

Garda World Security Corporation

Management's discussion and analysis

For the quarter ended April 30, 2010

(All amounts are in thousands of dollars, except per share amounts and unless otherwise indicated)

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of financial position and results of operations ("MD&A") by the management of Garda World Security Corporation (the "Corporation" or "Garda") for the quarter ended April 30, 2010 was prepared as of May 27, 2010. The information contained herein takes into account all important events up to this date. This MD&A should be read in conjunction with the Corporation's unaudited consolidated financial statements and related notes for the quarter ended April 30, 2010 along with the analysis of the financial position and results of operations for the year ended January 31, 2010 as well as the related annual consolidated financial and notes thereto. The Corporation's continuous disclosure materials, including its annual and quarterly MD&A, annual and quarterly financial statements, annual report, annual information form, management proxy circular and the various press releases issued by the Corporation are also available on its website or directly through the SEDAR systems at www.sedar.com.

INTRODUCTION

The purpose of this MD&A is to explain management's point of view on Garda's operating results and financial situation as well as its performance for the quarter ended April 30, 2010. It aims to provide readers with a better understanding of our objectives, future prospects, risk factors and management of our financial resources.

All financial information in this MD&A, including amounts in the financial tables, is expressed in thousands of Canadian dollars, except where otherwise indicated. The financial information included in this MD&A also contains certain measures that are not accepted performance measures as per Canadian GAAP. Specifically, the Corporation uses revenues after deduction of operating costs, fixed costs, general and administrative expenses (Operating profit¹), adjusted net income as well as cash flows from operations to evaluate operational and financial results of each of its business segments.

FORWARD-LOOKING STATEMENTS

With the exception of historical data, certain information and statements in this report that cover expected results of the Corporation should be considered forward-looking. Such forward-looking statements involve risks, uncertainties and other factors, which may cause actual results, performance or achievements of the Corporation to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Some of

¹ While Operating profit (Revenues after deduction of operating costs, fixed costs, general and administrative expenses) and adjusted net income are not a recognized measure under Canadian generally acceptable accounting principles (GAAP), management believes it to be a useful supplemental measure. It is provided to assist in determining the ability of the Corporation to generate cash flow from its operations. Investors should also note that our presentation of operating profit and adjusted net income may not be comparable to similarly titled measures of other companies.

² The constant exchange rate (CER) is also a non - GAAP measure. This measure removes the effects of the currency movements and represents the operational results at original currency. Consequently, the exchange rate impact is not included in these data.

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the factors contributing to those uncertainties are fluctuations in quarterly and annual results and the ability of the Corporation to reduce its debt leverage in the current credit environment. Other contributing factors are fluctuations of interest rate and foreign exchange rate, government regulations, permits and licenses, capacity to manage growth, collective agreements, insurance, contracts not renewed or terminated, demand for the services offered by the Corporation, industry pricing pressure, as well as market forces, economic cycles and the strength of regional economies where the Corporation conducts its business. The foregoing list of important factors is not exhaustive.

HIGHLIGHTS

- Net income at \$6.3 million compared to \$2.5 million last year
- Organic growth of 8.5% in the quarter

The US dollar average exchange rate was 1.03 for the quarter ended April 30, 2010 versus 1.24 last year. This affects most of the elements of the financial statements and more specifically:

- Operating profit decrease of \$4.0 million
- Financing expenses decrease of \$2.5 million
- Depreciation and amortization decrease of \$2.1 million
- Recovery of income taxes increase of \$0.8 million

The decrease of the US dollar has decreased net income versus last year by \$0.2 million, confirming the effectiveness of our natural hedge on foreign currencies.

Because of the significant impact of foreign currencies on our operational measurements we have introduced in selected Q1 financial information the concept of constant exchange rate (CER)¹. This measure removes the effects of the currencies movements and represents the results at original currencies. As an example, the revenues of the US cash logistics segment amounted to \$113,370 at CER during the quarter, an increase of \$1,205 versus last year. In Canadian currency revenues in the US cash logistics segment amounted to \$116,549, a decrease of \$23,059 versus last year.

OVERVIEW

Garda, with headquarters in Montreal, Canada, is one of the largest physical security, cash logistics and global risk consulting companies in the world. The firm's 45,000 dedicated professionals are among the most highly qualified and best-trained in the industry, serving clients in countries throughout North America, Europe, Latin America, North Africa, Asia and the Middle East.

