

The Caldwell Partners International Inc.

Management Discussion and Analysis

For the Years Ended August 31, 2016 and August 31, 2015

Management Discussion and Analysis

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

Company Description

The Caldwell Partners International Inc. (“Caldwell Partners®” or “the Company” or “We”) is a premier international provider of executive search and has been for over 40 years. As one of the most trusted advisors in executive search, the Company has a sterling reputation built on successful searches for boards, chief and senior executives, and selected functional experts.

We take pride in delivering an unmatched level of service and expertise to its clients through our client teams from 22 locations throughout the world including Atlanta, Calgary, Charleston, Dallas, London, Los Angeles, Nashville, New York, Philadelphia, San Francisco, Stamford, Toronto and Vancouver, and through our licensee locations in Auckland, Bogota, Buenos Aires, Caracas, Lima, Mexico City, Miami, Santiago and São Paulo.

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, the Company’s ability to attract and retain key personnel; the performance of the Canadian, US domestic and international economies; competition from other companies directly or indirectly engaged in executive search; the possibility of a significant shareholder impacting shareholder votes; foreign currency exchange rate risks; the Company’s ability to invest retained earnings in marketable securities and in short-term money market instruments to generate consistent investment income returns; and volatility of the market price and volume of common shares. 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 10, 2016, should be read in conjunction with the consolidated annual audited financial statements and related notes for the year ended August 31, 2016. 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.

As discussed in note 21 to the consolidated annual financial statements, on October 1, 2014, the Company acquired all of the outstanding shares of Hawksmoor Search Limited (Hawksmoor), an executive search firm based in London, United Kingdom. The results of Hawksmoor's operations have been consolidated with those of the Company from the date of acquisition and are shown as an additional business segment named Europe.

The Company's Canadian parent legal entity holds the right to the Company's brand and intellectual property. During 2015 the Company's Canadian parent legal entity began the process of registering its brand, Caldwell Partners, in select global markets it anticipated entering during the near future including most countries in Latin America. 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, 2016 CPGroup had 20 revenue producing partners 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 2.25% of Latin American revenue for the first two years of the agreement and 4.25% in subsequent years. 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 operating out of Auckland as of August 31, 2016. In exchange for the license 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)	2016	2015	2014
Total revenue	\$ 58,748	\$ 54,527	\$ 45,086
Period end number of partners ¹	38	37	33
Average Number of Partners ¹	38.0	34.8	31.7
Annualized Professional Fees per Partner ¹	\$ 1,516	\$ 1,566	\$ 1,422
Number of Assignments ¹	383	428	388
Number of Assignments per Partner ¹	10.1	12.3	12.2
Average Fee per Assignment ¹	\$ 150	\$ 127	\$ 116
Net earnings for the year attributable to owners of the Company	\$ 881	\$ 1,976	\$ 1,967
Basic earnings per share	\$ 0.044	\$ 0.093	\$ 0.101
Diluted earnings per share	\$ 0.043	\$ 0.092	\$ 0.100
Total assets	\$ 34,699	\$ 37,831	\$ 36,215
Total non-current financial liabilities	\$ 687	\$ 1,326	\$ 553
Cash dividends per share	\$ 0.08	\$ 0.08	\$ 0.07

¹ Please refer to the section on Non-GAAP Financial Measures and Other Operating Measures on page 2 of this document

Discussion of factors impacting the Company's results

The Company has achieved significant revenue growth over the past three years. The 8% revenue increase (1% excluding the impact of foreign exchange fluctuations) from 2015 to 2016 was driven by an 18% increase in the Average Fee (11% excluding the impact of foreign exchange rate fluctuations), a 9%

increase in the Average Number of Partners, partly offset by an 18% decrease in the Number of Assignments per partner.

The 21% revenue increase (12% excluding the impact of foreign exchange fluctuations) from 2014 to 2015 was driven by a 10% increase in the Average Fee (1% excluding the impact of foreign exchange rate fluctuations), a 1% increase in the Number of Assignments per Partner, and a 10% increase in the Average Number of Partners.

Our Average Fee is impacted by economic conditions and related competitive pricing pressures as well as the seniority level of searches undertaken. We protect our Average Fee by maintaining a strategic focus towards securing high level executive placements, which, in turn, have higher compensation levels upon which our fees are based. Yearly average foreign exchange rate movements can also have a significant impact on our Average Fee. The US dollar has increased in value approximately 20% over the periods presented and therefore has driven a significant portion of the higher Average Fee.

The decrease in the Number of Assignments per Partner was primarily attributable to weaker market conditions, particularly in Canada, due largely to the impact of falling oil prices to which its economy is tied, and to an extended period of performance ramp up from two new partners assimilated into our UK office.

