

Garda World Security Corporation

Consolidated Financial Statements (Unaudited)
Second Quarter Ended July 31, 2007

Garda World Security Corporation

Consolidated Balance Sheets

	As at July 31, 2007 \$ (Unaudited)	As at January 31, 2007 \$ (Audited)
Assets		
Current assets		
Cash and cash equivalents	19,693,025	14,125,687
Accounts receivable	173,548,466	121,783,216
Revenue to be billed	28,702,511	21,819,844
Inventories	23,822,911	1,051,445
Prepaid expenses	10,039,722	4,965,014
Income taxes refundable	10,766,065	2,001,919
Future income taxes	11,682,721	1,510,091
	278,255,421	167,257,216
Property, plant and equipment (note 4)	218,490,085	50,453,964
Goodwill (note 5)	387,813,997	202,540,360
Service contracts and client relationships , net of accumulated amortization of \$3,715,170 (As at January 31, 2007 – \$2,147,587)	62,076,512	14,445,497
Deferred charges , net of accumulated amortization of \$1,426,875 (As at January 31, 2007 – \$1,163,316)	1,490,570	1,019,883
Future income taxes	9,076,823	6,073,264
	957,203,408	441,790,184
Liabilities		
Current liabilities		
Bank loans and overdrafts	51,063,704	34,752,706
Accounts payable and accrued liabilities	135,510,879	87,264,900
Current portion of long-term debt (note 6)	33,142,547	15,846,399
	219,717,130	137,864,005
Long-term debt (note 6)	587,041,111	143,490,085
Future income taxes	15,124,065	4,450,175
	821,882,306	285,804,265
Shareholders' Equity		
Capital stock (note 7)	111,531,465	108,922,885
Contributed surplus (note 8)	4,734,525	3,480,325
Accumulated other comprehensive income (note 9)	(26,083,024)	2,760,853
Retained earnings	45,138,136	40,821,856
	135,321,102	155,985,919
	957,203,408	441,790,184

Garda World Security Corporation

Consolidated Statements of Retained Earnings

(Unaudited)

	Three months ended July 31, 2007 \$	Three months ended July 31, 2006\$	Six months ended July 31, 2007 \$	Six months ended July 31, 2006\$
Balance – Beginning of period	46,617,676	24,273,128	40,821,856	19,775,380
Net income (loss) for the period	(1,479,540)	5,049,424	4,316,280	9,547,172
Balance – End of period	45,138,136	29,322,552	45,138,136	29,322,552

Garda World Security Corporation

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

(Unaudited)

	Three months ended July 31, 2007	Three months ended July 31, 2006	Six months ended July 31, 2007	Six months ended July 31, 2006
	\$	\$	\$	\$
Sales	318,557,341	164,985,610	556,573,468	302,626,342
Cost of sales	248,598,025	133,414,988	439,056,353	242,526,927
Gross profit	69,959,316	31,570,622	117,517,115	60,099,415
Operating expenses				
Selling and administrative expenses	46,638,089	17,802,544	74,835,135	33,902,096
Amortization of property, plant and equipment	11,372,490	2,136,061	17,312,627	3,982,245
Amortization of service contracts and client relationships	1,024,357	792,738	1,567,583	1,216,749
Amortization of deferred charges	137,028	126,528	263,559	253,056
	59,171,964	20,857,871	93,978,904	39,354,146
Income before financing expenses and income taxes	10,787,352	10,712,751	23,538,211	20,745,269
Financing expenses				
Interest on long-term debt	16,257,639	3,170,999	21,044,850	6,626,548
Other interest	929,686	76,822	1,605,809	59,252
Amortization of deferred financing costs	686,070	239,280	1,096,907	366,610
	17,873,395	3,487,101	23,747,566	7,052,410
Income (loss) before income taxes	(7,086,043)	7,225,650	(209,355)	13,692,859
Provision for (recovery of) income taxes	(5,606,503)	2,176,226	(4,525,635)	4,145,687
Net income (loss) for the period	(1,479,540)	5,049,424	4,316,280	9,547,172
Basic net income (loss) per share (note 10)	(0.05)	0.18	0.14	0.35
Diluted net income (loss) per share (note 10)	(0.05)	0.17	0.13	0.33
Net income (loss) for the period	(1,479,540)	5,049,424	4,316,280	9,547,172
Other comprehensive income				
Unrealized losses on translation of financial statements of self-sustaining foreign operations	(5,974,809)	574,552	(20,140,848)	(1,123,853)
Unrealized loss on fair value of financial instruments	(8,703,029)	-	(8,703,029)	-
Comprehensive income (loss) for the period	(16,157,378)	5,623,976	(24,527,597)	8,423,319

