

# **Garda World Security Corporation**

Consolidated Interim Financial Statements (Unaudited)  
**Second Quarter Ended July 31, 2006**

# Garda World Security Corporation

## Consolidated Balance Sheets

	As at July 31, 2006 \$ (Unaudited)	As at January 31, 2006 \$ (Audited)
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	25,083,034	23,052,302
Accounts receivable	85,249,653	66,397,600
Revenue to be billed	16,882,058	12,454,306
Inventories	1,011,379	846,108
Prepaid expenses	4,606,315	1,949,325
Future income taxes	1,643,957	1,652,414
	<b>134,476,396</b>	106,352,055
<b>Property, plant and equipment</b> (note 4)	<b>36,848,447</b>	26,185,503
<b>Goodwill</b> (note 5)	<b>161,652,551</b>	94,168,336
<b>Service contracts and client relationships</b> , net of accumulated amortization of \$2,220,003 (As at January 31, 2006 – \$1,003,254)	<b>28,491,066</b>	16,399,220
<b>Deferred charges</b> , net of accumulated amortization of \$910,232 (As at January 31, 2006 – \$657,176)	<b>1,272,778</b>	1,526,023
<b>Deferred financing costs</b> , net of accumulated amortization of \$1,091,804 (As at January 31, 2006 – \$725,194)	<b>4,852,828</b>	4,532,361
	<b>367,594,066</b>	249,163,498
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank loans	6,466,244	2,284,283
Accounts payable and accrued liabilities	76,848,017	62,918,589
Income taxes	2,814,166	3,407,115
Current portion of long-term debt (note 6)	12,615,394	10,650,390
	<b>98,743,821</b>	79,260,377
<b>Long-term debt</b> (note 6)	<b>116,115,174</b>	129,683,369
<b>Future income taxes</b>	<b>12,707,319</b>	12,213,850
	<b>227,566,314</b>	221,157,596
<b>Shareholders' Equity</b>		
<b>Capital stock</b> (note 7)	<b>110,656,457</b>	8,059,926
<b>Contributed surplus</b> (note 8)	<b>2,262,123</b>	1,260,123
<b>Cumulative translation adjustments</b> (note 9)	<b>(2,213,380)</b>	(1,089,527)
<b>Retained earnings</b>	<b>29,322,552</b>	19,775,380
	<b>140,027,752</b>	28,005,902
	<b>367,594,066</b>	249,163,498

# Garda World Security Corporation

## Consolidated Statements of Retained Earnings

(Unaudited)

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	<b>Three months ended July 31, 2006</b> \$	Three months ended July 31, 2005 \$	<b>Six months ended July 31, 2006</b> \$	Six months ended July 31, 2005 \$
<b>Balance – Beginning of period</b>	<b>24,273,128</b>	9,459,892	<b>19,775,380</b>	6,356,204
Net income for the period	<b>5,049,424</b>	3,150,177	<b>9,547,172</b>	6,253,865
<b>Balance – End of period</b>	<b>29,322,552</b>	12,610,069	<b>29,322,552</b>	12,610,069

