

FIRST NATIONAL ALARMCAP INCOME FUND

QUARTERLY REPORT

2nd Quarter

**For the Quarter Ended
June 30, 2005**

Message to unitholders,

We are pleased to report for the first time on the operations and financial results of First National AlarmCap Income Fund (the "Fund").

The Fund is an unincorporated, open-ended, limited purpose trust and its Class A trust units are listed on the Toronto Stock Exchange under the ticker symbol "FNA.UN". It was established to acquire substantially all of the assets and shares of Microtec Enterprises inc. ("Microtec") and substantially all the assets of Securex Master Limited Partnership ("Securex"). Microtec, founded in 1989 in Quebec City, Province of Quebec, is one of the largest residential security monitoring companies in Canada with some 95,000 subscribers as at June 30, 2005. Securex, founded in 1994 in Calgary, Alberta, is an alternative credit provider to dealers and, as at June 30, 2005, owned 16,000 subscriber accounts. It offers bundled financial, billing / back office and monitoring services to independent dealers throughout Canada.

The acquisition of the assets occurred on March 16, 2005 after the sale of Microtec's assets to First National AlarmCap LP ("AlarmCap LP") was approved by the Superior Court of Quebec pursuant to the Creditors' Companies Arrangement Act on March 15, 2005. The Fund issued 14,800,000 Class A trust units to various accredited investors pursuant to a private offering at the price of \$2.50 per Class A trust Unit for a gross cash consideration of \$37,000,000 and 7,000,000 Class B trust units of the Fund, such Class B trust units having an aggregate value of \$17,500,000. The Fund borrowed through AlarmCap LP the sum of \$45,000,000 under a new three-year credit facility maturing on March 17, 2008. The floating interest rate on this facility has been fixed during the second quarter at 4.82% until April, 2006, at 5.50% until April 4, 2007 and at 6.00% until the maturity.

On May 1, 2005, AlarmCap LP sold for \$1 and the assumption of all liabilities the assets of Microtec Technologies Inc. ("MTI") it had purchased from Microtec. Management had determined that MTI's software and hardware manufacturing business and the mobile security business which were not profitable were not core to its alarm monitoring operations.

The acquisition of the shares of Microtec closed on June 17, 2005 when the Fund issued 2,602,177 Class A trust units having a fair value of \$6,505,444 in exchange for all of the subordinated voting shares and all of the multiple voting shares in the share capital of Microtec. Previously, on March 10, 2005, the Fund had issued 615,384 Class A trust units to an investor in consideration for that investor transferring and assigning to the Fund certain rights in claims which another group of potential investors had or may have against Microtec Enterprises inc. for a fair value of \$1,000,000.

While the commercial operations of the Fund started as of April 1, 2005, these transactions, which are further detailed in the notes to the financial statements, occurred prior to such date and are accounted for in this report.

Since the beginning of the quarter, management has focussed its efforts on disposing of the assets of MTI, closing the acquisition of the Microtec shares and designing and beginning the implementation of short-term operational improvement strategies to take advantage of the synergies between Microtec and Securex as well as productivity improvement opportunities in each division. We launched a customer-retention initiative designed to reduce attrition in the crucial summer months when many of its customers move. Management has also prepared and presented to your Board a three-year

strategic plan setting forth the long-term goals and objectives of the Limited Partnership. We believe that these improvement initiatives will start bearing fruit by year-end.

We would like to thank our employees for their continued dedication during the launch of the Fund and all the execution of the related transactions described above and our Board for its support during our first quarter of operations.

(signed)
Adrien D. Pouliot
Chairman of the Board

(signed)
Leonard Sudermann
President and Chief Executive Officer

Calgary, Alberta
August 11, 2005

MANAGEMENT'S FINANCIAL ANALYSIS

Consolidated Statements of Results

Revenues

Monitoring and Service:

Monitoring and service revenues for the period ended June 30, 2005 were \$7,764,000, which was slightly higher than management's expectations. Of total monitoring and service revenues, \$7,288,000 or 94% came from monitoring revenues, with the balance of \$476,000 from service revenues.

