



ANNUAL REPORT

GARDA 2003



WHO WE ARE

A Growing Presence in a Growing Industry Garda of Canada is dedicated to expanding the world of security services. > The Company is known for its one-stop service, combining traditional and state-of-the-art technologies, which allow it to provide fully integrated solutions to security problems. The Garda team includes over 4000 highly trained professionals serving customers from coast-to-coast. > 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 \$85 million for the year ended January 31, 2003. The Company has been recognized by leading business magazines, including Profit Magazine, as one of the fastest growing companies in Canada. > 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.



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Years ended January 31,	2003	2002	2001
	\$	\$	\$
Sales	85,223	73,055	59,932
EBITDA ⁽¹⁾	3,433	3,101	2,841
Net earnings (loss)	972	(562)	488
Cash flow from operations	2,515	1,561	2,165
Net earnings (loss) per share, basic	0.04	(0.03)	0.06
EBITDA per share, basic	0.16	0.16	0.19
Cash flow from operations per share, basic	0.12	0.08	0.15
Total assets	21,970	21,439	20,947
Shareholders' equity	6,465	5,144	3,736
Weighted average number of Class A shares outstanding during the year (in thousands)	21,644	18,847	14,700

(1) Earnings before interest, taxes, depreciation and amortization, and unusual items

SALES
(in thousands of dollars)



EBITDA PER SHARE
(fully diluted, in dollars)



NUMBER OF EMPLOYEES



EBITDA
(in thousands of dollars)



SELLING AND ADMINISTRATIVE EXPENSE
(% of sales)



DEBT TO EQUITY RATIO





A few years ago, we embarked upon a business plan that would make Garda a leader in the Canadian security industry. We continued to execute this plan in fiscal 2003, and today we have reached a stage where we are ready to achieve a better balance in our revenues from our key service areas. In doing so, we will see an immediate impact on our profitability.

ONE-STOP SERVICE

Against the backdrop of an extremely competitive environment, Garda has steadily expanded its role and built upon its leadership position in the security industry.

Guarding

Garda has an exclusive client list that is unrivalled by any other security company in Canada. It includes many Fortune 500 companies with operations in Canada as well as leading real estate companies. The growth of our client base is a testament to the quality of our services and our excellent reputation. Our next challenge is to continue our growth outside Quebec so as to offer a truly coast-to-coast solution.

Investigations

When labour relations are in turmoil, as was often the case this past year, our clients look to our expertise in carrying out investigations and providing other specialized services. These services, which have a positive impact on our results, have only begun to grow.

Electronic Security

Services related to the installation of electronic equipment, such as access cards and surveillance cameras, have seen highs and lows. Garda has excellent expertise in this area but, unfortunately, this is not well-known. This year, we expect to make excellent inroads with these services as we launch several specialized product lines.

Cash-in-Transit

To round out our one-stop service offering, we launched a new division in the summer of 2002 focused on the transportation of cash and other valuables. This growth initiative was reinforced by our offer to purchase the assets of Secur, a leading cash handling service provider. Secur has annual revenues of more than \$50 million and holds 70% of the cash handling market in Quebec. This acquisition offers excellent synergies with Garda and immediately positions our company as one of the three leading cash handling services companies in Canada.

1973

Beginning of operations
– The Garda Security
Group Inc.

1995

Beginning of operations
– Trans-Québec
Security Inc.

1998

June
Stéphan Crétier wins
the Arista-Sun Life
Entrepreneur of the Year
award

1999

February
Trans-Québec acquires
Admari Group

August
Trans-Québec becomes
a public company and
changes name to
Trans-Canada World
Security Corp.

September
Trans-Canada acquires
La Sentinelle and Gardien
Vigilant

November
Trans-Canada completes
a convertible debentures
offering with CDP Capital
and a private placement
with Sipar

December
Trans-Canada acquires
The Garda Security
Group Inc. and becomes
Garda World Security
Corp.

Today we have reached a stage where we are ready to achieve a better balance in our revenues from our key service areas. In doing so, we will see an immediate impact on our profitability.

OUTLOOK

Our initiatives in the last year demonstrate that Garda is taking the necessary steps to increase its presence in all its service areas from coast to coast. These initiatives included the opening of offices in Calgary and Vancouver as well as the proposed acquisition of Secur. Building on a series of strategic acquisitions and a phenomenal internal growth record, Garda will continue to execute its growth strategy by developing and optimizing the synergies among its various services.

