

Garda World Security Corporation

Consolidated Financial Statements (unaudited)
For the second quarter ended July 31, 2009

Garda World Security Corporation

Consolidated Balance Sheets

(in thousands of dollars)

	As at July 31, 2009 (unaudited) \$	As at January 31, 2009 (restated note 3) (audited) \$
Assets		
Current assets		
Cash	14,542	23,993
Accounts receivable (note 5)	114,413	126,271
Revenue to be billed	18,687	21,143
Inventories	7,765	8,125
Prepaid expenses	14,138	14,002
Income taxes refundable	2,044	3,241
Future income taxes	12,332	14,028
Current assets held for sale (note 4)	-	27,946
	183,921	238,749
Property, plant and equipment (note 6)	230,725	272,319
Goodwill (note 7)	306,537	335,205
Service contracts and client relationships (note 7)	48,782	56,502
Other assets (note 8)	13,076	12,798
Future income taxes	39,814	28,623
Long-term assets held for sale (note 4)	-	41,834
	822,855	986,030
Liabilities		
Current liabilities		
Bank overdrafts	3,610	876
Accounts payable and accrued liabilities	113,428	140,252
Income taxes payable	2,292	57
Future income taxes	-	1,203
Current portion of long-term debt (note 9)	40,445	38,108
Current liabilities related to assets held for sale (note 4)	-	14,122
	159,775	194,618
Long-term debt (note 9)	513,154	622,894
Other liabilities (note 10)	79,890	93,665
Future income taxes	15,406	13,670
Long-term liabilities related to assets held for sale (note 4)	-	285
	768,225	925,132
Shareholders' Equity		
Capital stock (note 11)	115,533	115,285
Contributed surplus (note 12)	11,114	9,412
Accumulated other comprehensive loss (note 15)	(34,939)	(20,148)
Deficit	(37,078)	(43,651)
	54,630	60,898
	822,855	986,030

Garda World Security Corporation

Consolidated Statements of Retained Earnings (Deficit)

(Unaudited)

(in thousands of dollars)

	Three months ended July 31, 2009 (restated note 3) \$	Three months ended July 31, 2008 (restated note 3) \$	Six months ended July 31, 2009 (restated note 3) \$	Six months ended July 31, 2008 (restated note 3) \$
Retained earnings (Deficit) – Beginning of period				
As previously reported	(41,122)	60,794	(40,724)	56,424
Change in accounting policy (note 3)	-	(1,752)	(2,927)	(1,927)
As restated	(41,122)	59,042	(43,651)	54,497
Net income (loss) for the period (note 3)	4,044	(1,202)	6,573	3,343
Retained earnings (Deficit) – End of period	(37,078)	57,840	(37,078)	57,840

Garda World Security Corporation
Consolidated Statements of Income (Loss)
(Unaudited)
(in thousands of dollars except amount per share)

	Three months ended July 31, 2009	Three months ended July 31, 2008 (restated note 3) (note 4)	Six months ended July 31, 2009	Six months ended July 31, 2008 (restated note 3) (note 4)
	\$	\$	\$	\$
Revenues	273,020	268,913	552,251	532,530
Operating costs	202,226	205,695	406,170	403,101
Gross profit	70,794	63,218	146,081	129,429
Selling and administrative expenses	41,519	40,378	85,117	76,890
Depreciation and amortization (note 13)	12,748	12,208	26,715	23,373
Income before financing expenses, income taxes and discontinued operations	16,527	10,632	34,249	29,166
Unrealized net gains in fair value of derivative financial instruments (note 19)	(5,172)	-	(6,222)	-
Financing expenses (note 14)	20,240	14,762	38,175	29,517
Income (loss) before income taxes and discontinued operations	1,459	(4,130)	2,296	(351)
Recovery of income taxes	(6,347)	(4,187)	(9,188)	(5,629)
Net income from continuing operations	7,806	57	11,484	5,278
Net loss from discontinued operations (note 4)	(885)	(1,259)	(2,034)	(1,935)
Net loss on disposal of discontinued operations (note 4)	(2,877)	-	(2,877)	-
Net income (loss) for the period	4,044	(1,202)	6,573	3,343
Net income (loss) per share from continuing operations				
Basic	0.25	0.00	0.36	0.17
Diluted	0.25	0.00	0.36	0.17
Net income (loss) per share (note 16)				
Basic	0.13	(0.04)	0.21	0.11
Diluted	0.13	(0.04)	0.21	0.11

Garda World Security Corporation

Consolidated Statements of Comprehensive Income (Unaudited)

(in thousands of dollars except amount per share)

	Three months ended July 31, 2009	Three months ended July 31, 2008 (restated note 3)	Six months ended July 31, 2009	Six months ended July 31, 2008 (restated note 3)
	\$	\$	\$	\$
Net income (loss) for the period	4,044	(1,202)	6,573	3,343
Other comprehensive gain (loss)				
Unrealized gains (losses) on translation of financial statements of self-sustaining foreign operations	(17,257)	3,511	(18,255)	4,875
Amortization of unrealized losses on fair value of financial instruments, net of taxes of \$736 (note 15)	1,734	-	3,465	-
Unrealized gain in fair value of financial instruments, net of taxes	-	4,604	-	6,219
Comprehensive income (loss) for the period	(11,479)	6,913	(8,217)	14,437

