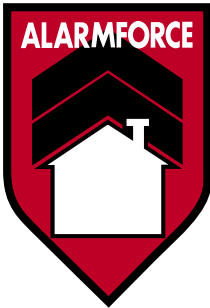


AlarmForce Industries Inc.



Protecting the Ones You Love



AlarmForce Industries Inc. is a Canadian-based company that manufactures, installs and monitors burglar alarm systems that incorporate two-way voice technology. The company's proven marketing strategy and competitive pricing have made it a brand name throughout Canada and it is quickly gaining recognition in selective US markets.

AlarmForce is traded on The Toronto Stock Exchange under the symbol AF.

- Revenues in 2007 surpassed the \$25 million mark, which represents a record annual increase of \$4,171,000 from 2006, up 20%.
- Subscribers increased to over 79,000 monitored accounts, up by 20% which is the largest net increase in the Company's account size ever recorded.
- Gross Profit increased by 22% to \$20,006,000, representing 80% of Revenue in 2007.

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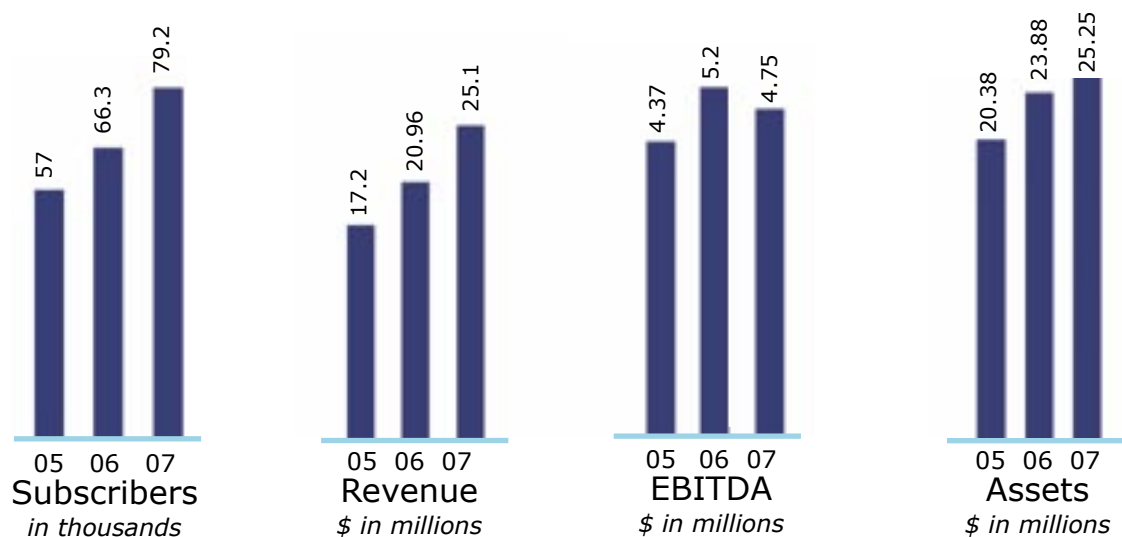
Highlights

	2007	2006	2005
Subscriber base	79,200	66,300	57,000
	\$	\$	\$
Operations:			
Total revenue	25,136,125	20,964,877	17,227,494
Gross margins	20,005,802	16,458,835	13,538,797
EBITDA**	4,747,901	5,217,159	4,370,324
Income before income taxes	2,105,091	2,509,697	1,290,562
Net income	1,280,172	1,492,336	810,214
Cash flow from operations	2,737,038	4,945,232	3,518,787
Earnings per share	0.11	0.12	0.07
Diluted earnings per share	0.11	0.12	0.07
Diluted EBITDA per share	0.39	0.43	0.37
Financial position:			
Total assets	25,251,571	23,880,550	20,389,283
Shareholders' equity	16,839,675	15,521,703	13,678,912
Debt/equity ratio**	0.10	0.08	0.07
Debt*** per subscriber account	22	19	14

* Restated

** EBITDA (Earnings before interest, income taxes, depreciation and amortization) is a key performance measure in the security industry and should not be interpreted as GAAP earnings.

*** Includes building loan and revolving term loans.



President's Message

"In 2007, we achieved an all-time record increase in revenues, the highest in the company's nineteen year history."



Joel Matlin
President & Chief Executive Officer

To Our Shareholders:

In 2007, we achieved an all-time record increase in revenues, the highest in the company's nineteen year history. We have solidified the foundation for our subscriber base expansion program for the next five years, which promises to be the most exciting period yet, as our future continues to unfold. The two most salient trends reflected in our report this year are consistently strong growth in revenues, and an expanded marketing expenditure budget. The emphasis on investing in our marketing programs reflects our confidence in their effectiveness in achieving our objectives, as well as our track record in generating new subscriber growth from ongoing investment in marketing programs.

In 2007, the AlarmForce subscriber base increased to 79,200 monitored accounts, which represents the largest net increase in our account size ever recorded. Revenues in 2007 surpassed the \$25 million mark, reflecting a record annual increase of \$4,171,000 from the preceding year, or a 20% increase from 2006. Our subscriber growth and revenues are key performance benchmarks given that companies in the security industry are typically valued as a multiple of recurring revenue. In terms of new subscribers, we added 18,000 accounts in 2007, which was 20% higher than 2006. As a result of the growth, our recurring monthly revenues and cash flows increased commensurately.

This was a year during which we stabilized the company's operations in the new markets that we had entered in the last few years, and focused the company's organizational capacity. As a result we are leveraging our team's combined knowledge and accumulated experience of 19 years in innovating and introducing new products in an affordable manner to the consumer, and have created a powerful brand synonymous with advanced two-way wireless technology and customer satisfaction.

Looking ahead, the convergence of several trends and industry factors are creating attractive opportunities for us to propel the company to new heights. We have achieved a significant position in the major centres in Canada and in the three US States in which our brand has now gained a critical mass, providing traction to sustain growth from existing subscribers as well as referrals. We expect to grow in 2008 with a much lower operational drag than that in prior years, which had reflected the startup phase for new markets in the US. In addition, social and demographic trends as well as technology-driven innovation in product development promise to provide opportunities for incremental revenues in the existing markets. We are very optimistic about potential new sources of incremental revenue in the future as a result of these opportunities and the efforts of our team.

Operating results

In addition to the annual growth in revenues of 20% generated from our exclusively organic model of creating accounts, we realized economies of scale and higher gross profit margins. Gross profit increased by 22% to \$20,006,000, representing 80% of revenue in 2007.

In 2007, our budgeted marketing expenses increased from the 2006 level by over \$3 million, including expenses in both Canada and the US. In both market segments, subscriber growth was record-setting. The impact of the higher marketing program expenses, which are charged against income in the period, is reflected in the decrease in operating bottom line results. The increase in expenses was offset by the 21% annual growth rate and higher gross margins. Therefore, Income before taxes decreased by \$405,000 and Net income decreased by \$212,000, relative to 2006.

Against the increase in marketing expenses in 2007 of over \$3 million, the Company's EBITDA decreased to \$4,748,000 in 2007 from \$5,217,000 in 2006. Excluding the marketing expenses, EBITDA increased to \$14,111,000, up by 24% from 2006. Under the Management's Discussion and Analysis section, the company has provided a reconciliation of Adjusted EBITDA (before discretionary marketing expenses) to earnings under generally accepted accounting policies. This is a key indicator given the discretionary nature of marketing budgets that constitute an important driver of growth in recurring revenue. Every subscriber account added increases the asset value of the company, and the creation of new accounts has continued to be accretive for the company, being generated without increasing our net debt.

In 2007, the company utilized a line of credit of \$1,000,000 to purchase intangibles during the year, resulting in an increase in the long-term debt on our balance sheet. At the same time, the company's operating revolving debt decreased by \$800,000 during the year, highlighting the company's positive net operating cash flows. At the end of the year, debt per subscriber was approximately \$22 per subscriber account including all bank loans. On a net basis, the company was debt-free, reflecting a net positive internal cash position. Our strong balance sheet and financial resources are important in differentiating how we compare with other alarm companies in the industry.