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Our strategy is to build business platforms from which we can achieve leadership positions. On these platforms we focus our business development, operational expertise and dedicated employees to achieve the singular goal to be the best operator in the industry.

Our decentralized management philosophy and structure focuses employees on performance and excellence, with a particular emphasis on client service and operational efficiency. Garda's experts take the time to fully understand their clients' business goals and objectives in order to customize solutions designed to improve their operational performance.

With proven expertise and our commitment to ethical standards, Garda has earned a reputation for integrity, leadership and uncompromising safety standards. Most importantly, Garda is a firm in which businesses, governments and individuals place their trust.

OPERATING SEGMENTS

The Corporation's operating segments are cash logistics and physical security services.

Cash Logistics

With our national coverage in the United States and our leadership position in Eastern Canada, Garda is the second largest cash logistics provider in North America. Our platform is comprised of more than 150 locations, 2,500 vehicles and 173 cargo aircraft serving more than 13,000 customers, none of which represents more than 10% of revenues.

Garda's clientele includes banks and financial institutions, retailers, restaurants and government agencies.

Our commitment is to make it easier for our clients to manage and grow their businesses. Garda uses innovative technology and logistical expertise to securely and efficiently move and manage information, cash and other valuables. Our solutions include a combination of armored transportation services, cargo aircraft, deposit processing, cash vault services, in-store cash control systems and check imaging, as well as ATM services. Our strong expertise helps our clients minimize risks, increase their productivity and add value to their processes and systems.

We differentiate ourselves by offering enhanced technologies, innovative products and quality of service.

Physical Security

Our physical security segment comprises varied security services in Canada and internationally, detailed as follows:

Security Officer Services

Garda is a market leader in the Canadian physical security sector. We offer a wide range of premium services to address our clients' needs including security officers to protect the people and assets of more than 4,500 clients including office buildings, large oil and gas installations, industrial parks and other high-value locations. Our services also include airport pre-board



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security screening in 26 airports across Canada including four of the five largest. Finally, we offer asset protection, security, crisis management and patrol response, as well as other tactical and specialized services. We differentiate ourselves by providing premium services to clients who clearly value the importance of security.

Global Risk Consulting Services

Increasingly organizations are expanding outside their core markets to stimulate growth and revenue. But doing business in high-risk or emerging markets that are prone to violence, corruption or instability requires a comprehensive approach to planning for, managing and responding to risks. Garda World, our global risk consulting group, helps clients mitigate risk by providing insight into local business, geopolitical, economic and cultural conditions and their potential impact on operations. Our highly qualified team contributes to the business continuity and the development of new markets for its clientele at local, national and international levels.

Our services include market entry strategy, project risk assessment, contingency planning, close protection, crisis response and risk analysis services. We differentiate ourselves by providing a low-profile approach, information focus, the use of local strategic partners and talented, high-quality teams, in order to plan and provide a low-profile, low-risk and avoidance-based security service.

Pre-employment Screening Services

Garda's pre-employment screening services assist clients in managing risks, reduce losses and enhance security by providing information necessary for optimal decision making. In addition to pre-employment screening services that include relevant reports on a potential employee's legal, financial and academic background, Garda also offers value-added services to insurance companies and financial institutions. Providing the right information to our clients is an important way we can help them manage their risks.



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SELECTED Q1 FINANCIAL INFORMATION

	Three months ended April 30, 2010 (unaudited)		Three months ended April 30, 2009 (unaudited)	
	\$ CER ⁽²⁾	\$ CAN	\$ CER ⁽²⁾	\$ CAN
Revenues from continuing operations				
Physical security				
Canada	117,319	117,319	99,635	99,635
United States and other	19,350	19,882	17,251	21,417
	136,669	137,201	116,886	121,052
Cash logistics				
Canada	18,520	18,520	18,571	18,571
United States and other	113,370	116,549	112,165	139,608
	131,890	135,069	130,736	158,179
Total				
Canada	135,839	135,839	118,206	118,206
United States and other	132,720	136,431	129,416	161,025
	268,559	272,270	247,622	279,231
Operating profit from continuing operations				
Physical security	8,755	8,755	7,642	8,048
Cash logistics	21,669	22,149	20,453	24,543
	30,424	30,904	28,095	32,591
Gross profit from continuing operations				
Physical security	18,430	18,516	18,608	19,768
Cash logistics	45,077	46,181	45,936	55,519
	63,507	64,697	64,544	75,287
Net income				
		6,345		2,529
Adjusted net income⁽¹⁾				
		6,345		2,910

