Pushing out the **boundaries**

in the world of **security**

Annual Report 2001

GARDA

Mission

Garda of Canada, a leader among security companies in Canada, has been dedicated from the outset to expanding the world of security services. Today, Garda is justly proud of its success. Garda is known for its one-stop service, which combines traditional techniques with state-of-the-art technology. The Garda team includes over 3,500 highly trained professionals from coast to coast.

The experience gained during more than a quarter of a century in business, plus the know-how and leadership of its personnel, enable Garda to offer its customers fully integrated solutions to their security problems.

Growth Potential for Garda in Canada

Garda has built a solid reputation on its approach to new-economy companies in Canada. It is a leader in security and protection with high-tech companies, the real estate sector, as well as in many industrial sectors across the country. Known for its competence in handling the most complex security-related problems, Garda has been a consolidator in the Canadian security market.

Since the start, Garda sales have increased rapidly. The Company has achieved remarkable growth and negotiated many strategic transactions. The names of some of Canada's most prominent corporations are added daily to its order book.

Growth Potential in the Industry

The growth potential of this market is enormous. Known as "The Silent Giant" on Wall Street, the security industry, currently estimated at US$87 billion in the United States alone, is expected to top $100 billion in 2001. In Canada, it has also experienced phenomenal growth, with revenues conservatively estimated at $3.5 billion. Garda has positioned itself in the forefront of the industry in Canada.

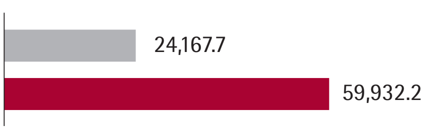
Selected Financial Information

(in thousands of dollars, except for per share amounts)

Years ended January 31	**2001**	2000	1999
	$	$	$
Sales	**59,932**	24,168	6,748
EBITDA*	**2,841**	(273)	305
Net earnings (loss)	**488**	(592)	206
Cash flow from operations	**2,165**	(552)	268
Net earnings (loss) per share	**0.03**	(0.04)	0.02
EBITDA per share	**0.15**	(0.02)	0.03
Cash flow from operations per share	**0.11**	(0.03)	0.03
Net earnings (loss) per share, before goodwill amortization	**0.04**	(0.03)	0.02
Total assets	**20,947**	14,698	1,142
Shareholders' equity	**3,736**	1,472	189
Weighted average number of Class A shares outstanding during the year (in thousands)	**19,500**	16,239	9,000

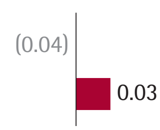
* *Earnings before interest, taxes, depreciation and amortization*

Sales
(in thousands of dollars)

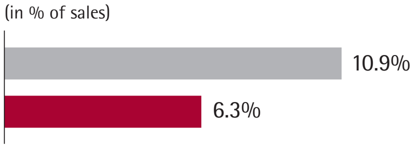


Net earnings (loss)
(in thousands of dollars)

Net earnings (loss) per share (in dollars)

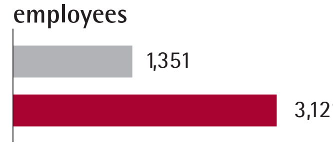


Selling and administrative expenses
(in % of sales)



EBITDA
(in thousands of dollars)

Number of employees



= 2000 = 2001

Message to our Shareholders

We have had an excellent year in terms of sales growth, and have taken an important step toward our objective of being the leader in industrial security in Canada.

We are justly proud of our performance in the year ended January 31, 2001:

- sales increased by 150%;
- general and administration expenses, as a percentage of sales, fell by 460 basis points;
- EBITDA and profitability increased significantly.

This performance is even more extraordinary in that it was accomplished at the same time as we were completing four acquisitions as part of our strategy to position ourselves as a one-stop security service.

Some business opportunities that unfortunately did not materialize in the last quarter slowed our cruising speed a little. However, this is just a brief pause: we have already come a long way!

One of the highlights of the year was our breakthrough outside Québec. With the acquisition of Riscon and the growth in sales that followed, we have become truly pan-Canadian.

That step was essential: we can now offer our partners a “national” solution. Growth outside Québec will be our focus in the coming years.

Optimizing our Value and our Growth

Our objective is to surpass our financial forecasts in terms of growth and performance. Our ratios have to be better than those of our competitors. The objective is simple: to be the model of management in our sector of activity.

To achieve this objective, we have a two-part strategy that we believe will enable us to meet, if not exceed, the expectations of our shareholders.

Organic Growth

We already have the best registry of corporate clients in Canada. A great majority of Fortune 500 companies count on us for their protection.

As part of an ambitious partnership program, we are working on those relationships with the ultimate aim of being able to offer all our clients the Garda World one-stop-service experience:

– security agents
– electronic security
– audits and consultation
– specialized investigations
– prevention and training
– preventive patrols.

