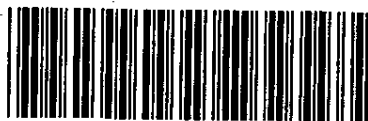


Company Registration No. 04541965 (England and Wales)

**Aegis Defence Services Limited**

**Annual report and financial statements  
for the year ended 31 January 2019**

THURSDAY



\*L8HA1MM0\*

LD2

31/10/2019

#179

COMPANIES HOUSE

## **Aegis Defence Services Limited**

### **Company information**

---

<b>Directors</b>	The Rt Hon Sir Nicholas Soames MP (Chairman) Oliver Westmacott Colin Brown
<b>Secretary</b>	Oliver Westmacott
<b>Company number</b>	04541965
<b>Registered office</b>	Two London Bridge London SE1 9RA
<b>Independent auditors</b>	Saffery Champness LLP 71 Queen Victoria Street London EC4V 4BE
<b>Bankers</b>	Coutts & Co 440 Strand London WC2R 0QS

---

## **Aegis Defence Services Limited**

### **Contents**

---

	<b>Page</b>
Strategic report	1 - 3
Directors' report	4 - 5
Independent auditor's report	6 - 8
Income statement	9
Statement of financial position	10
Statement of changes in equity	11
Statement of cash flows	12
Notes to the financial statements	13 - 30

---

**Aegis Defence Services Limited**

**Strategic report**

**For the year ended 31 January 2019**

---

The directors present the strategic report and financial statements for the year ended 31 January 2019.

**Principal activities**

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

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

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

**Review of the business**

Revenue increased from £45m in the previous period to £48m mainly due to organic growth. The company suffered additional erosion to the gross profit margin resulting from further cross sector trends towards reducing margins and the subsequent renegotiation of existing contracts at lower rates. Due to close scrutiny of our operational costs we have been able to minimize the result of this trend, whilst maintaining the high quality of service and diligence our clients have grown accustomed to.

Despite these challenges the company has returned improved profits before taxation, which increased to 63% of revenue in the current year from 26% (2018). This was achieved due to the strong performance of the company's investment activities based in the US market and the renegotiation and close control of our administration costs.

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

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

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

**Principal risks and uncertainties**

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

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

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

Foreign exchange

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

Compliance to a wide range of regulations and restrictions

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

Loss of reputation

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

Managing and Retaining Talent

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

**Aegis Defence Services Limited**

**Strategic report (continued)**

**For the year ended 31 January 2019**

---

**Regulation**

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

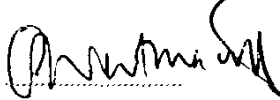
**Key performance indicators**

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

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

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

On behalf of the board



Oliver Westmacott

Director

21 October 2019

## **Aegis Defence Services Limited**

### **Directors' report**

**For the year ended 31 January 2019**

---

The directors present their annual report and financial statements for the year ended 31 January 2019.

#### **Principal activities**

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

#### **Results and dividends**

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

#### **Directors**

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

The Rt Hon Sir Nicholas Soames MP (Chairman)

Graham Binns CBE DSO MC

(Resigned 10 February 2018)

Sylvia White

(Resigned 15 July 2018)

Oliver Westmacott

Colin Brown

(Appointed 1 February 2019)

#### **Auditor**

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

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

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

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

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

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

---

**Aegis Defence Services Limited**

**Directors' report (continued)**  
**For the year ended 31 January 2019**

---

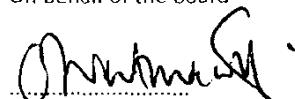
**Statement of disclosure to auditor**

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

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

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

On behalf of the board



Oliver Westmacott

**Director**

Date: 21 October 2019



**Aegis Defence Services Limited**

**Independent auditor's report**

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

---

**Opinion**

We have audited the financial statements of Aegis Defence Services Limited (the 'company') for the year ended 31 January 2019 which comprise the income statement, the statement of financial position, the statement of changes in equity, the statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 January 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Basis for opinion**

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

**Conclusions relating to going concern**

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

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

**Aegis Defence Services Limited**

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

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

---

**Other information**

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

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

We have nothing to report in this regard.

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

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

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

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

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

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

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

**Responsibilities of directors**

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

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

**Aegis Defence Services Limited**

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

---

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

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

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

**Use of our report**

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



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

25 October 2019

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

71 Queen Victoria Street  
London  
EC4V 4BE

**Aegis Defence Services Limited**

**Statement of comprehensive income  
For the year ended 31 January 2019**

		<b>2019</b>	<b>2018</b>
	<b>Notes</b>	<b>£</b>	<b>£</b>
<b>Revenue</b>	<b>4</b>	48,238,027	44,821,672
Cost of sales		(35,536,078)	(32,628,253)
<b>Gross profit</b>		12,701,949	12,193,419
Administrative expenses		(7,218,508)	(7,443,700)
Loss on foreign exchange		(76,670)	(1,025,214)
<b>Operating profit</b>	<b>5</b>	5,406,771	3,724,505
Investment revenues		24,928,689	8,052,230
<b>Profit before taxation</b>		30,335,460	11,776,735
Income tax expense	<b>8</b>	(1,822,855)	(2,270,031)
<b>Profit and total comprehensive income for the year</b>	<b>19</b>	28,512,605	9,506,704

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

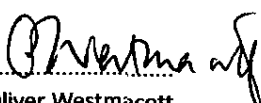
**Aegis Defence Services Limited**

**Statement of financial position**

**As at 31 January 2019**

		<b>2019</b>	<b>2018</b>
	<b>Notes</b>	<b>£</b>	<b>£</b>
<b>Non-current assets</b>			
Property, plant and equipment	12	3,738,451	656,687
Investments	10	4,423,927	4,423,927
		<u>8,162,378</u>	<u>5,080,614</u>
<b>Current assets</b>			
Trade and other receivables	13	36,448,282	25,321,081
Cash and cash equivalents		434,100	881,542
		<u>36,882,382</u>	<u>26,202,623</u>
<b>Total assets</b>		<u>45,044,760</u>	<u>31,283,237</u>
<b>Current liabilities</b>			
Trade and other payables	15	29,447,942	24,199,964
Current tax liabilities		1,460,539	708,097
		<u>30,908,481</u>	<u>24,908,061</u>
<b>Net current assets</b>		<u>5,973,901</u>	<u>1,294,562</u>
<b>Total liabilities</b>		<u>30,908,481</u>	<u>24,908,061</u>
<b>Net assets</b>		<u>14,136,279</u>	<u>6,375,176</u>
<b>Equity</b>			
Called up share capital	17	112	112
Capital redemption reserve	18	25	25
Retained earnings	19	14,136,142	6,375,039
<b>Total equity</b>		<u>14,136,279</u>	<u>6,375,176</u>

The financial statements were approved by the board of directors and authorised for issue on 21/01/19 and are signed on its behalf by:



Oliver Westmacott

Director

Company Registration No. 04541965

**Aegis Defence Services Limited**

**Statement of changes in equity  
For the year ended 31 January 2019**

		Share capital	Capital redemption reserve	Retained earnings	Total
	Notes	£	£	£	£
<b>Balance at 1 February 2017</b>		112	25	6,343,923	6,344,060
<b>Year ended 31 January 2018:</b>					
Profit and total comprehensive income for the year		-	-	9,506,704	9,506,704
Dividends	9	-	-	(9,475,588)	(9,475,588)
<b>Balances at 31 January 2018</b>		112	25	6,375,039	6,375,176
<b>Year ended 31 January 2019:</b>					
Profit and total comprehensive income for the year		-	-	28,512,605	28,512,605
Dividends	9	-	-	(20,751,502)	(20,751,502)
<b>Balances at 31 January 2019</b>		112	25	14,136,142	14,136,279

**Aegis Defence Services Limited**

**Statement of cash flows**  
**For the year ended 31 January 2019**

	Notes	£	2019 £	£	2018 £
<b>Cash flows from operating activities</b>					
Cash generated from operations	24		447,624		1,582,492
Tax paid			(1,070,413)		(1,329,933)
<b>Net cash (outflow)/inflow from operating activities</b>			(622,789)		252,559
<b>Investing activities</b>					
Purchase of property, plant and equipment		(4,001,840)		(217,740)	
Interest received		-		29,926	
Dividends received		24,928,689		8,022,304	
<b>Net cash generated from investing activities</b>			20,926,849		7,834,490
<b>Financing activities</b>					
Dividends paid		(20,751,502)		(9,475,588)	
<b>Net cash used in financing activities</b>			(20,751,502)		(9,475,588)
<b>Net decrease in cash and cash equivalents</b>			(447,442)		(1,388,539)
Cash and cash equivalents at beginning of year			881,542		2,270,081
Cash and cash equivalents at end of year			434,100		881,542

**Aegis Defence Services Limited**

**Notes to the financial statements  
For the year ended 31 January 2019**

---

**1 Accounting policies**

**Company information**

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

**1.1 Accounting convention**

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

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

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

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

**1.2 Going concern**

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

**1.3 Revenue**

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

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



**Aegis Defence Services Limited**

**Notes to the financial statements (continued)**

**For the year ended 31 January 2019**

---

**1 Accounting policies (continued)**

**1.4 Property, plant and equipment**

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

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

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

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

**1.5 Non-current investments**

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

**1.6 Impairment of tangible and intangible assets**

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

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

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

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

**1 Accounting policies (continued)**

**1.7 Fair value measurement**

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

**1.8 Cash and cash equivalents**

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

**1.9 Financial assets**

Financial assets are recognised in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument. Financial assets are initially recorded at fair value plus transaction costs.

There are three primary measurement categories for financial assets being:

- a) amortised cost;
- b) fair value through other comprehensive income (FVOCI); and
- c) fair value through profit or loss (FVTPL).

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

***Financial assets at amortised cost***

*A financial asset is measured at amortised cost if it is not designated as at FVTPL and meets both of the following conditions:*

- a) it is held within a business model whose objective is to collect contractual cash flows; and
- b) it contains contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest.

These assets are subsequently measured at amortised cost using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition, except for short-term receivables when the recognition of interest would be immaterial.

The amortised cost is reduced by impairment losses (see below). Any gain or loss on derecognition is recognised in profit or loss.

*All trade and other receivables are held at amortised cost.*

**1 Accounting policies (continued)**

***Impairment of financial assets***

The company recognises a loss allowance for expected credit losses on debt instruments that are measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The company always recognises lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

***Derecognition of financial assets***

Financial assets are derecognised when the right to receive cash flows from the asset have expired or have been transferred, and when the company has transferred substantially all risks and rewards of ownership.

**1.10 Financial liabilities**

Financial liabilities are measured at amortised cost or fair value through profit or loss (when they are held for trading).

***Other financial liabilities***

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

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

***Derecognition of financial liabilities***

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

**1.11 Equity instruments**

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

**1.12 Taxation**

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

**Aegis Defence Services Limited**

**Notes to the financial statements (continued)  
For the year ended 31 January 2019**

---

**1 Accounting policies (continued)**

***Current tax***

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

***Deferred tax***

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

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

**1.13 Employee benefits**

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

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

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

**1.14 Retirement benefits**

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

**Aegis Defence Services Limited**

**Notes to the financial statements (continued)**  
**For the year ended 31 January 2019**

---

**1 Accounting policies (continued)**

**1.15 Leases**

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

Assets held under finance leases are recognised as assets at the lower of the fair value of the assets at the date of inception and the present value of the minimum lease payments. The related liability is included in the statement of financial position as a finance lease obligation. Lease payments are treated as consisting of capital and interest elements. The interest is charged to profit or loss so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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

**1.16 Foreign exchange**

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

## Aegis Defence Services Limited

### Notes to the financial statements (continued) For the year ended 31 January 2019

---

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

In the current year, the following new and revised Standards and Interpretations have been adopted by the company and have an effect on the current period or a prior period or may have an effect on future periods:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 2 (amendments)	Classification and Measurement of Share-based Payment Transactions
IFRS 4 (amendments)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Considerations
IAS 40 (amendments)	Transfers of Investment Property
Annual Improvements 2014-2016 cycle	

Their adoption has not had any material impact on the disclosures or amounts reported in the financial statements.

