Caldwell

ANNUAL REPORT 2018

Directors

G. Edmund King, Chair of the Board
Corporate Director

Paul R. Daoust
Consultant and Corporate Director

Darcy D. Morris
Consultant and Corporate Director

John N. Wallace
President & Chief Executive Officer
The Caldwell Partners International Inc.

Kathryn A. Welsh
Corporate Director

Officers

John N. Wallace
President and Chief Executive Officer
The Caldwell Partners International Inc.

C. Christopher Beck, CPA
Chief Operating & Finance Officer and Corporate Secretary
The Caldwell Partners International Inc.

Shareholder Information

Auditors

PricewaterhouseCoopers LLP
Chartered Accountants, Toronto, Ontario

Counsel

Miller Thomson LLP
Barristers and Solicitors, Toronto, Ontario

Stock Exchange Listing

The Toronto Stock Exchange (symbol: CWL)

Transfer Agent

Computershare Limited

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Dear Shareholders, Clients, and Friends:

Fiscal 2018 was an outstanding year of accomplishment and growth for Caldwell. We exceeded all of our expectations, closing out the year with over $66.8 million in annual revenue, an increase of 15.7%, and nearly $4 million in operating profit, an increase of 27.4% – both new levels of success for our firm. Our fourth quarter also brought record levels of revenue, positioning us well as we head into fiscal 2019.

In the United States, where the majority of our search business is derived, business was extremely strong throughout fiscal 2018, but especially so in the second half of the year. In Canada, higher average fees largely offset lower search volumes resulting in a small revenue decrease. Our team in the United Kingdom saw a return to growth, and we remain confident in and committed to our European expansion strategy.

We saw increased teaming and collaboration, and greater traction in cross-border work with our colleagues in Latin America and New Zealand, and we look forward to further developing and growing our cross-border client work in this coming year.

We unveiled a bold new brand, logo and website that better represents who we are today and keeps the primary focus on the power of the work we do. Deeper than just a new look, our new brand is built on the very idea that Talent Transforms, because at Caldwell we believe people are the greatest sustainable difference for organizations. This is a differentiator for us, and gives us a broader platform to develop further services.

We have hit a new threshold in terms of the work we are doing, and there is now significant breadth and depth to the services and expertise that we can offer to our clients. We continued to claim new space with the launch of our Value Creation and Blockchain Advisory solutions, giving our clients more flexible options for solving their executive talent needs. We look forward to further expanding these and other complementary services to provide more seamless talent solutions for our clients.

As we look ahead to Fiscal 2019, our biggest priority is to continue to add value for our shareholders' investment by adding great partners and teams to the firm, expanding our footprint where it is strategic and sustainable, and allowing us to keep doing what we love – making our clients better, more competitive and more successful by connecting them with transformational talent.

We are extremely proud of our entire Caldwell team. These results are a testament to each of them, and the seamless way in which we all work together. They are a composite of the respect we have for our clients, for the work we do, for our shareholders and for each other.

Yours sincerely,

G. Edmund King

Chair of the Board

John N. Wallace

President & Chief Executive Officer

Caldwell

THE CALDWELL PARTNERS INTERNATIONAL INC

MANAGEMENT DISCUSSION AND ANALYSIS

For the years ended August 31, 2018 and August 31, 2017

Management Discussion and Analysis

(Expressed in CAD $000s, except per share amounts)

COMPANY DESCRIPTION

At Caldwell we believe Talent Transforms. As a leading provider of executive talent, we enable our clients to thrive and succeed by helping them identify, recruit and retain their best people. Our reputation–nearly 50 years in the making–has been built on transformative searches across functions and geographies at the very highest levels of management and operations. We leverage our skills and networks to also provide agile talent in the form of flexible and on-demand advisory solutions for companies looking for support in strategy and operations. With offices and partners across North America, Europe, Latin America and Asia Pacific, we take pride in delivering an unmatched level of service and expertise to our clients.

The Caldwell Partners' common shares are listed on the Toronto Stock Exchange (TSX: CWL). Please visit our website at www.caldwellpartners.com for further information.

FORWARD-LOOKING STATEMENTS

Forward-looking statements in this document are based on current expectations that are subject to the significant risks and uncertainties cited. These forward-looking statements generally can be identified by use of statements that include phrases such as "believe," "expect," "anticipate," "intend," "plan," "foresee," "may," "will," "likely," "estimates," "potential," "continue" or other similar words or phrases. Similarly, statements that describe our objectives, plans or goals also are forward-looking statements. The Company is subject to many factors that could cause our actual results to differ materially from those contemplated by the relevant forward looking statement including, but not limited to, our ability to attract and retain key personnel; exposure to our Partners taking our clients with them to another firm; the performance of the US, Canadian and international economies; competition from other companies directly or indirectly engaged in executive search; liability risk in the services we perform; potential legal liability from clients, employees and candidates for employment; cybersecurity requirements, vulnerabilities, threats and attacks; damage to our brand reputation; our ability to align our cost structure to changes in our revenue; adverse tax law rulings; our ability to generate sufficient cash flow from operations to support our growth and maintain our dividend; technological advances may significantly disrupt the labour market and weaken demand for human capital at a rapid rate; foreign currency exchange rate fluctuations; affiliation agreements may fail to renew or affiliates may be acquired; marketable securities valuation fluctuations; increasing dependence on third parties for the execution of critical functions; volatility of the market price and volume of our common shares; potential impairment of our acquired goodwill and intangible assets; and disruption as a result of actions of certain stockholders or potential acquirers of the Company. For more information on the factors that could affect the outcome of forward-looking statements, refer to the "Risk Factors" section of our Annual Information Form and other public filings (copies of which may be obtained at www.sedar.com). These factors should be considered carefully and the reader should not place undue reliance on the forward-looking statements. Although any forward-looking statements are based on what management currently believes to be reasonable assumptions, we cannot assure readers that actual results, performance or achievements will be consistent with these forward-looking statements, and management's assumptions may prove to be incorrect. Except as required by Canadian securities laws, we do not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by us or on our behalf; such statements speak only as of the date made. The forward-looking statements included herein are expressly qualified in their entirety by this cautionary language.

PRESENTATION

The following discussion and analysis, prepared on November 13, 2018, should be read in conjunction with the consolidated annual audited financial statements and related notes for the year ended August 31, 2018. Unless otherwise noted, all currency amounts are provided in thousands of Canadian dollars (except percentages and per share amounts). All references to quarters or years are for the fiscal periods unless otherwise noted. Unless otherwise noted as a non-GAAP financial measure and other operating measure, financial results are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

The Company's presentation currency is the Canadian dollar. The company manages its business in three geographic segments: Canada, United States (US) and Europe whose functional currencies are the Canadian dollar, US dollar and British pound, respectively. Segment discussions within are in Canadian dollars, with references made to the impact of changes in exchange rates from period to period.

The Company's Canadian parent legal entity holds the right to the Company's brand and intellectual property. As discussed in note 22 to the consolidated annual financial statements, on July 13, 2015, the Company entered into an affiliation licensing agreement with CPGroup LATAM Ltd. and its subsidiaries ("CPGroup"). As of August 31, 2018 CPGroup had 17 revenue producing partners plus related staff operating out of 8 offices including Bogota, Buenos Aires, Caracas, Lima, Mexico City, Miami, Santiago and São Paulo. The licensing agreement has an initial term of five years and provides for CPGroup to pay the Company a licence fee based on a percentage of Latin American revenue. Effective November 8, 2015 the Company entered into a similar licensing agreement with Simon Monks and Partners Limited, a New Zealand corporation, which subsequently changed its name to The Caldwell Partners International New Zealand Limited ("Caldwell NZ"). Caldwell NZ had 3 revenue producing partners plus related staff operating out of Auckland as of August 31, 2018. In exchange for the licence fee payments, CPGroup and Caldwell NZ each have the right to use the Caldwell Partners brand, search processes, methodologies and related intellectual property.

NON-GAAP FINANCIAL MEASURES AND OTHER OPERATING MEASURES

Certain non-GAAP financial measures and other operating measures are used by Company management to manage the business and explain the results of its operations. Such measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. Non-GAAP measures and other operating measures used herein have been calculated on a consistent basis for the periods presented and include the following defined terms:

- Average Number of Partners: Excluding affiliation partners, the number of partners at the beginning of a period plus the number of partners at the end of each month during a period, divided by the related number of months. The Average Number of Partners is indicative of our capacity to generate professional fees.

- Annualized Professional Fees per Partner: Professional fees divided by the Average Number of Partners; and if a quarterly period, multiplied by four to reflect an annualized number. The Annualized Revenue per Partner is indicative of how highly our Partners are performing taken as a whole. This performance will be driven by the Number of Assignments performed and the Average Fee per Assignment.

- Number of Assignments: the number of new executive search assignments contracted for during a period. This metric shows the search volume and is one of the drivers of professional fees.

- Number of Assignments per Partner: the Number of Assignments divided by the Average Number of Partners. This metric analyzes our partner productivity and utilization and is a measure used to identify and track volume trends as one of the key drivers of our professional fees.
- Average Fee per Assignment: Professional fees for a given period divided by the related Number of Assignments. This metric is used to identify and track price trends as a key driver of our professional fees. It is impacted by both economic and competitive conditions as well as the seniority level of searches undertaken.
- Unencumbered Cash: a measure used to identify cash available beyond that required to fund short term obligations, calculated as the net of i) cash and cash equivalents, restricted cash, short-term marketable securities, accounts receivable and net deferred tax assets to be recovered within 12 months less ii) total current liabilities excluding deferred revenue and deferred compensation expense related specifically to the deferred revenue.

SELECTED FINANCIAL INFORMATION

The following table summarizes selected financial information for the three years ended August 31:

($000s except dividends and earnings per share)	**2018**	2017	2016
Total revenue	**$ 66,883**	$ 57,805	$ 58,748
Period end number of partners[1]	**39**	39	38
Average Number of Partners[1]	**38.1**	37.5	38.0
Annualized Professional Fees per Partner[1]	**$ 1,746**	$ 1,533	$ 1,516
Number of Assignments[1]	**453**	432	383
Number of Assignments per Partner[1]	**11.9**	11.5	10.1
Average Fee per Assignment[1]	**$ 147**	$ 133	$ 150
Net earnings for the year attributable to owners of the Company	**$ 2,015**	$ 1,957	$ 881
Basic earnings per share	**$ 0.099**	$ 0.096	$ 0.044
Diluted earnings per share	**$ 0.099**	$ 0.096	$ 0.043
Total assets	**$ 39,781**	$ 34,302	$ 34,699
Total non-current financial liabilities	**$ 1,615**	$ 958	$ 687
Unencumbered Cash[1]	**$ 9,553**	$ 7,883	$ 6,297
Cash dividends per share	**$ 0.08**	$ 0.08	$ 0.08

[1] Please refer to the section on Non-GAAP Financial Measures and Other Operating Measures on page 3 and 4 of this document

DISCUSSION OF FACTORS IMPACTING THE COMPANY'S RESULTS

The Company experienced a 15.7% revenue increase from 2017 to 2018, after a 1.6% revenue decline from 2016 to 2017.

The 15.7% increase in revenue from 2017 to 2018 was the result of increases in our Average Fee of 10.5% (13.0% excluding the impact of foreign exchange rate fluctuations), the Number of Assignments per partner of 3.5% and our Average Number of Partners of 1.6%.

The 1.6% decline in revenue from 2016 to 2017 was the result of decreases in our Average Fee of 11.3% (10.9% excluding the impact of foreign exchange rate fluctuations) and our Average Number of Partners of 1.3%. These declines were partially offset by a 13.9% increase in the Number of Assignments per partner.

Our Average Fee is impacted by economic conditions and related competitive pricing pressures as well as the seniority level of searches undertaken. We attempt to protect our Average Fee by maintaining a strategic focus towards securing high level executive placements within our core business, which, in turn, have higher compensation levels upon which our fees are based. Yearly average foreign exchange rate movements have the potential to have a significant impact on our Average Fee. The average US dollar rate has been fairly consistent during the reported periods, declining 0.8% from 2016 to 2017 and then 3.0% from 2017 to 2018 relative to the Canadian dollar. The United Kingdom's announced departure from the European Union caused a decline of 13.5% in the average British Pound rate from 2016 to 2017 relative to the Canadian Dollar, then recovering somewhat to increase 3.0% from 2017 to 2018. Given the respectively low revenue from our operations in the UK, these moves did not have a significant result on our financial results.

The following table summarizes the approximate foreign exchange rates impacting the business during fiscal 2018, 2017 and fiscal 2016 according to geographic segment:

	Exchange Rates to the Canadian Dollar		
Functional Currency	**Fiscal 2018**	**Fiscal 2017**	**Fiscal 2016**
United States			
US dollar – average	1.28	1.32	1.33
US dollar – period end	1.31	1.25	1.31
Canada			
Canadian dollar – average	1.00	1.00	1.00
Canadian dollar – period end	1.00	1.00	1.00
Europe			
British pound – average	1.72	1.67	1.93
British pound – period end	1.69	1.62	1.72

Strong growth has been seen in the Number of Assignments per Partner over the past two years, up 13.9% from 2016 to 2017 to 11.5 and by 3.4% from 2017 to 2018 to 11.9. The partner headcount metric has increased from 38 in 2016 to 39 at the close of 2018 within our owned operations with 2 new partner hires in 2018 and 6 in 2017. There is often a lag in revenue from the time of a new partner hire to the time they are considered at full capacity. This is caused by factors such as non-solicit or non-compete periods, new brand communication and the nature of staged billing once new searches are awarded.

In fiscal 2018, net earnings increased $58 to $2,015 from $1,957 in the prior year. The net earnings increase resulted from an $853 increase in operating profit, partially offset by a decrease in investment income of $24 and a $771 increase in income tax expense due to the higher overall profit within the US at tax rates higher than other regions, not recording deferred tax assets on UK losses and a discrete charge in deferred tax expense of $654 as a result of new US tax legislation, as described more fully below under Earnings.

The $853 increase in operating profit from 2017 to 2018 was driven by higher revenues more than offsetting the corresponding increase in direct costs as well as the increase in expenses. The increase in expenses was in large part the result of increases in share-based compensation expense caused by a significant increase of 29.0% in the share price in the current year and an increase in the performance factor as a result of exceeding incentive compensation performance targets.

In fiscal 2017, net earnings increased $1,076 to $1,957 from $881 in the prior year. The net earnings increase resulted from a $1,835 increase in operating profit, partially offset by a decrease in investment income of $366 (2016 benefitted from realized gains on the sale of marketable securities) and a $393 increase in income tax expense on the higher overall profit within higher tax rate geographies.

The key components of the $1,835 increase in operating profit from 2016 to 2017 were lower direct costs resulting from expense alignment initiatives and non-recurring costs totaling $1,009 incurred during 2016 related to the sublease and relocation of our New York office premises and separation costs associated with aligning our support staff structure. These cost decreases were partially offset by increases in management operating performance bonus accruals of $939 relating to exceeding incentive compensation performance targets in the current year versus non-attainment in the prior year.

The increase in Unencumbered Cash from 2017 to 2018 of $1,670 was due to an increase in cash and cash equivalents ($3,973); an increase in accounts receivable ($1,465), an increase in marketable securities ($606), an increase in net deferred tax assets ($23) and in total current liabilities ($4,062); coupled with a decrease in net deferred revenue ($335). The increase in Unencumbered Cash from 2016 to 2017 of $1,586 was due to an increase in cash and cash equivalents ($2,441); decreases in accounts receivable ($638), net current deferred tax assets ($962) and total current liabilities ($810); coupled with net decreases across other components ($65). A reconciliation of Unencumbered Cash and discussion of the drivers from 2017 to 2018 and from 2016 to 2017 is included in the Liquidity and Capital Resources section of this Management Discussion and Analysis and the prior year's Management Discussion and Analysis, respectively.