The increase in the Average Number of Partners was driven primarily by organic hires as well as our acquisition of Hawksmoor Search, Ltd. based in the United Kingdom in October 2015. The partner headcount metric has increased from 33 in 2014 to 38 at the close of 2016 within our owned operations and from 33 to 58 including our affiliation partners during the same timeframe.

In fiscal 2016, net earnings decreased \$1,095 to \$881 from \$1,976 in the prior year resulting from a \$538 increase in income tax expense on a shift in taxable income being generated in the United States where income tax rates are higher relative to Canada and the UK, coupled with an overall reduction in operating profit of \$898, offset by an increase in investment income of \$341 from the realization of gains from the sale of marketable securities.

The key components of the fiscal 2016 decline in operating profit of \$898 were increased losses in the UK of \$993 over the prior year, charges in the fourth quarter of fiscal 2016 of \$759 related to the sublease and relocation of our New York office premises and \$250 of separation costs associated with aligning our support staff structure to current-state business needs. These year over year cost increases were partially offset by reductions in management short-term and long term compensation of \$1,305 relating to non-attainment of financial performance goals and share price-based accrual adjustments. Aside from the above noted variances, there was a remaining net unfavorable operating performance year-over-year of \$201 arising from declines in Canada related to its weaker economy, partially offset by improved US operations performance.

The 2016 financial results and cost drivers are discussed more fully in the following Operating Results section. Additionally, the Business Outlook section discusses actions taken to reduce our UK losses and fixed costs prospectively and our current views on future operating profit performance.

In fiscal 2015, net earnings increased \$9 to \$1,976 as a result of a \$913 increase in operating profit, a \$39 increase in investment income mostly offset by a \$943 increase in tax expense. Income tax expense in 2015 reflects current tax expense of \$187 and deferred tax expense of \$76. Income tax expense increased in 2015 compared to 2014, as the prior year benefitted from the recognition of deferred tax assets. The

Company has now utilized its ordinary operating loss carryforwards in the US and Canada, which has increased the effective tax rate on future profitable results.

Fiscal 2015 results and results compared to 2014 are more fully discussed within this document under Operating Results and in the prior year Management Discussion and Analysis document as filed on SEDAR.

Operating Results

Revenue

		Q1	Q2	Q3	Q4	Annual
2016	Professional fees	\$ 13,945	\$ 14,281	\$ 13,680	\$ 15,712	\$57,618
	Investment income	\$ -	\$ 787	\$ 90	\$ -	\$ 877
	Professional revenue	\$ 13,945	\$ 15,068	\$ 13,770	\$ 15,712	\$58,495
	License fee revenue	\$ 65	\$ 67	\$ 57	\$ 64	\$ 253
	Revenue	\$ 14,010	\$ 15,135	\$ 13,827	\$ 15,776	\$58,748
	Period end number of partners ¹	38	38	38	38	38
	Average Number of Partners ¹	37.5	38.0	38.0	38.5	38.0
	Annualized Professional Fees per Partner ¹	\$ 1,487	\$ 1,503	\$ 1,440	\$ 1,632	\$ 1,516
	Number of Assignments ¹	105	77	107	94	383
	Number of Assignments per Partner ¹	2.8	2.0	2.8	2.4	10.1
	Average Fee per Assignment ¹	\$ 133	\$ 185	\$ 128	\$ 167	\$ 150
2015	Professional fees	\$ 12,436	\$ 11,874	\$ 14,813	\$ 15,365	\$54,488
	Investment income	\$ -	\$ -	\$ -	\$ -	\$ -
	Professional revenue	\$ 12,436	\$ 11,874	\$ 14,813	\$ 15,365	\$54,488
	License fee revenue	\$ -	\$ -	\$ -	\$ 39	\$ 39
	Revenue	\$ 12,436	\$ 11,874	\$ 14,813	\$ 15,404	\$54,527
	Period end number of partners ¹	34	34	35	37	37
	Average Number of Partners ¹	34.0	34.0	34.8	36.0	34.8
	Annualized Professional Fees per Partner ¹	\$ 1,463	\$ 1,397	\$ 1,703	\$ 1,707	\$ 1,566
	Number of Assignments ¹	115	95	123	95	428
	Number of Assignments per Partner ¹	3.4	2.8	3.5	2.6	12.3
	Average Fee per Assignment ¹	\$ 108	\$ 125	\$ 120	\$ 162	\$ 127

¹ Please refer to the section on Non-GAAP Financial Measures and Other Operating Measures on page 2 of this document

Revenue and operating income are difficult to predict and have historically varied significantly from quarter to quarter. There is no discernible seasonality in our business on a quarterly basis. We track our revenue by professional fees, investment income and license 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 2016 increased 2.3% (1.8% excluding a 0.5% favourable variance from exchange rate fluctuations) over the comparable period last year to \$15,712 (2015: \$15,365).