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

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

IFRS 16	Leases
IFRIC 23	Uncertainty over income tax treatments
IFRS 9 (amendments)	Prepayment Features with Negative Compensation
IAS 28 (amendments)	Long-term Interests in Associates and Joint Ventures
IAS 19 (amendments)	Plan amendment, Curtailment or Settlement
IFRS 3 (amendments)	Business Combinations
IAS 1 (amendments)	Presentation of Financial Statements
IAS 8 (amendments)	Accounting Policies, Changes in Accounting Estimates and Errors
IFRS 17	Insurance Contracts
Annual improvements 2015-2017 cycle	
Conceptual Framework and Amendments to References to the Conceptual Framework in IFRS Standards	

IFRS 16 specifies how the company will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The company has one lease agreement longer than two years. From 1 February 2019, for this lease the company will recognise an asset reflecting the right to use the leased asset for the remaining lease term and a lease liability reflecting the obligation to make lease payments. Both the asset and the liability will be recognised on-balance sheet where previously they were off balance sheet. There will be no impact on cash flow but there will be an impact on the Income Statement as the operating lease payment will be replaced with a depreciation charge on the leased asset and an interest expense on the lease liability.

---

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

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

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

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

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

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

**Key estimates – receivables**

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

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

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

**4 Revenue**

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

	2019	2018
	£	£
<b>Revenue analysed by class of business</b>		
Security and consultancy services	44,840,955	44,821,672
Other income	3,397,072	-
	<u>48,238,027</u>	<u>44,821,672</u>

**Aegis Defence Services Limited**

**Notes to the financial statements (continued)**  
**For the year ended 31 January 2019**

**4 Revenue (continued)**

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
<b>Other significant revenue</b>		
Interest income	-	29,926
Dividends received	24,928,689	8,022,304
	<u>24,928,689</u>	<u>8,022,304</u>

**5 Operating profit**

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Operating profit for the year is stated after charging/(crediting):		
Exchange losses	76,670	1,025,214
Fees payable to the company's auditor for the audit of the company's financial statements	35,000	35,000
Depreciation of property, plant and equipment	683,266	407,943
Loss on disposal of property, plant and equipment	236,810	9,137
Reversal of impairment loss recognised on trade receivables	(66,428)	-
	<u>76,670</u>	<u>1,025,214</u>

**6 Employees**

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

	<b>2019</b>	<b>2018</b>
	<b>Number</b>	<b>Number</b>
Management and administration	12	18
	<u>12</u>	<u>18</u>

Their aggregate remuneration comprised:

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Wages and salaries	1,241,170	2,214,449
Social security costs	115,734	203,899
Pension costs	13,213	12,108
	<u>1,370,117</u>	<u>2,430,456</u>



**Aegis Defence Services Limited**

**Notes to the financial statements (continued)**

**For the year ended 31 January 2019**

**7 Directors' remuneration**

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Remuneration for qualifying services	335,500	966,180
Remuneration disclosed above include the following amounts paid to the highest paid director:		
Remuneration for qualifying services	225,500	509,374

**8 Income tax expense**

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
<b>Current tax</b>		
Current year taxation	-	27,100
Overseas taxation	1,849,498	2,396,921
Adjustments in respect of prior periods	(26,643)	(153,990)
	1,822,855	2,270,031

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

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Profit before taxation	30,335,460	11,776,735
Expected tax charge based on a corporation tax rate of 19.00%	5,763,737	2,237,580
Expenses not deductible in determining taxable profit	45,428	2,689
Income not taxable	(4,736,451)	(1,524,238)
Adjustment in respect of prior years	(26,643)	(153,990)
Double tax relief	(171,490)	(81,084)
Group relief	(780,962)	(621,384)
Overseas taxation	1,849,498	2,396,921
Other tax adjustment	(120,262)	13,537
Tax charge for the year	1,822,855	2,270,031

**Aegis Defence Services Limited****Notes to the financial statements (continued)****For the year ended 31 January 2019****9 Dividends**

During the year the company declared dividends totalling £20,751,502 (2018: £9,475,588).

**10 Investments**

	Current		Non-current	
	2019	2018	2019	2018
	£	£	£	£
Investments in subsidiaries	-	-	4,423,927	4,423,927

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

**Movements in non-current investments**

	Shares in group undertakings £
<b>Cost or valuation</b>	
At 1 February 2018 & 31 January 2019	5,551,300
<b>Impairment</b>	
At 1 February 2018 & 31 January 2019	(1,127,373)
<b>Carrying amount</b>	
At 31 January 2019	4,423,927
At 31 January 2018	4,423,927

**Aegis Defence Services Limited**

**Notes to the financial statements (continued)**  
**For the year ended 31 January 2019**

---

**11 Subsidiaries**

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

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

\*\* 100% owned indirectly through Firegap Limited

**Aegis Defence Services Limited**

**Notes to the financial statements (continued)**  
**For the year ended 31 January 2019**

**12 Property, plant and equipment**

	Leasehold improvements	Equipment	Materiel	Total
	£	£	£	£
<b>Cost</b>				
At 1 February 2017	430,803	280,592	1,689,255	2,400,650
Additions	-	4,371	213,369	217,740
Disposals	-	(19,672)	(155,562)	(175,234)
At 31 January 2018	430,803	265,291	1,747,062	2,443,156
Additions	-	7,972	3,993,868	4,001,840
Disposals	(430,803)	-	(6,382)	(437,185)
At 31 January 2019	-	273,263	5,734,548	6,007,811
<b>Accumulated depreciation and impairment</b>				
At 1 February 2017	151,799	220,256	1,172,568	1,544,623
Charge for the year	47,867	49,070	311,006	407,943
Eliminated on disposal	-	(19,580)	(146,517)	(166,097)
At 31 January 2018	199,666	249,746	1,337,057	1,786,469
Charge for the year	-	11,796	671,470	683,266
Eliminated on disposal	(199,666)	-	(709)	(200,375)
At 31 January 2019	-	261,542	2,007,818	2,269,360
<b>Carrying amount</b>				
At 31 January 2019	-	11,721	3,726,730	3,738,451
At 31 January 2018	231,137	15,545	410,005	656,687
At 31 January 2016	279,004	60,336	516,687	856,027

**Aegis Defence Services Limited**

**Notes to the financial statements (continued)**  
**For the year ended 31 January 2019**

**13 Trade and other receivables**

	Current 2019 £	2018 £
Trade receivables	2,804,445	4,342,751
Provision for bad and doubtful debts	(193,627)	(301,300)
	<u>2,610,818</u>	<u>4,041,451</u>
Other receivables	3,628,160	1,133,941
Amounts due from fellow group undertakings	27,383,511	18,048,411
Prepayments	2,825,793	2,097,278
	<u>36,448,282</u>	<u>25,321,081</u>

**14 Trade receivables - credit risk**

**Fair value of trade receivables**

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

<b>Ageing of past due but not impaired receivables</b>	2019 £	2018 £
31-60 days	1,014,378	892,846
61-90 days	49,680	-
> 90 days	15,042	787,082
	<u>1,079,100</u>	<u>1,679,928</u>

<b>Ageing of impaired trade receivables</b>	2019 £	2018 £
Current	-	121,415
> 90 days	193,627	179,885
	<u>193,627</u>	<u>301,300</u>

**Aegis Defence Services Limited**

**Notes to the financial statements (continued)**  
**For the year ended 31 January 2019**

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

<b>Movement in the allowances for doubtful debts</b>	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
<i>Balance at 1 February 2018</i>	301,300	254,628
<i>Additional allowance recognised</i>	40,173	60,762
<i>Amounts written off as uncollectible</i>	(81,418)	(14,090)
<i>Amounts recovered in the year</i>	(66,428)	-
<b>Balance at 31 January 2019</b>	<b>193,627</b>	<b>301,300</b>

**15 Trade and other payables**

	<b>Current</b>	
	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Trade payables	1,105,086	749,796
Amounts due to fellow group undertakings	26,266,318	20,436,013
Accruals	1,932,472	2,217,211
Social security and other taxation	144,066	796,944
	<b>29,447,942</b>	<b>24,199,964</b>

**16 Retirement benefit schemes**

**Defined contribution schemes**

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

The total costs charged to income in respect of defined contribution plans is £13,213 (2018 - £12,108).

<b>17 Share capital</b>	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
<b>Ordinary share capital</b>		
<b>Issued and fully paid</b>		
1,125,000 Ordinary shares of 0.01p each	112	112

**Aegis Defence Services Limited**

**Notes to the financial statements (continued)**  
**For the year ended 31 January 2019**

**18 Capital redemption reserve**

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
At beginning and end of year	25	25

**19 Retained earnings**

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
At the beginning of the year	6,375,039	6,343,923
Profit for the year	28,512,605	9,506,704
Dividends	(20,751,502)	(9,475,588)
At the end of the year	14,136,142	6,375,039

**20 Operating lease commitments**

**Lessee**

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

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Minimum lease payments under operating leases	374,994	512,882

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

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
<b>Land and buildings</b>		
Within one year	167,368	381,267
Between two and five years	519,721	1,525,068
In over five years	-	688,505
	687,089	2,594,840

**Aegis Defence Services Limited**

**Notes to the financial statements (continued)**

**For the year ended 31 January 2019**

---

**21 Capital risk management**

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

**22 Controlling party**

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

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

**23 Related party transactions**

**Remuneration of key management personnel**

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

	2019	2018
	£	£
Short-term employee benefits	335,500	966,180

During the year, the company was charged management fees of £2,013,990 (2018: £1,920,013) by fellow group undertakings.

At 31 January 2019 the company was owed £1,922,385 (2018: £1,765,648) by subsidiary undertakings and £26,244,953 (2018: £17,264,913) by fellow group undertakings. As at 31 January 2019, the balance owed by subsidiary undertakings was impaired by £783,827 (2018: £982,150).

At 31 January 2019 the company owed £111,749 (2018: £213,008) to subsidiary undertakings and £26,154,569 (2018: £20,223,005) to fellow group undertakings.



