

Garda World Security Corporation

Consolidated Interim Financial Statements (Unaudited)
First Quarter Ended April 30, 2005

Garda World Security Corporation

Consolidated Balance Sheets

	As at April 30, 2005 \$ (Unaudited)	As at January 31, 2005 \$ (Audited)
Assets		
Current assets		
Cash	8,445,646	9,535,222
Restricted funds	1,500,000	1,500,000
Accounts receivable	31,390,408	26,760,028
Revenue to be billed	3,287,256	6,349,362
Inventories	503,529	483,818
Prepaid expenses	977,277	798,858
	<u>46,104,116</u>	<u>45,427,288</u>
Balance of selling price receivable (note 8)	1,005,416	993,541
Property, plant and equipment	12,081,606	11,379,518
Goodwill , net of accumulated amortization of \$1,259,936	4,607,088	4,607,088
Service contracts and client relationships , net of accumulated amortization of \$677,262 (\$511,380 as at January 31, 2005)	8,037,421	4,291,094
Deferred charges , net of accumulated amortization of \$371,305 (\$261,412 as at January 31, 2005)	1,811,821	1,714,791
Deferred financing costs , net of accumulated amortization of \$357,367 (\$309,505 as at January 31, 2005)	486,516	456,362
	<u>74,133,984</u>	<u>68,869,682</u>
Liabilities		
Current liabilities		
Bank loans	10,890,727	7,152,678
Accounts payable and accrued liabilities	25,345,781	29,718,348
Income taxes	1,237,049	1,559,696
Current portion of long-term debt	4,200,992	3,000,992
	<u>41,674,549</u>	<u>41,431,714</u>
Long-term debt	12,360,246	10,642,140
Convertible debentures	-	583,717
Future income taxes	2,201,536	2,201,536
	<u>56,236,331</u>	<u>54,859,107</u>
Shareholders' Equity		
Capital stock (note 4b))	7,709,926	6,775,643
Contributed surplus (note 5)	727,835	613,728
Conversion rights	-	265,000
Retained earnings	9,459,892	6,356,204
	<u>17,897,653</u>	<u>14,010,575</u>
	<u>74,133,984</u>	<u>68,869,682</u>

Garda World Security Corporation

Consolidated Statements of Retained Earnings

(Unaudited)

	Three months ended April 30, 2005	Three months ended April 30, 2004
	\$	\$
Retained earnings (deficit) – Beginning of period	6,356,204	(332,893)
Cumulative effect of change in accounting policy (note 2)	-	(184,099)
	<u>6,356,204</u>	<u>(516,992)</u>
Net income for the period	<u>3,103,688</u>	1,079,959
Retained earnings – End of period	<u>9,459,892</u>	<u>562,967</u>

Garda World Security Corporation

Consolidated Statements of Income

(Unaudited)

	Three months ended April 30, 2005 \$	Three months ended April 30, 2004 \$
Sales	51,857,949	35,969,352
Cost of sales	41,419,439	29,567,725
Gross profit	10,438,510	6,401,627
Operating expenses		
Selling and administrative expenses	4,489,740	3,838,869
Amortization of property, plant and equipment	652,776	617,290
Amortization of service contracts and client relationships	165,882	94,842
Amortization of deferred charges	109,893	-
	5,418,291	4,551,001
Income before financing expenses and income taxes	5,020,219	1,850,626
Financing expenses		
Interest on long-term debt and convertible debentures	200,007	240,050
Other interest (revenues)	(11,788)	64,180
Amortization of deferred financing costs	47,862	42,445
	236,081	346,675
Income before income taxes	4,784,138	1,503,951
Provision for income taxes	1,680,450	423,992
Net income for the period	3,103,688	1,079,959
Basic net income per share (note 6)	0.12	0.04
Diluted net income per share (note 6)	0.12	0.04

Garda World Security Corporation

Consolidated Statements of Cash Flows

(Unaudited)

