Building a leadership position in the new world of security

ANNUAL REPORT 2002

GARDA

Profile

Building on more than a quarter of a century in business, Garda of Canada is dedicated to expanding the world of security services.

Garda is known for its one-stop service, combining traditional and state-of-the-art technologies, which allows it to provide fully integrated solutions to security problems. The Garda team includes over 4000 highly trained professionals serving customers from coast-to-coast.

A Growing Presence in Canada

Garda has built a solid reputation on serving new-economy companies in Canada. It is a leader in security and protection with high-tech companies, the real estate sector and many industrial companies across the country. The names of some of Canada's most prominent corporations are added to its order book every day.

Known for its competence in addressing the most complex security issues, Garda has been a consolidator in the Canadian security market. Through a series of strategic acquisitions, sales have grown from $626,000 in 1995 to more than $73 million for the fiscal year ended January 31, 2002. During the last year, Garda was recognized as the fastest growing company in Quebec by L'Actualité, Québec`s premier business magazine, and was ranked #7 by the Canadian publication, Profit Magazine, in its annual survey of Canada's fastest growing companies.

A Growing Industry

The growth potential of the security services market is enormous. Known as "The Silent Giant" on Wall Street, the security industry topped $100 billion in the United States in 2001. In Canada, it has also experienced phenomenal growth, with revenues conservatively estimated at $4 billion. With its leading market presence in Canada and its one-stop service offering, Garda is ideally positioned to take full advantage of this growing opportunity.

Selected Financial Information

(in thousands of dollars, except per share amounts)

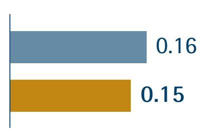
Years ended January 31,	**2002**	2001	2000
	$	$	$
Sales	**73,055**	59,932	24,168
EBITDA (1)	**3,101**	2,841	(273)
Adjusted net earnings (loss) (2)	**612**	875	(509)
Net earnings (loss)	**(562)**	488	(592)
Cash flow from operations	**1,561**	2,165	(552)
Adjusted net earnings (loss) per share, basic	**0.03**	0.06	(0.04)
EBITDA per share, basic	**0.16**	0.19	(0.02)
Cash flow from operations per share, basic	**0.08**	0.15	(0.05)
Total assets	**21,439**	20,947	14,698
Shareholders' equity	**5,144**	3,736	1,472
Weighted average number of Class A shares outstanding during the year (in thousands)	**18,847**	14,700	11,439

(1) *Earnings before interest, taxes, depreciation and amortization.*

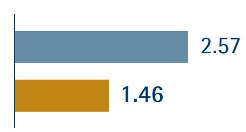
(2) *Net earnings (loss) excluding goodwill amortization and the after-tax effect of unusual items.*

Sales
(in thousands of dollars)

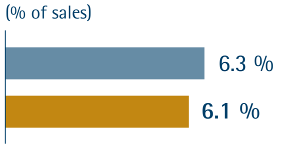
EBITDA per share
(fully diluted, in dollars)



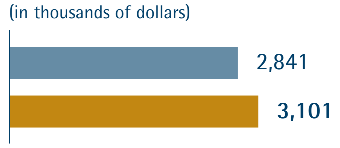
Debt to equity ratio



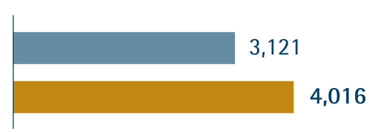
Selling and administrative expenses
(% of sales)



EBITDA
(in thousands of dollars)



Number of employees



= 2001 = **2002**

Message to our Shareholders

During the past five years, we have achieved astonishing growth of 9,500%. No other business in Quebec in any industry has achieved such growth. And this is just the beginning.

The hard work and dedication of our entire team has led to positive results for our shareholders:

- Sustained internal growth;
- Increase in earnings before interest, taxes, depreciation and amortization;
- Decrease in total indebtedness.

Above all, we now have in place a strong platform, which will support our continuing growth and improve our margins.

Our strength: our customer partnerships

With the integration of our past eight acquisitions complete, we are now focusing on the development of partnerships with our vast client base. We believe that the better we know our customers, the more they will understand the true value of our one-stop shopping approach, which will result in increased demand for our services and further strengthen our relationships. Our customers must understand that we can meet all of their security requirements. It is now our challenge to adequately promote our services in a cross-selling strategy.

