

Consolidated Financial Statements

First National AlarmCap Income Fund

Nine-month period ended December 31, 2005

AUDITORS' REPORT

To the Unitholders of
First National AlarmCap Income Fund,

We have audited the consolidated balance sheet of **First National AlarmCap Income Fund** as at December 31, 2005 and the consolidated statements of income and cumulative net income and cash flows for the nine-month period then ended. These financial statements are the responsibility of Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2005 and the results of its operations and its cash flows for the nine-month period then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Québec City, Canada
February 23, 2006

Chartered Accountants

First National AlarmCap Income Fund

CONSOLIDATED BALANCE SHEET

As at December 31

[in thousands of dollars]

	2005
	\$
<hr/>	
ASSETS [note 7]	
Current assets	
Cash	1,672
Accounts receivable	3,004
Inventories	616
Prepaid expenses	562
Total current assets	5,854
Property, plant and equipment [note 4]	4,137
Subscriber accounts [note 5]	67,938
Goodwill	36,191
Other long-term assets [note 6]	1,189
	115,309
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LIABILITIES AND UNITHOLDERS' EQUITY	
Current liabilities	
Accounts payable and accrued liabilities	2,980
Distributions payable to unitholders	646
Note payable [note 11]	700
Demand note payable [note 11]	198
Revenues collected in advance	5,276
Other deferred revenues	232
Total current liabilities	10,032
Long-term debt [notes 7 and 11]	48,500
Unitholders' equity	
Unitholders' contributions [note 9]	58,457
Cumulative net income	4,145
Cumulative distributions	(5,825)
	56,777
	115,309
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See accompanying notes

Commitments [note 14]

Contingencies [note 15]

Subsequent events [note 16]

On behalf of the Board:

(signed) Adrien Pouliot, Trustee

(signed) Leonard Sudermann, Trustee

First National AlarmCap Income Fund

**CONSOLIDATED STATEMENT OF INCOME AND
CUMULATIVE NET INCOME**

Nine-month period ended December 31

[in thousands of dollars,
except per unit amounts]

	2005
	\$
<hr/>	
Revenues	
Monitoring and services	23,225
Installation	1,617
	<hr/> 24,842
Expenses	
Monitoring and customer service	5,649
Installation, sales and marketing	1,566
	<hr/> 7,215
Income before general and administrative expenses and other items	17,627
General and administrative expenses	4,402
Income before the following items	13,225
Amortization of subscriber accounts and depreciation of property, plant and equipment [notes 4 and 5]	6,501
Interest on debt including amortization of deferred financing costs [note 6]	2,579
	<hr/> 9,080
Net income and cumulative net income, end of period	<hr/> 4,145
Earnings per unit	<hr/> 0.68
Weighted average number of units outstanding	<hr/> 6,072,246

See accompanying notes

First National AlarmCap Income Fund

CONSOLIDATED STATEMENT OF CASH FLOWS

Nine-month period ended December 31

[in thousands of dollars]

	2005
	\$
<hr/>	
OPERATING ACTIVITIES	
Net income	4,145
Items not affecting cash flows	
Amortization of subscriber accounts and depreciation of property, plant and equipment	6,501
Amortization of other long-term assets	415
	<hr/>
	11,061
Net change in non-cash operating working capital items	(1,876)
Cash flows relating to operating activities	<hr/> 9,185
 INVESTING ACTIVITIES	
Business acquisitions <i>[note 2]</i>	(72,940)
Additions to property, plant and equipment	(264)
Proceeds on disposal of property, plant and equipment	582
Increase in subscriber accounts	(5,507)
Increase in other long-term assets	(1,555)
Cash flows relating to investing activities	<hr/> (79,684)
 FINANCING ACTIVITIES	
Repayment of note payable	(300)
Repayment of demand note payable	(802)
Increase in long-term debt	45,000
Net proceeds from issuance of units	33,452
Distributions to unitholders	(5,179)
Cash flows relating to financing activities	<hr/> 72,171
Net increase in cash for the period and cash, end of period	<hr/> 1,672
 Supplementary information	
Interest paid	<hr/> 1,829