The combination of the unique expertise of Garda and Secur will not only increase the strength of our company but it will give us a huge competitive advantage in providing our clients with services that meet their precise needs.

We are also focused on providing our shareholders with an above-average return on their investment. By striking a better balance among revenues from our four areas of activity, we will achieve a new level of performance that will greatly improve our profitability.

Our achievements throughout Canada would not have been possible without the contribution of our management team and employees. I would like to thank them for their support and the quality of their work. I also take this opportunity to recognize the professionalism and the generosity of our Board of Directors during the past year. In addition to putting in place new corporate governance practices, they played a lead role in the development of our strategic plan.

Our achievements in fiscal 2003 together with the initiatives taken in recent weeks position us better than ever to be a leader in the world of security throughout Canada.

(signed)

Stéphan D. Crétier, MBA

Chairman and Chief Executive Officer

2000

February
Garda World acquires Lister & Stop
May
Garda World acquires GTES

October
Garda World acquires Riscon Services
November
Garda World acquires Soft Management

2001

January
Garda world wins Silver Prize (services) for top job creation in Quebec
June
Garda World wins Profit 100 award for growth (1st in Quebec)

December
Garda World completes a bank loan financing with BMO-Bank of Montreal

2002

June
Garda World wins Profit 100 award for growth (2nd in Quebec)
July
Garda World completes a term loan financing with BMO-Bank of Montreal and a convertible debentures offering with Sipar

2003

May
Garda World makes an offer to acquire Secur
June
Garda World wins Profit 100 award for growth (2nd in Quebec)
Garda World applies to transfer its listing to the TSX

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, 2003 ("fiscal 2003") and January 31, 2002 ("fiscal 2002"). 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, 2003 increased by approximately 17%, from \$73,055,307 in fiscal 2002 to \$85,222,792 in fiscal 2003. This is attributable mainly to internal growth in our guarding services, in particular, higher business volume in Ontario and Western Canada, specialized services and new Cash-in-Transit services.

Gross profit rose by close to 13%, from \$7,600,511 (10.4% of sales) in fiscal 2002 to \$8,568,591 (10.1% of sales) in fiscal 2003. The gross margin was mainly impacted by our rapid internal growth and a shift in the sales mix.

Selling and administrative expenses increased from \$4,499,526 (6.2% of sales) in fiscal 2002 to \$5,135,331 (6.0% of sales) in fiscal 2003. This increase is attributable to generally higher volume in our business operations and to our geographic expansion in Western Canada, which together have resulted in a higher overhead cost structure. The Corporation nevertheless maintained its target of 6% of sales.

Earnings before interest, taxes, depreciation and amortization, and unusual items (EBITDA), rose by 11%, from \$3,100,985 (4.2% of sales) in fiscal 2002 to \$3,433,260 (4.0% of sales) in fiscal 2003. Fully diluted EBITDA per share remained stable at \$0.15 for both fiscal 2002 and fiscal 2003.

Amortization of property, plant and equipment increased from \$728,683 in fiscal 2002 to \$863,366 in fiscal 2003, reflecting the generally higher volume in our business operations. Following the introduction of new accounting principles for goodwill and other intangible assets, goodwill amortization was not required in fiscal 2003 resulting in a year-over-year decrease in operating expenses of \$789,990. Our assessment of goodwill at January 31, 2003 revealed no permanent impairment of the carrying value.

Total interest expense decreased from \$1,297,580 in fiscal 2002 to \$732,457 in fiscal 2003. This change resulted from the full redemption and refinancing of our original convertible debentures and a lower average draw-down on the bank loans.

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

The Corporation ended fiscal 2003 with net earnings of \$971,632 (\$0.04 per share) compared with a net loss of \$561,768 (\$0.03 per share) in fiscal 2002. Excluding the effect of goodwill amortization, net earnings would have been \$228,222 (\$0.01 per share) in fiscal 2002.



LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations increased from \$1,560,675 in fiscal 2002 to \$2,515,201 in fiscal 2003, mainly attributable to higher operating profit combined with lower interest expense and unusual expenses. The changes in non-cash working capital items and the increase in purchases of property, plant and equipment are mainly attributable to our organic growth.