Our main asset: our human resources

No other security company invests as much as we do in personnel training. The role of our employees goes beyond security: they also have a social duty. Whether they work in a home for senior citizens, a shopping center or elsewhere, we are extremely proud of the work accomplished by our 4000 employees who represent, with dignity, the true values of our Corporation.

We are very demanding of our work force without which we could not have sustained such growth. This proves that our investment in the development of our human resources is money well spent.

Our mission: to build a leadership position

Our strong growth is the result of a series of small steps, a combination of business acquisitions and initiatives, and a corporate culture that is both entrepreneurial and innovative. This took time and tenacity because the road has not always been free of obstacles.

This year's events prove that we were right to focus on the long term. We are building a business, a clear Canadian leader. Garda World now has critical mass in all of the business segments in which it is active. We offer a vast array of services and provide state-of-the art technologies.

We have always believed in prosperity in time of peace. However, the events of September 11th have forced everybody to change their perspective on security. Because of its corporate values, Garda World is properly equipped to face this worldwide uncertainty. Above all, we have a solid base to support our continuing growth and attain new heights.

Our commitment: shareholder value

Each and every one of us has a duty to relate the story and the success of Garda World. In a market where investors look at small cap companies very closely, it is imperative to explain our business model to the financial community.

Entrepreneurial in style, the approach of Garda World integrates the taking of calculated risks, a proactive management style and values based on individual responsibility. We are committed to delivering to our shareholders a superior return in the medium to long term.

We are very enthusiastic about the upcoming year because we have put in place the ingredients that will contribute to our success and increase shareholder value.

Finally, I wish to thank the strong management team behind me. I also wish to thank the Corporation's Directors for their counsel, vigilance and support.

(signed)

Stéphan D. Crétier, MBA

Chairman and Chief Executive Officer

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

The following discussion and analysis provides information on the activities of Garda World Security Corporation (the Corporation) on a consolidated basis, including a comparison of the financial position and the results of operations for the 12-month periods ended January 31, 2002 (fiscal 2002) and January 31, 2001 (fiscal 2001). This information should be read in conjunction with the Consolidated Financial Statements and Notes thereto.

Results of Operations

Sales for the year ended January 31, 2002 increased by approximately 22%, from $59,932,175 in fiscal 2001 to $73,055,307 in fiscal 2002. This is attributable mainly to sustained internal growth of approximately 17% in our main business services (guarding, investigations, loss prevention and technology) and to the full impact of our fiscal 2001 strategic acquisitions on fiscal 2002 results.

Gross profit increased by close to 15%, from $6,630,297 (or 11.1% of sales) in fiscal 2001 to $7,600,511 (or 10.4% of sales) in fiscal 2002. Despite the increase in sales, our margins were impacted by our rapid internal growth, a change in the sales mix and pressure on our operations following the events of September 11, 2001.

Selling and administrative expenses increased from $3,788,978 (or 6.3% of sales) in fiscal 2001 to $4,499,526 (or 6.1% of sales) in fiscal 2002. This increase is attributable to our strategic acquisitions in fiscal 2001 and particularly to our geographic expansion in Canada, which have resulted in a higher overhead cost structure. We nevertheless remained close to our target of 6% of sales.

Earnings before interest, taxes, depreciation and amortization (EBITDA) increased by 9%, from $2,841,319 (or 4.7% of sales) in fiscal 2001 to $3,100,985 (or 4.2% of sales) in fiscal 2002. Fully diluted EBITDA per share remained stable at $0.16 for fiscal 2001 and $0.15 for fiscal 2002.

Amortization of property, plant and equipment and amortization of goodwill increased from $471,342 and $386,813, respectively, in fiscal 2001, to $728,683 and $789,990, respectively, in fiscal 2002. These increases reflect the general increase in our business operations and the full impact of our fiscal 2001 strategic acquisitions on fiscal 2002 results.