Fiscal 2018 and 2017 results are more fully discussed under Operating Results within the 2018 and 2017 Management Discussion and Analysis documents, respectively, as filed on SEDAR (www.sedar.com). Additionally, the Business Outlook section discusses our current views on future operating profit performance.

OPERATING RESULTS

REVENUE

			Q1		Q2		Q3		Q4		Annual
2018	Professional Fees	$	14,973	$	14,854	$	17,942	$	18,743	**$**	**66,512**
	License fee revenue	$	76	$	67	$	86	$	142	**$**	**371**
	Revenue	$	15,049	$	14,921	$	18,028	$	18,885	**$**	**66,883**
	Period end number of partners[1]		38		38		38		39		**39**
	Average Number of Partners[1]		38.0		38.0		38.0		38.3		**38.1**
	Annualized Professional Fees per Partner[1]	$	1,576	$	1,564	$	1,889	$	1,957	**$**	**1,746**
	Number of Assignments[1]		114		104		122		113		**453**
	Number of Assignments per Partner[1]		3.0		2.7		3.2		3.0		**11.9**
	Average Fee per Assignment[1]	$	131	$	143	$	147	$	166	**$**	**147**
2017	Professional Fees	$	13,629	$	13,665	$	14,443	$	15,758	**$**	**57,495**
	License fee revenue	$	75	$	62	$	81	$	92	**$**	**310**
	Revenue	$	13,704	$	13,727	$	14,524	$	15,850	**$**	**57,805**
	Period end number of partners[1]		37		35		40		39		**39**
	Average Number of Partners[1]		37.8		36.0		37.0		39.5		**37.5**
	Annualized Professional Fees per Partner[1]	$	1,442	$	1,518	$	1,561	$	1,596	**$**	**1,533**
	Number of Assignments[1]		116		88		116		112		**432**
	Number of Assignments per Partner[1]		3.1		2.4		3.1		2.8		**11.5**
	Average Fee per Assignment[1]	$	117	$	155	$	125	$	141	**$**	**133**

[1] Please refer to the section on Non-GAAP Financial Measures and Other Operating Measures on pages 3 and 4 of this document.

Revenue and operating income are difficult to predict and have historically varied significantly from quarter to quarter. There is no specific seasonality in our business on a quarterly basis, although historically we have usually seen lower revenue in quarters one and two compared to quarters three and four. We track our revenue by professional fees, investment income and licence fee revenue.

Our capacity to generate revenue increases with the number of partners we employ and affiliate with, and is dependent on the fees we are able to charge and our partners' productivity that is, in turn influenced significantly by competition and general economic hiring conditions. Additionally, given our relatively small partner base, we have limited diversification, and consequently, results will fluctuate significantly from quarter to quarter. The preceding chart sets forth select revenue and operating measures. We believe these measures help explain our revenue and its variation from period to period.

Professional Fees

Fourth Quarter Consolidated Professional Fees

Professional fees for the fourth quarter of 2018 increased 18.9% (16.2% excluding a favourable 2.7% variance from exchange rate fluctuations) over the comparable period last year to $18,743 (2017: $15,758).

A significantly higher Average Fee per Assignment and higher productivity per partner were partially offset by a lower Average Number of Partners during the quarter. The Number of Assignments per Partner increased to 3.0 (2017: 2.8) while the Average Number of Partners decreased from 39.5 in the prior year to 38.3, resulting in a slight increase in the total Number of Assignments to 113 (2017: 112). The Average Fee per Assignment increased to $166 ($162 on a constant currency basis) (2017: $141).

Year-to-Date Consolidated Professional Fees

Professional fees for the year increased 15.7% (an increase of 17.9% excluding an unfavourable 2.2% variance from exchange rate fluctuations) over the comparable period last year to $66,512 (2017: $57,495).

The increase in year-to-date professional fees was the result of increases in the Average Number of Partners, the Number of Assignments per Partner and Average Fee. A higher Average Number of Partners at 38.1 compared to 37.5 in the prior year and an increase in the Number of Assignments per Partner to 11.9 (2017: 11.5) resulted in an increase in the total Number of Assignments to 453 (2017: 432). The Average Fee per Assignment increased to $147 ($150 on a constant currency basis) (2017: $133).

Fourth Quarter and Year-to-Date Professional Fees by Geography

United States:

Fourth quarter professional fees in the US were up 35.7% (31.9% excluding a favourable 3.8% variance from exchange rate fluctuations) to $14,244 (2017: $10,492). A decrease in the Average Number of Partners was more than offset by increases in the Number of Assignments per Partner and the Average Fee per Assignment during the period.

Professional fees in the US for the year were up 19.5% (22.7% excluding an unfavourable 3.2% variance from exchange rate fluctuations) to $49,770 (2017: $41,658). This was the result of increases in the Average Number of Partners, the Number of Assignments per Partner and the Average Fee per Assignment during the period.

Canada:

Fourth quarter professional fees in Canada were down 24.5% to $3,836 (2017: $5,079). The impact of a lower Average Number of Partners, lower Number of Assignments per Partner and a lower Average Fee per Assignment. Two specific assignments generating collective Professional Fees in excess of $800 in the previous year without similar high fee searches in the current year drove much of the decrease in professional fees and the Average Fee per Assignment in the current quarter.

Professional fees in Canada for the year were down 2.1% to $14,546 (2017: $14,852), with a higher Average Fee per Assignment and higher Number of Assignments per Partner being more than offset by a lower Average Number of Partners.

Europe:

Fourth quarter professional fees in Europe were up 254.5% (up 244.6% excluding a favourable 9.9% variance from exchange rate fluctuations) to $663 (2017: $187). A decrease in the Average Fee per Assignment was more than offset by increases in the Average Number of Partners and the Number of Assignments per Partner.

Professional fees in Europe for the year were up 122.9% (up 113.8% excluding a favourable 9.1% variance from exchange rate fluctuations) to $2,196 (2017: $985) with a higher Average Number of Partners, Number of Assignments per Partner and Average Fee per Assignment.

LICENCE FEES

Licence fees from our affiliations in Latin America and New Zealand for the use of the Caldwell Partners brand and intellectual property were $142 (2017: $92) for the fourth quarter and $371 (2017: $310) for the full year. Additionally, intercompany licence fees which eliminate on consolidation are charged from our Canadian parent company to our US subsidiary. These intercompany fees totaled $319 for the fourth quarter (2017: $234) and $1,123 for the full year (2017: $935). Intercompany licence fees to the European subsidiary are waived during the buildout to profitability of the region.

COST OF SALES

		Q1	Q2	Q3	Q4	Annual
2018	Cost of sales	$ 11,073	$ 11,244	$ 13,099	$ 13,552	**$ 48,968**
	Cost of sales as a % of professional revenue	74.0%	75.7%	73.0%	72.3%	**73.6%**
2017	Cost of sales	$ 10,221	$ 9,725	$ 10,771	$ 11,588	**$ 42,305**
	Cost of sales as a % of professional revenue	75.0%	71.2%	74.6%	73.5%	**73.6%**

Cost of sales pertains to professional revenue (including professional fees and investment income) and comprises partner compensation, related search delivery personnel compensation and the direct costs of providing our search services. Compensation costs include fixed salaries, variable incentive compensation and related employee benefits and payroll taxes. In aggregate and over time, these costs are largely variable to professional revenue, with fluctuations arising from changes in incentive compensation based on Average Professional Fee per Partner and the leverage impact of certain fixed support costs during periods of growth or decline. Variable incentive compensation for our Partners is based on a percentage of the amount of collected professional revenue attributed to each respective Partner; the higher the collected professional revenue in a fiscal year, the higher the percentage the Partner is eligible to earn. Significant fluctuations can be seen by geography from quarter to quarter based on the relatively small number of partners in each region and how those individuals' estimated compensation changes based on annualizing their quarterly results in recording compensation accruals. Costs associated with licence fee revenue such as legal and professional fees are included in general and administrative expenses.

Fourth Quarter Consolidated Cost of Sales

Fourth quarter cost of sales increased 16.9% or $1,964 to $13,552 (14.4% excluding an unfavourable 2.5% variance from exchange rate fluctuations) from $11,588. On a segment basis, the year-over-year cost of sales increase of $1,964 came from an increases in the US ($2,625) and Europe ($377) partially offset by a decrease in Canada ($1,038).

As a percentage of professional revenue, cost of sales decreased 1.2% to 72.3%, down from 73.5% in the same period last year. Lower partner compensation (down 2.5% as a percentage of professional revenue) was experienced as a result of updating estimated partner compensation accruals from estimated full year commission tiers used through the third quarter to actual commission tiers known on each individual's final revenue results for the year. This reduction in expense was partially offset by higher fixed cost partner support personnel compensation (up 0.8% as a percentage of professional revenue) due to increases in staffing, particularly in the second half of the year to accommodate the growth in revenue, as well as higher costs of search delivery materials (up 0.5% as a percentage of professional revenue).

Year-to-Date Consolidated Cost of Sales

Cost of sales for the year increased 15.7% or $6,663 to $48,968 (18.1% excluding a favourable 2.4% variance from exchange rate fluctuations) from $42,305. As a percentage of professional revenue, cost of sales was consistent at 73.6%. Lower fixed cost partner support personnel compensation (down 0.4% as a percentage of professional revenue) was offset by increased search delivery materials (up 0.3% as a percentage of professional revenue) and slightly higher partner compensation (up 0.1% as a percentage of professional revenue).

Fourth Quarter and Year-to-Date Cost of Sales by Geography

United States:

Compared to the 35.7% (31.9% on a constant currency basis) increase in US professional revenue, fourth quarter cost of sales in the US increased $2,625 or 34.2% ($2,314 or 30.1% on a constant currency basis) to $10,308 (2017: $7,683). Cost of sales decreased as a percentage of professional revenue, and represented 72.4% of professional revenue in 2018 compared to 73.2% in the prior year. Lower partner compensation (down 0.3% as a percentage of professional revenue) and lower fixed cost partner support personnel compensation (down 0.8% as a percentage of professional revenue) were partially offset by higher costs of search delivery materials (up 0.3% as a percentage of professional revenue).

Compared to the 19.5% (22.7% on a constant currency basis) increase in US professional revenue, full year cost of sales in the US increased $6,332 or 20.8% ($7,393 or 24.3% on a constant currency basis), to $36,744 (2017: $30,412). As a percentage of professional revenue these costs represented 73.8% of professional revenue compared to 73.0% in the prior year. Higher partner compensation due to higher average commission tiers resulting from higher revenues (up 1.2% as a percentage of professional revenue) and higher search delivery material costs (up 0.4% as a percentage of professional revenue) were partially offset by lower fixed cost partner support personnel compensation (down 0.8% as a percentage of professional revenue).

Canada:

Compared to the professional revenue decrease of 24.5%, fourth quarter cost of sales in Canada decreased $1,038 or 27.9% to $2,686 (2017: $3,724). As a percentage of professional revenue, these costs represented 70.0% of professional revenue vs. 73.3% in the prior year. A decrease in variable partner compensation on lower commission tiers from lower average revenue per partner (down 9.7% as a percentage of professional revenue) was partially offset by higher fixed cost partner support personnel compensation (up 5.8% as a percentage of professional revenue) and increased search delivery material costs (up 0.6% as a percentage of professional revenue).

Relative to the professional revenue decrease of 2.1%, full year cost of sales in Canada decreased $687 or 6.2% to $10,398 (2017: $11,085). As a percentage of professional revenue these costs represented 71.5% vs. 74.6% in the prior year. A decrease in variable partner compensation on lower commission tiers from lower average revenue per partner (down 4.4% as a percentage of professional revenue) was partially offset by higher fixed cost partner support personnel compensation (up 1.3% as a percentage of professional revenue). Search delivery material costs were unchanged as a percentage of professional revenue.

Europe:

Compared to the 254.5% (244.6% on a constant currency basis) increase in professional revenue, fourth quarter cost of sales in Europe increased $377 or 208.3% ($364 or 202.3% on a constant currency basis) to $558 (2017: $181). Cost of sales represented 84.2% of professional revenue compared to 96.8% in the fourth quarter of last year. This percentage cost decrease is the result of higher variable partner compensation on higher revenue (up 7.0% as a percentage of professional revenue) being more than offset by lower fixed partner support personnel compensation (down 17.8% as a percentage of professional revenue) and costs of search delivery materials (down 1.8% as a percentage of professional revenue).

Compared to the 122.9% (113.8% on a constant currency basis) increase in professional revenue, cost of sales in Europe for the year increased $1,018 or 126.0% ($968 or 119.8% on a constant currency basis), to $1,826 (2017: $808). Costs as a percentage of professional revenue increased to 83.2% from 82.0% in the same period last year. This increase was the result of higher variable partner compensation on higher revenue (up 10.0% as a percentage of professional revenue) partially offset by lower fixed cost partner support personnel compensation (down 8.8% as a percentage of professional revenue) with search delivery materials unchanged as a percentage of professional revenue.

The results in Europe reflect the positive impact of leverage achieved from fixed cost partner support personnel against rising revenue from new partners ramping up their businesses.

GROSS PROFIT AND MARGIN

	Q1	Q2	Q3	Q4	**Annual**
2018	$ 3,976	$ 3,677	$ 4,929	$ 5,333	**$ 17,915**
	26.4%	24.6%	27.3%	28.2%	**26.8%**
2017	$ 3,483	$ 4,002	$ 3,753	$ 4,262	**$ 15,500**
	25.4%	29.2%	25.8%	26.9%	**26.8%**

Gross profit in the fourth quarter increased 25.1% (22.2% excluding a favourable 2.9% variance from exchange rate fluctuations) to $5,333 or 28.2% of revenue (2017: $4,262 or 26.9% of revenue). The 19.1% increase in total revenue was partially offset by the 16.9% increase in cost of sales. On a segment basis, gross profit was $3,936 from the US, $1,292 from Canada ($1,611 less $319 in intercompany licence fee revenue eliminated in consolidation), and $105 from Europe.

For the year, gross profit increased 15.6% (17.3% excluding an unfavourable 1.7% variance from exchange rate fluctuations) to $17,915, from $15,500 in 2017. The 15.7% increase in total revenue was offset by a like 15.7% increase in cost of sales. As a result, gross margin for 2018 remained unchanged year-over-year at 26.8%. On a segment basis, gross profit was $13,026 from the US, $4,519 from Canada ($5,642 less $1,123 in intercompany licence fee revenue eliminated in consolidation), and $370 from Europe.

The quarter and full year variances are discussed in detail under the Revenue and Cost of Sales sections of this document.

EXPENSES

	Q1	Q2	Q3	Q4	**Annual**
2018	$ 3,072	$ 2,970	$ 3,648	$ 4,259	**$ 13,949**
2017	$ 2,384	$ 3,396	$ 3,131	$ 3,476	**$ 12,387**

Fourth Quarter Expenses:

Fourth quarter expenses increased 22.5% or $783 from the prior year comparable period to $4,259 (2017: $3,476). Excluding exchange rate variances of $31, expenses on a constant currency basis increased $752 or 21.7% versus the same period last year.

The constant currency increase was the result of increased share-based compensation expense caused by an increase in the share price in the current year as well as an increase in the performance factor as a result of exceeding operational performance targets ($541), increased legal fees ($118), increased director expenses resulting from higher deferred stock unit valuations on the higher share price ($116) and increased marketing expenses related to our brand update initiative ($55). These increases were partially offset by lower foreign exchanges gains on intercompany loan balances and US dollar denominated bank account balances ($72) and general cost decreases across other categories ($6).

