------------------------------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|---------------------------------------------------------|
| <b>Revenues</b>                                                                      |                                                     |                                                     |                                                     |                                                         |
| Monitoring and services                                                              | 7,370                                               | 7,764                                               | 14,823                                              | 7,764                                                   |
| Installation                                                                         | 859                                                 | 578                                                 | 1,405                                               | 578                                                     |
|                                                                                      | <b>8,229</b>                                        | <b>8,342</b>                                        | <b>16,228</b>                                       | <b>8,342</b>                                            |
| <b>Expenses</b>                                                                      |                                                     |                                                     |                                                     |                                                         |
| Monitoring and customer service                                                      | 1,800                                               | 1,860                                               | 3,565                                               | 1,860                                                   |
| Installation, sales and marketing                                                    | 825                                                 | 514                                                 | 1,382                                               | 514                                                     |
|                                                                                      | 2,625                                               | 2,374                                               | 4,947                                               | 2,374                                                   |
| Income before general and administrative<br>expenses and other items                 | 5,604                                               | 5,968                                               | 11,281                                              | 5,968                                                   |
| General and administrative expenses                                                  | 1,586                                               | 1,492                                               | 3,114                                               | 1,492                                                   |
|                                                                                      | <b>4,018</b>                                        | <b>4,476</b>                                        | <b>8,167</b>                                        | <b>4,476</b>                                            |
| Amortization of subscriber accounts, depreciation<br>of property plant and equipment | 2,195                                               | 2,603                                               | 4,277                                               | 2,603                                                   |
| Interest on debt including amortization of other<br>long-term assets                 | 894                                                 | 817                                                 | 1,735                                               | 817                                                     |
|                                                                                      | 3,089                                               | 3,420                                               | 6,012                                               | 3,420                                                   |
| <b>Net income</b>                                                                    | <b>929</b>                                          | <b>1,056</b>                                        | <b>2,155</b>                                        | <b>1,056</b>                                            |
| <b>Earning per unit</b>                                                              |                                                     |                                                     |                                                     |                                                         |
| Earning per unit                                                                     | 0.147                                               | 0.185                                               | 0.341                                               | 0.185                                                   |
| <b>Weighted average number of units outstanding (in<br/>thousands)</b>               |                                                     |                                                     |                                                     |                                                         |
| Weighted average number of units outstanding (in<br>thousands)                       | 6,324                                               | 5,703                                               | 6,324                                               | 5,703                                                   |

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

(a) The Fund commenced active operations on April 1, 2005.

**FIRST NATIONAL ALARMCAP INCOME FUND  
QUARTERLY REPORT**

**CONSOLIDATED STATEMENTS OF CASH FLOW**

(in thousands of dollars)