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Adjusted net income ⁽¹⁾ is reconciled in the financial statements as follow:

	Three months ended April 30, 2010 \$	Three months ended April 30, 2009 \$
Net income as per financial statements	6,345	2,529
Adjustments for specific items:		
Change in fair value of derivative instruments	-	(1,050)
Loss from discontinued operations	-	1,149
Taxes adjustments on specific items	-	282
Adjusted net income ⁽¹⁾	6,345	2,910

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	Three month ended April 30, 2010 (unaudited)		Three month ended April 30, 2009 (unaudited)	
	\$ CER ⁽²⁾	\$ CAN	\$ CER ⁽²⁾	\$ CAN
Other operating data				
Operating profit				
Physical security	6.4%	6.4%	6.5%	6.6%
Cash logistics	16.4%	16.4%	15.6%	15.5%
Consolidated	11.3%	11.4%	11.3%	11.7%
Basic and diluted income per share				
Net income per share from continuing operations		0.20		0.12
Net income per share		0.20		0.08
Adjusted net income per share		0.20		0.09
Balance sheets data				
Total assets		782,970		954,994
Total long-term debt		595,955		646,718
Cash flow from operations		18,694		17,874

APRIL 30, 2010 PERFORMANCE

As stated previously, our strategy is to establish platforms and then continually improve them with a combination of business development, operational excellence and focused entrepreneurial leadership in order to achieve our goal to be the best operator in our industry.

During fiscal 2010 we focused on this strategy. With the difficult US economic environment which affected our banking and retail customers, as well as the general uncertainty having an effect on Canadian businesses and development projects, we focused on making improvements and positioning ourselves to take advantage of the economic recovery.

During the quarter ended April 30, 2010, we took advantage of the many opportunities that were cultivated last year. New contracts started in physical security, enhanced and reinforced security requirements in Canadian airports and the new Foreign Commonwealth Office (FCO) contract announced last year yielded an organic growth of 16.9% in physical security.

The cash logistics segment experienced revenues growth (although minimal) for the first time in the last few quarters. We have seen levels of activities increasing in the US and Canada.

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At the corporate level, during the quarter ended April 30, 2010, we successfully refinanced our bank debt, lowering interest rates and increasing capital availability for the future.

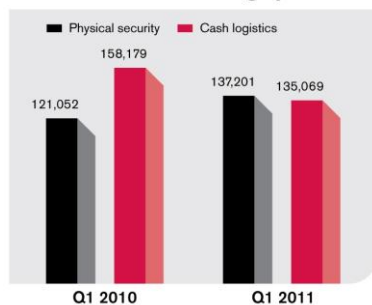
Net income totalled \$6.3 million or \$0.20 per share for the quarter ended April 30, 2010 versus an adjusted net income of \$2.9 million or \$0.09 per share for the corresponding period last year. There were no specific items for the quarter ended April 30, 2010. Specific items for the quarter ended April 30, 2009 represent charges related to the fair value of derivative instruments and discontinued operations.

Revenues

The decrease of \$7.0 million in revenues year-over-year for the quarter ended April 30, 2010 is attributable to the decline of the US dollar. This decline has decreased the revenues by \$27.9 million. The revenues at constant exchange rate or organic growth have increased by 8.5% or \$20.9 million. Organic growth in physical security was 16.9%.

Graphic 1: Revenues

Revenues from continuing operations



Physical security revenues increased by 17.7% in Canada, as a result of new contracts and enhanced security measures at Canadian airports. Revenues have steadily increased throughout the last fiscal year as business development initiatives were intensified. Revenues outside Canada show organic growth of 12.1% at constant exchange rate as we redeployed resources to the new FCO contract in Iraq.

Cash logistics revenues increased by 0.9% at constant exchange rate.