# Garda World Security Corporation

## Consolidated Statements of Income (Unaudited)

	<b>Three months ended July 31, 2006</b>	Three months ended July 31, 2005	<b>Six months ended July 31, 2006</b>	Six months ended July 31, 2005
	\$	\$	\$	\$
<b>Sales</b>	<b>164,985,610</b>	59,175,039	<b>302,626,342</b>	111,032,988
<b>Cost of sales</b>	<b>133,414,988</b>	47,722,381	<b>242,526,927</b>	89,141,820
<b>Gross profit</b>	<b>31,570,622</b>	11,452,658	<b>60,099,415</b>	21,891,168
<b>Operating expenses</b>				
Selling and administrative expenses	<b>17,802,544</b>	5,072,937	<b>33,902,096</b>	9,562,677
Amortization of property, plant and equipment	<b>2,136,061</b>	792,021	<b>3,982,245</b>	1,444,797
Amortization of service contracts and client relationships	<b>792,738</b>	156,900	<b>1,216,749</b>	322,782
Amortization of deferred charges	<b>126,528</b>	110,340	<b>253,056</b>	220,233
	<b>20,857,871</b>	6,132,198	<b>39,354,146</b>	11,550,489
<b>Income before financing expenses and income taxes</b>	<b>10,712,751</b>	5,320,460	<b>20,745,269</b>	10,340,679
<b>Financing expenses</b>				
Interest on long-term debt and convertible debentures	<b>3,170,999</b>	226,960	<b>6,626,548</b>	426,967
Other interest	<b>76,822</b>	57,843	<b>59,252</b>	46,055
Amortization of deferred financing costs	<b>239,280</b>	51,948	<b>366,610</b>	99,810
	<b>3,487,101</b>	336,751	<b>7,052,410</b>	572,832
<b>Income before income taxes</b>	<b>7,225,650</b>	4,983,709	<b>13,692,859</b>	9,767,847
<b>Provision for income taxes</b>	<b>2,176,226</b>	1,833,532	<b>4,145,687</b>	3,513,982
<b>Net income for the period</b>	<b>5,049,424</b>	3,150,177	<b>9,547,172</b>	6,253,865
<b>Basic net income per share</b> (note 10)	<b>0.18</b>	0.12	<b>0.35</b>	0.24
<b>Diluted net income per share</b> (note 10)	<b>0.17</b>	0.12	<b>0.33</b>	0.24

# Garda World Security Corporation

## Consolidated Statements of Cash Flows

(Unaudited)

	Three months ended July 31, 2006 \$	Three months ended July 31, 2005 \$	Six months ended July 31, 2006 \$	Six months ended July 31, 2005 \$
<b>Cash flows from</b>				
<b>Operating activities</b>				
Net income for the period	5,049,424	3,150,177	9,547,172	6,253,865
Adjustments for				
Stock-based compensation (note 7d)	501,000	130,877	1,002,000	265,400
Accrued interest on balance of selling price receivable	-	(11,875)	-	(23,750)
Amortization of property, plant and equipment	2,136,061	792,021	3,982,245	1,444,797
Amortization of service contracts and client relationships	792,738	156,900	1,216,749	322,782
Amortization of deferred charges	126,528	110,340	253,056	220,233
Amortization of deferred financing costs	239,280	51,948	366,610	99,810
Accrued interest on convertible debentures	-	-	-	(8,600)
Future income taxes	(126,123)	-	687,661	-
	<u>8,718,908</u>	4,380,388	<u>17,055,493</u>	8,574,537
Change in non-cash working capital items (note 11)	<u>9,205,299</u>	1,830,240	<u>(687,918)</u>	(5,588,013)
	<u>17,924,207</u>	6,210,628	<u>16,367,575</u>	2,986,524
<b>Financing activities</b>				
Deferred financing costs	-	-	(245,074)	(78,016)
Increase (decrease) in bank loans	639,875	(9,055,076)	4,181,961	(5,317,027)
Increase in long-term debt	664,146	884,883	68,840,565	3,539,186
Repayment of long-term debt	(15,258,917)	(965,018)	(80,967,781)	(1,701,215)
Issuance of Class "A" shares, net of share and special warrant issue expenses (note 7)	(105,710)	-	99,695,531	73,750
	<u>(14,060,606)</u>	(9,135,211)	<u>91,505,202</u>	(3,483,322)
<b>Investing activities</b>				
Additions to property, plant and equipment	(2,685,235)	(2,023,227)	(5,275,030)	(2,833,665)
Proceeds from disposal of property, plant and equipment	7,813	89,137	15,626	89,137
Business acquisitions, net of cash and cash equivalents acquired	(11,441,312)	(823,281)	(100,582,830)	(3,323,281)
Deferred charges	6,082	2,099	189	(204,824)
	<u>(14,112,652)</u>	(2,755,272)	<u>(105,842,045)</u>	(6,272,633)
<b>Net change in cash and cash equivalents during the period</b>	<b>(10,249,051)</b>	<b>(5,679,855)</b>	<b>2,030,732</b>	<b>(6,769,431)</b>
<b>Cash and cash equivalents – Beginning of period</b>	<b>35,332,085</b>	<b>9,945,646</b>	<b>23,052,302</b>	<b>11,035,222</b>
<b>Cash and cash equivalents – End of period</b>	<b>25,083,034</b>	<b>4,265,791</b>	<b>25,083,034</b>	<b>4,265,791</b>

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

(Unaudited)

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### 1 Nature of operations

The Corporation provides security services primarily in Canada and the United States and its activities are carried out through two (2) main segments: physical security and cash handling.