Outlook and Future Growth

We expect to continue to use our organic model to market two-way voice technology and the AlarmForce brand using radio, television, print and other media, in Canada and in the three States which define our US presence. Our monthly recurring revenues, cash flows and subscriber base are expected to grow in 2008, augmented by economies of scale. Cash flows from operations are expected to continue to provide sufficient cash flow to fund investment in new account growth. We expect to continue to expand our subscriber base without any significant reliance on debt.

Our 19 years in the industry have shown AlarmForce to be quite resistant to changes in economic conditions and cyclical factors. We have accomplished much in the past, and we expect to do much more as we continue growing.

In closing, I wish to personally thank each and every member of the AlarmForce team of employees and partners, including our Shareholders. Our success has been made possible by all of those who stood with us and helped us achieve the record figures presented in our report. Thank you for your continuing support.

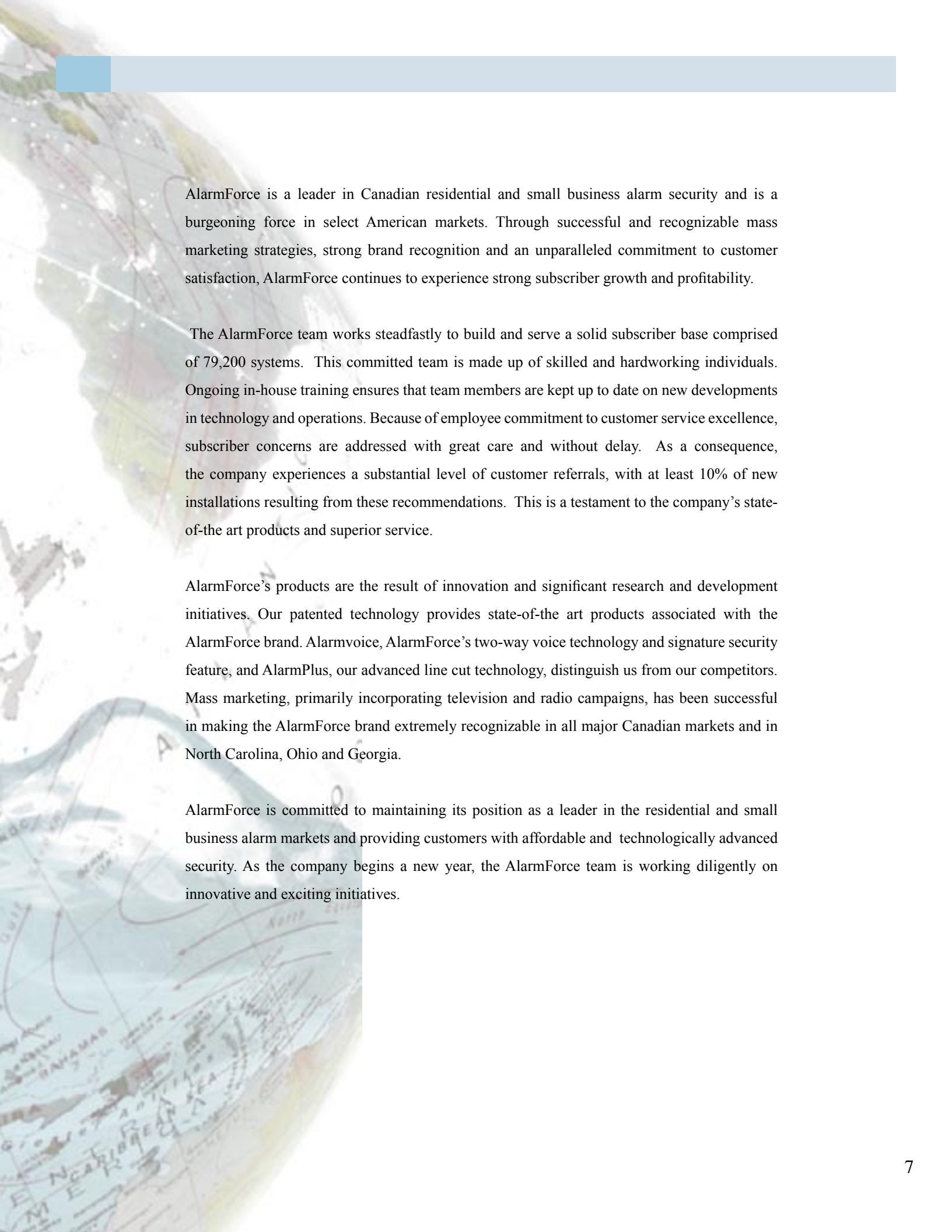
Respectfully submitted on behalf of the Board of Directors



Joel Matlin
President & Chief Executive Officer







AlarmForce is a leader in Canadian residential and small business alarm security and is a burgeoning force in select American markets. Through successful and recognizable mass marketing strategies, strong brand recognition and an unparalleled commitment to customer satisfaction, AlarmForce continues to experience strong subscriber growth and profitability.

The AlarmForce team works steadfastly to build and serve a solid subscriber base comprised of 79,200 systems. This committed team is made up of skilled and hardworking individuals. Ongoing in-house training ensures that team members are kept up to date on new developments in technology and operations. Because of employee commitment to customer service excellence, subscriber concerns are addressed with great care and without delay. As a consequence, the company experiences a substantial level of customer referrals, with at least 10% of new installations resulting from these recommendations. This is a testament to the company's state-of-the-art products and superior service.

AlarmForce's products are the result of innovation and significant research and development initiatives. Our patented technology provides state-of-the-art products associated with the AlarmForce brand. Alarmvoice, AlarmForce's two-way voice technology and signature security feature, and AlarmPlus, our advanced line cut technology, distinguish us from our competitors. Mass marketing, primarily incorporating television and radio campaigns, has been successful in making the AlarmForce brand extremely recognizable in all major Canadian markets and in North Carolina, Ohio and Georgia.

AlarmForce is committed to maintaining its position as a leader in the residential and small business alarm markets and providing customers with affordable and technologically advanced security. As the company begins a new year, the AlarmForce team is working diligently on innovative and exciting initiatives.

Management's Report

Management is responsible to the Board of Directors for the preparation of the consolidated financial statements of the Company. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and necessarily include some amounts based on estimates and judgements. Financial information presented elsewhere in this annual report is consistent with that in the consolidated financial statements.

In order to ensure the accuracy and objectivity of information included in the financial statements, management has designed and implemented a system of internal controls designed to provide reasonable assurance that reliable financial records are maintained. Management believes that these internal controls provide reasonable assurance regarding complete and accurate maintenance of accounting records necessary for the preparation of the financial statements.

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures as at the end of October 31, 2007. They have concluded that the Company's disclosure controls and procedures were effective, at a reasonable assurance level, to ensure that material information relating to the Company and its consolidated subsidiary would be made known to them by others within those entities, particularly during the period in which the management's discussion and analysis and the consolidated financial statements contained in this report were being prepared.

The Board of Directors have reviewed and approved these consolidated financial statements. The Audit Committee assists the Board in meeting its responsibilities over the Company's financial statements. All the members of the Audit Committee are financially literate. The Audit Committee reviews the financial statements and recommends their approval to the Board of Directors.

"Joel Matlin"

Joel Matlin
President & Chief Executive Officer

"Anthony Pizzonia"

Anthony Pizzonia
Chief Financial Officer

Auditors' Report

To the Shareholders of AlarmForce Industries Inc.

