

**Company Registration No. 04541965 (England and Wales)**

**Aegis Defence Services Limited**

**Annual report and financial statements  
for the year ended 31 January 2018**

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## **Aegis Defence Services Limited**

### **Company information**

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**Directors**                      The Rt Hon Sir Nicholas Soames MP (Chairman)  
Oliver Westmacott

**Secretary**                      Oliver Westmacott

**Company number**              04541965

**Registered office**              2 London Bridge  
London  
SE1 9RA

**Independent auditors**        Saffery Champness LLP  
71 Queen Victoria Street  
London  
EC4V 4BE

**Bankers**                        Coutts & Co  
440 Strand  
London  
WC2R 0QS

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# **Aegis Defence Services Limited**

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**Strategic report**

**For the year ended 31 January 2018**

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The directors present the strategic report and financial statements for the year ended 31 January 2018.

**Principal activities**

The Company offers various security and risk management services. Our services include static security, consulting, threat monitoring and reporting, crisis response, logistical support, mobile security, close protection, training and risk management.

Our corporate vision is to be the recognised global leader in providing comprehensive security, crisis response and risk management services in high-risk and complex environments delivered at a world-class level by the best quality personnel in the industry.

Our mission is to protect and support our clients, securing their place in a complex world by consistently delivering quality services and value, while growing our business profitably.

**Review of the business**

Revenue fell from £47m from the previous period to £45m. As noted under the Principal Risks and Uncertainties, the Company is exposed to the impact of changes in the Sterling/US Dollar exchange rate. The weakening of the US Dollar resulted in a negative impact on the Company's results. The company has also suffered some erosion to their gross profit margin due to a cross sector trend towards reducing margins, and the subsequent renegotiation of existing contracts at lower rates. Due to close scrutiny of our operational costs we have been able to minimize the result of this trend, whilst maintaining the high quality of service and diligence our clients have grown accustomed to.

Despite these challenges the company has returned improved profits before taxation, which increased to 26% of revenue in the current year from 23% (2017). This was achieved due to the strong performance of the company's investment activities based in the US market and the renegotiation and close control of our administration costs.

As in previous year's our markets reflect the changing needs of our customers and the often rapid developments in operating conditions. Although the political circumstances and the nature of the operational risks facing our customers continues to evolve, the Board believes that our core customers' strategy of outsourcing the management of operational risk in pursuit of their strategic aims, will continue. The Board believes that demand for the Company's services will therefore continue across all the Company's target markets albeit at changing and variable levels of demand and profitability.

The Company continuously monitors operating conditions and revises its operating practices and procedures in the light of developments as they occur. The Company recognises its responsibilities to clients, staff and the communities in which it operates and will not engage in circumstances in which it cannot assure adequate service and protection levels.

The Company continues to invest its operating profits to develop the range and scope of services offered to the market. This revenue investment encompasses overheads and expansion costs as well as start-up costs incurred in commencing operations on new projects in new territories, and the support of these operations whilst they establish themselves.

**Principal risks and uncertainties**

The Board, through delegation to the Oversight Board, has established a risk management framework for ensuring that the major risks facing the Company are identified, evaluated and actively managed and that the Company delivers services to the highest standards of quality and professionalism. Risks are reviewed continuously. It is not possible to mitigate fully all risks to which the Company is exposed but the ability to manage such risks and advise others on similar risks is considered a key strength of the Company.

The Company operates in extremely hostile and complex environments on a worldwide basis. This gives rise to exceptional operating risks and the Company therefore adopts extensive and detailed risk mitigation strategies and tactics that address physical threats to customers and personnel. The Company mitigates commercial risk through entering into contract forms that recognise the distinctive environments in which it operates and by arranging appropriate insurance.

In line with its commitment to the ICOCA process, and its PSC-1 and ISO 18788 accreditations, the Company continuously reviews and updates its policies and procedures with regards to its support for and promotion of human rights in the countries in which it operates, and affords the same level of focus and effort on its anti-bribery, corruption and fraud measures. In addition to the special risks arising from the nature of the Company's business, the Board considers that the major risk factors impacting on the Company's business include:

**Foreign exchange**

The Company invoices its principal customers in US dollars, Australian dollars and UK Sterling. The majority of its direct costs arising are denominated in matching currencies but a significant proportion of overhead costs are denominated in UK Sterling. The Company is therefore exposed to the impact of changes in the exchange rate. The Company seeks to mitigate this risk by matching currencies of costs and income wherever possible.

**Compliance to a wide range of regulations and restrictions**

Operating in a heavily regulated industry across a number of geographic locations requires compliance to a wide range of regulations. In order to ensure that the company remains compliant at all times it has an experienced team of risk, compliance and legal representatives in house who devise policy and ensure it flows out throughout the company across all locations. The compliance department conducts continuous internal audits and delivers training on areas of compliance across all company locations.

**Loss of reputation**

The Company's business is dependent upon being held in high regard by its customers, the communities in which it operates and its personnel. The Board seeks to protect the Company's reputation by ensuring that the Company is only associated with activities that are appropriate and legal, by only engaging with reputable customers and suppliers and by operating only in those conditions where the Company understands and can contain physical threats, and by rigorous vetting of personnel. The Company places strong emphasis on human rights and business ethics together with a healthy and responsible integration into the communities within which it operates.

**Managing and retaining talent**

The Company is dependent on experienced and well trained personnel in an industry where its personnel are one of the main differentiators. In order to ensure they are able to foster, attract and retain talent the company provides a competitive remuneration packages, promotes employee development and internal progression.

**Regulation**

The Company continues to engage in a range of initiatives to bring greater credibility, oversight and regulation to the private security sector.

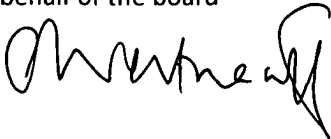
**Key performance indicators**

It is part of our mission to grow our business profitably. We use turnover, turnover growth rate and gross profit percentage to measure our financial performance.

Other non-financial operating metrics are monitored by the Board and by local management in different parts of the business with an emphasis on service delivery, personnel welfare, health and safety, environmental impacts and human rights driven through our Compliance and Operational Excellence Framework.

The Board is satisfied, on the basis of customer and staff feedback received, as well as on other non-financial measures, that the Company is meeting and/or exceeding its goals in these key areas.

On behalf of the board



Oliver Westmacott

**Director**

21 October 2018

## **Aegis Defence Services Limited**

### **Directors' report**

**For the year ended 31 January 2018**

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The directors present their annual report and financial statements for the year ended 31 January 2018.

#### **Principal activities**

The principal activities of the company are the identification and mitigation of risk on behalf of governments and corporates worldwide, geo-political risk analysis, investigation and security consultancy.

#### **Results and dividends**

The results for the year are set out on page 9.

#### **Directors**

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

The Rt Hon Sir Nicholas Soames MP (Chairman)

Graham Binns CBE DSO MC

(Resigned 10 February 2018)

Sylvia White

(Resigned 15 July 2018)

Oliver Westmacott

#### **Auditor**

Saffery Champness LLP have expressed their willingness to remain in office as auditors of the company.

#### **Statement of directors' responsibilities**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

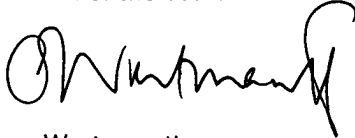
**Statement of disclosure to auditor**

Each director in office at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that he / she ought to have taken as a director in order to make himself / herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

On behalf of the board



Oliver Westmacott

**Director**

21 October 2018



## **Aegis Defence Services Limited**

### **Independent auditor's report**

#### **To the members of Aegis Defence Services Limited**

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#### **Opinion**

We have audited the financial statements of Aegis Defence Services Limited (the 'company') for the year ended 31 January 2018 which comprise the income statement, the statement of financial position, the statement of changes in equity, the statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 January 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**Independent auditor's report (continued)**

**To the members of Aegis Defence Services Limited**

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**Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of our audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

**Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**Independent auditor's report (continued)**  
**To the members of Aegis Defence Services Limited**

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**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

**Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



**Michael Di Leto (Senior Statutory Auditor)**  
**for and on behalf of Saffery Champness LLP**

22 October 2018

**Chartered Accountants**  
**Statutory Auditors**

71 Queen Victoria Street  
London  
EC4V 4BE

**Aegis Defence Services Limited**

**Statement of comprehensive income  
For the year ended 31 January 2018**

	Notes	2018 £	2017 £
<b>Revenue</b>	<b>4</b>	44,821,672	47,066,044
Cost of sales		(32,628,253)	(33,482,969)
<b>Gross profit</b>		12,193,419	13,583,075
Administrative expenses		(7,443,700)	(7,933,532)
(Loss)/profit on foreign exchange		(1,025,214)	5,270,791
<b>Operating profit</b>	<b>5</b>	3,724,505	10,920,334
Investment revenues		8,052,230	297,166
<b>Profit before taxation</b>		11,776,735	11,217,500
Income tax expense	<b>8</b>	(2,270,031)	(409,207)
<b>Profit and total comprehensive income for the year</b>	<b>19</b>	9,506,704	10,808,293

The income statement has been prepared on the basis that all operations are continuing operations.

**Aegis Defence Services Limited**

**Statement of financial position**

**As at 31 January 2018**

		2018	2017
	Notes	£	£
<b>Non-current assets</b>			
Property, plant and equipment	12	656,687	856,027
Investments	10	4,423,927	4,433,427
		<u>5,080,614</u>	<u>5,289,454</u>
<b>Current assets</b>			
Trade and other receivables	13	25,321,081	22,392,353
Current tax recoverable		-	662,001
Cash and cash equivalents		881,542	2,270,081
		<u>26,202,623</u>	<u>25,324,435</u>
<b>Total assets</b>		<u>31,283,237</u>	<u>30,613,889</u>
<b>Current liabilities</b>			
Trade and other payables	15	24,199,964	23,839,829
Current tax liabilities		708,097	430,000
		<u>24,908,061</u>	<u>24,269,829</u>
<b>Net current assets</b>		<u>1,294,562</u>	<u>1,054,606</u>
<b>Total liabilities</b>		<u>24,908,061</u>	<u>24,269,829</u>
<b>Net assets</b>		<u>6,375,176</u>	<u>6,344,060</u>
<b>Equity</b>			
Called up share capital	17	112	112
Capital redemption reserve	18	25	25
Retained earnings	19	6,375,039	6,343,923
<b>Total equity</b>		<u>6,375,176</u>	<u>6,344,060</u>

The financial statements were approved by the board of directors and authorised for issue on 21 October 2018 and are signed on its behalf by:



Oliver Westmacott  
Director

Company Registration No. 04541965

**Aegis Defence Services Limited**

**Statement of changes in equity  
For the year ended 31 January 2018**

		Share capital	Capital redemption reserve	Retained earnings	Total
	Notes	£	£	£	£
<b>Balance at 1 February 2016</b>		112	25	31,239,668	31,239,805
<b>Period ended 31 January 2017:</b>					
Profit and total comprehensive income for the period		-	-	10,808,293	10,808,293
Dividends	9	-	-	(35,704,038)	(35,704,038)
<b>Balance at 31 January 2017</b>		112	25	6,343,923	6,344,060
<b>Year ended 31 January 2018:</b>					
Profit and total comprehensive income for the year		-	-	9,506,704	9,506,704
Dividends	9	-	-	(9,475,588)	(9,475,588)
<b>Balance at 31 January 2018</b>		112	25	6,375,039	6,375,176

**Aegis Defence Services Limited**

**Statement of cash flows**

**For the year ended 31 January 2018**

	Notes	£	2018 £	£	2017 £
<b>Cash flows from operating activities</b>					
Cash generated from operations	24		1,582,492		34,452,052
Tax paid			(1,329,933)		(9,443)
<b>Net cash inflow from operating activities</b>			<b>252,559</b>		<b>34,442,609</b>
<b>Investing activities</b>					
Purchase of property, plant and equipment		(217,740)		(391,166)	
Interest received		29,926		297,166	
Dividends received		8,022,304		-	
<b>Net cash generated from/(used in) investing activities</b>			<b>7,834,490</b>		<b>(94,000)</b>
<b>Financing activities</b>					
Dividends paid		(9,475,588)		(35,704,038)	
<b>Net cash used in financing activities</b>			<b>(9,475,588)</b>		<b>(35,704,038)</b>
<b>Net decrease in cash and cash equivalents</b>			<b>(1,388,539)</b>		<b>(1,355,429)</b>
Cash and cash equivalents at beginning of year			2,270,081		3,625,510
Cash and cash equivalents at end of year			<b>881,542</b>		<b>2,270,081</b>

## **1 Accounting policies**

### **Company information**

Aegis Defence Services Limited is a private company limited by shares incorporated in England and Wales. The registered office is 2 London Bridge, London, SE1 9RA.

### **1.1 Accounting convention**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS, (except as otherwise stated).

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below.

The company has taken advantage of the exemption under section 400 of the Companies Act 2006 not to prepare consolidated accounts. The financial statements present information about the company as an individual entity and not about its group. The company is a subsidiary undertaking of GardaWorld Security Corporation, a company registered in Canada, and is included in the consolidated financial statements of that company. Copies of the consolidated financial statements are available at 1390 Barre Street, 2nd floor, Montreal, Quebec, H3C 1NA, Canada.

### **1.2 Going concern**

The directors have at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

### **1.3 Revenue**

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the company's activity. Revenue is shown net of value added tax, returns, rebates and discounts. The company recognises revenue when the amount of the revenue can be reliably measured and when it is probable that economic benefits will flow to the entity.

Where income is invoiced in advance of work being complete, revenue is treated in the first instance as deferred income and recognised when the services are performed by the company.