### 2 Significant accounting policies

The preparation of the unaudited interim financial statements conform with Canadian generally accepted accounting principles (GAAP) and with audited financial statements for the year ended January 31, 2006. For a detailed description of the accounting policies used by the Corporation, refer to the annual report for the year ended January 31, 2006. These interim financial statements do not include all disclosure requirements of Canadian generally accepted accounting principles and applicable to the annual financial statements.

#### **Consolidation**

These consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries.

#### **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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues 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.

#### **Revenue recognition**

Sales are recognized as revenue when there is persuasive evidence that an agreement exists, when services have been rendered, when the price is fixed or determinable, and when collection is reasonably assured. Revenues are recorded on the basis of cyclical billings and also include revenue accrued in respect of services rendered but as yet unbilled.

#### **Foreign currency translation and self-sustaining foreign operations**

During the six (6) month period ended July 31, 2006, the Corporation acquired foreign companies (note 3). The Corporation determined that they were self-sustaining foreign operations, and the current rate method was used to translate the financial statements of those subsidiaries. Under this method, assets and liabilities were translated at the exchange rate in effect at the balance sheet date, and revenues and expenses were translated at the average exchange rate for the period. The resulting currency adjustments are reported in "Cumulative translation adjustments" under shareholders' equity.

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

(Unaudited)

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### Property, plant and equipment

Property, plant and equipment are recorded at cost, less related accumulated amortization. Amortization is calculated over their estimated useful lives according to the following methods and annual rates or periods:

	Method	Rate/Period
Buildings	Straight-line	30 years
Office furniture	Declining balance	20%
Computer equipment	Declining balance	30%
Equipment	Declining balance	20%
Vehicles	Declining balance and straight-line	30% and 4 years
Armored vehicles	Straight-line	12 years
Uniforms	Straight-line	2 years
Leasehold improvements	Straight-line	5 and 9 years

### Impairment of long-lived assets

Long-lived assets are reviewed for impairment when events or circumstances indicate that costs may not be recoverable. Impairment exists when the carrying value of the asset is greater than the undiscounted future cash flows expected to be provided by the asset. The amount of impairment loss is the excess of the carrying value over the fair value.

### Goodwill

Goodwill is subject to an annual impairment test on January 31 or more frequently if events or changes in circumstances indicate that it might be impaired. Testing for impairment is accomplished mainly by determining whether projected discounted future cash flows exceed the carrying amount of goodwill. The Corporation performed an impairment test on goodwill as at January 31, 2006 and has concluded that no impairment loss should be recognized.

### Service contracts and client relationships

Service contracts and client relationships are recorded at cost less accumulated amortization. These intangible assets are amortized on a straight-line basis over twelve (12) years, which represents their estimated useful life. The Corporation evaluates the carrying value of these assets in each reporting period to determine if there has been an impairment in value that would result in an inability to recover the carrying amount. Such evaluation is based on estimated undiscounted future cash flows. When it is determined that the carrying value of an asset exceeds the recoverable amount, the asset is written down to the net recoverable amount with a charge to income in the period that such a determination is made.

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

(Unaudited)

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### **Deferred charges**

Deferred charges include principally start-up costs incurred after obtaining certain contracts and are amortized on a straight-line basis over a period varying from four (4) to five (5) years.

### **Deferred financing costs**

Deferred financing costs include expenses incurred by the Corporation in various financing activities and are amortized on a straight-line basis over the respective terms of these financings.

### **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.

### **Income per share**

Income per share is determined using the weighted average number of shares outstanding during the year. Diluted income per share is determined using the treasury stock method to evaluate the dilutive effect of convertible debentures, special warrants, 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**

The Corporation has applied retroactively, without restating 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 income 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.

# **Garda World Security Corporation**

## Notes to Consolidated Financial Statements

**(Unaudited)**

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### **3 Business acquisitions**

On February 8, 2006, the Corporation acquired all the shares of Chartrand Laframboise, which is located in Montréal and operates in Québec in the consulting and investigations sector.

On February 16, 2006, the Corporation acquired all the shares of Garda Investigation Services (formerly Signum Corporate Services), which is located in Toronto and operates in Ontario in the consulting and investigations sector.

