

Garda World Security Corporation

Consolidated Financial Statements (unaudited)
For the second quarter ended July 31, 2008

Garda World Security Corporation

Consolidated Balance Sheets

(in thousands of dollars)

	As at July 31, 2008 \$ (unaudited)	As at January 31, 2008 \$ (audited)
Assets		
Current assets		
Cash	25,340	33,840
Accounts receivable	133,734	156,217
Revenue to be billed	24,713	25,303
Inventories	8,834	7,103
Prepaid expenses	13,535	12,719
Income taxes refundable	14,072	10,030
Future income taxes	11,693	8,691
	231,921	253,903
Property, plant and equipment (note 3)	239,734	240,056
Goodwill (note 4)	387,335	379,745
Service contracts and client relationships	50,784	51,998
Other assets (note 5)	21,835	15,814
Future income taxes	25,982	13,858
	957,591	955,374
Liabilities		
Current liabilities		
Bank loans and overdrafts	9,764	9,215
Accounts payable and accrued liabilities	108,710	119,228
Income taxes payable	1,362	1,833
Current portion of long-term debt (note 6)	34,601	32,177
	154,437	162,453
Long-term debt (note 6)	588,857	590,971
Other liabilities (note 7)	50,548	57,620
Future income taxes	26,821	23,886
	829,663	834,930
Shareholders' Equity		
Capital stock (note 8 (c))	115,285	114,798
Contributed surplus (note 9)	7,378	5,837
Accumulated other comprehensive loss (note 12)	(45,521)	(56,615)
Retained earnings	59,786	56,424
	136,928	120,444
	957,591	955,374

Garda World Security Corporation

Consolidated Statements of Retained Earnings

(Unaudited)

(in thousands of dollars)

	Three months ended July 31, 2008	Three months ended July 31, 2007	Six months ended July 31, 2008	Six months ended July 31, 2007
	\$	\$	\$	\$
Balance – Beginning of period	60,794	46,618	56,424	40,822
Net income (loss) for the period	(1,008)	(1,480)	3,362	4,316
Balance – End of period	59,786	45,138	59,786	45,138

Garda World Security Corporation

Consolidated Statements of Income (Loss)

(Unaudited)

(in thousands of dollars, except per share amounts)

	Three months ended July 31, 2008	Three months ended July 31, 2007	Six months ended July 31, 2008	Six months ended July 31, 2007
	\$	\$	\$	\$
Revenues	301,082	318,557	597,058	556,573
Operating costs	232,948	248,598	456,899	439,056
Gross profit	68,134	69,959	140,159	117,517
Selling and administrative expenses	45,450	46,638	87,444	74,835
Amortization (note 10)	12,900	12,534	24,722	19,144
Income before financing expenses and income taxes	9,784	10,787	27,993	23,538
Financing expenses (note 11)	15,542	17,873	31,163	23,748
Loss before income taxes	(5,758)	(7,086)	(3,170)	(210)
Recovery of income taxes	(4,750)	(5,606)	(6,532)	(4,526)
Net income (loss) for the period	(1,008)	(1,480)	3,362	4,316
Basic net income (loss) per share (note 13)	(0.03)	(0.05)	0.11	0.14
Diluted net income (loss) per share (note 13)	(0.03)	(0.05)	0.11	0.13

Consolidated Statements of Comprehensive Loss

(Unaudited)

(in thousands of dollars, except per share amounts)

	Three months ended July 31, 2008	Three months ended July 31, 2007	Six months ended July 31, 2008	Six months ended July 31, 2007
	\$	\$	\$	\$
Net income (loss) for the period	(1,008)	(1,480)	3,362	4,316
Other comprehensive gain (loss)				
Unrealized gains (losses) on translation of financial statements of self-sustaining foreign operations	3,511	(5,974)	4,875	(20,141)
Change in fair value of financial instruments, net of tax effect of \$2,000	4,604	(8,703)	6,219	(8,703)
Comprehensive income (loss) for the period	7,107	(16,157)	14,456	(24,528)

Garda World Security Corporation

Consolidated Statements of Cash Flows

(unaudited)

(in thousands of dollars)