**Aegis Defence Services Limited**

**Notes to the financial statements (continued)**  
**For the year ended 31 January 2019**

---

**24 Cash generated from operations**

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Profit for the year after tax	28,512,605	9,506,704
<b>Adjustments for:</b>		
Taxation charged	1,822,855	2,270,031
Investment income	(24,928,689)	(8,052,230)
Loss on disposal of property, plant and equipment	236,810	9,137
Loss on disposal of investments	-	9,500
Depreciation and impairment of property, plant and equipment	683,266	407,943
<b>Movements in working capital:</b>		
Increase in trade and other receivables	(11,127,201)	(2,928,728)
Increase in trade and other payables	5,247,978	360,135
<b>Cash generated from operations</b>	<u>447,624</u>	<u>1,582,492</u>

**Garda World Security Corporation**

Consolidated Financial Statements  
**January 31, 2019 and 2018**

THURSDAY

LD2

\*L8HA1MNK\*  
31/10/2019  
COMPANIES HOUSE

#183



## *Independent auditor's report*

To the Shareholder of Garda World Security Corporation

---

### *Our opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Garda World Security Corporation and its subsidiaries (together, the Corporation) as at January 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### **What we have audited**

The Corporation's consolidated financial statements comprise:

- the consolidated statements of financial position as at January 31, 2019 and 2018;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

---

### *Basis for opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

### **Independence**

We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

---

### *Other information*

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

.....  
*PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.*  
1250 René-Lévesque Boulevard West, Suite 2500, Montréal, Quebec, Canada H3B 4Y1  
T: +1 514 205 5000, F: +1 514 876 1502

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



Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

---

*Responsibilities of management and those charged with governance for the consolidated financial statements*

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

In preparing the consolidated financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

---

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

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



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*PricewaterhouseCoopers LLP*

Montréal, Quebec  
April 11, 2019

---

<sup>1</sup> CPA auditor, CA, public accountancy permit No. A116819

# Garda World Security Corporation

## Consolidated Statement of Financial Position

As at January 31, 2019 and 2018

(in thousands of Canadian dollars)

	2019 \$	2018 \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 5)	69,502	77,962
Accounts receivable (note 6)	420,131	337,655
Unbilled accounts receivable	109,147	88,448
Inventories (note 7)	18,414	12,082
Prepaid expenses	35,311	25,455
	652,505	541,602
<b>Non-current assets</b>		
Property, plant and equipment (note 8)	284,901	269,370
Goodwill (note 9)	861,253	730,933
Intangible assets (note 9)	419,580	397,432
Other assets (note 10)	22,956	26,832
Derivative financial instruments (note 22)	136	456
Deferred income tax assets (note 21)	230,459	151,860
	1,819,285	1,576,883
<b>Total assets</b>	<b>2,471,790</b>	<b>2,118,485</b>
<b>LIABILITIES AND DEFICIENCY</b>		
<b>Current liabilities</b>		
Bank indebtedness	-	7,814
Accounts payable and accrued liabilities (note 11)	423,990	329,342
Current portion of long-term debt (note 12)	62,857	54,205
Current portion of provisions and other liabilities (note 13)	106,289	9,724
Income taxes payable	45,539	20,159
Derivative financial instruments (note 22)	9,117	-
	647,792	421,244
<b>Non-current liabilities</b>		
Long-term debt (note 12)	2,426,483	2,070,861
Derivative financial instruments (note 22)	-	20,320
Deferred income tax liabilities (note 21)	41,805	43,164
Provisions and other non-current liabilities (note 13)	10,273	23,428
	2,478,561	2,157,773
<b>Total liabilities</b>	<b>3,126,353</b>	<b>2,579,017</b>
<b>Deficiency</b>		
Share capital (note 14)	590,124	590,124
Contributed surplus	13,525	11,765
Accumulated other comprehensive income	32,686	938
Deficit	(1,290,871)	(1,064,756)
<b>Total deficiency attributable to shareholder</b>	<b>(654,536)</b>	<b>(461,929)</b>
Non-controlling interest	(27)	1,397
<b>Total deficiency</b>	<b>(654,563)</b>	<b>(460,532)</b>
<b>Total liabilities and deficiency</b>	<b>2,471,790</b>	<b>2,118,485</b>

Approved by the Board of Directors

Jean-Luc Landry (signed) Director

Francois Plamondon (signed) Director

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

**Garda World Security Corporation**  
**Consolidated Statements of Loss and Comprehensive Loss**  
**For the years ended January 31, 2019 and 2018**

(in thousands of Canadian dollars)

	2019 \$	2018 \$
Revenues (note 15)	2,983,439	2,641,382
Operating costs (note 18)	2,447,474	2,152,524
Selling and administrative expenses (note 18)	388,875	348,533
Change in fair value of contingent consideration (note 13 (c))	84,512	-
Unrealized exchange loss (gain) on translation of long-term debt (note 12 (d))	107,040	(100,527)
Unrealized loss (gain) on derivative financial instruments (note 22)	(9,955)	7,244
Income (loss) before finance costs and income taxes	(34,507)	233,608
Finance costs (note 17)	209,413	214,648
Income (loss) before income taxes	(243,920)	18,960
Provision for (recovery of) income taxes (note 21)		
Current	47,253	26,199
Deferred	(71,096)	127,700
	(23,843)	153,899
Net loss for the year	(220,077)	(134,939)
Net income (loss) attributable to		
Shareholders	(219,996)	(134,973)
Non-Controlling interest	(81)	34
Net loss for the year	(220,077)	(134,939)
Other comprehensive income (loss) «OCI»		
<i>Items that may be subsequently reclassified to the consolidated statement of loss</i>		
Translation of long-term debt designated as net investment hedges, net of income tax recovery of \$2,223 (2018- tax loss of \$5,553) (note 12 (d))	(27,987)	20,611
Translation of foreign subsidiaries	62,876	(62,766)
Unrealized loss (gain) on derivative instruments, net of income tax of \$435 (2018-nil) (note 22)	(755)	3,274
<i>Items that will not be reclassified to the consolidated statement of loss</i>		
Remeasurement of defined benefit pension obligation, net of income tax of \$858 (2018-\$257) (note 20)	(2,386)	(712)
	31,748	(39,593)
Comprehensive loss for the year	(188,329)	(174,532)
Comprehensive income(loss) attributable to		
Shareholders	(188,248)	(174,566)
Non-controlling interest	(81)	34

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

**Garda World Security Corporation**  
**Consolidated Statement of Changes in Equity**  
**For the years ended January 31, 2019 and 2018**

(in thousands of Canadian dollars)

	Share capital \$	Contributed surplus \$	Accumulated comprehensi ve income \$	Deficit \$	Equity attributable to non-controlling interest \$	Total deficiency \$
<b>Balance – February 1, 2017</b>	568,277	8,973	40,531	(920,876)	1,363	(301,732)
Net income (loss) for the year	-	-	-	(134,973)	34	(134,939)
OCI for the year	-	-	(39,593)	-	-	(39,593)
Stock-based compensation	-	2,792	-	-	-	2,792
Share repurchase and reclassifications following amalgamation (note 13 and 14)	19,021	-	-	(8,907)	-	10,114
Share issuance (note 14)	2,826	-	-	-	-	2,826
<b>Balance – January 31, 2018</b>	<b>590,124</b>	<b>11,765</b>	<b>938</b>	<b>(1,064,756)</b>	<b>1,397</b>	<b>(460,532)</b>
<b>Balance – February 1, 2018</b>	590,124	11,765	938	(1,064,756)	1,397	(460,532)
New accounting policies adopted (note 3)	-	-	-	(7,462)	-	(7,462)
Net loss for the year	-	-	-	(219,996)	(81)	(220,077)
OCI for the year	-	-	31,748	-	-	31,748
Stock-based compensation	-	1,760	-	-	-	1,760
Acquisition of non-controlling interest	-	-	-	1,343	(1,343)	-
<b>Balance – January 31, 2019</b>	<b>590,124</b>	<b>13,525</b>	<b>32,686</b>	<b>(1,290,871)</b>	<b>(27)</b>	<b>(654,563)</b>

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



# Garda World Security Corporation

## Consolidated Statement of Cash Flows

For the years ended January 31, 2019 and 2018

(in thousands of Canadian dollars)

	2019 \$	2018 \$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net loss for the year	(220,077)	(134,939)
Adjustments for:		
Depreciation of property, plant and equipment (note 16)	102,325	95,545
Amortization of intangible assets (note 16)	36,846	33,074
Deferred income taxes (note 21)	(71,096)	127,700
Loss on disposal of property, plant and equipment (note 8)	359	683
Change in fair value of contingent consideration (note 13)	84,512	-
Unrealized exchange loss (gain) on translation of long-term debt (note 12(d))	107,040	(100,527)
Unrealized loss (gain) on derivative financial instruments (note 22)	(9,955)	7,244
Stock-based compensation (note 14)	1,760	2,792
Finance costs (note 17)	209,413	214,648
Defined benefit pension expense (note 20)	1,356	1,318
	242,483	247,538
Changes in non-cash working capital:		
Accounts receivable	(44,623)	(50,472)
Unbilled accounts receivable	(12,094)	8,850
Inventories	(5,003)	7,606
Prepaid expenses	(5,560)	(1,979)
Accounts payable and accrued liabilities, provisions and other liabilities	50,993	(35,924)
Income taxes payable	22,810	3,340
<b>Net cash generated from operating activities</b>	<b>249,006</b>	<b>178,959</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Changes in bank indebtedness	(7,804)	2,505
Increase in long-term debt, excluding revolving facilities	241,100	1,936,238
Repayment of long-term debt, excluding revolving facilities	(103,697)	(1,658,712)
Interest paid on long-term debt	(183,398)	(148,283)
Interest received on note issuances	4,322	-
Settlement of derivative financial instruments (note 22)	(1,248)	-
Changes in revolving facilities	(16,965)	97,626
Share issuance	-	2,826
Share repurchase	-	(218,998)
Increase in deferred financing costs	(5,555)	(60,348)
Other	(18,829)	(25,336)
<b>Net cash used in financing activities</b>	<b>(92,065)</b>	<b>(72,482)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment (note 8)	(77,800)	(71,681)
Proceeds from disposal of property, plant and equipment (note 8)	2,085	8,592
Business acquisitions net of cash and bank indebtedness (note 19)	(89,161)	(18,895)
Additions to intangible assets (note 9)	(4,663)	(9,746)
<b>Net cash used in investing activities</b>	<b>(169,539)</b>	<b>(91,730)</b>
Foreign currency translation on cash and cash equivalents	4,138	(6,089)
Net change in cash and cash equivalents during the year	(8,460)	8,658
Cash and cash equivalents, beginning of the year (note 5)	77,962	69,304
Cash and cash equivalents, end of year (note 5)	69,502	77,962
Cash paid for income tax	27,227	23,058

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

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

### 1 General information

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

The Parent Company is incorporated and domiciled in Canada.

The address of the Corporation's registered office is:

1390 Barré Street  
Montréal, Quebec, Canada  
H3C 1N4

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

The amalgamation impacted the Corporation's consolidated statement of financial position. The main impact was an increase in goodwill, intangible assets and property, plant and equipment and a decrease in deferred tax assets. As a result of the change of control, certain carried forward tax losses were derecognized for an amount of \$47,442 as described in note 21.

The Corporation's main subsidiaries as at January 31, 2019 were as follows:

	Voting rights held	Location	Functional currency
Garda Security Group Inc.	100%	Canada	CAN\$
Garda Canada Security Corporation	100%	Canada	CAN\$
Garda World Cash Services Canada Corporation	100%	Canada	CAN\$
Garda Security Screening Inc.	100%	Canada	CAN\$
ATI Systems International Inc.	100%	United States	US\$
GW Consulting Middle East Limited	100%	United Arab Emirates	US\$
Aegis Defence Services Limited	100%	United Kingdom	GBP
Aegis Defence Services LLC	100%	United States	US\$
Kenya Kazi Services Limited	100%	Kenya	KES
United American Security LLC	100%	United States	US\$

# **Garda World Security Corporation**

## **Notes to Consolidated Financial Statements**

**January 31, 2019 and 2018**

---

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

### **2 Basis of presentation**

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

These consolidated financial statements were approved by the Board of Directors for issue on April 11, 2019.

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

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

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

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

These consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial liabilities to fair value included in the current portion of provisions and other liabilities, derivative financial instruments assets and liabilities.

#### **Consolidation**

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

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

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

#### **Business combination**

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

# **Garda World Security Corporation**

## **Notes to Consolidated Financial Statements**

**January 31, 2019 and 2018**

---

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

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

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

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

### **Revenue recognition (prior to IFRS 15 adopted on February 1, 2018)**

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

### **Insurance provision**

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

### **Foreign currency translation**

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

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

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

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

# **Garda World Security Corporation**

## **Notes to Consolidated Financial Statements**

**January 31, 2019 and 2018**

---

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

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

### **Transactions and balances**

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

### **Cash and cash equivalents**

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

### **Borrowing costs**

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

### **Accounts receivable and allowance for expected credit loss**

Trade receivables are recorded at the invoiced amount and do not bear interest. The Corporation records an allowance for expected loss using its best estimate of the amount of probable credit losses in its existing accounts receivable. Account balances are written off against the allowance when the Corporation determines that it is probable the receivable will not be recovered.