On a segment basis, expenses were $2,984 from the US ($3,303 prior to eliminating $319 in intercompany licence fees), $1,010 from Canada and $265 from Europe.

Year-to-Date Expenses:

Full year expenses increased 12.6% or $1,562 over the prior year to $13,949 (2017: $12,387). Excluding exchange rate variances of $199, expenses on a constant currency basis increased $1,761 or 14.2% over the same period last year.

Constant currency cost increases resulted from increased share-based compensation expense caused by the increase in the share price in the current year as well as an increase in the performance factor as a result of exceeding operational performance targets ($766), increased marketing expenses related to our brand update initiative which is now complete ($216), firm-wide search team practice meetings for business development and training being held during the current year but not in the prior year ($182), increased director expenses resulting from higher deferred stock unit valuations due to the increase in share price ($130), increased business development costs on higher revenue ($122), a reduction in the final earn-out amount payable from the fiscal 2015 acquisition of Hawksmoor Search Limited benefiting the prior year with no such benefit in the current year as the amount was fully settled ($115), increased legal fees ($79), increased partner recruitment expenses ($77) and general increases across other categories ($74). On a segment basis, expenses were $9,562 from the US ($10,685 prior to eliminating $1,123 in intercompany licence fees), $3,475 from Canada and $912 from Europe.

OPERATING PROFIT

	Q1	Q2	Q3	Q4	**Annual**
2018	$ 904	$ 707	$ 1,281	$ 1,074	**$ 3,966**
	6.0%	4.7%	7.1%	5.7%	**5.9%**
2017	$ 1,099	$ 606	$ 622	$ 786	**$ 3,113**
	8.0%	4.4%	4.3%	5.0%	**5.4%**

For the 2018 fourth quarter, higher revenue ($3,035) partially offset by higher cost of sales ($1,964) and expenses ($783) resulted in an increase in operating profit of $288 over the comparable period in the prior year to $1,074 (2017: $786). Exchange rate variances accounted for net reduction of $83 in operating profit relative to the rates in effect in the prior year period.

On a segment basis, the fourth quarter operating profit of $1,074 came from the US producing $952 ($633 prior to eliminating $319 of intercompany licence fees), Canada $282 ($601 prior to eliminating $319 of intercompany licence fee revenue) and Europe generating an operating loss of $160.

For the 2018 full year, higher revenue ($9,078) partially offset by higher cost of sales ($6,663) and expenses ($1,562) from variances discussed above resulted in an increase in operating profit of $853 to $3,966 (2017: $3,113). Exchange rate variances accounted for a net $68 increase in operating profit relative to the rates in effect in the prior year.

On a segment basis, full year operating profit of $3,966 came from operating profit in the US of $3,464 ($2,341 prior to eliminating $1,123 of intercompany licence fees) and operating profit in Canada of $1,044 ($2,167 prior to eliminating intercompany licence fee revenue) being offset by an operating loss in Europe of $542.

The quarter and full year variances are discussed in detail under Revenue, Cost of Sales and Expenses.

INVESTMENT INCOME FROM MARKETABLE SECURITIES

	Q1	Q2	Q3	Q4	**Annual**
2018	$ 2	$ 2	$ 2	$ 8	**$ 14**
2017	$ -	$ -	$ (142)	$ 180	**$ 38**

We invest excess cash balances and manage market risk by using a third party investment manager to follow the specific investment criteria established and approved by the Investment Committee of the Board of Directors designed to reduce exposure to market risk. As at August 31, 2018, managed funds were $5,654 (August 31, 2017: $5,048). Additionally, we have a portfolio of illiquid equity investments obtained through search fees that are classified as long-term with a balance of $137 at August 31, 2017 (August 31, 2017: $172).

Regarding investments generated from search services with clients, compensation equal to 50% of the investment is paid to the respective partners involved with the search upon monetization of the investment. Upon obtaining an investment, all rights to the partners' 50% of the equity instruments are effectively transferred and assigned beneficially to the respective partners. As a result, the gross asset value and compensation payable are offset, with the investment recorded at the net amount to which the Company has economic rights. Estimated changes in the fair value of this carrying amount are recorded in other comprehensive income. When the investments are ultimately settled, any accumulated gains or losses would transferred from accumulated other comprehensive income and realized as investment income in the consolidated statement of earnings during such settlement period. The Company's policy regarding equity instruments within marketable securities is to sell the investments as soon as the Company is reasonably able to do so.

For the fourth quarter of 2018, the Company reported investment income of $8, consisting of interest on cash balances. During the comparable period last year investment income of $180 was reported consisting of realized gains on the sale of managed funds. For the full year 2018, the Company reported investment income of $14, consisting entirely of interest on cash balances, compared to $38 in 2017. Last year's income includes $180 of realized gains earned on the liquidation of funds and $142 of realized losses on the liquidation of an equity position obtained through search fees being paid partially in equity of the client.

EARNINGS

EARNINGS BEFORE INCOME TAXES

	Q1	Q2	Q3	Q4	Annual
2018	$ 906	$ 709	$ 1,283	$ 1,082	**$ 3,980**
2017	$ 1,099	$ 606	$ 480	$ 966	**$ 3,151**

NET EARNINGS

	Q1	Q2	Q3	Q4	Annual
2018	$ 410	$ 270	$ 987	$ 348	**$ 2,015**
2017	$ 762	$ 267	$ 224	$ 704	**$ 1,957**

BASIC EARNINGS PER SHARE

	Q1	Q2	Q3	Q4	Annual
2018	$ 0.020	$ 0.013	$ 0.048	$ 0.018	**$ 0.099**
2017	$ 0.038	$ 0.013	$ 0.011	$ 0.034	**$ 0.096**

On December 22, 2017, the US tax reform ("Tax Cuts and Jobs Act") was substantively enacted and reduced the maximum federal corporate income tax rate for the Company's US entity from 35% to 21%. As this rate change occurred part way into our fiscal year, a hybrid rate derived from the current and new tax rates applies to our fiscal 2018 full year US taxable income. As a result of this new substantively enacted tax rate, the Company's US entity deferred tax balances were adjusted during the second quarter based on an estimated hybrid rate, and again in the fourth quarter to reflect the fully reduced rate to be realized in fiscal 2019 and future years. Including state and local taxes in addition to federal, the approximate overall impact in the United States is a reduction in our blended US statutory rate from 37.6% in fiscal 2017 to 29.4% in fiscal 2018 and 25.3% in fiscal 2019 and future periods. While the newly lowered rates decrease our current income tax expense accordingly, the rate reductions also result in deferred tax charges in the year to revalue our deferred tax assets originally recognized at the higher rates. This resulted in deferred tax expense for the full year of $654, with $204 recognized in the second quarter when the deferred tax assets were adjusted to the hybrid fiscal 2018 rate and $450 in fourth quarter when the deferred tax assets were adjusted to the fully reduced rate we anticipate to be able to utilize in future periods.

Income tax expense in the fourth quarter of fiscal 2018 was $734 ($284 net of deferred tax expense for the enacted rate adjustment) (2017: $262) arising from a current income tax expense of $1,131 (2017: $462 recovery) offset by a deferred tax recovery of $398 (2017: $724 expense).

Income tax expense for the year ending August 31, 2018 was $1,965 or 49.4% ($1,311 or 33.1% net of deferred tax expense from the enacted rate adjustment) (2017: $1,194 or 37.9%) reflecting current tax expense of $2,148 (2017: $469) and deferred tax recovery of $183 ($837 deferred tax recovery net of deferred tax expense from the enacted rate adjustment) (2017: $725 expense).

Income tax expense for Canada for the quarter ended August 31, 2018 was $134 (2017: $202). For the full year income tax expense for 2018 was $602 (2017: $460 or 24.5%) reflecting an effective tax rate of 27.6% compared to a statutory tax rate of approximately 26.5% in Canada.

Income tax expense for the US for the quarter ended August 31, 2018 was $600 ($150 net of deferred tax expense from the enacted rate adjustment) (2017: $60). Full year income tax expense for 2018 was $1,363 or 48.0% ($709 or 30.3% net of deferred tax expense from the enacted rate adjustment) (2017: $734 or 41.8%).

No income tax expense recovery was recognized during 2018 for the UK (2017: $nil). Deferred income tax assets of $105 (2017: $98) that can be carried forward against future taxable income have not been recognized.

Fourth quarter net earnings were $348 ($0.018 per share) in 2018, as compared to $704 ($0.034 per share) in the comparable period a year earlier. The full year net earnings after tax were $2,015 ($0.099 per share) in 2018, versus $1,957 ($0.096 per share) in 2017.

DIVIDENDS

The Board of Directors continues to believe that the payment of regular dividends is in the best interests of the Company and its shareholders. In determining quarterly dividend payments, the Board of Directors considers many factors including current earnings results, future earnings projections, cash needs for operational growth and balances of Unencumbered Cash (as defined in Non - GAAP Financial Measures on page 3 and discussed below in Liquidity and Capital Resources) which can act as a buffer against short-term earnings volatility.

Subsequent to shareholder approval of the restatement of capital on May 1, 2012, we have now declared twenty six quarterly dividends through August 31, 2018 with total dividends declared of 48.0 cents per share or $9,503 in total.

On November 13, 2018 the Board of Directors declared a dividend of 2.25 cents per share, payable to holders of Common Shares of record on November 26, 2018 and to be paid on December 14, 2018.

LIQUIDITY AND CAPITAL RESOURCES

The Company maintains cash balances at various financial institutions and in various geographies through its subsidiaries. While the Company has the ability to move funds between geographies and legal entities, there are certain dividend taxes applicable, including a five percent tax on dividends paid from the United States to Canada. Additionally, in order to lend or dividend funds between the Company's legal entities, each entity must maintain certain statutory liquidity levels.

As at August 31, 2018, the Company had $5,654 of current marketable securities plus cash and cash equivalents including restricted cash of $15,023, for a total cash and current marketable securities balance of $20,677, up $4,579 from $16,098 at year-end 2017. The increase is the result of cash flow from operations being only partially offset by dividend payments issued during the year and capital expenditures.

The Company's cash and compensation payable balances fluctuate significantly from period to period based on the timing of commission payments per the Company's compensation plans. Compensation payable is generally at its lowest after the largest deferred compensation payments are made at the end of each February, and generally grows during subsequent periods. The compensation payable is funded by the company's cash, marketable security balances and accounts receivable which build during the same cycle as the compensation liability and are similarly reduced as cash is used to satisfy the compensation liability. As a result, the cash balances and compensation payable typically move together taking into account non-operating sources and uses of cash. At August 31, 2018, current Compensation Payable was $19,205 (2017: $15,896), total cash and current marketable securities were $20,677 (2017: $16,098) and Accounts Receivable were $10,858 (2017: $9,393). As a result of these trends, the Company uses the non-GAAP measure of Unencumbered Cash as a more consistent measure for the cash the company has available beyond that needed for short-term obligations.

Unencumbered Cash is defined in the section on Non-GAAP Financial Measures and Other Operating Measures on page 4 of this document. The following chart sets forth the calculation of Unencumbered Cash and provides reconciliation to cash and cash-equivalents:

	as at	
	August 31 2018	*August 31 2017*
Cash and cash-equivalents	$14,885	$10,917
Restricted cash	138	133
Marketable securities - current	5,654	5,048
Accounts receivable	10,858	9,393
Net deferred tax assets on compensation payable	1,952	1,929
	33,487	27,420
Total current liabilities	(24,153)	(20,091)
Excluding		
Deferred revenue	438	1,107
Deferred compensation	(219)	(553)
Total Unencumbered Cash	$9,553	$7,883

Accounts receivable were $10,858 at August 31, 2018, up $1,465 from $9,393 at the end of fiscal 2017. Days outstanding based on quarterly revenue were 49 days at August 31, 2018 versus 51 days at August 31, 2017. At August 31, 2018, a reserve of $718 or approximately 38% of accounts over 90 days old has been taken (2017: $522 or 52% of accounts over 90 days).

Total liabilities were $25,862 at August 31, 2018, up $4,680 from $21,182 at the end of 2017. Increases were seen in compensation payable ($3,966), income taxes payable ($773) and accounts payable ($650); offset by decreases in deferred revenue ($669) and provisions ($40).

The Company's investment in property and equipment at August 31, 2018 was $1,378 compared with $1,699 at the end of 2017. This reflects additions of $176, depreciation expense of $537 and exchange rate fluctuations over the year of $40. Capital expenditures included computer hardware and software, as well as office furniture and equipment.

Shareholders' equity at August 31, 2018 was $13,919, up $799 from $13,120 at the end of 2017. This increase reflects the net earnings for the year of $2,015, dividends declared of $1,632, share based payment expense of $10, translation gains on consolidation of $342 and an unrealized gain on marketable securities of $65.

CONTRACTUAL OBLIGATIONS

	Total	2019	2020	2021	2022	2023	Thereafter
Operating leases	$ 10,738	$ 3,329	$ 2,739	$ 2,170	$ 1,269	1,152	$ 79
Accounts payable	2,693	2,693	-	-	-	-	-
Compensation payable	20,820	19,205	827	318	-	-	470
Dividends payable	408	408	-	-	-	-	-
Total	$ 34,659	$ 25,635	$ 3,566	$ 2,488	$ 1,269	$ 1,152	$ 549

The operating lease commitments are in respect to the office space required to operate our business and do not reflect offsetting sublease payments from which the Company expects to recoup $2,808 through September 30, 2021. Cash outlays for our contractual obligations and commitments identified above are expected to be funded by cash on hand and cash generated by operating activities in the respective year of the outlay. The Company does not have any material commitments to purchase property and equipment.

OUTSTANDING SHARES

As at November 13, 2018 the authorized share capital of the Company consists of an unlimited number of Common Shares of which 20,404,555 are issued and outstanding (August 31, 2018: 20,404,555; August 31, 2017: 20,404,555). The holders of Common Shares are entitled to share equally, share for share, in all dividends declared by the Company and equally in the event of a liquidation, dissolution or winding-up of the Company or other distribution of the assets among shareholders.

On February, 3, 2017 an employee of the Company exercised 275,000 options increasing the number of outstanding shares from 20,129,555 to 20,404,555. On September 14, 2017, options to purchase 250,000 shares of the Company were issued to an employee of the Company. On April 11, 2018 options to purchase 100,000 shares of the Company expired unexercised. As of November 13, 2018 options to purchase 250,000 common shares of the Company were outstanding (August 31, 2018: 250,000; August 31, 2017: 100,000).

BUSINESS OUTLOOK

Business fundamentals remain very strong with growth in volumes and higher value assignments on a consolidated basis, with geographic fluctuations from period to period. Having just recorded our largest revenue quarter in our history, we are well positioned as we head into fiscal 2019.

United States:

Business in the US was extremely strong throughout fiscal 2018, particularly in the second half of the year, with increases in both search volumes and the Average Fee per Assignment. The incremental costs of staff brought on board late in fiscal 2017 and during fiscal 2018 to support our partner growth in the region were more than covered by the additional revenue of the team. With most metrics for the region at or approaching record territory, future growth in the region will primarily be led by an expansion of the partner base. Adding to the partner headcount and expanding into new geographies within the US is one of our focus initiatives in fiscal 2019.

Canada:

In Canada, lower volumes and a lower Average Fee per Assignment during the quarter resulted in a decrease in revenue over the previous year's strong results. For the year, a higher Average Fee per Assignment was offset by lower search volumes resulting in a small revenue decrease. Our teams in Western Canada continued to expand their businesses in fiscal 2018 while Eastern Canada retrenched somewhat after a very strong fiscal 2017. We continue to look to hire select partners into Eastern Canada in order to grow the region.