	Three months ended April 30, 2005 \$	Three months ended April 30, 2004 \$
Cash flows from		
Operating activities		
Net income for the period	3,103,688	1,079,959
Adjustments for		
Stock-based compensation (note 2)	134,523	97,250
Accrued interest on balance of selling price receivable	(11,875)	(7,917)
Amortization of property, plant and equipment	652,776	617,290
Amortization of service contracts and client relationships	165,882	94,842
Amortization of deferred charges	109,893	-
Amortization of deferred financing costs	47,862	42,445
Accrued interest on convertible debentures	(8,600)	30,186
Future income taxes	-	408,148
	<u>4,194,149</u>	<u>2,362,203</u>
Changes in non-cash working capital items (note 7)	(7,418,253)	(1,585,426)
	<u>(3,224,104)</u>	<u>776,777</u>
Financing activities		
Increase in bank loans	3,738,049	2,893,084
Increase in long-term debt	2,654,303	75,993
Repayment of long-term debt	(736,197)	(550,405)
Deferred financing costs	(78,016)	-
Issuance of Class "A" common shares	73,750	229,250
	<u>5,651,889</u>	<u>2,647,922</u>
Investing activities		
Business acquisition, net of cash and cash equivalents acquired (note 3)	(2,500,000)	-
Purchase of property, plant and equipment	(810,438)	(660,902)
Proceed from disposal of property, plant and equipment	-	2,500
Deferred charges	(206,923)	(150,000)
	<u>(3,517,361)</u>	<u>(808,402)</u>
Change in cash and cash equivalents from continuing operations	(1,089,576)	2,616,297
Net decrease in cash and cash equivalents from discontinued operations (note 8)	-	(536,252)
Change in cash and cash equivalents during the period	(1,089,576)	2,080,045
Cash and cash equivalents – Beginning of period	9,535,222	3,049,420
Cash and cash equivalents – End of period	8,445,646	5,129,465

Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

1 Significant accounting policies

The preparation of the unaudited interim financial statements conform with Canadian generally accepted accounting principles and with audited financial statements for the year ended January 31, 2005, except for the following. For a detailed description of the accounting policies used by the Corporation, refer to the annual report for the year ended January 31, 2005. These interim financial statements do not include all disclosure requirements of Canadian generally accepted accounting principles and applicable to the annual financial statements.

Management estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of income and expenses during the reporting periods. Significant estimates include the allowance for doubtful accounts, valuation of goodwill and service contracts and client relationships, and certain accrued liabilities. Actual results could differ from those estimates.

Future income taxes

The Corporation follows the liability method of accounting for income taxes, under which future income taxes are computed based on the difference between the carrying amount of the various assets and liabilities and their tax basis. The enacted tax rate when these differences will reverse is used to compute future income taxes at the balance sheet dates. Income tax assets are recognized when it is more likely than not that the assets will be realized.

Amounts per share

Amounts per share are determined using the weighted average number of shares outstanding during the period. Diluted amounts per share are determined using the treasury stock method to evaluate the dilutive effect of convertible debentures, warrants, stock options and other instruments, when applicable. Under this method, instruments with a dilutive effect, basically when the average market price of a share for the period exceeds the exercise price, are considered to have been exercised at the beginning of the period and the proceeds received are considered to have been used to redeem common shares of the Corporation at the average market price for the period.

Stock options

On February 1, 2004, the Corporation applied retroactively, without restating the comparative figures, the fair value method of accounting for stock-based compensation awards granted to directors, officers, employees and other key personnel of the Corporation. This method consists of recording an expense in results of operations based on the vesting period of the options granted. The fair value is calculated based on the Black-Scholes option pricing model, which was designed to estimate the fair value of traded options that have no vesting restrictions and are fully transferable. Any consideration paid upon exercise of the options is credited to capital stock.

Prior to February 1, 2004, no expense was recognized when options were granted to directors, officers, employees and other key personnel of the Corporation. The impact of the use of the fair value method on net income was disclosed only as a note to the financial statements.

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Notes to Consolidated Financial Statements

(Unaudited)

2 Change in accounting policy

Stock-based compensation

On February 1, 2004, the Corporation applied retroactively, without restating the comparative figures, the accounting method recommended by the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3870, “Stock-Based Compensation and Other Stock-Based Payments”, and began expensing its stock-based compensation. During the quarter ended April 30, 2005, compensation cost for stock options was recognized in net income, with a corresponding credit to contributed surplus for \$134,523 using the fair value method of accounting.

On February 1, 2002, the Corporation adopted the new CICA Handbook recommendations regarding stock-based compensation; however, it still used the method whereby no expense was recognized when stock options were granted to directors, officers, employees and other key personnel of the Corporation. In accordance with the transitional provisions of the new recommendations, the Corporation determined the amount that would have been recorded in the financial statements if the compensation cost relating to the options granted after February 1, 2002 had been determined using the fair value based method, and reported the effect on net income and on net income per share in a note to the financial statements.

3 Business acquisition

On March 8, 2005, a wholly-owned subsidiary of the Corporation acquired the main assets of Keyfacts Enterprises Canada Inc., a subsidiary of CGI Inc., for an aggregate consideration of \$3,500,000. The purchase price was financed by a bank term loan of \$2,500,000, bearing interest at prime rate plus 0.75%, repayable in 25 monthly principal installments of \$100,000 and by a balance of purchase price of \$1,000,000, bearing interest at a rate of 5%, repayable in September 2006.

The above transaction has been accounted for using the purchase method and results of operations of the acquired business have been included in the consolidated financial statements since the acquisition date.

