

Garda World Security Corporation

Consolidated Financial Statements
January 31, 2023, and 2022



Independent auditor's report

To the Shareholders of GardaWorld Security Corporation

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of GardaWorld Security Corporation and its subsidiaries (together, the Corporation) as at January 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Corporation's consolidated financial statements comprise:

- the consolidated statements of financial position as at January 31, 2023 and 2022;
- 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 significant accounting policies and other explanatory information.

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
1250 René-Lévesque Boulevard West, Suite 2500, Montréal, Quebec, Canada H3B 4Y1
T: +1 514 205 5000, F: +1 514 876 1502



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.



We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

/s/PricewaterhouseCoopers LLP¹

Montréal, Quebec
April 19, 2023

¹ CPA auditor, public accountancy permit No. A116819

Garda World Security Corporation

Consolidated Statements of Financial Position

As of January 31, 2023, and 2022

(In thousands of Canadian dollars)

	Notes	2023 \$	2022 \$
ASSETS			
Current assets			
Cash and cash equivalents	5	417,829	322,943
Accounts receivable	6	829,670	671,860
Unbilled accounts receivable		101,703	64,163
Inventories	7	185,229	19,473
Prepaid expenses		50,802	29,348
		<u>1,585,233</u>	<u>1,107,787</u>
Non-current assets			
Property, plant, and equipment	8	392,358	311,030
Right-of-use assets	9	322,649	294,779
Intangible assets	10	1,478,454	1,033,539
Goodwill	10	3,009,796	2,254,119
Other assets	11	45,518	34,748
Investment	12	57,833	60,000
Deferred income tax assets	23	284,899	237,614
		<u>5,591,507</u>	<u>4,225,829</u>
Total assets		<u>7,176,740</u>	<u>5,333,616</u>
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	13	820,146	588,265
Current portion of long-term debt	14	108,923	26,168
Current portion of provisions and other liabilities	15	107,694	171,116
Income taxes payable		44,115	58,892
		<u>1,080,878</u>	<u>844,441</u>
Non-current liabilities			
Long-term debt	14	5,510,258	3,848,852
Derivative financial instruments	24	3,253	8,352
Deferred income tax liabilities	23	68,937	69,088
Provisions and other non-current liabilities	15	304,175	278,296
		<u>5,886,623</u>	<u>4,204,588</u>
Total liabilities		<u>6,967,501</u>	<u>5,049,029</u>
Equity			
Share capital	16	1,526,333	1,228,374
Contributed surplus		36,754	30,454
Accumulated other comprehensive income (loss)		33,245	(48,772)
Deficit		(1,420,710)	(957,500)
Total equity attributable to shareholders		<u>175,622</u>	<u>252,556</u>
Non-controlling interest		33,617	32,031
Total equity		<u>209,239</u>	<u>284,587</u>
Total liabilities and equity		<u>7,176,740</u>	<u>5,333,616</u>

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, 2023, and 2022

(In thousands of Canadian dollars)

	Notes	2023 \$	2022 \$
Revenues	17	5,266,228	4,073,416
Operating costs	20	4,375,366	3,454,962
Selling and administrative expenses	20	656,158	470,963
Goodwill impairment	10	110,000	-
Changes in fair value of contingent consideration	24	(4,000)	93
Unrealized exchange loss on translation of long-term debt	14	187,617	6,509
Unrealized loss on derivative financial instruments		10,201	29,387
Realized and unrealized loss on investment in marketable security	12	-	5,028
Unrealized loss on investment in private security company	12	2,167	-
Income (loss) before finance costs and income taxes		(71,281)	106,474
Finance costs	19	422,991	263,392
Loss before income taxes		(494,272)	(156,918)
Provision for (recovery of) income taxes	23		
Current		59,249	61,047
Deferred		(92,087)	(68,318)
		(32,838)	(7,271)
Net loss for the year		(461,434)	(149,647)
Net Income (loss) attributable to			
Shareholders		(463,210)	(150,954)
Non-controlling interest		1,776	1,307
Net loss for the year		(461,434)	(149,647)
Other comprehensive income "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 revenues of \$5,918 (2022 – expenses \$757)	14	(52,450)	4,886
Translation of foreign subsidiaries		128,344	(10,385)
<i>Items that will not be reclassified to the consolidated statement of loss</i>			
Remeasurement of defined benefit pension obligation, net of income tax expenses of \$1,207 (2022 – \$3,977)	22	3,358	11,066
Remeasurement of post employment obligation, net of income tax expenses of \$719 (2022 – nil)	15	2,765	-
		82,017	5,567
Comprehensive loss for the year		(379,417)	(144,080)
Comprehensive income (loss) attributable to			
Shareholders		(381,376)	(145,391)
Non-controlling interest		1,959	1,311

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

Garda World Security Corporation

Consolidated Statements of Changes in Equity

For the years ended January 31, 2023, and 2022

(In thousands of Canadian dollars)

	Share capital \$	Contributed surplus \$	Accumulated Comprehensive Income (loss) \$	Deficit \$	Equity attributable to non- controlling interest \$	Total equity \$
Balance – February 1, 2021	1,228,374	23,227	(54,339)	(806,546)	2,587	393,303
Net loss for the year	-	-	-	(150,954)	1,307	(149,647)
OCI for the year	-	-	5,563	-	4	5,567
Comprehensive loss for the year	-	-	5,563	(150,954)	1,311	(144,080)
Stock-based compensation	-	7,227	-	-	-	7,227
Non-controlling interest contribution	-	-	-	-	28,133	28,133
Translation of non-controlling interest	-	-	4	-	-	4
Balance – January 31, 2022	1,228,374	30,454	(48,772)	(957,500)	32,031	284,587
Balance – February 1, 2022	1,228,374	30,454	(48,772)	(957,500)	32,031	284,587
Net loss for the year	-	-	-	(463,210)	1,776	(461,434)
OCI for the year	-	-	81,834	-	183	82,017
Comprehensive loss for the year	-	-	81,834	(463,210)	1,959	(379,417)
Stock-based compensation	-	6,300	-	-	-	6,300
Shares issuance (note 16)	297,959	-	-	-	-	297,959
Non-controlling interest payment	-	-	-	-	(373)	(373)
Translation of non-controlling interest	-	-	183	-	-	183
Balance – January 31, 2023	1,526,333	36,754	33,245	(1,420,710)	33,617	209,239

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

Garda World Security Corporation

Consolidated Statements of Cash Flows

For the years ended January 31, 2023, and 2022

(In thousands of Canadian dollars)

	Notes	2023 \$	2022 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss for the year		(461,434)	(149,647)
Adjustments for:			
Depreciation of property, plant, and equipment	18	128,300	112,269
Depreciation of right-of-use assets	18	106,605	85,561
Amortization of intangible assets	18	150,451	83,363
Goodwill impairment	10	110,000	-
Deferred income taxes	23	(92,087)	(68,318)
Loss on disposal of property, plant, and equipment	8	1,490	526
Change in fair value of contingent consideration	24	(4,000)	93
Unrealized exchange loss on translation of long-term debt	14	187,617	6,509
Unrealized loss on financial instruments		10,201	29,387
Realized and unrealized loss on investment in marketable securities	12	-	5,208
Unrealized loss on investment in private security company	12	2,167	-
Stock-based compensation	16	6,300	7,227
Finance costs	19	422,991	263,392
Defined benefit pension expense	22	1,356	2,150
		569,957	377,540
Changes in non-cash working capital			
Accounts receivable		(66,995)	(85,022)
Unbilled accounts receivable		(34,766)	36,254
Inventories		(39,701)	(961)
Prepaid expenses		(9,981)	15,194
Accounts payable and accrued liabilities, provisions, and other liabilities		(48,642)	23,291
Income taxes payable		(18,638)	16,034
Net cash generated from operating activities		351,234	382,330
CASH FLOWS GENERATED FROM FINANCING ACTIVITIES			
Changes in bank indebtedness		-	(3,733)
Increase in long-term debt, excluding revolving facilities		1,434,737	1,186,236
Repayment of long-term debt, excluding revolving facilities		(507,148)	(291,911)
Interest paid on long-term debt		(313,334)	(235,817)
Changes in revolving facilities		(3,910)	(224,515)
Shares issuance, net of cost		297,959	-
Increase in deferred financing costs		(45,148)	(17,861)
Non-controlling interest payment		(373)	-
Non-controlling interest contribution		-	28,133
Repayment of lease liabilities	15	(133,377)	(113,644)
Others		(3,101)	(16,043)
Net cash generated from financing activities		726,305	310,845
CASH FLOWS USED IN INVESTING ACTIVITIES			
Additions to property, plant, and equipment	8	(160,804)	(146,353)
Additions to intangible assets	10	(45,370)	(22,687)
Proceeds from disposal of property, plant, and equipment	8	3,300	2,215
Proceeds from disposal of marketable security	12	-	99,357
Investments	12	-	(60,000)
Business acquisitions, net of cash and bank indebtedness	21	(720,712)	(295,012)
Contingent consideration payment	15	(50,248)	-
Net cash used in investing activities		(973,834)	(422,480)
Foreign currency translation on cash and cash equivalents		(8,819)	(2,694)
Net change in cash and cash equivalents during the year		94,886	268,001
Cash and cash equivalents, beginning of the year	5	322,943	54,942
Cash and cash equivalents, end of the year	5	417,829	322,943
Cash paid for income tax		77,966	45,005

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

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

(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, Europe, Africa, the Middle East, and Asia. Its activities are carried out through two main segments: Security Services and Cash Services. The ultimate parent of Garda World Security Corporation is Doctor No Parent Limited.

The Parent Company is incorporated and domiciled in Canada.

The address of the Corporation’s registered office is:
2300 Emile-Belanger
Montréal, Quebec, Canada
H4R 3J4

The Corporation’s main subsidiaries as of January 31, 2023, were as follows:

	Voting rights held	Location	Functional currency
Garda Canada Security Corporation	100%	Canada	CAN\$
Garda World Cash Services Canada Corporation	100%	Canada	CAN\$
GardaWorld Security Screening Inc.	100%	Canada	CAN\$
Garda Security Group G.P.	100%	Canada	CAN\$
GardaWorld Cash Services 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\$
Whelan Security Inc.	100%	United States	US\$
Crisis24 Inc.	100%	United States	US\$
Crisis24 Protective Solutions LP	100%	United States	US\$
Tidel Engineering LP	100%	United States	US\$
Arca US Systems LLC	100%	United States	US\$

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”).

