

Garda World Security Corporation

Consolidated Financial Statements (unaudited)
For the third quarter ended October 31, 2008

Garda World Security Corporation

Consolidated Balance Sheets

(in thousands of dollars)

	As at October 31, 2008 \$ (unaudited)	As at January 31, 2008 \$ (audited)
Assets		
Current assets		
Cash	32,429	33,840
Accounts receivable	154,569	156,217
Revenue to be billed	25,206	25,303
Inventories	9,469	7,103
Prepaid expenses	13,558	12,719
Income taxes refundable	12,891	10,030
Future income taxes	11,834	8,691
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	259,956	253,903
Property, plant and equipment (note 3)	272,854	240,056
Goodwill (note 4)	443,793	379,745
Service contracts and client relationships	59,367	51,998
Other assets (note 5)	24,167	15,814
Future income taxes	36,516	13,858
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	1,096,653	955,374
Liabilities		
Current liabilities		
Bank loans and overdrafts	1,402	9,215
Accounts payable and accrued liabilities	143,636	119,228
Income taxes payable	1,850	1,833
Current portion of long-term debt (note 6)	38,957	32,177
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	185,845	162,453
Long-term debt (note 6)	645,763	590,971
Other liabilities (note 7)	69,538	57,620
Future income taxes	30,343	23,886
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	931,489	834,930
Shareholders' Equity		
Capital stock (note 8 (c))	115,285	114,798
Contributed surplus (note 9)	8,242	5,837
Accumulated other comprehensive loss (note 12)	(15,993)	(56,615)
Retained earnings	57,630	56,424
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	165,164	120,444
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	1,096,653	955,374

Garda World Security Corporation

Consolidated Statements of Retained Earnings

(Unaudited)

(in thousands of dollars)

	Three months ended October 31, 2008	Three months ended October 31, 2007	Nine months ended October 31, 2008	Nine months ended October 31, 2007
	\$	\$	\$	\$
Balance – Beginning of period	59,786	45,138	56,424	40,822
Net income (loss) for the period	(2,156)	4,134	1,206	8,450
Balance – End of period	57,630	49,272	57,630	49,272

Garda World Security Corporation

Consolidated Statements of Income (Loss)

(Unaudited)

(in thousands of dollars, except per share amounts)

	Three months ended October 31, 2008 \$	Three months ended October 31, 2007 \$	Nine months ended October 31, 2008 \$	Nine months ended October 31, 2007 \$
Revenues	318,211	315,340	915,270	871,914
Operating costs	242,843	245,498	699,743	684,555
Gross profit	75,368	69,842	215,527	187,359
Selling and administrative expenses	47,201	39,900	134,644	114,736
Amortization (note 10)	13,802	12,309	38,524	31,453
Income before financing expenses and income taxes	14,365	17,633	42,359	41,170
Financing expenses (note 11)	21,634	16,742	52,798	40,489
Income (loss) before income taxes	(7,269)	891	(10,439)	681
Recovery of income taxes	(5,113)	(3,243)	(11,645)	(7,769)
Net income (loss) for the period	(2,156)	4,134	1,206	8,450
Basic net income (loss) per share (note 13)	(0.07)	0.13	0.04	0.27
Diluted net income (loss) per share (note 13)	(0.07)	0.13	0.04	0.26

Consolidated Statements of Comprehensive Loss

(Unaudited)

(in thousands of dollars, except per share amounts)

	Three months ended October 31, 2008 \$	Three months ended October 31, 2007 \$	Nine months ended October 31, 2008 \$	Nine months ended October 31, 2007 \$
Net income (loss) for the period	(2,156)	4,134	1,206	8,450
Other comprehensive gain (loss)				
Unrealized gains (losses) on translation of financial statements of self-sustaining foreign operations	37,930	(24,765)	42,804	(44,906)
Change in fair value of financial instruments, net of tax effect	(8,401)	(6,771)	(2,182)	(15,474)
Comprehensive income (loss) for the period	27,373	(27,402)	41,828	(51,930)

Garda World Security Corporation

Consolidated Statements of Cash Flows

(unaudited)

(in thousands of dollars)

