

# **Garda World Security Corporation**

Consolidated Financial Statements (Unaudited)  
**Third Quarter Ended October 31, 2007**

# Garda World Security Corporation

## Consolidated Balance Sheets

	As at October 31, 2007 \$ (Unaudited)	As at January 31, 2007 \$ (Audited)
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	30,344,792	14,125,687
Accounts receivable	163,102,355	121,783,216
Revenue to be billed	31,125,140	21,819,844
Inventories	13,358,673	1,051,445
Prepaid expenses	14,415,312	4,965,014
Income taxes refundable	15,581,066	2,001,919
Future income taxes	10,270,408	1,510,091
	<b>278,197,746</b>	167,257,216
<b>Property, plant and equipment</b> (note 5)	<b>195,652,207</b>	50,453,964
<b>Goodwill</b> (note 6)	<b>350,821,706</b>	202,540,360
<b>Service contracts and client relationships</b> , net of accumulated amortization of \$4,690,913 (As at January 31, 2007 – \$2,147,587)	<b>54,289,562</b>	14,445,497
<b>Deferred charges</b> , net of accumulated amortization of \$1,598,907 (As at January 31, 2007 – \$1,163,316)	<b>1,369,216</b>	1,019,883
<b>Other assets</b> (note 7)	<b>13,217,254</b>	-
<b>Future income taxes</b>	<b>8,059,611</b>	6,073,264
	<b>901,607,302</b>	441,790,184
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank loans and overdrafts	53,954,102	34,752,706
Accounts payable and accrued liabilities	127,535,582	87,264,900
Current portion of long-term debt (note 8)	32,197,020	15,846,399
	<b>213,686,704</b>	137,864,005
<b>Long-term debt</b> (note 8)	<b>545,063,929</b>	143,490,085
<b>Other liabilities</b> (note 9)	<b>20,358,847</b>	-
<b>Future income taxes</b>	<b>13,887,280</b>	4,450,175
	<b>792,996,760</b>	285,804,265
<b>Shareholders' Equity</b>		
<b>Capital stock</b> (note 10)	<b>111,531,465</b>	108,922,885
<b>Contributed surplus</b> (note 11)	<b>5,426,247</b>	3,480,325
<b>Accumulated other comprehensive income</b> (note 12)	<b>(57,619,261)</b>	2,760,853
<b>Retained earnings</b>	<b>49,272,091</b>	40,821,856
	<b>108,610,542</b>	155,985,919
	<b>901,607,302</b>	441,790,184

# Garda World Security Corporation

## Consolidated Statements of Retained Earnings

(Unaudited)

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	<b>Three months ended October 31, 2007</b> \$	Three months ended October 31, 2006 \$	<b>Nine months ended October 31, 2007</b> \$	Nine months ended October 31, 2006 \$
<b>Balance – Beginning of period</b>	<b>45,138,136</b>	29,322,552	<b>40,821,856</b>	19,775,380
Net income for the period	<b>4,133,955</b>	6,375,119	<b>8,450,235</b>	15,922,291
<b>Balance – End of period</b>	<b>49,272,091</b>	35,697,671	<b>49,272,091</b>	35,697,671