Garda World Security Corporation

Consolidated Statements of Cash Flows

(Unaudited)

	Three months ended July 31, 2007	Three months ended July 31, 2006	Six months ended July 31, 2007	Six months ended July 31, 2006
	\$	\$	\$	\$
Cash flows from				
Operating activities				
Net income (loss) for the period	(1,479,540)	5,049,424	4,316,280	9,547,172
Adjustments for				
Stock-based compensation (note 7(d))	772,535	501,000	1,628,445	1,002,000
Amortization of property, plant and equipment	11,372,490	2,136,061	17,312,627	3,982,245
Amortization of service contracts and client relationships	1,024,357	792,738	1,567,583	1,216,749
Amortization of deferred charges	137,028	126,528	263,559	253,056
Amortization of deferred financing costs	686,070	239,280	1,096,907	366,610
Future income taxes	-	(126,123)	-	687,661
	<u>12,512,940</u>	<u>8,718,908</u>	<u>26,185,401</u>	<u>17,055,493</u>
Change in non-cash working capital items (note 11)	(2,976,573)	9,205,299	(21,694,919)	(687,918)
	<u>9,536,367</u>	<u>17,924,207</u>	<u>4,490,482</u>	<u>16,367,575</u>
Financing activities				
Deferred financing costs	(250,424)	-	(250,424)	(245,074)
Increase in bank loans and overdrafts	6,689,787	639,875	16,887,982	4,181,961
Increase in long-term debt	17,688,781	664,146	565,873,376	68,840,565
Repayment of long-term debt	(16,947,295)	(15,258,917)	(161,374,576)	(80,967,781)
Issuance of Class "A" shares, net of shares and special warrants issue expenses	315,000	(105,710)	315,000	99,695,531
	<u>7,495,849</u>	<u>(14,060,606)</u>	<u>421,451,358</u>	<u>91,505,202</u>
Investing activities				
Additions to property, plant and equipment	(16,280,516)	(2,685,235)	(22,960,663)	(5,275,030)
Proceeds from disposal of property, plant and equipment	147,882	7,813	191,199	15,626
Business acquisitions, net of cash and cash equivalents acquired (note 3)	-	(11,441,312)	(396,084,953)	(100,582,830)
Deferred charges	(299,765)	6,082	(299,765)	189
	<u>(16,432,399)</u>	<u>(14,112,652)</u>	<u>(419,154,182)</u>	<u>(105,842,045)</u>
Foreign currency translation on cash	(653,255)	-	(1,220,320)	-
Net increase (decrease) in cash and cash equivalents during the period	(53,438)	(10,249,051)	5,567,338	2,030,732
Cash and cash equivalents – Beginning of period	<u>19,746,463</u>	<u>35,332,085</u>	<u>14,125,687</u>	<u>23,052,302</u>
Cash and cash equivalents – End of period	<u>19,693,025</u>	<u>25,083,034</u>	<u>19,693,025</u>	<u>25,083,034</u>

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. Its activities are carried out through two (2) main segments: physical security and cash logistics.

2 Significant accounting policies

Consolidation

These consolidated financial statements include the accounts of the Corporation, its wholly owned subsidiaries and variable interest entities (VIE) if the Corporation is the primary beneficiary.

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.

Self-insurance

Certain United States subsidiaries are primarily self-insured for worker's compensation. These United States subsidiaries maintain accruals to cover the estimated retained liability. The accrual for self-insurance is determined by management and is based on claims filed and an estimate of claims incurred but not yet reported. Management considers a number of factors, including third party actuary valuations, when making these determinations. The United States subsidiaries maintain third party stop-loss insurance policies to cover certain liability costs in excess of predetermined retained amounts.