On March 9, 2006, the Corporation acquired all the shares of Garda Canada Security Corporation (formerly Rentokil Initial Canada), which is located in Toronto and operates in Canada in the physical security segment.

On April 3, 2006, the Corporation acquired all the shares of Security Armored Express which is located in Helena (Montana) and operates in the United States in the cash handling segment.

On June 30, 2006, the Corporation acquired all the shares of Security Armored Car Service which is located in Saint-Louis (Missouri) and operates in the United States in the cash handling segment.

On June 30, 2006, the Corporation acquired all the shares of Intertec Security and Hamilton-Wentworth Protection Services which are located in Toronto and Hamilton and operate in Canada in the physical security segment.

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

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

(Unaudited)

The purchase price allocation is as follows:

	Chartrand Laframboise	Garda Investigation Services	Garda Canada Security Corporation	Security Armored Express	Security Armored Car Service	Intertec Security	Others	Six months ended July 31, 2006	Six months ended July 31, 2005
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Net assets acquired (liabilities assumed)</b>									
Current assets	918,485	876,452	19,645,201	1,893,822	1,908,869	2,082,034	-	27,324,863	-
Property, plant and equipment	194,962	137,424	2,080,715	3,259,754	2,046,280	334,648	-	8,053,783	679,812
Goodwill	4,484,109	4,149,209	45,571,708	5,978,760	3,924,904	2,586,756	755,912	67,451,358	2,967,500
Service contracts and client relationships	-	-	11,074,459	1,573,199	-	855,067	-	13,502,725	2,394,323
Current liabilities	(711,087)	(477,791)	(13,211,914)	(400,396)	(7,081,397)	(951,608)	-	(22,834,193)	(868,354)
Future income taxes	(4,271)	18,000	-	-	-	-	-	13,729	-
<b>Net assets acquired, net of cash and cash equivalents acquired</b>	<b>4,882,198</b>	<b>4,703,294</b>	<b>65,160,169</b>	<b>12,305,139</b>	<b>798,656</b>	<b>4,906,897</b>	<b>755,912</b>	<b>93,512,265</b>	<b>5,173,281</b>
<b>Cash and cash equivalents acquired</b>	<b>287,871</b>	<b>113,847</b>	<b>3,910,211</b>	<b>823,877</b>	<b>5,628,832</b>	<b>333,247</b>	<b>-</b>	<b>11,097,885</b>	<b>-</b>
<b>Net assets acquired</b>	<b>5,170,069</b>	<b>4,817,141</b>	<b>69,070,380</b>	<b>13,129,016</b>	<b>6,427,488</b>	<b>5,240,144</b>	<b>755,912</b>	<b>104,610,150</b>	<b>5,173,281</b>
<b>Consideration paid</b>									
Cash payment	4,450,000	3,000,000	66,803,403	10,681,100	5,635,368	4,875,000	755,912	96,200,783	3,030,000
Transaction costs	170,069	317,141	2,266,977	696,916	565,800	365,144	-	4,382,047	293,281
Balance of purchase prices payable	-	900,000	-	-	226,320	-	-	1,126,320	1,500,000
Issuance of Class "A" shares	550,000	600,000	-	1,751,000	-	-	-	2,901,000	350,000
	<b>5,170,069</b>	<b>4,817,141</b>	<b>69,070,380</b>	<b>13,129,016</b>	<b>6,427,488</b>	<b>5,240,144</b>	<b>755,912</b>	<b>104,610,150</b>	<b>5,173,281</b>

The purchase price allocation is not definite with respect to goodwill, service contracts and client relationships, and future income taxes.