Installation:

Installation revenues for the period ended June 30, 2005 was \$578,000. This is expected to increase as sales activity resumes.

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. These services are offered from our three customer service centres in Quebec City, Montreal and Ottawa, which are supported by our network of repair technicians, authorized dealers and associated dealers;
- Installation, Sales and Marketing Expenses include certain equipment, installation, registration, sales and marketing costs related to subscriber recruitment; and
- Administrative Expenses which include all costs related to managing the subscriber network of the Fund and its subsidiaries.

Monitoring and Customer Service:

Monitoring and customer service expenses totalled \$1,860,000, which was slightly higher than management's expectations.

Installation, Sales and Marketing Costs:

Installation, sales and marketing costs totalled \$514,000, which is consistent with the level of sales activity.

General and Administrative Expenses

General and administrative expenses totalled \$1,492,000 which was in line with management's expectations.

EBITDA

EBITDA for the period was \$4,476,000 which was somewhat lower than expected due to reduced sales activity and higher expenses in certain categories.

Amortization Expenses

Amortization expenses totalled \$2,726,000

Interest Expense

Interest expense is \$712,000.

Net Income

Net income of \$1,056,000 or \$0.046 per unit (22,816,000 units outstanding) was slightly less than expected.

Liquidity and Capital Resources

On March 16, 2005, the Fund completed two acquisitions amounting to \$105,445,000 [Note 1]. To do so, the Fund sold 25,017,561 units [Note 4] and incurred long-term debt [Note 3]. The net proceeds were used to acquire assets and related businesses from Microtec Enterprises Inc. ("Microtec") and Securex Master Limited Partnership ("Securex"). The transaction with Microtec was completed June 17, 2005 by the exchange of the subordinated voting shares and multiple voting shares of Microtec.

Cash flow generated by the Fund is required to fund distributions to unitholders, interest, repayment of debts, capital expenditures and replacement costs of the subscriber base of customers.

For the period ended June 30, 2005 cash flow generated from operations was \$3,725,000. Cash used for investing activities was \$75,809,000 (mainly to acquire Microtec and Securex) financed by loans and unitholders' contributions.

Non-GAAP Financial Measures

EBITDA and Distributable Cash are not earnings measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Therefore, EBITDA and Distributable Cash may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA and Distributable Cash should not be construed as alternatives to net earnings as determined in accordance with GAAP as indicators of performance or to cash flow from operating, investing and financing activities as measures of liquidity and cash flow.

Distributable Cash

Distributable Cash represents EBITDA, as adjusted for interest on debt, maintenance capital expenditures and subscriber replacement costs.

For the period ended June 30, 2005, the Fund distributed \$0.087 per unit compared with Distributable Cash per unit of \$0.093 generated as calculated below. For the period, the Fund distributed \$1,975,220 as described in the Note 5 of the accompanying financial statements.

Distributable Income and Distributions
Three-month period ended June 30, 2005
(in thousands of dollars, except amounts per unit)

	\$
EBITDA	4,476
Less :	
Interest on debt	(693)
Maintenance capital expenditure ^(a)	(20)
Subscriber replacement costs ^(b)	(1,631)
Cash available for distributions	2,132
Cash available for distributions per unit	0.093
Distributions declared [Note 5 to financial statements]	1,975
Distributions declared per unit	0.087
Weighted average units outstanding during the period (in thousands)	22,816

(a) Maintenance capital expenditures are expected to increase in the future as the Fund engages in certain efficiency initiatives.

(b) Subscriber replacement costs represent management's estimates of the costs to acquire new subscribers to replace subscribers lost through attrition. Subscriber replacement costs are necessary to maintain the Fund's recurring monthly revenues and distributable cash at current levels. To maintain recurring monthly revenue, the Fund replaces recurring monthly revenue reductions due to subscriber attritions by investing capital to acquire recurring monthly revenue through its Associated Dealers Network, internal sales teams, call centre, as well through the sale of new value-added services to its existing subscriber base.