	Three months ended July 31, 2008	Three months ended July 31, 2007	Six months ended July 31, 2008	Six months ended July 31, 2007
	\$	\$	\$	\$
Cash flows from				
Operating activities				
Net income (loss) for the period	(1,008)	(1,480)	3,362	4,316
Adjustments for				
Stock-based compensation	849	773	1,724	1,628
Amortization (note 10)	12,900	12,534	24,722	19,144
Amortization of deferred financing costs	735	686	1,618	1,097
Net gain on sale of assets	(588)	-	(398)	-
Future income taxes	(4,000)	-	(3,940)	-
Cash flows from operations	<u>8,888</u>	12,513	<u>27,088</u>	26,185
Change in non-cash working capital items (note 14)	<u>(1,894)</u>	(2,977)	<u>(8,392)</u>	(21,695)
	6,994	9,536	18,696	4,490
Financing activities				
Increase (decrease) in bank loans and overdrafts	(551)	6,690	383	16,888
Increase in long-term debt	10,569	17,689	10,395	565,873
Repayment of long-term debt	(14,429)	(16,948)	(27,690)	(161,375)
Issuance of Class "A" shares, net of shares and special warrants issue expenses	229	315	304	315
Increase in deferred financing costs	-	(250)	-	(250)
	<u>(4,182)</u>	7,496	<u>(16,608)</u>	421,451
Investing activities				
Additions to property, plant and equipment	(5,884)	(16,281)	(11,863)	(22,960)
Proceeds from disposal of property, plant and equipment	404	148	430	191
Business acquisitions, net of cash acquired	-	-	-	(396,085)
Increase in deferred charges	(40)	(300)	(40)	(300)
	<u>(5,520)</u>	(16,433)	<u>(11,473)</u>	(419,154)
Foreign currency translation on cash	<u>626</u>	(653)	<u>885</u>	(1,220)
Net increase (decrease) in cash during the period	(2,082)	(54)	(8,500)	5,567
Cash – Beginning of period	<u>27,422</u>	19,747	<u>33,840</u>	14,126
Cash – End of period	<u>25,340</u>	19,693	<u>25,340</u>	19,693

Garda World Security Corporation

Notes to Consolidated Financial Statements

(unaudited)

(All amounts are in thousands of dollars except information on options, units and shares)

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

Basis of presentation

These unaudited interim consolidated financial statements have been prepared under the assumption of going concern in accordance with Canadian generally accepted accounting principles (GAAP) applicable to interim consolidated financial statements. All disclosures required for annual financial statements have not been included in these interim consolidated financial statements and should be read in conjunction with Garda World Security Corporation's annual consolidated financial statements for the year ended January 31, 2008. Other significant accounting policies are as follows.

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, certain accrued liabilities, self insurance provision and residual value. Actual results could differ from those estimates.

Revenue recognition

Revenues are recognized 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 vehicles and 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.

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(All amounts are in thousands of dollars except information on options, units and shares)

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. Revenue and expense items are translated into Canadian dollars at the average monthly rate on which such items are recognized in income. Translation gains and losses are recorded as a component of equity in accumulated other comprehensive income.

Translation of other foreign currency transactions

Monetary items denominated in foreign currencies, other than the Canadian dollar, are translated at period-end exchange rates. Revenue and expense items are translated into Canadian dollars at the average monthly rate on which such items are recognized in income. The resulting exchange gains and losses are included in the income for the period.

Cash

Cash includes cash on hand.

Accounts receivable and allowance for doubtful accounts

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The Corporation provides an allowance for doubtful accounts using its best estimate of the amount of probable credit losses in its existing accounts receivable. Account balances are written off against the allowance when the Corporation feels it is probable the receivable will not be recovered. The Corporation does not have any off-balance sheet credit exposure related to its customers.

Inventories

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

Aircraft rotables are classified as long-term assets and are valued at the lower of cost or replacement value, cost being determined according to the specific identification method.