These consolidated financial statements were approved by the Board of Directors for issue on April 19, 2023.

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.

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

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. Their share in net income (loss) and comprehensive income (loss) is recognized directly in equity. Any change in the Parent Company interest in a subsidiary that does not result in an acquisition, or a loss of control is accounted for as a capital transaction.

Investment in associates

The Investments in Associates over which the Corporation exercises significant influence but does not control or jointly control are associates. Investments in associates are accounted for using the equity method, except when classified as held for sale. The equity method involves recording the initial investment at cost and subsequently adjusting the carrying value of the investment for the Corporation's proportionate share of the profit (loss), other comprehensive income (loss) and any other changes in the associate's or joint venture's net assets, such as further investment. Adjustments are made to align any inconsistencies between the Corporation's accounting policies and its associate's policies before applying the equity method. Adjustments are also made to account for depreciable assets based on their fair values at the acquisition date of the investment and for any impairment losses recognized by the associate. The equity method requires shares of losses to be recognized only until the carrying amount of an interest in associate is nil. Any further losses are not recognized unless the entity has a legal or constructive obligation in respect of the liabilities associated with those losses.

At each balance sheet date, the Corporation considers whether there is objective evidence of impairment in investments in associates. If there is such evidence, the Corporation determines the amount of impairment to record, if any, in relation to the associate. Where the Corporation loses control of an entity, and it is reclassified as an associate the Corporation will re-measure the value of its retained investment at fair market value. A gain or loss will be recognized for the difference between the net amount of the change in interest and the fair value of any consideration received or paid. As of the date of loss of control the Corporation will cease to consolidate the results of the entity and report its results as an associate using the equity method of accounting.

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 combination are measured generally 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.

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

3. Summary of significant accounting policies (continued)

Revenue recognition

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:

a) Cash services

The Corporation's Cash services segment generates revenues from carrying its clients' cash and valuable items between different locations and from sorting and processing its clients' cash, coins, and checks. For these revenue streams, although our customer contracts specify the fees for each action to provide service, most 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. The Corporation recognizes revenue for these services in the period in which they are provided to the customer based on the contractual rate at which the Corporation has the right to invoice the customer for each action.

The Cash Services segment also generates revenues from the manufacturing and sale of cash management system devices, for which performance obligation is to manufacture and ship the products to customer based on the terms of the relevant purchase order. Revenue are recognized upon shipment, representing the point in time when risks and ownership are transferred to the client.

b) Security services

The Corporation's Security services segment generates its revenues from protecting its clients' business, people and assets with experienced security guards, and from screening services to airports. For performance obligations related to the services described above, the Corporation generally satisfies its 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. The Corporation uses 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.

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 expected estimated retained liability. The non-cash insurance reserve is determined by management based on actual claims filed and an estimate of claims incurred but not yet reported. Management considers several factors when making these estimates. The US subsidiaries maintain third-party stop-loss insurance policies to cover certain liability costs more than predetermined retained amounts.

Foreign currency translation

a) 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 are converted at the reporting period closing rate, and income and expenses are converted at the average rate of the referenced period, as this is considered a reasonable approximation of the actual rates prevailing on the transaction date. All resulting foreign exchanges variations are recognized in OCI as a cumulative translation adjustment.

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

3. Summary of significant accounting policies (continued)

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

b) 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 in normal course of Cash Services business.

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 credit 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 parts, vehicle parts, raw material that consists of purchased parts used to produce finished goods and finished goods. Inventories are stated at the lower of cost and net realizable value. Cost for aircrafts and vehicle parts is determined according to the specific identification method. Cost for raw materials and finished goods is determined using the average cost method and includes materials, labor, and production overhead. Net realizable value is the estimated selling price less applicable selling expenses. Reserves are provided to adjust any slow-moving materials or goods to net realizable values.

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 that 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.

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

3. Summary of significant accounting policies (continued)

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

	Method	Rate/Period
Buildings	Straight-line	20 and 30 years
Computer equipment	Declining balance and straight-line	30% and 3 to 5 years
Equipment and office furniture	Declining balance and straight-line	20% and 4 to 5 years
Vehicles	Declining balance and straight-line	30% and 4 years
Aircraft and aircraft rotables	Straight-line	12 years with 45% residual
Armored vehicles	Straight-line	Between 6 and 12 years
Uniforms	Straight-line	2 years
Leasehold improvements	Straight-line	Shorter of lease term and useful life

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

The Corporation leases various buildings, equipment, and vehicles under lease agreements. Lease terms are negotiated on an individual basis, contain a wide range of different terms and conditions, and usually can be renewed at market rates.

Leases are recognized as a right-of-use asset and a lease liability at the date of which the leased asset is available for use by the Corporation.

The right-of-use asset is initially measured at the cost of the corresponding liability, adjusted for the following items:

- any lease payments made at or before the commencement date;
- any initial direct costs incurred, and
- any restoration costs.

The right-of-use asset is then depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The lease liability is initially measured as the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

The lease payments are discounted over the lease term using the interest rate implicit to the lease, if that rate can be determined, or using the Corporation's incremental borrowing rate at inception date.

Lease payments are allocated between the lease liability and the finance costs. The finance costs are charged to the statement of loss over the lease period.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the Corporation's statement of loss. Short-term leases are leases with a lease term of twelve months or less. Low-value assets comprise IT-equipment and small items of office furniture.

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

3. Summary of significant accounting policies (continued)

a) Estimate of the lease term

When the Corporation recognizes a lease as a lessee, it assesses the lease term based on the conditions of the lease and determines whether it is reasonably certain that it will exercise its extension or termination option, if any. It then uses the expected term under such option if it is reasonably certain that it will be exercised. As such, a change in the assumption used could result in a significant impact in the amount recognized as right-of-use asset and lease liability, as well as in the amount of depreciation of right-of-use asset and interest expense on lease liability.

b) Assessment of whether a right-of-use asset is impaired

The Corporation assesses whether a right-of-use asset is impaired in accordance with IAS 36, Impairment of assets. Such assessment occurs particularly when it vacates an office space and it must determine the recoverability of the asset, to the extent that the Corporation can sublease the assets or surrender the lease and recover its costs. The Corporation examines its lease conditions as well as local market conditions and estimates its recoverability potential for each vacated premise. The determination of the lease cost recovery rate involves significant management estimates based on market availability of similar office space and local market conditions. This significant estimate could affect its future results if the Corporation succeeds in subleasing their vacated offices at a higher or lower rate or at different dates than initially anticipated.

c) Determining the discount rate for leases

Leases require the Corporation to discount the lease payments using the rate implicit in the lease if that rate is readily available. If that rate cannot be readily determined, the lessee is required to use its incremental borrowing rate ("IBR"). The Corporation generally used its IBR when recording leases initially, since the implicit rates are not readily available due to information not being available from the lessor regarding the fair value of underlying assets and direct costs incurred by the lessor related to the leased assets. The determination of the IBR requires the use of various assumptions which, if different than those being used, could result in a significant impact in the amount recognized as right-of-use asset and lease liability, as well as in the amount of depreciation of right-of-use asset and interest expense on lease liability.

d) Determining if a contract modification increasing the scope of a lease is a separate lease or not

When a lease modification increases the scope of a lease occurs, the Corporation needs to determine if such modification is to be accounted for as a separate lease or not. Such determination requires the use of judgment on the stand-alone selling price and any appropriate adjustments to the stand-alone selling price reflecting the circumstance of the particular contract.

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 trade name with indefinite useful live. 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 are amortized on a straight-line basis over periods of between three and seven years.

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

3. Summary of significant accounting policies (continued)

Impairment of long-lived assets

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 of an asset or CGU is defined as the higher of its fair value less costs of disposal or value in use, being the present value of the expected future cash flows of the relevant asset or CGU, as determined by management.

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

Financial instruments: Recognition, derecognition and measurement

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

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

The financial instruments' classification 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.

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 financial instruments, or unless the Corporation elects to measure them at FVTPL.

The table below summarizes the classification and measurement of the Corporation's financial instruments.

Assets

Cash and cash equivalents	Amortized cost
Trade and other receivables	Amortized cost
Notes receivable	Amortized cost
Embedded derivative	FVTPL

Liabilities

Long-Term debt	Amortized cost
Derivative financial liabilities	FVTPL
Contingent consideration	FVTPL

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

3. Summary of significant accounting policies (continued)

a) Measurement

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. Any transaction cost directly incurred to acquire a financial asset or financial liability measured at amortized cost are capitalized to the cost of the financial instrument acquired and are also amortized using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognized in the consolidated statement of loss.

Financial instruments at fair value

Financial instruments are initially and subsequently measured at fair value, while 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 (loss) 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.

b) 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 expires. 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.

c) Impairment

IFRS 9 - Financial Instruments has 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 grouped based on shared credit risk characteristics.

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).

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

3. Summary of significant accounting policies (continued)

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

a) Cash flow hedge

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

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gains or losses previously recognized in OCI 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 income (loss). The gain or loss relating to the ineffective portion is recognized in the consolidated statement of loss. Gains and losses accumulated in equity are included in the consolidated statement of loss when the foreign operation is partially disposed of or sold.

Employee benefits

a) Defined contribution pension plans

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

b) Defined benefit pension plans

The asset or liability recognized in the consolidated statement of financial position with respect of defined benefit pension plans is the net position of 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.

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

3. Summary of significant accounting policies (continued)

Provisions and other non-current liabilities

Provisions are recognized in other non-current liabilities when the Corporation has a present legal or constructive obligation due to past events, when it is more likely than not that an outflow of resources will be required to settle the obligation and when 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 at each reporting date 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 OCI, in which case the income tax is also recognized directly in equity.

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 in the jurisdictions where the Corporation and its subsidiaries operate and generate taxable income and any adjustment to tax payable in respect of previous years.

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

Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities, other than from a business combination, in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Corporation can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Corporation expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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.