We believe that this concept will greatly improve our financial performance since we are targetting sectors where profit margins are higher. Even more important, we are certain our model will enable us to establish even closer ties to our current clientele.

Growth through Acquisitions

We have proven through our recent acquisitions that our management team has the talent for spotting good business opportunities. We are seeking companies that have the following three characteristics:

- an experienced management team ready to enter into a long-term undertaking with us;
- clearly identified organic growth potential in terms of EBITDA, with the goal of rapidly adapting our management model to the company;
- a clearly identified sector of activity that fits into our plan for consolidating the Canadian market.

These criteria have made our acquisitions a tremendous source of growth. There are still more than 1,000 security companies of all sizes in Canada. Good opportunities are out there: all that is needed is to identify them and then to convince those companies to join us, as many other companies have done. Also, our reputation is such that companies thinking about exiting the business come knocking on our door.

We are hungry for acquisitions and we expect to be very active in 2001!

Garda Integrated Software

As long as we have not realized a few strategic sales for our integrated software, it is difficult to appreciate the full value of our investment in SoftManagement Inc.

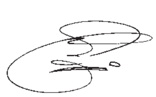
This security-management, emergency measures and business-continuity management software has been a hit everywhere we have presented it. It is only a question of time before we will be positioning this product across North America. Then we will see the true growth potential of Garda World.

Conclusion

The story has just begun, and we firmly intend to build on our success. Our team is motivated by our growth in recent years and we are ready to lead Garda World to even higher levels in 2001.

In conclusion, I want to thank all our shareholders, the members of our Board of Directors, our clients and, most of all, our more than 3500 employees for their contribution to our success.

Montreal, May 18, 2001



Stéphan D. Crétier
Chairman of the Board and Chief Executive Officer

Management's Discussion and Analysis of Financial Position and Results of Operations

The following management analysis provides information on the activities of Garda World Security Corporation (the Corporation) on a consolidated basis, as well as a comparison of the financial position and the results of operations for the 12-month periods ended January 31, 2001 (fiscal 2001) and January 31, 2000 (fiscal 2000). This information should be read in conjunction with the Consolidated Financial Statements and Notes thereto.

Results of Operations

The Corporation has had an outstanding growth in sales, mainly attributable to our acquisitions and to organic growth. Sales have increased from $24,167,740 in fiscal 2000 to $59,932,175 in fiscal 2001, a growth of approximately 150%. Gross profit increased from $2,367,840 (or 9.8% of sales) in fiscal 2000 to $6,630,297 (or 11.1% of sales) in fiscal 2001, a growth of 180%.

EBITDA increased from $(273,370) in fiscal 2000 to $2,841,319 in fiscal 2001, a $3,000,000+ increase. This is mainly explained by the improvement of our gross margins, and also by tight monitoring of our overhead costs which, as a percentage of sales, fell from 11% in fiscal 2000 to 6.3% in fiscal 2001. Our goal is to maintain a fixed cost structure equal to less than 6% of sales, and, had it not been for lost business opportunities, we would have attained that goal.

Amortization expense increased from $581,112 (including loss on disposal and fixed assets write-offs) in fiscal 2000 to $858,155 in fiscal 2001. This increase reflects our additional business volume and acquisitions during the year. Interest expense increased from $296,484 in fiscal 2000 to $1,057,872 in fiscal 2001. This is attributable to both our strategic and organic growth, and also reflects the cost of a full 12 months of debentures in fiscal 2001 compared with 2 months in fiscal 2000. Income taxes resulted in a recovery of $558,616 in fiscal 2000 compared with an expense of $437,364 in fiscal 2001, mainly because of the net loss in fiscal 2000. The income tax expense in fiscal 2001 is only a draw-down of the future income tax asset and does not result in a cash disbursement.

The Corporation ended fiscal 2001 with net earnings of $487,928, or $0.03 per share, compared with a net loss of $592,350, or $0.04 per share, in fiscal 2000, and an EBITDA of $0.15 per share in fiscal 2001 compared with $(0.02) in fiscal 2000.

Financial Position

The changes in working capital and capital assets in fiscal 2001 are mainly attributable to our organic and strategic growth. The acquisitions in the year have increased goodwill to $6,704,928. The future income tax asset of $965,106 in fiscal 2001 represents the recognition of the tax benefits from losses carry-forward. The changes in long-term debt are mainly attributable to the indebtedness and related repayments following our business acquisitions.