Garda World Security Corporation

Consolidated Statements of Cash flows

(Unaudited)

(in thousands of dollars)

	Three months ended July 31, 2009	Three months ended July 31, 2008 (restated note 3)	Six months ended July 31, 2009	Six months ended July 31, 2008 (restated note 3)
	\$	\$	\$	\$
Cash flows from				
Operating activities				
Net income (loss) for the period	4,044	(1,202)	6,573	3,343
Adjustments for				
Stock-based compensation (note 12)	1,037	849	1,820	1,724
Depreciation and amortization (note 13)	12,871	12,726	27,378	24,372
Amortization of deferred financing costs (note 14)	896	735	1,861	1,618
Unrealized gains in fair value of derivative financial instruments (note 19)	(5,172)	-	(6,222)	-
Net loss on disposal of discontinued operations	2,877	-	2,877	-
Loss (gain) on sale of assets	-	(588)	119	(398)
Future income taxes	331	(4,000)	(51)	(3,939)
Cash flows from operations	16,884	8,520	34,355	26,720
Change in non-cash working capital items (note 17)	(2,182)	(1,894)	(14,957)	(8,392)
	14,702	6,626	19,398	18,328
Financing activities				
Increase (decrease) in bank loans and overdrafts	(2,742)	(551)	(1,894)	383
Increase in long-term debt	-	10,569	396	10,395
Repayment of long-term debt	(53,533)	(14,429)	(58,308)	(27,690)
Issuance of Class "A" shares, net of shares and special warrants issue expenses	130	229	130	304
	(56,145)	(4,182)	(59,676)	(16,608)
Investing activities				
Additions to property, plant and equipment	(5,275)	(5,884)	(9,717)	(11,863)
Proceeds from disposal of property, plant and equipment	159	404	227	430
Business divestiture	43,296	-	43,296	-
Decreased in deferred charges	-	328	-	328
	38,180	(5,152)	33,806	(11,105)
Foreign currency translation on cash	(3,635)	626	(4,176)	885
Net decrease in cash during the period	(6,898)	(2,082)	(10,648)	(8,500)
Cash – Beginning of period	21,440	27,422	25,190	33,840
Cash – End of period	14,542	25,340	14,542	25,340

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, which assume the realization of assets and settlement of liabilities in the normal course of operations. 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, 2009. 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 valuation of goodwill and service contracts and client relationships, realization of income tax assets, future cash flows of long-term debt and financial liabilities, certain accrued liabilities, self-insurance provision and residual value of property, plant and equipment. Actual results could differ materially 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 non-cash insurance reserve to cover the estimated retained liability. The non-cash insurance reserve 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 determines it is probable the receivable will not be recovered.

Inventories

Inventories are valued at the lower of cost and net realizable 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 depreciation. Depreciation 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 and aircraft rotables	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

Assets under capital lease obligations

Leases that transfer substantially all of the benefits and risks of ownership of the assets to the Corporation are accounted for as capital lease obligations. An asset is recorded together with the related capital lease obligation. Assets under capital lease obligations are amortized over their estimated useful lives at the same rate as other similar assets.

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 the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is not amortized. On an annual basis, a goodwill impairment test is performed on January 31. This test is carried out more frequently if events or changes in circumstances indicate that goodwill might be impaired. A "step I" goodwill impairment test determines whether the fair value of a reporting unit exceeds the net carrying amount of that reporting unit as of the assessment date in order to assess if goodwill should be impaired. If the fair value is greater than the net carrying amount, no impairment is necessary. In the event that the net carrying amount exceeds the fair value, a "Step II" goodwill impairment test must be performed in order to determine the amount of the impairment charge. Fair value of goodwill is estimated in the same way as goodwill is determined at the date of acquisition in a business combination. To accomplish the Step II test, the fair value of the reporting unit's goodwill must be estimated and compared to its carrying value. The excess of the carrying value over the fair value is recorded as an impairment charge in the period (note 7). This methodology contains

Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

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

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 flows could result in an impairment of goodwill.

Goodwill is assigned as of the date of the business combination to reporting units that are expected to benefit from business combinations.

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 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 terms 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 flows related to the interest rate risk on a portion of its long-term debt. The Corporation formally documents all relationships between the swap agreement and long-term debt and its risk management objective and strategy for using this hedge. The Corporation does not use derivative financial instruments for speculation purposes. Changes in the fair value of these derivatives are recognized in the statement of comprehensive loss, except for any ineffective portion, which is recognized immediately in income. The changes in fair value recognized in other comprehensive loss are reclassified in the consolidated statement of income (loss) under unrealized losses in fair value of derivative financial instruments in the periods during which the cash flows related to the hedge item affect losses.

When the derivative financial instruments no longer qualifies as an effective hedge for accounting purposes, or when the hedging instruments is sold or terminated prior to maturity, if applicable, hedge accounting is discontinued prospectively. Accumulated other comprehensive loss related to a cash flow hedging relationship that ceases to be effective is reclassified in the consolidated statement of loss in the periods during which the cash flows related to the hedged item affect losses. Furthermore, if the hedged item is sold or terminated prior to maturity, hedge accounting is discontinued, and the related accumulated other comprehensive loss is then immediately reclassified in the consolidated statement of income (loss).