### **1.4 Property, plant and equipment**

Property, plant and equipment are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life or as follows:

Leasehold improvements	over the length of the lease
Equipment	33% straight line
Materiel	33% straight line



**1 Accounting policies (continued)**

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is recognised in the income statement.

**1.5 Non-current investments**

Fixed asset investments are stated at cost less provision for diminution in value.

**1.6 Impairment of tangible and intangible assets**

At each reporting end date, the company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**1.7 Fair value measurement**

IFRS 13 establishes a single source of guidance for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. IFRS 13 mainly impacts the disclosures of the Company. It requires specific disclosures about fair value measurements and disclosures of fair values, some of which replace existing disclosure requirements in other standards.

**1.8 Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

**1 Accounting policies (continued)**

**1.9 Financial assets**

Financial assets are recognised in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument.

Financial assets are classified into specified categories. The classification depends on the nature and purpose of the financial assets and is determined at the time of recognition.

Financial assets are initially measured at fair value plus transaction costs, other than those classified as fair value through profit and loss, which are measured at fair value.

***Loans and receivables***

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

***Impairment of financial assets***

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

***Derecognition of financial assets***

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

**1.10 Financial liabilities**

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

**1 Accounting policies (continued)**

***Other financial liabilities***

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

***Derecognition of financial liabilities***

Financial liabilities are derecognised when, and only when, the company's obligations are discharged, cancelled, or they expire.

**1.11 Equity instruments**

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

**1.12 Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax.

***Current tax***

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

**1 Accounting policies (continued)**

***Deferred tax***

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to 'other comprehensive income', in which case the deferred tax is also dealt with in 'other comprehensive income'. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

**1.13 Employee benefits**

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of inventories or non-current assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

A termination benefit liability is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

**1.14 Retirement benefits**

The company operates a defined contribution scheme for the benefit of its employees. Contributions payable are charged to the profit & loss account in the year they are payable.

**1.15 Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessees. All other leases are classified as operating leases.

Rentals payable under operating leases, less any lease incentives received, are charged to income on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

**1 Accounting policies (continued)**

**1.16 Foreign exchange**

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at a monthly rate ruling for the month in which the transaction occurs. All differences are taken to profit and loss account.

**2 Adoption of new and revised standards and changes in accounting policies**

**Standards which are in issue but not yet effective**

At the date of authorisation of these financial statements, the following Standards and Interpretations, which have not yet been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 2 (amendments)	Classification and Measurement of Share-based Payment Transactions
IFRS 4 (amendments)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration
Amendments to IAS 40	Transfers of Investment Property
IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
IFRS 17	Insurance Contracts
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures

## 2 Adoption of new and revised standards and changes in accounting policies (continued)

The directors have assessed the impact of the standards in issue but not yet effective and have noted below their conclusions on the key new standards.

### *IFRS 9 Financial Instruments*

IFRS 9, issued in July 2014, is effective for all accounting periods beginning on or after 1 January 2018. A detailed description of the standard is available on the IFRS website: <http://www.ifrs.org/issued-standards/list-of-standards/ifrs-9-financial-instruments/>

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities and amends the guidance in IAS 39 that governs classification and measurement of financial instruments. IFRS 9 retains three primary measurement categories for financial assets being: amortised cost; fair value through other comprehensive income; and fair value through profit or loss. The entity's business model objective for the relevant financial assets and financial liabilities is the key driver for determination of classification.

An expected credit losses model replaces the incurred loss impairment model used in IAS 39. For financial liabilities designated at fair value through profit or loss, changes in own credit risk are now recorded in other comprehensive income.

The company anticipates that the classification and measurement basis for its financial assets and liabilities will be largely unchanged by adoption of IFRS 9. The main impact of adopting IFRS 9 is likely to arise from the implementation of the expected loss model.

### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 (latest amendment issued in April 2016) introduces a new standard for the recognition of revenue from contracts with customers. It is effective for all accounting periods beginning on or after 1 January 2018. A detailed description of the standard is available on the IFRS website: <http://www.ifrs.org/issued-standards/list-of-standards/ifrs-15-revenue-from-contracts-with-customers/>

IFRS 15 establishes criteria which govern revenue recognition in relation to the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue should not be recognised until a customer obtains control of a good or service, can use and obtain the benefits from the good or service. Variable consideration is included in the transaction price to the extent that it is highly probable that there will be no significant reversal of the cumulative revenue recognised when the uncertainty is resolved.

### 3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The significant judgements, estimates and assumptions made have been described below:

#### **Key estimates – impairment of property, plant and equipment**

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain equipment.

#### **Key estimates – receivables**

The receivables at the reporting date have been reviewed to determine whether there is any objective evidence that any of the receivables are impaired. An impairment provision is included for any receivable where the entire balance is not considered collectible. An impairment provision is based on the best information at the reporting date.

#### **Key judgements – recognition of deferred tax assets**

As describe in the accounting policies, the extent to which deferred tax assets can be recognised is based on an assessment of the probability of the company's future taxable income against which the deferred tax assets can be utilised.

### 4 Revenue

The total turnover of the company has been derived from its principal activity. It is the view of the directors that disclosure of the different geographical markets in which the group operates would be seriously prejudicial to the interests of the company.

	2018	2017
	£	£
<b>Revenue analysed by class of business</b>		
Security and consultancy services	44,821,672	47,066,044
	<u>                    </u>	<u>                    </u>

Notes to the financial statements (continued)  
For the year ended 31 January 2018

**4 Revenue (continued)**

	<b>2018</b>	<b>2017</b>
	<b>£</b>	<b>£</b>
<b>Other significant revenue</b>		
Interest income	29,926	297,166
Dividends received	8,022,304	-
	<u>          </u>	<u>          </u>

**5 Operating profit**

	<b>2018</b>	<b>2017</b>
	<b>£</b>	<b>£</b>
Operating profit for the year is stated after charging/(crediting):		
Exchange losses/(gains)	1,025,214	(5,270,791)
Fees payable to the company's auditor for the audit of the company's financial statements	35,000	35,000
Depreciation of property, plant and equipment	407,943	362,629
Loss on disposal of property, plant and equipment	9,137	-
	<u>          </u>	<u>          </u>

**6 Employees**

The average monthly number of persons (including directors) employed by the company during the year was:

	<b>2018</b>	<b>2017</b>
	<b>Number</b>	<b>Number</b>
Management and administration	18	23
	<u>          </u>	<u>          </u>

Their aggregate remuneration comprised:

	<b>2018</b>	<b>2017</b>
	<b>£</b>	<b>£</b>
Wages and salaries	2,214,449	1,967,262
Social security costs	203,899	207,139
Pension costs	12,108	8,694
	<u>          </u>	<u>          </u>
	<u>2,430,456</u>	<u>2,183,095</u>



**Notes to the financial statements (continued)**  
**For the year ended 31 January 2018**

**7 Directors' remuneration**

	<b>2018</b>	<b>2017</b>
	<b>£</b>	<b>£</b>
Remuneration for qualifying services	966,180	569,530

Remuneration disclosed above include the following amounts paid to the highest paid director:

Remuneration for qualifying services	509,374	259,625
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**8 Income tax expense**

	<b>2018</b>	<b>2017</b>
	<b>£</b>	<b>£</b>
<b>Current tax</b>		
Current year taxation	27,100	200,677
Overseas taxation	2,396,921	282,224
Adjustments in respect of prior periods	(153,990)	(121,338)
	<u>2,270,031</u>	<u>361,563</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	-	47,644
	<u>-</u>	<u>47,644</u>
<b>Total tax charge</b>	<u>2,270,031</u>	<u>409,207</u>

**Notes to the financial statements (continued)**  
**For the year ended 31 January 2018**

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**8 Income tax expense (continued)**

The charge for the year can be reconciled to the profit per the income statement as follows:

	<b>2018</b>	<b>2017</b>
	<b>£</b>	<b>£</b>
Profit before taxation	11,776,735	11,217,500
Expected tax charge based on a corporation tax rate of 19.00%	2,237,580	2,243,500
Expenses not deductible in determining taxable profit	2,689	11,365
Income not taxable	(1,524,238)	-
Adjustment in respect of prior years	(153,990)	(121,338)
Double tax relief	(81,084)	(284,716)
Group relief	(621,384)	(1,710,256)
Overseas taxation	2,396,921	282,224
Other tax adjustment	13,537	(11,572)
Tax charge for the year	2,270,031	409,207

**9 Dividends**

During the year the company declared dividends totalling £9,475,588 (2017: £35,704,038 ).

Notes to the financial statements (continued)  
For the year ended 31 January 2018

10 Investments

	Current		Non-current	
	2018	2017	2018	2017
	£	£	£	£
Investments in subsidiaries	-	-	4,423,927	4,433,427

The company has not designated any financial assets that are not classified as held for trading as financial assets at fair value through profit or loss.

Movements in non-current investments

	Shares in group undertakings £
<b>Cost or valuation</b>	
At 1 February 2017	5,560,800
Disposals	(9,500)
At 31 January 2018	5,551,300
<b>Impairment</b>	
At 1 February 2017 & 31 January 2018	(1,127,373)
<b>Carrying amount</b>	
At 31 January 2018	4,423,927
At 31 January 2017	4,433,427

## Aegis Defence Services Limited

### Notes to the financial statements (continued) For the year ended 31 January 2018

#### 11 Subsidiaries

Name of undertaking	Country of incorporation	Ownership interest (%)	Voting power held (%)	Nature of business
Aegis Defense Services LLC	USA	100.00	100.00	Security and consulting services
Aegis Response Limited	England and Wales	100.00	100.00	Kidnap response consultancy services
GardaWorld Recruitment Limited	England and Wales	100.00	100.00	Recruitment services
Aegis Services LLC*	Saudi Arabia	100.00	100.00	Security and consulting services
Sigea Limited	England and Wales	100.00	100.00	Dormant
Firegap Limited	England and Wales	100.00	100.00	Dormant holding company
Rubicon International Services Limited	England and Wales	100.00	100.00	Dormant holding company
Aegis Limited	Afghanistan	100.00	100.00	Security and consulting services
Rimal Dilja for General Trading LLC**	Iraq	100.00	100.00	Security and consulting services

\* 95% owned directly and 5% owned indirectly through Rubicon International Services Limited

\*\* 100% owned indirectly through Firegap Limited

Notes to the financial statements (continued)  
For the year ended 31 January 2018

**12 Property, plant and equipment**

	Leasehold improvements	Equipment	Materiel	Total
	£	£	£	£
<b>Cost</b>				
At 1 February 2016	430,803	799,821	1,904,097	3,134,721
Additions	-	-	391,166	391,166
Disposals	-	(519,229)	(606,008)	(1,125,237)
At 31 January 2017	430,803	280,592	1,689,255	2,400,650
Additions	-	4,371	213,369	217,740
Disposals	-	(19,672)	(155,562)	(175,234)
At 31 January 2018	430,803	265,291	1,747,062	2,443,156
<b>Accumulated depreciation and impairment</b>				
At 1 February 2016	139,507	660,355	1,507,369	2,307,231
Charge for the year	12,292	79,130	271,207	362,629
Eliminated on disposal	-	(519,229)	(606,008)	(1,125,237)
At 31 January 2017	151,799	220,256	1,172,568	1,544,623
Charge for the year	47,867	49,070	311,006	407,943
Eliminated on disposal	-	(19,580)	(146,517)	(166,097)
At 31 January 2018	199,666	249,746	1,337,057	1,786,469
<b>Carrying amount</b>				
At 31 January 2018	231,137	15,545	410,005	656,687
At 31 January 2017	279,004	60,336	516,687	856,027
At 31 January 2016	291,296	139,466	396,728	827,490

Notes to the financial statements (continued)  
For the year ended 31 January 2018

**13 Trade and other receivables**

	Current 2018 £	2017 £
Trade receivables	4,342,751	5,842,694
Provision for bad and doubtful debts	(301,300)	(254,628)
	<u>4,041,451</u>	<u>5,588,066</u>
Other receivables	1,133,941	1,090,525
Amounts due from fellow group undertakings	18,048,411	12,762,329
Prepayments	2,097,278	2,951,433
	<u>25,321,081</u>	<u>22,392,353</u>

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

**14 Trade receivables - credit risk**

**Fair value of trade receivables**

The directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

Ageing of past due but not impaired receivables	2018 £	2017 £
31-60 days	892,846	1,521,782
61-90 days	-	1,367,448
> 90 days	787,082	169,979
	<u>1,679,928</u>	<u>3,059,209</u>

Ageing of impaired trade receivables	2018 £	2017 £
Current	121,415	-
> 90 days	179,885	254,628
	<u>301,300</u>	<u>254,628</u>

**Notes to the financial statements (continued)**  
**For the year ended 31 January 2018**

**14 Trade receivables - credit risk (continued)**

<b>Movement in the allowances for doubtful debts</b>	<b>2018</b>	<b>2017</b>
	<b>£</b>	<b>£</b>
Balance at 1 February 2017	254,628	2,980,136
Additional allowance recognised	60,762	254,628
Amounts written off as uncollectible	(14,090)	(2,980,136)
Balance at 31 January 2018	<u>301,300</u>	<u>254,628</u>

**15 Trade and other payables**

	<b>Current</b>	
	<b>2018</b>	<b>2017</b>
	<b>£</b>	<b>£</b>
Trade payables	749,796	1,861,314
Amounts due to fellow group undertakings	20,436,013	18,054,629
Accruals	2,217,211	3,168,091
Social security and other taxation	796,944	755,795
	<u>24,199,964</u>	<u>23,839,829</u>

**16 Retirement benefit schemes**

**Defined contribution schemes**

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

The total costs charged to income in respect of defined contribution plans is £12,108 (2017 - £8,694).