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Notes to Consolidated Financial Statements

(Unaudited)

The allocation of the purchase price is as follows:

	Three months ended April 30, 2005	Three months ended April 30, 2004
	\$	\$
Net assets acquired (liabilities assumed)		
Property, plant and equipment	544,426	-
Service contracts and client relationships	3,912,209	-
Current liabilities	<u>(956,635)</u>	-
Net assets acquired	<u>3,500,000</u>	-
Consideration paid		
Cash payment (financed by a term loan, bearing interest at prime rate plus 0.75%, repayable in 25 monthly principal installments of \$100,000 from April 2005 to April 2007)	2,500,000	-
Balance of purchase price payable (bearing interest at a rate of 5% and repayable in September 2006)	<u>1,000,000</u>	-
	<u>3,500,000</u>	-

The purchase price allocation for this acquisition has not yet been finalized and is based on the Company's best estimate. Accordingly, the fair values of assets acquired and liabilities assumed could differ from the amounts presented in these interim consolidated financial statements.

4 Capital stock

- a) Authorized – in unlimited number, without par value

Class "A" shares, voting and participating

Class "B" shares, issuable in one or more series. The directors are authorized to fix the number of shares in each series and to determine the description, rights, privileges, restrictions and conditions attached to the shares of each series

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Notes to Consolidated Financial Statements

(Unaudited)

b) Issued and fully paid

Changes in capital stock issued during the three month period ended April 30, 2005 are summarized as follows :

	Number of Class "A" shares	\$
Balance as at January 31, 2005	24,902,340	6,775,643
Issued following exercise of options	86,500	94,166
Issued following conversion of convertible debentures	882,352	840,117
	<hr/>	<hr/>
Balance as at April 30, 2005	25,871,192	7,709,926
	<hr/>	<hr/>

c) Options

The Corporation has adopted an Incentive Stock Option Plan (the "Plan") for Class "A" shares whereby a maximum of 10% of the issued Class "A" shares are reserved for and offered as stock options to directors, officers, employees and other key personnel of the Corporation. The Plan provides that the terms of the option and the option price shall be established by the directors and the competent stock market authorities subject to the price restrictions and other requirements.

The following table summarizes the Corporation's Class "A" stock options' activity:

	<u>As at April 30, 2005</u>		<u>As at April 30, 2004</u>	
	Number of shares	Weighted Average exercise price \$	Number of shares	Weighted Average exercise price \$
Options granted – Beginning of period	1,251,500	1.54	1,846,785	0.90
Granted	85,000	8.00	-	-
Exercised	(86,500)	0.85	(491,785)	0.46
Forfeited	(10,000)	3.00	-	-
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Options granted – End of period	1,240,000	2.02	1,355,000	1.06

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Notes to Consolidated Financial Statements

(Unaudited)

The following table summarizes information about the Corporation's Class "A" stock options outstanding and exercisable as at April 30, 2005:

Exercise price \$	Number of shares	Options outstanding		Options exercisable	
		Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number of shares	Weighted average exercise price \$
0.85	285,000	2.96	0.85	285,000	0.85
1.00	150,000	3.03	1.00	100,000	1.00
1.25	50,000	3.66	1.25	-	-
1.50	195,000	3.65	1.50	-	-
1.60	300,000	3.58	1.60	300,000	1.60
3.00	110,000	4.08	3.00	-	-
3.55	50,000	4.29	3.55	50,000	3.55
4.75	15,000	4.46	4.75	-	-
8.00	85,000	4.83	8.00	-	-
	<u>1,240,000</u>	3.56	2.02	<u>735,000</u>	1.38

- d) During the quarter ended April 30, 2005, the Corporation granted 85,000 Class "A" stock options at exercise price of \$8.00.

The fair value of the options granted was estimated using the Black-Scholes option pricing model with the following assumptions:

Dividend rate	0%
Volatility	61%
Expected life of options	5 years
Risk-free interest rate	3.30%
Number of options	85,000
Fair value of options	\$370,815

The Corporation recorded to net income a stock-based compensation cost of \$134,523, for the options granted since February 1, 2002. The counterpart has been credited to the contributed surplus account (note 5).

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Notes to Consolidated Financial Statements

(Unaudited)

- e) On March 29, 2005, the Series A convertible debentures were converted by the holder into 882,352 Class "A" shares of the Corporation. Following the conversion, the debt component, the equity component and the related accrued interest in the amount of \$840,117 were transferred to capital stock.