We have audited the consolidated balance sheets of ALARMFORCE INDUSTRIES INC. as at October 31, 2007 and 2006 and the consolidated statements of retained earnings, income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 the 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 Company as at October 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

“Kraft Berger LLP”

KRAFT BERGER LLP
Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
January 11, 2008

Consolidated Balance Sheet
As at October 31, 2007 and October 31, 2006

	2007	2006
ASSETS		
Current		
Cash and cash equivalents	\$2,480,014	\$3,909,309
Accounts receivable	349,068	274,405
Income taxes recoverable	37,081	–
Inventory	2,904,970	2,140,069
Prepaid expenses and other assets	23,878	40,013
	5,795,011	6,363,796
Deferred charges (note 3)	11,187	33,411
Property, plant and equipment (note 4)	15,500,818	14,066,022
Intangible assets (note 5)	3,944,555	3,417,321
	\$25,251,571	\$23,880,550
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$3,099,503	\$2,964,706
Unearned revenue	666,295	575,152
Income taxes payable	–	646,631
Current portion of long-term debt (note 6)	305,202	330,015
	4,071,000	4,516,504
Deferred revenue	2,673,729	2,161,296
Long-term debt (note 6)	1,454,167	926,047
Future income taxes (note 9)	213,000	755,000
	8,411,896	8,358,847
Contingent liability (note 10)		
Commitments (note 11)		
SHAREHOLDERS' EQUITY		
Share capital (note 7)	12,183,385	12,145,585
Paid-in capital – options	202,140	202,140
Retained earnings	4,454,150	3,173,978
	16,839,675	15,521,703
	\$25,251,571	\$23,880,550

See accompanying notes to consolidated financial statements.

APPROVED ON BEHALF OF THE BOARD:

“Joel Matlin”
Joel Matlin, Director

“Peter Silverberg”
Peter Silverberg, Director

Consolidated Statement of Retained Earnings
For the years ended October 31, 2007 and October, 31 2006

	2007	2006
Retained earnings, beginning of year	\$3,173,978	\$1,681,642
Net income for the year	1,280,172	1,492,336
Retained earnings, end of year	\$4,454,150	\$3,173,978

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income
For the years ended October 31, 2007 and October 31, 2006

	2007	2006
Sales	\$25,136,125	\$20,964,877
Cost of Sales	5,130,323	4,506,042
Gross Profit	20,005,802	16,458,835
Expenses		
Selling	10,949,615	7,611,097
General and administrative	4,308,286	3,630,579
	15,257,901	11,241,676
Income from operations before other expenses:	4,747,901	5,217,159
Other expenses		
Amortization:		
Property, plant and equipment	1,922,644	1,821,279
Deferred charges	9,591	9,591
Intangible assets	822,767	754,173
Interest	102,258	82,072
Foreign exchange (gain)/loss	(214,450)	40,347
	2,642,810	2,707,462
Income before income taxes	2,105,091	2,509,697
Income taxes (note 9)	824,919	1,017,361
Net income for the year	\$1,280,172	\$1,492,336
Basic Earnings per Share (note 12)	\$0.11	\$0.12
Fully Diluted Earnings per Share (note 12)	\$0.11	\$0.12

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flow
For the years ended October 31, 2007 and October 31, 2006

	2007	2006
OPERATING ACTIVITIES		
Net income for the year	\$1,280,172	\$1,492,336
Items not involving cash:		
Amortization:		
Property, plant and equipment	1,922,644	1,821,279
Deferred charges	9,591	9,591
Intangible assets	822,767	754,173
Future income taxes	(542,000)	(66,000)
Stock compensation	12,632	29,480
	3,505,806	4,040,859
Changes in non-cash components of working capital:		
Accounts receivable	(74,663)	(30,269)
Inventory	(764,901)	(469,413)
Prepaid expenses and other assets	16,135	(77)
Accounts payable and accrued liabilities	134,797	586,331
Unearned revenue	91,143	135,440
Income taxes	(683,712)	200,878
Deferred revenue	512,433	481,485
	(768,768)	904,375
	2,737,038	4,945,234
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(3,357,440)	(4,633,796)
Additions to intangible assets	(1,350,001)	(150,000)
	(4,707,441)	(4,783,796)
FINANCING ACTIVITIES		
Repayment of fixed rate term loan	(50,000)	(29,166)
Increase /(decrease) in long-term debt	553,308	(660,492)
Proceeds from issue of share capital	37,800	350,455
	541,108	(339,203)
Change in cash and cash equivalents	(1,429,295)	(177,765)
Cash and cash equivalents, beginning of year	3,909,309	4,087,074
Cash and cash equivalents, end of year	\$2,480,014	\$3,909,309
Supplemental cash flow information:		
Interest paid	\$102,258	\$82,072
Income taxes paid	\$2,084,647	\$885,700
Non-cash transaction:	-	\$1,000,000
Fixed rate term loan obtained to finance property acquisition		

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

For the years ended October 31, 2007 and October 31, 2006

1. NATURE OF BUSINESS

AlarmForce Industries Inc., (the “Company”) is a public company whose shares are listed on the Toronto Stock Exchange. The Company provides security alarm monitoring and related services to residential and commercial subscribers throughout Canada and in selected states of the United States of America. The Company is a leading provider of two-way voice alarm systems and monitoring services and was incorporated under the laws of Canada on November 16, 1988.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

(a) Basis of Consolidation

These consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and AlarmForce LP, a limited partnership, operating in the U.S.A. Inter-company balances and transactions have been eliminated on consolidation.

(b) Revenue Recognition

(i) The Company earns the majority of its revenue from subscribers for monitoring services and equipment. Revenue from monitoring services is recognized over the term of the subscriber agreement as the services are provided. The subscriber agreements are non-cancellable over a three or four year term with automatic annual renewals thereafter.

(ii) Revenue and the related costs from the sale of equipment, which consists principally of alarm equipment, are deferred and recognized as revenue over the respective three and four year terms of the subscriber agreement.

(iii) Unearned revenue results from subscribers who are billed for monitoring in advance of the period in which such services are provided, on a bi-monthly, quarterly, semi-annual or annual basis. Revenues from monitoring activities are recognized in the year such services are provided. The maximum period for which subscribers are billed in advance is one year.

(c) Inventory

Inventory, consisting principally of alarm equipment and accessories, is valued as follows:

- (i) For used equipment and accessories, at the lower of the weighted average amortized cost and net realizable value; and
- (ii) For new equipment and accessories, at the lower of cost on a first-in, first-out basis and net realizable value.

(d) Cash and Cash Equivalents

Cash and cash equivalents consists of cash and short-term guaranteed investment certificates, which are carried at the lower of cost and market value. These cash equivalents are cashable within a 90-day period from the date of purchase. Below is a breakdown of the cash and cash equivalents:

	2007	2006
	\$	\$
Cash	475,303	1,025,232
Short-term investments	2,004,711	2,884,077
	2,480,014	3,909,309

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(e) Property, Plant and Equipment**

Property, plant and equipment are recorded at cost. When assets are replaced or disposed of, the cost and accumulated depreciation are removed from the accounts and the gains or losses are recognized in the period realized. Repairs and maintenance costs are expensed as incurred. Amortization is provided over the useful lives using the following methods and annual rates:

Building	20 years, straight-line basis
Rental equipment	10 years, straight-line basis
Computer equipment	30%, declining balance basis
Computer software	30%, declining balance basis
Furniture and fixtures	20%, declining balance basis
Moulding equipment	5 years, straight-line basis

(f) Long-lived Assets

Long-lived assets, including property, plant and equipment, intangible assets and deferred charges with finite useful lives are amortized over their useful lives. The Company reviews its long-lived assets for impairment on a regular basis or more frequently if events or changes in circumstances indicate that the carrying value exceeds its fair value, as determined by the undiscounted future cash flows expected from the related subscriber accounts. If the sum of the undiscounted future cash flow expected and eventual disposition of assets is less than the carrying amount, it is considered to be impaired. An impairment loss is measured as the amount by which the carrying amount of the group of assets exceeds its fair value. For the year ended October 31, 2007 and 2006, the Company recorded no impairment loss.

(g) Intangible Assets

Intangible assets consisting of franchise rights are recorded at the cost at which the Company acquired the rights. Amortization is provided on a straight line basis over their estimated useful lives between 5 and 14 years representing the remaining term of the respective franchise agreement.

(h) Income Taxes

Current income tax expense reflects the estimated income taxes payable for the current year. The Company follows the asset and liability method of accounting for income taxes. Under this method future income taxes are recognized to reflect the temporary differences between the carrying amounts of the assets and liabilities for accounting purposes and the amounts used for tax purposes.

The Company calculates future income taxes using the rates enacted by tax law. The effect of a change in tax rates on future income tax assets and liabilities is included in earnings in the year when the change was enacted. A valuation allowance is provided to the extent that it is more likely than not that the future income tax assets will not be realized.

