

Garda World Security Corporation

Consolidated Interim Financial Statements (Unaudited)
Third Quarter Ended October 31, 2006

Garda World Security Corporation

Consolidated Balance Sheets

	As at October 31, 2006 \$ (Unaudited)	As at January 31, 2006 \$ (Audited)
Assets		
Current assets		
Cash and cash equivalents	23,292,467	23,052,302
Accounts receivable	93,945,017	66,397,600
Revenue to be billed	19,015,343	12,454,306
Inventories	1,009,063	846,108
Prepaid expenses	7,268,814	1,949,325
Future income taxes	1,639,960	1,652,414
	146,170,664	106,352,055
Property, plant and equipment (note 4)	45,148,244	26,185,503
Goodwill (note 5)	177,597,719	94,168,336
Service contracts and client relationships , net of accumulated amortization of \$2,818,481 (As at January 31, 2006 – \$1,003,254)	30,377,021	16,399,220
Deferred charges , net of accumulated amortization of \$1,036,760 (As at January 31, 2006 – \$657,176)	1,146,439	1,526,023
Deferred financing costs , net of accumulated amortization of \$1,297,357 (As at January 31, 2006 – \$725,194)	4,110,101	4,532,361
	404,550,188	249,163,498
Liabilities		
Current liabilities		
Bank loans	15,317,765	2,284,283
Accounts payable and accrued liabilities	83,822,328	62,918,589
Income taxes	3,549,088	3,407,115
Current portion of long-term debt (note 6)	14,717,752	10,650,390
	117,406,933	79,260,377
Long-term debt (note 6)	127,823,233	129,683,369
Future income taxes	13,522,159	12,213,850
	258,752,325	221,157,596
Shareholders' Equity		
Capital stock (note 7)	110,788,431	8,059,926
Contributed surplus (note 8)	3,144,264	1,260,123
Cumulative translation adjustments (note 9)	(3,832,503)	(1,089,527)
Retained earnings	35,697,671	19,775,380
	145,797,863	28,005,902
	404,550,188	249,163,498

Garda World Security Corporation

Consolidated Statements of Retained Earnings

(Unaudited)

	Three months ended October 31, 2006 \$	Three months ended October 31, 2005 \$	Nine months ended October 31, 2006 \$	Nine months ended October 31, 2005 \$
Balance – Beginning of period	29,322,552	12,610,069	19,775,380	6,356,204
Net income for the period	6,375,119	3,426,275	15,922,291	9,680,140
Balance – End of period	35,697,671	16,036,344	35,697,671	16,036,344

Garda World Security Corporation

Consolidated Statements of Income (Unaudited)

	Three months ended October 31, 2006	Three months ended October 31, 2005	Nine months ended October 31, 2006	Nine months ended October 31, 2005
	\$	\$	\$	\$
Sales	179,950,443	61,927,570	482,576,785	172,960,558
Cost of sales	144,321,410	50,048,504	386,848,337	139,190,324
Gross profit	35,629,033	11,879,066	95,728,448	33,770,234
Operating expenses				
Selling and administrative expenses	19,509,360	5,317,415	53,411,456	14,880,092
Amortization of property, plant and equipment	2,447,599	881,123	6,429,844	2,325,920
Amortization of service contracts and client relationships	598,478	166,190	1,815,227	488,972
Amortization of deferred charges	126,528	110,340	379,584	330,573
	22,681,965	6,475,068	62,036,111	18,025,557
Income before financing expenses and income taxes	12,947,068	5,403,998	33,692,337	15,744,677
Financing expenses				
Interest on long-term debt and convertible debentures	3,334,229	254,979	9,960,777	681,946
Other interest	276,671	24,097	335,923	70,152
Amortization of deferred financing costs	205,553	51,946	572,163	151,756
	3,816,453	331,022	10,868,863	903,854
Income before income taxes	9,130,615	5,072,976	22,823,474	14,840,823
Provision for income taxes	2,755,496	1,646,701	6,901,183	5,160,683
Net income for the period	6,375,119	3,426,275	15,922,291	9,680,140
Basic net income per share (note 10)	0.21	0.13	0.56	0.38
Diluted net income per share (note 10)	0.20	0.13	0.54	0.36

Garda World Security Corporation

Consolidated Statements of Cash Flows

(Unaudited)