Cash Flow

Cash flow from operations increased from $(551,590) in fiscal 2000 to $2,165,350 in fiscal 2001, mainly because of the return to profitability. Non-cash working capital items absorbed $947,039 in fiscal 2000 versus $2,282,330 in fiscal 2001. Investment activities required $3,641,165 in fiscal 2000 compared with $2,426,432 in fiscal 2001, mainly because of our business acquisitions. Financing activities resulted in $5,032,785 in debt and equity in fiscal 2000, versus $2,492,676 in fiscal 2001.

Risks and Uncertainties

The Corporation is involved in a highly competitive industry in which the monitoring and control of financial and other resources is key. In order to effectively manage its growth and profitability, the Corporation is constantly improving its operational, financial, and systems procedures and controls.

Outlook

In the following months, we will maintain the emphasis on both organic and strategic growth, while consolidating our recent acquisitions. We intend to increase our presence in high-yield margin segments, such as technology and investigations. We are confident that the positioning we are now giving SoftManagement Inc. will support that strategy.

Management's Statement of Responsibility

The Consolidated Financial Statements of Garda World Security Corporation and all the information contained in this Annual Report are management's responsibility and have been approved by the Board of Directors.

Management has prepared these financial statements in accordance with generally accepted accounting principles in Canada. These financial statements contain certain amounts, which are based on estimates and judgement. The financial information disclosed elsewhere in the Annual Report is consistent with the financial statements.

The Corporation maintains efficient internal control systems that provide reasonable assurance that the financial information is accurate and reliable, and constitute an appropriate basis for the preparation of the financial statements.

The Board of Directors has the ultimate responsibility for the review and approval of the financial statements, which responsibility is primarily performed through the Audit Committee. The Audit Committee reports to the Board of Directors for approval to release the financial statements to the shareholders. PricewaterhouseCoopers LLP, the external auditors appointed by the shareholders, meet with the Audit Committee on a periodic basis to discuss their audit, the overall financial information presentation and other related matters.

(signed)
Stéphan D. Crétier, MBA
Chairman and Chief Executive Officer

(signed)
Yani Gagnon, CA, CPA
Vice-President and Chief Financial Officer

Montreal (Quebec) Canada
May 18, 2001

Auditors' Report

To the Shareholders of
Garda World Security Corporation

We have audited the consolidated balance sheet of Garda World Security Corporation as at January 31, 2001 and the consolidated statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at January 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at January 31, 2000 and for the year then ended have been audited by other auditors who have expressed an unqualified opinion regarding these financial statements in their report dated May 16, 2000.

(signed)
PricewaterhouseCoopers LLP

Chartered Accountants

Montreal (Quebec) Canada
May 10, 2001

Consolidated Balance Sheets

As at January 31, 2001 and 2000	2001	2000
Assets	$	$
Current assets		
Cash	–	50,736
Accounts receivable		
Trade	7,983,318	5,244,862
Other	498,802	629,111
Inventories	110,535	78,123
Work in progress	2,636,860	2,191,013
Income taxes	133,237	–
Prepaid expenses	218,300	117,740
	11,581,052	8,311,585
Balance of selling price receivable, bearing interest at 8%, recoverable at the latest on December 1, 2002 and secured by an immovable hypothec	200,000	200,000
Capital assets (note 4)	1,320,382	789,230
Goodwill, net of accumulated amortization of $469,946 (2000 – $83,133)	6,704,928	3,752,408
Deferred financing costs, net of accumulated amortization of $84,000 (2000 – $12,000)	176,000	248,000
Future income taxes (note 11)	965,106	1,397,106
	20,947,468	14,698,329
Liabilities		
Current liabilities		
Bank overdrafts	1,112,904	–
Bank loans (note 5)	3,600,000	1,130,000
Accounts payable and accrued liabilities	7,550,202	6,617,120
Income taxes	–	54,197
Deferred revenue	50,000	130,770
Current portion of long-term debt (note 6)	432,361	642,039
Current portion of convertible debentures (note 7)	269,622	–
	13,015,089	8,574,126
Long-term debt (note 6)	90,381	591,921
Convertible debentures (note 7)	4,106,090	4,060,445
	17,211,560	13,226,492
Shareholders' Equity		
Capital stock (note 8)	3,671,244	1,895,101
Retained earnings (deficit)	64,664	(423,264)
	3,735,908	1,471,837
	20,947,468	14,698,329