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

3. Summary of significant accounting policies (continued)

Share capital

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

Stock-based compensation

Stock options granted to senior management are measured at fair value. This fair value is then recognized in consolidated statement of 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: Security 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 standards

The following amendments to existing standards have been adopted by the Corporation on February 1, 2022 and had no significant impact on the Corporation's consolidated financial statements for the year ended January 31, 2023 and January 31, 2022.

Interest rate benchmark reform - Phase 2

In August 2020, the IASB issued Interest Rate Benchmark Reform-Phase 2, which amends IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures. The amendments complement those issued in 2019 and focus on the effects on financial statements when a company replaces the old interest rate benchmark with an alternative benchmark rate because of the reform.

For financial instruments at amortized cost, the amendment introduces a practical expedient such that if a change to contractual cash flow occurs as a direct consequence of the interbank offered rates (IBORS) reform and on economically equivalent terms to the previous basis, it will not result in an immediate gain or loss recognition. As for hedge accounting, the practical expedient allows hedge instruments relationship directly affected by the reform to continue. However, additional ineffectiveness might need to be recorded. IBORS rate have been changed to Secured Overnight Financing Rate (SOFR).

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

3. Summary of significant accounting policies (continued)

b) New standards and interpretations not yet adopted.

The following new standards are not yet effective for the year ended January 31, 2023, and have not been applied in preparing these consolidated financial statements:

Information about long-term debt with covenants – Amendments to IAS 1

In October 2022, the IASB issued standard amendments to IAS 1 Presentation of Financial Statements that aim to improve the information companies provide about long-term debt with covenants. These standard amendments to IAS 1 specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Instead, these standard amendments require a company to disclose information about these covenants in the notes to the financial statements.

Income taxes

In May 2021, the IASB published Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12) that clarifies how companies account for deferred tax on transactions such as leases and decommissioning obligations. The main change is an exemption from the initial recognition exemption, which does not apply to transactions in which both deductible and taxable temporary differences arise on initial recognition that result in the recognition of equal deferred tax assets and liabilities. The amendments to IAS 12 are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The Corporation is assessing the potential impact of these amendments.

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 and judgment

The preparation of the consolidated financial statements in conformity with IFRS requires the use of some critical accounting estimates and judgments. The determination of the carrying amounts, and of the fair value when applicable, of assets, liabilities, accruals, provisions, contingent liabilities, and other financial obligations presented in these consolidated financial statements, as well as the accounting for income and expenses, depend on the use of estimates and judgments. IFRS also requires management to exercise judgment in the application of the Corporation's accounting policies.

The estimates and judgments are based on the best available information, facts and circumstances existing at the date of the consolidated financial statements and therefore have a direct impact on the reported amounts of income and expenses during for the referenced year. Given the uncertainty of these components, actual results may sometimes differ from the estimates previously used. 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.

a) Valuation of identifiable assets and liabilities in connection with a business combination

The valuation of identifiable assets and liabilities in connection with the acquisition of a business involves items that already exist in the acquired company's statement of financial position, as well as items that have not been previously recognized in the acquired company's statement of financial position, but that must be identified and measured at fair value at acquisition date.

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

4. Critical accounting estimates and judgments (continued)

As quoted market prices are not always available for these assets and liabilities, different valuation methods can be used to derive fair value, involving a number of different assumptions. Items that can be both difficult to identify and value upon acquisition are, amongst others, trade name, clients' relationships, contingent liabilities and contingent consideration. All balances acquired in a business acquisition are thus subject to estimates and judgment, which are detailed in note 21.

b) Goodwill and impairment of non-financial assets

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 10.

As part of assessing the goodwill and intangible assets with indefinite useful lives for impairment, the Corporation must measure the recoverable amount of CGU using complex methodologies that involve significant estimates, whether a fair value less cost of disposal methodology is used or a value in use. Key estimates and assumptions used include future cash inflows and outflows, discounts rates, terminal multiples, and lives of assets. These significant estimates require considerable judgment which, should the assumptions and estimates used in the recoverable amount calculation be incorrect, could impact the Corporation's future results.

c) Valuation of accounts receivable and allowance for expected credit loss

Trade receivable, which amounted to \$803,353 as of January 31, 2023 (2022 – \$639,468), are one of the most significant assets included in the consolidated statement of financial position. Accounts receivables are initially measured at fair value and are subsequently adjusted to reflect any allowance for expected credit loss. The allowance for expected credit loss, which was of \$17,621 as of January 31, 2023 (2022 – \$16,187), is subject to critical estimates and judgments. The determination of the allowance is based on assumptions about credit risk 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 history, existing market conditions as well as forward looking estimates at the end of each reporting period. Further information regarding credit risk in accounts receivable is provided in note 6 and 24.

d) 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 for US subsidiaries' employees. Claims reserves are calculated based on a combination of cases reported and cases incurred but not reported. Every month, the Corporation performs calculations to assess the adequacy of the provision based on open claims, historical data and trends. The Corporation's calculations are based on several assumptions, and accordingly the insurance provision is subject to critical estimates and judgment.

Accordingly, the current and non-current provisions on the consolidated statement of financial position related to insurance provision, which amounted to \$18,545 as of January 31, 2023 (2022 – \$19,565) and have been included in provisions and other non-current liabilities at note 15, are subject to critical judgments and assumptions.

e) Defined benefit pension plan obligation

The present value of the pension obligations depends on several factors that are determined on an actuarial valuation using a number of assumptions. One of the main assumptions used in the measurement of the obligation and the determination of the net cost (income) for pension plans is the discount rate, for which any changes would impact the carrying amount of the pension obligation.

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

4. Critical accounting estimates and judgments (continued)

The Corporation determines the appropriate discount rate at the end of each reporting period, which should reflect 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 Corporation 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 include employees' length of service, salaries, plan experience and the demographic assumptions, as describe in note 22.

f) 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 for US subsidiaries' employees. Claims reserves are calculated based on a combination of cases reported and cases incurred but not reported. Every month, the Corporation performs calculations to assess the adequacy of the provision based on open claims, historical data and trends. The Corporation's calculations are based on several assumptions, and accordingly the insurance provision is subject to critical estimates and judgment.

Accordingly, the current and non-current provisions on the consolidated statement of financial position related to insurance provision, which amounted to \$18,545 as of January 31, 2023 (2022 – \$19,565) and have been included in provisions and other non-current liabilities at note 15, are subject to critical judgments and assumptions.

g) Defined benefit pension plan obligation

The present value of the pension obligations depends on several factors that are determined on an actuarial valuation using a number of assumptions. One of the main assumptions used in the measurement of the obligation and the determination of the net cost (income) for pension plans is the discount rate, for which any changes would impact the carrying amount of the pension obligation.

The Corporation determines the appropriate discount rate at the end of each reporting period, which should reflect 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 Corporation 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 include employees' length of service, salaries, plan experience and the demographic assumptions, as describe in note 22.

h) Deferred tax asset

Management exercises judgment in the assessment of the probability of future taxable income, to estimate the extent to which deferred income tax assets can be realized. Estimates are based on the Corporation's most recent approved budget and forecasts, and adjustments for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Management uses judgment to assess specific facts and circumstances to evaluate legal, economic or other uncertainties.

i) Income tax provision

The Corporation is subject to income tax laws and regulations in several jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Corporation recognizes liabilities for anticipated tax audit issues on the basis of amounts expected to be paid to the tax authorities. Where the final tax outcome of these matters is different from the amounts that were initially provisioned, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

5. Cash and cash equivalents

Cash and cash equivalents are detailed as follows:

	2023 \$	2022 \$
Cash on hand	402,588	304,965
Deposits from customers	7,608	17,978
Restricted cash	7,633	-
	<hr/> 417,829	<hr/> 322,943

Restricted cash is composed of cash held by the Corporation for the purpose of its self insurance programs.

6. Accounts receivable

	2023 \$	2022 \$
Trade receivables	803,353	639,468
Allowance for expected credit loss	(17,621)	(16,187)
Other receivables	43,938	48,579
	<hr/> 829,670	<hr/> 671,860

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

	2023 \$	2022 \$
Not past due	669,938	541,639
Past due 0-30 days	54,571	32,815
Past due 31-60 days	30,706	41,983
Past due 61-120 days	40,370	16,202
More than 120 days	7,768	6,829
	<hr/> 803,353	<hr/> 639,468
Allowance for expected credit loss	(17,621)	(16,187)
	<hr/> 785,732	<hr/> 623,281

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

6. Accounts receivable (continued)

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

	2023 \$	2022 \$
Opening balance	16,187	13,333
Bad debt expense	2,803	4,186
Amounts written off and recoveries	(1,999)	(1,370)
Effect in exchange rate	630	38
	<hr/>	<hr/>
Ending balance	17,621	16,187

Allowance for expected credit loss considers the credit risk on accounts receivable and unbilled accounts receivable.

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 and geographical locations. 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 assessed at client level, for accounts receivable that are past due according to local conditions and past default experience. When required, the Corporation records an allowance for expected loss to reflect its best estimate of the amount of probable credit losses in its existing accounts receivable.

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

7. Inventories

	2023 \$	2022 ⁽¹⁾ \$
Raw material	116,920	-
Finished good	48,165	-
Aircraft parts	13,573	12,119
Others	7,852	7,985
Inventory reserve	(1,281)	(631)
	<hr/>	<hr/>
	185,229	19,473

⁽¹⁾ Certain comparatives figures have been adjusted to conform to the presentation adopted in current fiscal year.

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

7. Inventories (continued)

The change in the inventory reserve for the year was as follows:

	2023	2022
	\$	\$
Opening balance	631	634
Increase during the year	585	-
Effect in exchange rate	65	(3)
	<hr/>	<hr/>
Ending balance	1,281	631

For the year ended January 31, 2023, the cost of inventories recognized as an expense in operating costs in the consolidated statement of loss amounted to \$186,036 (2022 – \$17,642).