<b>17 Share capital</b>	<b>2018</b>	<b>2017</b>
	<b>£</b>	<b>£</b>
<b>Ordinary share capital</b>		
<b>Issued and fully paid</b>		
1,125,000 Ordinary shares of 0.01p each	<u>112</u>	<u>112</u>

Notes to the financial statements (continued)  
For the year ended 31 January 2018

**18 Capital redemption reserve**

	<b>2018</b>	<b>2017</b>
	<b>£</b>	<b>£</b>
At beginning and end of year	25	25
	<u>25</u>	<u>25</u>

**19 Retained earnings**

	<b>2018</b>	<b>2017</b>
	<b>£</b>	<b>£</b>
At the beginning of the year	6,343,923	31,239,668
Profit for the year	9,506,704	10,808,293
Dividends	(9,475,588)	(35,704,038)
At the end of the year	6,375,039	6,343,923
	<u>6,375,039</u>	<u>6,343,923</u>

**20 Operating lease commitments**

**Lessee**

Amounts recognised in profit or loss as an expense during the period in respect of operating lease arrangements are as follows:

	<b>2018</b>	<b>2017</b>
	<b>£</b>	<b>£</b>
Minimum lease payments under operating leases	512,882	647,742
	<u>512,882</u>	<u>647,742</u>

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	<b>2018</b>	<b>2017</b>
	<b>£</b>	<b>£</b>
Within one year	381,267	762,049
Between two and five years	1,525,068	3,048,196
In over five years	688,505	2,138,182
	<u>2,594,840</u>	<u>5,948,427</u>



**21 Capital risk management**

The company is not subject to any externally imposed capital requirements.

**22 Controlling party**

The immediate parent company is GardaWorld Consulting (UK) Limited, a company registered in the England and Wales. The ultimate parent company is Garda World Securities Corporation, a company registered in Canada.

In the opinion of the directors, there is no single ultimate controlling party.

**23 Related party transactions**

**Remuneration of key management personnel**

The remuneration of the directors, who are key management personnel, is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*.

	2018	2017
	£	£
Short-term employee benefits	966,180	569,530
	<u>          </u>	<u>          </u>

During the year, the company was charged management fees of £1,920,013 (2017: £1,870,301) by fellow group undertakings.

At 31 January 2018 the company was owed £1,765,648 (2017: £2,674,191) by subsidiary undertakings and £17,264,913 (2017: £794,723) by fellow group undertakings. As at 31 January 2018, the balance owed by subsidiary undertakings was impaired by £982,150 (2017: £1,037,971).

At 31 January 2018 the company owed £101,259 (2017: £259,638) to subsidiary undertakings and £20,334,754 (2017: £17,794,990) to fellow group undertakings.

At 31 January 2018 the company was owed a loan balance of £nil (2017: £7,423,265) by a subsidiary undertaking. During the year, the company charged interest of £29,926 (2017: £297,166) on the outstanding loan balance.

**Aegis Defence Services Limited**

**Notes to the financial statements (continued)**  
**For the year ended 31 January 2018**

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**24 Cash generated from operations**

	<b>2018</b>	<b>2017</b>
	<b>£</b>	<b>£</b>
Profit for the year after tax	9,506,704	10,808,293
<b>Adjustments for:</b>		
Taxation charged	2,270,031	409,207
Investment income	(8,052,230)	(297,166)
Loss on disposal of property, plant and equipment	9,137	-
Loss on disposal of investments	9,500	-
Depreciation and impairment of property, plant and equipment	407,943	362,629
<b>Movements in working capital:</b>		
(Increase)/decrease in inventories	-	78,380
(Increase)/decrease in trade and other receivables	(2,928,728)	9,979,239
Increase in trade and other payables	360,135	13,111,470
<b>Cash generated from operations</b>	<u>1,582,492</u>	<u>34,452,052</u>

# **Garda World Security Corporation**

Consolidated Financial Statements  
**January 31, 2018 and 2017**



April 13, 2018

## **Independent Auditor's Report**

### **To the Shareholder of Garda World Security Corporation**

We have audited the accompanying consolidated financial statements of Garda World Security Corporation, which comprise the consolidated statements of financial position as at January 31, 2018 and 2017 and the consolidated statements of income (loss), comprehensive income (loss), changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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"PwC" refers to PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., an Ontario limited liability partnership.



**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Garda World Security Corporation as at January 31, 2018 and 2017 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP<sup>1</sup>*

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<sup>1</sup> CPA auditor, CA, public accountancy permit No. A110416

# Garda World Security Corporation

## Consolidated Statement of Financial Position

As at January 31, 2018 and 2017

(in thousands of Canadian dollars)

	2018 \$	2017 \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 5)	77,962	69,304
Accounts receivable (note 6)	337,655	285,788
Revenue to be billed	88,448	101,102
Inventories (note 7)	12,082	21,742
Prepaid expenses	25,455	23,762
	541,602	501,698
<b>Non-current assets</b>		
Property, plant and equipment (note 8)	269,370	277,951
Goodwill (note 9)	730,933	743,897
Intangible assets (note 9)	397,432	417,145
Other assets (note 10)	26,832	21,253
Derivative financial instrument (note 21)	456	-
Deferred income tax assets (note 20)	151,860	300,862
	1,576,883	1,761,108
<b>Total assets</b>	<b>2,118,485</b>	<b>2,262,806</b>
<b>LIABILITIES AND DEFICIENCY</b>		
<b>Current liabilities</b>		
Bank indebtedness	7,814	5,212
Accounts payable and accrued liabilities (note 11)	329,342	348,032
Current portion of long-term debt (note 12)	54,205	49,269
Current portion of provisions and other liabilities (note 13)	9,724	241,503
Income taxes payable	20,159	18,441
	421,244	662,457
<b>Non-current liabilities</b>		
Long-term debt (note 12)	2,070,861	1,809,492
Derivative financial instruments (note 21)	20,320	15,894
Deferred income tax liabilities (note 20)	43,164	48,651
Provisions and other non-current liabilities (note 13)	23,428	28,044
	2,157,773	1,902,081
<b>Total liabilities</b>	<b>2,579,017</b>	<b>2,564,538</b>
<b>Deficiency</b>		
Share capital (note 14)	590,124	568,277
Contributed surplus	11,765	8,973
Accumulated other comprehensive income	938	40,531
Deficit	(1,064,756)	(920,876)
<b>Total deficiency attributable to shareholder</b>	<b>(461,929)</b>	<b>(303,095)</b>
Non-controlling interest	1,397	1,363
<b>Total deficiency</b>	<b>(460,532)</b>	<b>(301,732)</b>
<b>Total liabilities and deficiency</b>	<b>2,118,485</b>	<b>2,262,806</b>

Approved by the Board of Directors

Jean-Luc Landry (signed)

Director

Francois Plamondon (signed)

Director

The accompanying notes are an integral part of these Consolidated financial statements.

# Garda World Security Corporation

## Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

For the years ended January 31, 2018 and 2017

(in thousands of Canadian dollars)

	2018 \$	2017 \$
Revenues	2,641,382	2,474,254
Operating costs (note 17)	2,152,524	2,029,466
Selling and administrative expenses (note 17)	348,533	364,391
Change in fair value of contingent consideration (note 13 (c))	-	(51,525)
Unrealized exchange gain on translation of long-term debt (note 12 (e))	(100,527)	(96,584)
Unrealized loss on derivative financial instruments (note 21)	7,244	42,611
Income before finance costs and income taxes	233,608	185,895
Finance costs (note 16)	214,648	137,645
Income before income taxes	18,960	48,250
Provision for (recovery of) income taxes (note 20)		
Current	26,199	19,262
Deferred	127,700	(38,983)
	153,899	(19,721)
Net income (loss) for the year	(134,939)	67,971
Net income (loss) attributable to		
Shareholders	(134,973)	67,951
Non-controlling interest	34	20
Net income (loss) for the year	(134,939)	67,971
Other comprehensive income (loss) «OCI»		
<i>Items that may be subsequently reclassified to the consolidated statement of income (loss)</i>		
Translation of long-term debt designated as net investment hedges, net of income tax of \$5,553 (2017-nil) (note 12 (e))	20,611	37,275
Translation of foreign subsidiaries	(62,766)	(93,612)
Unrealized gain on derivative instruments (note 21)	3,274	3,910
<i>Items that will not be reclassified to the consolidated statement of income (loss)</i>		
Remeasurement of defined benefit pension obligation, net of income tax of \$257 (2017-\$197) (note 19)	(712)	(770)
	(39,593)	(53,197)
Comprehensive income (loss) for the year	(174,532)	14,774
Comprehensive income (loss) attributable to		
Shareholders	(174,566)	14,754
Non-controlling interest	34	20

The accompanying notes are an integral part of these Consolidated financial statements.

# Garda World Security Corporation

## Consolidated Statement of Changes in Equity

For the years ended January 31, 2018 and 2017

(in thousands of Canadian dollars)

	Share capital \$	Contributed surplus \$	Accumulated comprehensive income \$	Deficit \$	Equity attributable to non-controlling interest \$	Total deficiency \$
<b>Balance – February 1, 2016</b>	161,900	1,900	93,728	(581,349)	-	(323,821)
Net income for the year	-	-	-	67,951	20	67,971
OCI for the year	-	-	(53,197)	-	-	(53,197)
Dividend paid	-	-	-	(27)	-	(27)
Stock-based compensation	-	7,073	-	-	-	7,073
Issuance of shares following liquidation (note 14)	399,447	-	-	(399,447)	-	-
Business acquisition (note 18 )	-	-	-	-	1,343	1,343
Share issuance (note 14)	7,331	-	-	(3,500)	-	3,831
Share repurchase (note 14)	(401)	-	-	(4,504)	-	(4,905)
<b>Balance – January 31, 2017</b>	568,277	8,973	40,531	(920,876)	1,363	(301,732)
<b>Balance – February 1, 2017</b>	568,277	8,973	40,531	(920,876)	1,363	(301,732)
Net loss for the year	-	-	-	(134,973)	34	(134,939)
OCI for the year	-	-	(39,593)	-	-	(39,593)
Stock-based compensation	-	2,792	-	-	-	2,792
Share repurchase and reclassifications following amalgamation (note 13 and 14)	19,021	-	-	(8,907)	-	10,114
Share issuance (note 14)	2,826	-	-	-	-	2,826
<b>Balance – January 31, 2018</b>	590,124	11,765	938	(1,064,756)	1,397	(460,532)

The accompanying notes are an integral part of these Consolidated financial statements.



# Garda World Security Corporation

## Consolidated Statement of Cash Flows

For the years ended January 31, 2018 and 2017

(in thousands of Canadian dollars)

	2018 \$	2017 \$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net income (loss) for the year	(134,939)	67,971
Adjustments for:		
Depreciation of property, plant and equipment (note 15)	95,545	89,813
Amortization of intangible assets (note 15)	33,074	33,714
Deferred income taxes (note 20)	127,700	(38,983)
Loss on disposal of property, plant and equipment (note 8)	683	401
Change in fair value of contingent consideration (note 13)	-	(51,525)
Unrealized exchange gain on translation of long-term debt (note 12(e))	(100,527)	(96,584)
Unrealized loss on derivative financial instruments (note 21)	7,244	42,611
Stock-based compensation	2,792	7,073
Finance costs (note 16)	214,648	137,645
Defined benefit pension expense (note 19)	1,318	1,281
	247,538	193,417
Changes in non-cash working capital:		
Accounts receivable	(50,472)	16,593
Revenue to be billed	8,850	(14,498)
Inventories	7,606	(2,528)
Prepaid expenses	(1,979)	9,513
Accounts payable and accrued liabilities, provisions and other liabilities	(35,924)	(1,910)
Income taxes payable	3,340	10,538
<b>Net cash generated from operating activities</b>	<b>178,959</b>	<b>211,125</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Changes in bank indebtedness	2,505	19
Increase in long-term debt, excluding revolving facilities	1,936,238	174,525
Repayment of long-term debt, excluding revolving facilities	(1,658,712)	(46,171)
Interest paid on long-term debt	(148,283)	(116,136)
Settlement of derivative financial instruments (note 21)	-	26,972
Changes in revolving facilities	97,626	(144,020)
Share issuance	2,826	3,831
Share repurchase	(218,998)	(4,905)
Increase in deferred financing costs	(60,348)	(6,855)
Dividend paid	-	(27)
Other	(25,336)	(10,450)
<b>Net cash used in financing activities</b>	<b>(72,482)</b>	<b>(123,217)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment (note 8)	(71,681)	(46,533)
Proceeds from disposal of property, plant and equipment (note 8)	8,592	785
Business acquisitions net of cash and bank indebtedness (note 18)	(18,895)	(17,262)
Additions to intangible assets (note 9)	(9,746)	(9,705)
<b>Net cash used in investing activities</b>	<b>(91,730)</b>	<b>(72,715)</b>
Foreign currency translation on cash and cash equivalents	(6,089)	(13,452)
Net change in cash and cash equivalents during the year	8,658	1,741
Cash and cash equivalents, beginning of the year (note 5)	69,304	67,563
Cash and cash equivalents, end of year (note 5)	77,962	69,304
Cash paid for income tax	23,058	7,121

The accompanying notes are an integral part of these consolidated financial statements.

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2018 and 2017

(in thousands of Canadian dollars, except as otherwise indicated)

### 1 General information

Garda World Security Corporation ("Parent Company") and its subsidiaries (referred to collectively as "the Corporation") provide security services in Canada, the United States and the Middle East. Its activities are carried out through two main segments: Protective Services and Cash Services.

The Parent Company is incorporated and domiciled in Canada.