United Kingdom:

After retrenchment in fiscal 2017, the United Kingdom was back on a growth track in 2018. Entering fiscal 2019 with three partners and with another serving out garden leave at a former employer and set to join us in the second quarter, we believe we have substantially enhanced our revenue base potential for future periods. Despite the improvement in results in fiscal 2018 and the additional headcount, we anticipate quarter to quarter fluctuations in the UK region due to the small size of the team. We remain committed to being in the United Kingdom and are actively engaged in further recruitment; viewing it as important to our strategy of delivering services to our clients and growing a long-term globally profitable business.

Consolidated:

After a strong fiscal 2018, we see positive market activity across all regions continuing into fiscal 2019. More aggressive partner headcount and revenue growth are top Company priorities in the coming year. Although such growth could dampen short-term profit margins, we expect it to maximize long-term profitability while still allowing for the continuation of regular dividend payments. We expect future growth to remain driven by targeted partner hires as we seek to continue to build our practice and functional offerings across geographies in the United States, Canada and Europe. As appropriate, we will review acquisition opportunities.

Along with partner hires, we have been working to prudently expand our service lines in areas that can leverage the existing expertise of our search teams. These may include assessment, mid-management search or other human capital talent offerings.

In fiscal 2018 we launched our Agile Talent Solutions comprised of executive advisory offerings where we provide sourced executive talent on a variable basis to our clients for their needs in operational advisory boards and incremental executive knowledge for specific projects. We believe these services are directly beneficial to our clients and aligned with our core executive search business. For example, in our Cyber Advisory Solutions, executives who are experts in cyber security are structured into operational ongoing advisory boards available to work with client companies to aid in training, mentoring, organizational design, best practices and use of existing and emerging technologies. These same executives can also be made available to address specific client needs regarding a market, technology or trend on a short-term, ad-hoc basis.

Agile Talent Solutions launched during fiscal 2018 and included advisory solutions in the areas of Cyber, Value Creation and Blockchain in the first, third and fourth quarters, respectively. We believe Agile Talent Solutions provide meaningful differentiation and added value to our clients and we anticipate launching additional domain offerings during fiscal 2019. These new offerings generated revenue during fiscal 2018, but are not yet significant to our overall financial results or position. We do not know the scale to which our new Agile Talent Solutions may expand in the future or if such service offerings will be maintained if we are unable to scale related revenue.

RELATED PARTY TRANSACTIONS

Pursuant to its lease agreements, the Company paid rent for its Toronto office to an affiliated company owned by a shareholder, C. Douglas Caldwell, registered as owning more than 10% of the Company. The amount of consideration agreed to by the parties was determined to be fair market rental rates at the inception of the lease by an independent commercial real estate counselor and was approved by the independent Members of the Board of Directors. Occupancy costs within general and administrative expenses in the consolidated statements of earnings have been recognized for the year ended August 31, 2018 in the amount of $223 (2017: $223).

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The following are the estimates and judgments applied by management that most significantly affect the Company's consolidated financial statements. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The following discussion sets forth management's most significant estimates and assumptions in determining the value of assets and liabilities, and the most significant judgments in applying accounting policies.

Revenue recognition

The Company's method of revenue recognition requires it to estimate the expected average performance period and the percentage of completion, based on the proportion of the estimated effort to fulfill the Company's obligations throughout the expected average performance period for its executive searches. Differences between the estimated percentage of completion and the amounts billed will give rise to a deferral of revenue to a future period. Changes in the average performance period or the proportion of effort expended throughout the performance period for its executive searches could lead to an under or overvaluation of revenue. Further information on deferred revenue is included in note 11 to the financial statements. Subsequent changes in fair value of the equity interests are recorded as unrealized gains or losses in other comprehensive income and are recognized to investment income within revenue when realized.

Allowance for doubtful accounts

Estimates are used in determining the allowance for doubtful accounts related to trade receivables. The estimates are based on management's best assessment of the collectability of the related receivable balance based, in part, on the age of the specific receivable balance. An allowance is established when the likelihood of collecting the account has significantly diminished. Future collections of receivables that differ from management's current estimates would affect the results of operations in future periods.

Compensation accruals

Partner commissions are based on a per partner basis on amounts billed during a respective year and collected within a certain timeframe. These collections are then subject to a commission grid that escalates as the individual collects more. Assumptions are made regarding what each partner's full year collections will be in order to set an estimated commission tier to accrue compensation expense throughout the year. Additionally, management short term incentive plans are tied primarily to the revenue and operating results of the company for a respective fiscal year and management long term incentive plans are both to the Company's share price as well as operating results over a three year period. Full year partner collection results, actual operating results and changes in share price that differ from management's current estimates would affect the results of operations in future periods.

Valuation of equity interests in clients

Equity interests held in clients can be difficult to obtain valuation information on. Equity instruments are most often in privately held companies without a specific obligation to share ongoing business performance and valuation information. The Company values such interests in accordance with its financial instruments policy with available information. As a result, the current and future valuation of these interests could differ materially from current estimates.

Impairment of goodwill

The Company tests at least annually whether goodwill is subject to any impairment. Various assumptions are made in performing this test, including estimates of future revenue streams, operating costs and discount rates. Future results that differ from management's current estimates would affect the results of operation in future periods.

RISKS AND UNCERTAINTIES

Any investment in the Company's securities is speculative and may involve risk. Before investing in the Company's securities, prospective investors should carefully consider, in light of their own financial circumstances and objectives, the risk factors summarized below, as well as the other information contained and incorporated by reference into this Annual Information Form. Other risks not currently known or deemed to be material may also impact our business. Our business and financial results could be materially adversely affected by any of these risks. The Board of Directors includes in its mandate and the charters of its committees the responsibility to oversee the mitigating factors associated with each identified risk factor.

The ability to attract and retain experienced search professionals is critical to our business

We compete with other executive recruitment firms for experienced consultants. Attracting and retaining consultants in our industry is important because consultants have primary responsibility for client relationships, and the loss of consultants often leads to the loss of client relationships. While we believe we offer one of the most competitive compensation plans in the industry and offer freedom for our partners to operate in the marketplace, the ability to continue to generate revenue and profits will depend on our ability to attract and retain key professionals. Additionally, we may pay hiring bonuses to attract new partners who may leave bonus amounts at their predecessor firm in order to join us. The aggregate of these amounts can be significant and we expect to continue issuing these types of payments as we continue to grow.

Exposure to our partners taking our clients with them to another firm

Our success depends upon our ability to develop and maintain strong, long-term relationships with our clients. In many cases, one or two partners have primary responsibility for a client relationship. When a partner leaves one executive search firm and joins another, clients who have established relationships with the departing partner may move their business to the partner's new employer. We may also lose clients if the departing partner has widespread name recognition or a reputation as a specialist in executing searches in a specific industry or management function. If we fail to retain important client relationships when a partner departs our firm, our business, financial condition and results of operations may be adversely affected. During 2018, approximately 11% of consolidated revenues were attributed to one revenue generating employee of the Company. We attempt to mitigate this risk by maintaining strong relationships with our partners and providing for certain contractual client and employee non-solicitation covenants in our offer of employment letters with our partners.

Performance of the US, Canadian and international economies

Our revenue is affected by global economic conditions and economic activity in the regions where we operate. During economic slowdowns, companies may hire fewer employees which may have a negative impact on our financial condition. This risk is mitigated to some extent through our increasing diversity within our revenue base across geographies, industries and functions.

Competition from other companies directly or indirectly engaged in executive search

The executive search business is highly competitive in terms of both winning and pricing new engagements. The level of our future profits will depend on its ability to retain its established client base, attracting new clients and maintaining fee levels. Some of our competitors possess greater resources, greater name recognition and may be further along in the development and design of technological solutions to meet client requirements. One area in which we mitigate competitive risk with our larger competitors is by having fewer client non-solicitation arrangements. It is standard practice in the industry to provide clients with a non-solicitation right ranging in scope from the placed executive to the entire client organization; this is known as "off-limits" protection. If too many off-limit arrangements are created, the ability to broadly and effectively source candidates for prospective client engagements becomes impeded.

Liability risk in the services we perform

In the normal course of our operations, we become involved in various legal actions, either as plaintiff or defendant, including but not limited to our commercial relationships, employment matters and services delivered, in addition to other things. Such matters include both actual as well as threatened claims. Possible claims include failure to maintain the confidentiality of the candidate's employment search or for discrimination or other violations of the employment laws or malpractice. In various countries, we are subject to data protection laws impacting the processing of candidate information. To mitigate this risk, we engage outside counsel on a regular basis to review our policies and form of contracts. We utilize protective language in our standard client contracts and maintain professional liability insurance in amounts and coverage that we believe are adequate; however, we cannot guarantee that our insurance will cover all claims or that coverage will always be available. Significant uninsured liabilities could have a negative impact on our business, financial condition and results of operations. Furthermore, even if any action is settled within insurance limits, this can result in increases to our insurance premiums. Therefore there can be no assurance that their resolution will not have a material adverse effect on our financial condition or results of operations.

Potential legal liability from clients, employees and candidates for employment

We are exposed to potential claims with respect to the executive search process. For example, a client could assert a claim for matters such as breach of an off-limit agreement or recommending a candidate who subsequently proves to be unsuitable for the position filled. Further, the current employer of a candidate whom we placed could file a claim against us alleging interference with an employment contract, a candidate could assert an action against us for failure to maintain the confidentiality of the candidate's employment search, and a candidate or employee could assert an action against us for alleged discrimination, violations of labour and employment law or other matters. Also, in various countries, we are subject to data protection laws impacting the processing of candidate information and other regulatory requirements including the legality of gathering historical compensation data from candidates pursuant to an expanding number of equal pay laws. We attempt to mitigate these risks through onboarding and continuing training for our employees of existing and developing legal guidelines. We also carry insurance policies which may reimburse us for certain suffered losses in this area, although such reimbursement and the amount cannot be guaranteed.

Cybersecurity requirements, vulnerabilities, threats and attacks

Increased global cybersecurity vulnerabilities, threats and more sophisticated and targeted cyber-related attacks pose a risk to the security of our systems and networks and the confidentiality, availability and integrity of the data we maintain from our clients, candidates and employees. We have a program in place to detect and respond to data security incidents. However, we remain potentially vulnerable to additional known or unknown threats. We also have access to sensitive, confidential or personal data or information that is subject to privacy and security laws, regulations and client-imposed controls. Despite our efforts to protect sensitive, confidential or personal data or information, we may be vulnerable to security breaches, theft, lost data, employee errors and/or malfeasance that could potentially lead to the compromising of sensitive, confidential or personal data or information, improper use of our systems or networks, unauthorized access, use, disclosure, modification or destruction of information. In addition, a cyber-related attack could result in other negative consequences, including damage to our reputation or competitiveness, remediation or increased protection costs, litigation or regulatory action which could result in a negative impact to our results of operations. We attempt to mitigate this risk through maintaining and complying with our data privacy policy informing our clients and candidates of how we use their personal information. We additionally utilize a third party information and security technology company to advise us on risk testing and mitigation to aid our own internal information technology staff. We also maintain a cyber-insurance policy which might mitigate certain financial costs in the event we were to suffer a breach that caused us to incur financial losses.

Brand Reputation

We depend on our overall professional reputation and brand name recognition to secure new engagements and hire qualified consultants. Our success also depends on the individual reputations of our consultants. We obtain many of our new engagements from existing clients or from referrals by those clients. A client who is dissatisfied with our work can adversely affect our ability to secure new engagements. If any factor, including poor performance, hurts our reputation we may experience difficulties in competing successfully for both new engagements and qualified consultants. Failure to maintain our professional reputation and brand name could seriously harm our business, financial condition and results of operations. We attempt to mitigate this risk through the use of a client feedback process utilizing the third-party product Net Promoter Score® which provides us with feedback on our engagements and highlighting dissatisfied clients, if any, so we may respond.

Alignment of our cost structure with revenue

We must ensure that our costs and workforce continue to be in proportion to demand for our services. Failure to align our cost structure and headcount with net revenue could adversely affect our business, financial condition, and results of operations. We attempt to mitigate this risk related to short-term revenue shifts through having a large portion of our search professionals’ compensation tied to their individual and team revenue and for management to consolidated revenue and operating profit.

Unfavorable tax law changes and tax authority rulings may adversely affect results

We are subject to income taxes in Canada, the United States and in various other foreign jurisdictions. Domestic and international tax liabilities are subject to the allocation of income among various tax jurisdictions. Our effective tax rate could be adversely affected by changes in the mix of earnings among countries with differing statutory tax rates, or changes in the valuation allowance of deferred tax assets or tax laws. We attempt to mitigate this risk through working with our third party income tax consultants in reviewing our tax structure and providing advice regarding optimal tax structures.

We may not generate sufficient cash flow from operations to support our strategic growth plan and maintain our dividend without utilizing funds invested in marketable securities

We currently have investments in marketable securities and short-term money market instruments. However, if additional cash is required to grow the business and pay dividends in excess of cash generated, marketable securities and money market instruments may be liquidated and the returns on those instruments could be negatively impacted.

Technological advances may significantly disrupt the labour market and weaken demand for human capital at a rapid rate

Our success is directly dependent on our client's demands for talent. As technology continues to evolve, more tasks currently performed by people may be replaced by automation, robotics, machine learning, artificial intelligence and other technological advances outside of our control. This trend poses a risk to the human resource industry as a whole, particularly in lower-skill job categories that may be more susceptible to such replacement. We attempt to mitigate this risk through review of emerging technologies we may leverage in our search process and focusing the most senior tier of executive placements.

Foreign currency exchange rate risks may affect our financial results

With operations in Canada, the United States and the United Kingdom, we do business in multiple currencies. During fiscal 2018, approximately 78% of our revenue was generated outside of Canada and transacted in a currency other than the Canadian dollar. Our profitability is impacted by the translation of foreign currency financial statements into Canadian dollars. Fluctuations in relative currency values, particularly the strengthening of the Canadian dollar, could have an adverse effect on our profitability and financial condition. When management believes it has a significant short term net cash or intercompany loan balance, it will on occasion hedge its currency exposure by buying or selling the exposed currency on a forward basis.

Affiliation agreements may fail to renew or affiliates may be acquired

We believe our relationships are positive with our licensed affiliates in Latin American and New Zealand Nonetheless; such agreements are subject to renewal upon maturity dates set forth in our audited annual and interim financial statements. Additionally, such agreements have exit provisions for either party upon a change of control of the other party which could end an agreement prior to the contracts full term.

We invest in marketable securities whose valuations fluctuate

Marketable securities consist of investments in professionally managed fixed income funds and certain equity securities obtained through search fees being paid partially in equity of the client. The securities are subject to market risk, and should they decline in value, the unrealized losses and potential realized losses could negatively impact our financial position and aggregate results of operations. We mitigate the risk in managed funds by investing in relatively conservative investments and by engaging professional investment fund advisors independent from us with added oversight from the Investment Committee of the Board of Directors. We mitigate the risk in equity securities by liquidating our positions as soon as reasonably able and reviewing for the potential use of hedging derivatives if applicable.

We are increasingly dependent on third parties for the execution of critical functions

We do not maintain all components of our technology infrastructure, and we have outsourced certain critical applications or business processes to external providers, including cloud-based services. The failure or inability to perform on the part of one or more of these critical suppliers or partners could cause significant disruptions and increased costs.