Off-Balance Sheet Arrangements

As at June 30, 2005, the Fund had not entered in any significant off-balance sheet arrangements.

Related Party Transaction

The Fund is involved in the normal course of operations with a related party through common ownership. These transactions are measured at the exchange rate which is the amount of consideration established and agreed to by the related parties. As part of the Fund's purchase of the Securex accounts, a management agreement for billing and dealer management services between Securex and Securex Financial Corp. dated January 1, 2003 was assigned to the Fund.

Management fee expenses paid to Securex Financial Corp. for the period of April 1, 2005 through June 30, 2005 was \$146,000.

Contractual Obligations

As at June 30, 2005, the Fund has a bank loan of \$44,899,200 and a promissory note of \$3,500,000. The Fund entered into interest rate swap agreements in respect to its bank loan for a three year period commencing August 4, 2005 as described in Note 3 to the financial statements.

Financial Instruments

As at June 30, 2005, the Fund had not entered in any financial instruments other than the interest rate swap agreement.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts presented in the financial statements and the accompanying notes, particularly as it relates to the recognition and measurement of impairments of long-term assets. Actual results could differ from those estimates, and the differences could be material. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the accounting policies described in Note 2 of the accompanying financial statements.

Property, Plant and Equipment

Property, plant and equipment is 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. These consist primarily of the cost of equipment, installation costs and initial direct costs such as commissions, payments to independent recruiting agents, network connection costs and advertising and telemarketing costs. The direct costs of recruiting and acquiring subscriber contracts are amortized over their estimated useful lives using the declining balance method at a rate of 10%. In the same manner, revenues from initial subscriptions received from subscribers when the contracts are signed are deferred and amortized using the declining balance method at a rate of 10%. Revenues from amortization are deducted of the amortization of the subscriber accounts.

Impairment of Long-Term Assets

Long-term 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 flow and residual value. If the asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value.

Income Taxes

The Fund is taxed as a "Mutual Fund Trust" for income tax purposes. Pursuant to the Declaration of Trust, the trustees intend to distribute or designate all taxable income directly earned by the Fund to unitholders of the Fund and to deduct such distributions and designations for income tax purposes. Therefore, no provision for income taxes is required.

**FIRST NATIONAL ALARMCAP INCOME FUND
QUARTERLY REPORT**

CONSOLIDATED BALANCE SHEET [Note 9]

(in thousands of dollars)

	June 30, 2005 (unaudited)
	\$
ASSETS	
Current assets	
Cash	3,278
Accounts receivable	3,296
Inventories	639
Prepaid expenses	256
Total current assets	7,469
Property, plant and equipment	3,634
Subscriber accounts	104,137
Other long-term assets	1,452
	116,692
LIABILITIES AND UNITHOLDER'S EQUITY	
Current liabilities	
Accounts payable and accrued liabilities	4,444
Revenues collected in advance	5,346
Other deferred revenues	354
Distributions payable to unitholders	625
Total current liabilities	10,769
Long-term debt [Note 3]	48,399
Unitholders' equity	
Unitholders' contributions [Note 4]	58,443
Cumulative net income	1,056
Cumulative distributions [Note 5]	(1,975)
Total unitholder's equity	57,524
	116,692

**FIRST NATIONAL ALARMCAP INCOME FUND
QUARTERLY REPORT**

CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands of dollars, except per unit amounts)

	Three months ended June 30, 2005 (unaudited)
	\$
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Revenues	
Monitoring and services	7,764
Installation	578
	8,342
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Expenses	
Monitoring and customer service	1,860
Installation, sales and marketing	514
	2,374
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Income before general and administrative expenses and other items	5,968
General and administrative expenses	1,492
	4,476
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Amortization of subscriber accounts, depreciation of property, plant and equipment	2,603
Interest on debt including amortization of other long-term assets	817
	3,420
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Net income	1,056
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Earning per unit	0.046
Weighted average number of units outstanding (in thousands)	22,816
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**FIRST NATIONAL ALARMCAP INCOME FUND
QUARTERLY REPORT**

CONSOLIDATED STATEMENT OF CASH FLOW [Note 9]