During fiscal 2003, the Corporation redeemed the remaining portion of the debentures that had been originally issued in November 1999. This was mainly achieved through the issuance of new convertible debentures and the financing of a one million-dollar term loan. This refinancing, together with our higher profitability, resulted in an improvement of the debt to equity ratio from 1.46:1 as at January 31, 2002 to 1.09:1 as at January 31, 2003.

RISKS AND UNCERTAINTIES

The Corporation is involved in a highly competitive industry in which the monitoring and control of financial and other resources is essential. However, most of the Corporation's sales are contracted revenue and usually recur annually. Also, the Corporation does not have customer concentration as no customer represents more than 5% of total sales. Finally, the Corporation has an enviable reputation, ranking among the Top 5 in the Canadian security market.

OUTLOOK

We will continue to implement our original corporate strategy, which is focused on providing more value-added products and services and increasing our geographic penetration.

In this regard, we initiated a new Cash-in-Transit service in fiscal 2003 and recently issued a letter of intent for the acquisition of a large cash handling service provider, Secur. We have also recently signed agreements to distribute specialized products as part of our technology services offering. Finally, in March of this year, we signed an important nation-wide guard contract that resulted in the opening of a branch office in Vancouver, B.C.

FORWARD-LOOKING INFORMATION

Certain statements in this report may constitute forward-looking statements. Such forward-looking statements involve risks, uncertainties and other factors, which may cause actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements.

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 Canadian generally accepted accounting principles. 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 2, 2003

To the Shareholders of
Garda World Security Corporation

We have audited the consolidated balance sheets of **Garda World Security Corporation** as at January 31, 2003 and 2002 and the consolidated statements of income (loss), 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, 2003 and 2002 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

Montreal, Quebec, Canada
April 11, 2003 (except for note 14 which is dated May 2, 2003)

As at January 31, 2003 and 2002

	2003	2002
	\$	\$
Assets		
Current assets		
Cash	75,038	388,802
Accounts receivable		
Trade	11,054,498	9,984,208
Advance to a director, non-interest bearing	121,519	—
Other	167,955	96,142
Inventories	345,203	198,825
Work in progress	1,919,639	2,246,264
Income taxes	38,568	41,630
Prepaid expenses	182,045	211,843
Balance of selling price receivable, bearing interest at 8%, secured by an immovable hypothec	200,000	200,000
	14,104,465	13,367,714
Property, plant and equipment (note 3)	1,481,713	1,272,173
Goodwill, net of accumulated amortization of \$1,259,936	5,914,938	5,914,938
Deferred financing costs, net of accumulated amortization and write-off of \$287,000 (2002 - \$186,000)	157,825	74,000
Future income taxes (note 9)	310,606	810,606
	21,969,547	21,439,431
Liabilities		
Current liabilities		
Bank loans (note 4)	5,380,393	5,518,711
Accounts payable and accrued liabilities	8,337,242	8,289,947
Deferred revenue	70,000	100,000
Current portion of long-term debt (note 5)	384,398	58,513
Current portion of convertible debentures (note 6)	—	586,767
	14,172,033	14,553,938
Long-term debt (note 5)	582,833	32,029
Convertible debentures (note 6)	749,200	1,709,615
	15,504,066	16,295,582
Shareholders' Equity		
Capital stock (note 7)	5,710,953	5,640,953
Conversion rights (note 6)	280,000	—
Retained earnings (deficit)	474,528	(497,104)
	6,465,481	5,143,849
	21,969,547	21,439,431

Approved by the Board of Directors,

(signed)

Stéphan D. Crétier, director

(signed)

Louis-Philippe Séguin, director

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

For the years ended January 31, 2003 and 2002	2003	2002
	\$	\$
Sales	85,222,792	73,055,307
Cost of sales	76,654,201	65,454,796
Gross profit	8,568,591	7,600,511
Operating expenses		
Selling and administrative expenses	5,135,331	4,499,526
Interest on long-term debt and convertible debentures	348,327	915,149
Other interest	384,130	382,431
Unusual items (note 10)	264,805	590,000
Amortization of property, plant and equipment	863,366	728,683
Amortization of goodwill	—	789,990
Amortization and write-off of deferred financing costs	101,000	102,000
	7,096,959	8,007,779
Income (loss) before income taxes	1,471,632	(407,268)
Future income taxes (note 9)	500,000	154,500
Net income (loss) for the year	971,632	(561,768)
Basic and diluted net income (loss) per share (note 7 (g))	0.04	(0.03)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (DEFICIT)