	Three months ended October 31, 2008 \$	Three months ended October 31, 2007 \$	Nine months ended October 31, 2008 \$	Nine months ended October 31, 2007 \$
Cash flows from				
Operating activities				
Net income (loss) for the period	(2,156)	4,134	1,206	8,450
Adjustments for				
Stock-based compensation	864	692	2,587	2,320
Amortization (note 10)	13,802	12,309	38,524	31,453
Amortization of deferred financing costs	786	658	2,405	1,755
Net loss (gain) on sale of assets	144	(5,156)	(254)	(5,156)
Future income taxes	2,755	(228)	(1,184)	(228)
Cash flows from operations	<u>16,195</u>	12,409	<u>43,284</u>	38,594
Change in non-cash working capital items (note 14)	<u>18,059</u>	8,074	<u>9,666</u>	(13,621)
	<u>34,254</u>	20,483	<u>52,950</u>	24,973
Financing activities				
Increase (decrease) in bank loans and overdrafts	(8,956)	7,121	(8,572)	24,008
Increase in long-term debt	-	2,244	10,395	567,867
Repayment of long-term debt	(14,256)	(6,477)	(41,946)	(167,851)
Issuance of Class "A" shares, net of shares and special warrants issue expenses	-	-	303	315
Increase in deferred financing costs	(1,553)	-	(1,553)	-
	<u>(24,765)</u>	2,888	<u>(41,373)</u>	424,339
Investing activities				
Additions to property, plant and equipment	(5,687)	(11,298)	(17,551)	(34,259)
Proceeds from disposal of property, plant and equipment	416	199	846	390
Business acquisitions, net of cash acquired	-	-	-	(396,085)
Increase in deferred charges	(20)	(72)	(59)	(371)
	<u>(5,291)</u>	(11,171)	<u>(16,764)</u>	(430,325)
Foreign currency translation on cash	<u>2,891</u>	(1,548)	<u>3,776</u>	(2,768)
Net increase (decrease) in cash during the period	<u>7,089</u>	10,652	<u>(1,411)</u>	16,219
Cash – Beginning of period	<u>25,340</u>	19,693	<u>33,840</u>	14,126
Cash – End of period	<u>32,429</u>	30,345	<u>32,429</u>	30,345

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, future cash flows of its financial liabilities, 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.

Garda World Security Corporation

Notes to Consolidated Financial Statements

(unaudited)

(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 and deposits from customers.

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.

Garda World Security Corporation

Notes to Consolidated Financial Statements

(unaudited)

(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. This methodology contains estimates and judgments that are subjective and uncertain, and thus, may change over time. In future measurements of fair value, adverse changes in discounted cash flow assumptions could result in an impairment of goodwill.

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.

Garda World Security Corporation

Notes to Consolidated Financial Statements

(unaudited)

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

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 16.

Garda World Security Corporation

Notes to Consolidated Financial Statements

(unaudited)

(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.

Garda World Security Corporation

Notes to Consolidated Financial Statements

(unaudited)

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

3 Property, plant and equipment

	As at October 31, 2008		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	\$
Land	280	-	280
Buildings	4,660	343	4,317
Office furniture	3,992	2,116	1,876
Computer equipment	20,350	10,553	9,797
Equipment	32,004	13,463	18,541
Vehicles	10,518	5,237	5,281
Aircraft	132,563	16,278	116,285
Armored vehicles	109,395	31,081	78,314
Uniforms	10,525	6,326	4,199
Leasehold improvements	47,367	13,403	33,964
	371,654	98,800	272,854

	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 October 31, 2008, the cost and accumulated amortization for vehicles, armored vehicles and aircraft held under capital leases amounted to \$107,691 and \$18,986 respectively (January 31, 2008 - \$89,658 and \$10,843).

The majority of the aircraft are leased to a third party. Rental revenues totalled \$3,001 for the quarter ended October 31, 2008 (\$4,773 for the corresponding period last year) and \$12,290 for the nine months ended October 31, 2008 (\$11,312 for the corresponding period last year).