Approved by the Board of Directors

(signed)
Stéphan D. Crétier, Director

(signed)
Louis-Philippe Séguin, Director

Consolidated Statements of Income

For the years ended January 31, 2001 and 2000	**2001**	2000
	$	$
Sales	**59,932,175**	24,167,740
Cost of sales	**53,301,878**	21,799,900
Gross profit	**6,630,297**	2,367,840
Operating expenses		
Selling and administrative expenses	**3,788,978**	2,641,210
Financial charges		
Long-term debt and convertible debentures	**868,404**	207,622
Other	**117,468**	76,862
Amortization of capital assets	**471,342**	172,352
Amortization of goodwill	**386,813**	83,133
Amortization of deferred financing costs	**72,000**	12,000
	5,705,005	3,193,179
Income (loss) before other expenses and income taxes	**925,292**	(825,339)
Other expenses (note 9)	**–**	325,627
Income (loss) before income taxes	**925,292**	(1,150,966)
Provision for (recovery of) income taxes (note 11)		
Current	**5,364**	54,181
Future	**432,000**	(612,797)
	437,364	(558,616)
Net income (loss) for the year	**487,928**	(592,350)
Net income (loss) per share	**0.03**	(0.04)
Weighted average number of shares outstanding	**19,499,947**	16,238,513

Consolidated Statements of Retained Earnings

For the years ended January 31, 2001 and 2000	**2001**	2000
	$	$
Retained earnings (deficit) – Beginning of year	**(423,264)**	169,086
Net income (loss) for the year	**487,928**	(592,350)
Retained earnings (deficit) – End of year	**64,664**	(423,264)

Consolidated Statements of Cash Flows

For the years ended January 31, 2001 and 2000	2001	2000
	$	$
Cash flows provided by (used in)		
Operating activities		
Net income (loss) for the year	**487,928**	(592,350)
Adjustments for		
Amortization of capital assets and goodwill	**858,155**	255,485
Amortization of deferred financing costs	**72,000**	12,000
Future income taxes	**432,000**	(612,797)
Loss on disposal of capital assets	**–**	102,476
Write-off of assets	**–**	223,151
Accrued applicable premium on debentures	**315,267**	60,445
	2,165,350	(551,590)
Change in non-cash working capital items (note 10)	**(2,282,330)**	(947,039)
	(116,980)	(1,498,629)
Financing activities		
Bank overdrafts	**1,112,904**	–
Increase in bank loan	**2,470,000**	1,130,000
Increase in long-term debt	**32,923**	1,011,582
Payments of long-term debt	**(1,455,294)**	(2,711,162)
Change in advance to a director	**–**	(12,635)
Issuance of convertible debentures, net of issue expenses	**–**	3,740,000
Issuance of capital stock, net of issue expenses	**332,143**	1,875,000
	2,492,676	5,032,785
Investing activities		
Purchase of capital assets	**(779,255)**	(978,669)
Proceeds from disposal of sale of capital assets	**–**	1,560,699
Increase of goodwill	**(423,599)**	(208,932)
Business acquisitions, net of cash acquired	**(1,223,578)**	(4,014,263)
	(2,426,432)	(3,641,165)
Change in cash during the year	**(50,736)**	(107,009)
Cash – Beginning of year	**50,736**	157,745
Cash – End of year	**–**	50,736
Additional information		
Interest paid	**597,468**	132,484
Income taxes paid	**5,364**	30,203

Notes to Consolidated Financial Statements

January 31, 2001 and 2000

1 Basis of presentation and nature of operations

On August 13, 1999, Garda World Security Corporation (formerly Trans-Canada World Security Corporation) (the "Corporation") completed the acquisition of the aggregate of the shares of the Trans-Canada Security Corporation ("TC") for an estimated value of $2,160,000, in consideration of the issuance of 9,000,000 Class "A" shares at a value of $0.24 per share. This transaction was treated as a reverse takeover of the Corporation by TC and was accounted for using to the purchase method, as provided for by the enacted rules for this type of transaction. These consolidated financial statements reflect the TC accounts at their carrying value since TC was considered to be the purchaser. The assets and liabilities of the Corporation were stated at their fair market value as at August 13, 1999, the transaction date. The Corporation's accounts and results were included in these consolidated financial statements from their acquisition date, namely August 13, 1999. The capital structure is that of the Corporation.

The following distribution of the purchase price among the Corporation's net assets, deemed to have been acquired by TC, did not create any goodwill:

Current assets	**395,340**
Current liabilities	**8,814**
Net assets acquired	**386,526**

The Corporation operates in the business of providing security solutions.

2 Significant accounting policies

Consolidation

These consolidated financial statements include the accounts of the Corporation and its subsidiaries, namely:

Subsidiaries	**Interest held as at January 31**	
	2001	2000
	%	%
Garda Security Group Inc.	**100**	100
Admari Group Inc.*	**–**	100
Trans-Canada Security Corporation*	**–**	100
Trans-Quebec Security Corporation Inc.*	**–**	100
Lister & Stop Security Systems Inc.	**100**	–
9022-4528 Québec Inc. ("GTES")	**100**	–
Riscon Services Limited	**100**	–
Soft Management Inc.	**70**	–
Softalarm Inc.	**70**	–

*On February 1, 2000, these companies were wound up within Garda Security Group Inc.