**Garda World Security Corporation**  
**Consolidated Statements of Income and Comprehensive Income**  
**(Unaudited)**

	<b>Three months ended October 31, 2007</b>	Three months ended October 31, 2006	<b>Nine months ended October 31, 2007</b>	Nine months ended October 31, 2006
	\$	\$	\$	\$
<b>Sales</b>	<b>315,339,969</b>	179,950,443	<b>871,913,435</b>	482,576,785
<b>Cost of sales</b>	<b>245,498,247</b>	144,321,410	<b>684,554,600</b>	386,848,337
<b>Gross profit</b>	<b>69,841,722</b>	35,629,033	<b>187,358,835</b>	95,728,448
<b>Operating expenses</b>				
Selling and administrative expenses	45,057,052	19,509,360	119,892,187	53,411,456
Amortization of property, plant and equipment	11,160,944	2,447,599	28,473,570	6,429,844
Amortization of service contracts and client relationships	975,743	598,478	2,543,326	1,815,227
Amortization of deferred charges	172,032	126,528	435,591	379,584
	<b>57,365,771</b>	22,681,965	<b>151,344,674</b>	62,036,111
Gain on sale of assets (note 4)	5,156,288	-	5,156,288	-
<b>Income before financing expenses and income taxes</b>	<b>17,632,239</b>	12,947,068	<b>41,170,449</b>	33,692,337
<b>Financing expenses</b>				
Interest on long-term debt	14,684,969	3,334,229	35,729,819	9,960,777
Other interest	1,398,163	276,671	3,003,972	335,923
Amortization of deferred financing costs	658,476	205,553	1,755,384	572,163
	<b>16,741,608</b>	3,816,453	<b>40,489,175</b>	10,868,863
<b>Income before income taxes</b>	<b>890,631</b>	9,130,615	<b>681,274</b>	22,823,474
<b>Provision for (recovery of) income taxes</b>	<b>(3,243,324)</b>	2,755,496	<b>(7,768,961)</b>	6,901,183
<b>Net income for the period</b>	<b>4,133,955</b>	6,375,119	<b>8,450,235</b>	15,922,291
<b>Basic net income per share</b> (note 13)	<b>0.13</b>	0.21	<b>0.27</b>	0.56
<b>Diluted net income per share</b> (note 13)	<b>0.13</b>	0.20	<b>0.26</b>	0.54
<b>Net income for the period</b>	<b>4,133,955</b>	6,375,119	<b>8,450,235</b>	15,922,291
<b>Other comprehensive income</b>				
Unrealized losses on translation of financial statements of self-sustaining foreign operations	(24,764,912)	(1,619,123)	(44,905,760)	(2,742,976)
Unrealized losses on fair value of financial instruments	(6,771,325)	-	(15,474,354)	-
<b>Comprehensive income for the period</b>	<b>(27,402,282)</b>	4,755,996	<b>(51,929,879)</b>	13,179,315

# Garda World Security Corporation

## Consolidated Statements of Cash Flows

### (Unaudited)

	Three months ended October 31, 2007 \$	Three months ended October 31, 2006 \$	Nine months ended October 31, 2007 \$	Nine months ended October 31, 2006 \$
<b>Cash flows from</b>				
<b>Operating activities</b>				
Net income for the period	4,133,955	6,375,119	8,450,235	15,922,291
Adjustments for				
Stock-based compensation (note 10(d))	691,722	952,365	2,320,167	1,954,365
Amortization of property, plant and equipment	11,160,944	2,447,599	28,473,570	6,429,844
Amortization of service contracts and client relationships	975,743	598,478	2,543,326	1,815,227
Amortization of deferred charges	172,032	126,528	435,591	379,584
Amortization of deferred financing costs	658,476	205,553	1,755,384	572,163
Gain on sale of assets (note 4)	(5,156,288)	-	(5,156,288)	-
Future income taxes	(227,958)	758,778	(227,958)	1,446,439
Cash flows from operations	12,408,626	11,464,420	38,594,027	28,519,913
Change in non-cash working capital items (note 14)	8,073,871	(2,139,317)	(13,621,048)	(13,925,120)
	<b>20,482,497</b>	<b>9,325,103</b>	<b>24,972,979</b>	<b>14,594,793</b>
<b>Financing activities</b>				
Increase in bank loans and overdrafts	7,120,434	8,861,721	24,008,416	13,043,682
Increase in long-term debt	2,244,149	15,675,172	567,867,101	84,270,663
Repayment of long-term debt	(6,476,549)	(5,660,787)	(167,851,125)	(86,628,568)
Issuance of Class "A" shares, net of shares and special warrants issue expenses	-	61,750	315,000	99,757,281
	<b>2,888,034</b>	<b>18,937,856</b>	<b>424,339,392</b>	<b>110,443,058</b>
<b>Investing activities</b>				
Additions to property, plant and equipment	(11,297,839)	(3,535,105)	(34,258,502)	(8,810,135)
Proceeds from disposal of property, plant and equipment	198,947	6,191	390,146	21,817
Business acquisitions, net of cash and cash equivalents acquired (note 3)	-	(26,524,612)	(396,084,953)	(116,009,557)
Deferred charges	(71,603)	-	(371,368)	189
	<b>(11,170,495)</b>	<b>(30,053,526)</b>	<b>(430,324,677)</b>	<b>(124,797,686)</b>
<b>Foreign currency translation on cash</b>	<b>(1,548,269)</b>	<b>-</b>	<b>(2,768,589)</b>	<b>-</b>
<b>Net increase (decrease) in cash and cash equivalents during the period</b>	<b>10,651,767</b>	<b>(1,790,567)</b>	<b>16,219,105</b>	<b>240,165</b>
<b>Cash and cash equivalents – Beginning of period</b>	<b>19,693,025</b>	<b>25,083,034</b>	<b>14,125,687</b>	<b>23,052,302</b>
<b>Cash and cash equivalents – End of period</b>	<b>30,344,792</b>	<b>23,292,467</b>	<b>30,344,792</b>	<b>23,292,467</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. 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.