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

(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 Improve- ments \$	Total \$
For the year ended January 31, 2022									
Net value - beginning	1,991	9,129	47,332	24,472	93,756	30,624	18,219	36,952	262,475
Business acquisitions (note 21)	1,010	182	6,909	3,228	-	-	-	56	11,385
Additions	91	11,763	40,661	14,343	14,291	28,139	23,690	13,375	146,353
Proceeds from disposal	-	(38)	(691)	(974)	(338)	(79)	(95)	-	(2,215)
Derecognition of right-of-use assets (note 9)	-	-	186	3,605	-	3,353	-	-	7,144
Depreciation	(142)	(3,112)	(28,803)	(14,646)	(9,619)	(30,272)	(18,924)	(6,751)	(112,269)
Gain (loss) on disposal	-	20	(761)	684	218	(579)	(81)	(27)	(526)
Effect in exchange rate	(1)	(264)	(201)	107	(409)	(27)	(73)	(449)	(1,317)
Net value – end	2,949	17,680	64,632	30,819	97,899	31,159	22,736	43,156	311,030
As of January 31, 2022									
Cost	3,623	26,510	135,542	88,537	147,846	267,067	65,701	78,381	813,207
Accumulated depreciation	(674)	(8,830)	(70,910)	(57,718)	(49,947)	(235,908)	(42,965)	(35,225)	(502,177)
Net value – end	2,949	17,680	64,632	30,819	97,899	31,159	22,736	43,156	311,030
For the year ended January 31, 2023									
Net value - beginning	2,949	17,680	64,632	30,819	97,899	31,159	22,736	43,156	311,030
Business acquisitions (note 21)	7,155	736	20,223	-	-	-	-	9,284	37,398
Additions	390	11,764	50,577	8,385	8,860	31,749	26,397	22,682	160,804
Proceeds from disposal	-	-	(521)	(2,454)	(296)	(29)	-	-	(3,300)
Derecognition of right-of-use assets (note 9)	-	-	182	598	-	4,635	-	-	5,415
Depreciation	(251)	(5,942)	(30,114)	(14,011)	(12,181)	(33,926)	(22,752)	(9,123)	(128,300)
Gain (loss) on disposal	-	(106)	(1,491)	1,182	232	(1,176)	(114)	(17)	(1,490)
Effect in exchange rate	581	82	2,226	713	4,800	494	826	1,079	10,801
Net value – end	10,824	24,214	105,714	25,232	99,314	32,906	27,093	67,061	392,358
As of January 31, 2023									
Cost	11,695	37,576	207,215	97,630	170,935	282,287	88,818	115,225	1,011,381
Accumulated depreciation	(871)	(13,362)	(101,501)	(72,398)	(71,621)	(249,381)	(61,725)	(48,164)	(619,023)
Net value – end	10,824	24,214	105,714	25,232	99,314	32,906	27,093	67,061	392,358

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

9. Right-of-use assets

	Buildings \$	Equipment \$	Vehicles \$	Total \$
For the year ended January 31, 2022				
Net value – beginning	243,436	8,041	50,692	302,169
Business acquisitions (note 21)	3,997	180	979	5,156
Additions	45,534	1,803	34,399	81,736
Derecognition	-	(186)	(6,958)	(7,144)
Depreciation	(57,911)	(3,796)	(23,854)	(85,561)
Effect in exchange rate	(1,400)	(10)	(167)	(1,577)
Net value – end	233,656	6,032	55,091	294,779
As of January 31, 2022				
Cost	402,431	28,842	165,973	597,246
Accumulated depreciation	(168,775)	(22,810)	(110,882)	(302,467)
Net value – end	233,656	6,032	55,091	294,779
For the year ended January 31, 2023				
Net value – beginning	233,656	6,032	55,091	294,779
Business acquisitions (note 21)	17,741	-	-	17,741
Additions	55,431	1,121	55,380	111,932
Derecognition	0	(182)	(5,233)	(5,415)
Depreciation	(72,696)	(4,093)	(29,816)	(106,605)
Effect in exchange rate	10,392	243	(418)	10,217
Net value – end	244,524	3,121	75,004	322,649
As of January 31, 2023				
Cost	487,493	30,665	213,445	731,603
Accumulated depreciation	(242,969)	(27,544)	(138,441)	(408,954)
Net value – end	244,524	3,121	75,004	322,649
				2023
				\$
<u>Additional information included in consolidated statement of loss</u>				
Unwinding of discount – lease liabilities				23,488
Short-term leases and low value assets				1,360
Variable lease payments not included in leases liabilities				12,031
Cash outflows for low value assets, short-term and variable leases				13,771
				2022
				\$
				21,613
				5,413
				4,465
				9,686

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

10. Goodwill and Intangible assets

	Software \$	Service contracts and client relationships \$	Trade name \$	Total Intangible assets \$	Goodwill \$
For the year ended January 31, 2022					
Net value – beginning	36,226	641,522	272,362	950,110	2,062,882
Business acquisitions (note 21)	-	144,617	-	144,617	193,557
Additions	18,549	4,138	-	22,687	-
Amortization of intangible assets	(10,350)	(73,013)	-	(83,363)	-
Effect in exchange rate	(37)	(475)	-	(512)	(2,320)
Net value – end	44,388	716,789	272,362	1,033,539	2,254,119
As of January 31, 2022					
Cost	69,695	977,792	272,362	1,319,849	2,254,119
Accumulated amortization	(25,307)	(261,003)	-	(286,310)	-
Net value – end	44,388	716,789	272,362	1,033,539	2,254,119
For the year ended January 31, 2023					
Net value – beginning	44,388	716,789	272,362	1,033,539	2,254,119
Business acquisitions (note 21)	67,553	451,120	-	518,673	785,696
Additions	34,473	10,897	-	45,370	-
Amortization of intangible assets	(21,988)	(128,463)	-	(150,451)	-
Impairment	-	-	-	-	(110,000)
Effect in exchange rate	5,056	26,267	-	31,323	79,981
Net value – end	129,482	1,076,610	272,362	1,478,454	3,009,796
As of January 31, 2023					
Cost	175,518	1,475,150	272,362	1,923,030	3,009,796
Accumulated amortization	(46,036)	(398,540)	-	(444,576)	-
Net value – end	129,482	1,076,610	272,362	1,478,454	3,009,796

Additions of intangible assets for the year ended January 31, 2023, included \$26,942 of assets acquired from third parties (2022 - \$9,806) and \$18,428 of assets internally developed (2022 - \$12,881). With regards to the additions of intangible assets internally developed, \$15,267 related to software (2022 - \$11,501) and \$3,161 related to other intangible assets (2022 - \$1,380).

As of January 31, 2023, the remaining useful life of software was 5.20 years and 9.25 years for service contracts and client relationships (2022 - 4.73 and 8.55 years respectively).

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

10. Goodwill and Intangible assets (continued)

Goodwill and intangible assets with indefinite useful life impairment test

For the purpose of the impairment testing, the goodwill and the GardaWorld trade name with indefinite useful life are allocated to the Corporation's cash generating units ("CGUs") which represent the lowest level within the Corporation at which goodwill and trade name are monitored for internal management purposes. As of January 31, 2023, and 2022, the aggregate carrying amount of goodwill and trade name allocated to each CGU were as follows:

	2023	2022 ⁽¹⁾
	\$	\$
Goodwill allocation by CGU		
Cash Services – Canada	79,589	184,520
Cash Services – United States	164,237	151,253
Intelligence devices	759,472	-
Security Services – Critical infrastructure	730,779	737,343
Security Services – Crisis	281,200	204,801
Security Services – Aviation	216,679	216,679
Security Services – Guarding Canada	445,521	442,910
Security Services – Guarding United States	332,319	316,613
	<u>3,009,796</u>	<u>2,254,119</u>

(1) Certain comparatives figures have been adjusted to conform to the presentation adopted in current fiscal year.

	2023	2022
	\$	\$
Trade name by CGU		
Cash Services – Canada	26,204	26,204
Cash Services – United States	70,028	70,028
Security Services – Critical infrastructure	89,239	89,239
Security Services – Aviation	31,771	31,771
Security Services – Guarding Canada	55,120	55,120
	<u>272,362</u>	<u>272,362</u>

The Corporation performed its goodwill and trade name with indefinite useful life impairment test on January 31. The impairment test consists of comparing the CGUs' carrying amount to its recoverable amount.

The recoverable amount has been determined based on a fair value less cost of disposal methodology, wherein the estimated future cash flows are discounted to their present value using after-tax discounted rates ranging between 10.59% and 11.59% (2022 – between 9.84% and 10.84%). The discount rates were determined based on past experience and industry weighted average cost of capital.

The first-year cash flows were estimated based on historical performance, actual operating results, and current economic market conditions. For the further periods, cash flows were projected using a revenue growth rate between 2.0% and 4.2%, while also assuming the renewal of key significant contracts. Operating margins were adjusted where deemed appropriate, accordingly with the business strategy, operational targets approved by management and specific industry trends. The terminal value was based on exit multiples ranging from 6.8 to 13.8 for the recurring operating profit or exit multiples from 8.7 to 14.0 for the recurring operating profit net of capital expenditures.

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

10. Goodwill and Intangible assets (continued)

The result of the impairment test showed that the carrying amount of the CGU Cash Services – Canada was greater than its recoverable amount as of January 31, 2023, leading to an impairment loss of \$110,000 that was fully allocated to the goodwill of this CGU. For all other CGUs, the test led to the conclusion that no impairment loss was required.

The carrying amount and the recoverable amount for Cash services Canada amounted to \$357,787 and \$247,787 respectively, which lead to an impairment. Recoverable amount has been established using key assumption of discount rate at 11.09%, exit multiple at 6.96x and operating profit of \$28,780. All others key assumptions remained stable, recoverable amount would equal carrying value if discount rate would have been 6.76% or exit multiple would have been 13.47x or operating profit would have been higher by \$16,057.

The Corporation also performed a sensitivity analysis on the most significant assumptions used in the impairment test model, and the analysis showed that a 1% increase in the discount rate or a 5% decrease in projected cash flows would not give rise to an impairment, taken individually.

11. Other assets

	2023 \$	2022 \$
Notes receivable net of provision of \$67,393 (2022 - \$52,010)	8,624	8,216
Employee benefit assets (note 22)	18,631	13,659
Others	18,263	12,873
	<u>45,518</u>	<u>34,748</u>

The change in the provision with respect of notes receivable for the year was as follows:

	2023 \$	2022 \$
Opening balance	52,010	51,585
Unwinding of discount	12,555	451
Effect in exchange rate	2,828	(26)
	<u>67,393</u>	<u>52,010</u>

The notes receivable relates to one specific customer for which the credit risk has significantly increased since initial recognition of the position. The provision as of January 31, 2023 was measured using the lifetime expected credit loss model.