Potential volatility of the market price and volume of common shares

From time to time, the TSX has experienced significant price and volume volatility unrelated to the performance of specific companies, which could impact the market price of the Common Shares. Moreover, the market price of the Common Shares may also be adversely affected by factors such as the concentration of Common Shares held by a small number of shareholders and the low number of Common Shares that trade on average on a daily basis, the combination of which has the potential to increase the volatility of the volume of Common Shares offered to be purchased or sold at any particular time. Certain management compensation components are based on the share price change in the Company and could fluctuate with significant movement up or down in the Company's share price. The impact of share price movements on compensation is encompassed in the plan design as payments are also linked to profitability after accounting for such equity value fluctuations.

Impairment of our goodwill, other intangible assets and other long-lived assets

All of our acquisitions have been accounted for as purchases and involved purchase prices well in excess of tangible asset values, resulting in the creation of a significant amount of goodwill and other intangible assets. Goodwill is initially recorded as the excess of amounts paid over the fair value of net assets acquired. While goodwill is not amortized, in accordance with generally accepted accounting principles, we perform assessments of the carrying value of our goodwill at least annually and we review our goodwill, other intangible assets and other long-lived assets for impairment whenever events occur or circumstances indicate that a carrying amount of these assets may not be recoverable. These events and circumstances include a significant change in business climate, attrition of key personnel, changes in financial condition or results of operations, a prolonged decline in our stock price and market capitalization, competition, and other factors. In performing these assessments, we must make assumptions regarding the estimated fair value of our goodwill and other intangible assets. These assumptions include estimates of future market growth and trends, forecasted revenue and costs, capital investments, discount rates, and other variables. If the fair market value of one of our reporting units or other long term assets is less than the carrying amount of the related assets, we would be required to record an impairment charge. Due to continual changes in market and general business conditions, we cannot predict whether, and to what extent, our goodwill and long-lived intangible assets may be impaired in future periods. Any resulting impairment loss could have an adverse impact on our business, financial condition and results of operations.

Ability to access credit could be limited

Our bank can be expected to strictly enforce the terms of our credit agreement. Although we are currently in compliance with the financial covenants of our revolving credit facility, a deterioration of economic conditions may negatively impact our business resulting in our failure to comply with these covenants, which could limit our ability to borrow funds under our credit facility or from other borrowing facilities in the future. The credit agreement with the bank is a demand facility and may also be cancelled at any time by our bank. In such circumstances, we may not be able to secure alternative financing or may only be able to do so at significantly higher costs. We attempt to mitigate this risk by only using the credit line to fund temporary cash requirements, through the negotiation of flexible financial covenants to the extent we are able, and working to maintain strong relationships with our banking team.

Significant Shareholder

C. Douglas Caldwell, the original founder of The Caldwell Partners International, Inc., is reported to own, directly or indirectly approximately 13.8% of the Company's outstanding Common shares. Mr. Caldwell's shares could have a material impact on any matters brought forth to the shareholders for a vote.

We may be subject to the actions of activist shareholders

Our Board of Directors and management team are committed to acting in the best interest of all of our shareholders. We value constructive input from investors and regularly engage in dialogue with our shareholders regarding strategy and performance. Activist shareholders who disagree with the composition of the Board of Directors, our strategy or the way the Company is managed may seek to effect change through various strategies and channels. Responding to shareholder activism can be costly and time-consuming, disrupt our operations, and divert the attention of management and our employees from our strategic initiatives. Activist campaigns can create perceived uncertainties as to our future direction, strategy, or leadership and may result in the loss of potential business opportunities, harm our ability to attract new employees, investors, and customers, and cause our stock price to experience periods of volatility or stagnation.

Our business could be disrupted as a result of actions of certain stockholders or potential acquirers of the Company

If any of our stockholders commence a proxy contest, advocate for change that is not necessarily in the best interests of the Company and all of its stakeholders, make public statements critical of our performance or business, or engage in other similar activities, or if we become subject to a potential acquisition target, then our business could be adversely affected because we may have difficulty attracting and retaining employees and clients due to perceived uncertainties as to our future direction and negative public statements about our business; responding to proxy contests and other similar actions by stockholders is likely to result in us incurring substantial additional costs and significantly divert the attention of management and our employees; and, if individuals are elected to our Board with a specific agenda, the execution of our strategic plan may be disrupted or a new strategic plan altogether may be implemented, which could have a material adverse impact on our business, financial condition or results of operations. Further, any of these matters or any such actions by stockholders may impact and result in volatility of the price of our common stock.

Provisions that may make an acquisition of us more difficult and expensive

Some of the provisions in our Certificate of Incorporation and Bylaws, designed to ensure all shareholders are treated equally and fairly include: limitation on stockholder actions; advance notification requirements for director nominations and actions to be taken at stockholder meetings; and the ability to issue additional shares by action of our Board of Directors. Certain of these anti-takeover provisions and those under Ontario law may make it more difficult and expensive for us to be acquired in a transaction that is not approved by our Board of Directors. These provisions could discourage an acquisition attempt or other transaction in which stockholders could receive a premium over the current market price for the common stock.

DISCLOSURE CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Operating and Financial Officer are responsible for establishing and maintaining the Company's disclosure controls and procedures. The Chief Executive Officer and Chief Operating and Financial Officer, in conjunction with the Board of Directors, review any material information affecting the Company to evaluate and determine the appropriateness and timing of public release.

The Chief Executive Officer and the Chief Operating and Financial Officer, after evaluating the effectiveness of the Company's disclosure procedures as at August 31, 2018, have concluded that the Company's disclosure controls and procedures are adequate and effective to ensure that material information relating to the Company and its subsidiaries would have been known to them.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is also responsible for establishing and maintaining adequate internal controls over financial reporting. Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS.

In designing and evaluating such controls, it should be recognized that due to inherent limitations, any controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Additionally, management is required to use judgment in evaluating controls and procedures.

Management carried out an evaluation of the effectiveness of the design and operation of the Company's internal controls over financial reporting as at August 31, 2018. Based on that evaluation, the Chief Executive Officer and the Chief Operating and Financial Officer concluded that internal controls over financial reporting are effective as at August 31, 2018.

Management has also evaluated whether there were changes in the Company's internal controls over financial reporting during the reporting period ended August 31, 2018 that materially affected, or are reasonably likely to affect, the Company's internal controls over financial reporting. Management has determined that no changes occurred during the year ended August 31, 2018 that would have a material impact.

OTHER INFORMATION

Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.

Caldwell

THE CALDWELL PARTNERS INTERNATIONAL INC.

Consolidated Financial Statements

for the years ended August 31, 2018 and August 31, 2017

The Caldwell Partners International Inc.
Years Ended August 31, 2018 and August 31, 2017

MANAGEMENT'S REPORT TO SHAREHOLDERS

The consolidated financial statements and all information contained in this annual report are the responsibility of management and the Board of Directors of The Caldwell Partners International Inc. and its subsidiaries ("the Company"). The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and, where appropriate, reflect management's best estimates and judgments based on currently available information. The Company has established accounting and reporting systems supported by internal controls designed to safeguard assets from loss or unauthorized use and to ensure the accuracy of the financial records. The financial information presented throughout this annual report is consistent with the consolidated financial statements.

PricewaterhouseCoopers LLP, an independent firm of chartered professional accountants, has been appointed by the shareholders as the external auditors of the Company. The Independent Auditor's Report to the Shareholders, which describes the scope of their examination and expresses their opinion, is presented herein. The Audit Committee of the Board of Directors, whose members are not employees of the Company, meets with management and the independent auditors to satisfy itself that the responsibilities of the respective parties are properly discharged and to review the consolidated financial statements before they are presented to the Board of Directors for approval.

John N. Wallace
PRESIDENT AND CHIEF EXECUTIVE OFFICER

C. Christopher Beck
CHIEF OPERATING AND FINANCIAL OFFICER AND CORPORATE SECRETARY

November 13, 2018

November 13, 2018

Independent Auditor's Report

To the Shareholders of
The Caldwell Partners International Inc.

We have audited the accompanying consolidated financial statements of The Caldwell Partners International Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at August 31, 2018 and August 31, 2017 and the consolidated statements of earnings, comprehensive earnings, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

PricewaterhouseCoopers LLP
PwC Centre, 354 Davis Road, Suite 600, Oakville, ON, Canada L6J 0C5
T: + 905 815 6312, F:+1 905 815 6499, www.pwc.com/ca

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Caldwell Partners International Inc. and its subsidiaries as at August 31, 2018 and August 31, 2017 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

THE CALDWELL PARTNERS INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in $000s Canadian)

	As at August 31 2018	*As at August 31 2017*
Assets		
Current assets		
Cash and cash equivalents	14,885	10,917
Marketable securities (note 4)	5,654	5,048
Accounts receivable	10,858	9,393
Prepaid expenses and other assets	1,711	1,848
	33,108	27,206
Non-current assets		
Restricted cash	138	133
Marketable securities (note 4)	137	172
Advances	146	503
Property and equipment (note 5)	1,378	1,699
Intangible assets (note 6)	92	178
Goodwill (note 7)	2,885	2,761
Deferred income taxes (note 13)	1,897	1,650
Total assets	39,781	34,302
Liabilities		
Current liabilities		
Accounts payable (note 11)	2,693	2,044
Compensation payable (notes 9, 10 and 12)	19,205	15,896
Dividends payable (note 15)	408	408
Income taxes payable	1,409	636
Deferred revenue (note 12)	438	1,107
	24,153	20,091
Non-current liabilities		
Compensation payable (note 10)	1,615	958
Provisions (note 11)	93	133
	25,861	21,182
Equity attributable to owners of the Company		
Share capital (note 15)	7,515	7,515
Contributed surplus (note 15)	15,002	14,992
Accumulated other comprehensive income	1,257	850
Deficit	(9,854)	(10,237)
Total equity	13,920	13,120
Total liabilities and equity	39,781	34,302

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

Signed on behalf of the Board:

G. Edmund King
Chair of the Board

Kathryn A. Welsh
Chair of the Audit Committee

THE CALDWELL PARTNERS INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF EARNINGS

(in $000s Canadian, except per share amounts)

	Twelve months ended August 31	
	2018	*2017*
Revenues		
Professional fees (note 12)	66,512	57,495
Licence fees (note 22)	371	310
	66,883	57,805
Cost of sales (notes 8, 10 and 12)	48,968	42,305
Gross profit	17,915	15,500
Expenses		
General and administrative (notes 8, 9 and 10)	12,487	11,210
Sales and marketing (note 8)	1,507	1,173
Foreign exchange loss (gain) (note 8)	(45)	4
	13,949	12,387
Operating profit	3,966	3,113
Investment income (note 4)	14	38
Earnings before income tax	3,980	3,151
Income tax expense (note 13)	1,965	1,194
Net earnings for the year attributable to owners of the Company	2,015	1,957
Earnings per share (note 14)		
Basic and diluted	$0.099	$0.096

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(in $000s Canadian)

	Twelve months ended August 31	
	2018	*2017*
Net earnings for the year	2,015	1,957
Other comprehensive income:		
Items that may be reclassified subsequently to net earnings		
Realization of gain included in net income (note 4)	-	(38)
Unrealized gain on marketable securities (note 4)	65	123
Cumulative translation adjustment	342	(414)
Comprehensive earnings for the year attributable to owners of the Company	2,422	1,628

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

THE CALDWELL PARTNERS INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in $000s Canadian)

				Accumulated Other Comprehensive Income (Loss)		
	Deficit	Share Capital	Contributed Surplus	Cumulative Translation Adjustment	Unrealized Gains (Loss) on Marketable Securities	Total Equity
Balance - August 31, 2016	**(10,572)**	**7,295**	**15,025**	**842**	**337**	**12,927**
Net earnings for the year	1,957	-	-	-	-	1,957
Dividend payments declared (note 15)	(1,622)	-	-	-	-	(1,622)
Employee share option plan share issue (note 15)	-	220	(33)	-	-	187
Realization of gains on marketable securities included in net earnings	-	-	-	-	(38)	(38)
Change in unrealized loss on marketable securities	-	-	-	-	123	123
Change in cumulative translation adjustment	-	-	-	(414)	-	(414)
Balance - August 31, 2017	**(10,237)**	**7,515**	**14,992**	**428**	**422**	**13,120**
Net earnings for the year	2,015	-	-	-	-	2,015
Dividend payments declared (note 15)	(1,632)	-	-	-	-	(1,632)
Share-based payment expense (note 15)	-	-	10	-	-	10
Change in unrealized loss on marketable securities	-	-	-	-	65	65
Change in cumulative translation adjustment	-	-	-	342	-	342
Balance - August 31, 2018	**(9,854)**	**7,515**	**15,002**	**770**	**487**	**13,920**

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

THE CALDWELL PARTNERS INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF CASH FLOW

(in $000s Canadian)

	Twelve months ended August 31 2018	2017
Cash flow provided by (used in)		
Operating activities		
Net earnings for the year	2,015	1,957
Add (deduct) items not affecting cash		
Depreciation	537	559
Amortization	90	94
Amortization of advances	751	803
Realized gain on marketable securities	-	(38)
Share based payment expense	10	-
Unrealized foreign exchange on subsidiary loans	(54)	(12)
Reduction in marketable securities following assignment to partner (note 3)	-	432
(Increase) decrease in deferred taxes	(194)	723
Change in fair value of contingent consideration	-	(109)
Increase in cash settled share-based compensation	657	271
(Increase) decrease in accounts receivable	(1,182)	338
(Increase) decrease in prepaid expenses and other assets	(181)	759
Increase (decrease) in accounts payable	599	(277)
Increase in compensation payable	3,518	929
Decrease in provisions	(37)	(51)
Increase in income taxes payable	757	162
Payment of cash settled share-based compensation	(553)	(709)
Payment of contingent consideration	-	(181)
Decrease in deferred revenue	(676)	(65)
Net cash provided by operating activities	6,057	5,585
Investing activities		
Proceeds from sale of marketable securities	-	1,101
Purchase of marketable securities	(500)	(1,000)
Payment of advances	-	(1,125)
Decrease in restricted cash	-	48
Additions to property and equipment	(176)	(469)
Net cash used in investing activities	(676)	(1,445)
Financing activities		
Share issuance from employee share option plan	-	187
Dividend payments	(1,632)	(1,622)
Net cash used in financing activities	(1,632)	(1,435)
Effect of exchange rate changes on cash and cash equivalents	219	(210)
Net increase in cash and cash equivalents	3,968	2,495
Cash and cash equivalents, beginning of year	10,917	8,422
Cash and cash equivalents, end of year	14,885	10,917

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

THE CALDWELL PARTNERS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2018 AND AUGUST 31, 2017

(in $000s Canadian unless otherwise stated, except per share amounts)

1. General Information

The Caldwell Partners International Inc. (the Company) is an executive search firm specializing in recruiting executives for full-time and advisory roles on behalf of its clients. The Company contracts with its clients, on an assignment basis, to provide advice on the identification, evaluation, assessment and recommendation of qualified candidates for specific positions. The Company concentrates its activities on locating executives to fill senior executive positions.

The Company was incorporated by articles of incorporation under the Business Corporations Act (Ontario) on August 22, 1979 and is listed on the Toronto Stock Exchange (symbol: CWL). The Company's head office is located at 165 Avenue Road, Toronto, Ontario. The Company operates in Canada, the United States, Europe, and, through its licence partners, Latin America and New Zealand.

The Board of Directors approved these consolidated financial statements for issue on November 13, 2018.

2. Basis of Presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

3. Summary of Significant Accounting Policies, Judgments and Estimation Uncertainty

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value, including available-for-sale marketable securities.

Consolidation

These consolidated financial statements include the assets and liabilities and results of operations of the Company and its subsidiaries. In the United States, the subsidiary is The Caldwell Partners International Ltd. In the United Kingdom, the subsidiary is The Caldwell Partners International Europe Ltd.

All intercompany transactions and balances are eliminated on consolidation.