The address of the Corporation's registered office is:

1390 Barré Street  
Montréal, Quebec, Canada  
H3C 1N4

On May 26, 2017, Stephan Crétier, member of the management team, and an entity held by an investment fund affiliated with Rhône Capital completed the purchase of all of Apax's remaining stake in HCA Parent Corp, the ultimate parent company of the Corporation. HCA Parent Corp was formed in 2012 when Apax privatized the Corporation. On May 26, 2017, pursuant to a series of transactions, the Corporation and its direct and indirect parent companies, namely HCA Security Holdco Corp., HCA Security Acquisition Corp., HCA Parent Corp. and GW Honos Security Corporation, have merged, and the resulting entity, GW Honos Security Corporation, changed its name to Garda World Security Corporation. As a result, since the second quarter ended July 31, 2017, the consolidated financial statements of the Corporation present the basis of accounting of HCA Parent Corp.

The amalgamation impacted the Corporation's consolidated statement of financial position. The main impact was an increase in goodwill, intangible assets and property, plant and equipment and a decrease in deferred tax assets. As a result of the change of control, certain carried forward tax losses were derecognized for an amount of \$47,442 as described in note 20.

The Corporation's main subsidiaries as at January 31, 2018 were as follows:

	Voting rights held	Location
Garda Security Group Inc.	100%	Canada
Garda Canada Security Corporation	100%	Canada
Garda World Cash Services Canada Corporation	100%	Canada
Garda Security Screening Inc.	100%	Canada
ATI Systems International Inc.	100%	United States
GW Consulting Middle East Limited	100%	United Arab Emirates
Aegis Defence Services Limited	100%	United Kingdom
Aegis Defence Services LLC	100%	United States
Kenya Kazi Services Limited	100%	Kenya

# **Garda World Security Corporation**

## **Notes to Consolidated Financial Statements**

**January 31, 2018 and 2017**

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(in thousands of Canadian dollars, except as otherwise indicated)

### **2 Basis of presentation**

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the Chartered Professional Accountants of Canada Handbook Part I.

These consolidated financial statements were approved by the Board of Directors for issue on April 13, 2018.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of choosing and applying the Corporation's accounting policies.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

### **3 Summary of significant accounting policies**

A summary of the significant accounting policies applied in the preparation of these consolidated financial statements is described below, and these policies have been consistently applied to all the years presented, unless otherwise stated.

These consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial liabilities to fair value, including a portion of long-term consideration payable.

#### **Consolidation**

These consolidated financial statements include the accounts of the Parent Company and its wholly owned subsidiaries. All intercompany transaction balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

#### **Non-controlling interest**

The non-controlling interest represent the interest held by third parties in the Parent Company's subsidiaries. The net assets of the subsidiary attributable to the non-controlling interest are reported as a component of equity (deficiency). Their share in net income (loss) and comprehensive income (loss) is recognized directly in equity. Any change in the Parent Company interest in a subsidiary that does not result in an acquisition or a loss of control is accounted for as a capital transaction.

#### **Business combination**

The Corporation applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Corporation. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business

# **Garda World Security Corporation**

## **Notes to Consolidated Financial Statements**

**January 31, 2018 and 2017**

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(in thousands of Canadian dollars, except as otherwise indicated)

combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

Any contingent consideration payable by the Corporation is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognized in the consolidated statement of income (loss).

Goodwill is initially measured as the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed.

### **Revenue recognition**

Revenues are recognized in the accounting period in which the services are rendered when the amount of revenue can be reliably measured and it is probable that the future economic benefits will flow to the Corporation. Revenue to be billed represents services rendered but not yet billed.

### **Insurance provision**

Certain US subsidiaries maintain high retention for risks related to vehicles, worker's compensation and general liabilities. These US subsidiaries maintain a non-cash insurance provision to cover the estimated retained liability. The non-cash insurance provision 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 when making these determinations. The US subsidiaries maintain third party stop-loss insurance policies to cover certain liability costs in excess of predetermined retained amounts.

### **Foreign currency translation**

#### **Functional and presentation currency**

Items included in the financial statements of each of the Parent Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Parent Company and the presentation currency of the Corporation, that is the currency in which the consolidated financial statements are presented, is the Canadian dollar. All financial information has been rounded to the nearest thousand except the information on the number of options and shares.

The financial statements of subsidiaries that have a functional currency different from that of the Parent Company and the Corporation ("foreign operations") are translated into Canadian dollars as follows: assets and liabilities at the closing rate at the date of the consolidated statement of financial position, and income and expenses at the average rate of the period (as this is considered a reasonable approximation to actual rates). All resulting changes are recognized in OCI as a cumulative translation adjustment.

When the Parent Company disposes of its entire interest in a foreign operation, or loses control, joint control or significant influence over a foreign operation, the foreign currency gains or losses accumulated in OCI related to the foreign operations are recognized in the consolidated statement of income (loss). If the Parent Company disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of

# **Garda World Security Corporation**

## **Notes to Consolidated Financial Statements**

**January 31, 2018 and 2017**

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(in thousands of Canadian dollars, except as otherwise indicated)

foreign currency gains or losses related to the subsidiary that are accumulated in OCI are reallocated between controlling and non-controlling interests.

### **Transactions and balances**

Foreign currency transactions are translated into the functional currency of the entity in which the transaction occurs using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an entity's functional currency are recognized in the consolidated statement of income (loss).

### **Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand and deposits from customers.

### **Borrowing costs**

The Corporation capitalizes borrowing costs directly attributable to the acquisition or construction of qualifying assets during their active construction. Other borrowing costs are expensed during the period in which they are incurred.

### **Accounts receivable and allowance for doubtful accounts**

Trade receivables are recorded at the invoiced amount and do not bear interest. The Corporation records 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 that it is probable the receivable will not be recovered.

### **Inventories**

Inventories consist primarily of aircraft and vehicle parts. Inventories are stated at the lower of cost and net realizable value. Cost is determined according to the specific identification method. Net realizable value is the estimated selling price less applicable selling expenses.

### **Property, plant and equipment**

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the consolidated statement of income (loss) during the period in which they are incurred.

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2018 and 2017

(in thousands of Canadian dollars, except as otherwise indicated)

The major categories of property, plant and equipment are depreciated as follows:

	Method	Rate/Period
Buildings	Straight-line	20 and 30 years
Computer equipment	Declining balance and straight-line	30% and 3 to 5 years
Equipment and office furniture	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	Lease term up to 24 years

The Corporation allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in operating costs in the consolidated statement of income (loss).

### Lease classifications

The classification of a lease as an operating lease or a finance lease depends on certain estimates and judgments to determine whether substantially all the risk and rewards incidental to ownership of the leased asset have been transferred from the lessor to the lessee. The Corporation uses its best estimates and judgments, based on historical experience and the terms of the agreement, when estimating the economic life and residual value of a leased asset and determining the implicit interest rate when calculating minimum lease payments. An asset is recorded together with the related capital lease obligation. The assets under finance leases are amortized over their estimated useful lives at the same rate as other similar assets.

### Goodwill

Goodwill represents the excess of the fair value of the consideration transferred over the fair value of the Corporation's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses. Goodwill is allocated to each cash-generating unit ("CGU") or group of CGUs that are expected to benefit from the related business combination. Gains and losses on the disposal of a CGU or part of a CGU include the carrying amount of goodwill relating to the CGU or part of a CGU sold.

### Identifiable intangible assets

The Corporation's intangible assets include service contracts and client relationships and software with finite useful lives and indefinite useful lives. Service contracts and client relationships are recorded at cost and are amortized on a straight-line basis over periods varying from three to twenty years, which represent their estimated useful lives. Software is amortized on a straight-line basis over periods of between three and five years.

### Impairment

Property, plant and equipment and intangible assets with finite useful lives are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2018 and 2017

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(in thousands of Canadian dollars, except as otherwise indicated)

cash inflows (CGUs). The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use (being the present value of the expected future cash flows of the relevant asset or CGU, as determined by management).

Goodwill and intangible assets with indefinite useful lives are reviewed for impairment annually or at any time if an indicator of impairment exists. Management monitors goodwill for internal purposes based on its CGUs, which are its operating segments.

The Corporation evaluates prior impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration.

### **Financial instruments: Recognition, derecognition and measurement**

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument.

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged or cancelled or expires.

At initial recognition, the Corporation classifies its financial instruments in the following categories depending on the purpose for which the instruments are acquired:

- **Loans and receivables:** Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. The Corporation's loans and receivables comprise cash and cash equivalents, accounts receivable, revenue to be billed and notes receivable. Except for the notes receivable, which are classified as long-term, loans and receivables are included in current assets due to their short term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.
- **Financial liabilities at amortized cost:** Financial liabilities at amortized cost consist of bank indebtedness, accounts payable and accrued liabilities, long-term debt and consideration payable. Accounts payable and accrued liabilities are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable and accrued liabilities are measured at amortized cost using the effective interest method. Bank indebtedness and long-term debt are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities:

- **Financial assets and financial liabilities at fair value through profit or loss:** A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Financial instruments in this category are recognized initially and subsequently at fair value.

# **Garda World Security Corporation**

## **Notes to Consolidated Financial Statements**

**January 31, 2018 and 2017**

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(in thousands of Canadian dollars, except as otherwise indicated)

### **Derivative financial instruments and hedging activities**

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. If the derivative is not designated as a hedging instrument, the gain or loss on remeasurement is recognized in the consolidated statement of income (loss).

The Corporation designates certain derivatives as either:

- a) hedges of a particular risk associated with a recognized asset or liability (cash flow hedge); or
- b) hedges of a net investment in a foreign operation (net investment hedge).

The Corporation documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Corporation also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

#### **a) Cash flow hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the consolidated statement of comprehensive income (loss). The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of income (loss).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the hedged item is ultimately recognized in the consolidated statement of income (loss).

#### **b) Net investment hedge**

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in the consolidated statement of comprehensive income (loss). The gain or loss relating to the ineffective portion is recognized in the consolidated statement of income (loss). Gains and losses accumulated in equity (deficiency) are included in the consolidated statement of income (loss) when the foreign operation is partially disposed of or sold.

### **Employee benefits**

#### **a) Defined contribution pension plans**

The Corporation has established defined contribution pension plans for certain of its unionized and non-unionized employees in Canada and the United States. In addition, the Corporation also contributes to a registered retirement savings plan for various employees. The pension expense for these plans is represented by the Corporation's contribution.



# **Garda World Security Corporation**

## **Notes to Consolidated Financial Statements**

**January 31, 2018 and 2017**

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(in thousands of Canadian dollars, except as otherwise indicated)

### **b) Defined benefit pension plans**

The liability recognized in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in OCI in the period in which they arise. Past service costs are recognized immediately in the consolidated statement of income (loss).

### **Provisions and other non-current liabilities**

Provisions are recognized in other non-current liabilities when the Corporation has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value when the effect is material. The Corporation performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

### **Income tax**

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statement of income (loss) except to the extent that it relates to items recognized directly in equity (deficiency), in which case the income tax is also recognized directly in equity (deficiency).

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the consolidated statement of financial position date and are expected to apply when the deferred tax assets or liabilities are settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Corporation and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are presented as non-current.

# **Garda World Security Corporation**

## **Notes to Consolidated Financial Statements**

**January 31, 2018 and 2017**

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(in thousands of Canadian dollars, except as otherwise indicated)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### **Share capital**

Common shares are classified as equity (deficiency). Incremental costs directly attributable to the issuance of the shares are recognized as a deduction from equity (deficiency).

### **Stock-based compensation**

Stock options granted to senior management are measured at fair value. This fair value is then recognized in net income (loss) over the vesting period based on service conditions for senior management with an offsetting increase in contributed surplus. Fair value is determined using a Monte Carlo option pricing model, which was designed to estimate fair value of exchange-traded options that have restrictions as to vesting. Expenses related to stock options are recorded under selling and administrative expenses, and the cumulative value of unexercised options outstanding is included in contributed surplus.

### **New accounting standards adopted during the year**

The Corporation adopted these new standards, and this change had no material impact on the Corporation's consolidated financial statements.

- IAS 7, On February 2, 2016, the IASB issued narrow-scope amendments to IAS 7, Statement of Cash Flows, to require companies to provide information on changes in their financing liabilities. The changes apply to fiscal years beginning on or after January 1, 2017 with earlier adoption permitted. As a result of the adoption of these amendments, the Corporation included the required disclosure in note 25.

### **New accounting standards not yet adopted**

The following revised standards and amendments are effective for annual periods beginning after January 1, 2018. The Corporation has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

- IFRS 16, "Leases" ("IFRS 16"). IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (lessee) and the supplier (lessor). IFRS 16 will supersede IAS 17, "Leases", and related Interpretations. IFRS 16 will be effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15, "Revenue from Contracts with Customers", is also applied. The Corporation has not yet quantified the effect of this standard nor does it intend at this time to early adopt this standard until the mandatory effective date.