Gross profit

For the quarter ended April 30, 2010 physical security's gross profit amounted to \$18.5 million, a decrease of \$1.3 million year-over-year, of which \$1.1 million is attributable to the decline of the US dollar. Cash logistics' gross profit amounted to \$46.2 million, a decrease of \$9.3 million year-over-year, of which \$8.5 million is attributable to the decline of US dollar.

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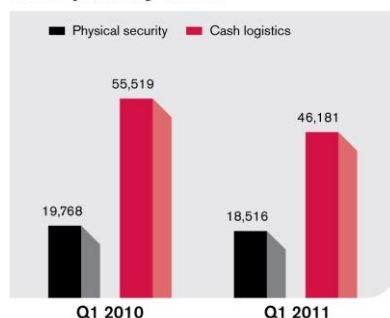
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Graphic 2: Gross profit

Gross profit by sector



Fixed costs, general and administrative expenses

During the quarter ended April 30, 2010, the Corporation continued to apply the same focus as last fiscal year to fixed costs, general and administrative expenses which decreased by 20.9% or \$8.9 million over the corresponding period last year. The decline in the US dollar represents \$5.5 million year-over-year.

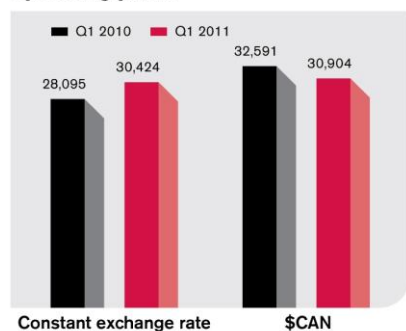
Operating profit

The continuous improvement of all our platforms in terms of efficiencies is a central part of our objective to be the best operator in the industry and the reason why we focus on operating profit as a key measurement of the performance of our platforms.

For the quarter ended April 30, 2010 the operating profit was \$30.9 million, a decrease of 5.2% over the corresponding period last year. At constant exchange rate the operating profit increased from \$28.1 million to \$30.4 million in the quarter, an increase of 8.3%. It demonstrates the benefit of our constant programs improvements.

Graphic 3: Operating profit

Operating profit



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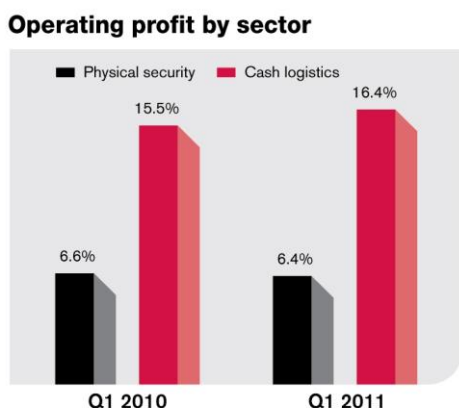
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During the quarter ended April 30, 2010, physical security's operating profit reached 6.4% of revenues, compared to 6.6% for the corresponding period last year, a slight decline explained by the start-up of many new contracts. Operating profit for cash logistics segment continued to improve and reached 16.4% of revenues for the quarter ended April 30, 2010, compared to 15.5% in the corresponding period last year.

Graphic 4: Operating profit by sector



Financing expenses

Financing expenses amounted to \$13,048 for the quarter ended April 30, 2010, a decrease of \$4,887 from the corresponding quarter last year. The decrease related to the decline of the US dollar amounted to \$2,467.

Interest on long-term debt amounted to \$11,112, a decrease of \$4,839 or 30.3% over the corresponding quarter last year, of which \$2,049 is related to the decline of the US dollar and \$1,875 related to the refinancing.

Other interest included mostly bank fees.

Change in fair value of derivative instruments

On March 12, 2010, the Corporation terminated the interest rate swap for an amount of \$47.4 million as part of the refinancing. Therefore there is no change in fair value of derivative instruments in the current quarter.

Recovery of income taxes

Income taxes for the period ended April 30, 2010 amounted to a recovery of \$1,258 compared with a recovery of \$2,841 for the corresponding period last year. The effective income tax rate conforms to the tax policy of the Corporation as well as its many jurisdictions and the effect of its financing structure.