# Garda World Security Corporation

## Notes to Consolidated Financial Statements (Unaudited)

### 4 Property, plant and equipment

	<b>As at July 31, 2006</b>		
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	<b>\$</b>	<b>amortization</b>	<b>\$</b>
		<b>\$</b>	
Buildings	2,692,512	22,151	2,670,361
Office furniture	2,305,264	789,608	1,515,656
Computer equipment	5,279,723	1,558,388	3,721,335
Equipment	5,546,738	1,539,130	4,007,608
Vehicles	5,453,415	2,001,212	3,452,203
Armored vehicles	15,299,450	2,244,691	13,054,759
Uniforms	3,020,620	1,250,890	1,769,730
Leasehold improvements	8,518,251	1,861,456	6,656,795
	<b>48,115,973</b>	<b>11,267,526</b>	<b>36,848,447</b>
	<b>As at January 31, 2006</b>		
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	<b>\$</b>	<b>amortization</b>	<b>\$</b>
		<b>\$</b>	
Buildings	507,423	3,555	503,868
Office furniture	1,867,396	645,150	1,222,246
Computer equipment	3,762,723	995,472	2,767,251
Equipment	3,304,842	1,105,655	2,199,187
Vehicles	3,497,221	1,571,590	1,925,631
Armored vehicles	10,840,125	1,212,068	9,628,057
Uniforms	1,457,288	727,052	730,236
Leasehold improvements	8,465,131	1,256,104	7,209,027
	<b>33,702,149</b>	<b>7,516,646</b>	<b>26,185,503</b>

# Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

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## 5 Goodwill

	As at July 31, 2006 \$
Balance – Beginning of period	94,168,336
Business acquisitions (note 3)	68,257,236
Effect of change in exchange rates during the period	<u>(773,021)</u>
Balance – End of period	<u>161,652,551</u>

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

(Unaudited)

### 6 Long-term debt

Long-term debt comprises the following:

	As at July 31, 2006 \$	As at January 31, 2006 \$
Senior term loan, bearing interest either at the U.S. or Canadian prime rate plus 0.25% to 1.75%, or at LIBOR or the bankers' acceptance rate plus 1.50% to 3.00%, depending on the loan instrument used and the leverage ratio, comprising the same rights and guarantees as the bank loans, repayable in 20 quarterly principal instalments from April 2006 until January 2011	48,250,000	50,000,000
Senior term loan of US\$47,503,887, bearing interest at the U.S. prime rate plus 1.5% to 2.00% or at LIBOR plus 2.75% to 3.25%, depending on the loan instrument used and the leverage ratio, comprising the same rights and guarantees as the bank loans, repayable in full at maturity in January 2012	53,755,398	54,339,697
Subordinated term loan, bearing interest at a fixed rate of 12% plus 3.0% until July 2007 and 5.0% thereafter, repayable in full, including compounded interest in January 2013	12,455,609	24,973,605
Balances of purchase prices payable, bearing interest at rates ranging from 0% to 5%, payable in annual and quarterly instalments until October 2010	6,651,320	6,200,000
Capital lease obligations, secured by property, plant and equipment, bearing interest at rates ranging from 5.1% to 8.8%, repayable in monthly instalments of a maximum of \$217,158, including principal and interest, maturing at different dates until March 2012	7,414,891	4,542,381
Loans, bearing interest at an average rate of 0.1%, secured by vehicles, repayable in monthly instalments of a maximum of \$9,631, including principal and interest, maturing at different dates until November 2008	203,350	278,076
	<b>128,730,568</b>	140,333,759
Less: Current portion	<b>12,615,394</b>	10,650,390
	<b>116,115,174</b>	129,683,369

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

(Unaudited)

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### 7 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 six month period ended July 31, 2006 are summarized as follows:

	Number of Class “A” shares	\$
Balance – Beginning of period	25,911,889	8,059,926
Issued following business acquisitions (note 3)	147,758	2,901,000
Issued following a private placement	4,500,000	105,300,000
Shares and special warrants issue expenses	-	(5,604,469)
	<u>30,559,647</u>	<u>110,656,457</u>

On March 30, 2006, the Corporation concluded a private placement for the issuance of 4,500,000 special warrants at a price of \$23.40 per special warrant for total net proceeds of \$99,695,531. Each special warrant will entitle the holder to acquire one (1) Class “A” share without payment of additional consideration, until the first of the following two (2) dates: (i) March 30, 2007 and (ii) six (6) days following the reception of a visa of the prospectus qualifying the titles. In the event that the Corporation cannot deliver the prospectus by June 1, 2006, the holder of special warrants will be entitle to receive from the Corporation 1.1 Class “A” shares (in lieu of one (1) Class “A” share otherwise receivable) without payment of additional consideration.

The final prospectus was deposited on May 26, 2006. Following this deposit, the automatic exercise procedure of the special warrants issued, as per the Special Warrant Indenture dated March 30, 2006, resulted in the issuance of 4,500,000 Class “A” shares of the Corporation, on June 7, 2006.