Translation of foreign currencies

Self-sustaining foreign operations

Assets and liabilities of self-sustaining foreign subsidiaries are translated into Canadian dollars at period-end exchange rates, and the resulting unrealized exchange gains and losses are included in the accumulated other comprehensive income in shareholders' equity. Revenue and expense items are translated into Canadian dollars at the exchange rate in effect on the date on which such items are recognized in income.

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Notes to Consolidated Financial Statements

(Unaudited)

Translation of other foreign currency transactions

Monetary items denominated in foreign currencies, such as foreign currency debt, are translated at period-end exchange rates. The resulting exchange gains and losses are included in income for the period.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand.

Inventories

Inventories are valued at the lower of cost and replacement cost, cost being determined according to the specific identification method.

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
Aircrafts	Straight-line	10 and 20 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, 2007 and has concluded that no impairment loss should be recognized.

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Notes to Consolidated Financial Statements

(Unaudited)

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 periods varying from twelve (12) to twenty (20) years, which represent their estimated useful lives.

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 three (3) to five (5) years.

Deferred financing costs

Deferred financing costs include expenses incurred by the Corporation in various financing activities and are amortized using the effective interest rate method over the respective term of these financings.

Interest rate swap agreement designated as hedging instrument

The Corporation has entered into an interest rate swap agreement in order to hedge the changes in fair value of a portion of its long term debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

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 amounts 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.

Net income per share

Net income per share is determined using the weighted average number of shares outstanding during the period. Diluted net income per share is determined using the treasury stock method to evaluate the dilutive effect of 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

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Stock options

The Corporation has applied 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.

Changes in accounting policies

a) Financial instruments – recognition and measurement

On February 1, 2007, the Corporation adopted Section 3855 of the Canadian Institute of Chartered Accountants' ("CICA") Handbook, "Financial Instruments – Recognition and Measurement". It exposes the standards for recognizing and measuring financial instruments in the balance sheet and the standards for reporting gains and losses in the financial statements. Financial assets available for sale, assets and liabilities held for trading and derivative financial instruments, part of a hedging relationship or not, have to be measured at fair value.

The Corporation has made the following classifications:

- Cash and cash equivalents are classified as financial assets held for trading and are measured at fair value. Gains and losses related to periodical revaluation are recorded in net income.
- Accounts receivable are classified as loans and receivables and are initially measured at fair value and subsequent periodical revaluations are recorded at amortized cost using the effective interest rate method.
- Bank loans and overdraft, accounts payable and accrued liabilities and long-term debt are classified as other liabilities and are initially measured at fair value and subsequent periodical revaluations are recorded at amortized cost using the effective interest rate method.

The adoption of this Section is done retroactively without restatement of the consolidated financial statements of prior periods. As at February 1, 2007, the impact on the consolidated balance sheet using the effective interest rate method of reclassifying the costs directly attributable to the issuance of the long-term debt was a decrease in assets of \$4,565,183 and a decrease in long-term debt for the same amount. Prior periods were not restated.

The Corporation selected February 1, 2003 as its transition date for embedded derivatives. An embedded derivative is a component of a financial instrument or another contract of which the characteristics are similar to a derivative. This had no impact on the consolidated financial statements.

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Notes to Consolidated Financial Statements

(Unaudited)

b) Comprehensive income

On February 1, 2007, the Corporation adopted Section 1530 of the CICA Handbook, "Comprehensive Income". It describes reporting and disclosure recommendations with respect to comprehensive income and its components. Comprehensive income is the change in shareholders' equity, which results from transactions and events from sources other than the Corporation's shareholders. These transactions and events include changes in the currency translation adjustment relating to self-sustaining foreign operations and unrealized gains and losses resulting from changes in fair value of certain financial instruments.