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

12. Investment

	2023 \$	2022 \$
Investment in private security company	57,833	60,000

On December 9, 2021, the Corporation invested \$60,000 in a private security company, which led in the Corporation having a significant influence over the associate.

The change in the investment balance for the year was as follows:

	2023 \$	2022 \$
Opening balance	60,000	109,753
Addition	-	60,000
Proceeds from disposal of marketable security	-	(99,357)
Realized and unrealized loss on investment in marketable security	-	(5,028)
Unrealized loss on investment in private security company	(2,167)	-
Effect in exchange rate	-	(5,368)
Ending balance	57,833	60,000

13. Accounts payable and accrued liabilities

	2023 \$	2022 \$
Trade payables	166,280	83,220
Labour and related liabilities	230,244	206,146
Sales tax payable	12,514	12,095
Provision for interest payable	96,621	43,004
Accrued liabilities	201,238	146,711
Deferred revenues	113,249	97,089
	820,146	588,265

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

14. Long-term debt

	2023 \$	2022 \$
Term loan of US\$2,134,500 (2022 – US\$1,438,000) bearing interest at Secured Overnight Financing Rate (SOFR) plus 4.25% with a reduction in relation to the leverage ratio, payable in quarterly instalments of US\$1,750 the remaining balance payable in full at maturity on October 30, 2026 (note 14 (a), (b), (c), (f))	2,773,225	1,773,941
Senior note of US\$604,377 bearing interest at a fixed rate of 9.50%, payable in full at maturity on November 1, 2027, including asset embedded derivative of \$6,617 (January 31, 2022 – asset of \$18,666) (note 14 (a))	779,794	721,323
Secured senior note of US\$570,000, bearing interest at a fixed rate of 4.625%, payable in full at maturity on February 15, 2027	748,815	712,163
Senior note of US\$500,000 bearing interest at a fixed rate of 6.00%, payable in full at maturity of June 1, 2029 (note 14 (a))	659,584	627,062
Senior note of US\$400,000 bearing interest at a fixed rate of 7.75%, payable in full at maturity on February 15, 2028, including asset embedded derivative of \$1,258 (note 14 (a))	523,149	-
Term notes of KES 1,096,012 (Kenyan shilling) (2022 – KES 938,065) and US\$3,043 (2022 – US\$1,762) bearing a fixed average interest rate of 12.85%. Interest is paid semi-annually, payable in full at maturity on December 6, 2026	15,815	12,738
Authorized revolving facilities of US\$335,000 bearing interest at SOFR plus 3.75% with a reduction in relation to the leverage ratio, repayable in full at maturity on October 30, 2024 (note 14 (b), (e), (f))	-	-
Balances of purchase price payable, bearing no interest, payable in annual installments, maturing through various dates through June 2027.	109,034	19,898
Others	9,765	7,895
	5,619,181	3,875,020
Less: Current portion	(108,923)	(26,168)
	<u>5,510,258</u>	<u>3,848,852</u>

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

14. Long-term debt (continued)

- a) On January 30, 2023, the Corporation issued an aggregate amount of US\$400 million of a 7.75% secured senior notes due on February 15, 2028. The note was issued at a price of 100% of the principal amount.

On February 1, 2022, the Corporation completed the amendment to its term loan. The term loan was increased by US\$700,000 bearing interest at SOFR plus 4.25%, with a reduction in relation to the leverage ratio, payable in quarterly instalments of US\$1,750 the remaining balance payable in full at maturity on October 30, 2026.

On March 19, 2021, and November 29, 2021, the Corporation had also completed a prior amendment to its term loan. The term loan had been increased by US\$450,000 bearing interest at LIBOR plus 4.25%, with a reduction in relation to the leverage ratio, payable in full at maturity on October 30, 2026.

On June 1, 2021, the Corporation issued an aggregate amount of US\$500 million of a 6.00% senior unsecured note due on June 1, 2029. The note was issued at a price of 100% of the principal amount. Net proceed from this offering has been used to redeem in advance all the US\$174.6 million aggregate principal amount of the outstanding 8.75% Senior Notes due 2025 and for general corporate purposes, which may include future acquisitions.

The embedded derivative relates to prepayment options exercisable up to August 15, 2026. The fair value of the prepayment Option is determined using a valuation model based on inputs from observable market data, including independent price publications, third-party pricing services, and market exchanges.

- b) The authorized revolving facilities of US\$335,000 bearing interest at SOFR plus 3.75% with a reduction in relation to the leverage ratio, repayable in full at maturity on October 30, 2024 was unused as of January 31, 2023 and 2022. 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) Commencing during the fiscal year ended January 31, 2022, the Corporation had to start making 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:
- 50% of excess cash flow if the first lien senior secured leverage ratio at such time exceeds 3.36:1.
 - 25% of excess cash flow if the first lien senior secured leverage ratio at such time exceeds 2.86:1 but is not more than 3.36:1; and
 - 0% of excess cash flow if the first lien senior secured leverage ratio at such time is less than 2.86:1.

No prepayment is required if the amount thereof is less than the greater of \$39,000 and 10% of the consolidated earnings before interests, taxes, depreciation, and amortization on a pro forma basis.

As of January 31, 2023, and January 31, 2022, the excess cash flow prepayment under the credit facility was nil.

- d) The Corporation has designated US\$925 million of its US dollar senior note and US term loan as a foreign exchange hedge of its net investment in its foreign operations. Accordingly, the portion of the gains and 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 loss.

For the year ended January 31, 2023, a loss of \$58,368 (2022 – gain of \$5,643) was recorded in the consolidated statement of comprehensive loss relating to the translation of the US dollar senior note and US dollar term loan designated as net investment hedges.

For the year ended January 31, 2023, an unrealized exchange loss of \$187,617 (2022 – \$6,509) was recorded in the consolidated statement of loss relating to the translation of the long-term debt in US dollars that is not designated as a foreign exchange hedge of the Corporation's net investment in its foreign operations.

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

14. Long-term debt (continued)

- e) As of January 31, 2023, the Corporation had letters of credit totalling \$118,566 (2022 – \$90,784) out of which \$105,965 (2022 - \$76,504) were reducing the available revolving facilities. As a result, \$341,260 (2022 – \$349,583) 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, while its Board of Directors reviews it on quarterly basis. As of January 31, 2023, the Corporation was in compliance with all of its financial covenants.

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

15. Provisions and other non-current liabilities

	Insurance provision \$	Lease liabilities \$	Deferred considera- tion \$	Contingent considera- tion \$	Post employen t benefits \$	Other \$	Total provisions and other non-current liabilities \$
For the year ended, January 31, 2022							
Opening balance	21,175	320,140	12,720	100,214	–	11,040	465,289
Additional provisions	26,260	81,735	–	–	–	–	107,995
Business acquisitions (note 21)	–	5,636	–	4,000	–	–	9,636
Used during the year	(27,889)	(113,644)	–	(9,421)	–	(2,148)	(153,102)
Change in fair value	–	–	–	93	–	–	93
Unwinding of discount	–	21,613	302	–	–	–	21,915
Effect in exchange rate	19	(1,742)	(57)	(581)	–	(53)	(2,414)
Ending balance	19,565	313,738	12,965	94,305	–	8,839	449,412
Current provisions	8,474	67,645	–	94,305	–	692	171,116
Non-current provisions	11,091	246,093	12,965	–	–	8,147	278,296
	19,565	313,738	12,965	94,305	–	8,839	449,412
For the year ended January 31, 2023							
Opening balance	19,565	313,738	12,965	94,305	–	8,839	449,412
Additional provisions	36,319	111,932	–	–	332	–	148,583
Business acquisitions (note 21)	–	17,832	–	12,566	13,644	4,363	48,405
Used during the year	(38,002)	(133,377)	–	(89,677)	(264)	(1,640)	(262,960)
Remeasurement obligations	–	–	–	–	(3,484)	–	(3,484)
Change in fair value	–	–	–	(4,000)	–	–	(4,000)
Unwinding of discount	–	23,488	327	–	–	–	23,815
Effect in exchange rate	663	11,056	650	60	(702)	371	12,098
Ending balance	18,545	344,669	13,942	13,254	9,526	11,933	411,869
Current provisions	6,909	87,386	–	11,681	292	1,426	107,694
Non-current provisions	11,636	257,283	13,942	1,573	9,234	10,507	304,175
	18,545	344,669	13,942	13,254	9,526	11,933	411,869

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

15. Provisions and other non-current liabilities (continued)

a) Deferred consideration

Deferred consideration relates to the Whelan acquisition performed on April 5, 2019 and is payable in 16 equal quarterly installments starting July 4, 2024, discounted at 2.40%.

b) 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 of potential future events. The acquisition-related contingent consideration is remeasured at each reporting period with changes in fair value being recorded in the consolidated statements of loss.

For the year ended January 31, 2023, the remeasurement of the position led to a gain of \$4,000 recognized in the consolidated statement of loss. For the year ended January 31, 2022, the Corporation paid an amount of \$89,677 in contingent consideration, out of which \$50,248 was presented in investing activities in the consolidated statements of cash flows, \$1,281 in financing activities (under "Others") and \$38,148 in operating activities (under "Accounts payable and accrued liabilities, provisions, and other liabilities").

c) Post employment benefits

Post employment benefits obligation relates to the Gunnebo acquisition for its Swedish employees. The unfunded plans are defined benefit commitments that relate to the ITP2 plan, which considers a normal retirement age of 65, and provide a benefit in the form of an annuity. There are no assets to report in the plans. As January 31, 2023, the obligation was valued at \$9,526 and the weighted average duration of the plans was 16 years. Major assumptions used in the valuation included discount rate of 3.60% and future salary increase of 2.30%.