### **Inventories**

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

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

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

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

	<b>Method</b>	<b>Rate/Period</b>
Buildings	Straight-line	20 and 30 years
Computer equipment	Declining balance and straight-line	30% and 3 to 5 years
Equipment and office furniture	Declining balance and straight-line	20% and 4 to 5 years
Vehicles	Declining balance and straight-line	30% and 4 years
Aircraft and aircraft rotables	Straight-line	12 years with 45% residual
Armored vehicles	Straight-line	6, 10 and 12 years
Uniforms	Straight-line	2 years
Leasehold improvements	Straight-line	Lease term up to 23 years

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

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

### Lease classifications

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

### Goodwill

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

### Identifiable intangible assets

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

### Impairment

Property, plant and equipment and intangible assets with finite useful lives are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (CGUs). The recoverable amount is the higher of an asset's fair value less costs of disposal and value

# **Garda World Security Corporation**

## **Notes to Consolidated Financial Statements**

**January 31, 2019 and 2018**

---

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

in use (being the present value of the expected future cash flows of the relevant asset or CGU, as determined by management).

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

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

### **Financial instruments: Recognition, derecognition and measurement (prior to IFRS 9 adopted on February 1, 2018)**

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

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

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

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

# **Garda World Security Corporation**

## **Notes to Consolidated Financial Statements**

**January 31, 2019 and 2018**

---

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

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

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

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

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

The Corporation designates certain derivatives as either:

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

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

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

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

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

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

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



# **Garda World Security Corporation**

## **Notes to Consolidated Financial Statements**

**January 31, 2019 and 2018**

---

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

### **Employee benefits**

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

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

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

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

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

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

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

### **Income tax**

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

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

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

# **Garda World Security Corporation**

## **Notes to Consolidated Financial Statements**

**January 31, 2019 and 2018**

---

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

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

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

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

### **Share capital**

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

### **Stock-based compensation**

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

### **Segment reporting**

The Corporation's activities are carried out through two main operating segments: Protective services and Cash services. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

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

#### **a) Adoption of new IFRS standards (IFRS 15)**

IFRS 15 - Revenue from Contracts with Customers, specifies how and when to recognize revenues as well as requiring more informative and relevant disclosures. IFRS 15 - Revenue from Contracts with Customers, superseded IAS 18, 'Revenue', IAS 11, 'Construction Contracts', and other revenue recognition related interpretations.

The Corporation adopted IFRS 15 - Revenue from Contracts with Customers, on February 1st, 2018, using the modified retrospective method as permitted by IFRS 15. The adoption of this standard did not result in any change in the recognition of revenues compared to prior periods and therefore no comparative figures have been restated.

The only impact on the consolidated financial position is related to payments to customers, which can no longer be capitalized under IFRS 15. This has consequently led to an increase in deficit and decrease in prepaids of \$2,674.

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

---

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

The Corporation updated and implemented revised procedures and controls to meet the requirements of IFRS 15 - Revenue from Contracts with Customers for the change in the presentation reported in the Corporation's consolidated financial statements for year ended January 31, 2019. Additional disclosures required by the adoption of this new standard for these consolidated financial statements can be found in note 15.

Revenues are measured based on the consideration specified in a contract with a customer. The Corporation typically recognizes revenues when it has satisfied its performance obligations. The following describes the performance obligations for the different revenue streams:

**Cash services:** The Corporation's Cash services segment generates its revenues from carrying its clients cash and valuable items between different locations. As well, Cash services sort and process its clients' cash, coins and checks. Although our customer contracts specify the fees for each action to provide service, the majority of the services stated in our contracts do not have a defined quantity over the contract term. Accordingly, the transaction price is considered variable as there is an unknown volume of services that will be rendered over the course of the contract. We recognize revenue for these services in the period in which they are provided to the customer based on the contractual rate at which we have the right to invoice the customer for each action.

**Protective services:** The Corporation's protective services segment generates its revenues by providing security guards to protect its clients' business, people, assets and screening services to airports. For performance obligations related to the services described above, we generally satisfy our obligations as each action to provide the service to the customer occurs. Because the customers simultaneously receive and consume the benefits from our services, these performance obligations are deemed to be satisfied over time. We use an output method, units of service provided, to recognize revenue because that is the best method to represent the transfer of our services to the customer at the agreed upon rate for each action.

### **b) Adoption of new IFRS standards (IFRS 9)**

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets held to maturity, loans and receivables and available for sale.

On initial recognition, the Corporation determines the financial instruments classification as per the following categories:

- Instruments measured at amortized cost
- Instruments measured at fair value through other comprehensive income (FVOCI) or through net income (FVTPL)

The financial instruments' classification under IFRS 9 is based on the business model in which a financial asset is managed and on its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial instrument in the scope of the standard are never separated. Instead the hybrid financial instrument as a whole is assessed for classification.

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial liabilities are measured at amortized cost unless they must be measured at FVTPL (such as instruments held for trading or derivatives) or if the Corporation elects to measure them at FVTPL.

The Corporation has elected to continue using the criteria of IAS 39 - Financial Instruments: Recognition and Measurement for hedge accounting, which the Corporation has elected to do so. The adoption did not result in measurement adjustment to assets and liabilities but did result in an adjustment to the impairment provision as further described below.

The table below summarizes the classification and measurement of the Corporation's financial instruments accounted as under IFRS 9 -Financial Instruments as compared to the Corporation's previous policy in accordance with IAS 39 – Financial Instruments: Recognition and Measurement.

### Classification and measurement

	IAS 39 January 31 <sup>st</sup> , 2018	IFRS 9 February 1 <sup>st</sup> , 2018
<b>Assets</b>		
Cash	Amortized cost	Amortized cost
Restricted Cash	Amortized cost	Amortized cost
Trade, other receivables	Amortized cost	Amortized cost
Notes receivable	Amortized cost	Amortized cost
Derivatives used for hedging	Fair value through other comprehensive income (FVOCI)	Fair value through other comprehensive income (FVOCI)
<b>Liabilities</b>		
Long-Term debt	Amortized cost	Amortized cost
Derivative financial liabilities	Fair value through profit or loss (FVTPL)	Fair value through profit or loss (FVTPL)
Contingent consideration	Fair value through profit or loss (FVTPL)	Fair value through profit or loss (FVTPL)

### Evaluation

#### Financial instruments at amortized cost

Financial instruments at amortized cost are initially measured at fair value, and subsequently at amortized cost, using the effective interest method, less any impairment loss. Interest income, foreign exchange gains and losses and impairment are recognized in the consolidated statement of loss.

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

---

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

### Financial instruments at fair value

Financial instruments are initially and subsequently measured at fair value and transaction costs are accounted for in the consolidated statement of loss. The effective portion of gains and losses on hedging instruments is accounted for in other comprehensive income in the period in which they occur. When the Corporation elects to measure a financial liability at FVTPL, gains or losses related to the Corporation's own credit risk are accounted for in the consolidated statement of loss.

### **Derecognition**

#### Financial assets

The Corporation derecognizes a financial asset when, and only when, the contractual rights to the cash flows from the financial asset have expired or when contractual rights to the cash flows have been transferred.

#### Financial liabilities

The Corporation derecognizes a financial liability when, and only when, it is extinguished meaning when the obligation specified in the contract is discharged, canceled or expired. The difference between the carrying amount of the extinguished financial liability and the consideration paid or payable, including non-cash assets transferred or liabilities assumed, is recognized in the consolidated statement of loss.

### **Impairment**

IFRS 9 -Financial Instruments also introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial recognition. The Corporation elected to apply the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, unbilled accounts receivable and notes receivable.

To measure the expected credit losses, trade receivables and unbilled accounts receivable have been group based on shared credit risk characteristics.

The adoption of the expected credit loss impairment model had an impact on the Corporation's consolidated financial statements which is the recognition of \$4,788 as expected credit loss provision with a corresponding amount in Deficit as at February 1, 2018 as permitted per the transition requirements of IFRS 9. Expected credit loss provision related to accounts receivable and unbilled accounts receivable amounted to \$876 and \$3,912 is related to Notes receivable.

### **c) Adoption of IFRIC 22, Foreign Currency Transactions and Advance Consideration**

In December 2016, the IASB issued IFRIC 22 which provides an interpretation on how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 1. The interpretation applies where an entity pays or receives consideration in advance for foreign currency-denominated contracts. The date of the transaction determines the exchange rate to be used on initial recognition of the related asset, expense or income. This interpretation provides guidance for when a single payment or receipt is made, as well as for situations where multiple payments or receipts are made and aims to reduce diversity in practice. The new standard is effective for annual periods beginning on or after January 1, 2018. The adoption of this accounting interpretation did not have any impact.

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

---

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

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

The following revised standards and amendments are effective for annual periods beginning after January 1, 2019. There are no other IFRS (or IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Corporation, except the following:

- IFRS 16, "Leases" ("IFRS 16"). IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (lessee) and the supplier (lessor). IFRS 16 will supersede IAS 17, "Leases", and related Interpretations. IFRS 16 will be effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15, "Revenue from Contracts with Customers", is also applied.

This single lease accounting model will result in the recognition of a right-to-use asset, as well as a lease liability reflecting the present value of the future lease payments. Depreciation expense on the right-to-use asset, or right-to use asset expense, and interest expense on the lease liability will replace the operating lease expenses that were recognized under IAS 17 - Leases.

IFRS 16 - Leases permits two possible transition methods for its application: a) retrospective with restatement of prior reporting period presented or b) retrospectively with the cumulative effect of initially applying the standard recognized on the date of initial application (modified retrospective method). The Corporation intends to adopt IFRS 16 - Leases using the modified retrospective method.

The Corporation expects that the adoption and application of IFRS 16 - Leases, effective February 1, 2019, will result in a material increase to its assets and liabilities through the recognition of right-to-use assets and lease liabilities, estimated to range between \$260,000 and \$300,000.

- IFRIC 23, Uncertainty over Income Tax Treatments. In June 2017, the IFRS Interpretations Committee issued IFRIC 23 which clarifies how the recognition and measurement requirements of IAS 12, Income Taxes, are applied where there is uncertainty over income tax treatments. The new standard is effective for annual periods beginning on or after January 1, 2019. The adoption of this accounting interpretation will not have any impact.

# **Garda World Security Corporation**

## **Notes to Consolidated Financial Statements**

**January 31, 2019 and 2018**

---

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

### **4 Critical accounting estimates and judgments**

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

#### **Management estimates**

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

#### **Estimated useful lives**

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

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

The valuation of identifiable assets and liabilities in connection with the acquisition of a business involves items in the acquired company's statement of financial position, as well as items that have not been recognized in the acquired company's statement of financial position such as customer relationships that should be valued at fair value. In normal circumstances, as quoted market prices are not always available for the assets and liabilities that are to be valued, different valuation methods have to be used. These valuation methods are based on a number of assumptions. Other items that can be difficult to both identify and value are contingent liabilities that could have arisen in the acquired company such as litigation-related items and contingent consideration. All statement of financial position items acquired in a business combination are thus subject to estimates and judgments. Please refer to note 19 for details regarding the estimates made for the most recent business acquisitions.

# **Garda World Security Corporation**

## **Notes to Consolidated Financial Statements**

**January 31, 2019 and 2018**

---

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

### **Goodwill**

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

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

On an annual basis, a goodwill impairment test is performed on January 31. This test is carried out more frequently if events or changes in circumstances indicate that goodwill might be impaired, in accordance with the methodology stated in note 9.

### **Valuation of accounts receivable and allowance for expected credit loss**

Accounts receivable, which amount to \$399,354 (2018 – \$313,498), are one of the most significant current items included in the consolidated statement of financial position. Accounts receivable are accounted at initial fair value after allowance for expected credit loss. The allowance for expected credit loss, which amounts to \$11,089 (2018 – \$5,645), is thus subject to critical estimates and judgments. The allowance is based on assumptions about risk of default and expected loss rates. The Corporation uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Further information regarding the credit risk in accounts receivable is provided in notes 6 and 22.

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

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

#### **Income taxes**

The Corporation is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Corporation recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. The Corporation determined that the deferred tax assets will be recoverable. Please refer to note 21 for details regarding the deferred tax asset valuation.