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 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.

Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

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

Financial instruments

Financial assets held for trading, 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 is classified as financial assets held for trading and is measured at fair value. Gains and losses related to periodical revaluation are recorded in net income.
- Accounts receivable and long-term receivables 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 overdrafts, accounts payable and accrued liabilities and long-term debt are classified as other liabilities and are initially measured at fair value and subsequently recorded at amortized cost using the effective interest rate method.

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.

Change in accounting policy in 2010

Goodwill and intangible assets

In February 2008, the CICA published Section 3064, "Goodwill and Intangible Assets" which replaces section 3062. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangibles assets. It also clarifies the application of the concept of matching costs with revenue so as to eliminate the current practice of recognizing assets items that do not meet the definition of an asset and the recognition criteria for an asset. The requirements will be effective for financial statements relating to fiscal years beginning on or after October 1, 2008 with restatement of prior periods.

Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

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

The impacts of the adoption of these standards have been included in note 3.

Impact of accounting pronouncements not yet implemented

a) Business combinations

In January 2009, the CICA issued Handbook Section 1582, "Business Combinations", which replaces Section 1581 of the same name. The Section establishes standards for accounting for a business combination and provides the Canadian equivalent to International Financial Reporting Standard 3 (Revised), "Business Combinations". This Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted.

b) Consolidated financial statements

In January 2009 the CICA issued Handbook Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests", which together replace Section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IAS 27 (Revised), "Consolidated and Separate Financial Statements". These changes are effective for interim and annual financial statements beginning on January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year.

The Corporation is evaluating the impact of the adoption of these new accounting standards on its consolidated financial statements.

c) International financial reporting standards

In February 2008, the Canadian Accounting Standards Board (CASB) confirmed that Canadian publicly listed companies will be required to use International Financial Reporting Standards (IFRS) in the preparation of financial statements for fiscal years beginning on or after January 1, 2011. In the Corporation's case, the use of IFRS will be required for the interim and annual financial statements dated after February 1, 2011, although this transition date will require the restatement of comparative figures reported for the year ending January 31, 2011. Management has established an IFRS implementation team to develop and IFRS changeover plan. This process is presently in the diagnostic stage, which includes a review of the differences between current Canadian GAAP (as applied by the Corporation) and IFRS, and the analysis of possible options regarding adoption. In fiscal year 2009, a preliminary diagnostic analysis was prepared by external consultants. Management will review the preliminary diagnostic and will determine the exact consequences in the change. A comprehensive assessment will then be done to precisely establish the changes to be made to accounting principles and computer systems, training requirements, internal control mechanisms for financial reporting and the repercussions on the Corporation's business activities. The financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

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

d) Accounting changes

In June 2009, the CICA amended Section 1506, "Accounting Changes", to exclude from the scope of this Section changes in accounting policies upon the complete replacement of an entity's primary basis of accounting. This amendment is effective for years beginning after July 1, 2009.

e) Financial instruments – Recognition and measurement

In June 2009, the CICA amended Section 3855, "Financial Instruments – Recognition and Measurement", to clarify the application of the effective interest rate method after a debt instrument has been impaired. The amendment also clarifies when an embedded prepayment option is separated from its host debt instrument for accounting purposes. This amendment is effective January 1, 2011, at which time Canadian public companies will have adopted International Financial Reporting Standards ("IFRS"). At this point, the Corporation does not intend to early adopt this amendment. The Corporation is evaluating the impact of the adoption of this amendment.

f) Financial instruments – Disclosures

In June 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures", to enhance disclosure requirements about the liquidity risk of financial instruments. The amendment also includes new disclosure requirements about the fair value measurement of financial instruments. This amendment is effective for annual financial statements relating to fiscal years ending after September 30, 2009. At this point, the Corporation does not intend to early adopt this amendment. The Corporation is evaluating the impact of the adoption of this amendment.

3 Change in accounting policy – Goodwill and intangible assets

On February 1, 2009, the Corporation adopted this new standard with retrospective application. Accordingly, start-up costs incurred after obtaining certain contracts and advertising costs that were previously capitalized have been expensed as incurred. This change in accounting policy has been applied retroactively, and the consolidated statements of income, retained earnings (deficit) comprehensive income and cash flow for the period ended July 31, 2008 as well as the consolidated balance sheet as at January 31, 2009 have been restated. The effect of this change decreases the retained earnings at the beginning of the year ended January 31, 2009 by \$2,927 and decreased the net income for the quarter ended July 31, 2008 by \$194.

Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

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

The impact of these changes on the previously reported January 31, 2009 consolidated balance sheet is as follows:

	As at January 31, 2009		
	As previously reported \$	Restatement \$	As restated \$
Assets			
Other assets	15,725	(2,927)	12,798
Shareholders' Equity			
Retained earnings	(40,724)	(2,927)	(43,651)

The impact on the consolidated statements of income and comprehensive income is as follows:

	For the three months ended July 31, 2008		
	As previously reported \$	Restatement \$	As restated \$
Capitalized deferred charges	-	368	368
Amortization of deferred charges	174	(174)	-
Net income from continuing operations	251	(194)	57
Net income for the period	(1,008)	(194)	(1,202)
Basic and diluted income per share	(0.03)	(0.01)	(0.04)

	For the six months ended July 31, 2008		
	As previously reported \$	Restatement \$	As restated \$
Capitalized deferred charges	-	368	368
Amortization of deferred charges	349	(349)	-
Net income from continuing operations	5,297	(19)	5,278
Net income for the period	3,362	(19)	3,343
Basic and diluted income per share	0.11	0.00	0.11

Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

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

The impact on the consolidated statements of cash flows is as follows:

	For the three months ended July 31, 2008		
	As previously reported	Restatement	As restated
	\$	\$	\$
Net income for the period	(1,008)	(194)	(1,202)
Depreciation and amortization	12,900	(174)	12,726
(Increase)/decreased in deferred charges	(40)	368	328

	For the six months ended July 31, 2008		
	As previously reported	Restatement	As restated
	\$	\$	\$
Net income for the period	3,362	(19)	3,343
Depreciation and amortization	24,721	(349)	24,372
(Increase)/decreased in deferred charges	(40)	368	328

4 Operations presented as held for sale and discontinued operations

- a) The US cash logistics business is involved in the manufacturing of smart-safe units, the development and upgrading of the technology used in the product, as well as the installation and servicing of units deployed at its customer locations throughout the United States (the "CashLINK" products and services). On April 20, 2009, the Corporation sold all the assets related to the CashLINK products and services for a cash consideration based on the futures sales of the products and services made by the buyer in conjunction with the cash logistics services during the next five (5) years.
- b) With the January 2006 acquisition of Vance International, the Corporation entered the US market for physical security services, which includes guarding and global risk consulting services. It also acquired a platform to offer high-threat protection services internationally. Subsequently, the Corporation acquired certain assets of Kroll in December 2006 and GSS Global in February 2007 in order to complement and enhance its high-threat protection services. During the fourth quarter of 2009, it was decided to divest the US and Mexican Guarding operations. On June 2, 2009, the Corporation concluded the sale of its US and Mexican Guarding operations for a total cash consideration of US \$44.25 million. The Corporation incurred a loss of \$2,877 taking into account an amount of US \$3,736 in transaction costs.

Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

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

Revenues and expenses of CashLINK products and services and of the US and Mexican Guarding operations for the quarters ended July 31, 2009 and 2008 have been reclassified from continuing operations to discontinued operations.

Summary of discontinued operations

	Three months ended July 31, 2009	Three months ended July 31, 2008	Six months ended July 31, 2009	Six months ended July 31, 2008
	\$	\$	\$	\$
Revenues	12,652	35,158	51,373	71,130
Gross profit	1,222	4,916	7,333	10,729
Selling and administrative expenses	1,993	5,441	7,732	10,922
Depreciation and amortization	123	518	663	999
Financing expenses	294	780	1,501	1,647
Recovery of income taxes	(303)	(564)	(529)	(904)
Net loss from discontinued operations	(885)	(1,259)	(2,034)	(1,935)
Net loss per share from discontinued operations				
Basic	(0.03)	(0.04)	(0.07)	(0.06)
Diluted	(0.03)	(0.04)	(0.07)	(0.06)

Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

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

Subsequent to the sale of CashLINK and US and Mexican Guarding operations, there are no assets held for sale and liabilities related to assets held for sale as at July 31, 2009:

	As at July 31, 2009 (unaudited) \$	As at January 31, 2009 (audited) \$
Assets		
Current assets		
Cash	-	1,197
Accounts receivable and other current assets	-	26,749
Current assets held for sale	-	27,946
Property, plant and equipment	-	2,437
Goodwill	-	37,053
Other assets	-	2,344
Long-term assets held for sale	-	41,834
	-	69,780
Liabilities		
Current liabilities		
Accounts payable and other current liabilities	-	14,122
Current liabilities related to assets held for sale	-	14,122
Long term debt	-	12
Other liabilities	-	273
Long-term liabilities related to assets held for sale	-	285
	-	14,407

Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

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

5 Accounts receivable

	As at July 31, 2009 (unaudited) \$	As at January 31, 2009 (audited) \$
Trade	98,686	117,415
Other	15,727	8,856
	114,413	126,271

6 Property, plant and equipment

	As at July 31, 2009 (unaudited)		
	Cost \$	Accumulated amortization \$	Net \$
Land	249	-	249
Buildings	3,961	403	3,558
Office furniture	3,162	2,030	1,132
Computer equipment	15,519	10,867	4,652
Equipment	29,557	16,003	13,554
Vehicles	10,908	6,511	4,397
Aircraft and aircraft rotables ⁽¹⁾	130,533	21,497	109,036
Armored vehicles	102,481	38,225	64,256
Uniforms	7,145	4,746	2,399
Leasehold improvements	44,629	17,137	27,492
	348,144	117,419	230,725
	As at January 31, 2009 (audited)		
	Cost \$	Accumulated amortization \$	Net \$
Land	283	-	283
Buildings	3,594	388	3,206
Office furniture	3,174	1,887	1,287
Computer equipment	16,142	9,919	6,223
Equipment	32,325	14,783	17,542
Vehicles	10,167	5,449	4,718
Aircraft and aircraft rotables ⁽¹⁾	145,534	19,309	126,225
Armored vehicles	111,175	35,190	75,985
Uniforms	8,933	5,765	3,168
Leasehold improvements	48,548	14,866	33,682
	379,875	107,556	272,319

(1) All the aircraft are leased to a third party. Rental revenues totalled \$5,088 for the three months period ended July 31, 2009 (\$4,290 for the corresponding period last year) and totalled \$10,781 for the six months period ended July 31, 2009 (\$9,270 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)

As at July 31, 2009, the cost and accumulated amortization for computer equipment, vehicles, armored vehicles and aircraft held under capital leases amounted to \$85,825 and \$22,950 respectively (January 31, 2009 – \$98,616 and \$21,335).

