

Garda World Security Corporation

Consolidated Interim Financial Statements
(Unaudited)

Third Quarter Ended October 31, 2005

Garda World Security Corporation

Consolidated Balance Sheets

	As at October 31, 2005 \$ (Unaudited)	As at January 31, 2005 \$ (Audited)
Assets		
Current assets		
Cash	5,649,290	9,535,222
Restricted funds	1,500,000	1,500,000
Accounts receivable	37,475,654	26,760,028
Revenue to be billed	4,951,016	6,349,362
Inventories	691,423	483,818
Prepaid expenses	578,055	798,858
	<u>50,845,438</u>	<u>45,427,288</u>
Balance of selling price receivable (note 8)	1,029,165	993,541
Property, plant and equipment	14,553,684	11,379,518
Goodwill , net of accumulated amortization of \$1,259,936	7,574,588	4,607,088
Service contracts and client relationships , net of accumulated amortization of \$1,000,352 (\$511,380 as at January 31, 2005)	6,196,445	4,291,094
Deferred charges , net of accumulated amortization of \$591,985 (\$261,412 as at January 31, 2005)	1,591,214	1,714,791
Deferred financing costs , net of accumulated amortization of \$461,261 (\$309,505 as at January 31, 2005)	382,622	456,362
	<u>82,173,156</u>	<u>68,869,682</u>
Liabilities		
Current liabilities		
Bank loans	5,095,278	7,152,678
Accounts payable and accrued liabilities	29,631,275	29,718,348
Income taxes	3,895,013	1,559,696
Current portion of long-term debt	4,953,850	3,000,992
	<u>43,575,416</u>	<u>41,431,714</u>
Long-term debt	11,283,734	10,642,140
Convertible debentures	-	583,717
Future income taxes	2,201,536	2,201,536
	<u>57,060,686</u>	<u>54,859,107</u>
Shareholders' Equity		
Capital stock (note 4b))	8,059,926	6,775,643
Contributed surplus (note 5)	1,016,200	613,728
Conversion rights	-	265,000
Retained earnings	16,036,344	6,356,204
	<u>25,112,470</u>	<u>14,010,575</u>
	<u>82,173,156</u>	<u>68,869,682</u>

Garda World Security Corporation

Consolidated Statements of Retained Earnings (Deficit)

(Unaudited)

	Three months ended October 31, 2005	Three months ended October 31, 2004	Nine months ended October 31, 2005	Nine months ended October 31, 2004
	\$	\$	\$	\$
Retained earnings (deficit) – Beginning of period	12,610,069	2,531,283	6,356,204	(332,893)
Cumulative effect of change in accounting policy (note 2)	-	-	-	(184,069)
	12,610,069	2,531,283	6,356,204	(516,962)
Net income for the period	3,426,275	2,265,619	9,680,140	5,313,864
Retained earnings – End of period	16,036,344	4,796,902	16,036,344	4,796,902

Garda World Security Corporation

Consolidated Statements of Income (Unaudited)

	Three months ended October 31, 2005	Three months ended October 31, 2004	Nine months ended October 31, 2005	Nine months ended October 31, 2004
	\$	\$	\$	\$
Sales	61,927,570	48,299,245	172,960,558	130,536,329
Cost of sales	50,048,504	39,512,639	139,190,324	107,366,947
Gross profit	11,879,066	8,786,606	33,770,234	23,169,382
Operating expenses				
Selling and administrative expenses	5,317,415	4,278,615	14,880,092	11,960,670
Amortization of property, plant and equipment	881,123	714,388	2,325,920	2,007,410
Amortization of service contracts and client relationships	166,190	94,842	488,972	284,526
Amortization of deferred charges	110,340	30,385	330,573	60,769
	6,475,068	5,118,230	18,025,557	14,313,375
Income before financing expenses and income taxes	5,403,998	3,668,376	15,744,677	8,856,007
Financing expenses				
Interest on long-term debt and convertible debentures	254,979	255,228	681,946	713,127
Other interest (revenues)	24,097	(7,225)	70,152	68,692
Amortization of deferred financing costs	51,946	53,110	151,756	148,667
	331,022	301,113	903,854	930,486
Income before income taxes	5,072,976	3,367,263	14,840,823	7,925,521
Provision for income taxes	1,646,701	1,101,644	5,160,683	2,611,657
Net income for the period	3,426,275	2,265,619	9,680,140	5,313,864
Basic net income per share (note 6)	0.13	0.09	0.38	0.22
Diluted net income per share (note 6)	0.13	0.09	0.36	0.22