Financial charges, as a whole, increased from $985,872 in fiscal 2001 to $1,887,580 in fiscal 2002. Fiscal 2002 financial charges include $590,000 of direct non-recurring costs related to the refinancing of the banking facility and convertible debentures. The remainder of the increase reflects the additional business volume in fiscal 2002 as well as the full impact on fiscal 2002 of the financing of our fiscal 2001 strategic acquisitions.

The provision for future income taxes in both fiscal 2002 and fiscal 2001 is only a draw-down of the future income taxes asset and does not result in a cash disbursement.

The Corporation ended fiscal 2002 with a net loss of $561,768 (or $0.03 per share) compared with net earnings of $487,928 (or $0.03 per share) in fiscal 2001. The loss in fiscal 2002 is attributable to the increase in financial charges and amortization expenses.

Liquidity and Capital Resources

Cash flow from operations decreased from $2,165,350 in fiscal 2001 to $1,560,675 in fiscal 2002, which is mainly due to the $901,708 increase in financial charges. However, the refinancing of the banking facility and the redemption of convertible debentures will result in annual savings of approximately $350,000 in interest starting in fiscal 2003. The changes in working capital are mainly attributable to our organic growth.

During fiscal 2002, the Corporation's capital stock increased by $1,969,709 following the issuance of shares pursuant to a QSSP-eligible private placement and the exercise of warrants, the proceeds of which strengthened our cash position. These proceeds, along with our operating cash flows and the refinancing of our banking facility from $4,000,000 to $8,000,000, allowed the Corporation to redeem $2,426,600 of its convertible debentures and to repay $432,200 of its long-term debt. Consequently, the debt to equity ratio improved from 2.57 in fiscal 2001 to 1.46 in fiscal 2002.

Investment activities required $2,426,432 in fiscal 2001 compared with $680,474 in fiscal 2002, mainly because there were no business acquisitions in fiscal 2002.

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

Our strategic focus remains unchanged: to maximize shareholder value through organic and strategic growth. Although we did not complete any business acquisitions in fiscal 2002, we were proactive in looking at various business opportunities. We further intend to increase earnings by providing more value-added products and services and by capitalizing on our geographic expansion.

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, and that the Corporation's assets are appropriately accounted for and adequately safeguarded.

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, which is mainly comprised of external directors, reports to the Board of Directors for approval to release the financial statements to the shareholders. The external auditors meet with the Audit Committee on a periodic basis to discuss their audit, the overall financial information presentation and other related matters. These consolidated financial statements have been audited by PricewaterhouseCoopers LLP, the external auditors appointed by the shareholders.

(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 3, 2002

Auditors' Report

To the Shareholders of
Garda World Security Corporation

We have audited the consolidated balance sheets of **Garda World Security Corporation** as at January 31, 2002 and 2001 and the consolidated statements of income, retained earnings (deficit) and cash flows for the years 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 audits.

We conducted our audits 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, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants

Montréal, Quebec, Canada
April 12, 2002

Consolidated Balance Sheets

As at January 31, 2002 and 2001	2002	2001
	$	$
Assets		
Current assets		
Cash	**388,802**	–
Accounts receivable		
Trade	**9,984,208**	7,983,318
Other	**96,142**	498,802
Inventories	**198,825**	110,535
Work in progress	**2,246,264**	2,636,860
Income taxes	**41,630**	133,237
Prepaid expenses	**211,843**	218,300
Balance of selling price receivable, bearing interest at 8%, receivable at the latest on December 1, 2002 and secured by an immovable hypothec	**200,000**	–
	13,367,714	11,581,052
Balance of selling price receivable	–	200,000
Property, plant and equipment *(note 4)*	**1,272,173**	1,320,382
Goodwill, net of accumulated amortization of $1,259,936 (2001 – $469,946)	**5,914,938**	6,704,928
Deferred financing costs, net of accumulated amortization and write-off of $186,000 (2001 – $84,000)	**74,000**	176,000
Future income taxes *(note 10)*	**810,606**	965,106
	21,439,431	20,947,468
Liabilities		
Current liabilities		
Bank overdrafts	–	1,112,904
Bank loans *(note 5)*	**5,518,711**	3,600,000
Accounts payable and accrued liabilities	**8,289,947**	7,550,202
Deferred revenue	**100,000**	50,000
Current portion of long-term debt *(note 6)*	**58,513**	432,361
Current portion of convertible debentures *(note 7)*	**586,767**	269,622
	14,553,938	13,015,089
Long-term debt *(note 6)*	**32,029**	90,381
Convertible debentures *(note 7)*	**1,709,615**	4,106,090
	16,295,582	17,211,560
Shareholders' Equity		
Capital stock *(note 8)*	**5,640,953**	3,671,244
Retained earnings (deficit)	**(497,104)**	64,664
	5,143,849	3,735,908
	21,439,431	20,947,468