7 Goodwill and service contracts and client relationships

The changes in the carrying value of goodwill and service contracts and client relationships comprise the following:

	Six months ended July 31, 2009		Six months ended July 31, 2008	
	Service contracts and client relationships \$	Goodwill \$	Service contracts and client relationships \$	Goodwill \$
Balance – beginning of the period	56,502	335,205	51,998	379,745
Amortization	(1,820)	-	(1,666)	-
Effect in exchange rates during the period	(5,900)	(28,668)	452	7,590
Balance end of the period	48,782	306,537	50,784	387,335

a) Goodwill

The Corporation performs the required annual impairment test as of January 31 of each year.

Testing for impairment is accomplished by determining whether the fair value of a reporting unit exceeds the book value of the net assets of that reporting unit as at the assessment date. The Corporation tests its goodwill for impairment using a two-step methodology. This methodology contains estimates and judgments that are subjective and uncertain, and thus may change over time.

The Corporation conducts the initial step of the goodwill impairment test, consisting of the determination of fair value, by relying on the discounted cash flow method. Key assumptions include estimated useful life of the long-lived assets, projections of trend price, foreign exchange rates, market supply and demand and weighted average cost of capital. The assumptions used in the calculation models are interrelated. The second step is performed only when the book value exceeds the fair value.

When the Corporation initiated its step-one analysis as at January 31, 2009, it was determined that a comprehensive step-two analysis of goodwill for both the physical security and the cash logistics segments would be required.

With the assistance of an independent valuator, the Corporation is in the process of completing this comprehensive assessment including a detailed calculation of the estimated fair values of recorded and unrecorded intangible assets. Based on a preliminary assessment of the estimated fair value of the net assets of the operations under review, management believes that as at January 31, 2009 the fair value of goodwill in the physical security segment may range from \$90.0 million to \$98.6 million and that the fair value of goodwill in the cash logistics segment may range from \$190.0 million to \$237.0 million.

Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

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

Accordingly, as required by CICA Handbook Section 3062, in anticipation of completing the comprehensive step-two analysis of goodwill, the Corporation has recorded as at January 31, 2009 a goodwill impairment charge of \$26.5 million and \$47.6 million for the physical security and cash logistics segments respectively.

The final impairment requirement calculation is expected to be completed in fiscal 2010 and the resulting final adjustments, if any, would result in a non-cash adjustment to the consolidated statement of income (loss).

b) Service contracts and client relationships

As at January 31, 2009, the Corporation performed impairment tests of its significant amortizable intangible assets consisting of service contracts and client relationships and no impairment loss was required.

8 Other assets

	As at July 31, 2009 (unaudited)	As at January 31, 2009 (audited) (restated note 3)
	\$	\$
Notes receivable	7,416	8,807
Other	5,660	3,991
	13,076	12,798

9 Long-term debt and financial covenant risk

a) Financial covenant risk

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 compliance with the covenants on a monthly basis and the Corporation's Board of Directors reviews compliance with the covenants on a quarterly basis.

In anticipation of potentially not meeting certain quarterly financial ratios for fiscal 2009 and into the current year ending January 31, 2010, the Corporation executed on September 15, 2008 an amending agreement to its Credit Facilities. The amending agreement replaces the existing financial covenants effective July 31, 2008 with a minimum adjusted EBITDA requirement to be satisfied at the end of each quarter up to and including October 31, 2009 as follows:

- For the quarter ended July 31, 2008 - \$22.0 million
- For the quarter ended October 31, 2008 - \$27.0 million
- For the quarter ended January 31, 2009 - \$30.5 million
- For the quarter ended April 30, 2009 - \$25.0 million
- For the quarter ended July 31, 2009 - \$25.0 million
- For the quarter ending October 31, 2009 - \$30.0 million

Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

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

The Corporation has met all its covenants up to July 31, 2009 and expects to meet the above-mentioned adjusted EBITDA covenant for the quarter ending October 31, 2009.

A minimum month-end working capital requirement has also been introduced, effective October 31, 2008. The amendments also incorporated an increase of 1.5% on the annual interest rate margins on the revolving facilities and senior term loans and an increase of 2.25% plus a capitalized payment-in-kind (PIK) rate of 1% per annum on the subordinated term loan (note 9(b) and (d)). In addition, effective October 31, 2009, the financial covenants revert back to the covenants previously in place under the credit facilities.

In addition, the Corporation has committed that any proceeds or consideration received from divestitures, monetization of certain of its assets and other sources of financing would be applied against the credit facilities.