#### **Insurance provision**

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



# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

the reserves based on open claims and historical data for incurred but unreported claims. The Corporation's calculations are based on several assumptions.

Accordingly, the current and non-current provisions on the consolidated statement of financial position related to insurance provision, which amount to \$13,016 (2018 – \$16,252) and are included in provisions and other non-current liabilities (note 13), are subject to critical judgments and assumptions.

### Defined benefit pension plan obligation

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

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

Other assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 20.

## 5 Cash and cash equivalents

Cash and cash equivalents are detailed as follows:

	2019 \$	2018 \$
Cash on hand	34,924	48,215
Deposits from customers	26,363	22,064
Restricted cash	8,215	7,683
	<u>69,502</u>	<u>77,962</u>

As at January 31, 2019, the Corporation has restricted cash of \$8,215 (2018 – \$7,683) that was deposited as collateral. This cash is not available for general operating purposes.

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

### 6 Accounts receivable

	2019 \$	2018 \$
Trade receivables	399,354	313,498
Allowance for expected credit loss	(11,089)	(5,645)
Other receivables	31,866	29,802
	<u>420,131</u>	<u>337,655</u>

The aging of trade receivables and the allowance for expected credit loss are as follows:

	2019 \$	2018 \$
Not past due	294,469	258,144
Past due 0-30 days	39,365	23,564
Past due 31-60 days	20,973	11,475
Past due 61-120 days	23,236	10,418
More than 120 days	21,311	9,897
	<u>399,354</u>	<u>313,498</u>
Allowance for expected credit loss	<u>(11,089)</u>	<u>(5,645)</u>
	<u>388,265</u>	<u>307,853</u>

The change in the allowance for expected credit loss for the year is as follows:

	2019 \$	2018 \$
Opening balance	5,645	6,689
New accounting policy adopted (note 3)	876	-
Bad debt expense	11,822	2,097
Amounts written off and recoveries	(7,784)	(2,583)
Effect in exchange rate	530	(558)
	<u>11,089</u>	<u>5,645</u>

Allowance for expected credit loss takes into account the credit risk on accounts receivable and unbilled accounts receivable.

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

### **Credit risk on trade receivables**

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

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

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

## **7 Inventories**

	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Aircraft parts	11,685	8,016
Vehicle parts	619	401
Other	6,110	3,665
	<u>18,414</u>	<u>12,082</u>

For the year ended January 31, 2019 the cost of inventories recognized as an expense and included in operating costs amounted to \$26,714 (2018 - \$40,582).

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

### 8 Property, plant and equipment

	Buildings \$	Computer equipment \$	Equipment and office furniture \$	Vehicles \$	Aircraft and Aircraft rotables \$	Armored vehicles \$	Uniforms \$	Leasehold Impro- vements \$	Total \$
<b>For the year ended January 31, 2018</b>									
Net value - beginning	6,778	4,387	25,879	25,283	97,967	65,446	10,371	41,840	277,951
Additions	3,220	2,596	12,224	6,945	5,422	50,901	7,195	19,149	107,652
Proceeds from disposals	(7,455)	-	(283)	(731)	-	(123)	-	-	(8,592)
Depreciation	166	(1,606)	(10,457)	(11,651)	(15,330)	(38,920)	(8,796)	(8,951)	(95,545)
Business acquisitions	-	32	343	1,355	-	-	-	271	2,001
Gain (loss) on disposals	93	(3)	(31)	(158)	-	(64)	-	(520)	(683)
Effect in exchange rate	(395)	224	(1,031)	(442)	(4,925)	(3,697)	142	(3,290)	(13,414)
Net value - end	2,407	5,630	26,644	20,601	83,134	73,543	8,912	48,499	269,370
<b>As at January 31, 2018</b>									
Cost	5,044	11,594	67,268	40,852	175,121	221,478	14,684	75,047	611,088
Accumulated depreciation	(2,637)	(5,964)	(40,624)	(20,251)	(91,987)	(147,935)	(5,772)	(26,548)	(341,718)
Net value - end	2,407	5,630	26,644	20,601	83,134	73,543	8,912	48,499	269,370
<b>For the year ended January 31, 2019</b>									
Net value - beginning	2,407	5,630	26,644	20,601	83,134	73,543	8,912	48,499	269,370
Additions	2,975	2,907	22,594	16,572	10,738	31,404	8,299	4,276	99,765
Proceeds from disposals	(1,582)	-	-	(377)	-	(126)	-	-	(2,085)
Depreciation	(1,892)	(2,223)	(10,604)	(11,244)	(12,569)	(45,839)	(7,873)	(10,081)	(102,325)
Business acquisitions	-	247	1,102	3,916	-	-	-	515	5,780
Loss on disposals	-	-	(45)	(214)	-	(100)	-	-	(359)
Effect in exchange rate	324	174	424	1,817	5,869	3,256	780	2,111	14,755
Net value - end	2,232	6,735	40,115	31,071	87,172	62,138	10,118	45,320	284,901
<b>As at January 31, 2019</b>									
Cost	2,769	16,592	98,217	62,560	202,398	237,554	19,799	87,988	727,877
Accumulated depreciation	(537)	(9,857)	(58,102)	(31,489)	(115,226)	(175,416)	(9,681)	(42,668)	(442,976)
Net value - end	2,232	6,735	40,115	31,071	87,172	62,138	10,118	45,320	284,901

As at January 31, 2019, the cost and accumulated depreciation for computer equipment, vehicles, armored vehicles and aircraft held under finance lease obligations amounted to \$245,107 and \$178,426 respectively (2018 - \$225,996 and \$148,708).

During the year, the Corporation acquired property, plant and equipment under finance lease obligations amounted to \$21,965 (2018 - \$35,971).

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

### 9 Goodwill and Intangible assets

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

	Software \$	Service contracts and client relationships \$	Trade name \$	Total intangible assets \$	Goodwill \$
<b>For the year ended January 31, 2018</b>					
Net value – Beginning	14,256	240,799	162,090	417,145	743,897
Business acquisitions (note 19)	17	8,094	-	8,111	10,301
Additions	8,329	2,077	-	10,406	-
Amortization of intangible assets	(3,311)	(29,763)	-	(33,074)	-
Effect in exchange rate	(725)	(4,431)	-	(5,156)	(23,265)
Net value – End	18,566	216,776	162,090	397,432	730,933
<b>As at January 31, 2018</b>					
Cost	35,506	350,402	162,090	547,998	730,933
Accumulated amortization	(16,940)	(133,626)	-	(150,566)	-
Net value – End	18,566	216,776	162,090	397,432	730,933
<b>For the year ended January 31, 2019</b>					
Net value – Beginning	18,566	216,776	162,090	397,432	730,933
Business acquisitions (note 19)	26	47,945	-	47,971	101,495
Additions	3,069	1,594	-	4,663	-
Amortization of intangible assets	(2,026)	(34,820)	-	(36,846)	-
Effect in exchange rate	791	5,569	-	6,360	28,825
Net value – End	20,426	237,064	162,090	419,580	861,253
<b>As at January 31, 2019</b>					
Cost	41,312	407,151	162,090	610,553	861,253
Accumulated amortization	(20,886)	(170,087)	-	(190,973)	-
Net value – End	20,426	237,064	162,090	419,580	861,253

Additions to intangible assets during the year included \$4,663 acquired from a third party (2018 – \$10,406).

During the year, the Corporation acquired software under finance lease obligations amounted to nil (2018 – \$660).

As at January 31, 2019, the remaining useful life of software and service contracts and client relationships is 3.96 and 8.97 years respectively.

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

As at January 31, 2019 and 2018 the GardaWorld trade name with indefinite useful life allocated to each cash generating units ("CGUs") is as follows:

	2019 \$	2018 \$
<b>CGU</b>		
Cash logistics – Canada	10,006	10,006
Cash logistics – United States	63,674	63,674
International protective Services	23,563	23,563
Airport pre-board security screening – Canada	22,040	22,040
Security guard services – Canada	42,807	42,807
	<u>162,090</u>	<u>162,090</u>

### Goodwill impairment test

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

	2019 \$	2018 \$
<b>CGU</b>		
Cash logistics – Canada	114,474	114,474
Cash logistics – United States	286,733	268,866
International protective Services	198,822	171,179
Airport pre-board security screening – Canada	19,851	19,851
Security guard services – Canada	180,380	156,563
Security guard services – USA	60,993	-
	<u>861,253</u>	<u>730,933</u>

The Corporation performed its goodwill and trade name with indefinite useful life impairment test on January 31. The methodology is based on discounted future cash flows. The recoverable amount of each CGU was estimated based on its fair value less cost of disposal, wherein the estimated future cash flows are discounted to their present value using after-tax discounted rates ranging between 12.25% and 14.25% (2018 – 11.75% and 13.25%).

The discounted rates were estimated based on past experience and industry-average weighted average cost of capital. First-year cash flows were projected based on past experience, actual operating results and reflecting current economic conditions. For a further nine-year period, cash flows were extrapolated using an average growth rate of between 2.0% and 3.5% in revenues, and margins were adjusted where deemed appropriate. The terminal value is based on exit multiples ranging from 7.93x to 9.40x the recurring operating profit, or exit multiple of 13.60x the recurring operating profit less capital expenditures.

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

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

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

### 10 Other assets

	2019 \$	2018 \$
Notes receivable net of provision of \$39,838 (2018 - \$23,057)	10,735	12,270
Others	12,072	12,000
Employee benefit assets (note 20)	149	2,562
	<u>22,956</u>	<u>26,832</u>

The notes receivable relate to one specific customer for which the credit risk increased significantly since initial recognition. The provision as at January 31, 2019 is measured using the lifetime expected credit loss model. The change in provision in respect of notes receivable during the year is as follows:

	2019 \$	2018 \$
Opening balance	23,057	8,633
Unwinding of discount	11,113	15,848
New accounting policy adopted (note 3)	3,912	-
Effect in exchange rate	1,756	(1,424)
Ending balance	<u>39,838</u>	<u>23,057</u>

### 11 Accounts payable and accrued liabilities

	2019 \$	2018 \$
Trade payables	83,960	56,726
Labour and related liabilities	159,695	143,850
Sales tax payable	14,326	13,349
Provision for interest payable	41,771	29,360
Accrued liabilities	115,880	82,112
Deferred revenues	8,358	3,945
	<u>423,990</u>	<u>329,342</u>

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

### 12 Long-term debt

	2019 \$	2018 \$
Term loan of US\$846,524 bearing interest at LIBOR (with a minimum at 1%) plus 3.5% with a reduction in relation to the leverage ratio, payable in quarterly instalments of US\$2,154, the remaining balance is repayable in full at maturity on May 26, 2024 (note 12 (a), (b), (c), (d), (f))	1,080,615	1,013,887
Term loan of CA\$163,085, bearing interest at Canadian prime rate or banker's acceptance (with a minimum at 1%) plus 4.25% with a reduction in relation to the leverage ratio, payable in quarterly instalments of CA\$415, the remaining balance is repayable in full at maturity on May 26, 2024 (note 12 (a), (b), (c), (d), (f))	159,236	96,713
Senior note of US\$625,000, bearing interest at a fixed rate of 8.75%, payable in full at maturity on May 15, 2025 (note 12 (a))	808,054	595,269
Senior note of US\$174,398, bearing interest at a fixed rate of 7.25%, payable in full at maturity on November 15, 2021	228,456	213,153
Authorized revolving facilities of US\$232,500, bearing interest at Canadian prime rate or US bank rates plus 3%; LIBOR or at banker's acceptance plus 4% with a reduction in relation to the leverage ratio, repayable in full at maturity on May 26, 2022 (note 12 (a), (b), (e), (f))	97,731	99,527
Authorized revolving facilities of US\$30,000, could be increased to a maximum of US\$50,000 (the increase is subject to approval), bearing interest at daily one month LIBOR plus 2.25%, repayable in full at maturity in June 2019	586	10,454
Finance lease obligations, collateralized by certain property, plant and equipment, at interest rates varying between 0% and 9.30% with an average rate of 5.92% payable in monthly instalments of \$2,409, principal and interest, maturing on various dates through October 2025	74,370	69,509
Balances of purchase price payable, bearing no interest, payable in annual instalments, maturing through various dates through July 2022	19,397	5,962
Medium term notes of KES562,959(Kenyan shilling) and US\$1,213 bearing a fixed average interest rate of 13.48%. Interest is paid semi-annually, payable in full at maturity in December 2021	8,922	8,259
Commercial Paper Program (note 12 (g))	8,719	6,842
Other financial indebtedness (note 12 (h))	3,254	5,491
	<hr/>	<hr/>
	2,489,340	2,125,066
Less: Current portion	62,857	54,205
	<hr/>	<hr/>
	2,426,483	2,070,861



## Garda World Security Corporation

### Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

- a) On May 26, 2017, the Corporation completed the refinancing of credit facilities and senior notes. The new facilities include:

- US\$861,602 Term loan due in May 2024 bearing interest at LIBOR (with a minimum at 1%) plus 3.50%.
- CA\$100,000 Term loan due in May 2024 bearing interest at banker's acceptance (with minimum at 1%) plus 4.25%.
- US\$232,500 authorized revolving facilities due in May 2022 bearing interest Canadian prime rate or US bank rate plus 3%; LIBOR or at banker's acceptance plus 4%.
- US\$500,000 senior notes due in May 2025 bearing interest at 8.75%.
- US\$174,398 senior notes due in November 2021 bearing interest at 7.25%.