Subsidiaries are all those entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities assumed at the date of acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable tangible and intangible net assets acquired is recorded as goodwill. The Company records contingent consideration agreements at fair value, which are classified at fair value through profit or loss with movements in the fair value being recognized within general and administrative expenses in the consolidated statements of earnings.

Segment reporting
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 Chief Executive Officer.

Foreign currency translation

(i) Functional and presentation currency
The financial statements of the parent company and each subsidiary in the consolidated financial statements of The Caldwell Partners International Inc. are measured using the currency of the primary economic environment in which the subsidiary operates (the “functional currency”). The functional and presentation currency of the Company is the Canadian dollar. The functional currency of the subsidiary located in the United States is the US dollar. The functional currency of the subsidiary located in the United Kingdom is the British pound sterling.

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

If the Company disposes of its entire interest in a foreign subsidiary, or loses control over a foreign subsidiary, the foreign currency gains or losses accumulated in other comprehensive income related to the foreign subsidiary are recognized in profit or loss.

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of these transactions. 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 statements of earnings, within foreign exchange loss.

Cash and cash equivalents
Cash and cash equivalents include cash on hand, deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

Restricted cash
Restricted cash includes a cash balance set aside by a US financial institution for collateral security on a letter of credit made out to the landlord of a leased facility.

Advances
Advances are sign-on payments made to employees to join the Company. Such amounts may be recouped if the employee leaves the Company before a contractually stipulated period of time has lapsed, usually 36 months from their start date. The advances are amortized to expenses on a straight-line basis over the life of the contractual recoupment period.

Financial instruments
Financial assets and liabilities are recognized when the Company becomes a party to the contractual

provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

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

(i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category. No such instruments held by the Company are classified in this category.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statements of earnings. Gains and losses arising from changes in fair value are presented in the consolidated statements of earnings within general and administrative expenses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the consolidated statements of financial position date, which are classified as non-current.

(ii) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company's available-for-sale assets comprise its investments in marketable securities.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. Available-for-sale investments are classified as current, unless the investment matures beyond twelve months.

Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the consolidated statements of earnings as part of investment income. Dividends on available-for-sale equity instruments are recognized in the consolidated statements of earnings as part of investment income when the Company's right to receive payment is established. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the consolidated statements of earnings and are included in investment income.

(iii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise accounts receivable and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(iv) Other financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable, compensation payable and dividends payable which are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, financial liabilities at amortized cost are measured at amortized cost using the effective interest method.

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

Impairment of financial assets
At each reporting date, the Company assesses whether there is objective evidence that a financial asset (other than a financial asset classified as fair value through profit or loss) is impaired. If such evidence exists, the Company recognizes an impairment loss as follows:

(i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

(ii) Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the consolidated statements of earnings. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to net earnings.

Impairment losses on financial assets carried at amortized cost and available-for-sale financial assets are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity investments are not reversed.

Property and equipment
Property 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 Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the consolidated statements of earnings during the period in which they are incurred.

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

Furniture and equipment	20% declining balance
Computer equipment	30% declining balance
Computer application software	straight-line over three years
Leasehold improvements	straight-line over the term of the lease

Residual values, methods of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of general and administrative expenses in the consolidated statements of earnings.

Impairment of non-financial assets
Property and equipment and intangible assets (other than goodwill) are tested for impairment whenever events or changes in circumstances indicate 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 flows (cash generating units or CGUs). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (which is the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Goodwill is reviewed for impairment annually or at any time if an indicator of impairment exists.

Goodwill acquired through a business combination is allocated to each CGU or group of CGUs that are expected to benefit from the related business combination. A group of CGUs represents the lowest level within the Company at which the goodwill is monitored for internal management purposes, which is not higher than an operating segment.

The Company evaluates impairment losses, other than goodwill impairment, for potential reversals whenever events or circumstances warrant such consideration.

Commission and bonus plans (Short Term Incentive Plans)
The Company recognizes a liability and an expense for bonuses and commissions, based on performance measures relevant to the particular employee group. Revenue-producing employees earn bonuses tied directly to individual and team revenue production. Management bonuses are primarily determined based on achievement of planned revenue and operating profit levels, approved by the Board of Directors at the outset of the fiscal year. The Company recognizes the expense and compensation payable in the year such performance levels are attained. To the extent revenue is deferred for recognition in a future period, the Company will also defer the related amount of estimated compensation expense directly associated with such deferred revenue.

Stock-based compensation (Long Term Incentive Plans)
The Company has granted performance stock units, deferred stock units and stock options periodically to certain employees and directors.

Performance stock units (PSUs) are notional common shares of the Company that cliff vest three years from the date of grant and are settled in cash. The amount to be paid on vesting is dependent on notional dividends received on the holdings, the Company's share price at the vesting date and a performance factor ranging between 50% and 150% based on the Company's actual revenue and net operating profit performance compared to targets set by the Board of Directors each year over the cumulative three-year vesting period. Compensation expense is recognized on a straight-line basis over the three-year vesting period. Notional dividend awards and changes in performance factors and fair value are reflected in current period compensation expense in proportion to the amount of the vesting period that has lapsed, with the balance being amortized straight-line over the remaining vesting period.

Deferred stock units (DSUs) are notional shares of the Company that are issued to the Board of Directors as a component of their annual retainer. DSU balances are adjusted for notional dividends received on the holdings. Each non-employee Board Member receives approximately 50% of the annual retainer in cash and 50% in the form of DSUs issued at fair value on the date of the grant, which track the performance of the Company's common shares over time. These DSUs vest upon grant, but are redeemable only when the Board Member leaves the Board, at which time they are settled in cash. DSUs are recorded as compensation expense at the fair value of the units when issued. Notional dividend awards and subsequent changes in the fair value of DSUs are recorded in current period compensation expense when the change occurs.

The awards of PSUs and DSUs have been recorded in current or non-current compensation payable depending on when they vest.

Stock options currently outstanding vest over two years and have a contractual life of five years. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest.

Provisions
Provisions, where applicable, are recognized when the Company has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will

be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material.

Income taxes
Income taxes comprise both current and deferred tax. Income tax is recognized in the consolidated statements of earnings except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which case the income tax is also recognized in other comprehensive income or directly in equity.

Current income taxes are the expected taxes payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to taxes 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 statements of financial position dates and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary difference can be recognized.

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

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

Revenue
Revenue consists of professional fees, investment income and licence fee revenue.

Professional fees:
Professional fees represent the revenue derived from the executive search services provided to the Company's clients. Professional fees are comprised of retainers and indirect expenses billed to clients based on terms set forth in signed engagement letters with each client. The Company is typically paid a retainer for its executive search services, equal to one-third of the position's estimated first year compensation. The Company's standard practice is to bill its clients for its retainer and indirect expenses in one-third increments over a three-month period commencing in the month of a client's acceptance of the contract. Any fees earned in excess of the retainer or fees that are contingent on a candidate's future compensation are billed when actual compensation of the placed candidate is known. Indirect expenses are generally calculated as a percentage of the retainer with certain dollar limits per search.

Professional fees are recognized when it is probable the economic benefits will flow to the Company and service has been provided, the fee is determinable and collectibility is reasonably assured. Revenue from standard executive search engagements is recognized over the expected average performance period, in proportion to the estimated effort to fulfill the Company's obligations under the engagement terms. To the extent that there are differences between the estimated percentage of completion based on the expected average performance period and amounts billed, the Company defers a portion of revenue to be recognized in a future period and records this as deferred revenue on the consolidated statements of financial position.

Revenue in excess of the retainer, resulting from actual compensation of the placed candidate exceeding the estimated compensation, is recognized on completion of the executive search when the amount of the additional fee is known. Revenue from certain non-standard executive search engagements is recognized in accordance with the completion of the engagement deliverables.

Professional fees are paid to the Company predominantly in the form of cash and, on occasion, in the form of equity interests in the Company's clients as a portion of the search fee. These interests may take the form of common stock, preferred stock, restricted stock, warrants, options or similar instruments depending on the client and the agreement. Equity payments occur most commonly in venture capital and private equity backed entities where executive cash compensation is often lower in lieu of the executive receiving compensation more prominently in equity as well as a desire by early stage companies to preserve cash. The accounting for these equity payments is described below under investment income.

Investment Income:
Equity interests in the Company's clients are available-for-sale financial assets and changes in their value are recorded in other comprehensive income. Once an equity interest from a client is monetized, the accumulated gain or loss recorded within other comprehensive income since the initial valuation date is reclassified to investment income within revenue.

Effective in 2017, the continuing employment requirement was lifted and all rights to the partners' 50% share of the equity instruments were transferred and assigned beneficially to the partners. As a result of this change, the gross asset value and compensation payable have been offset, with the investment now recorded at the net amount the Company has economic rights to with changes in this amount being recorded in other comprehensive income.

Licence fee revenue:
Licence fee revenue is comprised of the licence and technical assistance fees paid by the Company's affiliates, as discussed in note 22. The licence fee revenue is recognized as earned, based on the revenue of the affiliates during the respective periods.

Cost of sales
Cost of sales includes direct costs associated with the generation of professional fees, which is both variable and fixed compensation, and the related costs of employees involved in search activities. When professional fees are deferred, the related amount of estimated compensation expense directly associated with such professional fees is also deferred. This expense deferral is recorded as a reduction in compensation payable in the consolidated statements of financial position.

Leases
The Company leases certain property and equipment. Leases are classified as either operating or finance, based on the substance of the transaction at the inception of the lease.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to profit or loss within general and administrative expenses on a straight-line basis over the period of the lease.

Leases in which the Company assumes substantially all the risks and rewards of ownership, are classified as finance leases and capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. With a finance lease, each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Currently, all of the Company's leases pertain to its office space and are considered operating leases.

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

Dividends
Dividends on common shares are recognized in the Company's financial statements in the period in which the dividends are approved by the Board of Directors of the Company.

Earnings per share
Basic earnings per share (EPS) is calculated by dividing the net earnings for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options and similar instruments is computed using the treasury stock method. The Company's potentially dilutive instruments consist of stock options.

Accounting standards issued but not yet applied
Revenue recognition
In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers (IFRS 15). IFRS 15 replaces the detailed guidance on revenue recognition requirements that currently exists under IFRS. IFRS 15 specifies the accounting treatment for all revenue arising from contracts with customers, unless the contracts are within the scope of other IFRS. The standard also provides a model for the measurement and recognition of gains and losses on the sale of certain non-financial assets that are not an output of the Company's ordinary activities. Additional disclosure is required under the standard including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods, and key judgments and estimates. In July 2015, the effective date for IFRS 15 was deferred to apply to annual periods beginning on or after January 1, 2018. The Company will adopt IFRS 15 in its consolidated financial statements for the annual period beginning September 1, 2018.

The Company began a scoping and adoption plan during fiscal 2017, which has now been completed. The Company has identified the following areas that will be impacted by the IFRS 15 adoption:

- The Company is paid a retainer for its executive search services, which is based on a percentage of the placed candidate's anticipated first year cash compensation. If the candidate's actual compensation exceeds this estimate, an additional fee may be billed. These additional fees are currently recognized in the period in which the placed candidate begins working. Under IFRS 15, the Company will be required to estimate the additional fee revenue, if any, at the inception of the executive search contract and recognize it over the performance period of the search, truing-up to actual amounts when known.

- The Company incurs reimbursable direct out of pocket expenses in the performance of its services for items such as candidates and partner travel, meals, accommodation, third party executive assessments, background checks and other costs directly identifiable to a specific search assignment. Such costs are incurred and paid by the Company, and are in turn billed to the Company's clients. These costs are currently included within cost of sales as the net amount of direct expenses incurred by the Company, offset by amounts billed and recovered from clients. Pursuant to IFRS 15, the Company will be deemed to be a principal with regard to these transactions as the vendors are selected by the Company and the obligation to pay the vendors is borne by the Company. As such, on adoption of IFRS 15, the Company will show the gross amount of direct expenses billed and recovered from clients as revenue, with the gross amount incurred as a cost of sales. The impact of this treatment for the year ended August 31, 2018 would have been an increase in both revenue and cost of sales by approximately $1,733 (2017: $1,771), with no net change to gross profit.

IFRS 15 permits the use of either of the following transition methods: (i) a full retrospective method reflecting the application of the standard in each prior reporting period or (ii) a retrospective method with the cumulative effect upon initial adoption recognized at the date of initial application (modified retrospective). The Company will adopt IFRS 15 on September 1, 2018 using the modified retrospective method, which involves recognizing the cumulative effect of applying the guidance at the date of initial application with no restatement of the comparative periods presented. Under the modified retrospective method, comparative disclosure will be provided showing what our consolidated statements of financial position, earnings, changes in equity and cash flow would have been had IFRS 15 not yet been adopted.

Financial instruments – recognition and measurement
In July 2014, the IASB issued the final version of IFRS 9, Financial Instruments (IFRS 9), with a mandatory effective date for annual reporting periods beginning on or after January 1, 2018. The new standard brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace International Accounting Standard (IAS) 39, Financial Instruments Recognition and Measurement. In addition to the new requirements for classification and measurement of financial assets, a new general hedge accounting model and other amendments issued in previous versions of IFRS 9, the standard also introduces new impairment requirements that are based on a forward-looking expected credit loss model. The Company intends to adopt IFRS 9 in its consolidated financial statements for the annual period beginning September 1, 2018. The disclosure requirements in IFRS 7, Financial Instruments Disclosure (IFRS 7), have also been amended to include the additional disclosure required under IFRS 9. The Company intends to adopt these amendments to IFRS 7 at the same time as adoption of IFRS 9 beginning September 1, 2018. Management of the Company has reviewed the new pronouncements and believes the only area to be impacted relative to current treatment is in the allowance for doubtful accounts. The Company currently maintains an allowance for doubtful accounts on a specific reserve basis by each invoice receivable. The new guidance requires a broader approach to include a general reserve on amounts not specifically reserved for based on prior historical trends and any relevant future knowledge that might impact overall collection rates. The adoption of the new guidance is not expected to have a material impact on the Company.

Leases
In January 2016, the IASB issued IFRS 16, Leases (IFRS 16), with a mandatory effective date of January 1, 2019. The new standard will replace IAS 17, Leases, and will carry forward the accounting requirements for lessors. IFRS 16 provides a new framework for lessee accounting that requires substantially all assets obtained through operating leases to be capitalized and a related liability to be recorded. The new standard seeks to provide a more accurate picture of a company's leased assets and related liabilities and create greater comparability between companies who lease assets and those who purchase assets. The Company will adopt IFRS 16 in its consolidated financial statements for the annual period beginning September 1, 2019 and will recognize assets and liabilities for all leases on the consolidated statements of financial position.

Share-based payments
In June 2016, the IASB issued final amendments to IFRS 2, Share-based Payments (IFRS 2), clarifying how to account for certain types of share-based payment transactions. The amendments, which were developed through the IFRS Interpretations Committee (IFRIC), provide requirements on the accounting for (i) the effect of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classifications of the transaction from cash-settled to equity-settled. The standard is effective for annual reporting periods beginning on or after January 1, 2018. The Company intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning September 1, 2018. The adoption of the amendments is not expected to have a material impact on the Company.

Uncertainty over income tax treatments
In June 2017, the IASB issued IFRIC 23, Uncertainty over Income Tax Treatments (IFRIC 23) with a mandatory effective date of January 1, 2019. The interpretations provide guidance on how to value uncertain income tax positions based on the probability of whether the relevant tax authorities will accept a company's tax treatments. A company is to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. IFRIC 23 is to be applied by recognizing the cumulative effect of initially applying these guidelines in opening retained earnings without adjusting comparative information. The Company intends to adopt the amendments to IFRIC 23 in its consolidated financial statements for the annual period beginning September 1, 2019.The extent of the impact of the adoption of IFRIC 23 has not yet been determined.