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Consolidated Statements of Cash Flows

(Unaudited)

	Three months ended October 31, 2005	Three months ended October 31, 2004	Nine months ended October 31, 2005	Nine months ended October 31, 2004
	\$	\$	\$	\$
Cash flows from				
Operating activities				
Net income for the period	3,426,275	2,265,619	9,680,140	5,313,864
Adjustments for				
Stock-based compensation (note 2 and 4d))	157,488	97,251	422,888	291,753
Accrued interest on balance of selling price receivable	(11,874)	(11,875)	(35,624)	(31,666)
Amortization of property, plant and equipment	881,123	714,388	2,325,920	2,007,410
Amortization of service contracts and client relationships	166,190	94,842	488,972	284,526
Amortization of deferred charges	110,340	30,385	330,573	60,769
Amortization of deferred financing costs	51,946	53,110	151,756	148,667
Accrued interest on convertible debentures	-	30,186	(8,600)	53,058
Future income taxes	-	(1,494,027)	-	-
	<u>4,781,488</u>	<u>1,779,879</u>	<u>13,356,025</u>	<u>8,128,381</u>
Changes in non-cash working capital items (note 7)	<u>(2,336,179)</u>	<u>4,504,306</u>	<u>(8,217,473)</u>	<u>(1,501,181)</u>
	<u>2,445,309</u>	<u>6,284,185</u>	<u>5,138,552</u>	<u>6,627,200</u>
Financing activities				
Increase in bank loans	3,259,627	-	(2,057,400)	-
Increase in long-term debt	246,912	77,371	3,786,098	617,138
Repayment of long-term debt	(990,431)	(623,684)	(2,691,646)	(1,920,421)
Deferred financing costs	-	-	(78,016)	(32,000)
Conversion of convertible debentures (note 4e))	-	-	(840,117)	-
Issuance of Class "A" common shares	-	-	1,263,867	566,749
	<u>2,516,108</u>	<u>(546,313)</u>	<u>(617,214)</u>	<u>(768,534)</u>
Investing activities				
Business acquisition, net of cash and cash equivalents acquired (note 3)	-	-	(3,380,000)	-
Purchase of property, plant and equipment	(2,078,360)	(1,126,920)	(4,912,025)	(2,926,924)
Proceed from disposal of property, plant and equipment	2,614	6,654	91,751	9,654
Deferred charges	(2,172)	(281,342)	(206,996)	(708,026)
Sale of long-term assets held for disposal (note 8)	-	-	-	(536,252)
	<u>(2,077,918)</u>	<u>(1,401,608)</u>	<u>(8,407,270)</u>	<u>(4,161,548)</u>
Change in cash and cash equivalents during the period	2,883,499	4,336,264	(3,885,932)	1,697,118
Cash and cash equivalents – Beginning of period	<u>4,265,791</u>	<u>(1,376,921)</u>	<u>11,035,222</u>	<u>1,262,225</u>
Cash and cash equivalents – End of period	<u>7,149,290</u>	<u>2,959,343</u>	<u>7,149,290</u>	<u>2,959,343</u>

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.

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Notes to Consolidated Financial Statements

(Unaudited)

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.

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 period ended October 31, 2005, compensation cost for stock options was recognized in net income, with a corresponding credit to contributed surplus for \$157,488 (\$422,888 for the nine month period ended on October 31, 2005) 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, repayable in 25 monthly principal instalments 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.

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Notes to Consolidated Financial Statements

(Unaudited)

On May 9, 2005, a wholly-owned subsidiary of the Corporation acquired the main assets of Signature Group for an aggregate consideration of \$1,380,000. The purchase price was settled as follow : a cash payment of \$530,000, the issuance of 40,697 shares of Class "A" of Garda World for an aggregate amount of \$350,000, and a balance of purchase price of \$500,000, non-interest bearing, repayable in quarterly and yearly instalments until May 2008.

The above transactions have 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.