The positive impact of a higher Average Number of Partners at 38.5 compared to 36.0 in the prior year period was offset by lower productivity per partner. The Number of Assignments per Partner decreased to 2.4 (2015: 2.6), resulting in a decrease in the total Number of Assignments to 94 (2015: 95). The Average Fee per Assignment rose to \$167 (2015: \$162), driven in part by favourable foreign exchange movements of 0.5%.

Year-to-Date Consolidated Professional Fees

Professional fees for the year increased 5.7% (a decline of 0.8% excluding a 6.5% favourable variance from exchange rate fluctuations) over the comparable period last year to \$57,618 (2015: \$54,488).

The positive impact of a higher Average Number of Partners at 38.0 compared to 34.8 in the prior year period and a higher Average Fee per Assignment was offset by lower productivity per partner. The increase in Average Fee per Assignment to \$150 (2015: \$127) was driven by favourable foreign exchange movements of 7.3% and incremental professional fees earned and recognized on placements that began during the current year but related to searches conducted in prior periods. The year-to-date Number of Assignments per Partner decreased to 10.1 (2015: 12.3), resulting in a decrease in the total Number of Assignments to 383 (2015: 428).

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

United States:

Fourth quarter professional fees in the US were up 11.8% (10.5% excluding a 1.3% favourable variance from exchange rate fluctuations) to \$12,063 (2015: \$10,794). The increase was the result of growth in the Average Fee per Assignment and the Number of Assignments per Partner with the Average Number of Partners remaining constant.

Professional fees in the US for the year were up 16.2% (6.8% excluding a 9.4% favourable variance from exchange rate fluctuations) to \$43,170 (2015: \$37,136). Increases in both the Average Fee per Assignment and Average Number of Partners were partially offset by a lower Number of Assignments per Partner during the period.

Canada:

Fourth quarter professional fees in Canada continued to be pressured by economic conditions in Western Canada as well as the Financial Services sector across Canada and were down 24.3% to \$3,139 (2015: \$4,145). The impact of a higher Average Number of Partners was more than offset by a lower Number of Assignments per Partner and a lower Average Fee per Assignment.

Professional fees in Canada for the year were down 25.1% to \$12,260 (2015: \$16,377), with a lower Number of Assignments per Partner and a lower Average Fee per Assignment being only slightly offset by a higher Average Number of Partners.

Europe:

Fourth quarter Europe professional fees were up 19.5% to \$509 (2015: \$426) last year. Year to date professional fees in Europe were \$2,188 versus \$975 last year. The Europe operation was acquired and initiated business on October 1, 2014, and as a result, only eleven months of operations were included in fiscal 2015. Additionally, two partners were added late in the fourth quarter of 2015, so the majority of 2016 had three partners compared to 2015 with only one partner.

Investment income

During fiscal 2016, the firm monetized an equity position obtained as a portion of professional fee consideration in the US from a prior period which resulted in the recognition of \$877 of investment income which was settled in a combination of cash (\$491) and shares of a publicly traded company restricted by a mandatory hold period of six months (\$386). These shares are shown within marketable securities in the Consolidated Statement of Financial Position as of August 31, 2016. Subsequent to finalizing the fee, the value of the shares decreased, with such decrease of \$103 being reflected in accumulated other comprehensive income until the underlying securities are sold. Accounting for investment income and the related equity interests is described in Note 3 to the consolidated financial statements.

The Company holds \$573 (August 31, 2015: nil) in investments in illiquid marketable securities in private companies obtained in addition to cash for performance of search services and reflected in non-current assets in the consolidated statements of financial position.

License Fees

License fees from our affiliations in Latin America and New Zealand for the use of the Caldwell Partners brand and intellectual property were \$64 (2015: \$39) for the fourth quarter and \$253 (2015: \$39) for the full year. As the licensing agreements were signed in the fourth quarter of fiscal 2015 and first quarter of fiscal 2016, respectively, the license fees were lower during 2015.