For the years ended January 31, 2003 et 2002	2003	2002
	\$	\$
Retained earnings (deficit) - Beginning of year	(497,104)	64,664
Net income (loss) for the year	971,632	(561,768)
Retained earnings (deficit) - End of year	474,528	(497,104)

For the years ended January 31, 2003 and 2002

	2003	2002
	\$	\$
Cash flows from		
Operating activities		
Net income (loss) for the year	971,632	(561,768)
Adjustments for		
Amortization of property, plant and equipment and goodwill	863,366	1,518,673
Amortization and write-off of deferred financing costs	101,000	102,000
Future income taxes	500,000	154,500
Accrued interest on debentures	29,200	—
Accrued applicable premium on debentures	50,003	347,270
	2,515,201	1,560,675
Change in non-cash working capital items (note 8)	(1,033,220)	(408,115)
	1,481,981	1,152,560
Financing activities		
Bank overdrafts	—	(1,112,904)
Increase (decrease) in bank loans	(138,318)	1,918,711
Increase in long-term debt	1,111,108	—
Repayment of long-term debt	(234,419)	(432,200)
Issuance of convertible debentures	1,000,000	—
Deferred financing costs	(184,825)	—
Redemption of convertible debentures	(2,346,385)	(2,426,600)
Issuance of capital stock, net of issue expenses	70,000	1,969,709
	(722,839)	(83,284)
Investing activities		
Purchase of property, plant and equipment	(1,072,906)	(680,474)
Change in cash during the year	(313,764)	388,802
Cash - Beginning of year	388,802	—
Cash - End of year	75,038	388,802
Additional information		
Interest paid	703,257	925,671
Income taxes received	3,062	80,000

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,	
	2003	2002
	%	%
Garda Security Group Inc.	100	100
Garda Parking Management Inc.	100	100
Riscon Services Limited	100	100
Soft Management Inc.	78	70
Softalarm Inc.	78	70

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 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.

Fair value of financial instruments

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

Credit risk

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.

2 SIGNIFICANT ACCOUNTING POLICIES (cont.)

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 earned revenue relating to 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

In July 2001, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 1581, "Business Combinations", and Section 3062, "Goodwill and Other Intangible Assets". Section 1581 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting. This section also broadens criteria for recording intangible assets separately from goodwill. Section 3062 requires the use of a non-amortization approach to account for purchased goodwill and indefinite-lived intangibles. Under the non-amortization approach, goodwill and indefinite-lived intangibles will not be amortized, but instead would be reviewed for impairment and written down and charged to income only in the periods in which the recorded value of goodwill and indefinite-lived intangibles exceeds their fair value. The Corporation has adopted this method as of February 1, 2002 which will result in no amortization expense taken going forward. In conformity with the transitional provisions of Section 3062, the Corporation has performed an impairment test on the carrying amount of goodwill as at February 1, 2002 and January 31, 2003 and has concluded that no impairment loss should be recognized. The effect of goodwill amortization on the reported net income is as follows:

	2003	2002
	\$	\$
Reported net income (loss) for the year	971,632	(561,768)
Add-back: Goodwill amortization	-	789,990
Adjusted net income for the year	971,632	228,222
Basic and diluted adjusted net income per share	0.04	0.01

Deferred financing costs

Deferred financing costs include convertible debenture issue expenses and term loan financing expenses and are amortized on a straight-line basis over the respective terms of these financings.

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 or substantively 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 CICA recommendations for calculating income 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 income per share. Furthermore, the shares whose issuance is conditional are not considered as outstanding common shares when assessing the income per share; however, they are taken into account when assessing the diluted income 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

On February 1, 2002, the Corporation adopted the new CICA recommendation relating to stock-based compensation and other stock-based payments. The Corporation has chosen not to use the fair value method to record the stock options granted. The new recommendation has had no effect on the balance sheet and the net income of the Corporation.