|                                                                                       | June 30,<br>2006<br>(3 months)<br>(unaudited)<br>\$ | June 30,<br>2005<br>(3 months)<br>(unaudited)<br>\$ | June 30,<br>2006<br>(6 months)<br>(unaudited)<br>\$ | June 30, (a)<br>2005<br>(3 months)<br>(unaudited)<br>\$ |
|---------------------------------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|---------------------------------------------------------|
| <b>OPERATING ACTIVITIES</b>                                                           |                                                     |                                                     |                                                     |                                                         |
| Net income for the period                                                             | 929                                                 | 1,056                                               | 2,155                                               | 1,056                                                   |
| Items not affecting cash flows                                                        |                                                     |                                                     |                                                     |                                                         |
| Amortization of subscriber accounts and depreciation of property, plant and equipment | 2,195                                               | 2,603                                               | 4,277                                               | 2,603                                                   |
| Amortization of other assets                                                          | 139                                                 | 123                                                 | 261                                                 | 123                                                     |
| Phantom Unit Plan                                                                     | 67                                                  | -                                                   | 67                                                  | -                                                       |
|                                                                                       | 3,330                                               | 3,782                                               | 6,760                                               | 3,782                                                   |
| Net change in non-cash working capital items                                          | (41)                                                | (57)                                                | 5                                                   | (57)                                                    |
| <b>Cash flows relating from operating activities</b>                                  | <b>3,289</b>                                        | <b>3,725</b>                                        | <b>6,765</b>                                        | <b>3,725</b>                                            |
| <b>INVESTING ACTIVITIES</b>                                                           |                                                     |                                                     |                                                     |                                                         |
| Business acquisitions                                                                 | -                                                   | (72,940)                                            | -                                                   | (72,940)                                                |
| Additions to property, plant and equipment                                            | (412)                                               | (20)                                                | (533)                                               | (20)                                                    |
| Increase in subscriber accounts                                                       | (1,814)                                             | (1,404)                                             | (4,170)                                             | (1,404)                                                 |
| Increase in other long-term assets                                                    | (396)                                               | (1,445)                                             | (396)                                               | (1,445)                                                 |
| <b>Cash flow relating to investing activities</b>                                     | <b>(2,622)</b>                                      | <b>(75,809)</b>                                     | <b>(5,099)</b>                                      | <b>(75,809)</b>                                         |
| <b>FINANCING ACTIVITIES</b>                                                           |                                                     |                                                     |                                                     |                                                         |
| Repayment of the long-term debt                                                       | (3,500)                                             | (1,104)                                             | (3,500)                                             | (1,104)                                                 |
| Repayment of demand note payable                                                      | (202)                                               | -                                                   | (202)                                               | -                                                       |
| Increase in long-term debt                                                            | 5,000                                               | 45,003                                              | 5,000                                               | 45,003                                                  |
| Distributions to unitholders                                                          | (2,056)                                             | (1,975)                                             | (3,980)                                             | (1,975)                                                 |
| Unitholders' contributions                                                            | -                                                   | 33,438                                              | -                                                   | 33,438                                                  |
| <b>Cash flow relating to financing activities</b>                                     | <b>(758)</b>                                        | <b>75,362</b>                                       | <b>(2,682)</b>                                      | <b>75,362</b>                                           |
| <b>Net increase (decrease) in cash for the period</b>                                 | <b>(91)</b>                                         | <b>3,278</b>                                        | <b>(1,016)</b>                                      | <b>3,278</b>                                            |
| Cash – beginning of the period                                                        | 747                                                 | -                                                   | 1,672                                               | -                                                       |
| <b>Cash – end of period</b>                                                           | <b>656</b>                                          | <b>3,278</b>                                        | <b>656</b>                                          | <b>3,278</b>                                            |
| <b>Supplementary information</b>                                                      |                                                     |                                                     |                                                     |                                                         |
| Interest paid for the period:                                                         | 600                                                 | 475                                                 | 1,222                                               | 475                                                     |

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

(a) The Fund commenced active operations on April 1, 2005

## NOTES TO FINANCIAL STATEMENTS

### 1. NATURE OF BUSINESS

(in thousands of dollars)

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 activities 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 which provide residential and commercial remote monitoring services in Canada.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Use of estimates

The Fund's consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). In preparing these 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 properly prepared using careful judgment within the reasonable limits of materiality and within the framework of the accounting policies summarized below.

#### Consolidation

The consolidated financial statements include the accounts of the Fund and those of its subsidiaries.

#### 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. Revenues received in advance 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 signing are recorded under costs of subscriber accounts.

#### 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:

|                                | <b>Method</b>     | <b>Rate</b> |
|--------------------------------|-------------------|-------------|
| 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 net of revenues received from the initial subscription. 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 method and rates below:

|                              | Method            | Rate |
|------------------------------|-------------------|------|
| Microtec subscriber accounts | Declining balance | 12%  |
| Securex subscriber accounts  | Declining balance | 10%  |

## Goodwill

Goodwill represents the difference between the purchase price, including acquisition costs, of businesses acquired and the fair value of the identifiable net assets acquired. Goodwill is tested for impairment annually or more frequently if events or circumstances indicate that the asset might be impaired. If the carrying value of a reporting unit, including the allocated goodwill, exceeds its fair value, 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 assets and liabilities of the reporting unit.

## Other long-term assets

Other long-term assets mainly consist of deferred financing costs which are recorded at cost and amortized on a straight line basis over the terms of the related debt and restricted cash.

## Depreciation 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.

## Unit-based compensation

The Fund has a Phantom Unit Plan in which certain employees, trustees and directors may participate. The compensation expense is determined based upon the fair value of the units at the date of grant which may be issued from treasury upon vesting at the end of a three-year cycle and charged to operations on a straight line basis over the vesting period based on management's estimate of the probability of achievement of the performance-based vesting conditions, with an offsetting adjustment to contributed surplus. The plan is described in note 4.

## Earnings per unit

Earnings per unit are calculated based on the weighted average number of Class A and B trust units outstanding during the period.

As at June 30, 2006, the Fund had no instruments or commitments that could potentially require the issuance of units.