(i) Deferred Charges

Costs incurred in developing the centralized monitoring station and deferred stock compensation costs are capitalized as deferred charges. Amortization is recorded annually as follows:

- (i) Deferred development costs are written off on a straight-line basis over 10 years, which represents management's best estimate of the useful life of the centralized monitoring station.
- (ii) Deferred stock compensation cost is written off over the vesting period of four years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(j) Earnings Per Share**

Basic net income per common share is determined using the weighted-average number of common shares outstanding during the respective year. The treasury stock method is used to compute the dilutive effect of options.

(k) Foreign Currencies

Monetary assets and liabilities of the wholly owned US limited partnership are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at the historical rate, and current year additions and amortization expenses are translated at the weighted average rate. Revenue and other expenses are also translated at the weighted average rate for the year. Exchange gains or losses on translations are recognized in the consolidated statements of income. For the year ended October 31, 2007, the Company experienced an exchange gain totalling \$214,450. The foreign exchange loss for the year ended October 31, 2006 was \$40,347.

(l) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles (GAAP) requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Examples of significant estimates include:

- Allowance for doubtful accounts;
- Estimated useful lives of assets;
- The composition of future income tax asset and future income tax liability;
- Valuation of inventory.

(m) Stock-based Compensation

The Company has a stock option plan for employees and directors, and it uses the fair value method of accounting for all stock option awards. Under this method the Company recognizes a compensation expense based on the fair value of the options on the date of grant, which is determined by using an option-pricing model. The fair value of the options is recognized over the vesting period of the options granted as compensation expense and paid in capital options. The paid-in capital options balance is reduced as the options are exercised and the amount initially recorded for the options in paid-in capital is credited to capital stock. No compensation expense is recorded for stock options awarded and outstanding prior to November 1, 2003.

(n) Accounting Policy Developments in 2007

1) *Financial Instruments, comprehensive income, hedges*: In January 2005, the Canadian Institute of Chartered Accountants (“CICA”) issued Handbook Section 1530, Comprehensive Income (“Section 1530”), Handbook Section 3855, Financial Instruments – Recognition and Measurement (“Section 3855”), and Handbook Section 3865, Hedges (“Section 3865”). Section 1530 requires the financial statements to present certain gains and losses outside net income in a new component of shareholders’ equity entitled Comprehensive Income. Section 3855 establishes standards for the recognition and measurement of all financial instruments, provides character-based definition of a derivative, provides criteria to be used to determine when a financial instrument should be recognized and provides criteria to be used to determine when a financial liability is considered to be extinguished. Section 3865 established standards for when and how hedge accounting may be applied. The use of hedge accounting is optional. These standards are effective beginning November 1, 2006. The adoption of these sections did not have a material impact on the Company’s consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2) *Accounting changes*: In July 2007, "CICA" revised handbook Section 1506, Accounting Changes, which requires that voluntary changes in accounting policy be made only if they result in the financial statements providing more reliable and more relevant information and that material prior period errors are corrected retrospectively. The section applies to interim and annual financial statements effective for periods beginning on or after January 1, 2007. The adoption of this Section did not have a material impact on the Company's consolidated financial statements.

3) *Equity*: The Company adopted Handbook Section 3251, "Equity," on November 1, 2006. Section 3251 establishes standards for the presentation of equity and changes in equity during reporting years beginning after November 1, 2006. Financial statements of prior years have not been restated for any specified adjustments, as the effect on the Company's consolidated financial statements is not material.

4) *Stock-based compensation for employees eligible to retire before the vesting date*: Emerging Issues Committee Abstract 162, Stock-based compensation for Employees Eligible to Retire Before the Vesting Date ("EIC-162"), addresses how compensation cost should be accounted for in the case of a stock-based award that contains provisions that allow for the option to continue vesting in accordance with the stated vesting terms after the employee has retired from the entity when the grantee is an employee who is eligible to retire during the vesting period. EIC 162 requires the reporting enterprise to consider the substantive vesting period rather than the stated vesting terms. EIC-162 is to be retroactively applied, with the restatement of prior periods for all stock-based compensation awards accounted for in accordance with CICA handbook Section 3870 in financial statements issued for interim and annual periods on or after December 31, 2006. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

(o) Future Accounting Pronouncements for 2008

(i) *Financial Instruments – Disclosure and Presentation*: In December 2006, the CICA issued Section 3862, "Financial Instruments Disclosures," and Section 3863, "Financial Instruments, presentation." These standards provide additional guidance on disclosing risks related to recognized and unrecognized financial instruments and how those risks are managed. This Section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company is currently evaluating the impact of adopting these standards on the consolidated financial statements.

(ii) *Capital disclosures*: CICA issued Handbook Section 1535, Capital Disclosures, which provides standards for disclosures regarding a company's capital and how it is managed. Enhanced disclosure with respect to the objectives, policies and processes for managing capital and quantitative disclosures about what a company regards as capital is required. These recommendations are effective for fiscal years beginning on or after October 1, 2007 and, therefore, the Company will be required to implement these standards on November 1, 2007. The Company is currently evaluating the impact of this standard on the consolidated financial statements.

(iii) *Inventory*: In June 2007, the CICA issued Section 3031, "Inventories," which requires inventory to be measured at lower of cost and net realizable value. The standard also provides guidance on the costs that can be capitalized. In addition, previous inventory write-downs must be reversed if the economic circumstances have changed to support an increased inventory value. The standard is effective for our annual and interim periods beginning on or after January 1, 2008 and, therefore, the Company will be required to implement this standard on February 1, 2008. The Company is currently evaluating the impact of this standard on the consolidated financial statements.

3. DEFERRED CHARGES

	2007	2006
	\$	\$
Deferred stock compensation	–	12,632
Deferred development costs (net of accumulated amortization of \$84,728; 2006 - \$75,136)	11,187	20,779
	<u>11,187</u>	<u>33,411</u>

4. PROPERTY, PLANT AND EQUIPMENT

	2007		2006	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
	\$	\$	\$	\$
Land	600,000	–	600,000	–
Building	2,208,069	164,752	2,191,007	54,775
Rental equipment	19,494,802	7,023,290	17,225,520	6,316,650
Computer equipment	652,714	514,074	600,204	465,909
Computer software	335,075	229,644	310,078	189,816
Furniture and fixtures	375,358	233,938	360,116	200,489
Moulding equipment	57,386	56,888	57,386	50,650
	<u>23,723,404</u>	<u>8,222,586</u>	<u>21,344,311</u>	<u>7,278,289</u>
Net Book Value	<u>15,500,818</u>		<u>14,066,022</u>	

5. INTANGIBLE ASSETS

Intangible assets include the gross up of the future tax liability pertaining to these assets, and consist of the following:

	2007	2006
	\$	\$
Franchise rights	7,482,551	6,132,549
Less: Accumulated amortization	3,537,996	2,715,228
	<u>3,944,555</u>	<u>3,417,321</u>

6. LONG-TERM DEBT

	2007	2006
	\$	\$
Fixed rate term loan	920,834	970,834
Revolving term loans	838,535	285,228
	<u>1,759,369</u>	<u>1,256,062</u>
Less: Current portion:	305,202	330,015
	<u>1,454,167</u>	<u>926,047</u>

The Company has credit facilities in the aggregate amount of approximately \$4,800,000 (2006 - \$5,800,000). In March 2007, the Company acquired an additional bank loan in the amount of \$1,000,000 to finance the purchase of franchise rights, repayable over a period of 48 months in monthly installments of principal and interest. Loans made under the respective facilities are repayable over various terms, in monthly installments of principal plus interest at the prime rate plus 0.75% per annum, pursuant to individual contract periods. In 2006, the Company also obtained a fixed rate term loan in the amount of \$1,000,000 to finance the acquisition of property consisting of land and building, and is repayable (principal and interest) in monthly installments, with monthly principal repayments of \$4,167 bearing an interest rate of 5.58% per annum, which is due March 2016. A general assignment of book debts, a general security agreement, and an assignment of the proceeds of a \$300,000 life insurance policy have been pledged as collateral. The Company is in compliance with all loan covenants as at October 31, 2007.