Garda World Security Corporation

Notes to Consolidated Financial Statements

(unaudited)

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

4 Goodwill

	Nine months ended October 31, 2008 \$	Twelve months ended January 31, 2008 \$
Balance – Beginning of period	379,745	202,540
Business acquisitions	-	223,326
Disposal of assets of Garda Holding (formerly Keyfacts Enterprises Canada)	-	(2,657)
Effect of change in exchange rates during the period	64,048	(43,464)
Balance – End of period	<u>443,793</u>	<u>379,745</u>

5 Other assets

	As at October 31, 2008 \$ (unaudited)	As at January 31, 2008 \$ (audited)
Aircraft rotables	8,365	7,047
Deferred charges, net of accumulated amortization of \$1,865 (as at January 31, 2008 – \$1,744)	1,166	1,533
Other	14,636	7,234
	<u>24,167</u>	<u>15,814</u>

Garda World Security Corporation

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 October 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 3.50%, or at LIBOR or the bankers' acceptance rate plus 4.75%, depending on the loan instrument used and the leverage ratio, and repayable in full at maturity in April 2012 (note 6(b))	44,186	43,595
Senior term loan of CA\$200,000, bearing interest either at the U.S. or Canadian prime rate plus 3.50%, or at LIBOR or the bankers' acceptance rate plus 4.75%, 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))	182,500	192,500
Senior term loan of US\$190,000, bearing interest at the U.S. prime rate plus 3.75% or at LIBOR plus 5.00%, 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))	231,135	190,722
Subordinated term loan of US\$130,000, bearing interest at the U.S. prime rate plus 7.75% plus a payment-in-kind ("PIK") rate of 1%, or at LIBOR rate plus 9.00% plus a PIK rate of 1%, depending on the loan instrument used, repayable in full in April 2014 (note 6(b))	158,145	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 \$1,857, including principal and interest, maturing at different dates until July 2014	77,528	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	4,733	5,618
Other loans	641	239
Deferred financing costs, net of accumulated amortization of \$6,550 (as at January 31, 2008 – \$4,146)	(14,148)	(12,827)
	684,720	623,148
Less: Current portion	38,957	32,177
	645,763	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).

Garda World Security Corporation

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 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 2.25% of the annual interest rate margin charged on the subordinated term loan plus a capitalized PIK rate of 1% per annum. These amendments have been reflected in note 6 a).

Under the amendment to the credit facilities, the Corporation must satisfy certain restrictive covenants to prevent additional margin increases on the revolving facilities and senior term loans, and an additional increase of the capitalized PIK rate on the subordinated term loan.

7 Other liabilities

	As at October 31, 2008 \$ (unaudited)	As at January 31, 2008 \$ (audited)
Accrued self-insurance provision	17,505	11,438
Fair value of swap on long-term debt to convert from a variable to a fixed average rate of 11.64% covering 85% of the senior and subordinated term loans	40,226	37,044
Other	11,807	9,138
	<u>69,538</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 and bank loans and overdraft.

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

	As at October 31, 2008 \$	As at January 31, 2008 \$
Cash, net of bank loans and overdraft	(31,027)	(24,625)
Long-term debt (net of deferred financing costs)	684,720	623,148
	<u>653,693</u>	<u>598,523</u>
Shareholder's equity excluding accumulated other comprehensive income (loss)	181,157	177,059
	<u>834,850</u>	<u>775,582</u>

Garda World Security Corporation

Notes to Consolidated Financial Statements

(unaudited)

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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.

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 term loans and its subordinated term loan. The amending agreement replaces, effective on October 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 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 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. As such the Corporation expects to meet all the covenants under the credit facilities for the next year.

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 2.25% plus a capitalized PIK rate of 1% per annum.

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

Garda World Security Corporation

Notes to Consolidated Financial Statements

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c) Issued and fully paid

Changes in capital stock issued during the nine (9) month period ended October 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 nine (9) month period ended October 31, 2008, the Corporation granted 603,000 (610,000 for the corresponding period last year) Class "A" share stock options at an exercise price varying from \$4.00 to \$16.98 (\$23.40 for the corresponding period last year). As at October 31, 2008, 2,741,188 stock options were issued and outstanding (2,697,001 as at October 31, 2007).