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

(Unaudited)

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### *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.

Long-term inventories consist of aircraft rotables and are valued at the lower of cost or replacement value, 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:

	<b>Method</b>	<b>Rate/Period</b>
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.

# **Garda World Security Corporation**

## Notes to Consolidated Financial Statements

**(Unaudited)**

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### **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 mitigate the changes in cash flow related to the interest rate risk on a portion of its long-term debt. Changes in the fair value of these derivatives are recognized in the statement of comprehensive income, except for any ineffective portion, which is recognized immediately in income.

### **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.

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

(Unaudited)

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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 with 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.

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.

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

(Unaudited)

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### **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 nine (9) months ended October 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.

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

(Unaudited)

As at October 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>
<b>Net assets acquired (liabilities assumed)</b>			
Current assets	-	90,619,026	90,619,026
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
Other assets	-	12,927,710	12,927,710
Current liabilities	-	(67,045,065)	(67,045,065)
Long-term debt	-	(54,615,305)	(54,615,305)
Future income taxes	-	(7,441,146)	(7,441,146)
<b>Net assets acquired, net of cash and cash equivalents acquired</b>	<b>6,748,270</b>	<b>393,476,218</b>	<b>400,224,488</b>
<b>Cash and cash equivalents acquired</b>	<b>-</b>	<b>(4,321,627)</b>	<b>(4,321,627)</b>
<b>Net assets acquired</b>	<b>6,748,270</b>	<b>389,154,591</b>	<b>395,902,861</b>
<b>Consideration paid</b>			
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
	<b>6,748,270</b>	<b>389,154,591</b>	<b>395,902,861</b>

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)**

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b) The following business acquisitions have been completed in the nine (9) months ended October 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.

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.

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

(Unaudited)

For the nine (9) month period ended October 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. For the nine (9) month period ended October 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
<b>Net assets acquired (liabilities assumed)</b>									
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	-	-	-	-	-	-	-	-	-
<b>Net assets acquired, net of cash and cash equivalents acquired</b>	<b>4,695,225</b>	<b>11,439,684</b>	<b>16,134,909</b>	<b>4,695,225</b>	<b>11,383,874</b>	<b>16,079,099</b>	<b>-</b>	<b>55,810</b>	<b>55,810</b>
<b>Cash and cash equivalents acquired</b>	<b>318,352</b>	<b>6,479,982</b>	<b>6,798,334</b>	<b>318,352</b>	<b>6,479,982</b>	<b>6,798,334</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net assets acquired</b>	<b>5,013,577</b>	<b>17,919,666</b>	<b>22,933,243</b>	<b>5,013,577</b>	<b>17,863,856</b>	<b>22,877,433</b>	<b>-</b>	<b>55,810</b>	<b>55,810</b>
<b>Consideration paid</b>									
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	-	-	-
	<b>5,013,577</b>	<b>17,919,666</b>	<b>22,933,243</b>	<b>5,013,577</b>	<b>17,863,856</b>	<b>22,877,433</b>	<b>-</b>	<b>55,810</b>	<b>55,810</b>

#### 4 Gain on sale of assets

On October 31, 2007, the Corporation sold a selection of assets of Garda Holding (formerly Keyfacts Enterprises Canada) for a consideration of \$10,485,000. A cash consideration of \$9,125,000 was received at the beginning of November 2007 and the remaining amount represents a balance of sale. The Corporation realized a gain of \$5,156,288 before related income taxes of \$902,350. Transaction costs amounted to \$292,125.