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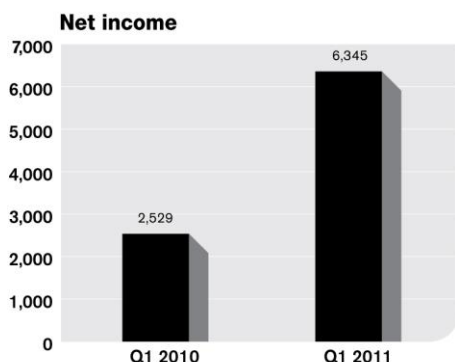
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Net income for the period

Net income for the period was \$6,345 (\$0.20 basic and diluted per share) compared to \$2,529 (\$0.08 basic and diluted per share) for the corresponding period last year.

Graphic 5: Net income



LIQUIDITY

Cash flows

Cash position as at April 30 2010 amounted to \$16,593, an increase of \$4,736 versus January 31, 2010.

Operating activities

Cash flow from operations, which is in direct relation to the operating profit generated by the business segments of the Corporation, amounted to \$18,694 for the quarter ended April 30, 2010, an increase of 4.6% over the cash flow generated by the operations during the corresponding period last year. This increase is mainly attributable to the increase in net income for the period.

For the quarter ended April 30, 2010, net change in non-cash working capital balances items used cash of \$12,714 compared with cash used in the amount of \$12,775 for the corresponding period last year.

Financing activities

Cash generated by financing activities amounted to \$4,076 for the quarter ended April 30, 2010 compared to cash used of \$3,927 for the corresponding period last year. This is mainly attributable to the refinancing of the long term debt and swap termination payments. The Corporation incurred \$19,962 in deferred financing costs related to the refinancing of its debts.

Investing activities

Cash used in investing activities amounted to \$5,055 during the quarter ended April 30, 2010, compared to cash used of \$4,374 for the corresponding period last year. During the quarter ended

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April 30, 2010 additions to property plant and equipment were \$5,503 versus \$4,410 in the corresponding period last year.

Balance sheet analysis

Working Capital

Working capital excluding the current portion of long-term debt amounted to \$61,999 as of April 30, 2010 compared with \$39,570 as of January 31, 2010. This increase is mainly attributable to a reduction in accounts payable and accrued liabilities offset by an increase in accounts receivable.

Property, plant and equipment

Property, plant and equipment amounted to \$206,042 as of April 30, 2010 a decrease of \$12,721 compared to January 31, 2010, mainly due to the depreciation of \$10,884, the impact of the decrease in the foreign exchange rate used in the conversion of the self-sustaining foreign operations of \$9,716 and the addition of \$8,921 (including addition of \$3,418 funded with long-term debt).

Goodwill and Intangible assets

Goodwill amounted to \$292,316 as of April 30, 2010, a reduction of \$11,267 over goodwill as of January 31, 2010 due to the impact of the decrease in the foreign exchange rate used in the conversion of the self sustaining foreign operations.

Intangible assets mainly included service contracts and client relationships which are amortized on a straight-line basis over periods varying between 10 and 20 years. Intangible assets amounted to \$45,059 as of April 30, 2010, a reduction of \$2,678 over intangible assets as of January 31, 2010, mainly due to the amortization of intangible assets of \$1,000 and the impact of the decrease in the foreign exchange rate used in the conversion of self-sustaining foreign operations.

Long-term debt

On March 12, 2010, the Corporation completed the refinancing of the majority of its long-term debt and issued US \$250 million and CA \$75 million aggregate amount of 9.75% senior notes due 2017. The senior notes rank pari-passu and are unsecured.

The revolving facilities and term loan are secured by a general pledge as well as a movable hypothec on the universality of present and future assets of the Corporation. As part of this credit agreement the Corporation is subject to certain financial covenants which include a total leverage ratio, a senior debt leverage ratio and a fixed charges coverage ratio. As at April 30, 2010, the Corporation complies with all those covenants and expects to meet all the covenants under the credit facilities for the next twelve months.

The new facilities were used to repay all of the existing bank debt as at January 31, 2010. Uses of the proceeds from the refinancing were also used to redeem the interest rate swaps covering its senior and term loans for an amount of \$47,441.

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These new facilities provide the Corporation with a more balanced capital structure both in terms of interest rates as well as maturities. Prior to the refinancing, more than 90% of the repaid term debt (excluding revolver) in combination with the interest rate swaps was at fixed rates ranging from 9.97% to 15.21%.