Cost of Sales

		Q1	Q2	Q3	Q4	Annual
2016	Cost of sales	\$ 10,868	\$ 11,693	\$ 10,596	\$ 11,447	\$44,604
	Cost of sales as a % of professional revenue	77.9%	77.6%	76.9%	72.9%	76.3%
2015	Cost of sales	\$ 9,172	\$ 8,851	\$ 10,801	\$ 11,433	\$40,257
	Cost of sales as a % of professional revenue	73.8%	74.5%	72.9%	74.4%	73.9%

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 license 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 0.1% or \$14 to \$11,447 (0.6% excluding the 0.5% variance from exchange rate fluctuations as the magnitude of the decline in the British pound outweighed the strengthening of the US dollar) from \$11,433. The dollar increase was from higher total compensation linked to the growth in professional revenue. This increase was partially offset by variable partner compensation costs benefiting from revenue in the fourth quarter being weighted towards partners with lower commission percentages. On a segment basis, the year-over-year cost of sales increase of \$14 came from increases in the US (\$793) offset by decreases in Canada (\$758) and Europe (\$21).

As a percentage of professional revenue, cost of sales fell 1.5% to 72.9%, down from 74.4% in the same period last year. The decrease as a percentage of professional revenue was due primarily to the benefits of lower variable partner compensation discussed above and the leverage obtained with having higher quarterly revenue on relatively fixed partner support personnel compensation costs.

Year-to-Date Consolidated Cost of Sales

Cost of sales for the year increased 10.8% to \$44,604 (an increase of 4.0% excluding the 6.8% variance from exchange rate fluctuations) from \$40,257. As a percentage of professional revenue, cost of sales rose to 76.3% as a percentage of professional revenue, up \$4,347 or 2.4% of professional revenue from 73.9% in the same period last year. The increase as a percentage of professional revenue is primarily attributable to the fixed cost of staff added during 2015 in support of rising search volumes which subsequently fell off, particularly in Canada, coupled with the investment hires made in the UK office in the fourth quarter of the previous fiscal year. During the last two quarters of 2016, select reductions in search delivery and support staffing were made to better align with current search volume levels. The Business Outlook section discusses these and other cost alignment actions and our prospective views.

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

United States:

Fourth quarter cost of sales in the US increased \$793 or 9.9% (\$710 or 8.9% on a constant dollar basis), versus the 11.8% increase in US professional revenue, to \$8,780 (2015: \$7,987). Cost of sales declined as a percentage of professional revenue, and represented 72.8% of professional revenue compared to 74.0% in the prior year. Higher partner compensation (up 1.0% as a percentage of professional revenue) was partially offset by lower fixed cost partner support personnel compensation (down 1.8% as a percentage of professional revenue) and lower costs of search delivery materials (down 0.4% as a percentage of professional revenue).

Full year cost of sales in the US increased \$5,129 or 18.4% (\$2,373 or 8.5% on a constant dollar basis), versus the 16.2% increase in US professional revenue to \$33,018 (2015: \$27,889). As a percentage of professional revenue these costs represented 76.5% of professional revenue compared to 75.1% in the prior year. Slightly higher costs of search delivery materials (up 0.1% as a percentage of professional revenue) were offset by slightly lower partner compensation (down 0.2% as a percentage of professional revenue) with partner support personnel compensation flat with the previous year.

Canada:

Fourth quarter cost of sales in Canada decreased \$761 or 25.9% consistent with the Canada professional revenue decline of 24.3% to \$2,179 (2015: \$2,940). There were decreases in all components with partner compensation down \$718, partner support personnel compensation down \$11 and search delivery materials down \$32.

As a percentage of professional revenue, these costs represented 69.4% of professional revenue vs. 70.9% in the prior year. Partner support personnel compensation, which is largely fixed in nature was up 4.7% as a percentage of professional fees as a result of the decrease in professional revenue during the quarter. This increase was offset by lower variable partner compensation on reduced commission tiers and lower search delivery materials, which were down 5.7% and 0.5% as a percentage of professional revenue, respectively.

Year to date cost of sales in Canada decreased 21.1% relative to the Canada professional revenue decline of 25.1% to \$9,095 (2015: \$11,525). Partner compensation decreased by \$2,421 and fixed partner support personnel compensation by \$56, offset slightly by search delivery material costs which are up \$47.

As a percentage of professional revenue these costs represented 74.2% vs. 70.4% in the prior year. The relatively fixed partner support personnel compensation costs and search delivery materials costs have increased 5.0% and 0.7%, respectively largely due to the decrease in professional revenue. Those increases have been offset slightly by lower variable partner compensation on reduced commission tiers (down 1.8% as a percentage of professional revenue).