See accompanying notes

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nine-month period ended December 31, 2005

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

1. DESCRIPTION OF THE FUND

First National AlarmCap Income Fund (the “Fund”) is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Alberta pursuant to a declaration of trust dated February 24, 2005, as amended and restated on March 4, 2005. The Fund began commercial 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. PURCHASE PRICE ALLOCATION OF MICROTEC AND SECUREX

The acquisition of Microtec and Securex was accounted for using the purchase method and the fair value of the assets acquired and liabilities assumed as at March 16, 2005 based on the unaudited financial statements of Microtec and Securex and an assessment of intangible assets completed in February 2006. The final purchase price allocation below differed from the preliminary allocation disclosed in the Fund’s quarterly financial statements during the nine-month period.

	Microtec	Securex	Total
	\$	\$	\$
Cash	2,000	—	2,000
Accounts receivable	580	542	1,122
Prepaid expenses	201	—	201
Property, plant and equipment	4,626	75	4,701
Other long-term assets	—	49	49
Subscriber accounts	58,000	10,686	68,686
Goodwill	24,389	11,802	36,191
Carry forward	89,796	23,154	112,950

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nine-month period ended December 31, 2005

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

2. PURCHASE PRICE ALLOCATION OF MICROTEC AND SECUREX [Cont'd]

	Microtec \$	Securex \$	Total \$
Carried forward	89,796	23,154	112,950
Accounts payable and accrued liabilities	(1,243)	(464)	(1,707)
Revenues collected in advance	(4,708)	(690)	(5,398)
Other deferred revenues	(400)	—	(400)
	83,445	22,000	105,445
Consideration paid			
Cash	74,940	—	74,940
Issuance of trust units	7,505	17,500	25,005
Note payable	1,000	—	1,000
Demand note payable	—	1,000	1,000
Term note payable	—	3,500	3,500
	83,445	22,000	105,445

3. 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.

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nine-month period ended December 31, 2005

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

3. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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 as a reduction of 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:

	Method	Rate
Buildings	Declining balance	4%
Furniture and equipment	Declining balance	20%
Computer hardware and software	Straight-line	33 1/3%
Leasehold improvements	Straight-line	lease term

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nine-month period ended December 31, 2005

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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.

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nine-month period ended December 31, 2005

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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

As described in note 9, the Fund provides unit-based compensation, under a plan subject to unitholders' approval, to certain executives and trustees in the form of grants of phantom unit awards.

The Fund uses the fair value method to account for these grants. Under this method, the fair value of unit-based awards, as at the date of the grant, is recognized as compensation expense over the applicable vesting period with a corresponding increase in contributed surplus. Upon vesting, the amount initially recorded in contributed surplus is recorded to unitholders' contributions.

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 December 31, 2005, the Fund had no instruments or commitments that could potentially require the issuance of units.

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nine-month period ended December 31, 2005

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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.

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nine-month period ended December 31, 2005

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

4. PROPERTY, PLANT AND EQUIPMENT

	2005	
	Cost	Accumulated depreciation
	\$	\$
Land	110	—
Buildings	3,294	112
Furniture and equipment	709	101
Computer hardware and software	144	24
Leasehold improvements	126	9
	4,383	246
Accumulated depreciation	246	
	4,137	

Depreciation of property, plant and equipment amounted to \$246,000 for the period.

5. SUBSCRIBER ACCOUNTS

Cost of subscriber accounts consists of the following items:

	2005
	\$
Subscriber accounts related to the acquisitions <i>[note 2]</i>	68,686
Direct subscriber recruiting costs and acquisitions costs	5,671
Revenues from initial subscription	(164)
	74,193
Accumulated amortization	(6,255)
Subscriber accounts	67,938

Amortization of subscriber accounts amounted to \$6,255,000 for the period.

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nine-month period ended December 31, 2005

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

6. OTHER LONG-TERM ASSETS

	2005 \$
Deferred financing costs, at amortized cost	1,089
Restricted cash	100
	1,189

Amortization of deferred financing costs amounted to \$415,000 for the period.