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2018 and 2017

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(in thousands of Canadian dollars, except as otherwise indicated)

- IFRS 15, Revenue from Contracts with Customers ("IFRS 15"). In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers". IFRS 15 replaces all previous revenue recognition standards, including IAS 18, "Revenue". In September 2015, the IASB deferred the effective date of IFRS 15 from January 1, 2017 to annual periods beginning on or after January 1, 2018, with early adoption permitted. IFRS 15 is based on the principle that revenue is recognized when control of a good or service is transferred to a customer. A five-step recognition model is used to apply the standard as follows:
  1. Identify the contract(s) with the customer;
  2. Identify the separate performance obligations in the contract;
  3. Determine the transaction price;
  4. Allocate the transaction price to separate performance obligations; and
  5. Recognize revenue when (or as) each performance obligation is satisfied.
- The Corporation is in the final stages of analyzing the impact of the adoption of IFRS 15 on the Corporation's consolidated statement of financial position and consolidated statement of net earnings and comprehensive income (loss). The impact is not expected to be significant.
- IFRS 9, Financial Instruments (Effective January 1st, 2018). The final version of IFRS 9 "Financial Instruments" was issued in July 2014 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models for debt instruments in IAS 39 with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through OCI. Where equity instruments are measured at fair value through OCI, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income and deficit indefinitely.
- Requirements for financial liabilities were added to IFRS 9 in October 2010, and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit or loss are generally recorded in OCI. IFRS 9 also introduced a new impairment model for financial assets based on expected credit loss. The new standard is effective for annual periods beginning on or after January 1, 2018.
- The Corporation is in the final stages of analyzing the impact of the adoption of IFRS 9 on the Corporation's consolidated statement of financial position, consolidated statements of earnings and comprehensive income and consolidated statement of cash flows. No significant impact is expected from the adoption of this standard.
- IFRIC 22, Foreign Currency Transactions and Advance Consideration. In December 2016, the IASB issued IFRIC 22 which provides an interpretation on how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 1. The interpretation applies where an entity pays or receives consideration in advance for foreign currency-denominated contracts. The date of the transaction determines the exchange rate to be used on initial recognition of the related asset, expense or income. This interpretation provides guidance for when a single payment or receipt is made,

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

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(in thousands of Canadian dollars, except as otherwise indicated)

as well as for situations where multiple payments or receipts are made and aims to reduce diversity in practice. The new standard is effective for annual periods beginning on or after January 1, 2018. No significant impact is expected from the adoption of this accounting interpretation.

- IFRIC 23, Uncertainty over Income Tax Treatments. In June 2017, the IFRS Interpretations Committee issued IFRIC 23 which clarifies how the recognition and measurement requirements of IAS 12, Income Taxes, are applied where there is uncertainty over income tax treatments. The new standard is effective for annual periods beginning on or after January 1, 2019. The Corporation is currently assessing the impact of the adoption of this accounting interpretation on its financial statements. There are no other IFRS (or IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Corporation.

#### 4 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

##### Management estimates

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates, judgments and assumptions. The carrying amounts of assets, liabilities, accruals, provisions, contingent liabilities and other financial obligations as well as the determination of fair values and reported income and expense in these consolidated financial statements depend on the use of estimates and judgments. IFRS also requires management to exercise judgment in the process of applying the Corporation's accounting policies. These estimates and judgments are based on the circumstances and estimates at the date of the consolidated financial statements and affect the reported amounts of income and expenses during the reporting period. Given the uncertainty regarding the determination of these factors, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant items impacted by such estimates and judgments are outlined below.

##### Estimated useful lives

Management estimates the useful lives of property, plant and equipment based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for depreciation of property, plant and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. Changes in these factors may cause significant changes in the estimated useful lives of the Corporation's property, plant and equipment in the future.

# **Garda World Security Corporation**

## **Notes to Consolidated Financial Statements**

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### **Valuation of identifiable assets and liabilities in connection with the acquisition of a business**

The valuation of identifiable assets and liabilities in connection with the acquisition of a business involves items in the acquired company's statement of financial position, as well as items that have not been recognized in the acquired company's statement of financial position such as customer relationships that should be valued at fair value. In normal circumstances, as quoted market prices are not always available for the assets and liabilities that are to be valued, different valuation methods have to be used. These valuation methods are based on a number of assumptions. Other items that can be difficult to both identify and value are contingent liabilities that could have arisen in the acquired company such as litigation-related items and contingent consideration. All statement of financial position items acquired in a business combination are thus subject to estimates and judgments. Please refer to note 18 for details regarding the estimates made for the most recent business acquisitions.

### **Goodwill**

The values associated with goodwill involve significant estimates and assumptions, including those with respect to future cash inflows and outflows, discounts rates and lives of assets. These significant estimates and judgments require considerable judgment which could affect the Corporation's future results if the current estimates of future performance and fair values change.

The Corporation assesses impairment by comparing the recoverable amount of goodwill with its carrying value. The determination of the recoverable amount involves significant management judgment.

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, in accordance with the methodology stated in note 9.

### **Valuation of accounts receivable and allowance for doubtful accounts**

Accounts receivable, which amount to \$343,491 (2017 – \$285,788), are one of the most significant current items included in the consolidated statement of financial position. Accounts receivable are accounted at initial fair value after allowance for doubtful accounts. The allowance for doubtful accounts, which amounts to \$5,645 (2017 – \$6,689), is thus subject to critical estimates and judgments. Further information regarding the credit risk in accounts receivable is provided in notes 6 and 21.

### **Critical accounting judgments and assumptions**

The Corporation makes judgments and assumptions concerning the future. The judgments and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### **Income taxes**

The Corporation is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Corporation recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. The Corporation determined

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

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that the deferred tax assets will be recoverable. Please refer to note 20 for details regarding the deferred tax asset valuation.

### Insurance provision

Certain US subsidiaries maintain high retention for risks related to vehicles, worker's compensation and general liabilities. The operational risks can result in the need to recognize a provision for damages resulting from property claims, personal injuries as well as worker's compensation claims related to the US subsidiaries' employees. Claims reserves are calculated based on a combination of cases reported and cases incurred but not reported. Every month, the Corporation performs calculations to assess the adequacy of the reserves based on open claims and historical data for incurred but unreported claims. The Corporation's calculations are based on several assumptions.

Accordingly, the current and non-current provisions on the consolidated statement of financial position related to insurance provision, which amount to \$16,252 (2017 – \$21,441) and are included in provisions and other non-current liabilities (note 13), are subject to critical judgments and assumptions.

### Defined benefit pension plan obligation

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Corporation determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

Other assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 19.

## 5 Cash and cash equivalents

Cash and cash equivalents are detailed as follows:

	2018 \$	2017 \$
Cash on hand	48,215	39,344
Deposits from customers	22,064	21,816
Restricted cash	7,683	8,144
	<u>77,962</u>	<u>69,304</u>

As at January 31, 2018, the Corporation has restricted cash of \$7,683 (2017 – \$8,144) that was deposited as collateral. This cash is not available for general operating purposes.

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

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### 6 Accounts receivable

	2018 \$	2017 \$
Trade receivables	313,498	265,126
Allowance for doubtful accounts	(5,645)	(6,689)
Other receivables	29,802	27,351
	<u>337,655</u>	<u>285,788</u>

The aging of trade receivables and the allowance for doubtful accounts are as follows:

	2018 \$	2017 \$
Not past due	258,144	225,577
Past due 0-30 days	23,564	19,861
Past due 31-60 days	11,475	6,300
Past due 61-120 days	10,418	4,645
More than 120 days	9,897	8,743
	<u>313,498</u>	<u>265,126</u>
Allowance for doubtful accounts	<u>(5,645)</u>	<u>(6,689)</u>
	<u>307,853</u>	<u>258,437</u>

The change in the allowance for doubtful accounts in respect of trade receivables during the year is as follows:

	2018 \$	2017 \$
Opening balance	6,689	11,417
Bad debt expense	2,097	2,570
Amounts written-off	(2,583)	(6,484)
Effect in exchange rate	<u>(558)</u>	<u>(814)</u>
Ending balance	<u>5,645</u>	<u>6,689</u>

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

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### Credit risk on trade receivables

There is a limited concentration of credit risk with respect to trade receivables, as the Corporation's customers are both large in number and dispersed across different market segments. The Parent Company's subsidiaries grant credit to their customers in the ordinary course of business and assess the credit worthiness of potential customers.

Credit terms vary across the Corporation and can range from 30 to 90 days to reflect the different risks within each country in which the Corporation operates. There is no Corporation-wide rate provision; provisions are made for accounts receivable's that are past due according to local conditions and past default experience.

Management believes the fair value of accounts receivables, being the present value of deferred cash flows, approximates their book value.

### 7 Inventories

	2018	2017
	\$	\$
Aircraft parts	8,016	8,578
Vehicle parts	401	5,366
Other	3,665	7,798
	<u>12,082</u>	<u>21,742</u>

For the year ended January 31, 2018 the cost of inventories recognized as an expense and included in operating costs amounted to \$40,582 (2017 - \$28,546).



# Garda World Security Corporation

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### 8 Property, plant and equipment

	Buildings \$	Computer equipment \$	Equipment and office furniture \$	Vehicles \$	Aircraft and Aircraft rotables \$	Armored vehicles \$	Uniforms \$	Leasehold Impro- vements \$	Total \$
<b>For the year ended January 31, 2017</b>									
Net value - beginning	6,363	4,227	29,105	29,724	111,639	62,331	13,468	46,596	303,453
Additions	-	1,441	5,927	4,921	10,501	35,443	6,173	8,212	72,618
Proceeds from disposals	(558)	(44)	(30)	(78)	-	(64)	(11)	-	(785)
Depreciation	(312)	(1,592)	(11,124)	(13,207)	(15,676)	(29,238)	(8,856)	(9,808)	(89,813)
Business acquisitions	2,037	575	3,972	6,577	-	-	-	-	13,161
Gain (loss) on disposals	(49)	(5)	(89)	33	-	(183)	-	(108)	(401)
Effect in exchange rate	(703)	(215)	(1,882)	(2,687)	(8,497)	(2,843)	(403)	(3,052)	(20,282)
Net value - end	6,778	4,387	25,879	25,283	97,967	65,446	10,371	41,840	277,951
<b>As at January 31, 2017</b>									
Cost	8,255	14,441	76,286	58,224	183,676	197,701	14,705	85,177	638,465
Accumulated depreciation	(1,477)	(10,054)	(50,407)	(32,941)	(85,709)	(132,255)	(4,334)	(43,337)	(360,514)
Net value - end	6,778	4,387	25,879	25,283	97,967	65,446	10,371	41,840	277,951
<b>For the year ended January 31, 2018</b>									
Net value - beginning	6,778	4,387	25,879	25,283	97,967	65,446	10,371	41,840	277,951
Additions	3,220	2,596	12,224	6,945	5,422	50,901	7,195	19,149	107,652
Proceeds from disposals	(7,455)	-	(283)	(731)	-	(123)	-	-	(8,592)
Depreciation	166	(1,606)	(10,457)	(11,651)	(15,330)	(38,920)	(8,796)	(8,951)	(95,545)
Business acquisitions	-	32	343	1,355	-	-	-	271	2,001
Gain (loss) on disposals	93	(3)	(31)	(158)	-	(64)	-	(520)	(683)
Effect in exchange rate	(395)	224	(1,031)	(442)	(4,925)	(3,697)	142	(3,290)	(13,414)
Net value - end	2,407	5,630	26,644	20,601	83,134	73,543	8,912	48,499	269,370
<b>As at January 31, 2018</b>									
Cost	5,044	11,594	67,268	40,852	175,121	221,478	14,684	75,047	611,088
Accumulated depreciation	(2,637)	(5,964)	(40,624)	(20,251)	(91,987)	(147,935)	(5,772)	(26,548)	(341,718)
Net value - end	2,407	5,630	26,644	20,601	83,134	73,543	8,912	48,499	269,370

As at January 31, 2018, the cost and accumulated depreciation for computer equipment, vehicles, armored vehicles and aircraft held under finance lease obligations amounted to \$225,996 and \$148,708 respectively (2017 - to \$195,331 and \$129,484).

During the year, the Corporation acquired property, plant and equipment under finance lease obligations amounted to \$35,971 (2017 - \$26,085).

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## Notes to Consolidated Financial Statements

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### 9 Goodwill and Intangible assets

The changes in the carrying value of goodwill and intangible assets comprise the following:

	Software \$	Service contracts and client relationships \$	Total intangible assets \$	Goodwill \$
<b>For the year ended January 31, 2017</b>				
Net value – Beginning	14,582	422,956	437,538	754,421
Business acquisitions (note 18)	-	12,950	12,950	24,537
Additions	5,798	3,907	9,705	-
Amortization of intangible assets	(5,050)	(28,664)	(33,714)	-
Effect in exchange rate	(1,074)	(8,260)	(9,334)	(35,061)
Net value – End	14,256	402,889	417,145	743,897
<b>As at January 31, 2017</b>				
Cost	43,324	510,934	554,258	743,897
Accumulated amortization	(29,068)	(108,045)	(137,113)	-
Net value – End	14,256	402,889	417,145	743,897
<b>For the year ended January 31, 2018</b>				
Net value – Beginning	14,256	402,889	417,145	743,897
Business acquisitions (note 18)	17	8,094	8,111	10,301
Additions	8,329	2,077	10,406	-
Amortization of intangible assets	(3,311)	(29,763)	(33,074)	-
Effect in exchange rate	(725)	(4,431)	(5,156)	(23,265)
Net value – End	18,566	378,866	397,432	730,933
<b>As at January 31, 2018</b>				
Cost	35,506	512,492	547,998	730,933
Accumulated amortization	(16,940)	(133,626)	(150,566)	-
Net value – End	18,566	378,866	397,432	730,933

Additions to intangible assets during the year included \$10,406 acquired from a third party (2017 – \$9,705).

As at January 31, 2018 and 2017 intangible assets with indefinite useful life amounted to \$162,090.

During the year, the Corporation acquired software under finance lease obligations amounted to \$660 (2017 -nil).