16. Share capital

a) Capital risk management

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

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

	2023 \$	2022 \$
Cash and cash equivalents, net of bank indebtedness	(417,829)	(322,943)
Long-term debt	5,619,181	3,875,020
	<u>5,201,352</u>	<u>3,552,077</u>
Equity attributable to shareholders	175,622	252,556
	<u>5,376,974</u>	<u>3,804,633</u>

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

16. Share capital (continued)

The Corporation's main objective when managing capital is 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 vehicles, armored vehicles, and aircrafts through credit 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 Term note agreement, the Corporation is not subject to any externally imposed capital requirements.

b) Authorized – in unlimited number, without par value

Unlimited number of common shares, voting and participating

Unlimited number of Class C preferred shares, non-voting and redeemable at the option of the Corporation

The holders of the Class C preferred shares shall be entitled to receive, as and when declared by the Board of Directors of the Corporation, a cumulative dividend of an annual rate of 6% for the first 8 years, 12% for the ninth year following the date of issuance and for each year thereafter until redemption, an annual rate equal to the rate for the preceding year plus 1%.

c) Share Capital

	2023 \$	2022 \$
2,087,349,711 Common Shares	1,228,374	1,228,374
300,000,000 preferred shares "class C" (net of issuance cost of \$2,041)	297,959	-
	<u>1,526,333</u>	<u>1,228,374</u>

d) Stock Options

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

For the year ended January 31, 2023, the Corporation recorded a stock-based compensation expense of \$6,300 (2022 – \$7,227) in the consolidated statements of loss with an offsetting impact to contributed surplus.

	2023 \$	2022 \$
Opening balance	6,476,573	6,436,880
Grant	429,627	148,437
Forfeit	(161,651)	(108,744)
	<u>6,744,549</u>	<u>6,476,573</u>

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

16. Share capital (continued)

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

	2023	2022
	\$	\$
Expected dividend rate	Nil	Nil
Volatility	26.7%	23.0%
Expected life of options	1 to 7 years	1 to 8 years
Risk-free interest rate	3.23%	0.95%
Number of options	429,627	148,437
Fair value of options	\$6.04	\$4.68
Exercise price	\$79.45 and \$86.71	\$66.08

For the year ended January 31, 2023, 301,432 and 128,195 stock options have been granted at exercise price of \$79.45 and \$86.71 respectively.

17. Revenues

	2023	2022
	\$	\$
Security Services		
- North America	2,589,405	2,053,838
- International	1,111,758	1,059,222
	<u>3,701,163</u>	<u>3,113,060</u>
Cash Services		
- North America	1,447,184	960,356
- International	117,881	-
	<u>1,565,065</u>	<u>960,356</u>
Total	<u>5,266,228</u>	<u>4,073,416</u>

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

18. Depreciation and amortization

	2023 \$	2022 \$
Depreciation of property, plant, and equipment – Operating costs	113,272	101,514
Depreciation of property, plant, and equipment – Selling and administrative	15,028	10,755
	<u>128,300</u>	<u>112,269</u>
Depreciation of right-of-use assets – Operating costs	105,379	82,769
Depreciation of right-of-use assets – Selling and administrative expenses	1,226	2,792
	<u>106,605</u>	<u>85,561</u>
Amortization of intangible assets - Operating costs	150,451	83,363
	<u>150,451</u>	<u>83,363</u>
Total	<u>385,356</u>	<u>281,193</u>

19. Finance costs

	2023 \$	2022 \$
Interest on long-term debt	354,106	207,834
Other interest	12,807	10,484
Early termination interest	-	9,198
Amortization of deferred financing costs	23,687	12,101
Amortization of remaining deferred financing costs on refinanced long-term debt	-	3,256
Amortization of premiums and discounts	530	85
Unwinding of discount – lease liabilities	23,488	21,613
Unwinding of embedded derivative	(4,509)	(1,932)
Unwinding of discount – other assets	12,555	451
Unwinding of discount – other liabilities	327	302
	<u>327</u>	<u>302</u>
Total	<u>422,991</u>	<u>263,392</u>

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

20. Expenses by nature

	2023	2022
	\$	\$
Salaries and fringe benefits	3,412,402	2,712,486
Depreciation of property, plant, and equipment	128,300	112,269
Depreciation of right-of-use assets	106,605	85,561
Amortization of intangible assets	150,451	83,363
Stock-based compensation	6,300	7,227
Subcontractors	285,718	221,638
Transportation expenses	223,444	156,657
Facility rent and related expenses	41,981	33,557
Cost of inventories recognized as an expense	186,036	17,642
Operating related costs	268,580	343,304
Administration related costs	215,120	142,233
Other expenses	6,587	9,988
Total	<u>5,031,524</u>	<u>3,925,925</u>
Operating costs	4,375,366	3,454,962
Selling and administrative expenses	<u>656,158</u>	<u>470,963</u>
Total	<u>5,031,524</u>	<u>3,925,925</u>

In March 2020, the Canada Emergency Wage Subsidy (“CEWS”) was established by the government of Canada to enable Canadian employers to re-hire workers previously laid off, to help prevent further job losses, and to better position companies to resume normal operations following the COVID-19 pandemic crisis.

For the year ended January 31, 2022, certain legal entities within the Corporation qualified for the CEWS, and as such the Corporation received subsidy grant for a total amount of \$27,101 which was recorded and offset against salaries and fringe benefits in the consolidated statements of loss. The subsidy recorded in operating cost and selling and administration expenses amounted to \$23,164 and \$3,937 respectively. For the year ended January 31, 2023, no subsidy was claimed nor recorded.

21. Business acquisitions

During the year ended January 31, 2023, the Corporation acquired the shares of LJ Safe Holdings, Inc (namely: Tidel) on February 1, 2022, Gunnebo Nordic AB on March 1, 2022, Planfocus Software GmbH on August 2, 2022, and Arca Holdings LLC on October 26, 2022. The Corporation also acquired all the assets of Intria Items Inc on May 9, 2022. The five businesses acquired operate in the Cash Services segment.

In addition, the Corporation also acquired the shares of Cairn Control System on May 31, 2022, Patriot Global Group Inc. on June 6, 2022, Protection Electronique Drummond Inc. on July 1, 2022, Boyd Security Ltd on September 1, 2022, Collinson Assistance Services Limited, Intana Global Limited on November 1, 2022, and TAI Technologies Inc. on December 30, 2022. The six businesses operate in the Security Services segment.

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

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

21. Business acquisitions (continued)

From their respective acquisition date, the contribution of the acquired businesses to the Corporation's consolidated revenues and income before taxes amounted to \$532,045 and \$21,760, respectively. If these acquisitions had occurred on February 1, 2022, management estimates that revenues and income before taxes of the acquired businesses would have been of \$722,324 and \$46,906, respectively, for the year ended January 31, 2023.

The transactions have been recorded under the acquisition method and the operating results of the acquired businesses have been included in the Corporation's consolidated financial statements since their acquisition date.

The table below presents the final purchase price determination of the acquired businesses, except for Arca Holding LLC, Collinson Assistance Services Limited and Intana Global Limited and TAI Technologies Inc., which are still considered preliminary due to timing of these acquisitions.

	2023			2022	
	Tidel	Arca	Others	Total	Total
	\$	\$	\$	\$	\$
Assets					
Cash	7,167	16,501	29,231	52,899	1,758
Non-cash working capital	14,910	47,948	–	62,858	30,624
Property, plant and equipment	4,803	12,291	20,304	37,398	11,385
Other assets	–	–	590	590	62
Right-of-use assets	2,138	1,450	14,153	17,741	5,156
Intangible assets	297,128	131,656	89,889	518,673	144,617
Goodwill	609,593	84,832	91,271	785,696	193,557
Deferred income tax assets	–	17,666	3,091	20,757	10,743
Total	935,739	312,344	248,529	1,496,612	397,902
Liabilities					
Non-cash working capital	–	–	1,222	1,222	–
Current portion of LT liabilities	–	–	1,610	1,610	–
Long-term debt	364,214	101,333	2,655	468,202	58,444
Other LT Liabilities	2,138	4,113	27,978	34,229	5,636
Deferred income tax liabilities	71,926	–	–	71,926	25,886
Total	438,278	105,446	33,465	577,189	89,966
Net assets	497,461	206,898	215,064	919,423	307,936
Consideration					
Cash	497,461	111,943	164,207	773,611	296,770
Contingent consideration	–	–	12,566	12,566	4,000
Shares of Garda World ultimate Parent Company issued	–	–	15,117	15,117	–
Balance of purchase prices payable	–	94,955	23,174	118,129	7,166
Total consideration	497,461	206,898	215,064	919,423	307,396

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

21. Business acquisitions (continued)

For the year ended January 31, 2023, out of the total goodwill and intangible assets acquired, an amount of \$228,578 was deductible for tax purposes.

For the year ended January 31, 2023, the amount of \$785,696 of goodwill acquired was allocated between the CGUs with \$727,747 pertaining to Intelligent devices, \$68,932 to Security Services – Crisis, negative adjustment of \$18,663 to Security Services – Critical Infrastructure, \$5,069 to Cash Services – Canada and \$2,611 to Security Services – Guarding Canada. Goodwill acquired is mainly attributable to the experienced workforce and the synergies expected from integrating the acquired businesses into the Corporation's existing business.

During the year ended January 31, 2023, the Corporation completed the determination of the fair value of the identifiable assets acquired from Incident Catering Services LLC. As a result, property, plant and equipment increased by \$5,216, deferred income tax assets increased by \$14,612, while goodwill and Intangible decreased by \$18,663 and \$1,165 respectively from what was previously disclosed.

Transaction costs of \$37,517 (2022 - \$13,538) have been incurred in relation with the above business acquisitions. These expenses are presented under "Administration related costs" at note 20.

22. Employee benefits

a) Defined benefit pension plans

For the year ended January 31, 2023, the Corporation had defined benefit pension plans for 1,458 of its employees (2022 – 1,486) to which the Corporation has contributed during the year.

The Corporation measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as of January 31, 2023. The most recent actuarial valuation of the pension plans for funding purposes was as of January 1, 2022 and the next required valuation will be as of January 1, 2023.

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

Employee benefits assets:

	2023 \$	2022 \$
Fair value of plan assets	89,602	95,498
Accrued benefit obligation	(70,971)	(81,839)
	<hr/>	<hr/>
Plan surplus – Employee benefit assets	18,631	13,659
	<hr/>	<hr/>

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

22. Employee benefits (continued)

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:

Plan assets comprise of:

	2023 \$	2022 \$
Equity securities	61.2%	64.9%
Debt securities	29.3%	31.2%
Money market fund	9.5%	3.9%

As of January 31, 2023, all investments of the plans were classified as Level 2 instruments as defined in Note 24.