7. LONG-TERM DEBT

	2005 \$
Bank term loan	45,000
Term note	3,500
	48,500

(a) Bank term loan

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 *[note 8]*.

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

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

The loan agreement contained certain covenants. In addition, the Fund is committed to maintaining certain financial ratios. As at December 31, 2005, the Fund was in compliance with these ratios.

(b) Term note

The term note in favour of Securex Master Limited Partnership matures on April 28, 2009 and bears interest at 9%.

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nine-month period ended December 31, 2005

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

8. FINANCIAL INSTRUMENTS

The Fund entered into interest-rate swap agreements to convert the bank term loan from variable to fixed interest rates. As at December 31, 2005, the interest-rate swap agreements were detailed as follows:

Purpose	Fixed rate payable	Floating rate receivable	Notional	Maturity	Fair value
Debt hedge	4.82% until April 2006 5.50% May 2006–April 2007 6.00% May 2007–March 2008 (effective rate 5.50%)	Bankers' acceptances +2.25%	\$45,000	March 2008	\$718

9. UNITHOLDERS' CONTRIBUTIONS

The Fund is authorized to issue an unlimited number of Class A and Class B trust units. Each unit is transferable and, subject to certain priorities of distributable cash flows and special distributions made to the Class A trust unitholders in priority to Class B trust unitholders, represents an equal undivided beneficial interest in any distributions from the Fund. Class B trust units are convertible into Class A trust units on a 1:1 basis once the distribution threshold of \$0.325 per trust unit per quarter has been reached for four consecutive quarters. As at December 31, 2005, the fund has paid the minimum distribution threshold for three consecutive quarters.

	2005
	\$
Issued and fully paid	
4,504,401 Class A trust units	44,505
1,750,000 Class B trust units	17,500
Less issuance costs	(3,548)
	58,457

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nine-month period ended December 31, 2005

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

9. UNITHOLDERS' CONTRIBUTIONS [Cont'd]

The trust units were issued as follows:

On December 16, 2005, 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. Consequently, all references to units below refer to the number of units after such consolidation.

- (a) On March 10, 2005, 153,846 Class A trust units were issued to an investor in consideration for the transfer and assignment to the Fund by said investor of certain rights and claims which another group of potential investors had against Microtec Enterprises Inc. for a fair value of \$1,000,000.
- (b) On March 16, 2005, 3,700,000 Class A trust units were issued to various accredited investors pursuant to a private placement at \$10.00 per Class A trust unit for a gross cash consideration of \$37,000,000.
- (c) On March 16, 2005, 1,750,000 Class B trust units having an aggregate value of \$17,500,000 were issued in connection with the acquisition of the assets of Securex Master Limited Partnership.
- (d) On June 17, 2005, 650,555 Class A trust units having a fair value of \$6,505,000 were issued in exchange for all of the subordinated voting shares and all of the multiple voting shares of the share capital of Microtec Enterprises Inc.

Unit issuance costs totalling \$3,548,000 were recorded as a reduction of unitholders' contributions.

In November 2005, the Board has approved a Phantom Unit Plan, which is subject to unitholders' approval.

Under the Fund's Phantom Unit Plan, phantom units can be granted to certain executives and trustees. Phantom units are granted without any monetary consideration being payable to the Fund and their vesting is entirely based on the level of achievement of certain financial performance targets measured over the cycle (as defined in the plan) beginning with the fiscal year of their grant. Upon vesting, each phantom unit is convertible into a fully paid class A trust unit. The maximum number of phantom units which may be issued pursuant to this plan is equal to ten percent (10%) of the number of trust units outstanding at any time. As at December 31, 2005, there is no phantom unit outstanding under the plan [note 16].

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nine-month period ended December 31, 2005

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

10. INCOME TAXES

Due to its structure, the Fund qualifies as a mutual fund trust under the *Income Tax Act* (Canada) and, as a result, is not subject to income tax to the extent that its taxable income and taxable gains are distributed or to be distributed to its unitholders. Certain subsidiaries of the Fund are subject to income tax at the statutory corporate tax rate. The Fund did not report any income taxes or temporary differences in the accounts of its subsidiaries because it intends, and is contractually bound, to distribute to unitholders all or substantially all of the taxable income and taxable capital gains that would otherwise have been taxable in the Fund. The carrying amount of the Fund's net assets as at December 31, 2005 exceeds their tax basis by approximately \$54,000.