	Three months ended October 31, 2006 \$	Three months ended October 31, 2005 \$	Nine months ended October 31, 2006 \$	Nine months ended October 31, 2005 \$
Cash flows from				
Operating activities				
Net income for the period	6,375,119	3,426,275	15,922,291	9,680,140
Adjustments for				
Stock-based compensation (note 7d)	952,365	157,488	1,954,365	422,888
Amortization of property, plant and equipment	2,447,599	881,123	6,429,844	2,325,920
Amortization of service contracts and client relationships	598,478	166,190	1,815,227	488,972
Amortization of deferred charges	126,528	110,340	379,584	330,573
Amortization of deferred financing costs	205,553	51,946	572,163	151,756
Accrued interest on convertible debentures	-	-	-	(8,600)
Accrued interest on balance of selling price receivable	-	(11,874)	-	(35,624)
Future income taxes	758,778	-	1,446,439	-
	11,464,420	4,781,488	28,519,913	13,356,025
Change in non-cash working capital items (note 11)	(2,139,317)	(2,336,179)	(13,925,120)	(7,924,192)
	9,325,103	2,445,309	14,594,793	5,431,833
Financing activities				
Deferred financing costs				
Increase (decrease) in bank loans	-	-	(245,074)	(78,016)
Increase in long-term debt	8,861,721	3,259,627	13,043,682	(2,057,400)
Repayment of long-term debt	15,675,172	246,912	84,515,737	3,786,098
Conversion of convertible debentures	(5,660,787)	(990,431)	(86,628,568)	(2,691,646)
Issuance of Class "A" shares, net of share and special warrant issue expenses	61,750	-	99,757,281	73,750
	18,937,856	2,516,108	110,443,058	(967,214)
Investing activities				
Additions to property, plant and equipment	(3,535,105)	(2,078,360)	(8,810,135)	(4,912,025)
Proceeds from disposal of property, plant and equipment	6,191	2,614	21,817	91,751
Business acquisitions, net of cash and cash equivalents acquired	(26,524,612)	-	(116,009,557)	(3,323,281)
Deferred charges	-	(2,172)	189	(206,996)
	(30,053,526)	(2,077,918)	(124,797,686)	(8,350,551)
Net change in cash and cash equivalents during the period	(1,790,567)	2,883,499	240,165	(3,885,932)
Cash and cash equivalents – Beginning of period	25,083,034	4,265,791	23,052,302	11,035,222
Cash and cash equivalents – End of period	23,292,467	7,149,290	23,292,467	7,149,290

Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

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 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 nine (9) month period ended October 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.

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Notes to Consolidated Financial Statements

(Unaudited)

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 to 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.

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Notes to Consolidated Financial Statements

(Unaudited)

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.

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Notes to Consolidated Financial Statements

(Unaudited)

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.

On September 7, 2006, the Corporation acquired all the shares of PSI Armored which is located in Topeka (Kansas) and operates in the United States in the cash handling segment.

On October 12, 2006, the Corporation acquired the principal cash handling assets cash handling of American Security which is located in St-Paul (Minnesota) and operates in the United States in the cash handling segment.

On October 31, 2006, the Corporation acquired all the shares of Sécurité et Protection Secpro which is located in Quebec and operates in Quebec and Ontario in the physical security segment.

On October 31, 2006, the Corporation acquired all the shares of Nor-web Consultation en Sécurité and Groupe Évolution Investigation which is located in Montreal and operates in Quebec in the consulting and investigations sector.

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:

	<u>Physical security and Other</u>			<u>Cash handling</u>		
	Garda Canada Security Corporation \$	Other acquired businesses \$	Total physical security \$	Total cash handling \$	Nine months ended October 31, 2006 \$	Nine months ended October 31, 2005 \$
Net assets acquired (liabilities assumed)						
Current assets	19,645,201	10,872,661	30,517,862	5,364,660	35,882,522	-
Property, plant and equipment	2,080,715	1,372,768	3,453,483	11,200,459	14,653,942	679,812
Goodwill	45,575,348	15,482,129	61,057,477	23,140,085	84,197,562	2,967,500
Service contracts and client relationships	11,075,046	3,036,193	14,111,239	3,491,672	17,602,911	2,394,323
Long-term assets	-	-	-	346,284	346,284	-
Current liabilities	(13,216,141)	(8,280,979)	(21,497,120)	(7,286,331)	(28,783,451)	(868,354)
Long-term debt	-	-	-	(3,029,122)	(3,029,122)	-
Future income taxes	-	13,729	13,729	-	13,729	-
Net assets acquired, net of cash and cash equivalents acquired	65,160,169	22,496,501	87,656,670	33,227,707	120,884,377	5,173,281
Cash and cash equivalents acquired	3,910,211	1,171,231	5,081,442	6,687,797	11,769,239	-
Net assets acquired	69,070,380	23,667,732	92,738,112	39,915,504	132,653,616	5,173,281
Consideration paid						
Cash payment	66,803,403	19,785,900	86,589,303	35,563,728	122,153,031	3,030,000
Transaction costs	2,266,977	984,332	3,251,309	2,374,456	5,625,765	293,281
Balance of purchase prices payable	-	1,747,500	1,747,500	226,320	1,973,820	1,500,000
Issuance of Class "A" shares	-	1,150,000	1,150,000	1,751,000	2,901,000	350,000
	69,070,380	23,667,732	92,738,112	39,915,504	132,653,616	5,173,281

The purchase price allocation for certain business acquisitions 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

	As at October 31, 2006		
	Cost \$	Accumulated amortization \$	Net \$
Buildings	2,754,932	67,372	2,687,560
Office furniture	2,515,304	947,431	1,567,873
Computer equipment	5,661,891	1,858,140	3,803,751
Equipment	7,209,633	1,812,803	5,396,830
Vehicles	5,716,881	2,283,887	3,432,994
Armored vehicles	21,759,600	2,931,013	18,828,587
Uniforms	4,003,190	1,615,132	2,388,058
Leasehold improvements	9,220,652	2,178,061	7,042,591
	58,842,083	13,693,839	45,148,244
	As at January 31, 2006		
	Cost \$	Accumulated amortization \$	Net \$
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
	33,702,149	7,516,646	26,185,503

Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

5 Goodwill

	As at October 31, 2006 \$
Balance – Beginning of period	94,168,336
Business acquisitions	85,061,118
Effect of change in exchange rates during the period	<u>(1,631,735)</u>
Balance – End of period	<u>177,597,719</u>

Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

6 Long-term debt

Long-term debt comprises the following:

	As at October 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	44,750,000	50,000,000
Senior term loan of US\$60,685,887, 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	68,156,319	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	12,443,173	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	5,399,620	6,200,000
Capital lease obligations, secured by property, plant and equipment, bearing interest at rates ranging from 1.7% to 11.3%, repayable in monthly instalments of a maximum of \$445,936, including principal and interest, maturing at different dates until October 2011	11,633,221	4,542,381
Loans, bearing interest at an average rate of 0.1%, secured by vehicles, repayable in monthly instalments of a maximum of \$9,096, including principal and interest, maturing at different dates until November 2008	158,652	278,076
	142,540,985	140,333,759
Less: Current portion	14,717,752	10,650,390
	127,823,233	129,683,369

Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

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 nine (9) month period ended October 31, 2006 are summarized as follows:

	Number of Class “A” shares	\$
Balance – Beginning of period	25,911,889	8,059,926
Issued following exercise of options (note 7c))	25,000	131,974
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)
	<hr/>	
Balance – End of period	30,584,647	110,788,431

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.

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Notes to Consolidated Financial Statements

(Unaudited)

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:

	As at October 31, 2006		As at October 31, 2005	
	Number of shares	Weighted average exercise price \$	Number of shares	Weighted average exercise price \$
Options granted – Beginning of period	1,545,000	3.67	1,251,500	1.54
Granted	1,165,000	17.24	350,000	8.45
Exercised	(25,000)	2.47	(86,500)	0.85
Forfeited	(175,000)	14.23	(35,000)	1.93
Options granted – End of period	<u>2,510,000</u>	9.24	<u>1,480,000</u>	3.19

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(Unaudited)