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(All amounts are in thousands of dollars except information on options, units and shares)

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	20 and 30 years
Office furniture	Declining balance and straight-line	20% and 5 years
Computer equipment	Declining balance and straight-line	30% and 3 to 5 years
Equipment	Declining balance and straight-line	20% and 4 to 5 years
Vehicles	Declining balance and straight-line	30% and 4 years
Aircraft	Straight-line	12 years with 45% residual
Armored vehicles	Straight-line	6, 10 and 12 years
Uniforms	Straight-line	2 years
Leasehold improvements	Straight-line	5 to 10 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. As at July 31, 2008, Management believes that there are no circumstances that indicate a potential impairment of goodwill that would trigger the updating of the initial step of the goodwill impairment test conducted as at January 31, 2008.

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 ten (10) to twenty (20) years, which represent their estimated useful lives.

Deferred charges

Deferred charges include principally start-up incurred after obtaining certain contracts and are amortized on a straight-line basis over periods 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.

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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 substantially 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 effects 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.

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

In December 2006, the CICA issued the following standards: Accounting Standards Section 3862 “Financial Instruments – Disclosure” and Accounting Standards Section 3863 “Financial Instruments – Presentation”. These sections replace CICA 3861, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These sections are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

The additional disclosures required as a result of the adoption of these standards have been included in note 15.

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(All amounts are in thousands of dollars except information on options, units and shares)

b) Capital disclosures

In December 2006, the CICA published Section 1535, "Capital Disclosures". This new standard establishes disclosure requirements concerning capital such as qualitative information about its objectives, policies and processes for managing capital, quantitative data about what it regards as capital, whether it has complied with any externally imposed capital requirements and, if not, the consequences of such non-compliance. This Section is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

The additional disclosures required as a result of the adoption of these standards have been included in note 8.

c) Inventories

In June 2007, the CICA published Section 3031, "Inventories". This Section replaces CICA 3030, establishing standards for the measurement and disclosure of inventories and is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The adoption of this section has no significant impact on the consolidated financial statements.

d) General Standards on Financial Statement Presentation

In June 2007, the CICA amended Section 1400, "General Standards on Financial Statement Presentation". This standard has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. This amendment is effective for interim and annual financial statements relating to fiscal year beginning on or after January 1, 2008.

e) Impact of accounting pronouncement not yet implemented

Goodwill and intangible assets

In February 2008, the CICA published Section 3064, "Goodwill and Intangible Assets" which replaces section 3062. This new standard establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The requirements will be effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The Corporation is currently assessing the impact that this accounting pronouncement will have on its consolidated financial statements.

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(unaudited)

(All amounts are in thousands of dollars except information on options, units and shares)

3 Property, plant and equipment

	As at July 31, 2008		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	\$
Land	236	-	236
Buildings	5,278	254	5,024
Office furniture	3,572	1,894	1,678
Computer equipment	17,620	8,174	9,446
Equipment	26,691	10,474	16,217
Vehicles	9,657	4,475	5,182
Aircraft	110,146	11,810	98,336
Armored vehicles	93,391	23,174	70,217
Uniforms	9,175	5,191	3,984
Leasehold improvements	39,880	10,466	29,414
	315,646	75,912	239,734
	As at January 31, 2008		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	\$
Land	231	-	231
Buildings	4,836	185	4,651
Office furniture	3,486	1,585	1,901
Computer equipment	15,506	5,722	9,784
Equipment	25,493	7,406	18,087
Vehicles	7,902	3,699	4,203
Aircraft	105,171	7,466	97,705
Armored vehicles	85,155	15,681	69,474
Uniforms	7,507	3,504	4,003
Leasehold improvements	37,447	7,430	30,017
	292,734	52,678	240,056

As at July 31, 2008, the cost and accumulated amortization for vehicles, armored vehicles and aircraft held under capital leases amounted to \$92,537 and \$14,001 respectively (January 31, 2008 - \$89,658 and \$10,843).

The majority of the aircraft are leased to a third party. Rental revenues totalled \$4,290 for the quarter ended July 31, 2008 (\$4,980 for the corresponding period last year).