11. RELATED PARTY TRANSACTIONS

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

	2005
	\$
Monitoring and customer service expenses	441
Interest on debt including amortization of deferred financing costs	240
Accounts receivable	152

A demand note amounting to \$198,000 bearing interest at 9%, is payable to an entity controlled by an officer of the Fund.

A term note amounting to \$3,500,000 is also payable to an entity controlled by an officer of the Fund [notes 7 and 16].

A note payable amounting to \$700,000 bearing interest at 12%, without specific terms of repayments, is payable to an officer of the Fund [note 16].

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nine-month period ended December 31, 2005

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

12. FINANCIAL INSTRUMENTS

(a) Fair value

The carrying amounts of Fund's financial assets and liabilities, such as cash, accounts receivable, accounts payable, distributions payable to unitholders, note payable and demand note payable approximate their fair value as at December 31, 2005 due to their short-term maturities.

The restricted cash presented in other long-term assets is also carried at an amount representative of fair value.

The carrying amount of long-term debt approximates its fair value due to the fact it bears interest at current market rates.

The fair value of the interest-rate swaps is disclosed in note 8.

(b) Credit risk

The Fund is exposed to credit risk with regard to its accounts receivable. In order to reduce this risk, the Fund performs credit evaluations of its customers. In addition, accounts receivable comprise amounts receivable from numerous customers whose individual balances are insignificant. The Fund constitutes and maintains allowances in respect of potential losses.

(c) Interest rate risk

The Fund avails itself of a number of derivative financial instruments to manage interest rate risk [note 8].

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nine-month period ended December 31, 2005

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

13. SEGMENTED 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:

	Microtec \$	Securex \$	Total \$
Revenues			
Monitoring and services	19,474	3,751	23,225
Installation	1,617	—	1,617
	21,091	3,751	24,842
Expenses			
Monitoring and customer service	4,966	683	5,649
Installation, sales and marketing	1,566	—	1,566
	6,532	683	7,215
Income before general and administrative expenses and other items	14,559	3,068	17,627

Depreciation of property, plant and equipment amounted to \$235,000 for the Fund's Microtec division and \$11,000 for its Securex division.

Amortization of subscriber accounts amounted to \$5,427,000 for the Fund's Microtec division and \$828,000 for its Securex division.

	Microtec \$	Securex \$	Total \$
Accounts receivable	2,383	621	3,004
Property, plant and equipment	4,073	64	4,137
Subscriber accounts	57,142	10,796	67,938
Goodwill	24,389	11,802	36,191
Deferred revenues	4,628	648	5,276

First National AlarmCap Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nine-month period ended December 31, 2005

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

14. COMMITMENTS

The Fund has entered into lease agreements for its place of business, some equipment and vehicles. The commitments totalled \$431,000 and the annual minimum rent payments for the next five years are as follows:

	\$
2006	229
2007	138
2008	44
2009	12
2010	8

15. CONTINGENCIES

The Fund is subject to some lawsuits brought against it in the normal course of business, the outcome of which cannot be predicted with certainty. Based on the information currently available, management is of the opinion that the outcome of these lawsuits will not have a significant impact on the Fund.

16. SUBSEQUENT EVENTS

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 [notes 2 and 11].

As of February 14, 2006, 12,500 phantom units have been awarded under the Fund's Phantom Unit Plan described in note 9 and subject to unitholders' approval.

On January 31, 2006, the Fund entered into an agreement with an agent in connection with a private placement in respect of the issuance of five-year subordinated debentures bearing interest at 9% for a total minimum of \$5,000,000 and a maximum of \$7,000,000. Net proceeds from this issuance will be used to repay the \$3,500,000 term note and to finance business acquisitions [notes 7 and 11].