5 Contributed surplus

	As at April 30, 2005 \$
Balance – Beginning of period	613,728
Stock-based compensation (note 2)	134,523
Options exercised	<u>(20,416)</u>
Balance – End of period	<u>727,835</u>

6 Income per share

The following table reconciles basic net income per share :

	Three months ended April 30, 2005 \$	Three months ended April 30, 2004 \$
Net income for the period	<u>3,103,688</u>	<u>1,079,959</u>
Weighted average number of shares outstanding for use in computation of basic income per share	25,264,669	24,214,587
Effect of potential dilutive securities		
Convertible debentures	-	1,000,000
Warrants	-	333,333
Stock options	<u>869,546</u>	<u>360,000</u>
Weighted average number of shares outstanding for use in computation of diluted income per share	<u>26,134,215</u>	<u>25,907,920</u>
Basic net income per share	<u>0.12</u>	0.04
Diluted net income per share	<u>0.12</u>	0.04

For the quarter ended April 30, 2004, the potentially dilutive weighted average number of shares outstanding equalled the basic weighted average number of share outstanding, since the effect of the Series A convertible debentures, warrants and stock options would have been anti-dilutive. Accordingly, the diluted net income per share for the period was calculated using the basic weighted average number of shares outstanding.

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Notes to Consolidated Financial Statements

(Unaudited)

7 Changes in non-cash working capital items

The changes in non-cash working capital items for the quarters ended April 30, are as follows:

	Three months ended April 30, 2005	Three months ended April 30, 2004
	\$	\$
Decrease (increase) in		
Accounts receivable	(4,630,380)	(2,255,608)
Revenue to be billed	3,062,106	(2,680,082)
Inventories	(19,711)	38,449
Prepaid expenses	(178,419)	(151,510)
Increase (decrease) in		
Accounts payable and accrued liabilities	(5,329,202)	3,467,808
Income taxes	(322,647)	(4,483)
	<u>(7,418,253)</u>	<u>(1,585,426)</u>

8 Discontinued operations and disposal of business

On February 28, 2004, 9141-0829 Quebec Inc. (formerly Soft Management Inc.) and 3156249 Canada Inc. (formerly Softalarm Inc.), two subsidiaries of the Corporation, entered into an agreement for the sale of their assets for an aggregate consideration of \$1,200,000. The selling price is payable in a cash instalment of \$250,000 as at the closing date and by a balance of selling price receivable of \$950,000. This balance of selling price receivable bears interest at 5% and is receivable over a period of three years beginning on February 2006.

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Notes to Consolidated Financial Statements

(Unaudited)

9 Financial instruments

Fair value of financial instruments

The Corporation has estimated the fair value of its financial instruments based on current interest rates, market value and current pricing of financial instruments with similar conditions. Unless otherwise indicated, the carrying value of these financial instruments is considered to approximate their fair value.

Credit risk

The Corporation performs ongoing credit reviews of all its customers and records an allowance for doubtful accounts when accounts are determined to be uncollectible.

Interest rate risk

As at April 30, 2005, the Corporation's interest rate risk is summarized as follows:

Cash	Variable rate
Restricted funds	Variable rate
Accounts receivable	Non-interest bearing
Bank loans	Variable rate
Accounts payable and accrued liabilities	Non-interest bearing
Long-term debt	Fixed and variable rate

10 Segmented information

The Corporation operates in the business of providing security solutions in Canada and its activities are carried out through two main reportable segments:

- i. physical security and other: security officer services, airport pre-boarding screening services, investigation services and other;
- ii. cash handling: armored transportation and cash logistic services.

Activities carried out through other segments are not significant and are included in physical security and other activities.

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Notes to Consolidated Financial Statements

(Unaudited)

The accounting policies of the reportable segments are the same as those used for the consolidated financial statements

	Three months ended April 30, 2005	Three months ended April 30, 2004
	\$	\$
Sales		
Physical security and other	37,035,805	22,551,511
Cash handling	14,822,144	13,417,841
	51,857,949	35,969,352
Amortization of property, plant and equipment		
Physical security and other	199,582	239,940
Cash handling	453,194	377,350
	652,776	617,290
Amortization of service contracts and client relationships		
Physical security and other	54,372	-
Cash handling	111,510	94,842
	165,882	94,842
Income before financing expenses and income taxes		
Physical security and other	2,788,615	629,912
Cash handling	2,231,604	1,220,714
	5,020,219	1,850,626
Additions to property, plant and equipment		
Physical security and other	312,628	333,277
Cash handling	497,810	327,625
	810,438	660,902
	As at April 30, 2005	As at January 31, 2005
	\$	\$
Total assets		
Physical security and other	45,653,585	38,780,090
Cash handling	28,480,399	30,089,592
	74,133,984	68,869,682

Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

11 Subsequent event

On May 9, 2005, a wholly-owned subsidiary of the Corporation acquired the main assets of The Signature Group, for an aggregate consideration of \$1,080,000.

12 Comparative figures

Certain comparative figures for the quarter ended April 30, 2004 have been restated to conform with the new presentation adopted in the quarter ended April 30, 2005.