The adoption of this Section implied that the Corporation now presents the other comprehensive income as part of the consolidated statements of income. The comparative statements are restated to reflect the application of this Section for changes in the balances for foreign currency translation of self-sustaining foreign operations.

c) Equity

On February 1, 2007, the Corporation adopted Section 3251 of the CICA Handbook, "Equity", replacing Section 3250, "Surplus". It describes standards for the presentation of equity and changes in equity for reporting period as a result of the application of Section 1530, "Comprehensive Income".

d) Hedges

On February 1, 2007, the Corporation adopted Section 3865 of the CICA Handbook, "Hedges". The recommendations of this Section expand the guidelines required by Accounting Guideline 13 (AcG-13), Hedging Relationships. This Section describes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from the derivative financial instruments in the same period as for those related to the hedged item. This had no impact on the consolidated financial statements.

e) Accounting changes

As at February 1, 2007, the Company adopted Section 1506 "Accounting changes". This Section established criteria to be met in order to change, together with the accounting treatment and disclosure required when there is a change in accounting policies, estimates and correction of errors. The adoption of this Section had no impact on the consolidated financial position and results of operations of the Company.

3 Business acquisitions

a) The following business acquisitions have been completed in the six (6) months ended July 31, 2007:

On February 5, 2007, the Corporation acquired the assets of GSS Global, which is located in the United Kingdom and operates in the United Kingdom and Israel in the consulting and investigations sector.

On April 10, 2007, the Corporation acquired all the shares of ATI International, which is located in Pasadena (California) and operates in the United States in the cash logistics 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.

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Notes to Consolidated Financial Statements

(Unaudited)

As at July 31, 2007, the Corporation allocated the purchase price on a preliminary basis to the assets acquired and the liabilities assumed based on management's best estimates of their fair value and taking into account all relevant information available at that time.

	<u>Physical security and other</u>	<u>Cash logistics</u>	<u>Total</u>
	<u>GSS Global</u>	<u>ATI International</u>	
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Net assets acquired (liabilities assumed)			
Current assets	-	101,424,590	101,424,590
Property, plant and equipment	-	171,994,198	171,994,198
Goodwill	6,748,270	195,210,937	201,959,207
Service contracts and client relationships	-	51,825,863	51,825,863
Long-term assets	-	489,617	489,617
Current liabilities	-	(65,412,536)	(65,412,536)
Long-term debt	-	(54,615,305)	(54,615,305)
Future income taxes	-	(7,441,146)	(7,441,146)
Net assets acquired, net of cash and cash equivalents acquired	6,748,270	393,476,218	400,224,488
Cash and cash equivalents acquired	-	(4,321,627)	(4,321,627)
Net assets acquired	6,748,270	389,154,591	395,902,861
Consideration paid			
Cash payment	2,497,725	381,749,325	384,247,050
Transaction costs	111,010	7,405,266	7,516,276
Balance of purchase price payable	2,220,200	-	2,220,200
Issuance of Class "A" shares	1,919,335	-	1,919,335
	6,748,270	389,154,591	395,902,861

The purchase price allocation for these business acquisitions is not definite with respect to property, plant and equipment, goodwill, service contracts and client relationships, and future income taxes. As such, all of the excess of consideration paid over management's best estimate of the fair value of net tangible assets acquired have been allocated to goodwill.

Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

b) The following business acquisitions have been completed in the six (6) months ended July 31, 2006:

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 logistics 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 logistics 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.

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(Unaudited)

As at July 31, 2006, the Corporation allocated the purchase price on a preliminary basis to the assets acquired and the liabilities assumed based on management's best estimates of their fair value and taking into account all relevant information available at that time. During the quarter ended July 31, 2007, the purchase price allocation was finalized as follows:

	Final			Preliminary			Difference		
	Physical security and other	Cash logistics	Total	Physical security and other	Cash logistics	Total	Physical security and other	Cash logistics	Total
Net assets acquired (liabilities assumed)									
Current assets	2,682,511	3,221,847	5,904,358	2,675,528	3,268,509	5,944,037	6,983	(46,662)	(39,679)
Property, plant and equipment	331,021	6,689,744	7,020,765	331,021	6,689,744	7,020,765	-	-	-
Goodwill	3,321,482	8,108,646	11,430,128	3,327,211	8,173,604	11,500,815	(5,729)	(64,958)	(70,687)
Service contracts and client relationships	-	1,895,069	1,895,069	-	1,895,069	1,895,069	-	-	-
Long-term assets	-	469,931	469,931	-	469,931	469,931	-	-	-
Current liabilities	(1,638,889)	(8,414,134)	(10,053,023)	(1,637,635)	(8,581,564)	(10,219,199)	(1,254)	167,430	166,176
Long-term debt	(900)	(531,419)	(532,319)	(900)	(531,419)	(532,319)	-	-	-
Future income taxes	-	-	-	-	-	-	-	-	-
Net assets acquired, net of cash and cash equivalents acquired	4,695,225	11,439,684	16,134,909	4,695,225	11,383,874	16,079,099	-	55,810	55,810
Cash and cash equivalents acquired	318,352	6,479,982	6,798,334	318,352	6,479,982	6,798,334	-	-	-
Net assets acquired	5,013,577	17,919,666	22,933,243	5,013,577	17,863,856	22,877,433	-	55,810	55,810
Consideration paid									
Cash payment	4,875,000	15,599,617	20,474,617	4,875,000	15,599,617	20,474,617	-	-	-
Transaction costs	138,577	958,659	1,097,236	138,577	902,849	1,041,426	-	55,810	55,810
Balances of purchase prices payable	-	223,240	223,240	-	223,240	223,240	-	-	-
Issuance of Class "A" shares	-	1,138,150	1,138,150	-	1,138,150	1,138,150	-	-	-
	5,013,577	17,919,666	22,933,243	5,013,577	17,863,856	22,877,433	-	55,810	55,810

Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

4 Property, plant and equipment

	As at July 31, 2007		
	Cost \$	Accumulated amortization \$	Net \$
Land	245,914	-	245,914
Buildings	4,713,294	137,427	4,575,867
Office furniture	3,754,118	1,321,084	2,433,034
Computer equipment	15,529,240	3,899,372	11,629,868
Equipment	22,289,984	4,361,918	17,928,066
Vehicles	7,402,543	3,286,151	4,116,392
Aircrafts	70,224,545	3,490,824	66,733,721
Armored vehicles	85,212,268	9,310,630	75,901,638
Uniforms	6,780,709	3,225,971	3,554,738
Leasehold improvements	36,007,650	4,636,803	31,370,847
	252,160,265	33,670,180	218,490,085
	As at January 31, 2007		
	Cost \$	Accumulated amortization \$	Net \$
Land	271,317	-	271,317
Buildings	3,006,422	86,566	2,919,856
Office furniture	2,434,716	978,738	1,455,978
Computer equipment	7,880,212	2,290,755	5,589,457
Equipment	7,967,185	2,171,503	5,795,682
Vehicles	5,944,209	2,630,203	3,314,006
Aircrafts	519,511	142,689	376,822
Armored vehicles	24,413,478	4,219,863	20,193,615
Uniforms	4,868,166	2,066,298	2,801,868
Leasehold improvements	10,304,366	2,569,003	7,735,363
	67,609,582	17,155,618	50,453,964

The majority of the aircrafts are leased to a third party. Rental revenues totaled \$4,979,859 for the quarter ended July 31, 2007.

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Notes to Consolidated Financial Statements

(Unaudited)

5 Goodwill

	As at July 31, 2007 \$
Balance – Beginning of period	202,540,360
Business acquisitions (note 3)	201,888,520
Effect of change in exchange rates during the period	<u>(16,614,883)</u>
Balance – End of period	<u>387,813,997</u>

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(Unaudited)

6 Long-term debt

Long-term debt comprises the following:

	As at July 31, 2007 \$	As at January 31, 2007 \$
Senior term loan, bearing interest either at the U.S. or Canadian prime rate plus 1.00% to 2.00%, or at LIBOR or the bankers' acceptance rate plus 2.25% 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 20 quarterly principal instalments from July 2007 until April 2012	197,500,000	-
Senior term loan of US\$190,000,000, bearing interest at the U.S. prime rate plus 1.75% to 2.25% or at LIBOR plus 3.00% to 3.50%, 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 April 2013	202,692,000	-
Subordinated term loan of US\$130,000,000, bearing interest at the U.S. prime rate plus 5.50%, or at LIBOR rate plus 6.75%, depending on the loan instrument used, repayable in full in April 2014	138,684,000	-
Balances of purchase prices payable, bearing interest at rates ranging from 0% to 5%, payable in annual and quarterly instalments until February 2012	6,334,753	5,330,400
Capital lease obligations, secured by property, plant and equipment, bearing interest at rates ranging from 4.9% to 8.8%, repayable in monthly instalments of a maximum of \$2,163,752, including principal and interest, maturing at different dates until January 2014	79,593,232	10,271,179
Loans, bearing interest at an average rate of 0.1%, secured by vehicles, repayable in monthly instalments of a maximum of \$8,769, including principal and interest, maturing at different dates until April 2009	81,398	227,344
Senior term loan, refinanced during the first quarter	-	43,000,000
Senior term loan of US\$78,291,887, refinanced during the first quarter	-	92,149,551
Subordinated term loan, refinanced during the first quarter	-	12,923,193
Swap on long-term debt to convert from a variable to a fixed average rate of 9.80%, covering 85% of the senior and subordinated term loans	8,703,029	-
Deferred financing costs, net of accumulated amortization of \$2,731,150	(13,404,754)	(4,565,183)
	620,183,658	159,336,484
Less: Current portion	33,142,547	15,846,399
	587,041,111	143,490,085

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 six (6) month period ended July 31, 2007 are summarized as follows:

	Number of Class “A” shares	\$
Balance – Beginning of period	30,644,313	108,922,885
Issued following exercise of options	208,333	689,245
Issued following business acquisitions (note 3)	125,590	1,919,335
	<hr/>	<hr/>
Balance – End of period	30,978,236	111,531,465

- c) Options

The board of directors of the Corporation may, by resolution, grant options to directors, officers, employees of, and service providers to, the Corporation and of its subsidiaries, provided that the total number of shares issued under the plan does not exceed ten percent (10%) of the common shares issued by the Corporation. The exercise price of the options is determined by the board of directors or the governance committee at the time of the grant of an option. The exercise price of the options shall not be lower than the closing price of the shares on the last trading day of the Toronto Stock Exchange prior to the time of the grant. Once attributed by the Board of Directors, the option becomes subject to a retaining period of three (3) years. One-third (1/3) of the option can be exercised on the expiry of this retention period and one-third (1/3) of the option can be exercised in each of the following two (2) years.

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

	As at July 31, 2007		As at July 31, 2006	
	Number of shares	Weighted average exercise price \$	Number of shares	Weighted average exercise price \$
Options granted – Beginning of period	2,485,334	9.60	1,545,000	3.67
Granted	485,000	23.40	1,115,000	16.96
Exercised	(208,333)	1.51	-	-
Forfeited	(45,000)	21.74	(125,000)	14.48
Options granted – End of period	<u>2,717,001</u>	<u>12.48</u>	<u>2,535,000</u>	<u>8.98</u>

The following table summarizes information about Class "A" share stock options outstanding and exercisable as at July 31, 2007:

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	225,000	0.75	0.85	225,000	0.85	
1.00	100,000	0.94	1.00	100,000	1.00	
1.50	97,001	1.42	1.50	50,333	1.50	
1.60	300,000	1.44	1.60	300,000	1.60	
3.00	110,000	1.93	3.00	70,000	3.00	
4.75	15,000	2.22	4.75	-	-	
8.00	75,000	2.58	8.00	-	-	
8.50	195,000	2.86	8.50	-	-	
8.60	25,000	2.79	8.60	-	-	
10.00	15,000	2.97	10.00	-	-	
14.00	70,000	3.33	14.00	-	-	
15.00	590,000	3.55	15.00	-	-	
15.18	90,000	3.54	15.18	-	-	
16.30	25,000	3.54	16.30	-	-	
23.40	785,000	4.42	23.40	-	-	
	<u>2,717,001</u>	<u>3.00</u>	<u>12.48</u>	<u>745,333</u>	<u>1.42</u>	