(in thousands of dollars)

	June 30, 2005
	(unaudited)
	\$
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OPERATING ACTIVITIES	
Net income for the period	1,056
Items not affecting cash flow :	
Amortization of subscriber accounts and depreciation of property, plant and equipment	2,603
Amortization of other assets	123
Gross operating cash flow	3,782
Net change in non-cash operating balances	(57)
Cash flow generated from operating activities	3,725
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INVESTING ACTIVITIES	
Subscriber accounts and deferred initial subscription revenues	(1,404)
Acquisitions of businesses [Note 1]	(72,940)
Additions to property, plant and equipment	(20)
Increase in other assets	(1,445)
Cash flow relating to investing activities	(75,809)
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FINANCING ACTIVITIES	
Increase in long-term debt	45,003
Repayment of long-term debt	(1,104)
Distributions to unitholders	(1,975)
Unitholders' contributions	33,438
Cash flow relating to financing activities	75,362
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Net increase in cash for the period	3,278
Cash – beginning of the period	-
Cash – end of period	3,278
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Interest paid for the period:	475
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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 was created to acquire substantially all of the assets and shares of Microtec Enterprises Inc. ("Microtec") and substantially all 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 95,000 subscribers as at June 30, 2005.

Securex, founded in 1994 in Calgary, Alberta, is a unique an alternative credit provider to dealers and aggregator of monitored accounts. As at June 30, 2005, it owned 18,000 subscriber accounts. It offers bundled financial, billing / back office and monitoring services to independent dealers throughout Canada.

The preliminary allocation of the purchase price is summarized as follows for the transactions:

	Microtec \$	Securex \$	Total \$
Cash	2,000	-	2,000
Accounts receivable	580	628	1,208
Prepaid expenses	201	49	250
Property, plant and equipment	3,614	75	3,689
Subscriber accounts	82,858	22,402	105,260
Accounts payables and liabilities	(700)	(464)	(1,164)
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
Units	7,505	17,500	25,005
Note payable to a minority shareholder	1,000	-	1,000
Demand promissory note	-	1,000	1,000
Term promissory note	-	3,500	3,500
	83,445	22,000	105,445

The above purchase price allocation is preliminary. The final allocation of the purchase price will be based on the fair value of the assets acquired and liabilities assumed as at March 16, 2005. As at August 11, 2005, such valuation was not completed by the Fund's management. Subscriber accounts may include other intangibles that could be identified and separately valued. Accordingly, the final purchase price allocation may differ from the preliminary purchase price allocation reflected herein.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts presented in the financial statements and the accompanying notes, particularly as it relates to the recognition and measurement of impairments of long-term assets. Actual results could differ from those estimates and the differences could be material. The financial statements have, in management's opinion, been properly prepared using careful judgment within 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 collected in advance in respect of services to be rendered in the coming year are presented within the short-term liabilities.

Revenues from initial subscriptions received from subscribers when the contracts are signed are deferred and amortized using the declining balance method at a rate of 10%.

Inventories

Materials and supplies are valued at the lower of cost, determined using the first-in, first-out method, and replacement costs.

Long-Term Assets

Long-term assets comprise property, plant and equipment, subscriber accounts and other long-term assets.

(a) Property, Plant and Equipment

Property, plant and equipment is 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

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

Long-Term Assets (cont'd)

(b) *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. These consist primarily of the cost of equipment, installation costs and initial direct costs such as commissions, payments to independent recruiting agents, network connection costs and advertising and telemarketing costs directly related to subscriber contract execution.

The direct costs of recruiting and acquiring subscriber contracts are amortized over their estimated useful lives using the declining balance method at a rate of 10%.

(c) *Other Long-Term Assets*

Other long-term assets consist of financing costs relating to the bank loan and are amortized on the straight-line basis over the 3 year-term of the loan.

(d) *Depreciation of Long-Term Assets*

Long-term 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 flow and residual value. If the assets 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.