Future minimum payments are due as follows:

	\$
2008	305,202
2009	300,000
2010	300,000
2011	133,333
2012	50,000
2013 onward	670,834
	<u>1,759,369</u>

7. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares.

The changes in the issued common shares of the company during 2007 and 2006 are as follows:

	Number of Shares	Value \$
Balance, October 31, 2005	11,676,488	11,795,130
For cash pursuant to option plan	412,300	350,455
Balance, October 31, 2006	12,088,788	12,145,585
Issued during the year ended October 31, 2007:		
For cash pursuant to stock option plan	10,000	37,800
Balance, October 31, 2007	12,098,788	12,183,385

Stock Option Plan

The Company has an incentive stock option plan in place for its directors, officers and employees. Options may be granted for a period not exceeding five years at an option price not less than the market price of the shares at the time the option is granted. The maximum number of common shares which may be set aside for issue under the plan is 2,250,000, provided that, from time to time, such number may be increased subject to approval of the shareholders of the Company. The maximum number of common shares that may be reserved for issuance to any one person under the plan is 5% of the common shares outstanding at the time of the grant, less the number of shares reserved for issuance to such person.

The changes in the outstanding stock options of the company during 2007 and 2006 are as follows:

	Options	October 31, 2007 Weighted average exercise price
Balance, beginning of period	200,000	\$3.78
Granted	Nil	
Exercised	(10,000)	\$3.78
Cancelled	Nil	
Balance, end of period (i)	190,000	\$3.78
Less options not vested (ii)	0	
Exercisable, end of period	190,000	

7. SHARE CAPITAL (continued)

The remaining contractual life and exercise price of options outstanding and options exercisable as at October 31, 2007 are as follows:

Number of options outstanding	Remaining contractual life (Years)	Exercise Price \$	Number of options exercisable
190,000	1.75	3.78	190,000

Vesting of options:

(i) Outstanding options are subject to vesting provisions under which 25% of the total options granted vest immediately at the date of the grant, and a further 25% after each of the first, second and third anniversaries.

(ii) All options have fully vested.

During the 2007 fiscal year, the Company recognized compensation expense of \$12,632 (2006- \$29,480) for the stock option awards granted in 2004 fiscal year. There were no stock options granted in 2007 and 2006.

8. INTEREST EXPENSE

	2007	2006
	\$	\$
Interest on long-term debt	100,165	71,173
Other	2,093	10,899
	102,258	82,072

9. INCOME TAXES

	2007	2006
	\$	\$
Current income tax	1,366,919	1,083,361
Future income tax recovery	(542,000)	(66,000)
	824,919	1,017,361

9. INCOME TAXES (continued)

Income tax expense varies from the amount that would be computed by applying the combined federal and provincial statutory income taxes rate as a result of the following:

	2007	2006
	\$	\$
Income tax based on combined federal and provincial statutory income tax rate of 36.12% in 2007 and in 2006	760,359	906,503
Increase /(decrease) in income taxes resulting from:		
Non-deductible expenses	11,650	66,326
Other differences	52,910	44,532
Effective income tax provision	824,919	1,017,361

A summary of significant components of future tax liabilities calculated in accordance with Canadian accounting principles at October 31, 2007 and 2006 are as follows:

	2007	2006
	\$	\$
Non-current future income tax liabilities:		
Property, plant and equipment	(363,000)	(500,000)
Deferred charges	(4,000)	(7,000)
Intangible assets	(847,000)	(1,100,000)
	(1,214,000)	(1,607,000)
Non-current future income tax assets		
Deferred revenue	966,000	781,000
Share issue costs	35,000	71,000
	1,001,000	852,000
Net future income tax liability	(213,000)	(755,000)

10. CONTINGENT LIABILITY

The Company was a defendant in a legal action in 2006 with respect to a claim for fees subsequent to termination of an agreement. This legal action was resolved in December 2007, resulting in the Company re-acquiring the franchise rights in the amount of \$55,000.

11. COMMITMENTS

The Company is committed to operating leases for premises, vehicles, and office equipment expiring at various dates up to May, 2012. Future minimum lease payments are as follows:

	Premises	Vehicles	Equipment	Total
	\$	\$	\$	\$
2008	35,171	59,205	35,056	129,432
2009	–	29,293	22,988	52,281
2010	–	19,563	21,891	41,454
2011	–	5,602	18,991	24,593
2012	–	–	8,710	8,710
	<u>35,171</u>	<u>113,663</u>	<u>107,636</u>	<u>256,470</u>

12. EARNINGS PER SHARE

The following table sets forth the calculation of the basic earnings and diluted earnings:

	2007	2006
	\$	\$
Basic earnings available to common shareholders	1,280,172	1,492,336
Weighted average number of common shares outstanding – basic	12,091,856	11,983,870
Basic earnings per share	\$0.11	\$0.12
Weighted average number of common shares outstanding	12,091,856	11,983,870
Assumed exercise of outstanding dilutive options	190,000	200,000
Shares purchased from proceeds of assumed exercise of options	(137,586)	(155,876)
Weighted average number of common shares outstanding – dilutive	12,144,270	12,027,994
Fully diluted earnings per share	\$0.11	\$0.12

Basic net income per common share is determined using the weighted-average number of common shares outstanding during the respective year. The treasury stock method is used to compute the dilutive effect of options.

13. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and long-term debt.

(a) Fair value

The carrying value of the Company's financial instruments consisting of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximates fair value due to their immediate or short-term maturity. The carrying value of the long-term debt approximates fair value as it bears interest at market rate.

(b) Credit risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of cash and cash equivalents, accounts receivable and long-term debt.

Cash and cash equivalents are maintained at major financial institutions. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions of reputable credit and therefore bear minimal credit risk.

Credit risk on accounts receivable is minimized as a result of the constant review and evaluation of the account balances. The Company also maintains an allowance for doubtful accounts at an estimated amount, allocating sufficient protection against losses resulting from collecting less than full payments from its receivables.

(c) Interest rate risk

The Company is exposed to fluctuations in interest rates in regard to the revolving term loans, which are on a prime plus basis. The Company has not deemed it necessary to use derivative financial instruments to reduce exposure to interest risk.

(d) Foreign currency risk

The Company is exposed to currency risk due to its US limited partnership, AlarmForce Limited Partnership, and also a certain portion of the Company's purchases are in US currency, resulting in US dollar-denominated accounts payable. These activities result in exposure to fluctuations in foreign currency rates. At statement date, the Company had net liabilities denominated in U.S. currency of approximately \$1,215,000 (2006 - \$526,000) as shown below, and a foreign exchange gain resulting from consolidation of \$ 214,450. The Company has not deemed it necessary to use derivative financial instruments to reduce exposure to foreign exchange risk.

In US \$	2007	2006
	\$	\$
Accrued liabilities	1,314,000	864,000
Less: cash position	(99,000)	(338,000)
Net US liabilities	1,215,000	526,000

14. SEGMENTED INFORMATION

The Company operates primarily in one industry segment, which is the monitoring of residential security systems. The subscribers are located primarily in Canada with the balance in the United States. At the present time, the United States operations are not a material geographic segment at 4.6% of total revenues and accordingly, no additional information has been presented.

Management Discussion & Analysis
For the years ended October 31, 2007 and October 31, 2006
Dated January 12, 2008

1. INTRODUCTION

The following management's discussion and analysis, of operating results and financial position is supplementary to, and should be read in conjunction with the audited consolidated financial statements for the fiscal year ended October 31, 2007. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada and all amounts, unless otherwise indicated, are expressed in Canadian dollars. The consolidated financial statements and management's discussion and analysis were reviewed and approved by the Company's Audit Committee and the Board of Directors.

2. FORWARD-LOOKING STATEMENTS

This Management's discussion and analysis contains statements about expected future events and financial and operating results of AlarmForce Industries Inc. that are forward-looking. By their nature, forward-looking statements require the Company to make assumptions and are subject to inherent risks and uncertainties. These forward-looking statements are based on current expectations. There is substantial risk that forward-looking statements will not prove to be accurate. Readers are cautioned not to place undue reliance on the Company's forward-looking statements as a number of factors including economic conditions, technological change, regulatory change, and competitive factors, could cause actual future results, conditions, actions or events to differ materially from targets, expectations, estimates or intentions expressed in the forward-looking statements; many of which are beyond the Company's control.