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### Goodwill impairment test

For the purpose of impairment testing, goodwill is allocated to the Corporation's cash generating units ("CGUs"), which represent the lowest level within the Corporation at which goodwill is monitored for internal management purposes. The aggregate carrying amount of goodwill allocated to each CGU is as follows:

	2018 \$	2017 \$
<b>Operating segments</b>		
Cash logistics – Canada	114,474	114,474
Cash logistics – United States	268,866	284,340
International protective Services	171,179	182,309
Airport pre-board security screening – Canada	19,851	19,851
Security guard services – Canada	156,563	142,923
	<u>730,933</u>	<u>743,897</u>

The Corporation performed its goodwill impairment test on January 31. The methodology is based on discounted future cash flows. The recoverable amount of each CGU was estimated based on its fair value less cost of disposal, wherein the estimated future cash flows are discounted to their present value using after-tax discounted rates ranging between 11.75% and 13.25% (2017 – 11.0% and 12.5%).

The discounted rates were estimated based on past experience and industry-average weighted average cost of capital. First-year cash flows were projected based on past experience, actual operating results and reflecting current economic conditions. For a further nine-year period, cash flows were extrapolated using an average growth rate of between 2.0% and 3.5% in revenues, and margins were adjusted where deemed appropriate. The terminal value is based on exit multiples ranging from 8.93x to 10.30x the recurring operating profit, or exit multiple of 14.60x the recurring operating profit less capital expenditures.

The result of the test determined that no impairment loss was required in any of the Corporation's CGUs, as the recoverable amount for these CGUs was higher than their respective carrying amounts.

A 1% increase in the discount rate or a 1% decrease in cash flows would not give rise to impairment.

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### **10 Other assets**

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Notes receivable	14,737	13,572
Other	9,533	5,193
Employee benefit assets (note 19)	2,562	2,488
	<u>26,832</u>	<u>21,253</u>

### **11 Accounts payable and accrued liabilities**

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Trade payables	56,726	76,252
Labour and related liabilities	143,850	133,618
Sales tax payable	13,349	9,000
Provision for interest payable	29,360	22,231
Accrued liabilities	82,112	104,615
Deferred income	3,945	2,316
	<u>329,342</u>	<u>348,032</u>

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### 12 Long-term debt

	2018 \$	2017 \$
Term loan of US\$855,140 bearing interest at LIBOR (with a minimum at 1%) plus 3.5% with a reduction in relation to the leverage ratio, payable in quarterly instalments of US\$2,154, the remaining balance is repayable in full at maturity on May 26, 2024 (note 12 (c), (d), (e), (g))	1,013,887	-
Term loan of CA\$99,250, bearing interest at Canadian prime rate or banker's acceptance (with a minimum at 1%) plus 4.25% with a reduction in relation to the leverage ratio, payable in quarterly instalments of CA\$250, the remaining balance is repayable in full at maturity on May 26, 2024 (note 12 (c), (d), (e), (g))	96,713	-
Senior note of US\$500,000, bearing interest at a fixed rate of 8.75%, payable in full at maturity on May 15, 2025	595,269	-
Senior note of US\$174,398, bearing interest at a fixed rate of 7.25%, payable in full at maturity on November 15, 2021	213,153	569,222
Authorized revolving facilities of US\$232,500, bearing interest at Canadian prime rate or US bank rates plus 3%; LIBOR or at banker's acceptance plus 4% with a reduction in relation to the leverage ratio, repayable in full at maturity on May 26, 2022 (note 12 (c), (f), (g))	99,527	6,841
Authorized revolving facilities of US\$30,000, could be increased to a maximum of US\$50,000 (the increase is subject to approval), bearing interest at daily one month LIBOR plus 2.25%, repayable in full at maturity in June 2019	10,454	8,479
Finance lease obligations, collateralized by certain property, plant and equipment, at interest rates varying between 0% and 9.30% with an average rate of 6.06% payable in monthly instalments of \$2,016, principal and interest, maturing on various dates through December 2024	69,509	53,354
Balances of purchase price payable, bearing no interest, payable in annual instalments, maturing through various dates through December 2024	5,962	3,518
Medium term notes of KES562,959 (Kenyan shilling) and US\$1,224 bearing a fixed average interest rate of 13.45%. Interest is paid semi-annually, payable in full at maturity in December 2021	8,259	5,503
Commercial Paper Program (note 12 (h))	6,842	8,974
Other financial indebtedness (note 12 (i))	5,491	7,084
Term loan in USD, repaid in May 2017	-	930,749
Delayed draw facility in USD, repaid in May 2017	-	136,172
Term loan in CAD, repaid in May 2017	-	128,865
	2,125,066	1,858,761
Less: Current portion	54,205	49,269
	2,070,861	1,809,492

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- a) On May 26, 2017, the Corporation completed the refinancing of credit facilities and senior notes. The new facilities include:
- US\$861,602 Term loan due in May 2024 bearing interest at LIBOR (with a minimum at 1%) plus 3.50%.
  - CA\$100,000 Term loan due in May 2024 bearing interest at LIBOR (with minimum at 1%) plus 4.25%.
  - US\$232,500 authorized revolving facilities due in May 2022 bearing interest Canadian prime rate or US bank rate plus 3%; LIBOR or at banker's acceptance plus 4%.
  - US\$500,000 senior notes due in May 2025 bearing interest at 8.75%.
  - US\$174,398 senior notes due in November 2021 bearing interest at 7.25%.
- b) This refinancing transaction impacted the Corporation's consolidated statement of income (loss) in the second quarter ended July 31, 2017, for an amount of \$34,336 which has been recorded in finance costs. This amount represents the amortization of the remaining deferred financing costs of the refinanced credit facilities, the tender offer cost and the change of control offer cost on senior notes refinancing.
- c) 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.

Standby fees, which vary based on the leverage ratio, apply to the unused portion of the credit facilities.

- d) At the end of each fiscal year, the Corporation has to make a prepayment on the outstanding borrowings under the term loan for an amount based on the first lien senior secured leverage ratio and the excess cash flow, as follows:

For fiscal year ended January 31, 2018:

- 100% of excess cash flow for the eight month period ending January 31, 2018.

For fiscal year ended January 31, 2019 and thereafter:

- 75% of excess cash flow if the first lien senior secured leverage ratio at such time exceeds 3.25:1;
- 50% of excess cash flow if the first lien senior secured leverage ratio at such time exceeds 2.75:1 but is not more than 3.25:1; and
- 25% of excess cash flow if the first lien senior secured leverage ratio at such time exceeds 2.25:1 but is not more than 2.75:1.

As at January 31, 2018, the excess cash flow prepayment under the credit facility was nil.

- e) The Corporation has designated US\$355 million of its US dollar senior note and US term loan as a foreign exchange hedge of its net investment in its foreign operations. Accordingly, the portion of the gains or losses arising from the translation of the US dollar-denominated debt that is determined to be an effective hedge is recognized in OCI, counterbalancing gains or losses arising from translation of the Corporation's net investment in its foreign operations. Should a portion of the hedging relationship become ineffective, the ineffective portion

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would be recorded in the consolidated statement of income (loss). During the year ended January 31, 2018, a gain of \$26,164 (2017 – gain of \$37,275) has been recorded in the consolidated statement of comprehensive income (loss) related to the translation of the US dollar senior note and US dollar term loan.

During the year ended January 31, 2018, an unrealized exchange gain on translation of long-term debt of \$100,527, (2017 – gain of \$96,584) has been recorded related to the foreign exchange variation of the Corporation's long-term debt in US dollars not designated as a foreign exchange hedge of its net investment in its foreign operations.

- f) As at January 31, 2018, letters of credit totalling \$64,325 (2017 – \$60,901) of which \$57,357 (2017 - \$60,736) reduced the available revolving facilities. As a result, \$127,824 (2017 – \$230,697) was available to be drawn under the revolving facilities. These letters of credit mainly guarantee worker's compensation claims to the insurance company.
- g) The Corporation's management reviews compliance with the financial covenants on a monthly basis, and its Board of Directors reviews compliance with the financial covenants on a quarterly basis. As at January 31, 2018, the Corporation was in compliance with its financial covenants.
- h) The Corporation has a KES 1,000,000 Commercial Paper Program in place. The Program is unsecured, unsubordinated debt. Notes are issued at a discount in KES or USD. As of January 31, 2018, Kenyan-shilling-denominated Commercial Paper totalled KES 554,441 (CA\$6,652) and US-dollar denominated Commercial Paper totalled US\$155 (CA\$190). The Corporation's Commercial Papers have maturities ranging from 7 to 360 days, but it is typically 30 days and above with an average interest rate of 12.83%.
- i) Other financial indebtedness includes various debts composed of; term loans, asset financing and overdraft facilities. Interest rates average 14.16% with debts maturing on various dates through November 2019. Other financial indebtedness is secured by Kenya Kazi Limited's assets.

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### 13 Provisions and other non-current liabilities

	Insurance provision \$	Deferred rent for real estate tenants \$	Long-term consideration payable \$	Contingent consideration \$	Other \$	Total provisions and other non-current liabilities \$
<b>For the year ended January 31, 2017</b>						
Opening balance	22,546	5,608	2,361	56,025	214,335	300,875
Additional provisions	31,515	-	-	-	-	31,515
Business acquisitions (note 18)	-	-	-	11,960	-	11,960
Used during the year	(31,634)	(820)	(2,000)	-	3	(34,451)
Change in fair value	-	-	-	(51,525)	17,686	(33,839)
Remeasurement of obligations	-	-	-	-	223	223
Unwinding of discount	-	-	22	-	-	22
Effect in exchange rate during the year	(986)	(409)	-	(5,184)	(179)	(6,758)
<b>Ending balance</b>	<b>21,441</b>	<b>4,379</b>	<b>383</b>	<b>11,276</b>	<b>232,068</b>	<b>269,547</b>
Current provisions	11,046	936	383	-	229,138	241,503
Non-current provisions	10,395	3,443	-	11,276	2,930	28,044
	<b>21,441</b>	<b>4,379</b>	<b>383</b>	<b>11,276</b>	<b>232,068</b>	<b>269,547</b>
<b>For the year ended January 31, 2018</b>						
Opening balance	21,441	4,379	383	11,276	232,068	269,547
Additional provisions	24,582	-	-	-	-	24,582
Used during the year	(29,458)	(894)	(383)	-	-	(30,735)
Reclassification	-	-	-	-	(229,112)	(229,112)
Effect in exchange rate during the year	(313)	(209)	-	(472)	(136)	(1,130)
<b>Ending balance</b>	<b>16,252</b>	<b>3,276</b>	<b>-</b>	<b>10,804</b>	<b>2,820</b>	<b>33,152</b>
Current provisions	8,818	881	-	-	25	9,724
Non-current provisions	7,434	2,395	-	10,804	2,795	23,428
	<b>16,252</b>	<b>3,276</b>	<b>-</b>	<b>10,804</b>	<b>2,820</b>	<b>33,152</b>

#### a) Insurance provision

Certain US subsidiaries maintain high retention for risks related to vehicles, worker's compensation and general liabilities. These US subsidiaries maintain a non-cash insurance provision to cover the estimated retained liability. The non-cash insurance reserve for insurance is determined by management and is based on claims filed and an estimate of claims incurred but not yet reported. The US subsidiaries maintain third party stop-loss insurance policies to cover certain liability costs in excess of predetermined retained amounts.

#### b) Deferred rent for real estate tenants

The deferred rent represents cash received from lessors for real estate tenants, which is amortized over the terms of the leases.



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### c) Contingent consideration

The fair value of the acquisition-related contingent consideration is based on estimated future cash flows and an assessment of the probability of occurrence on potential future events. The fair value of the contingent consideration as at January 31, 2018 was \$10,804. The change during the year is due to the impact of foreign exchange.

The acquisition-related contingent consideration is remeasured each reporting period with changes in fair value recorded in the consolidated statement of income (loss). As at January 31, 2018, there was no change in fair value based on this remeasurement compared to a gain of \$ 51,525 due to an earnout target not being achieved as at January 31, 2017 related to the Aegis acquisition

In August 2017, the sellers of the Aegis Group claimed that GardaWorld's calculation of the first earnout is incorrect and filed a Complaint. In October 2017, GardaWorld filed an Answer and a Counterclaim against three of such sellers. The Corporation believes the claim has no merit and intends to defend its position and accordingly no provision has been recorded with respect to the claim.

### d) Other liabilities

Prior to May 26, 2017, certain shares were presented as other liabilities with changes in fair value recorded in the consolidated statement of income (loss). Subsequent to the amalgamation, as described in note 1, these shares were reclassified as equity (deficiency).

## 14 Share capital

### a) Capital risk management

The Corporation has defined its capital as long-term debt, share capital, contributed surplus, accumulated other comprehensive income and deficit, net of cash and cash equivalents and bank indebtedness.

The following table summarizes certain information with respect to the Corporation's capital structure:

	2018 \$	2017 \$
Cash and cash equivalents, net of bank indebtedness	(70,148)	(64,092)
Long-term debt	2,125,066	1,858,761
	2,054,918	1,794,669
Deficiency attributable to shareholder	(461,929)	(303,095)
	1,592,989	1,491,574

The Corporation's objectives when managing capital are to maintain an optimal capital structure with the use of external long-term debt to support its growth.

# Garda World Security Corporation

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The Corporation normally finances property, plant and equipment additions of armored vehicles, aircraft and vehicles through finance leases. All other property, plant and equipment additions are paid cash using operating cash flows.