## Derivative financial instruments

In accordance with its risk management strategy, the Fund uses derivative financial instruments to manage interest rate exposures. Derivative financial instruments consist mainly of interest-rate swap agreements. The Fund does not use derivative financial instruments for trading or speculative purposes.

### Interest-rate swap agreements

The Fund enters into interest-rate swap agreements to reduce the impact of fluctuating interest rates on financial commitments.

These swaps are accounted for using the accrual method. Under this method, unrealized gains or losses are not recognized and net payments due or receivable on the derivative financial instruments are accrued as an adjustment to interest expense in the consolidated statement of income.

### Hedge accounting

Designation as a hedge is only allowed if, both at the inception of the hedge and throughout the hedge period, 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.

The Fund formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivatives. The Fund also formally documents and assesses, both at the hedge's inception and on an ongoing basis, whether the derivative financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair value or cash flows of hedged items.

### 3. LONG-TERM DEBT

(in thousands of dollars)

|                               | June 30,<br>2006<br>(unaudited) | December 31,<br>2005<br>(audited) |
|-------------------------------|---------------------------------|-----------------------------------|
|                               | \$                              | \$                                |
| Bank term loan <sup>(a)</sup> | 45,000                          | 45,000                            |
| Term note <sup>(b)</sup>      | 5,000                           | 3,500                             |
|                               | 50,000                          | 48,500                            |

- (a) The bank term loan has a maximum authorized amount of \$45,000,000, matures on March 2008 and bears interest at rates varying from 0.50% to 1.00% above the prime rate and from 1.75% to 2.25% above the bankers' acceptances depending on a financial ratio on a monthly basis. These interest rates do not factor in the hedging derivative financial instruments.

The interest expense in the income statement is accounted for at the loan's effective rate of 5.50%. The Fund entered into interest-rate swap agreements to convert the bank term loan from variable to fixed interest rates.

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

The Credit Agreement contains certain covenants. In addition, the Fund is committed to maintaining certain financial ratios. As at June 30, 2006, the Fund didn't meet all financial ratios. The Fund has asked for and has obtained all necessary waivers from the bank. The Fund is presently in discussion with the bank, along with its annual negotiation process, regarding a revision of these financial covenants for the next 12 months.

- (b) In April 2006, The Fund completed a private placement of \$5,000,000 principal amount of Series A 9% secured subordinated debentures. The debentures mature in April 2011.

### 4. FUND UNITS

(in thousands of dollars except for the units)

| Issued and fully paid                                                                | June 30,<br>2006<br>(unaudited) | December 31,<br>2005<br>(audited) |
|--------------------------------------------------------------------------------------|---------------------------------|-----------------------------------|
|                                                                                      | \$                              | \$                                |
| 4,574,401 Class A trust units (4,504,401 Class A trust unit as at December 31, 2005) | 45,188 <sup>(a)</sup>           | 44,505                            |
| 1,750,000 Class B trust units                                                        | 17,500                          | 17,500                            |
| Less expenses of the offering                                                        | (3,548)                         | (3,548)                           |
|                                                                                      | 59,140                          | 58,457                            |

On December 16, 2005, the Class A and Class B trust units were consolidated on a four-for-one basis, such that after consolidation of the outstanding Class A and Class B fund units, one-quarter (1/4) of said units remained.

- (a) On January 1, 2006, the Fund issued, by way of a private placement, 70,000 Class A trust units valued at \$683,000 to settle the balance of a \$700,000 note payable to an officer of the Fund resulting from the acquisition of Microtec.

#### *Phantom Unit Plan*

The officers and key employees of AlarmCap are eligible to participate in the Phantom Unit Plan. The purpose of the Plan is to provide eligible participants with compensation opportunities that will enhance AlarmCap ability to attract, retain and motivate key personal and reward distributable cash targets per unit. As at June 30, 2006, 164,167 phantom units had been awarded.

The compensation expense is determined based upon the fair value of the units at the date of grant which may be issued from treasury upon vesting at the end of a three-year cycle and charged to operations on a straight line basis over the vesting period based on management's estimate of the probability of achievement of the performance-based vesting conditions, with an offsetting adjustment to contributed surplus.

An amount of \$67,000, representing the compensation expense for the first six months, has been expensed in the results of the second quarter and a corresponding amount has been credited to contributed surplus.