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(unaudited)

(All amounts are in thousands of dollars except information on options, units and shares)

4 Goodwill

	Six months ended July 31, 2008 \$	Six months ended July 31, 2007 \$
Balance – Beginning of period	379,745	202,540
Business acquisitions	-	201,889
Effect of change in exchange rates during the period	7,590	(16,615)
Balance – End of period	387,335	387,814

5 Other assets

	As at July 31, 2008 \$ (unaudited)	As at January 31, 2008 \$ (audited)
Aircraft rotables	7,055	7,047
Deferred charges, net of accumulated amortization of \$2,094 (as at January 31, 2008 – \$1,744)	1,234	1,533
Other	13,546	7,234
	21,835	15,814

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Notes to Consolidated Financial Statements

(unaudited)

(All amounts are in thousands of dollars except information on options, units and shares)

6 Long-term debt

a) Long-term debt comprises the following:

	As at July 31, 2008 \$ (unaudited)	As at January 31, 2008 \$ (audited)
Authorized revolving facilities of CA\$45,000 (US equivalent) and CA\$30,000 (including letters of credit), 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, and repayable in full at maturity in April 2012 (note 6(b))	45,165	43,595
Senior term loan of CA\$200,000, 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 (note 6(b))	186,250	192,500
Senior term loan of US\$190,000, 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 (note 6(b))	194,883	190,722
Subordinated term loan of US\$130,000, 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 (note 6(b))	133,341	130,494
Capital lease obligations, secured by property, plant and equipment, bearing interest at rates ranging from 2.9% to 9.4%, repayable in monthly instalments of a maximum of \$2,176, including principal and interest, maturing at different dates until January 2014	70,370	72,807
Balances of purchase prices payable, bearing interest at rates ranging from 0% to 5%, repayable in annual and quarterly instalments until October 2010	4,601	5,618
Other loans	460	239
Deferred financing costs, net of accumulated amortization of \$5,764 (as at January 31, 2008 – \$4,146)	(11,612)	(12,827)
	623,458	623,148
Less: Current portion	34,601	32,177
	588,857	590,971

b) Trade accounts receivable, revenue to be billed, a general assignment of book debts, as well as a movable hypothec on the universality of present and future assets of the Corporation and its subsidiaries have been pledged as security for the revolving facilities and senior and subordinated term loans. The Corporation must satisfy certain restrictive covenants (note 8).

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Notes to Consolidated Financial Statements

(unaudited)

(All amounts are in thousands of dollars except information on options, units and shares)

- c) On September 15, 2008, the Corporation and its lenders mutually agreed to amend the credit facilities (note 8) which provides for an increase of 1.5% of the annual interest rate margin charged on the revolving facilities and senior term loans and an increase of 3.25% of the annual interest rate margin charged on the subordinated term loan.

7 Other liabilities

	As at July 31, 2008 \$ (unaudited)	As at January 31, 2008 \$ (audited)
Accrued self-insurance provision	12,346	11,438
Fair value of 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	28,825	37,044
Other	9,377	9,138
	<u>50,548</u>	<u>57,620</u>

8 Capital stock

- a) Capital risk management

The Corporation has defined its capital as long-term debt, capital stock, contributed surplus and retained earnings, net of cash.

The following table summarizes certain information with respect to the Corporation's capital structure at the end of each period:

	As at July 31, 2008 \$	As at January 31, 2008 \$
Cash	(25,340)	(33,840)
Long-term debt (net of deferred financing costs)	623,458	623,148
	<u>598,118</u>	<u>589,308</u>
Shareholder's equity excluding accumulated other comprehensive income (loss)	182,449	177,059
	<u>780,567</u>	<u>766,367</u>

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(All amounts are in thousands of dollars except information on options, units and shares)

The Corporation's objectives when managing capital are:

- to safeguard the Corporation's ability to continue as a going concern in order to provide returns to shareholders;
- to maintain an optimal capital structure with the use of external long-term debt to support the Corporation's growth.

The Corporation normally finances fixed asset acquisitions through capital leases.

The Corporation is subject to certain covenants on its credit facilities. The financial covenants contained in the Credit Facilities Agreement dated April 9, 2007, include a Total Leverage ratio, a Senior Debt Leverage ratio and a Fixed Charge Coverage ratio.

The Corporation's management monitors the covenants on a monthly basis and the Corporation's Board of Directors reviews the covenants on a quarterly basis.