There are no other standards or interpretations that are not yet effective that would be expected to have a material impact on the Company.

Critical accounting estimates and judgments
The Company makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The following are the estimates and judgments applied by management that most significantly affect the Company's consolidated financial statements. These estimates and judgments have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The following discussion sets forth management's most significant estimates and assumptions in determining the value of assets and liabilities, and the most significant judgments in applying accounting policies.

Revenue recognition
The Company's method of revenue recognition requires it to estimate the expected average performance period and the percentage of completion, based on the proportion of the estimated effort to fulfill the Company's obligations throughout the expected average performance period for its executive searches. Differences between the estimated percentage of completion and the amounts billed will give rise to a deferral of revenue to a future period. Changes in the average performance period or the proportion of effort expended throughout the performance period for its executive searches could lead to an under or overvaluation of revenue. Further information on deferred revenue is included in note 12.

Allowance for doubtful accounts
Estimates are used in determining the allowance for doubtful accounts related to accounts receivable. The estimates are based on management's best assessment of the collectibility of the related receivable balance based, in part, on the age of the specific receivable balance. An allowance is established when the likelihood of collecting the account has significantly diminished. Future collections of receivables that differ from management's current estimates would affect the results of operations in future periods.

Compensation accruals
Partner commissions are based on a per partner basis on amounts billed during a respective year and collected within a certain timeframe. These collections are then subject to a commission grid that escalates as the individual collects more. Assumptions are made regarding what each partner's full year collections will be in order to set an estimated commission tier to accrue compensation expense throughout the year. Additionally, management short term incentive plans are tied primarily to the revenue and operating results of the company for a respective fiscal year and management long term incentive plans are both to the Company's share price as well as operating results over a three year period. Full year partner collection results, actual operating results and changes in share price that differ from management's current estimates would affect the results of operations in future periods.

Valuation of equity interests in clients
Equity interests held in clients can be difficult to obtain valuation information on. Equity

instruments are most often in privately held companies without a specific obligation to share ongoing business performance and valuation information. The Company values such interests in accordance with its financial instruments policy with available information. As a result, the current and future valuation of these interests could differ materially from current estimates.

Impairment of goodwill

The Company tests at least annually whether goodwill is subject to any impairment in accordance with the accounting policy. Various assumptions are made in performing this test, including estimates of future revenue streams, operating costs and discount rates. These assumptions are disclosed in note 7. Future results that differ from management's current estimates would affect the results of operation in future periods.

4. Marketable Securities

The Company's marketable securities (classified as available for sale financial assets) are comprised of managed bond funds and certain equity securities held for investment obtained through search fees being paid partially in equity of the client. As at August 31, 2018 managed funds and client equity investments were $5,654 and $137, respectively, and as at August 31, 2017 managed funds and client equity investments were $5,048 and $172, respectively.

August 31,	Fair value	Current portion	Non-current portion
2018	5,791	5,654	137
2017	5,220	5,048	172

During fiscal 2018, the Company recorded $14 from interest on cash balances while the prior year's income of $38 represented net realized gains on the disposition of available-for-sale marketable securities. These amounts are included in investment income in the consolidated statements of earnings. An unrealized gain of $65 was recognized as part of other comprehensive income during the year (2017: $123).

5. Property and Equipment

	Furniture and equipment	Computer equipment	Computer application software	Leasehold improvements	Total
Year ended August 31, 2017:					
Opening net book value	568	333	11	926	1,838
Additions	120	247	-	102	469
Depreciation for the year	(120)	(136)	(8)	(295)	(559)
Exchange differences	(15)	(9)	-	(25)	(49)
Closing net book value	553	435	3	708	1,699
At August 31, 2017:					
Cost	2,610	2,729	762	3,608	9,709
Accumulated depreciation	(2,057)	(2,294)	(759)	(2,900)	(8,010)
Net book value	553	435	3	708	1,699
Year ended August 31, 2018:					
Opening net book value	553	435	3	708	1,699
Additions	41	135	-	-	176
Depreciation for the year	(103)	(160)	(2)	(272)	(537)
Exchange differences	13	10	-	17	40
Closing net book value	504	420	1	453	1,378
At August 31, 2018:					
Cost	2,664	2,874	762	3,625	9,925
Accumulated depreciation	(2,160)	(2,454)	(761)	(3,172)	(8,547)
Net book value	504	420	1	453	1,378

Depreciation of property and equipment is included in general and administrative expenses in the consolidated statements of earnings. There were no disposals of property and equipment in the current or previous year.

6. Intangible Assets

	2018	2017
Year ended August 31,		
Opening net book value	178	279
Amortization for the year	(90)	(94)
Exchange differences	4	(7)
Closing net book value	92	178
At August 31,		
Cost	851	847
Accumulated amortization	(759)	(669)
Net book value	92	178

Intangible assets consist of client lists from acquired entities and are stated at cost less accumulated amortization. These intangible assets are amortized on a straight-line basis in the consolidated statements of earnings to general and administrative expenses over their estimated useful life of ten years with one year remaining.

7. Goodwill

In assessing goodwill for impairment as at August 31, 2018 and 2017, the Company compared the aggregate recoverable amount of the assets included in the CGUs in its United States and Europe segments to their respective carrying amounts. In each case, the recoverable amount has been determined based on the estimated value in use of the CGU using a one-year cash flow budget. For periods beyond the budget period, cash flows were extrapolated using the following assumptions:

United States

	2018	2017
Average growth rate	5%	5%
Expected gross margin	25%	27%
Discount rate	8%	8%

Europe

	2018	2017
Average growth rate	3%	5%
Expected gross margin	30%	30%
Discount rate	8%	8%

The impairment tests performed resulted in no impairment as at August 31, 2018 or 2017.

8. Nature of Expenses

	Twelve months ended August 31, 2018	2017
Compensation costs	52,962	45,809
Occupancy costs	4,511	4,638
Sales and marketing	1,507	1,173
Professional services	624	506
Staff training and meetings	587	358
Depreciation	537	559
Search execution materials	524	502
Amortization	90	94
Foreign exchange (gain) loss	(45)	4
Other	1,620	1,049
	62,917	54,692

9. Compensation of Key Management

Key management includes the Board of Directors and the five named executive officers of the Company.

Compensation expense pertaining to key management included:

	Twelve months ended August 31, 2018	2017
Salaries and short-term benefits	2,669	2,681
Share-based compensation expense	1,546	642
	4,215	3,323

10. Compensation Payable

The Company maintains certain short-term and long-term incentive plans designed to align compensation with performance. Compensation payable consists of the following:

Current compensation payable

	As at August 31, 2018	2017
Commissions and bonuses	18,407	15,325
Performance stock units (PSUs)	798	571
	19,205	15,896

Non-current compensation payable

	As at August 31, 2018	2017
Performance Stock Units	1,144	599
Deferred stock units (DSUs)	471	359
	1,615	958

Commissions and bonuses

Commissions and bonuses represent incentive compensation for search delivery and support personnel. Such amounts are paid at various points during the year and are short-term in nature.

Share-based compensation plans

<u>Performance stock units (PSUs)</u>

The estimated cost of the PSU plan is being amortized on a straight-line basis over the three-year vesting period with a weighted average performance factor currently estimated at 120% (2017: 111%) of target. PSU expense for the year ended August 31, 2018 of $1,325 (2017: $559) was recorded within general and administrative expenses in the consolidated statements of earnings.

A summary of the Company's PSU plan is presented below:

	Twelve months ended August 31, 2018	2017
	Notional units (000s)	Notional units (000s)
Outstanding at beginning of year	1,634	1,611
Granted	570	640
Dividends declared	126	116
Settled	(480)	(733)
Outstanding at end of year	1,850	1,634

Deferred stock units (DSUs)
DSU expense of $221 (2017: $84) for the year ended August 31, 2018 has been recorded within general and administrative expenses in the consolidated statements of earnings.

A summary of the Company's DSU plan is presented below:

	Twelve months ended August 31,	
	2018	2017
	Notional units (000s)	Notional units (000s)
Outstanding at beginning of year	345	248
Granted	72	77
Dividends declared	29	20
Settled	(94)	-
Outstanding at end of year	352	345

11. **Provisions**
During the year ended August 31, 2016, the Company entered into agreements to sublease its existing premises in New York, NY and lease new space. The cumulative proceeds to be received from the sublease are less than the Company's contracted lease obligations. Onerous lease costs include the present value of these net sublease expenses over the approximate five-year term of the sublease ($465), real estate commissions ($206) and other costs associated with moving from the premises ($88) and were recorded within general and administrative expenses in the consolidated statements of earnings during the year ended August 31, 2016. The current portion of sublease costs total $45 (2017: $43) and is included in accounts payable and the non-current portion of $93 (2017: $133) is included in provisions in the consolidated statements of financial position.

A reconciliation of the provisions balance is below:

	Twelve months ended August 31,	
	2018	2017
Outstanding at beginning of year	176	465
Amounts charged against the provision	(48)	(302)
Increase arising from the passage of time	4	11
Foreign exchange	6	2
Outstanding at end of year	138	176

12. **Deferred Revenue**
The Company's method of revenue recognition requires it to estimate the expected average performance period and the proportion of the estimated effort to fulfill the Company's obligations throughout the average performance period for its executive searches. The average performance period ranges from period to period but averages between three and four months. Differences between the revenue recognition period and the billing period will give rise to a deferral of revenue. When this occurs, the Company defers a portion of the amounts billed to be recognized in a future period.

At August 31, 2018, the Company had deferred revenue of $438 (2017: $1,107) and related deferred compensation expense of $219 (2017: $554), with such amounts to be recognized during a future period. These amounts are reflected as reductions in revenue and cost of sales in the consolidated statements of earnings.

13. Income Taxes

	Twelve months ended August 31, 2018	2017
Current tax:		
Current tax on net earnings for the year	2,148	469
Deferred tax:		
Origination and reversal of temporary differences	(183)	725
	1,965	1,194

The tax on the Company's earnings before income tax differs from the amount that would arise using the weighted average tax rate applicable to earnings of the consolidated entities as follows:

	Twelve months ended August 31, 2018	2017
Combined statutory income tax rate	29.2%	34.5%
Deferred tax assets not recognized	2.7%	2.4%
Non-deductible expenses	0.8%	1.6%
Prior years taxes	0.7%	0.3%
Change in tax rates	15.1%	-
Other	0.8%	(0.9%)
	49.3%	37.9%

On December 22, 2017, the US tax reform ("Tax Cuts and Jobs Act") was substantively enacted and reduced the maximum federal corporate income tax rate for the Company's US entity from 35% to 21%. As this rate change occurred part way into our fiscal year, a hybrid rate derived from the current and new tax rates applies to our fiscal 2018 full year US taxable income. As a result of this new substantively enacted tax rate, the Company’s US entity deferred tax balances were adjusted to reflect the fully reduced rate to be realized in fiscal 2019 and future years. While the lower rates decrease our current income tax expense, the rate reductions also result in deferred tax charges in the current year to revalue our deferred tax assets originally recognized at the higher rates. This resulted in deferred tax expense for the full year of $654.

The analysis of deferred tax assets and liabilities is as follows:	As at August 31, 2018	2017
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	428	253
Deferred tax assets to be recovered within 12 months	2,100	2,305
Deferred tax liabilities:		
Deferred tax liabilities to be recovered after more than 12 months	(491)	(718)
Deferred tax liabilities to be recovered within 12 months	(140)	(190)
Deferred tax assets (net)	1,897	1,650

The movement of the deferred income tax account is as follows:	Twelve months ended August 31, 2018	2017
Outstanding at beginning of year	1,650	2,475
Debit to consolidated statements of earnings	183	(725)
Exchange differences	64	(100)
Outstanding at end of year	1,897	1,650

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets

	Compensation payable	Other	Total
At August 31, 2016	3,074	350	3,424
(Charged)/credited to the consolidated statements of earnings	(757)	31	(726)
Exchange differences	(125)	(15)	(140)
At August 31, 2017	2,192	366	2,558
(Charged)/credited to the consolidated statements of earnings	(13)	(107)	(120)
Exchange differences	77	13	90
At August 31, 2018	2,256	272	2,528

Deferred tax liabilities

	Excess carrying value of PP&E over tax base	Revenue not taxable until a future year	Other	Total
At August 31, 2016	323	365	261	949
(Charged)/credited to the consolidated statements of earnings	16	6	(23)	(1)
Exchange differences	25	(17)	(48)	(40)
At August 31, 2017	364	354	190	908
Credited to the consolidated statements of earnings	(134)	(128)	(41)	(303)
Exchange differences	21	12	(7)	26
At August 31, 2018	251	238	142	631

Deferred income tax assets are recognized for tax loss carry-forwards and other temporary differences to the extent that the realization of the related tax benefit through future taxable earnings are probable. The Company did not recognize deferred income tax assets of $400 (2017: $283) that can be carried forward against future taxable income.

As at August 31, 2018, the Company has non-capital losses of $2,105 with indefinite expiry dates available to reduce income of future years in the United Kingdom.

The Company also has capital losses of $2,850 in Canada that can only be utilized against capital gains in Canada and are without expiry date. No deferred tax asset has been recognized for these capital losses.

14. Earnings Per Share

(i) Basic

Basic earnings per share are calculated by dividing the net earnings attributable to owners of the Company by the weighted average number of common shares outstanding during the years.

	Twelve months ended August 31, 2018	2017
Net earnings for the year	2,015	1,957
Weighted average number of common shares outstanding	20,404,555	20,288,093
Basic earnings per share	$0.099	$0.096

(ii) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market price of the Company's outstanding shares for the year), based on the exercise prices attached to the stock options currently outstanding.

	Twelve months ended August 31,	
	2018	2017
Net earnings for the year	2,015	1,957
Weighted average number of common shares outstanding	20,404,555	20,288,093
Adjustment for stock options	18,660	4,369
Weighted average number of common shares for diluted earnings per share	20,423,215	20,292,462
Diluted earnings per share	$0.099	$0.096

15. Share Capital

Common shares

As at August 31, 2018 the authorized share capital of the Company consists of an unlimited number of common shares of which 20,404,555 are issued and outstanding (August 31, 2017: 20,404,555). The holders of common shares are entitled to share equally, share for share, in all dividends declared by the Company and equally in the event of a liquidation, dissolution or winding up of the Company or other distribution of the assets among shareholders.

On February, 3, 2017, an employee of the Company exercised 275,000 options increasing the number of outstanding shares from 20,129,555 to 20,404,555.

The Company has declared quarterly dividends since May 1, 2012. A summary of dividends declared during fiscal 2017 and 2018 is as follows:

Declaration Date	Payment Date	Dividend Per Share	Aggregate Dividends Declared
November 10, 2016	December 16, 2016	$0.020	$403
January 11, 2017	March 15, 2017	$0.020	$403
April 13, 2017	June 20, 2017	$0.020	$408
July 5, 2017	September 8, 2017	$0.020	$408
November 9, 2017	December 15, 2017	$0.020	$408
January 11, 2018	March 19, 2018	$0.020	$408
April 5, 2018	June 11, 2018	$0.020	$408
July 10, 2018	September 13, 2018	$0.020	$408

The dividend payable September 13, 2018 has been accrued in the Company's consolidated financial statements as at August 31, 2018.