On March 5, 2018, the Corporation issued US\$125 million aggregate amount of 8.75% senior unsecured notes due 2025. The note was issued at a price of 105.25% of the principal amount, plus accrued interest from November 16, 2017 of \$4,322, resulting in an effective yield rate of 7.70%. The note was issued under the indenture dated May 8, 2017.

On December 10, 2018, the Corporation completed the financing of an additional term loan of CA\$65 million bearing interest at banker's acceptance (with a minimum at 1%) plus 4.25% with reduction in relation with the total leverage ratio, repayable in full at maturity in May 2024.

- b) The revolving facilities and term loan are secured by a general pledge as well as a movable hypothec on the universality of present and future assets of the Corporation.

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

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

For fiscal year ended January 31, 2018:

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

For fiscal year ended January 31, 2019 and thereafter:

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

As at January 31, 2019, the excess cash flow prepayment under the credit facility was nil.

- d) The Corporation has designated US\$355 million of its US dollar senior note and US term loan as a foreign exchange hedge of its net investment in its foreign operations in 2019 and 2018. Accordingly, the portion of the

## Garda World Security Corporation

### Notes to Consolidated Financial Statements

January 31, 2019 and 2018

---

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

gains or losses arising from the translation of the US dollar-denominated debt that is determined to be an effective hedge is recognized in OCI, counterbalancing gains or losses arising from translation of the Corporation's net investment in its foreign operations. Should a portion of the hedging relationship become ineffective, the ineffective portion would be recorded in the consolidated statement of loss. During the year ended January 31, 2019, a loss of \$30,210 (2018 – gain of \$26,164) has been recorded in the consolidated statement of comprehensive loss related to the translation of the US dollar senior note and US dollar term loan.

During the year ended January 31, 2019, an unrealized exchange loss on translation of long-term debt of \$107,040, (2018 – gain of \$100,527) has been recorded related to the foreign exchange variation of the Corporation's long-term debt in US dollars not designated as a foreign exchange hedge of its net investment in its foreign operations.

- e) As at January 31, 2019, letters of credit totalling \$68,942 (2018 – \$64,325) of which \$61,259 (2018 – \$57,357) reduced the available revolving facilities. As a result, \$145,759 (2018 – \$127,824) was available to be drawn under the revolving facilities. These letters of credit mainly guarantee worker's compensation claims to the insurance company.
- f) The Corporation's management reviews compliance with the financial covenants on a monthly basis, and its Board of Directors reviews compliance with the financial covenants on a quarterly basis. As at January 31, 2019, the Corporation was in compliance with its financial covenants.
- g) The Corporation has a KES 1,000,000 Commercial Paper Program in place. The Program is unsecured, unsubordinated debt. Notes are issued at a discount in KES or USD. As of January 31, 2019, Kenyan-shilling-denominated Commercial Paper totalled KES 623,143 (CA\$8,111) and US-dollar denominated Commercial Paper totalled US\$463 (CA\$608). The Corporation's Commercial Papers have maturities ranging from 7 to 360 days, but it is typically 30 days and above with an average interest rate of 12.58%.
- h) Other financial indebtedness includes various debts composed of; term loans, asset financing and overdraft facilities. Interest rates average 13.96% with debts maturing on various dates through November 2019. Other financial indebtedness is secured by Kenya Kazi Limited's assets.

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

### 13 Provisions and other non-current liabilities

	Insurance provision \$	Deferred rent for real estate tenants \$	Contingent consideration \$	Other \$	Total provisions and other non-current liabilities \$
<b>For the year ended January 31, 2018</b>					
Opening balance	21,441	4,379	11,276	232,451	269,547
Additional provisions	24,582	-	-	-	24,582
Used during the year	(29,458)	(894)	-	(383)	(30,735)
Reclassification	-	-	-	(229,112)	(229,112)
Effect in exchange rate	(313)	(209)	(472)	(136)	(1,130)
<b>Ending balance</b>	<b>16,252</b>	<b>3,276</b>	<b>10,804</b>	<b>2,820</b>	<b>33,152</b>
Current provisions	8,818	881	-	25	9,724
Non-current provisions	7,434	2,395	10,804	2,795	23,428
	16,252	3,276	10,804	2,820	33,152
<b>For the year ended January 31, 2019</b>					
Opening balance	16,252	3,276	10,804	2,820	33,152
Additional provisions	27,202	739	-	-	27,941
Used during the year	(31,195)	(827)	-	-	(32,022)
Change in fair value	-	-	84,512	-	84,512
Effect in exchange rate	757	228	1,837	157	2,979
<b>Ending balance</b>	<b>13,016</b>	<b>3,416</b>	<b>97,153</b>	<b>2,977</b>	<b>116,562</b>
Current provisions	8,167	943	97,153	26	106,289
Non-current provisions	4,849	2,473	-	2,951	10,273
	13,016	3,416	97,153	2,977	116,562

#### a) Insurance provision

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

# **Garda World Security Corporation**

## **Notes to Consolidated Financial Statements**

**January 31, 2019 and 2018**

---

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

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

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

### **c) Contingent consideration**

The fair value of the acquisition-related contingent consideration is based on estimated future cash flows and an assessment of the probability of occurrence on potential future events. The fair value of the contingent consideration as at January 31, 2019 was \$97,153. The acquisition-related contingent consideration is remeasured each reporting period with changes in fair value recorded in the consolidated statements of loss. As at January 31, 2019, change in fair value based on this remeasurement amounted to \$84,512 and related to Aegis and KK Security Earnouts.

In fiscal 2016, the Corporation acquired the Aegis Group. The purchase consideration included an earnout clause related to achieving certain financial targets until January 2017. At the date of acquisition, the Corporation recognized US\$39,791 as contingent consideration representing its best estimate of the fair value of the contingent consideration based on available information known at that time.

Upon termination of the earnout period in January 2017, the Corporation revised its estimate of the fair value of the contingent consideration. Based on its interpretation of the acquisition agreement, the fair value of the contingent consideration was assessed to be nil by the Corporation. As such, during the year-ended January 31, 2017, the Corporation recorded a gain of US\$39,791 related to the reduction in the recorded amount of the contingent consideration payable.

In August 2017, the sellers of the Aegis Group claimed that the Corporation's calculation of the final contingent consideration payout was incorrect and filed a complaint. In October 2017, the Corporation filed a counterclaim against three of the sellers of the Aegis Group. Pursuant to two Orders dated August 15, 2018, the New York Court of Justice granted sellers' motion for summary judgment upon declaration judgment claim alleged in their complaint and denied the Corporation's motion for an order granting summary judgment dismissing sellers' complaint. Since the Corporation's counterclaim was rejected by the court, the Corporation reassessed the fair value of the contingent consideration agreement and charged an amount of US\$ 70 million to the consolidated statement of loss during the second quarter of 2019. This amount is equal to the maximum amount originally payable per the acquisition agreement provided all targets were achieved which is the claim made by the sellers in their complaint. The Corporation still believes the sellers' claims have no merit and intends to defend its position and file its notice of intention to appeal.

### **d) Other liabilities**

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

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

### 14 Share capital

#### a) Capital risk management

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

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

	2019 \$	2018 \$
Cash and cash equivalents, net of bank indebtedness	(69,502)	(70,148)
Long-term debt	2,489,340	2,125,066
	2,419,838	2,054,918
Deficiency attributable to shareholder	(654,536)	(461,929)
	1,765,302	1,592,989

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

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

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

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

Unlimited number of Class A shares, voting and participating

#### c) Issued and fully paid

Changes in share capital issued are summarized as follows:

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

	Number of shares					Amount \$
	Common Shares	Class A Shares	Class B Shares	Class C Shares	Class A Post-amalgam ation	
Balance as at February 1, 2017	-	8,324,326	9,391,471	14,388,644	-	568,277
Share issuance	-	439,103	-	-	1,000	2,826
Liquidation of shares held by subsidiary	-	(582,439)	-	-	-	(2,816)
Amalgamation	-	(8,180,990)	(9,391,471)	(14,388,644)	24,924,679	21,837
<b>Balance as at January 31, 2018 and 2019</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24,925,679</b>	<b>590,124</b>

### i) Share issuance following liquidation

During fiscal year ended January 31, 2018, the Corporation repurchased some of its Class A and B shares through the issuance of Class C shares. The transactions were recorded at the carrying amount of the repurchased shares.

### ii) Share repurchase

During fiscal year ended January 31, 2018, the Corporation repurchased some of its Class A and B shares for a cash consideration of \$218,998.

### d) Stock options

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

Expenses have been recorded in the entity in which employees render the services. As a result, the Corporation recorded, in the consolidated statement of loss, a stock-based compensation charge of \$1,760 (2018 – \$2,792) with an offsetting credit to contributed surplus.

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

	2019 \$	2018 \$
Expected dividend rate	Nil	Nil
Volatility	32.0%	23.0%
Expected life of options	1 to 8 years	1 to 9 years
Risk-free interest rate	1.50%	1.25%
Number of options	178,101	119,591
Fair value of options	\$2.01	\$1.57
Exercise price	\$30.08	\$30.08

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

### 15 Revenues

	2019 \$	2018 \$
Protective Services		
- North America	1,127,315	861,865
- International	865,979	803,095
	<u>1,993,294</u>	<u>1,664,960</u>
Cash services - North America	990,145	976,422
	<u>2,983,439</u>	<u>2,641,382</u>

### 16 Depreciation and amortization

	2019 \$	2018 \$
Depreciation of property, plant and equipment - Operating costs	89,671	84,204
Depreciation of property, plant and equipment – Selling and administrative expenses	12,654	11,341
	<u>102,325</u>	<u>95,545</u>
Amortization of intangible assets - Operating costs	36,846	33,074
	<u>139,171</u>	<u>128,619</u>

### 17 Finance costs

	2019 \$	2018 \$
Interest on long-term debt	171,974	137,303
Interest on finance leases obligations	5,275	3,933
Other interest	13,407	10,043
Amortization of deferred financing costs	8,448	8,618
Amortization of premiums and discounts	(804)	(3,335)
Unwinding of discount	11,113	23,750
Early termination interest	-	4,133
Amortization of remaining deferred financing costs on refinanced long term debt	-	30,203
	<u>209,413</u>	<u>214,648</u>

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

### 18 Expenses by nature

	2019 \$	2018 \$
Salaries and fringe benefits	1,957,999	1,699,000
Depreciation of property, plant and equipment	102,325	95,545
Amortization of intangible assets	36,846	33,074
Stock-based compensation	1,760	2,792
Subcontractors	198,916	177,543
Transportation expenses	116,179	101,298
Operating lease payments	84,026	78,106
Cost of inventories recognized as an expense	26,714	40,582
Operating related costs	184,090	167,030
Administration related costs	105,902	96,513
Other expenses	21,592	9,574
<b>Total</b>	<b>2,836,349</b>	<b>2,501,057</b>
Operating costs	2,447,474	2,152,524
Selling and administrative expenses	388,875	348,533
<b>Total</b>	<b>2,836,349</b>	<b>2,501,057</b>

### 19 Business acquisitions

During the year, the Corporation acquired all of the outstanding shares of eight businesses: URSA Group LLC, on February 27, 2018, United American Security LLC, on March 9, 2018, Microcom "M" inc. on June 15, 2018, NYA Holding on July 17, 2018, VCS Investigation on October 26, 2018, Centrale Ashton inc. on October 26, 2018, Alpha Security Company Ltd. on October 31, 2018 and Bagg inc. on January 16, 2019 and the assets of seven other businesses. All businesses operate in Protective Services.