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, 2002 and 2001	2002	2001
	$	$
Sales	**73,055,307**	59,932,175
Cost of sales	**65,454,796**	53,301,878
Gross profit	**7,600,511**	6,630,297
Operating expenses		
Selling and administrative expenses	**4,499,526**	3,788,978
Financial charges		
Long-term debt and convertible debentures	**915,149**	868,404
Unusual items *(note 11)*	**590,000**	–
Other	**382,431**	117,468
Amortization of property, plant and equipment	**728,683**	471,342
Amortization of goodwill	**789,990**	386,813
Amortization and write-off of deferred financing costs	**102,000**	72,000
	8,007,779	5,705,005
Income (loss) before income taxes	**(407,268)**	925,292
Provision for income taxes *(note 10)*		
Current	**–**	5,364
Future	**154,500**	432,000
	154,500	437,364
Net income (loss) for the year	**(561,768)**	487,928
Basic and diluted net earnings (loss) per share *(note 8 g))*	**(0.03)**	0.03

Consolidated Statements of Retained Earnings (Deficit)

For the years ended January 31, 2002 and 2001	2002	2001
	$	$
Retained earnings (deficit) – Beginning of year	**64,664**	(423,264)
Net income (loss) for the year	**(561,768)**	487,928
Retained earnings (deficit) – End of year	**(497,104)**	64,664

Consolidated Statements of Cash Flows

For the years ended January 31, 2002 and 2001	2002	2001
	$	$
Cash flows from		
Operating activities		
Net income (loss) for the year	**(561,768)**	487,928
Adjustments for		
Amortization of property, plant and equipment and goodwill	**1,518,673**	858,155
Amortization and write-off of deferred financing costs	**102,000**	72,000
Future income taxes	**154,500**	432,000
Accrued applicable premium on debentures	**347,270**	315,267
	1,560,675	2,165,350
Change in non-cash working capital items *(note 9)*	**(408,115)**	(2,282,330)
	1,152,560	(116,980)
Financing activities		
Bank overdrafts	**(1,112,904)**	1,112,904
Increase in bank loans	**1,918,711**	2,470,000
Increase in long-term debt	**–**	32,923
Repayment of long-term debt	**(432,200)**	(1,455,294)
Redemption of convertible debentures	**(2,426,600)**	–
Issuance of capital stock, net of issue expenses	**1,969,709**	332,143
	(83,284)	2,492,676
Investing activities		
Purchase of property, plant and equipment	**(680,474)**	(779,255)
Increase in goodwill	**–**	(423,599)
Business acquisitions, net of cash acquired	**–**	(1,223,578)
	(680,474)	(2,426,432)
Change in cash during the year	**388,802**	(50,736)
Cash – Beginning of year	**–**	50,736
Cash – End of year	**388,802**	–
Additional information		
Interest paid	**925,671**	597,468
Income taxes paid (received)	**(80,000)**	5,364

Notes to Consolidated Financial Statements

January 31, 2002 and 2001

1 Basis of presentation and nature of operations

On August 13, 1999, Garda World Security Corporation (the "Corporation") completed the acquisition of the aggregate 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 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 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,	
	2002	2001
	%	%
Garda Security Group Inc.	**100**	100
Lister & Stop Security Systems Inc.*	**–**	100
Garda Parking Management Inc. (9022-4528 Quebec Inc. in 2001)	**100**	100
Riscon Services Limited	**100**	100
Soft Management Inc.	**70**	70
Softalarm Inc.	**70**	70

* On August 26, 2001, this company was wound up within Garda Security Group Inc.

Management estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of income and expenses during the reporting periods. 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 *(cont.)*

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 pricing of financial instruments with similar conditions. Unless otherwise indicated, the carrying value of these financial instruments is considered to approximate their fair value.