Recently, the Corporation initiated discussions with its lenders in order to readdress its financial covenants for the current and subsequent quarters. On September 15, 2008, the Corporation executed an amending agreement to its Credit Facilities Agreement providing for certain changes to conditions of its revolving facilities, its senior loans and its subordinated loan. The amending agreement replaces, effective on July 31, 2008, the existing financial covenant described above with a minimum EBITDA requirement to be satisfied at the end of each quarter up to October 31, 2009, at which point the financial covenants revert back to the covenants previously in place under the credit facilities.

The Corporation expects to meet the new EBITDA covenant for the next year.

The Amending Agreement provides that the Corporation is to continue its business operations as usual and to pursue scenarios for the monetization of certain of its key assets and for the identification of other sources of financing. The Corporation is committing that any proceeds or consideration received be applied against the credit facilities. Also, the Corporation is committing to seek external guarantee in respect to all outstanding Letters of Credits for services performed outside Canada.

As part of those amendments the annual interest rate margins on the revolving facilities and senior term loans were increased by 1.5% and the annual interest rate margins on the subordinated term loan were increased by 3.25%.

Other than the covenants required by its credit facilities, the Corporation is not subject to any externally imposed capital requirements.

b) 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

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c) Issued and fully paid

Changes in capital stock issued during the six (6) month period ended July 31, 2008 are summarized as follows:

	Number of Class "A" shares	\$
Balance – Beginning of period	31,399,569	114,798
Issued following exercise of options	78,313	487
Balance – End of period	31,477,882	115,285

d) Options

During the six (6) month period ended July 31, 2008, the Corporation granted 400,000 (485,000 for the corresponding period last year) Class "A" share stock options at an exercise price of \$16.98 (\$23.40 for the corresponding period last year). As at July 31, 2008, 2,777,355 stock options were issued and outstanding (2,717,001 as at July 31, 2007).

9 Contributed surplus

	As at July 31, 2008 \$	As at July 31, 2007 \$
Balance – Beginning of period	5,837	3,480
Stock-based compensation	1,724	1,629
Options exercised	(183)	(374)
Balance – End of period	7,378	4,735

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(All amounts are in thousands of dollars except information on options, units and shares)

10 Amortization

	Three months ended July 31, 2008	Three months ended July 31, 2007	Six months ended July 31, 2008	Six months ended July 31, 2007
	\$	\$	\$	\$
Amortization of property, plant and equipment	11,619	11,373	22,706	17,313
Amortization of service contracts and client relationships	1,107	1,024	1,666	1,567
Amortization of deferred charges	174	137	350	264
	12,900	12,534	24,722	19,144

Service contracts and client relationships are shown in the balance sheet net of accumulated amortization of \$6,468 (As at January 31, 2008 – \$4,802).

11 Financing expenses

	Three months ended July 31, 2008	Three months ended July 31, 2007	Six months ended July 31, 2008	Six months ended July 31, 2007
	\$	\$	\$	\$
Interest on long-term debt	13,426	16,257	27,131	21,045
Other interests	1,381	930	2,413	1,606
Amortization of deferred financing costs	735	686	1,619	1,097
	15,542	17,873	31,163	23,748

12 Accumulated other comprehensive loss

	Six months ended July 31, 2008	Six months ended July 31, 2007
	\$	\$
Balance – Beginning of period	(56,615)	2,761
Unrealized gain (loss) on translation of financial statements of self-sustaining foreign operations	4,875	(20,141)
Change in fair value of financial instruments, net of tax effect of \$2,000	6,219	(8,703)
Balance – End of period	(45,521)	(26,083)

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(All amounts are in thousands of dollars except information on options, units and shares)

13 Income (loss) per share

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

	Three months ended July 31, 2008	Three months ended July 31, 2007	Six months ended July 31, 2008	Six months ended July 31, 2007
	\$	\$	\$	\$
Net income (loss) for the period	(1,008)	(1,480)	3,362	4,316
Weighted average number of shares outstanding for use in computation of basic income per share	31,465,156	30,978,236	31,434,097	30,974,767
Effect of potentially dilutive securities Stock options	396,862	1,140,822	385,855	1,098,889
Weighted average number of shares outstanding for use in computation of diluted income per share	31,862,018	32,119,058	31,819,952	32,073,656
Basic net income (loss) per share	(0.03)	(0.05)	0.11	0.14
Diluted net income (loss) per share	(0.03)	(0.05)	0.11	0.13

During the quarter ended July 31, 2008, 2,130,000 (1,490,000 for the corresponding period last year) Class "A" share stock options, with an exercise price varying from \$14.00 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 the average market price for the quarter ended July 31, 2008 of Class "A" shares of the Corporation.