No compensation expense is recognized for the plan when options are granted to directors, officers and employees if the exercise price of these options corresponds to the market value at the date of grant. 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 PROPERTY, PLANT AND EQUIPMENT

	2003			2002		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
	\$	\$	\$	\$	\$	\$
Office furniture	392,531	320,148	72,383	391,242	302,686	88,556
Computer equipment	558,283	286,146	272,137	417,773	224,565	193,208
Equipment	503,724	367,455	136,269	460,939	338,736	122,203
Rolling stock	723,688	446,147	277,541	580,972	357,782	223,190
Uniforms	2,161,063	1,470,582	690,481	1,459,408	869,535	589,873
Leasehold improvements	87,242	54,340	32,902	87,242	32,099	55,143
	4,426,531	2,944,818	1,481,713	3,397,576	2,125,403	1,272,173

4 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.

5 LONG-TERM DEBT

	2003	2002
	\$	\$
Loans, bearing interest at an average rate of 5.8%, secured by equipment, office furniture and rolling stock, repayable in monthly instalments of a maximum of \$5,324 including principal and interest, maturing at different dates until 2007	133,898	79,712
Term loan, bearing interest at prime rate plus 1.75%, comprising the same rights and guarantees as the bank loans, repayable in 36 monthly principal instalments of \$27,778 from July 2002 until July 2005	833,333	—
Loan, bearing interest at prime rate plus 1.75%, secured by Société de développement industriel du Québec, reimbursed during the year	—	10,830
	967,231	90,542
Less: Current portion	384,398	58,513
	582,833	32,029

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

	\$
2004	384,398
2005	373,485
2006	194,239
2007	15,109

6 CONVERTIBLE DEBENTURES

	2003	2002
	\$	\$
a) Convertible debentures, subordinated to bank loans and term loan (note 6(b))	720,000	—
Accrued interest on debentures (note 6(b))	29,200	—
Convertible debentures, subordinated to bank loans, bearing interest at 12%, plus an applicable premium ranging from 21.33% to 42.83%	—	2,000,000
Accrued applicable premium on debentures	—	296,382
	749,200	2,296,382
Less: Current portion	—	586,767
	749,200	1,709,615

6 CONVERTIBLE DEBENTURES (cont.)

b) On July 11, 2002, the Corporation issued \$750,000 Series A convertible debentures and \$250,000 Series B convertible debentures both redeemable on July 11, 2007. Both series have a 10% annual interest coupon, payable semi-annually, and are convertible into Class "A" shares at the holder's option at any time up to maturity at escalatory prices ranging from \$0.75 to \$1.05 per share, or at the issuer's option from the third year of issuance up to maturity at escalatory prices ranging from \$0.75 to \$1.05 per share provided a 20 trading days average closing price above \$1.20 prior to conversion. The Corporation can redeem Series B from the twelfth to the thirtieth month from the date of issuance with premiums ranging from 10% to 20%. For a period of 30 days following the twenty-fourth month from the date of issuance, the holder can force the redemption of Series B with a 20% premium. There are 333,333 warrants attached to Series B which can be exercised at \$0.75 per share up to July 11, 2004.

The debt component of the convertible debentures amounted to \$720,000 at the date of issuance, representing the present value of interest and principal payments to July 11, 2007 and was recorded in long-term liabilities. The equity component amounted to \$280,000, representing the value of the warrants and the conversion option, and was recorded in shareholders' equity as conversion rights. Over the term of this financial instrument, the debt component will be increased to \$1,000,000 to provide, for accounting purposes, an annual interest expense equal to 22%, representing an estimation of the interest rate of similar debt instruments which do not have such equity components.

7 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, 2001	20,907,260	3,671,244
Issued pursuant to a private placement (note 7(c))	1,750,000	1,705,423
Issued following exercise of warrants (note 7(d))	528,572	264,286
Balance as at January 31, 2002	23,185,832	5,640,953
Issued following exercise of options (note 7(e))	200,000	70,000
Balance as at January 31, 2003	23,385,832	5,710,953

7 CAPITAL STOCK (cont.)

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

As part of the issuance of the convertible debentures, on July 11, 2002 (note 6(b)), 333,333 warrants were granted.

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 expired on December 1, 2002.

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, 2003, there were 956,785 (2002 – 1,446,785) Class "A" stock options granted and not exercised under the Plan. These options can be exercised until June 2007 and have a contractual life from two to five years.