Management estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates include the allowance for doubtful accounts receivable, valuation of goodwill and certain accrued liabilities. Actual results could differ from those estimates.

2 Significant accounting policies (continued)

Fair value of financial instruments

The Corporation has estimated the fair value of its financial instruments based on current interest rates, the market value and the current price of a financial instrument with similar conditions. Unless otherwise indicated, the carrying value of these financial instruments is considered to approximate their fair value.

Credit risk

The Corporation performs ongoing credit reviews of all its customers and records an allowance for doubtful accounts receivable when accounts are determined to be uncollectible.

Revenue recognition

Sales are recognized when services are rendered.

Inventories

Inventories are valued at the lower of cost and net realizable value, with cost being determined according to the specific identification method.

Work in progress

Work in progress represents sales not invoiced at the end of the year.

Capital assets

Capital assets are recorded at cost, less the related accumulated amortization. Amortization is calculated over their estimated useful lives according to the following methods, rates and periods:

	Methods	Rates/periods
Office furniture	Declining balance	20%
Computer equipment	Declining balance	30%
Equipment	Declining balance	20%
Rolling stock	Declining balance	30%
Uniforms	Straight-line	2 years
Leasehold improvements	Straight-line	5 years

Goodwill

Goodwill resulting from the acquisition of subsidiaries is amortized on a straight-line basis over periods of five to twenty years. The Corporation periodically reassesses the carrying value of goodwill based on forecasted cash flows. A provision is recorded for any permanent impairment in value.

Deferred financing costs

Deferred financing costs include convertible debentures issue expenses and are amortized over the term of the convertible debentures.

Future income taxes

The Corporation follows the liability method of accounting for income taxes, under which future income taxes are computed based on the difference between the carrying amount of the various assets and liabilities and their tax basis. The enacted tax rate when these differences will reverse is used to compute future income taxes at the balance sheet date. Income tax assets are recognized when it is more likely than not that the assets will be realized.

Amounts per share

Amounts per share are determined using the weighted average number of Class “A” shares outstanding during the year. The exercise of outstanding share options and warrants, and the conversion of the convertible debentures into Class “A” shares would have had an anti-dilutive effect on the Corporation’s net income (loss) per share.

2 Significant accounting policies (continued)

Stock options

No compensation expense is recognized for the plan when the options are issued to directors, officers and employees. Any consideration paid upon exercise of options is credited to capital stock.

If stock options are redeemed from the beneficiaries, the excess of the consideration paid in relation to the carrying value of the cancelled stock option is charged to retained earnings.

3 Business acquisitions

a) On February 1, May 1 and October 5, 2000, the Corporation acquired all of the outstanding shares of Lister & Stop Security Systems Inc., 9022-4528 Québec Inc. and Riscon Services Limited, respectively. The investments have been accounted for using the purchase method. The operating results of these companies have been included in the consolidated income statement from their acquisition date. The net liabilities assumed are summarized in the "Other" section of the table below. The goodwill resulting from these acquisitions is amortized over a period of ten years.

On November 22, 2000, the Corporation acquired 70% of the outstanding shares of Soft Management Inc. and Softalarm Inc. The investments have been accounted for using the purchase method. The operating results of these companies have been included in the consolidated income statement from their acquisition date. The goodwill resulting from these acquisitions is amortized over a period of five years.

The net liabilities assumed during the year ending January 31, 2001 were as follows:

	Soft Management Inc. and Softalarm Inc. $	Other $	Total $
Current assets	108,682	944,227	1,052,909
Long-term assets	25,083	198,156	223,239
	133,765	1,142,383	1,276,148
Current liabilities	275,657	1,035,379	1,311,036
Long-term liabilities	22,070	179,679	201,749
	297,727	1,215,058	1,512,785
Net liabilities assumed	(163,962)	(72,675)	(236,637)

The consideration is detailed as follows:

Issuance of capital stock	1,111,600	332,400	1,444,000
Cash	331,313	389,284	720,597
Balance of selling price	202,000	312,500	514,500
Purchase price	1,644,913	1,034,184	2,679,097
Goodwill resulting from these acquisitions	1,808,875	1,106,859	2,915,734

b) On February 1, 1999, the Corporation acquired all of the outstanding shares of Admari Group Inc. This acquisition has been accounted for using the purchase method. The operating results of this company have been included in the consolidated income statement from the acquisition date. The goodwill resulting from this acquisition is amortized over a period of ten years.

On November 28, 1999, the Corporation acquired all of the outstanding shares of Garda Security Group Inc. This acquisition has been accounted for using the purchase method. The operating results of this company have been included in the consolidated income statement from the acquisition date. The goodwill resulting from this acquisition is amortized over a period of twenty years.