Income Taxes

The Fund is taxed as a "Mutual Fund Trust" for income tax purposes. Pursuant to the Declaration of Trust, the trustees intend to distribute or designate all taxable income directly earned by the Fund to unitholders of the Fund and to deduct such distributions and designations for income tax purposes. Therefore, no provision for income taxes is required.

Earnings Per Unit

Basic earnings per unit is calculated using the weighted average number of Class A trust units and Class B trust units outstanding during the year.

3. LONG-TERM DEBT

(in thousands of dollars)

	June 30, 2005 (unaudited) \$
Bank term loan ^(a)	44,899
Promissory note ^(b)	3,500
	<hr/> 48,399 <hr/>

3. LONG-TERM DEBT [Cont'd]

- a) National Bank fixed rate business term loan, bearing interest rates at 4.82% until April, 2006, at 5.50% until April 4, 2007 and at 6.00% until March 17, 2008. The loan matures in March 2008.
- b) Securex promissory note due April 28, 2009 bearing interest at 9% per annum, payable quarterly commencing March 31, 2005.

4. FUND UNITS

(in thousands of dollars except for the units)

Issued and fully paid	June 30, 2005 (unaudited) \$
18,017, 561 Class A trust units	44,505
7,000,000 Class B trust units	17,500
Less expenses of the offering	(3,562)
	<u>58,443</u>

The trust units were issued as follows:

- a) On March 10, 2005, issuance of 615,384 Class A trust units to an investor in consideration for that investor transferring and assigning to the Fund certain rights in claims which another group of potential investors had or may have against Microtec for a fair value of \$1,000,000.
- b) On March 16, 2005, issuance of 14,800,000 Class A trust units to various accredited investors pursuant to a private offering at the price of \$2.50 per Class A trust Unit for a gross cash consideration of \$37,000,000.
- c) On March 16, 2005, issuance to Securex of 7,000,000 Class B trust units of the Fund, such Class B trust units having an aggregate value of \$17,500,000.
- d) On June 17, 2005, issuance of 2,602,177 Class A trust units having a fair value of \$6,505,444 in exchange for all of the subordinated voting shares and all of the multiple voting shares in the share capital of Microtec.

5. DISTRIBUTION

During the period ended June 30, 2005, the Fund made the following cash distributions:

Class A Trust Units:

Period	Record Date	Payment Date	Distribution per Unit	Total \$
March 2005	March 31, 2005	May 31, 2005	0.027	219,826
April 2005	April 30, 2005	May 31, 2005	0.027	412,174
May 2005	May 31, 2005	June 30, 2005	0.027	425,564
June 2005	June 30, 2005	July 31, 2005	0.027	481,354
				<u>1,538,918</u>

5. DISTRIBUTION [Cont'd]

Class B Trust Units:

Period	Record Date	Payment Date	Distribution per Unit	Total \$
April 2005	April 30, 2005	May 31, 2005	0.021	143,836
May 2005	May 31, 2005	June 30, 2005	0.021	148,630
June 2005	June 30, 2005	July 31, 2005	0.021	143,836
				<u>436,302</u>
TOTAL DISTRIBUTION				1,975,220

6. SEGMENT INFORMATION

The Fund has determined that it has two reportable businesses segments. The Fund operates both the business of Microtec and the business of Securex. The Fund plans to operate both businesses as separate business units in substantially the same manner as was formerly operated by Microtec and Securex.

	Microtec \$	Securex \$
Revenues		
Monitoring and services	6,493	1,271
Installation	578	-
	<u>7,071</u>	<u>1,271</u>
Expenses		
Monitoring and customer service	1,633	227
Installation, sales and marketing	514	-
	<u>2,147</u>	<u>227</u>
Income before general and administrative expenses and other items	4,924	1,044

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

The Fund and its subsidiaries may become defendants in legal actions in the ordinary course of business. The Fund intends to vigorously defend itself against these claims should they arise.

9. TRANSACTIONS PRIOR APRIL 1ST, 2005

The Fund commenced commercial operations on April 1st, 2005. Transactions prior to this date are included in these quarter financial statements. These transactions are mainly described in notes 1, 3 and 4.