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

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	275,000	1.50	0.85	275,000	0.85
1.00	150,000	1.69	1.00	100,000	1.00
1.25	50,000	2.17	1.25	50,000	1.25
1.50	170,000	2.17	1.50	100,000	1.50
1.60	300,000	2.19	1.60	300,000	1.60
3.00	110,000	2.68	3.00	50,000	3.00
3.55	35,000	2.80	3.55	35,000	3.55
4.75	15,000	2.97	4.75	-	-
8.00	75,000	3.33	8.00	-	-
8.50	210,000	3.61	8.50	-	-
8.60	25,000	3.54	8.60	-	-
10.00	15,000	3.72	10.00	-	-
14.00	70,000	4.08	14.00	-	-
15.00	590,000	4.30	15.00	-	-
15.18	90,000	4.29	15.18	-	-
16.30	25,000	4.29	16.30	-	-
23.40	305,000	4.57	23.40	-	-
	2,510,000	3.23	9.24	910,000	1.43

- d) During the nine (9) month period ended October 31, 2006, the Corporation granted 1,165,000 (350,000 for the corresponding period last year) Class “A” share stock options at exercise prices ranging from \$15.00 to \$23.40 (\$8.00 to \$10.00 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	1,165,000
Fair value of options	\$10,616,466

During the nine (9) month period ended October 31, 2006, the Corporation recorded to net income a stock-based compensation cost of \$1,954,365 (\$422,888 for the corresponding period last year) for the options granted since February 1, 2002. The counterpart has been credited to contributed surplus (note 8).

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(Unaudited)

8 Contributed surplus

	As at October 31, 2006 \$
Balance – Beginning of period	1,260,123
Stock-based compensation (note 7d))	1,954,365
Options exercised	<u>(70,224)</u>
Balance – End of period	<u>3,144,264</u>

9 Cumulative translation adjustments

	As at October 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>(2,742,976)</u>
Balance – End of period	<u>(3,832,503)</u>

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Notes to Consolidated Financial Statements (Unaudited)

10 Income per share

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

	Three months ended October 31, 2006	Three months ended October 31, 2005	Nine months ended October 31, 2006	Nine months ended October 31, 2005
	\$	\$	\$	\$
Net income for the period	6,375,119	3,426,275	15,922,291	9,680,140
Weighted average number of shares outstanding for use in computation of basic income per share	30,569,973	25,911,889	28,449,532	25,699,996
Effect of potentially dilutive securities Stock options	1,215,411	846,184	1,211,540	846,184
Weighted average number of shares outstanding for use in computation of diluted income per share	31,785,384	26,758,073	29,661,072	26,546,180
Basic net income per share	0.21	0.13	0.56	0.38
Diluted net income per share	0.20	0.13	0.54	0.36

During the nine (9) month period ended October 31, 2006, 729,474 (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 October 31, 2006 the average market price for Class "A" shares of the Corporation.

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Notes to Consolidated Financial Statements

(Unaudited)

11 Change in non-cash working capital items

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

	Three months ended October 31, 2006	Three months ended October 31, 2005	Nine months ended October 31, 2006	Nine months ended October 31, 2005
	\$	\$	\$	\$
Decrease (increase) in				
Accounts receivable	(1,206,436)	(10,529,923)	4,951,055	(10,715,626)
Revenue to be billed	(2,196,250)	5,013,209	(6,624,002)	1,398,346
Inventories	(732)	(67,122)	1,011,870	(207,605)
Prepaid expenses	(1,770,833)	447,481	(3,108,147)	220,803
Future income taxes	(8,997)	-	(540)	-
Increase (decrease) in				
Accounts payable and accrued liabilities	2,275,006	1,462,232	(7,160,779)	(955,427)
Income taxes	768,925	1,337,944	(2,994,577)	2,335,317
	(2,139,317)	(2,336,179)	(13,925,120)	(7,924,192)

Garda World Security Corporation

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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 October 31, 2006, the Corporation's interest rate risk is summarized as follows:

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

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.