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

(Unaudited)

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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 price restrictions and other requirements. The exercise price of the options shall be the closing market price of the Corporation’s shares on the last trading day prior to the issuance of options with the exception of those options previously granted to directors or officers of the Corporation in accordance with the rules of the Toronto Stock Exchange. Stock options under the Plan are exercisable for a period no longer than five (5) years and the exercise price must be paid in full upon exercise of the option.

The following table summarizes the Corporation’s Class “A” stock options’ activity:

	<u>As at July 31, 2006</u>		<u>As at July 31, 2005</u>	
	<b>Number of shares</b>	<b>Weighted average exercise price \$</b>	Number of shares	Weighted average exercise price \$
Options granted – Beginning of period	<b>1,545,000</b>	<b>3.67</b>	1,251,500	1.54
Granted	<b>1,115,000</b>	<b>16.96</b>	310,000	8.36
Exercised	-	-	(86,500)	0.85
Forfeited	<b>(125,000)</b>	<b>14.48</b>	<b>(35,000)</b>	1.93
Options granted – End of period	<b><u>2,535,000</u></b>	<b>8.98</b>	<b><u>1,440,000</u></b>	3.03

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

(Unaudited)

The following table summarizes information about Class “A” share stock options outstanding and exercisable as at July 31, 2006:

Exercise price \$	Options outstanding			Options exercisable	
	Number of shares	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number of shares	Weighted average exercise price \$
0.85	285,000	1.75	0.85	285,000	0.85
1.00	150,000	1.94	1.00	100,000	1.00
1.25	50,000	2.42	1.25	50,000	1.25
1.50	170,000	2.42	1.50	100,000	1.50
1.60	300,000	2.44	1.60	300,000	1.60
3.00	110,000	2.93	3.00	50,000	3.00
3.55	50,000	3.05	3.55	50,000	3.55
4.75	15,000	3.22	4.75	-	-
8.00	85,000	3.58	8.00	-	-
8.50	210,000	3.86	8.50	-	-
8.60	25,000	3.79	8.60	-	-
10.00	15,000	3.97	10.00	-	-
14.00	70,000	4.33	14.00	-	-
15.00	630,000	4.55	15.00	-	-
15.18	90,000	4.54	15.18	-	-
16.30	25,000	4.54	16.30	-	-
23.40	255,000	4.77	23.40	-	-
	<b>2,535,000</b>	<b>3.45</b>	<b>8.98</b>	<b>935,000</b>	<b>1.46</b>

- d) During the six (6) month period ended July 31, 2006, the Corporation granted 1,115,000 (310,000 for the corresponding period last year) Class “A” share stock options at exercise prices ranging from \$15.00 to \$23.40 (\$8.00 to \$8.50 for the corresponding period last year).

The fair value of options granted was estimated on the date of the grant using the Black-Scholes option pricing model on the basis of the following assumptions:

Expected dividend rate	0%
Volatility	59%
Expected life of options	5 years
Risk-free interest rate	3.00%
Number of options	1,115,000
Fair value of options	9,998,095\$

During the six (6) month period ended July 31, 2006, the Corporation recorded to net income a stock-based compensation cost of \$1,002,000 (\$265,400 for the corresponding period last year) for the options granted since February 1, 2002. The counterpart has been credited to contributed surplus (note 8).

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

(Unaudited)

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### 8 Contributed surplus

	As at July 31, 2006 \$
Balance – Beginning of period	1,260,123
Stock-based compensation (note 7d))	<u>1,002,000</u>
Balance – End of period	<u>2,262,123</u>

### 9 Cumulative translation adjustments

	As at July 31, 2006 \$
Balance – Beginning of period	(1,089,527)
Effects of changes in exchange rates during the year on net investment in self-sustaining foreign subsidiaries	<u>(1,123,853)</u>
Balance – End of period	<u>(2,213,380)</u>

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

(Unaudited)

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### 10 Income per share

The following table reconciles basic and diluted net income per share:

	<b>Three months ended July 31, 2006</b>	Three months ended July 31, 2005	<b>Six months ended July 31, 2006</b>	Six months ended July 31, 2005
	\$	\$	\$	\$
Net income for the period for use in computation of diluted income per share	<b>5,049,424</b>	3,150,177	<b>9,547,172</b>	6,253,865
Weighted average number of shares outstanding for use in computation of basic income per share	<b>28,700,951</b>	25,909,235	<b>27,371,764</b>	25,592,294
Effect of potentially dilutive securities Stock options	<b>1,209,862</b>	709,185	<b>1,203,063</b>	709,185
Weighted average number of shares outstanding for use in computation of diluted income per share	<b>29,910,813</b>	26,618,420	<b>28,574,827</b>	26,301,479
Basic net income per share	<b>0.18</b>	0.12	<b>0.35</b>	0.24
Diluted net income per share	<b>0.17</b>	0.12	<b>0.33</b>	0.24

During the six (6) month period ended July 31, 2006, 441,158 (225,000 for the corresponding period last year) Class "A" share stock options with an exercise price varying from \$15.00 to \$23.40 (\$8.50 to \$10.00 for the corresponding quarter last year) were excluded in computing the diluted income per share because the aggregate of the exercised price and the related future stock-based compensation cost exceeded for the period ended July 31, 2006 the average market price for Class "A" shares of the Corporation.

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

(Unaudited)

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### 11 Change in non-cash working capital items

The change in non-cash working capital items is determined as follows:

	<b>Three months ended July 31, 2006</b>	Three months ended July 31, 2005	<b>Six months ended July 31, 2006</b>	Six months ended July 31, 2005
	\$	\$	\$	\$
Decrease (increase) in				
Accounts receivable	<b>(6,526,664)</b>	4,444,677	<b>6,157,491</b>	(185,703)
Revenue to be billed	<b>7,687,750</b>	(6,676,969)	<b>(4,427,752)</b>	(3,614,863)
Inventories	<b>982,021</b>	(120,772)	<b>1,012,602</b>	(140,483)
Prepaid expenses	<b>(675,133)</b>	(48,259)	<b>(1,337,314)</b>	(226,678)
Future income taxes	<b>(22,534)</b>	-	<b>8,457</b>	-
Increase (decrease) in				
Accounts payable and accrued liabilities	<b>5,412,942</b>	2,911,543	<b>1,662,100</b>	(2,417,659)
Income taxes	<b>2,346,917</b>	1,320,020	<b>(3,763,502)</b>	997,373
	<b>9,205,299</b>	1,830,240	<b>(687,918)</b>	(5,588,013)

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

(Unaudited)

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### 12 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 July 31, 2006, the Corporation's interest rate risk is summarized as follows:

Cash and cash equivalents	<b>Variable rate</b>
Accounts receivable	<b>Non-interest bearing</b>
Bank loans	<b>Variable rate</b>
Accounts payable and accrued liabilities	<b>Non-interest bearing</b>
Long-term debt	<b>See note 6</b>

#### Foreign exchange risk

The Corporation has operating activities outside Canada, namely in the United States, Mexico, England and Iraq, through its wholly owned subsidiaries. It is therefore exposed to foreign exchange rate risks in the net investment in its foreign subsidiaries.

### 13 Segmented information

The Corporation provides security services primarily in Canada and the United States, and its activities are carried out through two (2) main reportable segments:

- i) physical security and other: security officer services, airport pre-board screening services, investigation and consulting services, pre-employment screening and other.
- ii) cash handling: armored cash transportation, automated teller machine maintenance, cash logistics services, and the supply of safes and locks.

Activities carried on through other segments are not significant and are included in the physical security and other segment.

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

(Unaudited)