The allocation of purchase price of these transactions is as follows:

	Nine months ended October 31, 2005	Nine months ended October 31, 2004
	\$	\$
Net assets acquired (liabilities assumed)		
Property, plant and equipment	679,812	-
Service contracts and client relationships	2,394,323	-
Goodwill	2,967,500	-
Current liabilities	<u>(1,161,635)</u>	<u>-</u>
Net assets acquired	<u>4,880,000</u>	<u>-</u>
Consideration paid		
Cash payment	530,000	-
Cash payment (financed by a term loan, bearing interest at prime rate, repayable in 25 monthly principal instalments of \$100,000 from April 2005 to April 2007)	2,500,000	-
Balance of purchase price payable (non-interest bearing and repayable in quarterly and yearly instalments until May 2008)	500,000	-
Balance of purchase price payable (bearing interest at a rate of 5% and repayable in September 2006)	1,000,000	-
Issuance of Class "A" shares	<u>350,000</u>	<u>-</u>
	<u>4,880,000</u>	<u>-</u>

The purchase price allocation for these acquisitions 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.

Garda World Security Corporation

Notes to Consolidated Financial Statements (Unaudited)

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

- b) Issued and fully paid

Changes in capital stock issued during the nine month period ended October 31, 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 business acquisition (note 3)	40,697	350,000
Issued following conversion of convertible debentures (note 4e))	882,352	840,117
	<hr/>	<hr/>
Balance as at October 31, 2005	25,911,889	8,059,926
	<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.

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Notes to Consolidated Financial Statements

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

	<u>As at October 31, 2005</u>		<u>As at October 31, 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	350,000	8.45	185,000	3.29
Exercised	(86,500)	0.85	(741,785)	0.31
Forfeited	<u>(35,000)</u>	1.93	-	-
Options granted – End of period	<u>1,480,000</u>	3.19	<u>1,290,000</u>	1.51

The following table summarizes information about the Corporation's Class "A" stock options outstanding and exercisable as at October 31, 2005:

Exercise price \$	Number of shares	<u>Options outstanding</u>		<u>Options exercisable</u>	
		Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number of shares	Weighted average exercise price \$
0.85	285,000	2.50	0.85	285,000	0.85
1.00	150,000	2.69	1.00	100,000	1.00
1.25	50,000	3.17	1.25	-	-
1.50	170,000	3.17	1.50	-	-
1.60	300,000	3.19	1.60	300,000	1.60
3.00	110,000	3.68	3.00	-	-
3.55	50,000	3.80	3.55	50,000	3.55
4.75	15,000	3.98	4.75	-	-
8.00	85,000	4.33	8.00	-	-
8.50	225,000	4.61	8.50	-	-
8.60	25,000	4.54	8.60	-	-
10.00	<u>15,000</u>	4.73	10.00	<u>-</u>	-
	<u>1,480,000</u>	3.39		<u>735,000</u>	1.36

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Notes to Consolidated Financial Statements

(Unaudited)

- d) During the three month period ended October 31, 2005, the Corporation granted 15,000 Class "A" stock options at exercise price of \$10.00.

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

Dividend rate	0%
Volatility	59%
Expected life of options	5 years
Risk-free interest rate	3.00%
Number of options	15,000
Fair value of options	\$79,278

During the quarter ended October 31, 2005, the Corporation recorded to net income a stock-based compensation cost of \$157,488 (\$422,888 for the nine month period ended October 31, 2005), for the options granted since February 1, 2002. The counterpart has been credited to the contributed surplus account (note 5).

- 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 October 31, 2005 \$
Balance – Beginning of period	613,728
Stock-based compensation (note 2 and 4d))	422,888
Options exercised	<u>(20,416)</u>
Balance – End of period	<u>1,016,200</u>

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Notes to Consolidated Financial Statements (Unaudited)

6 Income per share

The following table reconciles basic net income per share :

	Three months ended October 31, 2005	Three months ended October 31, 2004	Nine months ended October 31, 2005	Nine months ended October 31, 2004
	\$	\$	\$	\$
Net income for the period	<u>3,426,275</u>	2,265,619	<u>9,680,140</u>	5,313,864
Weighted average number of shares outstanding for use in computation of basic income per share	25,911,889	24,873,840	25,699,996	24,502,735
Effect of potential dilutive securities				
Convertible debentures	-	1,000,000	-	1,000,000
Stock options	<u>846,184</u>	<u>110,000</u>	<u>846,184</u>	<u>110,000</u>
Weighted average number of shares outstanding for use in computation of diluted income per share	<u>26,758,073</u>	<u>25,983,840</u>	<u>26,546,180</u>	<u>25,612,735</u>
Basic net income per share	<u>0.13</u>	<u>0.09</u>	<u>0.38</u>	<u>0.22</u>
Diluted net income per share	<u>0.13</u>	<u>0.09</u>	<u>0.36</u>	<u>0.22</u>