In order to comply with these covenants, the Corporation will need to execute its plan and realize budgeted EBITDA and cash flow estimates for the next 12 months. In anticipation of reverting back after October 31, 2009 to the more restrictive covenants of the Credit Facilities Agreement dated April 9, 2007, the Corporation is also pursuing other scenarios for the monetization of certain of its assets and exploring other sources of financing.

The forecast for the next 12 months is based on the assumptions that the Corporation will improve actual sales level, will finalize divestiture of certain assets, and will continue to benefit from synergies and cost reductions resulting from its September 2008 restructuring plan that have resulted in higher operating margins since the later months of fiscal 2009. The Corporation has forecasted currency exchange rates to remain consistent with such as at July 31, 2009.

Management believes it has developed planned courses of actions and identified opportunities to mitigate operating and liquidity risks to meet its financial covenants for the next 12 months.

Given the current economic situation there is no assurance that management will be able to achieve any or all of the opportunities it has identified, including if events or conditions develop that are not consistent with management's expectations, key budget assumptions and planned courses of actions, and therefore that financial covenants will be met.

In the event that covenants would be breached in the next 12 months and that no further amendments would be negotiated with lenders, the Corporation would then be in default of its credit facilities which could become payable on demand and would then need to be classified as short-term liabilities. Such a default would also trigger an increase of 2% on the annual interest rate.

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

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) Long-term debt comprises the following:

	As at July 31, 2009 (unaudited) \$	As at January 31, 2009 (audited) \$
Authorized revolving facilities of CA\$45,000 (US equivalent) and CA\$30,000 (including letters of credit), bearing interest either at the US or Canadian prime rate plus 3.50%, or at LIBOR or bankers' acceptance rate plus 4.75%, depending on the loan instrument used and the leverage ratio, repayable in full at maturity in April 2012 (note 9(c))	29,902	27,133
Senior term loan of CA\$200,000, bearing interest either at the US or Canadian prime rate plus 3.50%, or at LIBOR or 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 9(c))	149,847	178,750
Senior term loan of US\$190,000, bearing interest at the US 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 9(c))	182,498	233,035
Subordinated term loan of US\$130,000, bearing interest at the US 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	141,522	160,061
Capital lease obligations and loans, secured by property, plant and equipment, bearing interest at rates ranging from 0.1% to 9.4%, repayable in monthly instalments of a maximum of \$1,719, including principal and interest, maturing at different dates until January 2015	58,815	73,193
Balances of purchase prices payable, bearing interest at a rate of 5%, payable in annual and quarterly instalments until October 2010	1,250	2,050
Deferred financing costs, net of accumulated amortization of \$9,136 (January 31, 2009 - \$7,275) (note 14)	(10,235)	(13,220)
	553,599	661,002
Less: Current portion	40,445	38,108
	513,154	622,894

c) 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 term loans. The Corporation must satisfy certain restrictive covenants.

d) Under the amendment to the credit facilities signed on September 15, 2008, the Corporation must also satisfy certain restrictive covenants to prevent additional margin increases of 1.5% on the revolving facilities and senior term loans, and an additional increase of 5% of the capitalized PIK rate on the subordinated term loan.

These elements have been considered in the estimation of the future cash flows required to service the credit facilities in management's assessment of the carrying value of long-term debt as at July 31, 2009 (note 9 b)).

Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

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

- e) As at July 31, 2009, letters of credit amounting to \$33,250 (\$32,658 as at January 31, 2009) reduced the committed revolving facilities.

10 Other liabilities

	As at July 31, 2009 (unaudited) \$	As at January 31, 2009 (audited) \$
Self-insurance provision	21,467	18,203
Fair value of swap on long-term debt to convert from a variable to a fixed average rate of 5.62%, covering 92% of the senior and subordinated term loans	48,915	64,224
Deferred rent for tenant's improvements	8,241	9,787
Other	1,267	1,451
	79,890	93,665

11 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 overdrafts.

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

	As at July 31, 2009 (unaudited) \$	As at January 31, 2009 (restated note 3) (audited) \$
Cash, net of bank overdrafts	(10,932)	(23,117)
Long-term debt (net of deferred financing costs)	553,599	661,002
	542,667	637,885
Shareholders' equity excluding accumulated other comprehensive loss	89,569	81,046
	632,236	718,931

The Corporation's objectives when managing capital are to:

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

The Corporation normally finances fixed asset acquisitions through capital leases.

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.

Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

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

The Corporation expects to meet all the covenants under the credit facilities for the next 12 months.

Other than the covenants required by its credit facilities (note 9(a)), 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

c) Issued and fully paid

Capital stock issued is summarized as follows:

	Number of Class "A" shares	\$
Balance beginning of period	31,477,882	115,285
Issued following exercise of options	43,334	248
Balance end of the period	<u>31,521,216</u>	<u>115,533</u>

d) 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 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.

During the three (3) month period ended July 31, 2009 the Corporation granted 1,030,000 Class "A" share stock options at an exercise price between \$4.00 and \$5.00 (400,000 for the corresponding period last year at an exercise price of \$16.98), for the same period 400,000 options has been cancelled at exercise price between \$4.00 and \$23.40 (nil for the corresponding period last year). As at July 31, 2009 3,083,019 stock options were issued and outstanding (2,777,355 as at July 31, 2008).

Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

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

12 Contributed surplus

	Six months ended July 31, 2009	Six months ended July 31, 2008
	\$	\$
Balance – Beginning of period	9,412	5,837
Stock-based compensation	1,820	1,724
Options exercised	(118)	(183)
	<hr/>	<hr/>
Balance – End of period	11,114	7,378

13 Depreciation and amortization

	Three months ended July 31, 2009	Three months ended July 31, 2008 (restated note 3)	Six months ended July 31, 2009	Six months ended July 31, 2008 (restated note 3)
	\$	\$	\$	\$
Depreciation of property, plant and equipment	12,023	11,619	25,558	22,706
Amortization of service contracts and client relationships	848	1,107	1,820	1,666
	<hr/>	<hr/>	<hr/>	<hr/>
	12,871	12,726	27,378	24,372
Depreciation and amortization related to discontinued operations (note 4)	(123)	(518)	(663)	(999)
	<hr/>	<hr/>	<hr/>	<hr/>
	12,748	12,208	26,715	23,373

Service contracts and client relationships are shown in the balance sheet net of accumulated amortization of \$10,007 (As at January 31, 2009 - \$8,187).

14 Financing expenses

	Three months ended July 31, 2009	Three months ended July 31, 2008	Six months ended July 31, 2009	Six months ended July 31, 2008
	\$	\$	\$	\$
Interest on long-term debt	16,845	12,707	32,584	25,652
Interest on capital lease obligation	814	1,035	1,893	1,795
Other interest	1,509	1,065	2,465	2,099
Amortization of deferred financing costs	896	735	1,861	1,618
Capitalized interest on long-term debt	470	-	873	-
	<hr/>	<hr/>	<hr/>	<hr/>
	20,534	15,542	39,676	31,164
Financing expenses related to discontinued operations (note 4)	(294)	(780)	(1,501)	(1,648)
	<hr/>	<hr/>	<hr/>	<hr/>
	20,240	14,762	38,175	29,516

Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

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

15 Accumulated other comprehensive loss

	As at July 31, 2009 (unaudited) \$	As at January 31, 2009 (audited) \$
Unrealized gains (losses) on translation of financial statements of self-sustaining foreign operations	(10,342)	8,174
Unrealized losses on fair value of financial instrument, net of taxes	(24,597)	(28,322)
Balance – End of period	(34,939)	(20,148)

16 Income per share

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

	Three months ended July 31, 2009 \$	Three months ended July 31, 2008 (restated note 3) \$	Six months ended July 31, 2009 \$	Six months ended July 31, 2008 (restated note 3) \$
Net income (loss) for the period	4,044	(1,202)	6,573	3,343
Weighted average number of shares outstanding for use in computation of basic income per share	31,500,056	31,465,156	31,655,430	31,434,097
Effect of potentially dilutive securities Stock options	-	396,862	-	385,855
Weighted average number of shares outstanding for use in computation of diluted income per share	31,500,056	31,862,018	31,655,430	31,819,952
Basic net income (loss) per share	0.13	(0.04)	0.21	0.11
Diluted net income (loss) per share	0.13	(0.04)	0.21	0.11

During the quarter ended July 31, 2009, 3,083,019 (2008 – 2,130,000) Class “A” share stock options with an exercise price varying from \$4.00 to \$23.40 per share (\$14.00 to \$23.40 for the corresponding period last year) were excluded in computing the diluted income per share because the effect was anti-dilutive.

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 Consolidated statements of cash flows

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

	Three months ended July 31, 2009	Three months ended July 31, 2008	Six months ended July 31, 2009	Six months ended July 31, 2008
	\$	\$	\$	\$
Decrease (increase) in				
Accounts receivable	7,615	11,128	9,465	18,621
Revenue to be billed	934	5,065	2,246	757
Inventories	(576)	450	(167)	(1,536)
Prepaid expenses	(1,597)	(119)	(1,030)	276
Income taxes refundable	(7,964)	(683)	(11,415)	(3,947)
Increase (decrease) in				
Accounts payable and accrued liabilities	(3,908)	(17,436)	(18,976)	(22,065)
Income taxes payable	3,314	(299)	4,920	(498)
	(2,182)	(1,894)	(14,957)	(8,392)

b) Cash is detailed as follows:

Cash on hand	9,521	17,495	9,521	17,495
Deposits from customers	4,931	7,845	4,931	7,845
	14,542	25,340	14,542	25,340

18 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 favorable or unfavorable effect on its financial position and income statement.

One of the divisions of the Corporation is the subject of legal action from a former employee in the amount of US\$3,500 for alleged wrongful termination. Management believes that the Corporation will not incur any significant loss resulting from these proceedings.

Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

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

19 Financial instruments

Fair value

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 is held with or issued by high credit quality financial institutions. Therefore, the Corporation considers the risk of non-performance on this instrument 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 the account has significantly diminished. The Corporation believes that the credit risk of accounts receivable is limited.

The distribution 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, 2009, the Corporation's interest rate risk is summarized as follows:

Cash	Variable rate
Accounts receivable	Non-interest bearing
Bank overdrafts	Variable rate
Accounts payable and accrued liabilities	Non-interest bearing
Long-term debt	See note 9

In June 2007, the Corporation entered into interest rate swaps that will mature on the same basis as the senior and subordinated term loans. Accordingly, the interest rate is fixed at an average rate of 5.62% for a notional amount of \$515,280. As at July 31, 2009, the fair value of these instruments represented an unrealized loss of \$48,915. As at July 31, 2009, 92% of the Corporation's senior and subordinated term loans were at fixed rates.