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

### b) Authorized – in unlimited number, without par value

Unlimited number of Class A shares, voting and participating

### c) Issued and fully paid

Changes in share capital issued are summarized as follows:

	Number of shares					Amount \$
	Common Shares	Class A Shares	Class B Shares	Class C Shares	Class A Post-amalgam ation	
Balance as at February 1, 2016	279,973,001	-	-	-	-	161,900
Common shares conversion	(279,973,001)	-	23,331,084	-	-	-
Class A issued following rollover	-	8,194,650	-	-	-	49,556
Class A reclassified to liability	-	-	-	-	-	(46,056)
Share issuance	-	578,707	-	-	-	3,831
Share repurchase held by subsidiary	-	-	-	-	-	(401)
Share issuance following liquidation	-	(449,031)	(13,939,613)	14,388,644	-	399,447
<b>Balance as at January 31, 2017</b>	<b>-</b>	<b>8,324,326</b>	<b>9,391,471</b>	<b>14,388,644</b>	<b>-</b>	<b>568,277</b>
Balance as at February 1, 2017	-	8,324,326	9,391,471	14,388,644	-	568,277
Share issuance	-	439,103	-	-	1,000	2,826
Liquidation of shares held by subsidiary	-	(582,439)	-	-	-	(2,816)
Amalgamation	-	(8,180,990)	(9,391,471)	(14,388,644)	24,924,679	21,837
<b>Balance as at January 31, 2018</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24,925,679</b>	<b>590,124</b>

### i) Share issuance following liquidation

During the year, the Corporation repurchased some of its Class A and B shares through the issuing Class C shares. The transactions were recorded at the carrying amount of the repurchased shares.

### ii) Share repurchase

The Corporation repurchased some of its Class A and B shares for a cash consideration of \$218,998 (2017 - \$4,905).

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### d) Stock options

Under a share-based arrangement of the parent company of the Corporation, employees of the Corporation received stock options. The stock options have a term of nine years. The vesting of the options shall satisfy performance vesting conditions based on achievement of multiple of invested capital (MOIC) and the internal rate of return (IRR) target.

IFRS requires that the expense is recorded in the entity in which employees render the services. As a result, the Corporation recorded, in net income, a stock-based compensation charge \$2,792 (2017 – \$7,073) with an offsetting credit to contributed surplus.

The fair value of options granted was estimated on the date of the grant using the Monte Carlo option-pricing model based on the following assumptions:

	2018 \$	2017 \$
Expected dividend rate	Nil	Nil
Volatility	23.0%	25.8%
Expected life of options	1 to 9 years	1 to 10 years
Risk-free interest rate	1.25%	1.00%
Number of options	119,591	4,905,836
Fair value of options	\$1.57	\$1.84
Exercise and spot price	\$30.08	\$27.76

For the year ended January 31, 2018, the Corporation recorded to net loss a stock-based compensation charge of \$2,792 (2017 – \$7,073) for the options granted since July 12, 2016, with an offsetting credit to contributed surplus.

### 15 Depreciation and amortization

	2018 \$	2017 \$
Depreciation of property, plant and equipment - Operating costs	84,204	76,255
Depreciation of property, plant and equipment – Selling and administrative expenses	11,341	13,558
	<u>95,545</u>	<u>89,813</u>
Amortization of intangible assets - Operating costs	33,074	33,714
	<u>128,619</u>	<u>123,527</u>

# Garda World Security Corporation

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### 16 Finance costs

	2018 \$	2017 \$
Interest on long-term debt	137,303	101,527
Early termination interest	4,133	-
Interest on finance leases obligations	3,933	4,338
Other interest	10,043	9,741
Amortization of deferred financing costs	8,618	9,301
Amortization of remaining deferred financing costs on refinanced long term debt	30,203	-
Amortization of premiums and discounts	(3,335)	(1,776)
Unwinding of discount	23,750	14,514
	<u>214,648</u>	<u>137,645</u>

### 17 Expenses by nature

	2018 \$	2017 \$
Salaries and fringe benefits	1,699,000	1,582,592
Depreciation of property, plant and equipment	95,545	89,813
Amortization of intangible assets	33,074	33,714
Stock-based compensation	2,792	7,073
Subcontractors	177,543	184,123
Transportation expenses	101,298	115,973
Operating lease payments	78,106	80,987
Cost of inventories recognized as an expense	40,582	28,546
Operating related costs	167,030	162,965
Administration related costs	96,513	115,208
Other expenses (revenues)	9,574	(7,137)
<b>Total</b>	<u>2,501,057</u>	<u>2,393,857</u>
Operating costs	2,152,524	2,029,466
Selling and administrative expenses	<u>348,533</u>	<u>364,391</u>
<b>Total</b>	<u>2,501,057</u>	<u>2,393,857</u>

# Garda World Security Corporation

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### 18 Business acquisitions

The Corporation acquired all of outstanding shares of Agence de Sécurité Mirado Inc. on August 9, 2017, Signalisation Routière du Québec Inc. on August 10, 2017 and Primary Response Inc. on January 15, 2018. All businesses operate in Protective Services. The table below presents the preliminary purchase price determination of the acquired businesses.

During 2017, the Corporation acquired all of the outstanding shares of Kenya Kazi Limited on December 22, 2016 and 80% of the outstanding shares of Crisis 24 on December 1, 2016. Both entities operate in Protective Services.

These acquisitions are in line with the Corporation's strategy, which is to establish operations' platforms and then continually improve them with a combination of business acquisitions and internal growth.

From the date of acquisitions, the estimated contribution of the acquired businesses to revenues and income before income taxes amounted to \$8,844 and \$512 respectively.

If this acquisition had occurred on February 1, 2017, management estimates that revenues and income before income taxes of the acquired businesses would have been \$55,448 and \$3,303 respectively.

The transactions have been recorded under the acquisition method and the results of operations of the acquired business have been included in the consolidated financial statements since the acquisition date. Goodwill is mainly attributable to the workforce and the synergies expected from integrating the acquired entity into the Corporation's existing business.

As at January 31, 2018, goodwill of \$10,301 is attributable to the security guard services CGU and international protective services CGU.

Per the Kenya Kazi Limited acquisition contract, the contingent consideration calculation is based on a series of free cash flows that will be achieved by Kenya Kazi Limited up to January 31, 2019. The fair value of the contingent consideration was determined using forecasted free cash flows.

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	2018 \$	2017 \$
<b>Assets</b>		
Cash (Bank indebtedness)	(1,780)	4,101
Non-cash working capital	4,379	4,718
Property, plant and equipment	2,001	13,161
Goodwill	10,301	24,537
Intangible assets	8,111	12,950
	23,012	59,467
<b>Liabilities</b>		
Long-term debt	1,176	21,108
Deferred income tax liabilities	727	68
	1,903	21,176
<b>Net assets</b>	<b>21,109</b>	<b>38,291</b>
<b>Consideration</b>		
Cash	17,115	21,363
Purchase price adjustment - Receivable from seller	(2,504)	-
Purchase price adjustment - Payable to seller	3,856	-
Balance of purchase prices payable	2,642	3,625
Contingent consideration – non-current portion	-	11,960
Non-controlling interest	-	1,343
<b>Total consideration</b>	<b>21,109</b>	<b>38,291</b>

Of the goodwill and intangible assets acquired during the year, no amount is deductible for tax purposes.

Transaction costs of \$991 (2017 - \$2,553) have been expensed in relation to business acquisitions.

During the year, the Corporation completed the determination of the fair value of the identifiable assets acquired from Kenya Kazi Limited.

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### 19 Employee benefits

#### a) Defined benefit pension plans

The Corporation has defined benefit pension plans for 1,462 of its employees (2017 – 1,468). The Corporation contributes to the plans. The obligations of the defined benefit plans are based on the employee's length of service and salary.

The Corporation measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at January 31, 2018. The most recent actuarial valuation of the pension plans for funding purposes was as of January 1, 2017 and the next required valuation will be as of January 1, 2018.

Information about the Corporation's defined benefit pension plans is as follows:

#### Employee benefits assets:

	2018 \$	2017 \$
Fair value of plan assets	76,331	70,305
Accrued benefit obligation	(73,769)	(67,817)
Plan surplus – Employee benefit assets	2,562	2,488

The following table shows the composition of the underlying assets of the segregated funds in which the Corporation's defined benefit pension plans invest in:

#### Plans assets comprise:

	2018	2017
Equity securities	60.8%	59.1%
Debt securities	34.5%	38.8%
Money market fund	4.7%	2.1%

As at January 31, 2018, all investments of the plans are classified as Level 2 instruments as defined in note 21.

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### Movement in the present value of the accrued benefit obligation for defined benefit plans:

	2018 \$	2017 \$
Accrued benefit obligation – Beginning of year	67,817	63,429
Current service cost	1,142	1,081
Interest cost	2,719	2,604
Benefits paid	(2,417)	(2,084)
Actuarial loss (gain) arising from:		
Plan experience	152	978
Changes in demographic assumptions	-	1,085
Changes in financial assumptions	4,356	724
Accrued benefit obligation – End of year	73,769	67,817

### Movement in the fair value of plan assets for defined benefit plans:

	2018 \$	2017 \$
Fair value of plan assets – Beginning of year	70,305	65,161
Expected return on plan assets	3,539	2,043
Employer contributions	2,361	2,781
Administrative cost	(263)	(271)
Benefits paid	(2,417)	(2,084)
Interest income on plan assets	2,806	2,675
Fair value of plan assets – End of year	76,331	70,305

### Expense recognized

	2018 \$	2017 \$
Current service cost	1,142	1,081
Interest cost	(87)	(71)
Expected return on plan assets	(3,539)	(2,043)
Administrative cost	263	271
Actuarial loss on the defined benefit obligation	4,508	2,787
	2,287	2,025
Expense recognized in net income (loss)	1,318	1,281
Expenses recognized in OCI	969	744
	2,287	2,025



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### Actuarial losses recognized in OCI:

	2018	2017
	\$	\$
Cumulative actuarial loss in OCI – Beginning of year	7,172	6,428
Recognized during the year	969	744
Cumulative actuarial loss in OCI – End of year	8,141	7,172

### The significant actuarial assumptions used (expressed as weighted average):

	2018	2017
	%	%
Accrued benefit obligation		
Discount rate	3.60	4.00
Future salary increase	2.40	2.50
Employee benefit expense		
Discount rate	3.60	4.00
Expected long-term rate of return on plan assets	3.60	4.00
Future salary increases	2.40	2.50

Assumptions regarding future mortality are based on published statistics and mortality tables. The current longevity underlying the value of the liabilities in the defined plans is 17 years.

The overall expected long-term rate of return is 3.60%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories.

The Corporation expects approximately \$2,327 in contributions to be paid to its defined benefit plans next year in fiscal 2019.

Through the defined benefit plan, the Corporation is exposed to a number of risks, the most significant of which are detailed below.

### Asset volatility

The plans liabilities are calculated using a discount rate set with reference to corporate bond yields; if the plan assets underperform this yield, it will create an experience loss. The plans hold a proportion of equities, which are expected to outperform corporate bonds in the long term while contributing to volatility and risk in the short term.

The Corporation believes that due to the long-term nature of the plans liabilities, the level of equity investments is an appropriate element of the Corporation's long-term strategy to manage the plans efficiently. The plans assets are diversified, so the failure of an individual stock would not have a material impact on the plans assets taken as a whole. The pension plans do not face a significant currency risk.

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### Changes in bond yields

A decrease in bond yields will increase the plans liabilities, although this will be partially offset by an increase in the value of the plans bond holdings.

### Inflation risk

The benefits paid by one plan are partially indexed to inflation; this plan represents less than 20% of the total defined benefit liabilities of both plans. The benefits of the other plan are not indexed to inflation. Also, future benefits for some, but not all, active members are based on future salaries.

### Life expectancy

The main purpose of the plans obligations is to provide benefits towards its members over the duration of their respective lifetimes. Increases in life expectancy will result in an increase in the plans liabilities.

Each sensitivity analysis disclosed in this note is based on changing one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity analysis of the defined benefit obligations to variations in significant actuarial assumptions, the same method has been applied as for calculating the liability recognized in the statement of financial position.

### Sensitivity analysis

	2018 \$	2017 \$
Discount rate at 3.35% instead of 3.60% (2017 - 3.75% instead of 4.00%)	3,167	2,974
Salary growth of 2.15% instead of 2.40% (2017 – 2.25% instead of 2.50%)	(402)	(358)
Life expectancy – 90% of the mortality rates used for valuation	1,706	1,455

### b) Defined contribution plans

The Corporation has established defined contribution pension plans for a certain number of its unionized and non-unionized employees in Canada and the United States. In addition, the Corporation also contributes to a registered retirement savings plan for various employees. The pension expense for these plans is represented by the Corporation's contribution. For the year ended January 31, 2018, the pension expense for these plans amounted to \$14,404 (2017 – \$13,015) and was recorded into the salaries and fringe benefits.