For the periods ended October 31, 2004, the potentially dilutive weighted average number of shares outstanding equaled 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 October 31, are as follows:

	Three months ended October 31, 2005	Three months ended October 31, 2004	Nine months ended October 31, 2005	Nine months ended October 31, 2004
	\$	\$	\$	\$
Decrease (increase) in				
Accounts receivable	(10,529,923)	1,057,468	(10,715,626)	(9,360,671)
Revenue to be billed	5,013,209	(757,159)	1,398,346	(2,646,035)
Inventories	(67,122)	50,132	(207,605)	(39,536)
Prepaid expenses	447,481	203,471	220,803	(34,983)
Increase (decrease) in				
Accounts payable and accrued liabilities	1,462,232	1,354,712	(1,248,708)	7,988,845
Income taxes	1,337,944	2,595,682	2,335,317	2,591,199
	<u>(2,336,179)</u>	<u>4,504,306</u>	<u>(8,217,473)</u>	<u>(1,501,181)</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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(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 October 31, 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.

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

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Notes to Consolidated Financial Statements

(Unaudited)

	Three months ended October 31, 2005	Three months ended October 31, 2004	Nine months ended October 31, 2005	Nine months ended October 31, 2004
	\$	\$	\$	\$
Sales				
Physical security and other	46,966,103	34,667,320	127,798,214	89,601,182
Cash handling	14,961,467	13,631,925	45,162,344	40,935,147
	<u>61,927,570</u>	<u>48,299,245</u>	<u>172,960,558</u>	<u>130,536,329</u>
Amortization of property, plant and equipment				
Physical security and other	303,450	278,198	777,987	781,572
Cash handling	577,673	436,190	1,547,933	1,225,838
	<u>881,123</u>	<u>714,388</u>	<u>2,325,920</u>	<u>2,007,410</u>
Amortization of service contracts and client relationships				
Physical security and other	54,680	-	154,442	-
Cash handling	111,510	94,842	334,530	284,526
	<u>166,190</u>	<u>94,842</u>	<u>488,972</u>	<u>284,526</u>
Income before financing expenses and income taxes				
Physical security and other	3,395,725	2,370,957	9,218,787	4,779,105
Cash handling	2,008,273	1,297,419	6,525,890	4,076,902
	<u>5,403,998</u>	<u>3,668,376</u>	<u>15,744,677</u>	<u>8,856,007</u>
Additions to property, plant and equipment				
Physical security and other	344,469	197,295	1,216,325	762,661
Cash handling	1,733,891	929,625	3,695,700	2,164,263
	<u>2,078,360</u>	<u>1,126,920</u>	<u>4,912,025</u>	<u>2,926,924</u>
			As at October 31, 2005	As at January 31, 2005
			\$	\$
Total assets				
Physical security and other			51,447,918	38,780,090
Cash handling			30,725,238	30,089,592
			<u>82,173,156</u>	<u>68,869,682</u>

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Notes to Consolidated Financial Statements

(Unaudited)

11 Subsequent events

On November 4th 2005, a wholly-owned subsidiary of the Corporation acquired the shares of Ontario Guard Services for an aggregate consideration of \$3,700,000.

On November 28th 2005, a wholly-owned subsidiary of the Corporation acquired the shares of United Armored Services, for an aggregate consideration of \$13,000,000 USD as well as the assumption of \$9,000,000 USD of debts.

On November 28th 2005, a wholly-owned subsidiary of the Corporation entered into an agreement to secure a global bank financing of a maximum amount of \$160,000,000.

On November 28th 2005, a subsidiary of the Corporation has entered into an agreement to acquire the shares of Vance International for an aggregate consideration of \$67,250,000 USD.

12 Comparative figures

Certain comparative figures for the periods ended October 31, 2004 have been restated to conform with the new presentation adopted in the periods ended October 31, 2005.