The table below presents the final purchase price determination of the acquired businesses except for Centrale Ashton inc., Alpha Security Company Ltd., NYA Holding and Bagg inc which are preliminary. These acquisitions are in line with the Corporation's strategy, which is to establish operations' platforms and then continually improve them with a combination of business acquisitions and internal growth.

From the date of acquisitions, the contribution of the acquired businesses to revenues and income before income taxes amounted to \$171,816 and \$8,745 respectively.

If these acquisitions had occurred on February 1st 2018, management estimates that revenues and income before income taxes of the acquired businesses would have been \$248,515 and \$13,057 respectively.

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



# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

As at January 31, 2019, goodwill of \$59,869 is attributable to the security guard services – USA CGU, \$17,809 is attributable to international protective services CGU (of which NYA Holding amounted to \$14,845) and \$23,817 is attributable to security guard services – Canada CGU (of which Microcom “M” amounted to \$14,993).

	2019			2018
	United American Security LLC \$	Others \$	Total \$	Total \$
<b>Assets</b>				
Cash (Bank indebtedness)	1,131	2,558	3,689	(1,780)
Non-cash working capital	13,164	152	13,316	4,379
Property, plant and equipment	3,604	2,176	5,780	2,001
Goodwill	56,205	45,290	101,495	10,301
Intangible assets	19,541	28,430	47,971	8,111
	93,645	78,606	172,251	23,012
<b>Liabilities</b>				
Long-term debt	46,812	8,225	55,037	1,176
Deferred income tax liabilities	-	3,445	3,445	727
	46,812	11,670	58,482	1,903
<b>Net assets</b>	<b>46,833</b>	<b>66,936</b>	<b>113,769</b>	<b>21,109</b>
<b>Consideration</b>				
Cash	46,833	46,017	92,850	17,115
Purchase price adjustment - Receivable from seller	-	(1,032)	(1,032)	(2,504)
Purchase price adjustment - Payable to seller	-	480	480	3,856
Balance of purchase prices payable		21,471	21,471	2,642
<b>Total consideration</b>	<b>46,833</b>	<b>66,936</b>	<b>113,769</b>	<b>21,109</b>

Of the goodwill and intangible assets acquired during the year, \$87,239 amount is deductible for tax purposes.

Transaction costs of \$10,761 (2018 - \$991) have been expensed in relation to business acquisitions.

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

### 20 Employee benefits

#### a) Defined benefit pension plans

The Corporation has defined benefit pension plans for 1,507 of its employees (2018 – 1,462). The Corporation contributes to the plans. The obligations of the defined benefit plans are based on the employee's length of service and salary.

The Corporation measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at January 31, 2019. The most recent actuarial valuation of the pension plans for funding purposes was as of January 1, 2018 and the next required valuation will be as of January 1, 2019.

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

#### Employee benefits assets:

	2019 \$	2018 \$
Fair value of plan assets	75,237	76,331
Accrued benefit obligation	(75,088)	(73,769)
Plan surplus – Employee benefit assets	149	2,562

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

#### Plans assets comprise:

	2019	2018
Equity securities	61.5%	60.8%
Debt securities	33.5%	34.5%
Money market fund	5.0%	4.7%

As at January 31, 2019, all investments of the plans are classified as Level 2 instruments as defined in note 22.

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

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

	2019 \$	2018 \$
Accrued benefit obligation – Beginning of year	73,769	67,817
Current service cost	1,203	1,142
Interest cost	2,660	2,719
Benefits paid	(2,484)	(2,417)
Actuarial loss (gain) arising from:		
Plan experience	1,837	152
Changes in financial assumptions	(1,897)	4,356
Accrued benefit obligation – End of year	75,088	73,769

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

	2019 \$	2018 \$
Fair value of plan assets – Beginning of year	76,331	70,305
Expected return on plan assets	(3,304)	3,539
Employer contributions	2,187	2,361
Administrative cost	(243)	(263)
Benefits paid	(2,484)	(2,417)
Interest income on plan assets	2,750	2,806
Fair value of plan assets – End of year	75,237	76,331

### Expense recognized

	2019 \$	2018 \$
Current service cost	1,203	1,142
Interest cost	(90)	(87)
Expected return on plan assets	3,304	(3,539)
Administrative cost	243	263
Actuarial loss on the defined benefit obligation	(60)	4,508
	4,600	2,287
Expense recognized in net loss	1,356	1,318
Expenses recognized in OCI	3,244	969
	4,600	2,287

## Garda World Security Corporation

### Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

#### Actuarial losses recognized in OCI:

	2019	2018
	\$	\$
Cumulative actuarial loss in OCI – Beginning of year	8,141	7,172
Recognized during the year	3,244	969
Cumulative actuarial loss in OCI – End of year	11,385	8,141

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

	2019	2018
	%	%
Accrued benefit obligation		
Discount rate	3.70	3.60
Future salary increase	2.10	2.40
Employee benefit expense		
Discount rate	3.70	3.60
Expected long-term rate of return on plan assets	3.70	3.60
Future salary increases	2.10	2.40

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

The overall expected long-term rate of return is 3.70%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories.

The Corporation expects approximately \$2,167 in contributions to be paid to its defined benefit plans next year in fiscal 2020.

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

#### Asset volatility

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

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

## Garda World Security Corporation

### Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

#### Changes in bond yields

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

#### Inflation risk

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

#### Life expectancy

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

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

#### Sensitivity analysis

	2019 \$	2018 \$
Discount rate at 3.45% instead of 3.70% (2018 - 3.35% instead of 3.60%)	3,100	3,167
Salary growth of 1.85% instead of 2.10% (2018 - 2.15% instead of 2.40%)	(396)	(402)
Life expectancy - 90% of the mortality rates used for valuation	1,703	1,706

#### b) Defined contribution plans

The Corporation has established defined contribution pension plans for a certain number of its unionized and non-unionized employees in Canada and the United States. In addition, the Corporation also contributes to a registered retirement savings plan for various employees. The pension expense for these plans is represented by the Corporation's contribution. For the year ended January 31, 2019, the pension expense for these plans amounted to \$16,032 (2018 - \$14,404) and was recorded into the salaries and fringe benefits.

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

### 21 Income taxes

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

	2019 \$	2018 \$
Income (loss) before income taxes	(243,920)	18,960
Canadian statutory income tax rate	26.70%	26.90%
Income taxes calculated at statutory rate	(65,127)	5,100
Increase (decrease) resulting from:		
Benefits arising from a financing structure	(20,043)	(20,060)
Non-Canadian applicable income tax rate difference	12,963	(3,254)
Unrealized exchange gain on translation of long-term debt	13,749	(6,909)
Write-off of carried forward losses - change of control (note 1)	-	47,442
Permanent differences and other	17,230	48,708
Fair value of contingent consideration	16,242	-
Change in enacted statutory tax rate	1,143	82,872
	(23,843)	153,899
Provision for (recovery of) income taxes:		
Current	47,253	26,199
Deferred	(71,096)	127,700
	(23,843)	153,899

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

- b) Deferred income taxes represent the net tax effect of temporary differences between the consolidated financial statements carrying amounts and tax bases of assets and liabilities. Significant components of the Corporation's deferred income tax assets (liabilities) as at January 31, 2019 and 2018 were as follows:

Net deferred income tax assets	Property, plant and equipment and intangible assets \$	Liabilities and other provisions \$	Loss carryforward \$	Total \$
As at January 31, 2017	(85,081)	84,577	252,715	252,211
Recovery of (provision for) deferred income taxes	27,962	(41,790)	(113,872)	(127,700)
Business acquisitions	(748)	21	-	(727)
OCI	-	(5,296)	-	(5,296)
Effect in exchange rate	1,925	(3,351)	(8,366)	(9,792)
As at January 31, 2018	(55,942)	34,161	130,477	108,696
Deferred income tax assets	(12,752)	34,161	130,451	151,860
Deferred income tax liabilities	(43,190)	-	26	(43,164)
	(55,942)	34,161	130,477	108,696
As at January 31, 2018	(55,942)	34,161	130,477	108,696
Recovery of (provision for) deferred income taxes	13,491	27,120	30,485	71,096
Business acquisitions	(3,897)	208	244	(3,445)
OCI	-	2,646	-	2,646
Effect in exchange rate	(3,291)	3,626	9,326	9,661
As at January 31, 2019	(49,639)	67,761	170,532	188,654
Deferred income tax assets	(7,808)	67,761	170,506	230,459
Deferred income tax liabilities	(41,831)	-	26	(41,805)
	(49,639)	67,761	170,532	188,654

The Corporation has forecasted the taxable income for the next 20 years. Based on those forecasts, the loss carryforward will be used before their expiry dates, ranging from 2027 to 2039. Therefore, deferred income tax assets have been recognized regarding those losses. As at January 31, 2019, loss carryforwards not recognized in deferred income tax assets totalled \$7,261 (2018 - \$6,791).

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

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

### 22 Financial instruments

#### Classification and fair value

The classification of financial instruments as at January 31, 2019 and 2018, along with the respective carrying amounts and fair values, is as follows:

	2019		2018	
	Carrying amount	Fair Value	Carrying amount	Fair Value
<b>Assets-amortized cost</b>				
Notes Receivable	10,735	10,735	12,070	12,070
<b>Liability-amortized cost</b>				
Long-term debt	2,489,340	2,498,929	2,125,066	2,256,712
<b>Financial Liabilities at fair value through profit or loss</b>				
Derivative financial liabilities	9,117	9,117	20,320	20,320
Contingent consideration	97,153	97,153	10,804	10,804
<b>Derivatives designated as hedge</b>				
Derivative financial assets	136	136	456	456

#### Fair value determination

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

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

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

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

**Assets-amortized cost** – The fair value of the Corporation's assets-amortized cost approximate their carrying amount due to their short term nature or have been discounted based on cash flow projection. Assets-amortized cost are classified as level3.

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



# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

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

<b>2019</b>				
	<b>Carrying amount</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial assets</b>				
Derivative financial assets	136	-	136	-
<b>Financial liabilities</b>				
Derivative financial liabilities	9,117	-	9,117	-
Contingent consideration	97,153	-	-	97,153
<b>2018</b>				
	<b>Carrying amount</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial assets</b>				
Derivative financial assets	456	-	456	-
<b>Financial liabilities</b>				
Derivative financial liabilities	20,320	-	20,320	-
Contingent consideration	10,804	-	-	10,804

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

The change in level 3 financial instruments for the year is as follow:

	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Balance – Beginning of year	10,804	11,276
Effect in exchange rate during the year	1,837	(472)
Change in fair value of contingent consideration	84,512	-
Balance - End of Year	97,153	10,804

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

### Credit risk

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

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

The Corporation's credit risk is principally attributable to its accounts receivables, unbilled accounts receivable and notes receivable. The amounts presented in the consolidated statement of financial position are net of an allowance for expected credit loss, estimated by the Corporation's management based, in part, on the age of the specific receivable balance and the current and expected collection trends. A provision is established when the likelihood of collecting the account has significantly diminished. The Corporation believes that the credit risk of accounts receivable and unbilled accounts receivable is limited. The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all accounts receivable and unbilled accounts receivable.