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

(Unaudited)

### 5 Property, plant and equipment

	As at October 31, 2007		
	Cost \$	Accumulated amortization \$	Net \$
Land	217,768	-	217,768
Buildings	4,419,325	141,715	4,277,610
Office furniture	3,453,814	1,409,123	2,044,691
Computer equipment	13,957,037	4,466,491	9,490,546
Equipment	23,423,071	5,539,361	17,883,710
Vehicles	8,108,326	3,730,726	4,377,600
Aircrafts	63,340,674	4,945,312	58,395,362
Armored vehicles	78,575,909	11,671,960	66,903,949
Uniforms	7,582,369	3,940,025	3,642,344
Leasehold improvements	34,153,382	5,734,755	28,418,627
	<b>237,231,675</b>	<b>41,579,468</b>	<b>195,652,207</b>
	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
	<b>67,609,582</b>	<b>17,155,618</b>	<b>50,453,964</b>

The majority of the aircrafts are leased to a third party. Rental revenues totaled \$4,772,759 for the quarter ended October 31, 2007 and \$11,307,302 for the nine (9) months ended October 31, 2007.

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

(Unaudited)

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### 6 Goodwill

	As at October 31, 2007 \$
Balance – Beginning of period	202,540,360
Business acquisitions (note 3)	201,888,520
Disposal of assets of Garda Holding (formerly Keyfacts Enterprises Canada)	(2,657,186)
Effect of change in exchange rates during the period	<u>(50,949,988)</u>
Balance – End of period	<u>350,821,706</u>

### 7 Other assets

	As at October 31, 2007 \$
Long-term inventory	6,951,858
Investments	1,584,300
Long-term deposits	1,015,518
Other	<u>3,665,578</u>
	<u>13,217,254</u>

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

(Unaudited)

### 8 Long-term debt

Long-term debt comprises the following:

	As at October 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	195,000,000	-
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	179,493,000	-
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	122,811,000	-
Balances of purchase prices payable, bearing interest at rates ranging from 0% to 10%, payable in annual and quarterly instalments until February 2012	5,828,139	5,330,400
Capital lease obligations, secured by property, plant and equipment, bearing interest at rates ranging from 3.5% to 8.8%, repayable in monthly instalments of a maximum of \$2,001,141, including principal and interest, maturing at different dates until January 2014	69,823,453	10,271,179
Loans, bearing interest at an average rate of 0.1%, secured by vehicles, repayable in monthly instalments of a maximum of \$12,659, including principal and interest, maturing at different dates until October 2011,	205,600	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 9.78%, covering 85% of the senior and subordinated term loans	15,474,354	-
Deferred financing costs, net of accumulated amortization of \$3,389,626	(11,374,597)	(4,565,183)
	<b>577,260,949</b>	<b>159,336,484</b>
Less: Current portion	<b>32,197,020</b>	<b>15,846,399</b>
	<b>545,063,929</b>	<b>143,490,085</b>

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

(Unaudited)

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### 9 Other liabilities

	As at October 31, 2007 \$
Long-term accrued liabilities	9,887,010
Accrued self-insurance liability	9,312,188
Accrued pension benefit liability	<u>1,159,649</u>
	<u>20,358,847</u>

### 10 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, 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)	<u>125,590</u>	<u>1,919,335</u>
Balance – End of period	<u>30,978,236</u>	<u>111,531,465</u>

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.

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

(Unaudited)

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

	As at October 31, 2007		As at October 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	610,000	22.29	1,165,000	17.24
Exercised	(208,333)	1.51	(25,000)	2.47
Forfeited	(190,000)	23.01	(175,000)	14.23
Options granted – End of period	<u>2,697,001</u>	<u>12.15</u>	<u>2,510,000</u>	9.24

The following table summarizes information about Class "A" share stock options outstanding and exercisable as at October 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	0.50	0.85	225,000	0.85	
1.00	100,000	0.69	1.00	100,000	1.00	
1.50	97,001	1.17	1.50	50,333	1.50	
1.60	300,000	1.19	1.60	300,000	1.60	
3.00	110,000	1.68	3.00	70,000	3.00	
4.75	15,000	1.97	4.75	5,000	4.75	
8.00	75,000	2.33	8.00	-	-	
8.50	195,000	2.61	8.50	-	-	
8.60	25,000	2.54	8.60	-	-	
10.00	15,000	2.72	10.00	-	-	
14.00	70,000	3.08	14.00	-	-	
15.00	590,000	3.30	15.00	-	-	
15.18	90,000	3.29	15.18	-	-	
16.30	25,000	3.29	16.30	-	-	
23.40	640,000	4.14	23.40	-	-	
18.00	125,000	4.91	18.00	-	-	
	<u>2,697,001</u>	2.77	12.15	<u>750,333</u>	1.44	

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

(Unaudited)

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- d) During the nine (9) month period ended October 31, 2007, the Corporation granted 610,000 (1,165,000 for the corresponding period last year) Class "A" share stock options at an exercise price of \$18.00 to \$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	610,000
Fair value of options	\$4,538,036

During the nine (9) month period ended October 31, 2007, the Corporation recorded to net income a stock-based compensation cost of \$2,320,167 (\$1,954,365 for the corresponding period last year) for the options granted since February 1, 2002. The counterpart has been credited to contributed surplus (note 11).