Future events and results may vary significantly from what the Company currently foresees. We are under no obligation to update or alter the forward-looking statements whether as a result of new information, future events or otherwise. For a more detailed discussion of factors that may affect actual results, see the section entitled "Trends, Risks and Uncertainties".

3. OVERVIEW

In 2007, the Company reported 20% growth in Revenue and 22% growth in Gross Profit. This is primarily attributable to subscriber growth and improved efficiencies from providing recurring monitoring services to a larger subscriber account base. Total subscribers increased by 20% to 79,200 in 2007 up from 66,300 in 2006. Approximately 6% of the total number of subscriber accounts monitored at the end of 2007 were located in the United States.

The Company plans to continue to organically grow by marketing and distributing its unique technology and creates awareness through advertising programs in all the major centres across Canada and selected centers in the United States. The Company has not acquired any monitoring accounts or blocks of accounts from dealers, but has increased its account size by solely internal account creation. The Company plans to continue growing organically as cost for the Company to create a new account under its existing programs is much lower than the comparable cost to acquire an existing account, individually or en bloc.

On February 14, 2007, the Company announced that it planned to expand its United States operations by establishing regional representation to install and service alarm systems in the city of Atlanta as part of the first phase of entering the state of Georgia. The Company currently installs and services all major centers in Canada and 7 major American centers. Over the next several years, the Company will establish brand recognition by aggressively advertising to these markets by radio, television, print and other media introducing the benefits of the Company's two-way voice alarm system.

In 2007, the impact of increasing the marketing expenditures by \$3,183,681 or 51% was somewhat offset by higher gross margins and scale efficiencies in Selling and General & Administrative expenses but nonetheless, this increase contributed to an Income before Tax decrease of \$404,600 and Net Income decrease by \$212,200.

4. SELECTED ANNUAL INFORMATION

The following summary of selected audited financial information is derived from, and should be read in conjunction with, the Company's audited financial statements, including the notes thereto, for the years ended October 31, 2007, 2006 and 2005:

	2007	2006	2005*
Subscriber base	79,200	66,300	57,000
	\$	\$	\$
OPERATIONS:			
Total revenue	25,136,125	20,964,877	17,227,494
Gross margin	20,005,802	16,458,835	13,538,797
EBITDA***	4,747,901	5,217,159	4,370,324
Income before income taxes	2,105,091	2,509,697	1,290,562
Net income	1,280,172	1,492,336	810,214
Cash flow from operating activities	2,737,038	4,945,232	3,518,787
Basic earnings per share	0.11	0.12	0.07
Diluted earnings per share	0.11	0.12	0.07
Diluted EBITDA*** per share	0.39	0.43	0.37
FINANCIAL POSITION:			
Total assets	25,251,571	23,880,550	20,389,283
Total long-term debt**	1,759,369	1,256,062	945,721
Shareholders' equity	16,839,675	15,521,703	13,678,912
Debt/Equity ratio**	0.10	0.08	0.07
Debt** per subscriber account	22	19	17

* Restated to reflect the new accounting policies adopted in 2005

** Includes building loan and revolving term loans (see Long-term Debt section)

*** Earnings Before Interest Tax Depreciation and Amortization is a key performance indicator in the security industry and should not be interpreted as GAAP earnings.

Reconciliation of adjusted EBITDA to GAAP earnings

EBITDA is defined as earnings before interest expenses, income taxes, depreciation and amortization. EBITDA is a standard measure used in the security industry to assist in understanding and comparing operating results and is often referred to by our competitors. Management views EBITDA as an important measure of operating performance of the Company; however since it does not have any standardized meaning defined by Canadian GAAP, it may not be considered in isolation of GAAP measures such as net income/loss or cash flows, as a measure of liquidity. Management believes, however, that it is an important measure as it allows the Company to assess its ongoing business without the impact of depreciation or amortization expenses. Since EBITDA is not a defined term under Canadian GAAP, it is unlikely to be comparable to similar measures presented by other issuers.

4. SELECTED ANNUAL INFORMATION (continued)

Most companies in the residential security industry purchase subscriber accounts and capitalize those acquisition costs amortizing them over the term of the subscriber contract. AlarmForce is one of the few companies whose growth is internally generated and therefore the accounting treatment is not directly comparable. AlarmForce's annual budget for marketing expenditures has increased steadily, reflecting acceleration of new subscriber account creation and due to the discretionary nature of the marketing budget, the Company provides the following reconciliation of Adjusted EBITDA to GAAP net income figures reported for the three years 2005-2007 below.

	2007	2006	2005*
	\$	\$	\$
EBITDA (excl. marketing expenditures)	14,111,234	11,396,811	9,156,566
Less: marketing expenditures	9,363,333	6,179,652	4,786,242
EBITDA	4,747,901	5,217,159	4,370,324
Less:			
Amortization of property, plant and equipment	1,922,644	1,821,279	2,185,598
Amortization of intangible assets	822,767	754,173	752,577
Amortization of deferred charges	9,591	9,591	9,592
Foreign exchange loss/(gain) on consolidation	(214,450)	40,346	35,145
Interest expense	102,258	82,072	96,850
Income before income taxes	2,105,091	2,509,697	1,290,563
Less income taxes	824,919	1,017,361	480,349
Net income	1,280,172	1,492,336	810,214

5. RESULTS OF OPERATIONS**Sales**

Total revenue was \$25,136,125 in 2007 compared to \$20,964,877 in 2006, which is an increase of \$4,171,248 or 20%. The increase is primarily attributable to monthly recurring monitoring services generated from the increasing subscriber base. The total number of subscribers in 2007 increased by 20% to 79,200 up from 66,300 compared to the prior year 2006. In addition, new subscribers grew by 21% in 2007 as compared to 13% in 2006. Monthly recurring monitoring services make up 89% of Sales.

Cost of sales

Cost of sales was \$5,130,323 in 2007 compared to \$4,506,042 in 2006, for a total increase of \$624,281 or 14%. The increase is primarily due to the growth in the subscriber base translating to a higher cost of installation and maintenance cost of existing subscribers. In 2006, the Company relocated from its formerly leased space to its newly acquired building and continues to make every effort to minimize costs and maximize efficiencies and economies as the scale of the subscriber base continues to grow.

Certain costs pertaining to the Company's central monitoring station remain relatively fixed as the Company is vertically integrated, and manufactures, installs, monitors and services AlarmVoice alarm systems. The alarm system facilitates live two-way voice communication with the Central Station thereby offering immediate response and/or assistance in certain emergencies. The Central Station is located at the Company's head office in Toronto from which the subscriber accounts are monitored.

5. RESULTS OF OPERATIONS (continued)

Gross margin

Gross Profit was \$ 20,005,802 for the fiscal year 2007 compared to \$16,458,835 in fiscal 2006, which was an increase of \$ 3,546,967 or 22%. Gross margin as a percentage of total revenue increased to 80% in 2007, compared to 79% in 2006, which is consistent with the growth in the subscriber base. Management expects this trend to continue as the subscriber base continues to grow the company will be able to realize scale efficiencies.

Selling General and Administrative Expenses (“SG & A”)

SG&A Expenses are \$15,257,901 for 2007 compared to \$11,241,676 in 2006 which was an increase of \$4,016,225 or 36%. Selling Expenses increased by \$3,338,518 or 44% due to the increase in marketing expenditures required to establish brand recognition in the relatively new markets in the United States and reinforce branding in Canada. Selling Expenses less marketing costs increased by \$154,838 or 11% as compared to an increase of \$251,515 or 21% in 2006. Aside from general wage augmentations, the increase is primarily due to additional sales and marketing staff required to handle inbound sales.

Administrative Expenses totaled \$4,308,286 for 2007 compared to \$3,630,579 in 2006, an increase of \$677,707 or 19%. Aside from general wage augmentations, the increase in Administrative Expenses, in part, is due to the additional customer care and support staff required to handle inbound non emergency calls typically regarding service, billing and other alarm related issues. In 2007, in an effort to maintain high levels of customer satisfaction, the Customer Care Department extended its hours of operation to ensure that requests were being handled promptly at the time of the initial call. The remainder of the increase stems from an increase in legal fees required to resolve outstanding litigation issues.