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

	2023 \$	2022 \$
Accrued benefit obligation – beginning of year	81,839	89,897
Current service cost	1,583	1,809
Interest cost	3,036	2,621
Benefits paid	(3,297)	(2,550)
Actuarial loss (gain) arising from:		
Plan experience	(423)	458
Changes in demographic assumptions	-	17
Changes in financial assumptions	(11,767)	(10,413)
Accrued benefit obligation – end of year	<u>70,971</u>	<u>81,839</u>

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

	2023 \$	2022 \$
Fair value of plan assets – beginning of year	95,498	87,548
Excess (deficit) return on plan assets	(7,625)	5,105
Employer contributions	1,763	3,115
Administrative cost	(276)	(255)
Benefits paid	(3,297)	(2,550)
Interest income on plan assets	3,539	2,535
Fair value of plan assets – end of year	<u>89,602</u>	<u>95,498</u>

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

22. Employee benefits (continued)

Expenses recognized:

	2023 \$	2022 \$
Current service cost	1,583	1,809
Interest cost	(503)	86
Deficit (excess) return on plan assets	7,625	(5,105)
Administrative cost	276	255
Actuarial gain on the defined benefit obligation	(12,190)	(9,938)
	<u>(3,209)</u>	<u>(12,893)</u>
Expenses recognized in net loss	1,356	2,150
Gain recognized in OCI	(4,565)	(15,043)
	<u>(3,209)</u>	<u>(12,893)</u>

Actuarial losses (gains) recognized in OCI:

	2023 \$	2022 \$
Cumulative actuarial loss (gain) position in OCI – beginning of year	(1,099)	13,944
Gains recognized during the year	(4,565)	(15,043)
	<u>(5,664)</u>	<u>(1,099)</u>

Significant actuarial assumptions used (expressed as weighted average):

	2023 %	2022 %
Accrued benefit obligation		
Discount rate	4.80%	3.70%
Future salary increases	2.50%	2.40%
Employee benefit expense		
Discount rate	4.80%	3.70%
Future salary increases	2.50%	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 13.8 years. The overall expected long-term rate of return is 4.80% and is based on the portfolio as a whole and not on the sum of the returns on individual asset categories.

For next fiscal year 2024, the Corporation expects to pay approximately \$1,788 in contributions to its defined benefit plans.

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

22. Employee benefits (continued)

Through the defined benefit plan, the Corporation is exposed to several 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 plan's assets taken as a whole. The pension plans do not face a significant currency risk.

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.

Sensitivity analysis

Each sensitivity analysis disclosed in this note was 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 obligation to variations in significant actuarial assumptions, the same method has been applied as for calculating the liability recognized in the statement of financial position.

	2023 \$	2022 \$
Discount rate at 4.55% instead of 4.80% (2022 – 3.45% instead of 3.70%)	2,471	3,191
Salary growth of 2.25% instead of 2.50% (2022 – 2.15% instead of 2.40%)	(277)	(390)
Life expectancy – 90% of the mortality rates used for valuation	1,423	1,862

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

22. Employee benefits (continued)

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 in 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, 2023, the pension expense for these plans amounted to \$18,245 (2022 – \$16,177) and was recorded in the salaries and fringe benefits in the consolidated statement of loss.

23 Income taxes

a) Reconciliation of statutory tax rate and effective tax rate

The income tax rate differs from the basic tax rate due to the following components:

	2023 \$	2022 \$
Loss before income taxes	(494,272)	(156,918)
Canadian statutory income tax rate	26.50%	26.50%
Income taxes calculated at statutory rate	(130,982)	(41,583)
Increase (decrease) resulting from:		
Benefits arising from a financing structure	(4,621)	(4,422)
Non-Canadian applicable income tax rate difference	18,689	15,215
Unrealized exchange loss on translation of long-term debt	54,933	2,159
Goodwill impairment	27,346	–
Permanent differences and other	366	20,886
Change in enacted statutory tax rate	1,431	474
	<u>(32,838)</u>	<u>(7,271)</u>
Provision for (recovery of) income taxes:		
Current	59,249	61,047
Deferred	(92,087)	(68,318)
	<u>(32,838)</u>	<u>(7,271)</u>

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

23. Income taxes (continued)

b) Deferred tax assets and liabilities

Deferred income taxes represent the net tax effect of temporary differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and their tax bases. Significant components of the Corporation's deferred income tax assets (liabilities) as of January 31, 2023, and 2022 were as follows:

	Property, plant and equipment and intangible assets \$	Liabilities and other provisions \$	Loss carry forward \$	Total \$
For the year ended January 31, 2022				
Net value – beginning	(127,941)	75,389	173,000	120,448
Recovery of deferred income taxes	1,042	28,938	38,338	68,318
Business acquisitions (note 21)	(28,190)	122	12,925	(15,143)
OCI	–	(4,734)	–	(4,734)
Effect in exchange rate	(7)	498	(854)	(363)
Net value – end	(155,096)	100,213	223,409	168,526
As of January 31, 2022				
Deferred income tax assets	(85,974)	100,203	223,385	237,614
Deferred income tax liabilities	(69,122)	10	24	(69,088)
Net value – end	(155,096)	100,213	223,409	168,526
For the year ended January 31, 2023				
Net value – beginning	(155,096)	100,213	223,409	168,526
Recovery of deferred income taxes	25,638	30,413	36,036	92,087
Business acquisitions (note 21)	(61,176)	6,887	3,120	(51,169)
OCI	–	3,992	–	3,992
Effect in exchange rate	(15,498)	8,208	9,816	2,526
Net value – end	(206,132)	149,713	272,381	215,962
As of January 31, 2023				
Deferred income tax assets	(137,195)	149,713	272,381	284,899
Deferred income tax liabilities	(68,937)	–	–	(68,937)
Net value – end	(206,132)	149,713	272,381	215,962

The Corporation has forecasted its taxable income for the next 20 years. Based on those forecasts, the loss carry forward will be used before their expiry dates, ranging from 2031 to 2043. Therefore, deferred income tax assets have been recognized regarding those losses. As of January 31, 2023, losses carry forward not recognized in deferred income tax assets totalled \$4,807 (2022 - \$4,580).

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

24. Financial instruments

a) Classification and fair value

The classification of financial instruments as of January 31, 2023, and 2022, along with their respective carrying amounts and fair values, was as follows:

	2023		2022	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Assets-amortized cost				
Notes receivable	8,624	8,624	8,216	8,216
Financial assets at fair value through				
Embedded derivative	7,875	7,875	18,666	18,666
Liability-amortized cost				
Long-term debt	5,619,181	5,577,248	3,875,020	3,987,441
Financial Liabilities at fair value				
Derivative financial liabilities	3,253	3,253	8,352	8,352
Contingent consideration	13,254	13,254	94,305	94,305

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 approximates their carrying amount due to their short-term nature, or has been discounted based on cash flow projections. Assets-amortized cost are classified as level 3.

Liabilities at amortized costs – Except for the long-term debt, the fair value of the Corporation's other liabilities at amortized cost approximates their carrying amount due to their short-term nature. The fair value of the 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 level 3.

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

24. Financial instruments (continued)

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

	2023			
	Carrying amount	Level 1	Level 2	Level 3
Financial assets				
Embedded derivative	7,875	–	7,875	–
Financial liabilities				
Derivative financial liabilities	3,253	–	3,253	–
Contingent consideration	13,254	–	–	13,254
	2022			
	Carrying amount	Level 1	Level 2	Level 3
Financial assets				
Embedded derivative	18,666	–	18,666	–
Financial liabilities				
Derivative financial liabilities	8,352	–	8,352	–
Contingent consideration	94,305	–	–	94,305

The fair value of derivative financial assets and liabilities is measured as the discounted value of the difference between the value of a derivative contract at its expiry date, using the contracted rates, and the value determined using the rate that a financial institution would use in a context of a renegotiation at measurement date, under the same contract and conditions. Discount rates are also 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 was as follow:

	2023 \$	2022 \$
Balance – Beginning of year	94,305	100,214
Business acquisition (note 21)	12,566	4,000
Used during the year	(89,677)	(9,421)
Change in fair value	(4,000)	93
Effect in exchange rate	60	(581)
	<hr/>	<hr/>
Balance - End of year	13,254	94,305

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

24. Financial instruments (continued)

b) Credit risk

Financial instruments which can 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 receivable, unbilled accounts receivable and notes receivable, although such risk is considered limited. The distribution of the Corporation's customers across different market segments and geographical locations as well as the Corporation's business risk procedures have the effect to avoid 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 of its 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.

The receivable amounts presented in the consolidated statement of financial position are net of an allowance for expected credit loss that is estimated by the Corporation's management based on the age of the receivable balance at customer level and on the current and expected collection trends. The Corporation applies the IFRS 9 simplified approach to measure the expected credit losses, using a lifetime expected loss allowance model on all accounts receivable and unbilled accounts receivable.

To measure the expected credit losses, accounts receivable and unbilled accounts receivable are grouped based on shared credit risk characteristics and days past due. Unbilled accounts receivable have substantially the same risk characteristics as the trade receivables for the same types of contracts, and as such the Corporation assumes that the expected loss rates used for trade receivables are a reasonable approximation of the loss rates on unbilled accounts receivable. The expected loss rates are determined based on the payments profiles and trends for sales covering a period of 12 months before January 31, 2023, or January 31, 2022, and on the historical credit losses experienced with the customer. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle its balances due.

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

c) Interest rate risk

As of January 31, 2023, the Corporation's interest rate risk was as follows:

Cash and cash equivalents	Variable rate
Accounts receivable	Non-interest bearing
Notes receivable	Non-interest bearing
Accounts payable and accrued liabilities	Non-interest bearing
Long-term debt	Fixed and variable rate
Contingent consideration	Non-interest bearing

Considering that the Corporation has long-term debt bearing variable interest rates, for the year ended January 31, 2023, if interest rates would have increased by 100 basis points, the net loss for the year would have increased by approximately \$20,082 (2022 – \$13,501), all other variables remaining constant.