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Notes to Consolidated Financial Statements

(Unaudited)

- d) During the six (6) month period ended July 31, 2007, the Corporation granted 485,000 (1,115,000 for the corresponding period last year) Class "A" share stock options at an exercise price of \$23.40 (\$15.00 to \$23.40 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	35%
Expected life of options	5 years
Risk-free interest rate	3.60%
Number of options	485,000
Fair value of options	\$3,694,724

During the six (6) month period ended July 31, 2007, the Corporation recorded to net income a stock-based compensation cost of \$1,628,445 (\$1,002,000 for the corresponding period last year) for the options granted since February 1, 2002. The counterpart has been credited to contributed surplus (note 8).

8 Contributed surplus

	As at July 31, 2007 \$
Balance – Beginning of period	3,480,325
Stock-based compensation (notes 2 and 7(d))	1,628,445
Options exercised	<u>(374,245)</u>
Balance – End of period	<u>4,734,525</u>

9 Accumulated other comprehensive income

	As at July 31, 2007 \$
Balance – Beginning of period	2,760,853
Unrealized losses on translation of financial statements of self-sustaining foreign operations	(20,140,848)
Unrealized loss on fair value of financial instruments	<u>(8,703,029)</u>
Balance – End of period	<u>(26,083,024)</u>

Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

10 Income per share

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

	Three months ended July 31, 2007	Three months ended July 31, 2006	Six months ended July 31, 2007	Six months ended July 31, 2006
	\$	\$	\$	\$
Net income (loss) for the period	(1,479,540)	5,049,424	4,316,280	9,547,172
Weighted average number of shares outstanding for use in computation of basic income per share	30,978,236	28,700,951	30,974,767	27,371,764
Effect of potentially dilutive securities Stock options	1,140,822	1,209,862	1,098,889	1,203,063
Weighted average number of shares outstanding for use in computation of diluted income per share	32,119,058	29,910,813	32,073,656	28,574,827
Basic net income (loss) per share	(0.05)	0.18	0.14	0.35
Diluted net income (loss) per share	(0.05)	0.17	0.13	0.33

During the six (6) month period ended July 31, 2007, 1,490,000 (441,158 for the corresponding period last year) Class "A" share stock options with an exercise price of \$15.00 to \$23.40 (\$15.00 to \$23.40 for the corresponding period 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, 2007 the average market price for Class "A" shares of the Corporation.

Garda World Security Corporation

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 July 31, 2007	Three months ended July 31, 2006	Six months ended July 31, 2007	Six months ended July 31, 2006
	\$	\$	\$	\$
Decrease (increase) in				
Accounts receivable	8,088,038	(6,526,664)	2,531,452	6,157,491
Revenue to be billed	(7,480,578)	7,687,750	(7,111,891)	(4,427,752)
Inventories	1,708,394	982,021	1,665,334	1,012,602
Prepaid expenses	141,703	(675,133)	(1,548,818)	(1,337,314)
Income taxes refundable	(9,318,260)	(22,534)	(8,967,460)	8,457
Increase (decrease) in				
Accounts payable and accrued liabilities	3,839,611	5,412,942	(8,298,873)	1,662,100
Income taxes	44,519	2,346,917	35,337	(3,763,502)
	(2,976,573)	9,205,299	(21,694,919)	(687,918)

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, 2007, the Corporation's interest rate risk is summarized as follows:

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

Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

As at July 31, 2007 approximately 15% of the Corporation's senior and subordinated term loans were at variable rates. In June 2007, the Corporation entered into interest rate swaps that will mature on the same basis as the senior and subordinated term loans. These contracts are designated as hedges of the change in fair value of a portion of the Company's senior and subordinated term loans. Accordingly, the interest rate was fixed at an average rate of 9.80% for a notional amount of \$538,876,000. As at July 31, 2007, the fair value of these instruments represented an unrealized loss of \$8.7 million.

Foreign exchange risk

The Corporation has operating activities outside Canada, namely in the United States, Mexico, England and the Middle East, 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 guard services, airport pre-board screening services, consulting and investigation/global risk services, enterprise intelligence services and other.
- ii) cash logistics: armored transportation services, deposit processing, cash vault, in-store/cash control systems and ATM services.