## 5. DISTRIBUTIONS DECLARED

During the period ended June 30, 2006, the Fund declared the following cash distributions:

#### **Class A Trust Units:**

| Period        | Record Date       | Payment Date      | Distribution per Unit | Total \$         |
|---------------|-------------------|-------------------|-----------------------|------------------|
| January 2006  | January 31, 2006  | February 28, 2006 | 0.10833               | 495,560          |
| February 2006 | February 28, 2006 | March 31, 2006    | 0.10833               | 495,560          |
| March 2006    | March 31, 2006    | April 30, 2006    | 0.10833               | 495,560          |
| April 2006    | April 30, 2006    | May 31, 2006      | 0.10833               | 495,560          |
| May 2006      | May 31, 2006      | June 30, 2006     | 0.10833               | 495,560          |
| June 2006     | June 30, 2006     | July 31, 2006     | 0.10833               | 495,560          |
|               |                   |                   | <u>0.64998</u>        | <u>2,973,360</u> |

#### **Class B Trust Units:**

| Period        | Record Date       | Payment Date      | Distribution per Unit | Total \$         |
|---------------|-------------------|-------------------|-----------------------|------------------|
| January 2006  | January 31, 2006  | February 28, 2006 | 0.08333               | 145,833          |
| February 2006 | February 28, 2006 | March 31, 2006    | 0.08333               | 145,833          |
| March 2006    | March 31, 2006    | April 30, 2006    | 0.08333               | 145,833          |
| April 2006    | April 30, 2006    | May 31, 2006      | 0.10833               | 189,583          |
| May 2006      | May 31, 2006      | June 30, 2006     | 0.10833               | 189,583          |
| June 2006     | June 30, 2006     | July 31, 2006     | 0.10833               | 189,583          |
|               |                   |                   | <u>0.57498</u>        | <u>1,006,248</u> |

**Total distribution as at June 30, 2006**

**3,979,608**

## 6. SEGMENT INFORMATION

The Fund's operations consist of its Microtec and Securex divisions, which are operated as separate business units. The following table discloses financial information for the two divisions for the second quarter 2006:

|                                                                   | Microtec<br>\$ | Securex<br>\$ |
|-------------------------------------------------------------------|----------------|---------------|
|                                                                   | 3 months       | 3 months      |
| <b>Revenues</b>                                                   |                |               |
| Monitoring and services                                           | 6,212          | 1,158         |
| Installation                                                      | 859            | -             |
|                                                                   | 7,071          | 1,158         |
| <b>Expenses</b>                                                   |                |               |
| Monitoring and customer service                                   | 1,557          | 243           |
| Installation, sales and marketing                                 | 825            | -             |
|                                                                   | 2,382          | 243           |
| Income before general and administrative expenses and other items | 4,689          | 915           |

## 7. FINANCIAL INSTRUMENTS

### a) Fair Value

For some of the Fund's financial instruments, including cash, accounts receivable, accounts payable and other loans, the carrying amounts approximate fair value due to their short maturities.

The Fund's bank facility and promissory note presented in long-term liabilities are carried at amounts representative of their fair value.

### 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 subscribers. In addition, accounts receivables comprise amounts receivable from numerous subscribers whose individual balances are insignificant. The Fund constitutes and maintains allowances in respect of potential losses.

### c) Interest Rate Risk

The long-term debt bears interest at fixed rates as described in Note 3.

## 8. CONTINGENCIES

In the normal course of business, the Fund is party to various claims and legal proceedings. While the final outcome with respect to claims and legal proceedings pending, as at June 30, 2006, cannot be determined with certainty, it is the opinion of management that their resolution will not have a material adverse effects on the Fund's financial position or results of operations. Claims paid by the Fund, if any, will be accounted for in the year of resolution.

## 9. SUBSEQUENT EVENTS

On April 30, 2006, the holders of the Class A trust units having received distributions from the Fund equal to \$0.325 per Class A trust unit per quarter for a period of four consecutive quarters, the distribution priority in favour of the holders of the Class A trust units over the holders of the Class B trust units terminated. Consequently, the holders of the Class B trust units now have the right to exchange their Class B trust units for Class A trust units on the basis of one (1) Class A trust unit for each Class B trust unit.

The Credit Agreement contains certain covenants. In addition, the Fund is committed to maintaining certain financial ratios. As at June 30, 2006, certain financial ratios were not being met. The Fund has asked for and has obtained all necessary waivers from the bank. The Fund is presently in discussion with the bank regarding a revision of these financial covenants for the next 12 months.