7 CAPITAL STOCK (cont.)

The following table summarizes the Corporation's Class "A" stock options activity:

	2003		2002	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Options granted - Beginning of year	1,446,785	\$ 0.56	1,469,285	\$ 0.59
Granted	—	—	27,500	1.00
Exercised	(200,000)	0.35	—	—
Cancelled after expiration	(290,000)	0.98	(50,000)	1.65
Options granted - End of year	956,785	0.48	1,446,785	0.56

The following table summarizes information about the Corporation's Class "A" stock options outstanding and exercisable as at January 31, 2003:

Exercise price	Number of shares	Weighted average remaining contractual life (years)	Weighted average exercise price
\$			\$
0.35	714,285	1.45	0.35
0.85	225,000	3.15	0.85
1.00	17,500	0.36	1.00
	956,785	1.83	0.48

As at January 31, 2002, there were 1,446,785 options exercisable at a weighted average exercise price of \$0.56.

f) Escrowed shares

As at January 31, 2003, 2,044,455 Class "A" shares were held in escrow and will be released as follows:

- 1,600,000 Class "A" shares are in escrow and will be released at the performance at the following year-end. On July 13, 2004, the unreleased shares, if any, will be cancelled;
- 322,222 Class "A" shares are subject to a remaining one-year contractual escrow, and are releasable on the next anniversary date of the acquisition of Soft Management Inc., namely November 22, 2003;
- 45,455 Class "A" shares are subject to a remaining one-year contractual escrow, and are releasable on the next anniversary date of the acquisition of Riscon Services Limited, namely October 5, 2003;
- 10,111 Class "A" shares are subject to a remaining one-year contractual escrow, and are releasable on the next anniversary date of the acquisition of Garda Parking Management Inc. (formerly 9022-4528 Quebec Inc.), namely May 1, 2003;
- 66,667 Class "A" shares are subject to a remaining one-year contractual escrow, and were releasable on the next anniversary date of the acquisition of Lister & Stop Security Systems Inc. (now wound up in Garda Security Group Inc.), namely February 1, 2003.

7 CAPITAL STOCK (cont.)

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

	2003	2002
Net income (loss) for the year	\$971,632	\$(561,768)
Weighted average number of shares outstanding	23,244,165	22,046,546
Shares whose issuance is conditional	(1,600,000)	(3,200,000)
Weighted average number of shares outstanding for use in computation of basic income per share	21,644,165	18,846,546
Effect of potential dilutive securities		
Stock options	329,670	574,563
Shares whose issuance is conditional	1,600,000	1,600,000
Weighted average number of shares for use in computation of diluted income per share	23,573,835	21,021,109
Basic and diluted net income (loss) per share	\$0.04	\$(0.03)

For the years ended January 31, 2003 and 2002, the conversion of the convertible debentures into Class "A" shares would have had an anti-dilutive effect on the net income per share.

For the year ended January 31, 2003, the following securities were not included in the calculation of dilutive potential shares as the exercise price exceeded the average trading value of the shares: 242,500 options with an exercise price between \$0.85 and \$1.00; and 333,333 warrants with an exercise price of \$0.75.

For the year ended January 31, 2002, the following securities were not included in the calculation of dilutive potential shares as the exercise 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.

8 CHANGE IN NON-CASH WORKING CAPITAL ITEMS

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

	2003	2002
	\$	\$
Decrease (increase) in		
Accounts receivable	(1,263,622)	(1,598,230)
Inventories	(146,378)	(88,290)
Work in progress	326,625	390,596
Income taxes	3,062	91,607
Prepaid expenses	29,798	6,457
Increase (decrease) in		
Accounts payable and accrued liabilities	47,295	739,745
Deferred revenue	(30,000)	50,000
	(1,033,220)	(408,115)

9 INCOME TAXES

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

	2003	2002
	\$	\$
Provision for (recovery of) income taxes based on the combined basic Federal and Quebec income tax rate	487,551	(142,951)
Change in income taxes resulting from the following:		
Permanent difference attributable to amortization of goodwill	—	275,831
Other permanent differences and other	12,449	21,620
	12,449	297,451
Future income taxes	500,000	154,500

b) Future income taxes include the following:

	2003	2002
	\$	\$
Future tax assets		
Deferrable losses and issue expenses	158,985	410,866
Property, plant and equipment	137,682	364,740
Other	13,939	35,000
	310,606	810,606

c) The Corporation and its subsidiaries have accumulated non-capital tax losses and deductible issue expenses of approximately \$488,000, 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, 2004	194,000
2005	73,000
2007	3,000
2010	218,000

10 UNUSUAL ITEMS

During the year, the Corporation was involved in the assessment and analysis of different transaction opportunities to provide the Corporation with additional financing. Relative to these transactions, the Corporation encountered non-recurring fees in the amount of \$264,805.