3 Business acquisitions (continued)

The net assets acquired during the year ended January 31, 2000 were as follows:

	Admari Group Inc. $	Garda Security Group Inc. $	Total $
Current assets	1,476,313	5,246,395	6,722,708
Long-term assets	158,117	1,494,807	1,652,924
Benefit arising from tax loss carry-over	–	630,000	630,000
	1,634,430	7,371,202	9,005,632
Current liabilities	1,498,439	4,914,701	6,413,140
Long-term liabilities	31,436	1,731,539	1,762,975
	1,529,875	6,646,240	8,176,115
Net assets acquired	104,555	724,962	829,517

The consideration is detailed as follows:

Cash	502,570	3,170,382	3,672,952
Balance of selling price	75,366	851,618	926,984
Purchase price	577,936	4,022,000	4,599,936
Goodwill resulting from these acquisitions	473,381	3,297,038	3,770,419

4 Capital assets

			2001
	Cost $	**Accumulated amortization $**	**Net $**
Office furniture	**390,373**	**281,128**	**109,245**
Computer equipment	**355,334**	**164,412**	**190,922**
Equipment	**455,479**	**309,333**	**146,146**
Rolling stock	**539,975**	**275,808**	**264,167**
Uniforms	**902,201**	**376,887**	**525,314**
Leasehold improvements	**99,604**	**15,016**	**84,588**
	2,742,966	**1,422,584**	**1,320,382**

			2000
	Cost $	Accumulated amortization $	Net $
Office furniture	377,231	250,633	126,598
Computer equipment	214,550	52,967	161,583
Equipment	296,713	224,144	72,569
Rolling stock	393,821	184,429	209,392
Uniforms	301,551	87,419	214,132
Leasehold improvements	10,801	5,845	4,956
	1,594,667	805,437	789,230

5 Bank loans

Authorized bank loans of $4,000,000 bear interest at prime rate plus 0.5%. The accounts receivable have been pledged as security for the bank loans. Two restrictive covenants governing the bank loans of a subsidiary were not maintained on January 31, 2001, since the working capital ratio of 0.87 was lower than the minimum required of 1.25 and the minimum tangible consolidated equity of $1,290,000 was lower than the minimum required of $3,750,000.

6 Long-term debt

	2001 $	2000 $
Loan bearing interest at prime rate plus 1.75%, secured by Société de Développement Industriel du Québec, repayable in monthly instalments of $833 including the principal and the interest, maturing in February 2003	**20,837**	30,833
Loans bearing interest at an average rate of 10.5%, secured by equipment, office furniture and rolling stock, repayable in monthly instalments of $11,515 including the principal and the interest, maturing from June 2000 to June 2004	**178,397**	237,392
Balances of selling price, maturing no later than October 2001	**316,124**	958,351
Due to a director, without interest and with no terms of repayment	**7,384**	7,384
	522,742	1,233,960
Less: Current portion	**432,361**	642,039
	90,381	591,921

The principal payments required for the long-term debt over the next four years are as follows:

	$
2002	432,361
2003	52,564
2004	22,967
2005	14,850

7 Convertible debentures

		2001 $	2000 $
a)	Convertible debentures bearing interest at 12%, payable quarterly starting March 1, 2000, repayable starting December 1, 2001 in monthly principal instalments of $111,111, plus an applicable premium ranging from 21.33% to 42.83%	**4,000,000**	4,000,000
	Accrued applicable premium on debentures	**375,712**	60,445
		4,375,712	4,060,445
	Less: Current portion	**269,622**	–
		4,106,090	4,060,445

b) The holder can exercise his right of conversion of the debentures, plus the applicable premium, in Class "A" shares in the event of the Corporation filing a public offering, and this for a price equal to the issued price less a maximum discount of 20%.

8 Capital stock

a) Authorized in unlimited number, without par value

Class "A" shares, voting and participating

Class "B" shares, issuable in one or more series. The directors are authorized to fix the number of shares in each series and to determine the description, rights, privileges, restrictions and conditions attached to the shares of each series

b) Issued and fully paid

Changes in capital stock issued during the two preceding years is summarized as follows:

	Number of Class "A" shares	$
Balance as at January 31, 1999	9,000,000	20,101
Value assigned to the Corporation's net assets (note 1)	6,000,000	386,526
Issued under private offerings (note 8 c))	1,142,858	378,920
Issued under a private offering (note 8 c))	1,600,000	998,179
Issued under an intermediary cost agreement	213,750	21,375
Issued as compensation following a private offering (note 8 c))	100,000	10,000
Issued following exercise of options (note 8 d))	800,001	80,000
Balance as at January 31, 2000	18,856,609	1,895,101
Issued following business acquisitions (note 3)	1,336,364	1,444,000
Issued following exercise of warrants (note 8 c))	714,286	332,143
Balance as at January 31, 2001	20,907,259	3,671,244