Other long-term liabilities

Other long-term liabilities amounted to \$14,770 as of April 30, 2010 compared to \$64,228 as of January 31 2010, a reduction of \$49,458. This reduction is mainly due to swap termination payments of \$47,441.

Shareholders' equity

Shareholders' equity amounted to \$45,663 as of April 30, 2010 an increase of \$1,289 from the amount as of January 31, 2010. This increase is mainly due to the net income of \$6,345 for the quarter ended April 30, 2010, an increase of \$655 in contributing surplus representing stock based compensation for the three month period of \$690, net of an amount of \$35 related to options exercised and an increase in accumulated other comprehensive loss of \$5,807.

Accumulated other comprehensive loss includes during the period unrealized losses on translation of financial statements of self-sustaining foreign operations.

Capital stock and stock options

As at April 30, 2010, 31,606,798 class "A" shares were issued and outstanding. During the quarter ended April 30, 2010, 9,500 shares were issued following the exercise of options.

As at April 30, 2010, 2,734,167 options to purchase class "A" shares were outstanding at an average exercise price of \$11.20.

As at April 30, 2010, 1,575,904 stock options are exercisable (1,585,404 as at January 31, 2010).

The total number of options that can be issued by the Corporation is limited to a maximum of 10% of the shares issued and outstanding of the Corporation.



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SELECTED QUARTERLY FINANCIAL INFORMATION

The following table contains selected quarterly financial information for the last eight (8) quarters:

(Presented in million)

	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09
Revenues from continuing operations	272.3	267.5	263.4	273.0	279.2	290.7	281.5	268.9
Net income (loss) for the period from continuing operations	6.3	(40.4)	1.4	7.8	3.7	(77.4)	(1.4)	0.1
Basic and diluted net income (loss) from continuing operations per share	0.20	(1.28)	0.05	0.25	0.12	(2.46)	(0.04)	-

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RISKS AND UNCERTAINTIES

The Corporation is subject to various risks and uncertainties as a result of its operations. Risks that could affect the Corporation's profitability are regularly identified, assessed and managed.

Growth management

The significant growth of the Corporation over the past years as our existing platforms were being established has required management to upgrade its operational and administrative structures, as well as its management information systems. In order to ensure that growth is managed effectively, the Corporation's management has implemented the following action plan:

- 1) Assign and hold accountable expert managers to lead each operating and geographical segments;
- 2) Assign experienced management team members to the operations of the US cash logistics segment, its newest platform;
- 3) Recruit experienced outside managers to upgrade administrative structures and management information systems.

Market competition

The Corporation operates in highly competitive sectors. As a market leader, the Corporation intends to concentrate on developing its clientele in more profitable sectors, focusing on clients who want and appreciate the value-added services offered by the Corporation.

Cost of financing

Under our new credit facilities, approximately 41% of our long-term debt is at variable interest rates and as a result is affected by variations in Canadian prime rate, LIBOR or bankers' acceptance rates in the market. The Corporation monitors its interest rates risks on a monthly basis to determine the effect of potential interest rate variations.

Government regulations

The Corporation's operations are subject to various government regulations, at the national, federal, provincial and municipal levels. These regulations affect taxes, labor, workplace safety, the environment and all other aspects that might have an impact on the Corporation's operations and performance. No government regulations have affected the Corporation materially and negatively during the year ending January 31, 2010. Moreover, the Corporation is not aware of any current regulations that could materially impact the fiscal 2011 results.

Collective bargaining

The Corporation's employees are governed by a total of approximately 80 collective bargaining agreements. The Corporation will have to renegotiate some of these agreements in the coming months. However, there is nothing at the present time that indicates that the outcome of the negotiations could significantly impact the financial results of the operating segments affected by the renewal of these collective bargaining agreements.

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Currency fluctuations

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 approximately 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 controlled. The Corporation monitors its exposure to foreign exchange on a quarterly basis.

Credit risk

The Corporation sells the majority of its services in North America and its revenues are generated on a contractual basis and received on a recurring basis from one year to another. Due to the large number of clients the Corporation deals with and their geographic and economic distribution, the credit risk concentration to which the Corporation is exposed remains limited.