During the year ended January 31, 2002, the Corporation obtained a new bank loan which allowed, among others, the reimbursement of half of its convertible debentures. The Corporation encountered non-recurring fees in the amount of \$590,000 in relation to these transactions.

11 COMMITMENTS

The Corporation has lease commitments for office space and rolling stock totalling \$887,025. The minimum payments required over the next five years are as follows:

	\$
2004	423,191
2005	301,035
2006	95,920
2007	51,577
2008	15,302
	887,025

12 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.

13 SEGMENTED INFORMATION

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

14 SUBSEQUENT EVENT

On May 2, 2003, Garda Security Group Inc., a wholly owned subsidiary of the Corporation, issued a letter of intent for the acquisition of specific assets of Secur Inc. The conclusion of this transaction is subject to certain customary conditions, namely due diligence and regulatory approvals.

BOARD OF DIRECTORS

Stéphan D. Crétier, MBA^{1, 2}
Chairman and Chief Executive Officer,
 Garda World Security Corporation

C. François Couture²
Partner,
 Desjardins Ducharme Stein Monast

Jean-Luc Landry
President,
 Landry, Morin, inc.

François Plamondon, CA¹
Vice-President and
Chief Financial Officer,
 Avestor

Louis-Philippe Séguin¹
Vice-President,
 Jones, Gable and Company

A full report of Garda's corporate governance practices is set out in the Proxy Circular for the 2003 Annual Meeting of Shareholders.

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.
Vice-President,
Business Development

Luc Simard
Regional Manager, Eastern Quebec

Maxime Laviolette
Regional Manager,
Ontario and Western Canada

Claude Poirier
General Manager,
 SoftManagement Inc.

¹ Audit Committee

² Corporate Governance Committee

* Officers

**CORPORATE INFORMATION****Head Office**

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Vancouver

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 Tel.: (604) 662-7112
 Fax: (604) 662-7116



INVESTOR RELATIONS

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scretier@garda.ca

Yani Gagnon
ygagnon@garda.ca

ANNUAL SHAREHOLDERS' MEETING

July 10, 2003, at 9:00 a.m.
University Club of Montreal
2047 Mansfield Street
Montreal, Quebec

ATTORNEYS

Séguin Racine S.E.N.C.

TRANSFER AGENT AND REGISTRAR

CIBC Mellon Trust Company

AUDITORS

PricewaterhouseCoopers LLP

BANKERS

BMO-Bank of Montreal

STOCK INFORMATION

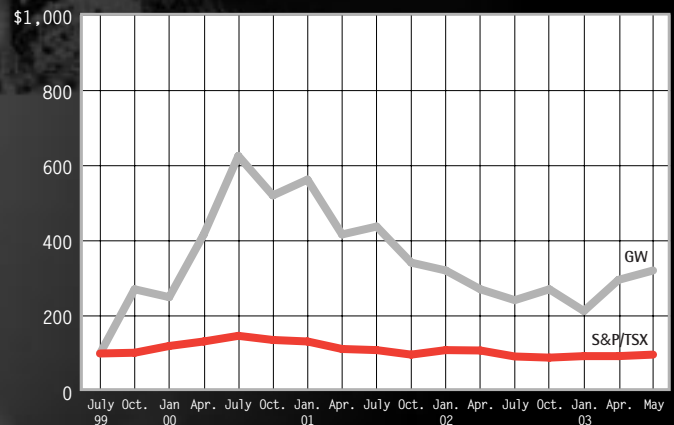
(at January 31, 2003)

Listing: TSX Venture Exchange
Ticker symbol: GW
Shares outstanding: 23,385,832
Public float: 13,115,864
52-week high/low: \$0.92/\$0.40
Recent price (06-06-03): \$0.83

STOCK PERFORMANCE

Garda World vs S&P/TSX Composite Index

Value of \$100 invested on August 1, 1999



GARDA

GARDA OF CANADA

BUILDING
A LEADERSHIP POSITION
IN THE NEW WORLD
OF SECURITY