9 Contributed surplus

	As at October 31, 2008 \$	As at October 31, 2007 \$
Balance – Beginning of period	5,837	3,480
Stock-based compensation	2,588	2,320
Options exercised	(183)	(374)
Balance – End of period	8,242	5,426

Garda World Security Corporation

Notes to Consolidated Financial Statements

(unaudited)

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

10 Amortization

	Three months ended October 31, 2008 \$	Three months ended October 31, 2007 \$	Nine months ended October 31, 2008 \$	Nine months ended October 31, 2007 \$
Amortization of property, plant and equipment	12,745	11,161	35,451	28,474
Amortization of service contracts and client relationships	886	976	2,553	2,543
Amortization of deferred charges	171	172	520	436
	13,802	12,309	38,524	31,453

Service contracts and client relationships are shown in the balance sheet net of accumulated amortization of \$7,355 (As at January 31, 2008 – \$4,802).

11 Financing expenses

	Three months ended October 31, 2008 \$	Three months ended October 31, 2007 \$	Nine months ended October 31, 2008 \$	Nine months ended October 31, 2007 \$
Interest on long-term debt	14,549	14,685	41,680	35,730
Other interests	6,299	1,398	8,713	3,004
Amortization of deferred financing costs	786	659	2,405	1,755
	21,634	16,742	52,798	40,489

12 Accumulated other comprehensive loss

	Nine months ended October 31, 2008 \$	Nine months ended October 31, 2007 \$
Balance – Beginning of period	(56,615)	2,761
Unrealized gain (loss) on translation of financial statements of self-sustaining foreign operations	42,804	(44,906)
Change in fair value of financial instruments, net of tax effect of \$1,000	(2,182)	(15,474)
Balance – End of period	(15,993)	(57,619)

Garda World Security Corporation

Notes to Consolidated Financial Statements

(unaudited)

(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 October 31, 2008	Three months ended October 31, 2007	Nine months ended October 31, 2008	Nine months ended October 31, 2007
	\$	\$	\$	\$
Net income (loss) for the period	(2,156)	4,134	1,206	8,450
Weighted average number of shares outstanding for use in computation of basic income per share	31,543,469	30,978,236	31,436,424	30,975,936
Effect of potentially dilutive securities Stock options	543,708	1,005,327	301,508	1,061,553
Weighted average number of shares outstanding for use in computation of diluted income per share	32,087,177	31,983,563	31,737,932	32,037,489
Basic net income (loss) per share	(0.07)	0.13	0.04	0.27
Diluted net income (loss) per share	(0.07)	0.13	0.04	0.26

During the quarter ended October 31, 2008, 2,395,000 (1,470,000 for the corresponding period last year) Class "A" share stock options, with an exercise price of \$4.75 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 October 31, 2008 of Class "A" shares of the Corporation.

Garda World Security Corporation

Notes to Consolidated Financial Statements

(unaudited)

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

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, 2008 \$	Three months ended October 31, 2007 \$	Nine months ended October 31, 2008 \$	Nine months ended October 31, 2007 \$
Decrease (increase) in				
Accounts receivable	(2,483)	(4,841)	16,139	(2,309)
Revenue to be billed	1,025	(4,239)	1,782	(11,350)
Inventories	831	988	(706)	2,653
Prepaid expenses	1,105	(10,668)	1,381	(12,217)
Income taxes refundable	(3,648)	(10,207)	(7,594)	(19,175)
Increase (decrease) in				
Accounts payable and accrued liabilities	9,894	34,094	(12,172)	25,795
Income taxes payable	11,335	2,947	10,836	2,982
	18,059	8,074	9,666	(13,621)

15 Contingencies

- 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.
- One of the divisions 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.

Garda World Security Corporation

Notes to Consolidated Financial Statements

(unaudited)

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

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 October 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 11.64% for a notional amount of \$571,780. As at October 31, 2008, the fair value of these instruments represented an unrealized loss of \$40,226. As at October 31, 2008 approximately 85% of the Corporation's senior and subordinated term loans were at fixed rates.

Garda World Security Corporation

Notes to Consolidated Financial Statements

(unaudited)

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

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 third quarter ended October 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 \$ 5,892.