### 11 Contributed surplus

	As at October 31, 2007 \$
Balance – Beginning of period	3,480,325
Stock-based compensation (notes 2 and 10(d))	2,320,167
Options exercised	<u>(374,245)</u>
Balance – End of period	<u>5,426,247</u>

### 12 Accumulated other comprehensive income

	As at October 31, 2007 \$
Balance – Beginning of period	2,760,853
Unrealized losses on translation of financial statements of self-sustaining foreign operations	(44,905,760)
Unrealized loss on fair value of financial instruments	<u>(15,474,354)</u>
Balance – End of period	<u>(57,619,261)</u>

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

(Unaudited)

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### 13 Income per share

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

	<b>Three months ended October 31, 2007</b>	Three months ended October 31, 2006	<b>Nine months ended October 31, 2007</b>	Nine months ended October 31, 2006
	\$	\$	\$	\$
Net income for the period	<b>4,133,955</b>	6,375,119	<b>8,450,235</b>	15,922,291
Weighted average number of shares outstanding for use in computation of basic income per share	<b>30,978,236</b>	30,569,973	<b>30,975,936</b>	28,449,532
Effect of potentially dilutive securities Stock options	<b>1,005,327</b>	1,215,411	<b>1,061,553</b>	1,211,540
Weighted average number of shares outstanding for use in computation of diluted income per share	<b>31,983,563</b>	31,785,384	<b>32,037,489</b>	29,661,072
Basic net income per share	<b>0.13</b>	0.21	<b>0.27</b>	0.56
Diluted net income per share	<b>0.13</b>	0.20	<b>0.26</b>	0.54

During the nine (9) month period ended October 31, 2007, 1,470,000 (729,474 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 October 31, 2007 the average market price for Class "A" shares of the Corporation.

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

(Unaudited)

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

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

	Three months ended October 31, 2007 \$	Three months ended October 31, 2006 \$	Nine months ended October 31, 2007 \$	Nine months ended October 31, 2006 \$
Decrease (increase) in				
Accounts receivable	(4,840,588)	(1,206,436)	(2,309,136)	4,951,055
Revenue to be billed	(4,238,602)	(2,196,250)	(11,350,493)	(6,624,002)
Inventories	987,810	(732)	2,653,144	1,011,870
Prepaid expenses	(10,667,983)	(1,770,833)	(12,216,801)	(3,108,147)
Income taxes refundable	(10,207,070)	(8,997)	(19,174,530)	(540)
Increase (decrease) in				
Accounts payable and accrued liabilities	34,093,518	2,275,006	25,794,645	(7,160,779)
Income taxes	2,946,786	768,925	2,982,123	(2,994,577)
	<b>8,073,871</b>	<b>(2,139,317)</b>	<b>(13,621,048)</b>	<b>(13,925,120)</b>

### 15 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, 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 8

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

(Unaudited)

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As at October 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 cash flow related to the interest rate risk on a portion of the Company's senior and subordinated term loans. Accordingly, the interest rate was fixed at an average rate of 9.78% for a notional amount of \$497,304,000. As at October 31, 2007, the fair value of these instruments represented an unrealized loss of \$15,400,000.

### 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 on the US dollar and the British pound in the net investment in its foreign subsidiaries.