Reputational risk

We depend on our reputation for high quality security services to conduct our business successfully. Damage to our reputation caused by widely-publicised security incidents affecting our clients and their installations may affect our reputation. This is why our security management team constantly monitors security risks surrounding our operations and has instituted corporate communications protocols to prevent or reduce negative publicity.

Financial covenant risk

The Corporation is subject to certain covenants on its new credit agreement. The financial covenants contained in the new credit agreement are 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.

SIGNIFICANT ACCOUNTING POLICIES

The Corporation prepares its consolidated financial statements in conformity with Canadian generally accepted accounting principles, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates include the allowance for doubtful accounts receivable, valuation of goodwill, service contracts and client relationships, certain accrued liabilities, insurance provision and residual value of property, plant and equipment. Actual results could differ from these estimates.

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CHANGES IN ACCOUNTING POLICIES

Adopted during the current period:

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.

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.

The adoption of these new standards did not have an impact on the Corporation's consolidated financial statements.

To be adopted in future periods:

Business Combinations

CICA issued HB 1582, Business Combinations, to establish new standards for accounting for business combinations. It is the Canadian equivalent to IFRS 3 (revised), Business Combinations (January 2008). The section is effective for 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. New HB 1582, HB 1601, Consolidated Financial Statements, and HB 1602, Non-Controlling Interests, are to be implemented concurrently.

This new section requires, among others, that most identifiable assets, liabilities, non-controlling interests and goodwill acquired in a business combination be recorded at "full fair value" and acquisition-related costs are recognized as expenses as incurred and that liabilities associated with restructuring or exit activities are recognized only if they meet the definition of a liability as of the acquisition date.

Consolidated Financial Statements

CICA issued HB 1601, Consolidated Financial Statements, which supersedes the like named HB 1600. This Section applies to interim and annual financial statement for fiscal years beginning on or after January 1, 2011. The Section establishes standards for the preparation of consolidated financial statements. HB 1601 carries forward the consolidated guidance previously included in HB 1600.

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Non Controlling Interests

CICA issued HB 1602, Non-Controlling Interests, to provide guidance on accounting for non-controlling interests subsequent to a business combination. The section is to be implemented concurrently with HB 1582, Business Combinations. HB 1602 is effective for fiscal years beginning on or after January 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. HB 1602 is to be applied retrospectively, with certain exceptions.

HB 1602 replicates the provisions of IAS 27, Consolidated and Separate Financial Statements, other than the disclosure requirements. The key features are: non-controlling interests in subsidiaries are presented in the consolidated balance sheet with equity, separate from the parent shareholder's equity. In income statements, non-controlling interest is not deducted in arriving at consolidated net income, but is allocated to the controlling interest and the non-controlling interest according to their percentage ownership.

The Corporation does not expect these three new standards to have a material impact on the Corporation's consolidated financial statements.

International Financial Reporting Standards (IFRS)

In 2005, the Accounting Standards Board of Canada (ASBC) announced that accounting standards in Canada are to converge with International Financial Reporting Standards (IFRS). On February 13, 2008, the ASBC confirmed that publicly accountable enterprises would be required to apply, and report in accordance with IFRS, in full and without modification, effective in fiscal years beginning on or after January 1, 2011 (the "Changeover" date). In the Corporation's reporting in those periods following the Changeover date, the Corporation will be required to present comparative data for equivalent periods in the previous fiscal year, making February 1, 2010 the "Transition" date for the Corporation.

IFRS uses a conceptual framework similar to Canadian generally accepted accounting principles ("Canadian GAAP"), but presents significant differences on certain recognition, measurement and disclosure principles. In the period leading up to the Changeover, the ASBC will continue to issue accounting standards that are better aligned with IFRS, as illustrated by Section 3064, Goodwill and Intangible Assets, thus mitigating the impact of conversion to IFRS. Further, the International Accounting Standards Board (IASB) will also continue to issue new, or amend existing accounting standards during the conversion period, and, as a result, the final impact on the Corporation consolidated financial statements of applying IFRS in full will only be entirely measurable once all applicable IFRS standards at the final Changeover date are known.