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(Unaudited)

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

a) Business segment

	Three months ended October 31, 2006 \$	Three months ended October 31, 2005 \$	Nine months ended October 31, 2006 \$	Nine months ended October 31, 2005 \$
Sales				
Physical security and other	141,305,297	46,966,103	384,370,848	127,798,214
Cash handling	38,645,146	14,961,467	98,205,937	45,162,344
	<u>179,950,443</u>	<u>61,927,570</u>	<u>482,576,785</u>	<u>172,960,558</u>
Amortization of property, plant and equipment				
Physical security and other	812,514	303,450	2,289,707	777,987
Cash handling	1,635,085	577,673	4,140,137	1,547,933
	<u>2,447,599</u>	<u>881,123</u>	<u>6,429,844</u>	<u>2,325,920</u>
Amortization of service contracts and client relationships				
Physical security and other	486,968	54,680	1,480,697	154,442
Cash handling	111,510	111,510	334,530	334,530
	<u>598,478</u>	<u>166,190</u>	<u>1,815,227</u>	<u>488,972</u>
Amortization of deferred charges				
Physical security and other	75,570	59,382	226,710	177,699
Cash handling	50,958	50,958	152,874	152,874
	<u>126,528</u>	<u>110,340</u>	<u>379,584</u>	<u>330,573</u>
Income before financing expenses and income taxes				
Physical security and other	8,888,783	3,395,725	22,987,580	9,218,787
Cash handling	4,058,285	2,008,273	10,704,757	6,525,890
	<u>12,947,068</u>	<u>5,403,998</u>	<u>33,692,337</u>	<u>15,744,677</u>
			As at October 31, 2006 \$	As at January 31, 2006 \$
Property, plant and equipment			12,294,740	4,579,499
Physical security and other			32,853,504	21,606,004
Cash handling			<u>45,148,244</u>	<u>26,185,503</u>
Goodwill			134,277,315	76,603,954
Physical security and other			43,320,404	17,564,382
Cash handling			<u>177,597,719</u>	<u>94,168,336</u>
Service contracts and client relationships			24,874,826	12,554,166
Physical security and other			5,502,195	3,845,054
Cash handling			<u>30,377,021</u>	<u>16,399,220</u>
Total assets			248,126,243	176,334,000
Physical security and other			156,423,945	72,829,498
Cash handling			<u>404,550,188</u>	<u>249,163,498</u>

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Notes to Consolidated Financial Statements

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b) Geographical segment

	Three months ended October 31, 2006 \$	Three months ended October 31, 2005 \$	Nine months ended October 31, 2006 \$	Nine months ended October 31, 2005 \$
Sales				
Canada	110,199,011	61,927,570	299,101,151	172,960,558
United States and other	69,751,432	-	183,475,634	-
	<u>179,950,443</u>	<u>61,927,570</u>	<u>482,576,785</u>	<u>172,960,558</u>
Amortization of property, plant and equipment				
Canada	1,385,493	881,123	3,628,872	2,325,920
United States and other	1,062,106	-	2,800,972	-
	<u>2,447,599</u>	<u>881,123</u>	<u>6,429,844</u>	<u>2,325,920</u>
Amortization of service contracts and client relationships				
Canada	347,598	166,190	1,064,349	488,972
United States and other	250,880	-	750,878	-
	<u>598,478</u>	<u>166,190</u>	<u>1,815,227</u>	<u>488,972</u>
Amortization of deferred charges				
Canada	126,528	110,340	379,584	330,573
Income before financing expenses and income taxes				
Canada	7,847,260	5,403,998	21,859,131	15,744,677
United States and other	5,099,808	-	11,833,206	-
	<u>12,947,068</u>	<u>5,403,998</u>	<u>33,692,337</u>	<u>15,744,677</u>
			As at October 31, 2006 \$	As at January 31, 2006 \$
Property, plant and equipment				
Canada			22,647,414	14,679,278
United States and other			22,500,830	11,506,225
			<u>45,148,244</u>	<u>26,185,503</u>
Goodwill				
Canada			76,869,514	11,956,403
United States and other			100,728,205	82,211,933
			<u>177,597,719</u>	<u>94,168,336</u>
Service contracts and client relationships				
Canada			17,420,834	4,399,220
United States and other			12,956,187	12,000,000
			<u>30,377,021</u>	<u>16,399,220</u>
Total assets				
Canada			165,412,433	83,873,100
United States and other			239,137,755	165,290,398
			<u>404,550,188</u>	<u>249,163,498</u>

Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

14 Subsequent Event

On December 7, 2006, the Corporation acquired all the shares of Kroll Security International for an amount of US \$16,000,000. The purchase price was satisfied by a cash payment at closing. Kroll Security International, a corporation located in London, operates throughout the world in the physical security sector.

15 Comparative figures

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