Credit risk

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, 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.

Property, plant and equipment

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

	Method	Rate/period
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 completed prior to July 1, 2001 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 debenture issue expenses and are amortized over the term of the convertible debentures.

2 Significant accounting policies *(cont.)*

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

Effective February 1, 2001, the Corporation adopted retroactively the new Canadian Institute of Chartered Accountants (CICA) recommendations for calculating earnings per share. Under the new rules, the treasury stock method is used in assessing the dilutive effect of stock options and warrants on the diluted earnings per share. Furthermore, the shares whose issuance is conditional are not considered as outstanding common shares when assessing the earnings per share; however, they are taken into account when assessing the diluted earnings per share. The adoption of the new rules had no effect on the previously reported amounts.

Amounts per share are determined using the weighted average number of Class “A” shares outstanding during the year.

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

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 Quebec 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)

3 Business acquisitions *(cont.)*

The consideration is detailed as follows:

	Soft Management Inc. and Softalarm Inc.	Other	Total
	$	$	$
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

4 Property, plant and equipment

			2002
	Cost	**Accumulated amortization**	**Net**
	$	**$**	**$**
Office furniture	**391,242**	**302,686**	**88,556**
Computer equipment	**417,773**	**224,565**	**193,208**
Equipment	**460,939**	**338,736**	**122,203**
Rolling stock	**580,972**	**357,782**	**223,190**
Uniforms	**1,459,408**	**869,535**	**589,873**
Leasehold improvements	**87,242**	**32,099**	**55,143**
	3,397,576	**2,125,403**	**1,272,173**

			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

5 Bank loans

Authorized bank loans of $8,000,000 bear interest at prime rate plus 1.5%. The accounts receivable, work in progress, a general assignment of debtors, as well as a movable hypothec on the universality of present and future assets of the Corporation have been pledged as security for the bank loans.

6 Long-term debt

	2002	2001
	$	$
Loan bearing interest at prime rate plus 1.75%, secured by Société de Développement Industriel du Québec, repayable in monthly instalments of $833 including principal and interest, maturing in February 2003	**10,830**	20,837
Loans bearing interest at an average rate of 10.5%, secured by equipment, office furniture and rolling stock, repayable in monthly instalments of $5,781 including principal and interest, maturing at different dates until 2005	**79,712**	178,397
Balances of selling price, repaid during the year	**–**	316,124
Due to a director, repaid during the year	**–**	7,384
	90,542	522,742
Less: Current portion	**58,513**	432,361
	32,029	90,381

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

	$
2003	**58,513**
2004	**24,563**
2005	**7,466**

7 Convertible debentures

	2002	2001
	$	$
a) Convertible debentures, subordinated to bank loans, bearing interest at 12%, repayable starting June 1, 2002 in monthly capital instalments of $55,555 up to November 30, 2002 and $69,444 up to November 30, 2004, plus an applicable premium ranging from 21.33% to 42.83%	**2,000,000**	4,000,000
Accrued applicable premium on debentures	**296,382**	375,712
	2,296,382	4,375,712
Less: Current portion	**586,767**	269,622
	1,709,615	4,106,090

b) The holder can exercise his right of conversion of the debentures, plus the applicable premium, into Class “A” shares in the event of the Corporation filing a public offering, for a price equal to the issued price less a maximum discount of 20%. Starting June 22, 2002, the holder could initially, at his entire discretion, choose to convert the debentures, plus the applicable premium, into Class “A” shares at a price of $1 per share for all portions of capital which exceed $1,000,000 and thereafter at a price of $0.80 per share for all portions of any capital balances up to $1,000,000.

7 Convertible debentures *(cont.)*

c) The principal payments required, excluding the applicable premiums on the convertible debentures, over the next three years are as follows:

	$
2003	**472,222**
2004	**833,333**
2005	**694,445**

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 are summarized as follows:

	Number of Class “A” shares	
		$
Balance as at January 31, 2000	18,856,609	1,895,101
Issued following business acquisitions *(note 3)*	1,336,365	1,444,000
Issued following exercise of warrants *(note 8 d))*	714,286	332,143
Balance as at January 31, 2001	20,907,260	3,671,244
Issued pursuant to a private placement *(note 8 c))*	1,750,000	1,705,423
Issued following exercise of warrants *(note 8 d))*	528,572	264,286
Balance as at January 31, 2002	**23,185,832**	**5,640,953**

c) Private placement

On June 18, 2001, pursuant to a private placement, the Corporation issued 1,750,000 Class “A” shares for a cash consideration of $1,750,000 less related expenses of $44,577.

d) 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. In 2002, all of these warrants were exercised for a consideration of $50,000.