Europe:

Fourth quarter cost of sales in Europe decreased \$22 (an increase of \$115 on a constant currency basis) to \$485 from \$507 in the comparable period a year ago. Cost of sales represented 95.3% of professional revenue compared to 119.0% in the fourth quarter of last year. This percentage cost decrease is the result of lower partner compensation (down 22.3% as a percentage of professional revenue) and lower fixed cost partner support personnel compensation (down 1.5% as a percentage of professional revenue) partially offset by higher costs of search delivery materials (up 0.3% as a percentage of professional revenue). During the fourth quarter of 2016, one of the partners hired during the fourth quarter of 2015 resigned and a support person was also reduced. This partner had compensation costs in excess of revenue, contributing to the higher cost of sales in Europe compared to the other regions.

Cost of sales in Europe for the year increased \$1,648 (\$1,662 on a constant currency basis) to \$2,491 from \$843 in the comparable period a year ago. Investments made in the fourth quarter of 2015 resulted in higher costs throughout 2016 and transitional revenues did not grow as quickly as the added fixed costs related to minimum partner draws and fixed support personnel costs. As a result, these costs as a percentage of professional revenue increased to 113.9% vs. 86.4% in the same period last year. This increase was the result of higher partner compensation (up 18.1% as a percentage of professional revenue or \$1,092), higher partner support personnel compensation (up 7.7% as a percentage of professional revenue or \$498) and higher costs of search delivery materials (up 1.6% of professional revenue or \$58). During August, 2016, a partner hired last year in the UK whose compensation and related costs were significantly higher than the revenue produced, left the firm and corresponding reductions were made to the support staff. The Business Outlook section discusses these and other cost alignment actions and our prospective views.

Gross Profit and Margin

	Q1	Q2	Q3	Q4	Annual
2016	\$ 3,142 22.4%	\$ 3,442 22.7%	\$ 3,231 23.4%	\$ 4,329 27.4%	\$14,144 24.1%
2015	\$ 3,264 26.2%	\$ 3,023 25.5%	\$ 4,012 27.1%	\$ 3,972 25.8%	\$14,271 26.2%

Gross profit in the fourth quarter increased 9.0% (5.1% excluding a 3.9% variance from exchange rate fluctuations) to \$4,329 or 27.4% of revenue versus fourth quarter in the previous year (2015: \$3,972 or 25.8% of revenue); the result of the 2.4% increase in revenue offset by the 0.1% increase in Cost of Sales as a percentage of Revenue. On a segment basis, gross profit was \$3,280 from the US, \$1,025 from Canada (\$1,329 less \$298 in intercompany license fee revenue), and \$24 from Europe from the variances discussed in revenue and cost of sales.

On the year, gross profit decreased 0.9% (7.2% excluding a 6.3% variance from exchange rate fluctuations) to \$14,144, from \$14,271 in 2015. The decrease was driven by the 2.4% increase in cost of sales as a percentage of revenue, partially offset by the favourable impact of a 7.7% revenue increase. As a result, gross margin for 2016 was 24.1% (2015: 26.2%). On a segment basis, gross profit was \$11,029 from the US, \$3,418 from Canada (\$4,408 less \$990 in intercompany license fee revenue), and a loss of \$303 from Europe from the variances discussed in revenue and cost of sales.

Expenses

	Q1	Q2	Q3	Q4	Annual
2016	\$ 3,290	\$ 2,733	\$ 2,551	\$ 4,292	\$12,866
2015	\$ 2,957	\$ 2,512	\$ 3,107	\$ 3,518	\$12,094

Fourth Quarter Expenses:

Fourth quarter expenses increased 22.0% or \$774 over the comparable period in the prior year to \$4,292 (2015: \$3,518). Excluding exchange rate variances of \$52, expenses on a constant currency basis increased \$722 or 20.5% over the same period last year.

During the fourth quarter of 2016 we incurred certain expenses in connection with reducing the fixed costs of the Company. In constant currency, this included charges of \$701 related to the sublease and relocation of our New York office premises and \$250 of separation costs associated with aligning our support staff structure to current-state business needs. The New York office relocation will reduce expenses going forward and will generate annual net cash savings while providing an enhanced office experience for clients, candidates and employees. We believe the above two actions will result in lowering annual expenses by approximately \$450. On a cash flow basis, we believe these actions will be cash flow neutral for 2017 and will result in approximately \$330 annual cash savings in future years.

Adjusting for the charges taken, the remaining expenses decreased \$229 on a constant currency basis or 6.5% over the same period last year. The \$229 decrease is the result of higher foreign exchange expense (\$92), marketing and business development costs (\$76) and general cost increases across other categories (\$39) being more than offset by lower support staff management bonus accruals on non-attainment of financial performance targets, net of higher share-based compensation expense (\$155), decreases in the

cost of training from adoption costs of our competency based assessment training held in the prior year not recurring (\$170) and professional fees from costs associated with an unsolicited interest by DHR International, Inc. in acquiring the Company during 2015 (\$111).