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 October 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	143,636	143,636	143,636	-	-
Income taxes payable	1,850	1,850	1,850	-	-
Long-term debt, excluding deferred financing costs	698,868	698,868	42,321	48,078	608,469
Bank loans and overdrafts	1,402	1,402	1,402	-	-
	<u>845,756</u>	<u>845,756</u>	<u>189,209</u>	<u>48,078</u>	<u>608,469</u>

Garda World Security Corporation

Notes to Consolidated Financial Statements

(unaudited)

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

Cash flows from operations is the principal source of funding for the Corporation. To date, cash flows from operations have allowed the Corporation to meet all its financial obligations. Other available sources of funding available to the Corporation include the monetization of certain of its assets and the identification of other sources of financing.

Under the Amending Agreement executed September 15, 2008, there has been an increase in the annual interest rate margins charged to the Corporation going forward and the Corporation has committed that any proceeds or consideration received from the sale of certain assets, or other sources of funding than the cash flow from operations, be applied against the credit facilities.

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

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.

Garda World Security Corporation

Notes to Consolidated Financial Statements

(unaudited)

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

a) Business segment

	Three months ended October 31, 2008 \$	Three months ended October 31, 2007 \$	Nine months ended October 31, 2008 \$	Nine months ended October 31, 2007 \$
Revenues				
Physical security and other	160,011	166,647	464,007	483,861
Cash logistics	158,200	148,693	451,263	388,053
	318,211	315,340	915,270	871,914
Amortization of property, plant and equipment				
Physical security and other	1,994	1,532	5,606	3,781
Cash logistics	10,751	9,629	29,845	24,693
	12,745	11,161	35,451	28,474
Amortization of service contracts and client relationships				
Physical security and other	159	130	459	362
Cash logistics	727	846	2,094	2,181
	886	976	2,553	2,543
Amortization of deferred charges				
Physical security and other	76	76	226	227
Cash logistics	95	96	294	209
	171	172	520	436
Income before financing expenses and income taxes				
Physical security and other	7,120	13,904	16,749	29,425
Cash logistics	7,245	3,729	25,610	11,745
	14,365	17,633	42,359	41,170
			As at October 31, 2008 \$	As at January 31, 2008 \$
Property, plant and equipment				
Physical security and other			15,996	14,331
Cash logistics			256,858	225,725
			272,854	240,056
Goodwill				
Physical security and other			171,696	155,223
Cash logistics			272,097	224,522
			443,793	379,745
Service contracts and client relationships				
Physical security and other			7,808	7,373
Cash logistics			51,559	44,625
			59,367	51,998
Total assets				
Physical security and other			345,669	335,177
Cash logistics			750,984	620,197
			1,096,653	955,374

Garda World Security Corporation

Notes to Consolidated Financial Statements

(unaudited)

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

b) Geographical segment

	Three months ended October 31, 2008 \$	Three months ended October 31, 2007 \$	Nine months ended October 31, 2008 \$	Nine months ended October 31, 2007 \$
Revenues				
Canada	122,976	128,060	362,306	365,615
United States and other	195,235	187,280	552,964	506,299
	318,211	315,340	915,270	871,914
Amortization of property, plant and equipment				
Canada	2,071	1,934	5,965	4,955
United States and other	10,674	9,227	29,486	23,519
	12,745	11,161	35,451	28,474
Amortization of service contracts and client relationships				
Canada	159	179	490	509
United States and other	727	797	2,063	2,034
	886	976	2,553	2,543
Amortization of deferred charges				
Canada	145	160	468	424
United States and other	26	12	52	12
	171	172	520	436
Income before financing expenses and income taxes				
Canada	8,596	13,526	18,329	26,503
United States and other	5,769	4,107	24,030	14,667
	14,365	17,633	42,359	41,170
			As at October 31, 2008 \$	As at January 31, 2008 \$
Property, plant and equipment				
Canada			25,256	24,603
United States and other			247,598	215,453
			272,854	240,056
Goodwill				
Canada			78,877	78,877
United States and other			364,916	300,868
			443,793	379,745
Service contracts and client relationships				
Canada			5,843	5,840
United States and other			53,524	46,158
			59,367	51,998
Total assets				
Canada			211,579	227,341
United States and other			885,074	728,033
			1,096,653	955,374

Garda World Security Corporation

Notes to Consolidated Financial Statements

(unaudited)

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

17 Comparative figures

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

18 Subsequent event

At the end of November 2008, the Corporation paid a pre-determined fee of \$4,871 to its lenders in accordance with the dispositions stipulated in the Amending Agreement.