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14 Change in non-cash working capital items

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

	Three months ended July 31, 2008	Three months ended July 31, 2007	Six months ended July 31, 2008	Six months ended July 31, 2007
	\$	\$	\$	\$
Decrease (increase) in				
Accounts receivable	11,128	8,088	18,621	2,532
Revenue to be billed	5,065	(7,481)	757	(7,112)
Inventories	450	1,708	(1,536)	1,665
Prepaid expenses	(119)	142	276	(1,549)
Income taxes refundable	(683)	(9,318)	(3,947)	(8,968)
Increase (decrease) in				
Accounts payable and accrued liabilities	(17,436)	3,840	(22,065)	(8,298)
Income taxes payable	(299)	44	(498)	35
	(1,894)	(2,977)	(8,392)	(21,695)

15 Contingencies

- a) In the normal course of business, the Corporation is involved in various legal proceedings the outcome of which cannot be determined at this time and accordingly, no provision has been recorded. The Corporation believes that the resolution of these proceedings will not have a material favourable or unfavourable effect on its financial position and results of operations.
- b) One of the division of the Corporation is the subject of legal action from a former employee in the amount of US\$5,000 for alleged wrongful termination. Management believes that the Corporation will not incur any significant loss resulting from this proceeding.

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16 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

Financial instruments which potentially subject the Corporation to significant credit risk consist principally of cash, accounts receivable and revenue to be billed.

The Corporation's cash are held with or issued by high-credit quality financial institutions. Therefore, the Corporation considers the risk of non-performance on these instruments to be remote.

The Corporation's credit risk is principally attributable to its trade receivables. The amounts presented in the balance sheet are net of an allowance for doubtful accounts, estimated by the Corporation's management based, in part, on the age of the specific receivable balance and the current and expected collection trends. A provision is established when the likelihood of collecting of the account has significantly diminished. The Corporation believes that the credit risk of accounts receivable is limited.

The distributions of the Corporation's customers and the business risk management procedures have the effect of avoiding any concentration of credit risk. Generally, the Corporation does not require collateral or other security from customers for trade accounts receivable; however, credit is extended following an evaluation of creditworthiness. In addition, the Corporation performs ongoing credit reviews of all its customers and establishes an allowance for doubtful accounts when accounts are determined to be uncollectible.

Interest rate risk

As at July 31, 2008, the Corporation's interest rate risk is summarized as follows:

Cash	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

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 \$514,474. As at July 31, 2008, the fair value of these instruments represented an unrealized loss of \$28,825. As at July 31, 2008 approximately 85% of the Corporation's senior and subordinated term loans were at fixed rates.

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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 self-sustaining foreign subsidiaries.

During the second quarter ended July 31, 2008, if the US dollar would have strengthened by \$0.01 on average in comparison to the Canadian dollar, all other variables remaining constant, the impact on the operating income before income taxes for the quarter would have been marginal and the impact on the comprehensive income would have been an increase of \$2,172.

Transactions recorded in US dollars relate exclusively to self-sustaining foreign operations and do not result in foreign exchange gains or losses for the Corporation. In addition, the Corporation contracted a debt denominated in US dollars in the same proportion as the revenue stream from self-sustaining foreign operations. Consequently, the Corporation believes that its exposure to risk from currency fluctuations is low.

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they are due. The following are the contractual maturities of financial liabilities as at July 31, 2008.