The Corporation has developed a plan to convert its consolidated financial statements to IFRS. The Corporation has also set up an IFRS dedicated team. The Corporation is monitoring the impact of the transition on its business practices, systems and internal controls over financial reporting. A detailed analysis of the differences between IFRS and the Corporation's accounting policies, as well as an assessment of the impact of various alternatives are in progress. Changes in accounting policies are likely and may materially impact the Corporation consolidated financial statements.

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The Corporation's transition to full implementation of IFRS consists of four phases:

Phase 1-Preliminary Study

This phase involves performing a high-level assessment to identify areas of accounting differences and their impact that may arise from the transition to IFRS.

Phase 2-Evaluation

During this phase the Corporation prioritizes the areas identified in phase 1 (high, medium or low priority) and performs an evaluation of the key areas that may be impacted by the transition to IFRS. A detailed conversion plan will be then developed. Since changes are expected to IFRS standards during the conversion period and could impact the conversion plan, a monitoring process will be established.

Phase 3-Conversion

In this phase, the Corporation designs and develops solutions to address the differences identified in phase 2. Changes required to the existing accounting policies, information systems, business processes and internal controls over financial reporting will be identified in order to perform conversion to IFRS. Impacts on contractual arrangements are evaluated and reported appropriately; modifications will be made as required. It also involves the development of a communication and training program for the Corporation's finance and other staff, as necessary.

Phase 4-Implementation

The objective of this final phase is to enable continued IFRS reporting and to facilitate knowledge sharing. Changes identified in phase 3 are implemented and tested to ensure that any difference is addressed prior to the changeover date. Implementation also involves further training of staff as revised systems begin to take effect and will continue until completion of the implementation.

The project will culminate in the collection of financial information necessary to compile IFRS-compliant financial statements, embedding IFRS in business processes, eliminating unnecessary data collection processes and submitting IFRS financial statements to the Audit Committee for approval.

Progress reporting to the Audit Committee on the status of the IFRS implementation project has been instituted. The Corporation completed the phase 1 in October 2009 and began the phase 2 in December 2009. The IFRS team will now focus on the detailed conversion plan and, concurrently, will start the phase 3 in Q2 2011.

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POTENTIAL IMPACT OF IMPLEMENTATION ON THE CORPORATION

IFRS 1, First-Time Adoption of International Financial Reporting Standards, provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. The Corporation is analyzing the various accounting policy choices available and will implement those determined to be most appropriate in the circumstances.

Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as of the date of the first comparative balance sheet presented based on standards applicable at that time. Transitional adjustments relating to those standards where comparative figures are not required to be restated will only be made as of the first day of the year of adoption.

The following are selected key areas of accounting differences where changes in accounting policies in conversion to IFRS may impact the Corporation's consolidated financial statements. The list and comments should not be construed as a comprehensive list of changes that will result from transition to IFRS but rather highlights those areas of accounting differences the Corporation currently believes to be most significant. Notwithstanding, analysis of changes is still in progress and certain decisions remain to be made where choices relating to accounting policies are available. The areas of differences highlighted below are based on existing Canadian GAAP and IFRS effective at January 31, 2010. At that stage, the Corporation is not able to reliably quantify the full impact of these and other differences on Corporation's consolidated financial statements.

Business combinations

IFRS 3- Business combinations requirements differ from the actual Canadian GAAP. See the new CICA HB 1582 at the beginning of this section.

Property, plant and equipment

IAS 16-Property, plant and equipment requires a more rigorously and broader separation accounting for asset's components. Other differences between IFRS and Canadian GAAP exist in relation to the guidance when accounting for the replacement of components and the capitalization of administration and services costs is not allowed under IFRS. At the date of Transition, the fair value can be used as deemed cost under IFRS 1.

Impairment of assets

Mainly IAS 36-Impairment of assets. IFRS contains a single comprehensive impairment standard under which assets are tested for impairment either individually or within cash-generating units (CGUs). CGUs will have to be established and are typically identified at a lower level within the



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Corporation than an operating unit under Canadian GAAP. Differences also exist in the measurement methods of impairment charges and rules may more frequently conclude to an impairment charge.

ATTESTATIONS

Internal controls over Financial Reporting ("ICFR")

The CEO and CFO have evaluated whether or not there were any changes to the Corporation's ICFR during the three month period ended April 30, 2010 that have materially affected or are reasonably likely to materially affect its ICFR. No such changes were identified through their evaluation.