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

### a) Business segment

	<b>Three months ended July 31, 2006</b>	Three months ended July 31, 2005	<b>Six months ended July 31, 2006</b>	Six months ended July 31, 2005
	\$	\$	\$	\$
<b>Sales</b>				
Physical security and other	133,364,353	43,796,306	243,065,552	80,832,111
Cash handling	31,621,257	15,378,733	59,560,790	30,200,877
	<b>164,985,610</b>	59,175,039	<b>302,626,342</b>	111,032,988
<b>Amortization of property, plant and equipment</b>				
Physical security and other	817,694	274,955	1,477,192	474,537
Cash handling	1,318,367	517,066	2,505,053	970,260
	<b>2,136,061</b>	792,021	<b>3,982,245</b>	1,444,797
<b>Amortization of service contracts and client relationships</b>				
Physical security and other	681,228	45,390	993,729	99,762
Cash handling	111,510	111,510	223,020	223,020
	<b>792,738</b>	156,900	<b>1,216,749</b>	322,782
<b>Amortization of deferred charges</b>				
Physical security and other	75,570	59,382	151,140	118,317
Cash handling	50,958	50,958	101,916	101,916
	<b>126,528</b>	110,340	<b>253,056</b>	220,233
<b>Income before financing expenses and income taxes</b>				
Physical security and other	7,098,660	3,034,447	14,098,798	5,823,062
Cash handling	3,614,091	2,286,013	6,646,471	4,517,617
	<b>10,712,751</b>	5,320,460	<b>20,745,269</b>	10,340,679
<b>Additions to property, plant and equipment</b>				
Physical security and other	842,988	559,228	2,782,192	871,856
Cash handling	1,842,247	1,463,999	2,492,838	1,961,809
	<b>2,685,235</b>	2,023,227	<b>5,275,030</b>	2,833,665
			As at July 31, 2006	As at January 31, 2006
			\$	\$
<b>Goodwill</b>				
Physical security and other			134,764,793	76,603,954
Cash handling			26,887,758	17,564,382
			<b>161,652,551</b>	94,168,336
<b>Service contracts and client relationships</b>				
Physical security and other			23,297,526	554,166
Cash handling			5,193,540	15,845,054
			<b>28,491,066</b>	16,399,220
<b>Total assets</b>				
Physical security and other			279,434,991	176,334,000
Cash handling			88,159,075	72,829,498
			<b>367,594,066</b>	249,163,498

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

(Unaudited)

### b) Geographical segment

	<b>Three months ended July 31, 2006</b>	Three months ended July 31, 2005	<b>Six months ended July 31, 2006</b>	Six months ended July 31, 2005
	\$	\$	\$	\$
<b>Sales</b>				
Canada	105,009,914	59,175,039	188,902,140	111,032,988
United States and other	59,975,696	-	113,724,202	-
	<u>164,985,610</u>	<u>59,175,039</u>	<u>302,626,342</u>	<u>111,032,988</u>
<b>Amortization of property, plant and equipment</b>				
Canada	1,204,896	792,021	2,243,380	1,444,797
United States and other	931,165	-	1,738,865	-
	<u>2,136,061</u>	<u>792,021</u>	<u>3,982,245</u>	<u>1,444,797</u>
<b>Amortization of service contracts and client relationships</b>				
Canada	292,740	156,900	716,751	322,782
United States and other	499,998	-	499,998	-
	<u>792,738</u>	<u>156,900</u>	<u>1,216,749</u>	<u>322,782</u>
<b>Amortization of deferred charges</b>				
Canada	126,528	110,340	253,056	220,233
	<u>126,528</u>	<u>110,340</u>	<u>253,056</u>	<u>220,233</u>
<b>Income before financing expenses and income taxes</b>				
Canada	7,088,749	5,320,460	14,011,871	10,340,679
United States and other	3,624,002	-	6,733,398	-
	<u>10,712,751</u>	<u>5,320,460</u>	<u>20,745,269</u>	<u>10,340,679</u>
<b>Additions to property, plant and equipment</b>				
Canada	1,276,705	2,023,227	2,564,643	2,833,665
United States and other	1,408,530	-	2,710,387	-
	<u>2,685,235</u>	<u>2,023,227</u>	<u>5,275,030</u>	<u>2,833,665</u>
			As at July 31, 2006	As at January 31, 2006
			\$	\$
<b>Goodwill</b>				
Canada			69,567,192	11,956,403
United States and other			92,085,359	82,211,933
			<u>161,652,551</u>	<u>94,168,336</u>
<b>Service contracts and client relationships</b>				
Canada			15,619,767	4,399,220
United States and other			12,871,299	12,000,000
			<u>28,491,066</u>	<u>16,399,220</u>
<b>Total assets</b>				
Canada			178,478,196	83,873,100
United States and other			189,115,870	165,290,398
			<u>367,594,066</u>	<u>249,163,498</u>

# **Garda World Security Corporation**

Notes to Consolidated Financial Statements

**(Unaudited)**

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## **14 Comparative figures**

Certain comparative figures have been restated to conform to the new presentation adopted in the current quarter.