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. In 2001, 714,286 of the 1,142,858 warrants outstanding were exercised for a consideration of $357,143, less related expenses of $25,000. In 2002, the remaining 428,572 warrants were exercised for a consideration of $214,286.

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 $0.95 per share up to November 30, 2002. All these warrants were still in effect as at January 31, 2002.

8 Capital stock *(cont.)*

e) 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, 2002, there were 1,446,785 (2001 – 1,469,285) Class "A" stock options granted and not exercised under the Plan. These options can be exercised until March 2005 and have a contractual life from two to five years.

Changes in the Corporation's Class "A" stock options are detailed as follows:

		2002		2001
	Number of shares	**Exercise price**	Number of shares	Exercise price
		$		$
Options granted – Beginning of year	**1,469,285**	**from 0.35 to 1.65**	914,285	0.35
Granted	**27,500**	**1.00**	555,000	from 0.85 to 1.65
Cancelled	**(50,000)**	**1.65**	–	–
Options granted and exercisable – End of year	**1,446,785**	**from 0.35 to 1.05**	1,469,285	from 0.35 to 1.65

f) Escrowed shares

As at January 31, 2002, 6,157,576 Class "A" shares were held in escrow and will be released as follows:

- 2,066,666 Class "A" shares are subject to a one-year escrow and will be releasable at the third anniversary date of the reverse takeover transaction, namely August 13, 2002;
- 3,200,000 Class "A" shares are in escrow and will be released at the performance up to a maximum of 1,600,000 releasable shares per year. On July 13, 2004, the unreleased shares, if any, will be cancelled;
- 644,445 Class "A" shares are subject to a two-year contractual escrow, with 322,222 shares releasable on each of the next anniversary dates of the acquisition of Soft Management Inc., namely November 22, 2002 and 2003;
- 90,909 Class "A" shares are subject to a two-year contractual escrow, with 45,455 shares releasable on each of the next anniversary dates of the acquisition of Riscon Services Limited, namely October 5, 2002 and 2003;
- 22,223 Class "A" shares are subject to a two-year contractual escrow, with 10,111 shares releasable on each of the next anniversary dates of the acquisition of 9022-4528 Quebec Inc. (now Garda Parking Management Inc.), namely May 1, 2002 and 2003;
- 133,333 Class "A" shares are subject to a two-year contractual escrow, with 66,667 shares releasable on each of the next anniversary dates of the acquisition of Lister & Stop Security Systems Inc., namely February 1, 2002 and 2003.

8 Capital stock *(cont.)*

g) The following table reconciles basic net earnings (loss) per share:

	2002	2001
	$	$
Net income (loss) for the year	**(561,768)**	487,928
Weighted average number of shares outstanding	**22,046,546**	19,499,947
Shares whose issuance is conditional	**(3,200,000)**	(4,800,000)
Weighted average number of shares outstanding for use in computation of basic earnings per share	**18,846,546**	14,699,947
Effect of potential dilutive securities		
Stock options	**574,563**	608,648
Warrants	**–**	402,801
Shares whose issuance is conditional	**1,600,000**	1,600,000
Weighted average number of shares for use in computation of diluted earnings per share	**21,021,109**	17,311,396
Basic and diluted net earnings (loss) per share	**(0.03)**	0.03

For the years ended January 31, 2002 and 2001, the conversion of the convertible debentures into Class “A” shares would have had an anti-dilutive effect on the net earnings per share.

The Corporation has also not included, in the calculation of the diluted earnings per share, the potentially dilutive securities because of their anti-dilutive effect for the year ended January 31, 2002. Furthermore, for that year, the following securities were not included in the calculation of dilutive potential shares as the exercice price exceeded the average trading value of the shares: 247,500 options with an exercise price between $1.00 and $1.05; and 800,000 warrants with an exercise price of $0.95.