On a segment basis, expenses were \$3,336 from the US (\$3,038 net of \$298 in intercompany license fees), \$664 from Canada and \$292 from Europe.

Year-to-Date Expenses:

Full year expenses increased 6.4% or \$772 over the prior year to \$12,866 (2014: \$12,094). Excluding exchange rate variances of \$587, remaining expenses on a constant currency basis increased \$185 or 1.5% over the same period last year. The increase includes the charges taken in the fourth quarter of 2016 discussed above of \$701 in constant currency related to the sublease and relocation of our New York office space as well as the separation costs of \$250.

Adjusting for the charges taken, year over year expenses decreased \$766 on a constant currency basis, or 6.3%. The constant currency cost decreases included reduced management bonuses and share based compensation related to non-attainment of financial performance targets and a lower share price (\$1,031), lower staff training as the initial training on competency based assessment across 2015 was non-recurring (\$245) and one time professional fees from costs associated with an unsolicited interest by DHR International, Inc. in acquiring the Company during 2015 (\$111). These decreases were partially offset by higher occupancy from the expansion of square footage at our United Kingdom location, the addition of our Charleston office and higher lease costs in certain other locations (\$288), increased marketing and business development (\$125), higher depreciation expense from our growth and investment in leased space (\$84), legal fees (\$71) and foreign exchange losses on intercompany loan balances and US dollar bank account balances compared to gains last year (\$47) and general increases across other categories (\$6). On a segment basis, expenses were \$9,649 from the US (\$8,659 net of \$990 in intercompany license fees), \$2,296 from Canada and \$921 from Europe.

Operating Profit

	Q1	Q2	Q3	Q4	Annual
2016	\$ (148) (1.1%)	\$ 709 4.7%	\$ 680 4.9%	\$ 37 0.2%	\$ 1,278 2.2%
2015	\$ 307 2.5%	\$ 511 4.3%	\$ 905 6.1%	\$ 453 2.9%	\$ 2,176 4.0%

For the 2016 fourth quarter, higher revenue (\$372) was more than offset by the higher cost of sales (\$14) and higher expenses (\$774) attributable to the net impact of cost-alignment charges, reduction in bonuses and the other fluctuations discussed above, resulting in a decrease in operating profit of \$416 over the comparable period in the prior year to \$37 (2015: \$453). Excluding favourable exchange rate variances (\$154) and the significant onerous lease charge (\$701) and separation cost associated with realigning support staff structure (\$250), operating profit increased \$381 or 84.1% to \$834.

On a segment basis, the fourth quarter operating profit of \$37 came from the US experiencing a \$55 operating loss (\$243 income excluding the impact of intercompany license fees) and inclusive of the \$759 New York office sublease and relocation charge, Canada producing \$360 of profit (\$62, excluding intercompany license fee revenue) and Europe having an operating loss of \$268 from the variances discussed in revenue, cost of sales and expenses. Thus, excluding intercompany license fees that were not

begun until the fourth quarter of fiscal 2015 and eliminate on consolidation, the absolute decrease in operating profit of \$416 came from declines in the US of \$246 driven by the \$759 New York office sublease and relocation charge, Canada of \$76 on weaker economic conditions and Europe of \$94 on increased staff costs from expansion. Please refer to the Business Outlook section for a forward looking impact discussion of fixed cost reduction initiatives enacted during the fourth quarter of 2016.

For the 2016 full year, higher revenue (\$4,221) offset by increases in cost of sales (\$4,347) and expenses (\$772) from the cost-alignment, reduced management bonuses and other variances discussed above resulted a decrease in operating profit of \$898 to \$1,278 (2015: \$2,176). Excluding favourable exchange rate variances (\$314) and the significant onerous lease charge (\$701) and separation cost associated with realigning support staff structure (\$250), operating profit decreased \$261 or 12.0% to \$1,915.

On a segment basis, for the full year operating profit of \$1,278 came from operating profit in the US of \$1,380 (\$2,370 net of intercompany license fees) and inclusive of the \$759 New York office sublease charge, and operating profit in Canada of \$1,122 (\$133 net of intercompany license fee revenue) being offset by an operating loss of \$1,224 from Europe from investment expansion and the related costs discussed in revenue, cost of sales and expenses. Thus, excluding intercompany license fees that eliminate on consolidation, the decrease in absolute operating profit of \$898 came from an increase in the US of \$914 inclusive of the \$759 office charge taken in 2016, offset by declines in Canada of \$817 arising from a more challenging economic environment during 2016 and increased operating losses in Europe of \$995 from expansion investments made late in 2015 not performing to expectations.