In October 2008, the Corporation introduced a monthly LIBOR rate on the variable interest rate paid to the lenders. This change resulted in an ineffectiveness of the hedge relationship for its interest rate swap (derivative financial instrument). As such, the variation in the fair value of the interest rate swap is recognized in the net results since this change occurred. The Corporation will amortize over the remaining period of the long-term debt the derivative loss net of taxes of \$28,226 recognized in the accumulated comprehensive loss as of October 31, 2008.

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, 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 period ended July 31, 2009, if the US dollar had 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 year would have been marginal and the impact on the comprehensive income would have been an increase of \$4,053.

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 cash flow 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 become due or can only do so at excessive cost. The Corporation manages this risk by maintaining detailed cash flows and long-term operating and strategic plans. The following are the contractual maturities of financial liabilities as at July 31, 2009.

	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	113,428	113,428	113,428	-	-
Long-term debt and interests, excluding deferred financing costs	563,834	778,413	101,357	102,034	575,022
Bank overdrafts	3,610	3,610	3,610	-	-
	<u>680,872</u>	<u>895,451</u>	<u>218,395</u>	<u>102,034</u>	<u>575,022</u>

Cash flows from operations are the principal source of funding for the Corporation.

The adequacy of liquidity is assessed in view of operational needs, maturity profile of indebtedness and interest payable (note 9). 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 sources of funding other than cash flows from operations, be applied against the credit facilities.

Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

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

For the upcoming quarters, the Corporation's Credit Agreement imposes borrowing restrictions with regard to its revolving credit facility. 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.

20 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, airport pre-board security screening, global risk consulting, pre-employment screening, consulting and investigation and other services.
- ii) cash logistics: armored transportation, 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)

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

a) Business segment

	Three months ended July 31, 2009	Three months ended July 31, 2008 (restated note 3)	Six months ended July 31, 2009	Six months ended July 31, 2008 (restated note 3)
	\$	\$	\$	\$
Revenues				
Physical security and other	121,715	119,970	242,767	238,798
Cash logistics	151,305	148,943	309,484	293,732
	273,020	268,913	552,251	532,530
Depreciation of property, plant and equipment⁽¹⁾				
Physical security and other	1,647	1,921	3,454	3,612
Cash logistics	10,376	9,698	22,104	19,094
	12,023	11,619	25,558	22,706
Amortization of service contracts and client relationships⁽¹⁾				
Physical security and other	112	150	287	299
Cash logistics	736	957	1,533	1,367
	848	1,107	1,820	1,666
Income before financing expenses, income taxes and discontinued operations				
Physical security and other	5,089	3,152	9,420	8,118
Cash logistics	11,438	7,480	24,829	21,048
	16,527	10,632	34,249	29,166
			As at July 31, 2009 (unaudited)	As at January 31, 2009 (audited) (restated note 3)
			\$	\$
Property, plant and equipment				
Physical security and other			11,373	12,440
Cash logistics			219,352	259,879
			230,725	272,319
Goodwill				
Physical security and other			97,925	103,563
Cash logistics			208,612	231,642
			306,537	335,205
Service contracts and client relationships				
Physical security and other			4,818	5,331
Cash logistics			43,964	51,171
			48,782	56,502
Total assets⁽¹⁾				
Physical security and other			235,209	254,767
Cash logistics			587,646	731,263
			822,855	986,030

⁽¹⁾ Includes amounts relating to assets held for sale

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 July 31, 2009	Three months ended July 31, 2008 (restated note 3)	Six months ended July 31, 2009	Six months ended July 31, 2008 (restated note 3)
	\$	\$	\$	\$
Revenues				
Canada	121,601	120,127	239,807	239,330
United States and other	151,419	148,786	312,444	293,200
	273,020	268,913	552,251	532,530
Amortization of property, plant and equipment⁽¹⁾				
Canada	1,902	1,991	3,659	3,894
United States and other	10,121	9,628	21,899	18,812
	12,023	11,619	25,558	22,706
Amortization of service contracts and client relationships⁽¹⁾				
Canada	148	177	297	300
United States and other	700	930	1,523	1,366
	848	1,107	1,820	1,666
Income before financing expenses, income taxes and discontinued operations				
Canada	7,608	4,379	14,495	10,056
United States and other	8,919	6,253	19,754	19,110
	16,527	10,632	34,249	29,166
			As at July 31, 2009 (unaudited)	As at January 31, 2009 (audited) (restated note 3)
			\$	\$
Property, plant and equipment				
Canada			23,969	24,514
United States and other			206,756	247,805
			230,725	272,319
Goodwill				
Canada			78,877	78,877
United States and other			227,660	256,328
			306,537	335,205
Service contracts and client relationships				
Canada			5,397	5,694
United States and other			43,385	50,808
			48,782	56,502
Total assets⁽¹⁾				
Canada			208,732	158,494
United States and other			614,123	827,536
			822,855	986,030

(1) Includes amounts relating to assets held for sale

Garda World Security Corporation

Notes to Consolidated Financial Statements

(Unaudited)

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

21 Comparative figures

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