9 Change in non-cash working capital items

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

	2002	2001
	$	$
Decrease (increase) in		
Accounts receivable	**(1,598,230)**	(1,710,506)
Inventories	**(88,290)**	14,200
Work in progress	**390,596**	(445,847)
Income taxes	**91,607**	(115,713)
Prepaid expenses	**6,457**	(100,560)
Increase (decrease) in		
Accounts payable and accrued liabilities	**739,745**	156,866
Deferred revenue	**50,000**	(80,770)
	(408,115)	(2,282,330)

10 Income taxes

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

	2002	2001
	$	$
Provision for (recovery of) income taxes based on the combined basic Canadian and Quebec income tax rate	(173,089)	420,082
Change in income taxes resulting from the following:		
Deduction for Quebec active business income	30,138	(66,621)
Permanent difference attributable to amortization of goodwill	275,831	146,178
Other permanent differences and other	21,620	(62,275)
	327,589	17,282
Provision for income taxes for the year	154,500	437,364

b) Future income taxes include the following:

	2002	2001
	$	$
Future tax assets		
Deferrable losses and issue expenses	410,866	1,025,336
Capital assets	364,740	–
Other	35,000	19,000
	810,606	1,044,336
Future tax liabilities		
Capital assets	–	79,230
	810,606	965,106

c) The Corporation and its subsidiaries have accumulated non-capital tax losses and deductible issue expenses of approximately $1,174,000, 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	108,000
2004	108,000
2005	108,000
2006	334,000
2007	516,000

11 Unusual items

In December 2001, the Corporation obtained a new bank loan which allowed, among others, to reimburse half of its convertible debentures. In relation to these transactions, the Corporation encountered non-recurring fees in the amount of $590,000.

12 Commitments

The Corporation has lease commitments for office space and equipment totalling $1,122,363. The minimum payments required over the next five years are as follows:

	$
2003	**446,838**
2004	**328,036**
2005	**229,562**
2006	**66,350**
2007	**51,577**
	1,122,363

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 favourable or unfavourable effect on its financial situation.

14 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
Datacom

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

François Plamondon, CA[1]
Director of corporations

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

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, Ontario and Western Canada

Luc Simard
Regional Manager, Eastern Quebec

Claude Poirier
General Manager, SoftManagement Inc.

1 Audit Committee
2 Corporate Governance Committee
* Officers

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Ce rapport est également disponible en français.

Annual Shareholders' Meeting
July 12, 2002, at 9:00 a.m.
University Club
2047 Mansfield Street
Montreal, Quebec

Attorneys
Séguin Racine S.E.N.C.

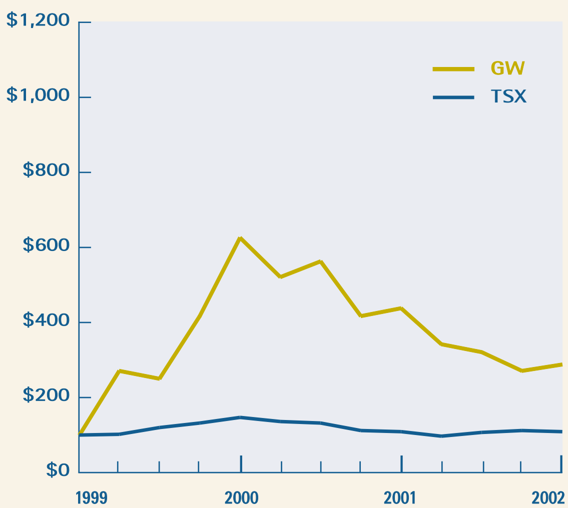
Transfer Agent and Registrar
CIBC Mellon Trust Company

Auditors
PricewaterhouseCoopers LLP

Stock Information
(at January 31, 2002)
Listing: TSX Venture Exchange
Ticker Symbol: GW
Shares outstanding: 23,185,832
Public float: 12,915,864
52-week high/low: $1.27/0.55
Recent price (31-05-02): $0.69

Stock Performance

Garda World vs S&P/TSE Composite Index
Value of $100 invested on August 1, 1999



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