	Carrying amount \$	Contractual cash flows \$	Less than one (1) year \$	Between one (1) and two (2) years \$	More than two (2) years \$
Accounts payable and accrued liabilities	108,710	108,710	108,710	-	-
Income taxes payable	1,362	1,362	1,362	-	-
Long-term debt, excluding deferred financing costs	635,070	635,070	37,511	42,635	554,924
Bank loans and overdrafts	9,764	9,764	9,764	-	-
	<u>754,906</u>	<u>754,906</u>	<u>157,347</u>	<u>42,635</u>	<u>554,924</u>

The Corporation is confident that the future cash flows from operations, cash and availability under credit facilities will allow for the realization of assets and settlement of liabilities in the normal course of business as they come due.

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17 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 out 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.

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a) Business segment

	Three months ended July 31, 2008 \$	Three months ended July 31, 2007 \$	Six months ended July 31, 2008 \$	Six months ended July 31, 2007 \$
Revenues				
Physical security and other	152,633	162,632	304,386	317,214
Cash logistics	148,449	155,925	292,672	239,359
	301,082	318,557	597,058	556,573
Amortization of property, plant and equipment				
Physical security and other	1,921	1,205	3,612	2,249
Cash logistics	9,698	10,168	19,094	15,064
	11,619	11,373	22,706	17,313
Amortization of service contracts and client relationships				
Physical security and other	150	116	299	232
Cash logistics	957	908	1,367	1,335
	1,107	1,024	1,666	1,567
Amortization of deferred charges				
Physical security and other	75	76	151	152
Cash logistics	99	61	199	112
	174	137	350	264
Income before financing expenses and income taxes				
Physical security and other	3,616	5,725	9,503	14,176
Cash logistics	6,168	5,062	18,490	9,362
	9,784	10,787	27,993	23,538
			As at July 31, 2008 \$	As at January 31, 2008 \$
Property, plant and equipment				
Physical security and other			16,017	14,331
Cash logistics			223,717	225,725
			239,734	240,056
Goodwill				
Physical security and other			156,889	155,223
Cash logistics			230,446	224,522
			387,335	379,745
Service contracts and client relationships				
Physical security and other			7,168	7,373
Cash logistics			43,616	44,625
			50,784	51,998
Total assets				
Physical security and other			309,323	335,177
Cash logistics			648,268	620,197
			957,591	955,374

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b) Geographical segment

	Three months ended July 31, 2008 \$	Three months ended July 31, 2007 \$	Six months ended July 31, 2008 \$	Six months ended July 31, 2007 \$
Revenues				
Canada	120,127	121,205	239,330	237,554
United States and other	180,955	197,353	357,728	319,019
	301,082	318,558	597,058	556,573
Amortization of property, plant and equipment				
Canada	1,991	1,611	3,894	3,021
United States and other	9,628	9,762	18,812	14,292
	11,619	11,373	22,706	17,313
Amortization of service contracts and client relationships				
Canada	177	165	300	330
United States and other	930	859	1,366	1,237
	1,107	1,024	1,666	1,567
Amortization of deferred charges				
Canada	162	137	324	264
United States and other	12	-	26	-
	174	137	350	264
Income before financing expenses and income taxes				
Canada	4,218	4,319	9,732	11,198
United States and other	5,566	6,468	18,261	12,340
	9,784	10,787	27,993	23,538
			As at July 31, 2008 \$	As at January 31, 2008 \$
Property, plant and equipment				
Canada			25,808	24,603
United States and other			213,926	215,453
			239,734	240,056
Goodwill				
Canada			78,877	78,877
United States and other			308,458	300,868
			387,335	379,745
Service contracts and client relationships				
Canada			6,002	5,840
United States and other			44,782	46,158
			50,784	51,998
Total assets				
Canada			204,395	227,341
United States and other			753,196	728,033
			957,591	955,374

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18 Comparative figures

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

19 Subsequent event

On September 15, 2008, the Corporation and its lenders amended the credit facilities (note 8) which replaces until the quarter ending October 31, 2009 existing financial ratio covenants into a minimum quarterly EBITDA financial covenant and which provides for an increase of 1.5% of the annual interest rate margin charged on the revolving facilities and senior term loans and an increase of 3.25% of fee annual interest rate margin charged on the subordinated term loan.