8 Capital stock (continued)

c) Warrants

On June 23, 1999, the Corporation entered into a compensation agreement pursuant to the completion of the private placement of August 13, 1999 which resulted in the issuance of 100,000 Class “A” shares and 100,000 warrants allowing its holder thereof to buy 100,000 Class “A” shares at a price of $0.50 for a twenty-four month period for a recognized value of $10,000. All of these warrants were still in effect as at January 31, 2001.

On August 13, 1999, the Corporation issued 1,142,858 units for a cash consideration of $400,000, less related expenses of $21,080. Each unit is comprised of one Class “A” share and one warrant allowing its holder to acquire one Class “A” share at a price of $0.50 per share until July 31, 2001. During the year 2001, 714,286 of the 1,142,858 warrants outstanding were exercised for a consideration of $357,143, less related expenses of $25,000. Therefore, as at January 31, 2001, 428,572 warrants were still in effect under this private placement.

On November 30, 1999, the Corporation issued 1,600,000 units for a cash consideration of $1,040,000 less related expenses of $41,821. Each unit is comprised of one Class “A” share and one half of a warrant. Each warrant entitles the holder thereof to purchase one Class “A” share at a price of $0.85 per share up to November 30, 2001 and at a price of $0.95 per share from December 1, 2001 to November 30, 2002. All these warrants were still in effect as at January 31, 2001.

d) Options

The Corporation has adopted an Incentive Stock Option Plan (the “Plan”) for Class “A” shares whereby a maximum of 10% of the issued Class “A” shares are reserved for and offered as stock options to directors, officers, employees and other key personnel of the Corporation. The Plan provides that the terms of the option and the option price shall be established by the directors and the competent stock market authorities subject to the price restrictions and other requirements imposed by the Alberta Securities Commission.

As at January 31, 2001, there were 1,469,285 (914,285 as at January 31, 2000) Class “A” stock options granted and not exercised under the Plan. Some options can be exercised until July 2004 and have a contractual life from one to five years.

Changes in the Corporation’s Class “A” stock options are detailed as follows:

	2001		2000	
	Number of shares	**Exercise price $**	**Number of shares**	**Exercise price $**
Options granted – Beginning of year	**914,285**	**0.35**	800,001	0.10
Granted	**555,000**	**from 0.85 to 1.00**	914,285	0.35
Exercised	**–**	**–**	(800,001)	0.10
Options granted and exercisable – End of year	**1,469,285**	**from 0.35 to 1.00**	914,285	0.35

8 Capital stock (continued)

e) Escrowed shares

As at January 31, 2001, 10,269,967 Class "A" shares were held in escrow and will be released as follows:

- 4,133,333 Class "A" shares are subject to a two-year escrow, with 2,066,666 shares releasable on each of the next two anniversary dates of the reverse takeover transaction, namely August 13, 1999;
- 4,800,000 Class "A" shares are in escrow and will be released at the performance;
- 966,667 Class "A" shares are subject to a three-year contractual escrow, with one third being releasable on each anniversary date of the acquisition of Soft Management Inc., namely November 22, 2000;
- 136,634 Class "A" shares are subject to a three-year contractual escrow, with one third being releasable on each anniversary date of the acquisition of Riscon Services Limited, namely May 1, 2000.
- 33,333 Class "A" shares are subject to a three-year contractual escrow, with one third being releasable on each anniversary date of the acquisition of 9022-4528 Quebec Inc., namely October 5, 2000.
- 200,000 Class "A" shares are subject to a three-year contractual escrow, with one third being releasable on each anniversary date of the acquisition of Lister & Stop Security Systems Inc., namely February 1, 2001.

9 Other expenses

Other expenses include the following:

	2001 $	2000 $
Loss on disposal of capital assets	–	102,476
Write-off of capital assets	–	223,151
	–	325,627

10 Change in non-cash working capital items

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

	2001 $	2000 $
Decrease (increase) in		
Accounts receivable	(1,710,506)	(297,204)
Inventories	14,200	192,729
Work in progress	(445,847)	(1,323,600)
Prepaid expenses	(100,560)	172,355
Increase (decrease) in		
Accounts payable and accrued liabilities	156,866	139,549
Income taxes	(115,713)	38,362
Deferred revenue	(80,770)	130,770
	(2,282,330)	(947,039)

11 Income taxes

a) The income tax rate on revenue differs from the statutory tax rate for the following reasons:

	2001	2000
	$	$
Provision for (recovery of) income taxes based on the combined basic Canadian and Quebec income tax rate	**45.4**	(45.4)
Change in income taxes resulting from the following:		
Deduction for Quebec active business income	**(7.2)**	7.2
Permanent differences and other	**9.1**	(10.3)
	1.9	(3.1)
Provision for (recovery of) income taxes for the year	**47.3**	(48.5)

b) Future income taxes include the following:

	2001	2000
	$	$
Future tax assets		
Deferrable losses and issue expenses	**1,025,336**	1,324,255
Capital assets	**–**	20,851
Other	**19,000**	52,000
	1,044,336	1,397,106
Future tax liabilities		
Capital assets	**79,230**	–
	965,106	1,397,106

c) The Corporation and its subsidiaries have accumulated non-capital tax losses and deductible issue expenses of approximately $2,764,000, which may be carried forward and used to reduce taxable income in future years, and for which a tax benefit has been recorded. These losses and these issue expenses may be claimed no later than:

	$
January 31, 2003	103,000
2004	225,000
2005	403,000
2006	216,000
2007	666,000
2008	1,151,000

12 Commitments

The Corporation has lease commitments for office spaces and equipment totalling $1,025,536. The minimum payments over the next five years are as follows:

	$
2002	329,457
2003	279,081
2004	223,291
2005	166,046
2006	27,661
	1,025,536

13 Contingency

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

14 Comparative figures

Certain comparative figures for the year 2000 have been reclassified in order to comply with the new presentation adopted in the year 2001.

15 Segmented information

The Corporation operates mainly in one business segment in Canada, which is the business of providing security solutions.

Board of Directors and Management

Board of Directors

Stéphan D. Crétier, MBA[1,2]
Chairman and Chief Executive Officer
Garda World Security Corporation

C. François Couture[2]
Partner
Desjardins Ducharme Stein Monast

Jacques Duchesneau, C.M.
Executive Vice-President and
Chief Operating Officer
DataProviders.com

Michel Lesage[*2]
Vice-President
Investissements Blue Ship Inc.

François Plamondon[1]
President and C.O.O.
TouchTunes Digital Jukebox Inc.

Louis-Philippe Séguin, CFA[1]
President
Investissements Blue Ship Inc.

1 Audit Committee

2 Corporate Governance Committee

* Officers

Management

Stéphan D. Crétier, MBA*
Chairman and Chief Executive Officer

Yani Gagnon, CA, CPA*
Vice-President and Chief Financial Officer

Robert Champagne, CRHA
Vice-President, Global Human Resources

Luc Dupont, B.Comm.
General Manager, Business Development

Maxime Laviolette
Regional Manager, Eastern Quebec

William P. Argue
Regional Manager, Ontario and Western Canada

Philippe Gauthier
General Manager, SoftManagement Inc.

Corporate Information

Head Office
Garda World Security Corporation
705 Bourget Street
Montreal, Quebec H4C 2M6
Tel.: (514) 937-7487
Fax: (514) 937-1160

Investor Relations
Stéphan D. Crétier
scretier@garda.ca
Yani Gagnon
ygagnon@garda.ca

Annual Shareholders' Meeting
June 21, 2001, at 9:00 a.m.
University Club
2047 Mansfield Street
Montreal, Quebec

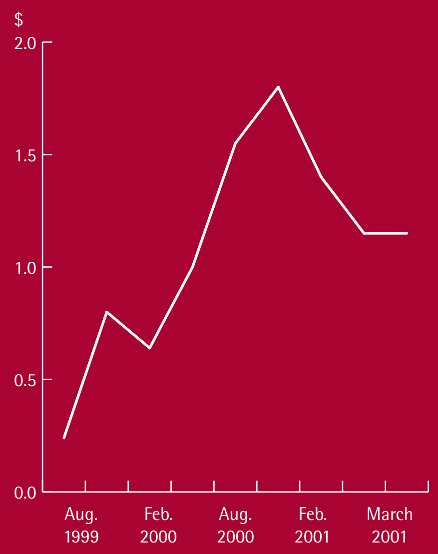
Attorneys
Meloche Séguin GENERAL PARTNERSHIP

Transfer Agent and Registrar
CIBC Mellon Trust Company

Auditors
PricewaterhouseCoopers LLP

Stock Information
Listing: Canadian Venture Exchange
Ticker Symbol: GW.V
Shares outstanding: 20,907,259
Public float: 10,637,292
52-week high/low: \$0.24/\$1.80
Recent price (30-04-01): \$1.05

Stock Performance



Ce rapport est également disponible en français.

Garda World Security Corporation

705 Bourget Street, Montreal, Quebec H4C 2M6

PRINTED IN CANADA