The distribution of the Corporation's customers and the business risk management procedure has the effect of avoiding any concentration of credit risk. Generally, the Corporation does not require collateral or other security from customers for trade receivables; however, credit is extended following an evaluation of creditworthiness. In addition, the Corporation performs ongoing credit reviews of all its customers.

To measure the expected credit losses, accounts receivable and unbilled accounts receivable have been grouped based on shared credit risk characteristics and the days past due. Unbilled accounts receivable have substantially the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for unbilled accounts receivable.

The expected loss rates are based on the payment profiles of sales over a period of 12 month before 31 January 2019 or 1 February 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The notes receivable relate to one specific customer for which the credit risk increased significantly since initial recognition. The provision is measured using the lifetime expected credit loss model.

### Interest rate risk

As at January 31, 2019, the Corporation's interest rate risk is as follows:

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

Based on long-term debt at variable rates as at January 31, 2019, the effect of a change of 100 basis points on net loss and deficiency for the year would have been higher by approximately \$8,499 (2018 – \$7,197).

## **Garda World Security Corporation**

### **Notes to Consolidated Financial Statements**

**January 31, 2019 and 2018**

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

The Corporation has an embedded derivative financial instrument with fair value of nil as at January 31, 2019 (2018 – nil). This derivative is related to the interest rate floor on the Corporation's US dollar term loan and delayed draw facility. There is no change in fair value for the year (2018 – gain of \$5,679) and was recorded in the consolidated statement of loss.

The Corporation minimizes its exposure to changes in interest rates in maintaining a significant portion of fixed-rate interest-bearing long-term debt. This is achieved by entering into interest rate swaps. As at January 31, 2019, the fair value of interest rate swaps amounted \$136 (2018 – \$456). The change in fair value for the year resulted in a loss of \$320 (2018 – gain of \$3,274) and was recorded in the consolidated statement of comprehensive income loss since these interest rate swaps are designated as hedges of US dollar and Canadian dollar term loan variable interest rate debts.

The Corporation's interest rate swaps are as follows:

<b>Coverage period</b>	<b>Average BA's rate</b>	<b>Notional contract amount \$</b>
Less than 1 year	1.94%	39,787

#### **Foreign currency risk**

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

During the year ended January 31, 2019, if the US dollar had strengthened on average by \$0.01 in comparison to the Canadian dollar, all other variables remaining constant, net loss for the year would have been higher by approximately \$11,827 (2018 – \$11,685) and deficiency would have been lower by approximately \$4,336 (2018 – \$4,169).

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

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

The balances in currencies are as follows:

	2019			2018		
	USD	EUR	GBP	USD	EUR	GBP
Cash and cash equivalents	4,257	89	12	4,558	140	45
Accounts receivable	4,457	-	-	5,792	-	-
Total assets	8,714	89	12	10,350	140	45
Canadian dollar equivalent	11,453	133	21	12,274	214	78
Accounts payable and accrued liabilities	570	-	-	661	-	-
Current portion of long-term debt	9,079	-	1,517	8,771	-	-
Long-term debt	1,713,519	-	2,529	1,564,146	-	-
Total liabilities	1,723,168	-	4,046	1,573,578	-	-
Canadian dollar equivalent	2,264,931	-	6,977	1,934,398	-	-

Forward exchange swaps totalled US\$100,000 (2018 – US\$120,000). Forward exchange swap of US\$100,000 at an exchange rate of 1.3961 (US\$:CA\$) with a maturity date on November 15, 2019. As at January 31, 2019, the fair value of foreign derivative swaps are negative by \$9,117 (2018 – negative by \$20,320). The change in fair value for the year resulted in a gain of \$9,955 (2018 – loss of \$12,923) and was recorded in the consolidated statement of loss.

During the year, the Corporation settled one of its forward exchange swaps of US\$20,000. As a result, the corporation paid \$1,248 for this settlement.

### Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they become due or can only do so at excessive cost. The Corporation manages this risk by maintaining detailed cash flows and long-term operating and strategic plans. The contractual cash flows include the carrying value amount plus interest using the current rate.

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

The following are the contractual maturities of financial liabilities and financial assets as at January 31, 2019:

	Fair value \$	Carrying amount \$	Contractual cash flow \$	Less than 1 year \$	1 to 3 years \$	4 to 5 years \$	More than 5 years \$
<b>Financial liabilities</b>							
Accounts payable and accrued liabilities	423,990	423,990	423,990	423,990	-	-	-
Derivative financial instruments	9,117	9,117	9,117	9,117	-	-	-
Contingent consideration	97,153	97,153	97,153	97,153	-	-	-
Insurance provision	13,016	13,016	13,016	8,167	1,408	952	2,489
Long-term debt	2,498,929	2,489,340	3,485,100	243,718	661,863	436,618	2,142,901
	<u>3,042,205</u>	<u>3,032,616</u>	<u>4,028,376</u>	<u>782,145</u>	<u>663,271</u>	<u>437,570</u>	<u>2,145,390</u>
<b>Financial assets</b>							
Derivative instruments	136	136	136	136	-	-	-

The following table details the maturities of the financial liabilities as at January 31, 2018:

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

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

### 23 Contingencies

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

### 24 Related party disclosures

#### a) Key management personnel compensation

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

	2019 \$	2018 \$
Director's fees	248	348
Salaries	5,121	6,011
Benefits	158	145
Stock-based compensation	1,374	2,189
	<u>6,901</u>	<u>8,693</u>

#### b) Related party transactions

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

	2019 \$	2018 \$
<b>Nature of transaction</b>		
Professional fees included in other expenses	1,126	517
Professional fees included in deferred financing costs	439	2,320
	<u>1,565</u>	<u>2,837</u>

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

#### Financial positions

Receivable from parent company	1,067	193
	<u>1,067</u>	<u>193</u>

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

### 25 Commitments

The Corporation entered into operating leases mainly of real estate expiring on various dates through November 2041, which call for lease payments of \$336,783. Minimum lease payments for the upcoming years are as follows:

	\$
2020	68,960
2021	51,921
2022	45,034
2023	35,995
2024	28,573
Thereafter	106,300
	<u>336,783</u>

### 26 Statement of cash flows

The following table details the cash flows for the year ended January 31, 2019:

	Non-cash items							
	Opening Balance	Cash	Business acquisition (note 19)	Net income (loss)	Amortiz- ation	Compre- hensive Income (loss)	Finance lease acquired	Ending Balance
Non-current long-term debt	2,070,861	106,240	76,508	107,040	7,644	36,225	21,965	2,426,483
Derivative financial instruments	20,320	(1,248)	-	(9,955)	-	-	-	9,117
Contingent consideration	10,804	-	-	84,512	-	1,837	-	97,153
	<u>2,101,985</u>	<u>104,992</u>	<u>76,508</u>	<u>181,597</u>	<u>7,644</u>	<u>38,062</u>	<u>21,965</u>	<u>2,532,753</u>

The following table details the cash flows for the year ended January 31, 2018:

	Non-cash items							
	Opening Balance	Cash	Business acquisition (note 19)	Net income (loss)	Amortiz- ation	Compre- hensive Income (loss)	Finance lease acquired	Ending Balance
Non-current long-term debt	1,809,492	310,528	3,818	(100,527)	42,909	(31,330)	35,971	2,070,861
Derivative financial instruments	15,894	-	-	7,244	-	(2,818)	-	20,320
Contingent consideration	11,276	-	-	-	-	(472)	-	10,804
	<u>1,836,662</u>	<u>310,528</u>	<u>3,818</u>	<u>(93,283)</u>	<u>42,909</u>	<u>(34,620)</u>	<u>35,971</u>	<u>2,101,985</u>

# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

### 27 Segment information

#### a) Segmented information

The Corporation manages through two reportable segments, which are Protective services and Cash services. The accounting policies of the segmented information are the same as those used for the consolidated financial statements.

	2019			2018		
	Protective services \$	Cash services \$	Total \$	Protective services \$	Cash services \$	Total \$
<b>Results</b>						
Revenues	1,993,294	990,145	2,983,439	1,664,960	976,422	2,641,382
Operating costs	1,672,376	775,098	2,447,474	1,387,392	765,132	2,152,524
Selling and administrative expenses	208,724	180,151	388,875	170,127	178,406	348,533
	112,194	34,896	147,090	107,441	32,884	140,325
Change in fair value of contingent consideration			84,512			-
Unrealized exchange loss (gain) on translation of long-term debt			107,040			(100,527)
Unrealized loss (gain) on derivative financial instruments			(9,955)			7,244
Income (Loss) before finance cost and income taxes			<u>(34,507)</u>			<u>233,608</u>
<b>Assets</b>						
Accounts receivable	288,118	132,013	420,131	223,786	113,869	337,655
Property, plant and equipment	64,945	219,956	284,901	48,509	220,861	269,370
Goodwill	460,047	401,206	861,253	347,593	383,340	730,933
Intangible assets	240,690	178,890	419,580	205,758	191,674	397,432
<b>Additional information</b>						
Additions to property, plant and equipment						
Paid cash	31,458	46,342	77,800	22,575	49,106	71,681
Finance lease	4,664	17,301	21,965	3,705	32,266	35,971
	36,122	63,643	99,765	26,280	81,372	107,652
Business acquisitions	5,780	-	5,780	2,001	-	2,001
Additions to intangible assets						
Paid cash	3,378	1,285	4,663	5,754	3,992	9,746
Finance lease	-	-	-	660	-	660
	3,378	1,285	4,663	6,414	3,992	10,406
Depreciation of property, plant and equipment	29,052	73,273	102,325	24,345	71,200	95,545
Amortization of intangible assets	25,807	11,039	36,846	19,411	13,663	33,074
Loss on disposal of property, plant and equipment	61	298	359	246	437	683



# Garda World Security Corporation

## Notes to Consolidated Financial Statements

January 31, 2019 and 2018

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

### b) Geographic information

The following revenues are from external customers and are attributed to countries or regions where the services are rendered:

	2019 \$	2018 \$
Canada	1,232,117	1,109,649
USA	885,343	728,638
Afghanistan	468,021	449,941
East Africa	215,312	188,515
Iraq	154,905	153,030
Others	27,741	11,609
	<u>2,983,439</u>	<u>2,641,382</u>

Property, plant and equipment are attributed to countries or regions based on the location of the assets. Goodwill and intangible assets are attributed to countries or regions based on the Corporation's allocation of the related purchase price:

	2019 \$						
	Canada	USA	Afghanistan	Iraq	East Africa	Others	Total
Property, plant and equipment	58,431	191,692	4,603	15,381	12,703	2,091	284,901
Goodwill	314,705	347,726	62,127	98,025	18,664	20,006	861,253
Intangible assets	195,006	136,062	15,388	49,528	15,675	7,921	419,580

	2018 \$						
	Canada	USA	Afghanistan	Iraq	East Africa	Others	Total
Property, plant and equipment	57,849	187,913	3,022	7,106	11,230	2,250	269,370
Goodwill	290,888	268,866	58,104	92,718	14,033	6,324	730,933
Intangible assets	193,240	125,262	15,743	50,672	11,787	728	397,432

### 28 Subsequent event

On April 5, 2019, the Corporation finalized the acquisition of Whelan Security Co which operates security guard services in United States. The purchase price is approximately US\$130 million, which was paid on closing. The payment of this acquisition has been done with an incremental term loan of US\$146 million bearing interest at LIBOR (with a minimum at 1%) plus 3.50%.