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

24. Financial instruments (continued)

d) Foreign currency risk

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

For the year ended January 31, 2023, if the US dollar would have strengthened on average by \$0.01 in comparison to the Canadian dollar, all other variables remaining constant, net loss for the year would have increased by approximately \$32,392 (2022 – \$21,716) and accumulated other comprehensive income, would have been higher by approximately \$16,294 (2022 - \$5,374).

The Corporation's consolidated statement of financial position contains balances of cash and cash equivalents and long-term debt in currencies other than the functional currency of the Corporation.

The balances in currencies are as follows:

	2023				2022			
	USD	EUR	GBP	AUD	USD	EUR	GBP	AUD
Cash and cash equivalents	158,450	657	16	17	86,811	902	321	136
Total assets	158,450	657	16	17	86,811	902	321	136
Canadian dollar equivalent	211,531	952	27	16	110,415	1,286	549	122
Current portion of long-term	375	2,500	-	-	712	-	338	-
Long-term debt	4,211,920	-	-	-	3,114,139	-	-	-
Total liabilities	4,212,295	2,500	-	-	3,114,851	-	338	-
Canadian dollar equivalent	5,623,414	3,624	-	-	3,961,779	-	577	-

As of January 31, 2023, forward swaps totalled US\$175,000 (2022 – US\$175,000) at an exchange rate of 1.3305 (US\$:CA\$) with a maturity date on October 30, 2026. As of January 31, 2023, the fair value of foreign derivative swaps represented a liability of \$3,253 (2022 – \$8,352). The change in fair value for the year resulted in a gain of \$5,099 (2022 – loss of \$993) and was recorded in the consolidated statement of loss.

e) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its contractual 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 the Consolidated Financial Statements January 31, 2023, and 2022

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

24. Financial instruments (continued)

The following table details the contractual maturities of the financial liabilities as of January 31, 2022:

	Fair value	Carrying amount	Contractual cash flows	Less than 1 year	1 to 3 years	4 to 5 years	More than 5 years
	\$	\$	\$	\$	\$	\$	\$
Financial liabilities							
Accounts payable and accrued liabilities	588,265	588,265	588,265	588,265	-	-	-
Derivative instruments	8,352	8,352	8,352	-	-	8,352	-
Contingent consideration	94,305	94,305	94,305	94,305	-	-	-
Insurance provision	19,565	19,565	19,565	8,474	3,004	2,403	5,684
Lease liabilities	313,776	313,738	400,689	84,425	111,268	65,320	139,676
Long-term debt	3,987,441	3,875,020	5,252,944	252,361	452,041	2,272,742	2,275,800
	5,011,704	4,899,245	6,364,120	1,027,830	566,313	2,348,817	2,421,160

The following table details the contractual maturities of the financial liabilities as of January 31, 2023:

	Fair value	Carrying amount	Contractual cash flows	Less than 1 year	1 to 3 years	4 to 5 years	More than 5 years
	\$	\$	\$	\$	\$	\$	\$
Financial liabilities							
Accounts payable and accrued liabilities	820,146	820,146	820,146	820,146	-	-	-
Derivative instruments	3,253	3,253	3,253	-	-	3,253	-
Contingent consideration	13,254	13,254	13,254	11,681	1,573	-	-
Insurance provision	18,545	18,545	18,545	6,909	2,866	2,499	6,271
Lease liabilities	330,470	344,669	426,194	105,993	128,496	62,661	129,044
Long-term debt	5,577,248	5,619,181	7,147,926	427,072	645,186	4,817,520	1,258,148
	6,762,916	6,819,048	8,429,318	1,371,801	778,121	4,885,933	1,393,463

25. 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.

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

26. Related party disclosures

a) Key management personnel compensation

Key management personnel are those persons who have the authority and responsibility to plan, direct and control the business activities of the Corporation. As such, it includes all directors along with certain key executives.

Key management personnel participate in the stock option plan. Subject to their employment agreements, which stipulate contractual payments for termination without cause or termination following a change of control, payments covering up to once or twice their base salary, full bonus and potential vesting acceleration clauses on restricted share options could apply. The remuneration of key management personnel includes the following:

	2023	2022
	\$	\$
Director's fees	330	330
Salaries	10,289	6,497
Benefits	160	155
Stock-based compensation	4,491	5,151
	<hr/>	<hr/>
	15,270	12,133
	<hr/>	<hr/>

b) Related party transactions

Some transactions have been determined to be related party transactions because the relationship is with entities that are related by virtue to key management personnel exercising significant influence or control over the Corporation's financial and operating activities and policies.

The following provides the amount incurred for each type of transactions that occurred with a related party:

	2023	2022
	\$	\$
Nature of transactions		
Professional fees included in other expenses	2,073	2,151
Professional fees included in deferred financing costs	420	-
Professional fees recorded as a reduction of share capital	236	-
	<hr/>	<hr/>
	2,729	2,151
	<hr/>	<hr/>
Financial positions		
Receivable from Parent Company	-	6,333
Payable to Parent Company	11,934	-
	<hr/>	<hr/>

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

27. Statement of cash flows

The following table details the cash flows for the year ended January 31, 2022:

	Opening balance	Net cash	Non-cash items			Comprehen sive (loss)	Ending Balance
			Business acquisition (note 21)	Net loss	Amortization		
Non-current long-term debt	3,065,574	676,302	65,610	32,971	15,442	(7,047)	3,848,852
Derivative financial instruments	7,359	-	-	993	-	-	8,352
Contingent consideration	100,214	(9,421)	4,000	93	-	(581)	94,305
	<u>3,173,147</u>	<u>666,881</u>	<u>69,610</u>	<u>34,057</u>	<u>15,442</u>	<u>(7,628)</u>	<u>3,951,509</u>

The following table details the cash flows for the year ended January 31, 2023:

	Opening balance	Net cash	Non-cash items			Comprehen sive (loss)	Ending Balance
			Business acquisition (note 21)	Net loss	Amortization		
Non-current long-term debt	3,848,852	795,776	586,331	198,408	24,217	56,674	5,510,258
Derivative financial instruments	8,352	-	-	(5,099)	-	-	3,253
Contingent consideration	94,305	(89,677)	12,566	(4,000)	-	60	13,254
	<u>3,951,509</u>	<u>706,099</u>	<u>598,897</u>	<u>189,309</u>	<u>24,217</u>	<u>56,734</u>	<u>5,526,765</u>

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

28. Segment information

a) Segmented information

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

	2023			2022		
	Security services \$	Cash services \$	Total \$	Security services \$	Cash services \$	Total \$
Operating results						
Revenues	3,701,163	1,565,065	5,266,228	3,113,060	960,356	4,073,416
Operating costs	3,040,849	1,334,517	4,375,366	2,585,009	869,953	3,454,962
Selling and administrative expenses	439,815	216,343	656,158	352,361	118,602	470,963
	220,499	14,205	234,704	175,690	(28,199)	147,491
Changes in fair value of contingent derivative			4,000			(93)
Goodwill impairment ⁽¹⁾			(110,000)			-
Unrealized exchange loss on translation of long-term debt			(187,617)			(6,509)
Unrealized exchange loss on derivative financial instruments			(10,201)			(29,387)
Realized and unrealized loss on investment in marketable security			-			(5,028)
Unrealized loss on investment in private security company			(2,167)			-
Income (loss) before finance cost and income taxes			(71,281)			106,474

⁽¹⁾ Goodwill impairment of \$110,000 related to cash services segment.

Additional information

Additions to Property, plant, and equipment	109,910	50,894	160,804	88,378	57,975	146,353
Additions to right-of-use assets	68,608	43,324	111,932	43,013	38,723	81,736
Additions to intangible assets	34,873	10,497	45,370	20,943	1,744	22,687
Business acquisitions – Property, plant, and equipment	7,371	30,027	37,398	11,385	-	11,385
Business acquisitions – right-of-use assets	187	17,554	17,741	5,156	-	5,156
Depreciation of Property, plant, and equipment	66,306	61,994	128,300	60,935	51,334	112,269
Depreciation of right-of-use assets	54,310	52,295	106,605	39,346	46,215	85,561
Amortization of intangible assets	81,057	69,394	150,451	65,166	18,197	83,363

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

28. Segment information (continued)

b) Segmented information – selected assets

	2023			2022		
	Security Services \$	Cash Services \$	Total \$	Security Services \$	Cash Services \$	Total \$
Account receivable	601,615	228,055	829,670	544,146	127,714	671,860
Property, plant, and equipment	184,813	207,545	392,358	133,988	177,042	311,030
Right-of-use assets	116,660	205,989	322,649	101,610	193,169	294,779
Goodwill	2,006,498	1,003,298	3,009,796	1,918,346	335,773	2,254,119
Intangible assets	797,567	680,887	1,478,454	791,150	242,389	1,033,539

c) Geographic information

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

	2023 \$	2022 \$
Canada	1,543,924	1,392,705
USA	3,079,751	2,124,501
Middle East and Asia	196,805	282,335
East Africa	246,304	202,794
Others	199,444	71,081
	<u>5,266,228</u>	<u>4,073,416</u>

Property, plant, and equipment are attributed to countries or regions based on the actual physical location of the assets. Goodwill and intangible assets are attributed to countries or regions based on the Corporation's allocation of these assets to each CGU.

	2023					
	Canada	USA	Middle East and Asia	East Africa	Others	Total
Property, plant and equipment	100,847	239,750	11,419	19,733	20,609	392,358
Right-of-use assets	91,504	200,208	5,125	5,824	19,988	322,649
Goodwill	741,789	1,505,691	589,140	73,086	100,090	3,009,796
Intangible assets	367,687	874,098	164,294	18,524	53,851	1,478,454
	2022					
	Canada	USA	Middle East and Asia	East Africa	Others	Total
Property, plant, and equipment	69,442	199,300	16,794	20,715	4,779	311,030
Right-of-use assets	82,260	203,114	2,468	2,453	4,484	294,779
Goodwill	844,109	649,572	582,563	73,663	104,212	2,254,119
Intangible assets	375,945	407,325	176,478	21,273	52,518	1,033,539

Garda World Security Corporation

Notes to the Consolidated Financial Statements January 31, 2023, and 2022

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

29. Subsequent event

On April 6, 2023, the Corporation completed the amendment to its credit facilities. The authorized revolving facilities have been increased by US\$ 57 million to US\$ 392 million. The maturity date has been extended to January 30, 2028 from October 30, 2024 previously.