Stock options

Stock options are granted periodically to directors, officers and employees of the Company. Cash received on exercise of options for common shares is credited to capital stock. Total outstanding stock options are summarized as follows:

	Twelve months ended August 31, 2018		Twelve months ended August 31, 2017	
	Number of options outstanding (000s)	Weighted average exercise price	Number of options outstanding (000s)	Weighted average exercise price
Outstanding at beginning of year	100	$1.02	375	$0.77
Issued during the year	250	$1.05	-	-
Exercised during year	-	-	(275)	$0.68
Expired during year	(100)	$1.02	-	-
Outstanding at end of year	250	$1.05	100	$1.02
Exercisable at end of year	-		100	

All options currently outstanding have a contractual life of five years with half vesting one year after the date of grant and the remainder vesting two years after the date of grant. Options have an exercise price equal to the fair value of the common shares on the date of issuance. Stock option expense of $10 has been recorded in the year ended August 31, 2018 (2017: $nil).

16. Segmented Information

The Company has consolidated operations in Canada, the United States and Europe. All geographic segments provide retained executive search consulting services to clients.

The following provides a reconciliation of the Company's consolidated statements of earnings by geographic segment to the consolidated results:

	Twelve months ended August 31, 2018				
	Canada	United States	Europe	Elimination	Total
Professional fees	14,546	49,770	2,196	-	66,512
Licence fees	1,494	-	-	(1,123)	371
Revenues	16,040	49,770	2,196	(1,123)	66,883
Cost of Sales	10,398	36,744	1,826	-	48,968
Gross profit	5,642	13,026	370	(1,123)	17,915
General and administrative	(3,392)	(8,314)	(781)	-	(12,487)
Sales and marketing	(182)	(1,252)	(73)	-	(1,507)
Licence fees	-	(1,123)	-	1,123	-
Foreign exchange gain (loss)	99	4	(58)	-	45
Total expenses	(3,475)	(10,685)	(912)	1,123	(13,949)
Operating profit (loss)	2,167	2,341	(542)	-	3,966
Investment income	14	-	-	-	14
Income taxes	(602)	(1,363)	-	-	(1,965)
Net earnings (loss) for the year	1,579	978	(542)	-	2,015

	Twelve months ended August 31, 2017				
	Canada	United States	Europe	Elimination	Total
Professional fees	14,852	41,658	985	-	57,495
Licence fees	1,245	-	-	(935)	310
Revenues	16,097	41,658	985	(935)	57,805
Cost of Sales	11,085	30,412	808	-	42,305
Gross profit	5,012	11,246	177	(935)	15,500
General and administrative	(3,146)	(7,439)	(625)	-	(11,210)
Sales and marketing	(153)	(972)	(48)	-	(1,173)
Licence fees	-	(935)	-	935	-
Foreign exchange (loss) gain	(12)	-	8	-	(4)
Total expenses	(3,311)	(9,346)	(665)	935	(12,387)
Operating profit (loss)	1,701	1,900	(488)	-	3,113
Investment income (loss)	180	(142)	-	-	38
Income taxes	(460)	(734)	-	-	(1,194)
Net earnings (loss) for the year	1,421	1,024	(488)	-	1,957

Certain items within general and administrative expenses, sales and marketing expenses and foreign exchange gains and losses comprise corporate support costs and are transferred across the segments. For the year ended August 31, 2018 corporate support costs totalled $6,351 (2017: $5,391) with $4,775 allocated to the US (2017: $3,934), $1,356 to Canada (2017: $1,364) and $220 to Europe (2017: $93). Intercompany licence fee revenues have been eliminated on consolidation.

A summary of property and equipment, goodwill and total assets by country is as follows:

	At August 31, 2018				At August 31, 2017			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Property and equipment	459	889	30	1,378	629	1,045	25	1,699
Intangible assets	-	92	-	92	-	178	-	178
Goodwill	-	1,289	1,596	2,885	-	1,238	1,523	2,761
Total assets	14,473	23,837	1,471	39,781	13,974	18,793	1,535	34,302

Depreciation recorded on property and equipment and amortization on intangible assets by country is as follows:

	2017				2016			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Depreciation expense	234	287	16	537	228	306	25	559
Amortization expense	-	90	-	90	-	94	-	94

17. Commitments

The Company's future operating lease commitments for premises excluding operating costs, including those amounts paid to related parties as set out in note 18, are as follows:

Twelve months ending August 31, 2019	3,329
Twelve months ending August 31, 2020	2,739
Twelve months ending August 31, 2021	2,170
Twelve months ending August 31, 2022	1,269
Twelve months ending August 31, 2023	1,152
September 1, 2023 and thereafter	79
	10,738

The operating lease commitments include gross obligations in connection with the New York, NY sublease as discussed in note 11. The Company expects to recoup $2,808 through September 30, 2021, which is not reflected in the above.

During the year ended August 31, 2018, the Company expensed $3,350 (2017: $3,339) relating to operating leases for its eleven locations in Canada, the United States and the United Kingdom, inclusive of rents paid to a related party described in note 18. This expense is included in general and administrative expenses. With the exception of the Toronto office, all leases are with third party commercial landlords at fair market rental rates. Lease terms at inception are five to ten years, depending on the location.

During 2014, the Company entered into a five-year letter of credit agreement with a United States financial institution for collateral security on a letter of credit made out to the landlord of a leased facility. The letter of credit commitment as at August 31, 2018 was $94 (2017: $133).

18. Related Party Transactions

Pursuant to its lease agreements, the Company paid rent for its Toronto office to an affiliated company owned by a shareholder, C. Douglas Caldwell, registered as owning more than 10% of the Company. The amount of consideration agreed to by the parties was determined to be the fair market rental rates at the inception of the lease by an independent commercial real estate counselor and was approved by the independent Members of the Board of Directors. Occupancy costs within general and administrative expenses in the consolidated statements of earnings have been recognized for the year ended August 31, 2018 in the amount of $223 (2017: $223).

19. Financial Instruments

Classification of financial instruments

The classification of the financial instruments is shown in the table below.

	Classification	Measurement
Cash and cash equivalents	loans and receivables	amortized cost
Marketable securities	available-for-sale	fair value
Accounts receivable	loans and receivables	amortized cost
Restricted cash	loans and receivables	amortized cost
Accounts payable	other financial liabilities	amortized cost
Compensation payable	other financial liabilities	amortized cost
Dividends payable	other financial liabilities	amortized cost

Fair value hierarchy
The Company categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.
Level 2: This level includes financial instruments that are not traded in an active market and whose value is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. The specific valuation techniques used to value financial instruments include quoted market prices or dealer quotes for similar instruments.
Level 3: This level includes valuations based on inputs, which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

The Company's financial instruments measured at fair value as at August 31, 2018 and August 31, 2017 consist of marketable securities, which are comprised of managed funds and certain equity securities held for investment obtained through search fees being paid partially in equity of the client as discussed in note 4.

As at August 31, 2018

	Level 1	Level 2	Level 3
Marketable securities	-	5,654	137

As at August 31, 2017

	Level 1	Level 2	Level 3
Marketable securities	-	5,048	172

Fair value
Cash and cash equivalents, accounts receivable, restricted cash, accounts payable, compensation payable and dividends payable are short-term financial instruments whose fair value approximates their carrying amount given their short-term maturity.

The Company has designated marketable securities as available-for-sale and as a result, these marketable securities are recorded at fair value with unrealized gains and losses that are considered temporary in nature being recorded in other comprehensive income. The professionally managed fixed income funds within marketable securities hold a combination of government and corporate bonds and are included within Level 2 of the fair value hierarchy. Since there is only an 'Over the Counter' market for fixed income securities, such securities owned and sold short are valued using independent prices obtained directly from third party pricing vendors and the investment fund's prime brokers. The prices obtained from these sources usually reflect recent trading activity and therefore are indicative of fair value. The remaining marketable securities are included within Level 3 of the fair value hierarchy and are in a private company whose value is derived from estimates used in recent financings with discounts applied to factor in vesting and transferability restrictions on the units held. Other than temporary impairments of marketable securities are recorded within the Company's consolidated statements of earnings. Realized gains and losses are removed from accumulated other comprehensive income and are recognized within the consolidated statements of earnings. A 5% depreciation or appreciation in the value of the marketable securities included within Level 3 of the fair value hierarchy, assuming all other variables remained the same, would have resulted in an increase or decrease in other comprehensive income (loss) of $7 recognized in the unrealized gain (loss) on marketable securities in the Company's consolidated statements of comprehensive earnings for the year ended August 31, 2018 (2017: $9).

The Company is exposed to various financial risks resulting from its operating, investing and financing activities. Financial risk management is carried out by the Company's management, in conjunction with the Investment Committee of the Board of Directors, with respect to investments in marketable securities and management of the Company's cash position. The Company does not enter into arrangements on financial instruments for speculative purposes. The Company's main financial risk exposures, as well as its risk management policy, are detailed as follows:

Foreign currency risk
The Company is exposed to exchange rate risk on US and UK currency denominated monetary assets and liabilities. There is a risk to the Company's earnings from fluctuations in the US dollar and British pound sterling exchange rates and the degree of volatility of changes in those in rates as the Company's financial results are reported in Canadian dollars.

As at August 31, 2018, the Company has a net monetary asset exposure of $5,851 denominated in US dollars (2017: $5,117). A 5% depreciation or appreciation in the Canadian dollar against the US dollar, assuming all other variables remained the same, would have resulted in an increase or decrease in foreign exchange gain (loss) of $293 recognized in the cumulative translation adjustment in the Company's consolidated statements of comprehensive earnings for the year ended August 31, 2018 (2017: $256). As these are long-term investments and not expected to be liquidated to Canadian dollars, they are not hedged.

As at August 31, 2018, the Company has net monetary asset exposure of $586 denominated in British pounds sterling (2017: $915). A 5% depreciation or appreciation in the Canadian dollar against the British pound sterling, assuming all other variables remained the same, would have resulted in an increase or decrease in foreign exchange gain (loss) of $29 recognized in the cumulative translation adjustment in the Company's consolidated statements of comprehensive earnings for the year ended August 31, 2018 (2017: $46). As these are long-term investments and not expected to be liquidated to Canadian dollars, they are not hedged.

Liquidity risk
Liquidity risk is the risk the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, it will have sufficient cash resources to meet its financial liabilities as they come due.

The Company manages liquidity by maintaining adequate cash and cash equivalents balances, monitoring its investment portfolio of marketable securities and monitoring cash requirements to meet expected operational expenses, including capital requirements. The future ability to pay its obligations relies on the Company collecting its accounts receivable in a timely manner and by maintaining sufficient cash and cash equivalents in excess of anticipated needs.

The contractual undiscounted future cash flows of the Company's significant non-derivative financial liabilities are as follows:

	As at August 31, 2018			As at August 31, 2017		
	Less than 6 months	6 months to 1 year	1 to 3 years	Less than 6 months	6 months to 1 year	1 to 3 years
Accounts payable	2,693	-	-	2,044	-	-
Compensation payable	19,205	-	1,615	15,896	-	958
Dividends payable	408	-	-	408	-	-
	22,306	-	1,615	18,348	-	958

Credit risk
Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to credit risk consist principally of cash and cash equivalents, accounts receivable, marketable securities and restricted cash. The Company places its cash and cash equivalents with high credit quality financial institutions. Similarly, the professionally managed fixed income funds within marketable securities are held by reputable financial institutions and hold government and other investment grade fixed income securities. The Company's policy regarding equity instruments within marketable securities is to sell the investments as soon as the Company is reasonably able to do so.

Accounts receivable comprised the following as at August 31:

	As at August 31	
	2018	2017
Accounts receivable	11,016	9,499
Less: Allowance for doubtful accounts	(718)	(522)
	10,298	8,977
Other receivables	560	416
	10,858	9,393

No financial assets are past due except for a portion of accounts receivable. As at August 31, 2018, accounts receivable of $9,120 (2017: $8,503) were fully performing, $1,178 (2017: $474) were over 90 days but not impaired and $718 (2017: $522) were over 90 days and impaired.

The following table summarizes the changes in the allowance for doubtful accounts for the accounts receivable:

	Twelve months ended August 31,	
	2018	2017
Beginning of year	522	598
Provision for impairment	629	926
Receivables written off during the year as uncollectible	(398)	(661)
Unused amounts reversed	(35)	(341)
End of year	718	522

Interest rate risk and market price risk
The Company has no external debt outstanding and therefore exposure to interest rate risk on debt facilities is minimal. The Company does invest excess cash in short-term deposits and therefore decreases in interest rates impact the amount of interest income earned from those investments. Marketable securities are comprised of investments in pooled funds, equities and private company investments, which are also subject to market price risk (i.e., fair value fluctuates based on changes in market prices).

As at August 31, 2018, the Company has $5,791 invested in marketable securities (2017: $5,220). A 5% variation in the market price of underlying securities would have resulted in an increase or decrease in the value of this asset of $290 (2017: $261).

20. Capital Management

The Company's capital is comprised of common shares of the Company, contributed surplus and deficit. The Company manages its capital to ensure financial flexibility, to increase shareholder value through organic growth and selective acquisitions, as well as to allow the Company to respond to changes in economic and/or market conditions. Because the Company continues to remain debt free, it is not subject to any externally imposed capital requirements. There have been no changes in the Company's approach to capital management during the current year.

21. Credit Facility

On September 28, 2016, the Company entered into an agreement with TD Bank to establish a $3,000 revolving demand, floating rate credit facility for future working capital needs. The facility is limited based on 85.0% of the Company's eligible global accounts receivable as defined in the credit agreement, and further reduced to the extent the facility is used in connection with the issuance of letters of credit. The facility bears variable interest on drawn amounts based on the Canadian prime rate plus 1.0% per annum. As at August 31, 2018, no amounts were outstanding on the credit facility and letters of credit of $266 (August 31, 2017: $256) have been issued against the facility.

22. Affiliation Relationships

The Company has entered into licensing arrangements with certain entities to provide executive search services in markets not directly served by the Company. In exchange for the licence fee payments, the licensees will have rights to use the Caldwell Partners brand, search processes, methodologies and related intellectual property. For the year ended August 31, 2018, licence fees amounted to $371 (2017: $310).

On July 13, 2015, the Company entered into a licensing agreement with CPGroup LATAM Ltd. and its subsidiaries (CPGroup). CPGroup operates throughout Latin America. The affiliation agreement has an initial term of five years and provides for CPGroup to pay the Company 2.25% of Latin American revenue for the first two years of the agreement and 4.25% in subsequent years. On June 6, 2017, the Company agreed to extend the 2.25% licensee fee rate to CPGroup for one additional year through July 13, 2018 to provide for their continued increased branding and marketing initiatives in Latin America. On July 13, 2018, the Company agreed to an incremental tiered licensing fee structure which requires CPGroup to pay 4.25% on the first US $5 million of Latin American revenue, 3.25% on the next US $3 million and 2.25% on amounts above US $8million.

The Government of Venezuela has imposed restrictions on removing cash from its country and as a result, licence fee revenue related to CPGroup's Venezuelan operations is not currently recognized. Such licence fees relating to Venezuela will accumulate but will only be recognized when the ability for payment outside of the country is available.

Effective November 8, 2015, the Company entered into a licensing agreement with Simon Monks and Partners Limited, a New Zealand corporation, which subsequently changed its name to The Caldwell Partners International New Zealand Limited.

23. Subsequent Events

On November 13, 2018, the Board of Directors declared a dividend of 2.25 cents per share, payable to holders of common shares of record on November 26, 2018 and to be paid on December 14, 2018.

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At Caldwell, our purpose is to enable organizations to thrive and succeed by helping them identify, recruit and retain their best people.

We believe great talent will transform an organization, turning potential into success. We believe people are the greatest sustainable difference for organizations. We believe identifying, evaluating, recruiting and retaining great talent can make any organization thrive and succeed. That's why we dedicate ourselves to helping organizations find, grow and keep their best people. We work tirelessly together, across offices,competencies and geographies, committed to a common belief in the transformational power of great people.

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