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

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

Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

a) Business segment

	Three months ended July 31, 2007 \$	Three months ended July 31, 2006 \$	Six months ended July 31, 2007 \$	Six months ended July 31, 2006 \$
Sales				
Physical security and other	162,632,523	133,364,353	317,214,000	243,065,552
Cash logistics	155,924,818	31,621,257	239,359,468	59,560,790
	318,557,341	164,985,610	556,573,468	302,626,342
Amortization of property, plant and equipment				
Physical security and other	1,204,724	817,694	2,249,124	1,477,192
Cash logistics	10,167,766	1,318,367	15,063,503	2,505,053
	11,372,490	2,136,061	17,312,627	3,982,245
Amortization of service contracts and client relationships				
Physical security and other	116,167	681,228	232,334	993,729
Cash logistics	908,190	111,510	1,335,249	223,020
	1,024,357	792,738	1,567,583	1,216,749
Amortization of deferred charges				
Physical security and other	75,570	75,570	151,140	151,140
Cash logistics	61,458	50,958	112,419	101,916
	137,028	126,528	263,559	253,056
Income before financing expenses and income taxes				
Physical security and other	5,725,602	7,098,660	14,176,192	14,098,798
Cash logistics	5,061,750	3,614,091	9,362,019	6,646,471
	10,787,352	10,712,751	23,538,211	20,745,269
Property, plant and equipment			As at July 31, 2007 \$	As at January 31, 2007 \$
Physical security and other			13,323,592	9,867,916
Cash logistics			205,166,493	40,586,048
			218,490,085	50,453,964
Goodwill				
Physical security and other			162,306,694	160,747,152
Cash logistics			225,507,303	41,793,208
			387,813,997	202,540,360
Service contracts and client relationships				
Physical security and other			5,899,854	6,348,002
Cash logistics			56,176,658	8,097,495
			62,076,512	14,445,497
Total assets				
Physical security and other			325,069,308	318,877,075
Cash logistics			632,134,100	122,913,109
			957,203,408	441,790,184

Garda World Security Corporation

Notes to Consolidated Financial Statements

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b) Geographical segment

	Three months ended July 31, 2007 \$	Three months ended July 31, 2006 \$	Six months ended July 31, 2007 \$	Six months ended July 31, 2006 \$
Sales				
Canada	121,204,663	105,009,914	237,554,498	188,902,140
United States and other	197,352,678	59,975,696	319,018,970	113,724,202
	318,557,341	164,985,610	556,573,468	302,626,342
Amortization of property, plant and equipment				
Canada	1,610,696	1,204,896	3,020,533	2,243,380
United States and other	9,761,794	931,165	14,292,094	1,738,865
	11,372,490	2,136,061	17,312,627	3,982,245
Amortization of service contracts and client relationships				
Canada	165,177	292,740	330,354	716,751
United States and other	859,180	499,998	1,237,229	499,998
	1,024,357	792,738	1,567,583	1,216,749
Amortization of deferred charges				
Canada	137,028	126,528	263,559	253,056
	137,028	126,528	263,559	253,056
Income before financing expenses and income taxes				
Canada	4,319,670	7,088,749	11,198,314	14,011,871
United States and other	6,467,682	3,624,002	12,339,897	6,733,398
	10,787,352	10,712,751	23,538,211	20,745,269
			As at July 31, 2007 \$	As at January 31, 2007 \$
Property, plant and equipment				
Canada			24,534,363	20,299,163
United States and other			193,955,722	30,154,801
			218,490,085	50,453,964
Goodwill				
Canada			80,276,305	80,282,034
United States and other			307,537,692	122,258,326
			387,813,997	202,540,360
Service contracts and client relationships				
Canada			6,703,198	6,997,016
United States and other			55,373,314	7,448,481
			62,076,512	14,445,497
Total assets				
Canada			200,946,390	193,581,884
United States and other			756,257,018	248,208,300
			957,203,408	441,790,184

Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

14 Comparative figures

Certain comparative figures have been reclassified to conform to the new presentation adopted in the current period.