Investment Income from Marketable Securities

	Q1	Q2	Q3	Q4	Annual
2016	\$ 1	\$ 403	\$ -	\$ -	\$ 404
2015	\$ 13	\$ 11	\$ 34	\$ 5	\$ 63

The Company invests excess cash balances and manages market risk by using a third party investment manager to follow the specific investment criteria established and approved by the Board of Directors and designed to reduce exposure to market risk. The Company also holds one equity security with a short-term trade restriction in a publicly traded company obtained through search fees being paid partially in equity of the client. As at August 31, 2016, managed funds and the equity investment were \$4,784 (August 31, 2015: \$7,865) and \$272 (2015: nil), respectively.

For the fourth quarter of 2016, the Company reported no investment income compared to \$5 from the comparable period last year. For the full year 2016, the Company reported investment income of \$404 compared to \$63 in 2015. This year's income includes \$403 of realized gains earned on the liquidation of funds as well as interest on term deposits and other cash balances. The previous year amount includes \$27 of realized gains earned when one fund was liquidated in order for the funds to be invested in another fund.

As at August 31, 2016, the fair value of marketable securities held by the Company of \$5,629 (2015: \$7,765) was \$335 above book value, reflecting a decrease in value of \$100 during the year. The unrealized gain for the year and the cumulative unrealized gain have been reflected in both accumulated other comprehensive income and in the stated value of the investment portfolio.

Earnings

Earnings Before Income Taxes

	Q1	Q2	Q3	Q4	Annual
2016	\$ (147)	\$ 1,112	\$ 680	\$ 37	\$ 1,682
2015	\$ 320	\$ 521	\$ 939	\$ 459	\$ 2,239

Net Earnings

	Q1	Q2	Q3	Q4	Annual
2016	\$ (165)	\$ 764	\$ 339	\$ (57)	\$ 881
2015	\$ 277	\$ 282	\$ 767	\$ 650	\$ 1,976

Basic earnings Per Share

	Q1	Q2	Q3	Q4	Annual
2016	\$ (0.008)	\$ 0.038	\$ 0.017	\$ (0.003)	\$ 0.044
2015	\$ 0.013	\$ 0.013	\$ 0.036	\$ 0.031	\$ 0.093

Income tax expense in the fourth quarter of fiscal 2016 was \$94 (2015: \$192 recovery) from current income tax recovery of \$309 (2015: \$268 recovery) and deferred tax expense of \$403 (2015: \$76).

Income tax expense for the year ending August 31, 2016 was \$801 (2015: \$263) reflecting current tax expense of \$398 (2015: \$187) and deferred tax expense of \$403 (2015: \$76).

Income tax expense for Canada for the quarter ended August 31, 2016 was \$172 (2015: \$108 recovery). For the full year income tax expense for 2016 was \$366 (2015: \$108 recovery) for an effective tax rate of 24.0% based on a statutory tax rate of approximately 26.5% in Canada.

Income tax recoverable for the US for the quarter ended August 31, 2016 was \$78 (2015: \$83 recovery). Full year income tax expense for 2016 was \$496 (2015: \$371) or 35.9% based on a US effective tax rate of approximately 40.0%.

The UK recognized a tax recovery of \$61 representing losses the Company was able to carry back against previous profits earned by Hawksmoor Search Limited, which the Company acquired in October 2014. The UK did not recognize deferred income tax assets of \$245 (2015: \$46) that can be carried forward against future taxable income.

The fourth quarter net loss was \$57 (\$0.003 per share) in 2016, as compared to \$650 of net earnings (\$0.031 per share) in the comparable period a year earlier. The full year net earnings after tax were \$881 (\$0.044 per share) in 2016, versus \$1,976 (\$0.093 per share) in 2015.

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 setting 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, the Company has now declared eighteen quarterly dividends through May 31, 2016 with total dividends declared through August 31, 2016 of 32.0 cents per share or \$6,249 in total.

On November 10, 2016 the Board of Directors declared a dividend of 2.0 cents per share, payable to holders of Common Shares of record on November 21, 2016 and to be paid on December 16, 2016.

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 at its subsidiaries in order to ensure their liquidity.

As at August 31, 2016, the Company had \$5,056 of current marketable securities plus cash and cash equivalents including restricted cash of \$8,609, for a total cash and current marketable securities balance of \$13,665, down \$4,554 from \$18,219 at year-end 2015. The decrease is primarily due to the purchase and cancellation of shares in the Company from DHR (\$1,604 as discussed in the following Outstanding Shares section), dividends paid (\$1,610), contingent consideration paid (\$254) and other changes in net working capital and non-cash transactions (\$1,086).