Other expenses

Amortization of Property Plant and Equipment was \$1,922,644 for the fiscal year 2007 compared to \$1,821,279 in fiscal 2006 an increase of \$101,365 or 6%. This increase mainly reflects additions made to the rental equipment in 2007 due to the subscriber growth.

Interest expense was \$102,258 for the fiscal year 2007 compared to \$ 82,072 in fiscal 2006 an increase of \$20,186 or 25%. The increase is due to the revolving term loan obtained in March 2007 to finance the acquisition of franchise rights in Huronia for \$1,000,000 payable over a period of 48 months. AlarmForce managed to control the use of debt financing for new growth in subscriber accounts by maintaining a low cost of creation relative to the industry. The Company uses an organic growth model to build the account base as opposed to acquiring existing accounts, and this has proved effective in reducing the debt-to-equity ratio in the Company.

Income taxes

The future tax liability is reduced by future income tax assets resulting from certain opposite timing differences, which result from the accounting deferral and amortization of sales revenue that are immediately recognized in taxable income at the time that the sale is completed. These differences are also expected to reverse in the future.

In addition, certain share issuance costs incurred in 2004 are deductible from taxable income over a period of five years, resulting in timing differences and a future tax asset of approximately \$ 35,205 at the end of 2007.

5. RESULTS OF OPERATIONS (continued)

The tax effects of the significant components of temporary differences giving rise to the future tax assets and liabilities are as follows for the years 2005-2007:

	2007	2006	2005*
	\$	\$	\$
Future tax liability for intangible assets and other depreciable assets	1,214,000	1,607,000	1,533,300
Future tax assets arising from deferred revenue and other miscellaneous items	(1,001,000)	(852,000)	(712,300)
Net future tax liability	213,000	755,000	821,000

Operating results by business segments

The Company operated primarily in only one reporting segment in Canada, which is the monitoring of residential security systems. The Company's US subscribers do not represent a significant geographic segment (currently at 6%) at the present time.

6. SUMMARY OF QUARTERLY RESULTS

The following table sets out selected financial information for the Company for the eight most recently completed quarters up to October 31, 2007, prepared in accordance with Canadian GAAP and expressed in Canadian currency:

	Oct 2007	Jul 2007	Apr 2007	Jan 2007	Oct 2006	Jul 2006	Apr 2006	Jan 2006
Change in subscriber base	4,300	3,500	2,700	2,400	2,200	2,500	2,300	2,300
OPERATIONS:								
	\$	\$	\$	\$	\$	\$	\$	\$
Total revenue	6,662,915	6,447,655	6,177,635	5,847,920	5,544,640	5,315,435	5,055,508	5,049,295
Income before taxes	641,545	129,278	433,167	901,101	838,200	358,232	854,731	458,533
Net income	358,626	81,278	274,167	566,101	440,839	224,232	546,126	281,138
Basic earnings per share	0.03	0.01	0.02	0.05	0.04	0.02	0.05	0.02
Fully diluted earnings per share	0.03	0.01	0.02	0.05	0.04	0.02	0.05	0.02
FINANCIAL POSITION:								
Total assets	25,251,571	25,825,876	24,712,357	23,421,288	23,880,550	22,376,117	22,144,185	20,064,909
Shareholders' equity	16,839,675	16,481,050	16,361,972	16,087,805	15,521,703	15,080,864	14,856,631	14,063,920

7. DISCUSSION OF FOURTH QUARTER 2007

In the fourth quarter, total revenues amounted to approximately \$ 6.6 Million up by 20% from the 2006 corresponding quarter. Income before taxes in the fourth quarter amounted to approximately \$641,000. This increase again reflects the consistent growth in the subscriber account base. Operating results for the fourth quarter were impacted by the same factors as the full year, which mainly consists of rapid growth plans of the Company, tight controls over cost of sales and increased marketing expenditures to facilitate the Company's growth.

8. LIQUIDITY AND CAPITAL RESOURCES

As at October 31, 2007 the Company had cash and cash equivalents of \$2,480,014, and unused credit facilities of approximately \$4,800,000 available for future operating and capital requirements.

As at October 31, 2007, the Company's assets totalled \$25,251,571 of which the majority represented revenue generating capital assets including tangible and intangible assets. The outstanding debt at October 31, 2007 consisted of a \$920,834 fixed rate term loan for purchase of the property acquired in March 2006, and revolving bank loans of \$838,534 under credit facilities that are available to be used by the Company to finance the growth in the subscriber base, which in turn will contribute to additional recurring revenues and cash flows. The increase in the revolving bank loans is due to loans acquired in March 2007 to finance the acquisition of franchise rights.

The cash flows from operations and financing activities, and cash flows used in financing and investing activities for the years 2003-2007 are summarized below.

	2007	2006	2005	2004	2003
	\$	\$	\$	\$	\$
Cash flow from operations	2,737,038	4,945,233	3,518,787	4,238,574	2,665,485
Cash flow from (used in) financing activities	541,108	(339,202)	(1,184,520)	3,802,947	296,869
Cash flow used in investing activities	(4,707,441)	(4,783,796)	(2,616,996)	(7,693,607)	(2,984,470)

The cash flow used in investing activities shows a significant increase primarily due to the Company acquiring a bank loan to finance the purchase of franchise rights. The Company's cash flow from operations has decreased as the corresponding marketing expenditures increase.

The Company expects to continue investing significantly in growth of the subscriber base, through marketing programs and in the installation of new security systems in subscriber homes. Security systems are installed under three-year contracts, which are subsequently renewable annually. The Company manufactures the equipment that it installs and the manufacturing process involves purchasing various key components from foreign and domestic manufacturers, and utilizing local subcontractors in certain parts of the manufacturing process. The Company's manufacturing operations are housed in Toronto where the alarm systems are manufactured. In addition to the standard system, the Company also manufactures AlarmPlus telephone line-cut technology that is available exclusively to subscribers of AlarmForce, which is the only Canadian alarm company that manufactures and installs AlarmPlus.

8. LIQUIDITY AND CAPITAL RESOURCES (continued)**Financing activities**

The Company is authorized to issue an unlimited number of common shares. The changes in the issued common shares of the Company during 2007 and 2006 were as follows:

	Number of shares	Value \$
Balance, October 31, 2006	12,088,788	\$12,145,585
Issued during the period	10,000	37,800
Balance, Oct. 31, 2007 and Jan. 12, 2008	12,098,788	12,183,385

The Company is committed to issuing 190,000 common shares under options that were outstanding at the end of the 2007 fiscal year (200,000 at the end of the 2006 fiscal year). Exercise prices under the options and the remaining life of options are summarized below.

Expiry Date	Number of shares	Remaining contractual life (years)	Exercise Price
July 17, 2009	190,000	1.75	\$3.78

Dividend policy

The Company does not currently have a policy of declaring or paying dividends on its common shares and intends to retain future earnings for use in its business and does not anticipate paying dividends in the foreseeable future. Any determination to pay any future dividends will remain at the discretion of the Board of Directors of the Company and will be made based on the financial condition and other factors deemed relevant by the Board of the Directors. The Company has not paid any dividends since its incorporation.

The existing cash reserves, cash from operations and credit facilities are believed to be adequate to finance growth as well as operating requirements in the foreseeable future. Debt and equity components for the years 2005-2007 are summarized below.

Long-term debt

	2007	2006	2005
	\$	\$	\$
Building Loan	920,834	970,834	-
Revolving term loans	838,535	285,228	945,721
Total long-term debt	1,759,369	1,256,062	945,721
Equity (capital stock and retained earnings)	16,839,675	15,521,703	13,678,912
Ratio of Net debt to Equity	0.10	0.08	0.07

8. LIQUIDITY AND CAPITAL RESOURCES (continued)**Commitments and contractual obligations**

The Company is committed to long-term debt repayment as above and operating leases for premises and equipment expiring at various dates up to May, 2012. Approximate future minimum payments are as follows:

	Premises	Vehicles	Equipment	Total
	\$	\$	\$	\$
2008	35,171	59,205	35,056	129,432
2009	–	29,293	22,988	52,281
2010	–	19,563	21,891	41,454
2011	–	5,602	18,991	24,593
2012	–	–	8,710	8,710
Total	35,171	113,663	107,635	256,469

9. OFF-BALANCE SHEET FINANCING

The Company did not have any off-balance sheet arrangements or obligations other than the operating leases disclosed above.