## 16 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 risks 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 October 31, 2007 \$	Three months ended October 31, 2006 \$	Nine months ended October 31, 2007 \$	Nine months ended October 31, 2006 \$
<b>Sales</b>				
Physical security and other	166,646,670	141,305,297	483,860,669	384,370,848
Cash logistics	148,693,299	38,645,146	388,052,766	98,205,937
	<b>315,339,969</b>	<b>179,950,443</b>	<b>871,913,435</b>	<b>482,576,785</b>
<b>Amortization of property, plant and equipment</b>				
Physical security and other	1,531,807	812,514	3,780,930	2,289,707
Cash logistics	9,629,137	1,635,085	24,692,640	4,140,137
	<b>11,160,944</b>	<b>2,447,599</b>	<b>28,473,570</b>	<b>6,429,844</b>
<b>Amortization of service contracts and client relationships</b>				
Physical security and other	129,719	486,968	362,053	1,480,697
Cash logistics	846,024	111,510	2,181,273	334,530
	<b>975,743</b>	<b>598,478</b>	<b>2,543,326</b>	<b>1,815,227</b>
<b>Amortization of deferred charges</b>				
Physical security and other	75,570	75,570	226,710	226,710
Cash logistics	96,462	50,958	208,881	152,874
	<b>172,032</b>	<b>126,528</b>	<b>435,591</b>	<b>379,584</b>
<b>Income before financing expenses and income taxes</b>				
Physical security and other	13,373,780	8,888,783	27,549,974	22,987,580
Cash logistics	4,258,459	4,058,285	13,620,475	10,704,757
	<b>17,632,239</b>	<b>12,947,068</b>	<b>41,170,449</b>	<b>33,692,337</b>
			As at October 31, 2007 \$	As at January 31, 2007 \$
<b>Property, plant and equipment</b>				
Physical security and other			13,646,914	9,867,916
Cash logistics			182,005,293	40,586,048
			<b>195,652,207</b>	<b>50,453,964</b>
<b>Goodwill</b>				
Physical security and other			151,124,715	160,747,152
Cash logistics			199,696,991	41,793,208
			<b>350,821,706</b>	<b>202,540,360</b>
<b>Service contracts and client relationships</b>				
Physical security and other			4,971,284	6,348,002
Cash logistics			49,318,278	8,097,495
			<b>54,289,562</b>	<b>14,445,497</b>
<b>Total assets</b>				
Physical security and other			315,433,260	318,877,075
Cash logistics			586,174,042	122,913,109
			<b>901,607,302</b>	<b>441,790,184</b>

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

(Unaudited)

### b) Geographical segment

	Three months ended October 31, 2007 \$	Three months ended October 31, 2006 \$	Nine months ended October 31, 2007 \$	Nine months ended October 31, 2006 \$
<b>Sales</b>				
Canada	128,060,293	110,199,011	365,614,791	299,101,151
United States and other	187,279,676	69,751,432	506,298,644	183,475,634
	<b>315,339,969</b>	<b>179,950,443</b>	<b>871,913,435</b>	<b>482,576,785</b>
<b>Amortization of property, plant and equipment</b>				
Canada	1,934,211	1,385,493	4,954,744	3,628,872
United States and other	9,226,733	1,062,106	23,518,826	2,800,972
	<b>11,160,944</b>	<b>2,447,599</b>	<b>28,473,570</b>	<b>6,429,844</b>
<b>Amortization of service contracts and client relationships</b>				
Canada	178,729	347,598	509,083	1,064,349
United States and other	797,014	250,880	2,034,243	750,878
	<b>975,743</b>	<b>598,478</b>	<b>2,543,326</b>	<b>1,815,227</b>
<b>Amortization of deferred charges</b>				
Canada	160,685	126,528	424,244	379,584
United States and other	11,347	-	11,347	-
	<b>172,032</b>	<b>126,528</b>	<b>435,591</b>	<b>379,584</b>
<b>Income before financing expenses and income taxes</b>				
Canada	12,858,714	7,847,260	24,057,027	21,859,131
United States and other	4,773,525	5,099,808	17,113,422	11,833,206
	<b>17,632,239</b>	<b>12,947,068</b>	<b>41,170,449</b>	<b>33,692,337</b>
			As at October 31, 2007 \$	As at January 31, 2007 \$
<b>Property, plant and equipment</b>				
Canada			24,856,158	20,299,163
United States and other			170,796,049	30,154,801
			<b>195,652,207</b>	<b>50,453,964</b>
<b>Goodwill</b>				
Canada			78,849,274	80,282,034
United States and other			271,972,432	122,258,326
			<b>350,821,706</b>	<b>202,540,360</b>
<b>Service contracts and client relationships</b>				
Canada			5,992,664	6,997,016
United States and other			48,296,898	7,448,481
			<b>54,289,562</b>	<b>14,445,497</b>
<b>Total assets</b>				
Canada			215,933,949	193,581,884
United States and other			685,673,353	248,208,300
			<b>901,607,302</b>	<b>441,790,184</b>

# **Garda World Security Corporation**

Notes to Consolidated Financial Statements

**(Unaudited)**

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## **17 Comparative figures**

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