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### 20 Income taxes

a) The income tax rate differs from the basic tax rate for the following reasons:

	2018 \$	2017 \$
Income before income taxes	18,960	48,250
Canadian statutory income tax rate	26.90%	26.90%
Income taxes calculated at statutory rate	5,100	12,979
Increase (decrease) resulting from:		
Benefits arising from a financing structure	(20,060)	(23,570)
Non-Canadian applicable income tax rate difference	(3,254)	(5,826)
Unrealized exchange gain on translation of long-term debt	(6,909)	(20,632)
Write-off of carried forward losses - change of control (note 1)	47,442	-
Permanent differences and other	48,708	17,554
Change in enacted statutory tax rate	82,872	(226)
	153,899	(19,721)
Provision for (recovery of) income taxes:		
Current	26,199	19,262
Deferred	127,700	(38,983)
	153,899	(19,721)

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- b) Deferred income taxes represent the net tax effect of temporary differences between the consolidated financial statements carrying amounts and tax bases of assets and liabilities. Significant components of the Corporation's deferred income tax assets (liabilities) as at January 31, 2018 and 2017 were as follows:

Net deferred income tax assets	Property, plant and equipment and intangible assets \$	Liabilities and other provisions \$	Loss carryforward \$	Total \$
As at January 31, 2016	(88,292)	107,221	206,962	225,891
Recovery of (provision for) deferred income taxes	1,209	(17,203)	54,977	38,983
Business acquisitions	(739)	-	671	(68)
OCI	-	197	-	197
Effect of exchange rate	2,741	(5,638)	(9,895)	(12,792)
As at January 31, 2017	(85,081)	84,577	252,715	252,211
Deferred income tax assets	(36,430)	84,577	252,715	300,862
Deferred income tax liabilities	(48,651)	-	-	(48,651)
	(85,081)	84,577	252,715	252,211
As at January 31, 2017	(85,081)	84,577	252,715	252,211
Recovery of (provision for) deferred income taxes	27,962	(41,790)	(113,872)	(127,700)
Business acquisitions	(748)	21	-	(727)
OCI	-	(5,296)	-	(5,296)
Effect in exchange rate	1,925	(3,351)	(8,366)	(9,792)
As at January 31, 2018	(55,942)	34,161	130,477	108,696
Deferred income tax assets	(12,752)	34,161	130,451	151,860
Deferred income tax liabilities	(43,190)	-	26	(43,164)
	(55,942)	34,161	130,477	108,696

The Corporation has forecasted the taxable income for the next 20 years. Based on those forecasts, the loss carryforward will be used before their expiring dates, ranging from 2028 to 2038. Therefore, deferred income tax assets have been recognized regarding those losses. As at January 31, 2018, loss carryforwards not recognized in deferred income tax assets totalled \$6,791 (2017 - \$5,425).

On May 26, 2017, a refinancing transaction triggered a change of control for income tax purposes. As such, the Corporation lost \$176,787 in tax loss carryforwards resulting in a loss of \$47,442 recorded in the Corporation's consolidated statement of income (loss).

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### 21 Financial instruments

#### Classification and fair value

The classification of financial instruments as at January 31, 2018 and 2017, along with the respective carrying amounts and fair values, is as follows:

	2018		2017	
	Carrying amount	Fair Value	Carrying amount	Fair Value
<b>Loans Receivable</b>				
Notes Receivable	14,737	14,737	13,572	13,572
<b>Other Liabilities at amortized cost</b>				
Long-term debt	2,125,066	2,256,712	1,858,761	1,881,051
Long-term payable consideration	-	-	383	383
<b>Financial Liabilities at fair value through profit or loss</b>				
Derivative financial liabilities	20,320	20,320	7,397	7,397
Contingent consideration	10,804	10,804	11,276	11,276
<b>Derivatives designated as hedge</b>				
Derivative financial assets	456	456	-	-
Derivative financial liabilities	-	-	8,497	8,497

#### Fair value determination

The fair value hierarchy under which the Corporation's financial instruments are valued is as follows:

Level 1 – quoted market prices in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and

Level 3 – unobservable inputs such as inputs for the asset or liability that are not based on observable market data.

Loans and receivable – The fair value of the Corporation's loans and receivable approximate their carrying amount due to their short term nature. Loan and receivable are classified as level3.

Other liabilities at amortized costs – Except for the long-term debt, the fair value of the corporation's other liabilities at amortized cost approximate their carrying amount due to their short term nature. The fair value of long-term debt is based on observable market data and the calculation of discounted cash flows. Discount rates were determined based on current terms and conditions observed in the credit market. Other liabilities at amortized costs are classified as level3.

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For financial assets and liabilities measured at fair value on a recurring basis, the fair value hierarchy is as follows:

2018				
	Carrying amount	Level 1	Level 2	Level 3
<b>Financial assets</b>				
Derivative financial assets	456	-	456	-
<b>Financial liabilities</b>				
Derivative financial liabilities	20,320	-	20,320	-
Contingent consideration	-	-	-	10,804
2017				
	Carrying amount	Level 1	Level 2	Level 3
<b>Financial liabilities</b>				
Derivative financial liabilities	10,215	-	10,215	-
Other liabilities	229,112	-	229,112	-
Contingent consideration	-	-	-	11,276

The fair value of derivative financial assets and liabilities are determined using a discounted value of the difference between the value of the contract at expiry calculated using the contracted rates and the value determined using the rates the financial institution would use if it renegotiated the same contract under the same conditions as at the statement of financial position date. Discount rates are adjusted for the credit risk of the Corporation or the counterparty, as applicable, when determining credit risk adjustments, the Corporation considers offsetting agreements, if any.

Level 3 financial instruments have evolved as follow between January 31, 2017 and 2018:

	2018 \$	2017 \$
Balance – Beginning of year	11,276	56,025
Business acquisition (note 18)	-	11,960
Effect in exchange rate during the year	(472)	(5,184)
Change in fair value of contingent consideration	-	(51,525)
Balance - End of Year	10,804	11,276

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### Credit risk

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

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

The Corporation's credit risk is principally attributable to its trade receivables and notes receivable. The amounts presented in the consolidated statement of financial position 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 procedure has the effect of avoiding any concentration of credit risk. Generally, the Corporation does not require collateral or other security from customers for trade receivables; 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 January 31, 2018, the Corporation's interest rate risk is as follows:

Cash and cash equivalents	Variable rate
Accounts receivable	Non-interest bearing
Notes receivable	Non-interest bearing
Bank indebtedness	Variable rate
Accounts payable and accrued liabilities	Non-interest bearing
Long-term debt	Note 12
Contingent consideration	Non-bearing interest

Based on long-term debt at variable rates as at January 31, 2018, the effect of a change of 100 basis points would have been approximately \$9,846 (2017 – \$8,232).

The Corporation has an embedded derivative financial instrument with fair value of nil as at January 31, 2018 (2017 – negative by \$5,679). This derivative is related to the interest rate floor on the Corporation's US dollar term loan and delayed draw facility. The change in fair value for the year resulted in a gain of \$5,679 (2017 – \$4,684) and was recorded in the consolidated statement of income (loss).

The Corporation minimizes its exposure to changes in interest rates in maintaining a significant portion of fixed-rate interest-bearing long-term debt. This is achieved by entering into interest rate swaps. As at January 31, 2018, the fair value of interest rate swaps amounted \$456 (2017 – negative by \$2,818). The change in fair value for the year resulted in a gain of \$3,274 (2017 – gain of \$3,910) and was recorded in the consolidated statement of comprehensive income (loss) since these interest rate swaps are designated as hedges of US dollar and Canadian dollar term loan variable interest rate debts.

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The Corporation's interest rate swaps are as follows:

Coverage period	Average BA's rate	Notional contract amount \$
Less than 1 year	1,85%	238,911
1 to 2 years	1,95%	38,830

### Foreign currency risk

The Corporation has operating activities outside Canada, namely in the United States, the Middle East, Europe and North Africa mostly, through its wholly owned subsidiaries. It is therefore exposed to foreign exchange rate risk on the US dollar, the Euro and the British pound in the net investment in its foreign operations.

During the year ended January 31, 2018, if the US dollar had strengthened on average by \$0.01 in comparison to the Canadian dollar, all other variables remaining constant, the impact on income before finance costs and income taxes for the year would have been approximately \$10,129 (2017 – \$7,118) lower and comprehensive income would have been approximately \$4,169 (2017 - \$4,363) lower.

The Corporation's consolidated statement of financial position contains balances of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and long-term debt, in currencies other than functional currency of the Corporation. Accordingly, the Corporation is exposed to foreign exchange risk.

The balances in currencies are as follows:

	2018				2017			
	USD	EUR	GBP	AUD	USD	EUR	GBP	AUD
Cash and cash equivalents	4,558	140	45	-	6,703	574	36	1,228
Accounts receivable	5,792	-	-	-	11,742	-	-	-
Total assets	10,350	140	45	-	18,445	574	36	1,228
Canadian dollar equivalent	12,274	214	78	-	24,035	807	60	1,213
Accounts payable and accrued liabilities	661	-	-	-	2,067	-	-	-
Current portion of long-term debt	8,771	-	-	-	9,105	-	-	-
Long-term debt	1,564,146	-	-	-	1,277,985	-	-	-
Total liabilities	1,573,578	-	-	-	1,289,157	-	-	-
Canadian dollar equivalent	1,934,398	-	-	-	1,679,772	-	-	-

During 2017, the Corporation sold its cross currency swap. As a result, the Corporation received \$26,972 for this settlement.



# Garda World Security Corporation

## Notes to Consolidated Financial Statements

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Forward swaps totalled US\$120,000 (2017 – US\$120,000). One forward swap of US\$100,000 at an exchange rate of 1.3961 (US\$:CA\$) with a maturity date on November 15, 2019 and one forward swap of US\$20,000 at an exchange rate of 1.3738 (US\$:CA\$) with a maturity date on November 8, 2018. As at January 31, 2018, the fair value of foreign derivative swaps are negative by \$20,320 (2017 – negative by \$7,397). The change in fair value for the year resulted in a loss of \$12,923 (2017 – loss of \$29,609) and was recorded in the consolidated statement of income (loss).

### 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 contractual cash flows include the carrying value amount plus interest using the current rate.

The following are the contractual maturities of financial liabilities and financial assets as at January 31, 2018:

	Fair value \$	Carrying amount \$	Contractual cash flow \$	Less than 1 year \$	1 to 3 years \$	4 to 5 years \$	More than 5 years \$
<b>Financial liabilities</b>							
Bank indebtedness	7,814	7,814	7,814	7,814	-	-	-
Accounts payable and accrued liabilities	329,342	329,342	329,342	329,342	-	-	-
Derivative financial instruments	20,320	20,320	20,320	2,963	17,357	-	-
Contingent consideration	10,804	10,804	10,804	-	10,804	-	-
Insurance provision	16,252	16,252	16,252	8,818	1,669	838	4,927
Long-term debt	2,256,712	2,125,066	3,034,583	195,008	329,027	608,819	1,901,729
	<u>2,641,244</u>	<u>2,509,598</u>	<u>3,419,115</u>	<u>543,945</u>	<u>358,857</u>	<u>609,657</u>	<u>1,906,656</u>
<b>Financial assets</b>							
Derivative instruments	456	456	456	456	-	-	-

The following table details the maturities of the financial liabilities as at January 31, 2017:

	Fair value \$	Carrying amount \$	Contractual cash flow \$	Less than 1 year \$	1 to 3 years \$	4 to 5 years \$	More than 5 years \$
<b>Financial liabilities</b>							
Bank indebtedness	5,212	5,212	5,212	5,212	-	-	-
Accounts payable and accrued liabilities	348,032	348,032	348,032	348,032	-	-	-
Derivative financial instruments	10,215	10,215	10,215	8,061	2,154	-	-
Contingent consideration	11,276	11,276	11,276	-	11,276	-	-
Insurance provision	21,441	21,441	21,441	11,046	3,352	1,062	5,981
Long-term debt	1,881,051	1,858,761	2,279,311	145,617	247,590	1,882,160	3,944
	<u>2,277,227</u>	<u>2,254,937</u>	<u>2,675,487</u>	<u>517,968</u>	<u>264,372</u>	<u>1,883,222</u>	<u>9,925</u>

# Garda World Security Corporation

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### 22 Contingencies

In the normal course of business, the Corporation is involved in various legal proceedings, the outcomes of which cannot be determined at this time, and, accordingly, no provision has been recorded in the consolidated financial statements. The Corporation believes that the resolution of these proceedings will not have a material favourable or unfavourable effect on its financial position or results of operations.

### 23 Related party disclosures

#### a) Key management personnel compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the business activities of the Corporation and includes all of its directors along with certain executives. Key management personnel participate in the stock option plan. The remuneration of key management personnel includes the following:

	2018 \$	2017 \$
Director's fees	348	429
Salaries	6,011	6,101
Benefits	145	127
Stock-based compensation	2,189	5,575
	<u>8,693</u>	<u>12,232</u>

#### b) Related party transactions

The following provides the transaction amount by nature of the related party relationship\*:

	2018 \$	2017 \$
<b>Nature of transaction</b>		
Professional fees included in other expenses	517	1,250
Professional fees included in deferred financing costs	2,320	55
	<u>2,837</u>	<u>1,305</u>

\* Nature of the related party relationship – entities related by virtue of key management personnel exercising significant influence or control over the entities' financial and operating policies.

#### Financial positions

Receivable from parent company	193	6,200
	<u>193</u>	<u>6,200</u>

# Garda World Security Corporation

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### 24 Commitments

The Corporation entered into operating leases mainly of real estate expiring on various dates through November 2041, which call for lease payments of \$286,686. Minimum lease payments for the upcoming years are as follows:

	\$
2019	49,068
2020	43,048
2021	35,217
2022	31,431
2023	25,548
Thereafter	102,374
	<u>286,686</u>

### 25 Statement of cash flows

	Non-cash items							
	Opening Balance	Cash	Business acquisition (note 18)	Net income (loss)	Amortiz ation	Compre hensive Income (loss)	Finance lease acquired	Ending Balance
For the year ended January 31, 2018								
Non-current long-term debt	1,809,492	310,528	3,818	(100,527)	42,909	(31,330)	35,971	2,070,861
Derivative financial instruments	15,894	-	-	7,244	-	(2,818)	-	20,320
Contingent consideration	11,276	-	-	-	-	(472)	-	10,804
	1,836,662	310,528	3,818	(93,283)	42,909	(34,620)	35,971	2,101,985

### 26 Subsequent event

On March 5, 2018, the Corporation issued an aggregate amount of US\$125 million of a 8.75% senior unsecured note due in 2025. The note was issued at a price of 105.25% of the principal amount, plus accrued interest from November 15, 2017 of US\$3,342. The note was issued under the indenture dated May 26, 2017.

On March 9, 2018, the Corporation finalized the acquisition of United American Security LLC. The purchase price will be approximately US\$70.7 million, which was paid on closing.