10. RELATED PARTY TRANSACTIONS

The Company did not have any related party transactions as defined in the CICA recommendations.

11. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates are based on management's historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments that are not readily apparent from other sources.

Management believes that the accounting policies that require estimation of the useful lives of long-lived assets, the recoverable values of the assets and measurement of impairment of the assets, are most affected by judgments and estimates used in the preparation of the financial statements. For a detailed description of these and other accounting policies, please refer to the Company's 2007 annual financial statements.

Costs incurred to create long-term subscriber accounts are capitalized and amortized over the estimated useful lives of the respective assets, which principally includes revenue equipment and intangible assets consisting of franchise rights. The carrying value of the assets depends on the estimate made of useful life, which is the period over which the assets are written off. Revenue equipment, which the Company continues to own during and after the term of the subscriber agreement, is written off over the estimated ten-year useful life of the security systems. The use of wireless technology makes the relocation of systems much more cost-effective than traditional wired systems, allowing the Company to relocate or redeploy the equipment if necessary. Franchise rights are written off over the remaining terms of the respective franchise agreements.

11. CRITICAL ACCOUNTING ESTIMATES (continued)

The Company follows the recommendations of CICA Handbook Section 3063, "Impairment of Long-Lived Assets". The Company reviews for impairment the value of long-lived assets including revenue equipment and intangible assets on a regular basis, at least annually. The value is reviewed more frequently if events or changes in circumstances indicate that the carrying value exceeds fair value, as determined by the undiscounted future cash flows expected from the related subscriber accounts after normal attrition. If the sum of the undiscounted future cash flow expected from the subscriber agreements and eventual disposition of assets is less than the carrying amount, the group of assets is considered to be impaired, and an impairment loss is recorded, measured as the amount by which the carrying amount of the group of assets exceeds its estimated fair market value.

The estimate of the Company's allowance for doubtful accounts could materially change from period to period, since this allowance is a function of the variations in the Company's accounts receivable, which occurs on a month-to-month basis.

12. DISCLOSURE CONTROLS AND PROCEDURES

As defined in Multilateral Instrument 52-109, disclosure controls and procedures mean controls and other procedures designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), on a timely basis and in accordance with securities legislation.

As of the fiscal year ended October 31, 2007, the CEO and the CFO reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures as it applies to the preparation of the Management discussion and analysis, the Consolidated financial statements and financial reporting. Based upon that review and evaluation, they have concluded that those disclosure controls and procedures are effective at a reasonable assurance level and meet the requirements thereof.

13. FUTURE ACCOUNTING PRONOUNCEMENTS FOR 2008

(i) *Financial Instruments* – Disclosure and Presentation: In December 2006, the CICA issued Handbook Section 3862, "Financial Instruments Disclosures," and Section 3863, "Financial Instruments, presentation." These standards provide additional guidance on disclosing risks related to recognized and unrecognized financial instruments and how those risks are managed. These standards are effective for 2008. The Company is currently evaluating the impact of adopting these standards on the consolidated financial statements.

(ii) *Capital disclosures*: CICA issued Handbook Section 1535, Capital Disclosures, which provides standards for disclosures regarding a company's capital and how it is managed. Enhanced disclosure with respect to the objectives, policies and processes for managing capital and quantitative disclosures about what a company regards as capital is required. These recommendations are effective for fiscal years beginning on or after October 1, 2007 and, therefore, the Company will be required to implement these standards on November 1, 2007.

The Company is currently evaluating the impact of this standard on the consolidated financial statements.

(iii) *Inventory*: In June 2007, the CICA issued Handbook Section 3031, "Inventories," which requires inventory to be measured at lower of cost and net realizable value. The standard also provides guidance on the costs that can be capitalized. In addition, previous inventory writedowns must be reversed if the economic circumstances have changed to support an increased inventory value. The standard is effective for our annual and interim periods beginning on or after January 1, 2008 and, therefore, the Company will be required to implement these standards on February 1, 2008. The Company is currently evaluating the impact of this standard on the consolidated financial statements.

14. TRENDS, RISKS AND UNCERTAINTIES

In addition to general economic factors the Company's business is subject to a number of risk factors including consumer behaviors, technological changes, and competition as further described below. The Company has certain business risks linked to collection of receivables and subscriber attrition risk, which management believes is manageable.

Competition: The security industry is highly competitive and fragmented. The Company may encounter competition from other alarm system distributors and/or installers having established marketing and distribution networks and/or greater financial resources. As well, new developments may create new competition. Other than competitive advantages that the Company may enjoy as a result of market penetration and brand recognition, there will not be any significant barriers to the entry into this market by competitors.

Dependence on Key Personnel: The Company is highly dependent on the experience and personal efforts of management to promote and sell the Company's products and services, and to manage its operations and growth. The future success of AlarmForce is dependent on the management of the Company. The departure of any of the operations or management personnel or their inability to continue being functional could have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

Possible Adverse Effect of "False Alarm" Ordinances: Significant concern has arisen in certain municipalities about the 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 and are considering adopting various measures aimed at reducing the number of false alarms. The Company has determined that the most appropriate and cost-effective method to address these measures is to retain a private dispatch security response team to respond to the alarm signals.

Failure to respond to alarm activations: The nature of the alarm services provided by AlarmForce potentially exposes greater risks of liability for employee acts or omissions or system failures. The Company's subscriber agreements pursuant to which it distributes its products and services contain provisions limiting liability to subscribers in an attempt to reduce this risk. 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 the Company.

Technology obsolescence: Our monitoring services depend upon wireless technology of security alarm systems. We may be required to implement new technology, which could require significant expenditures. We are currently evaluating replacement and upgrade costs due to changes in cellular technology. We may not be able to successfully implement new technologies or adapt existing technologies to changing market demands within the specified time frames. If we are unable to adapt in response to changing technologies, market conditions or customer requirements in a timely manner, such inability could adversely affect our business.

15. OUTLOOK

The Company expects continued growth in revenues as it expands its subscriber monitored account base using its mass marketing model and brand recognition, focusing on giving the customer the best value possible through its infrastructure of manufacturing capabilities, customer-focused team culture and financial capital base. The Company is committed to differentiating its position in the industry and controlling all aspects of subscriber service delivery. The central station will continue to maintain the most advanced two-way voice home security capabilities in the areas that the Company operates in.

Management believes that the Company is well positioned to grow the subscriber account base in the foreseeable future, given that the fundamental drivers for the residential alarm industry are considered sound. These are represented by fine-tuning of the low-cost approach, false alarm minimization and up market features, which are expected to be strong drivers and will continue to differentiate the company's technology and innovative approach.

Additional information on the Company can be found in the Company's Annual Information Form ("AIF") and other information filed with Canadian regulators on SEDAR at www.sedar.com.

Corporate Information

Board of Directors

Joel Matlin
President, Chief Executive Office and Secretary

Anthony Pizzonia
Chief Financial Officer

Richard Boxer
President, Buckingham Capital Corporation

Charles Mayer
Professor, Central European University Business School

Brian Segal
President and CEO, Rogers Publishing.

N. Peter Silverberg
Beard Winter LLP

TRANSFER AGENTS AND REGISTRAR

Equity Transfer Services Inc.
Toronto, Ontario

SOLICITORS

Macleod Dixon LLP
Toronto, Ontario

AUDITORS

Kraft, Berger LLP
Chartered Accountants
Markham, Ontario

INFORMATION AVAILABLE UPON REQUEST:

AlarmForce Industries Inc.
675 Garyray Drive
Toronto, Ontario M9L 1R2
1-800-267-2001
Contact: Margaret Brady

investor@alarmforce.com

Printed Copies of the Annual Report and Financial Quarterly Statements can also be requested through our website www.alarmforce.com or by calling or writing to Investor Relations.