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, 2016, current Compensation Payable was \$16,125 (2014: \$16,614), total cash and current marketable securities were \$13,665 (2015: \$18,219) and Accounts Receivable were \$10,031 (2015: \$8,239). 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 3 of this document. The following chart sets forth the calculation of Unencumbered Cash and provides reconciliation to cash and cash-equivalents:

	<i>as at</i>	
	<u>August 31</u>	<u>August 31</u>
	<u>2016</u>	<u>2015</u>
Cash and cash-equivalents	\$8,422	\$9,956
Restricted cash	187	498
Marketable securities - current	5,056	7,765
Accounts receivable	10,031	8,329
Net current deferred tax assets	<u>2,891</u>	<u>3,303</u>
	26,587	29,851
Total current liabilities	(20,901)	(21,916)
<i>Excluding</i>		
Deferred revenue	1,187	945
Deferred compensation	<u>(576)</u>	<u>(499)</u>
Total Unencumbered Cash	<u>\$6,297</u>	<u>\$8,381</u>

Accounts receivable were \$10,031 at August 31, 2016, up \$1,702 from \$8,329 at the end of fiscal 2015. Days outstanding based on quarterly revenue were 54 days at August 31, 2016 versus 48 days at August 31, 2015. At August 31, 2016, a reserve of \$598 or approximately 42% of accounts over 90 days old has been taken.

Total liabilities were \$21,772 at August 31, 2016, down \$1,470 from \$23,242 at the end of 2015 reflecting the purchase of shares from DHR International, Inc. as well as the payment of bonuses for 2015, taxes, contingent consideration and a tranche of share based compensation.

The Company's investment in property and equipment at August 31, 2016 was \$1,838 compared with \$1,818 at the end of 2015. This reflects additions of \$414, reclassification of \$238 from deferred rent within Accounts Payable related to tenant improvements received in a lease in the previous year and depreciation expense of \$539, disposals of \$78 and exchange rate fluctuations over the year of \$15. Capital expenditures included computer hardware and software, leasehold improvements and office furniture and equipment.

Shareholders' equity at August 31, 2016 was \$12,927, down \$1,662 from \$14,589 at the end of 2015. This decrease reflects the net earnings for the year of \$881, dividend declared of \$1,610, realized capital gains moved out of accumulated other comprehensive income of \$403, translation losses on consolidation of \$430 and an unrealized loss on marketable securities of \$100.

The Board of Directors believes the payment of regular dividends is in the best interests of the Company and its shareholders. In contemplating dividends declared for 2016 the Board looked at many factors including current earnings results, future earnings projections, cash needs for operational growth and balances of Unencumbered Cash which can act as a buffer against short-term earnings volatility. Adjusting for after tax cost reduction measures of \$640 (\$759 lease charge plus \$250 separation costs less \$369 related taxes) fiscal 2016 net earnings of \$881 would have been \$1,521 relative to dividends declared of \$1,610. Subsequent to shareholder approval of the restatement of capital on May 1, 2012, the Company has now declared eighteen quarterly dividends through August 31, 2016. On November 10, 2016 the

Board of Directors declared a dividend of 2.0 cents per share, payable to holders of Common Shares of record on November 21, 2016 and to be paid on December 16, 2016.

Contractual Obligations

	Total	2017	2018	2019	2020	2021	Thereafter
Operating leases	\$ 14,479	\$ 3,376	\$ 2,919	\$ 2,652	\$ 2,290	1,737	\$ 1,505
Accounts payable	2,384	2,384	-	-	-	-	-
Compensation payable	16,812	16,125	297	115	-	-	275
Dividends payable	403	403	-	-	-	-	-
Contingent consideration	289	289	-	-	-	-	-
Total	\$ 34,367	\$ 22,577	\$ 3,216	\$ 2,767	\$ 2,290	\$ 1,737	\$ 1,780

The operating lease commitments are in respect to the office space required to operate our business and do not reflect offsetting sublease payments. 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 August 31, 2016 the authorized share capital of the Company consists of an unlimited number of Common Shares of which 20,129,155 are issued and outstanding (August 31, 2015: 21,275,155). 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. As discussed in Note 15 to the annual consolidated financial statements, on September 23, 2015 the Company completed its previously announced purchase of shares of the Company from DHR International, Inc. The 1,145,600 shares were purchased at \$1.40 per share for \$1,604 plus associated legal fees. The shares were then cancelled, reducing the Company's outstanding shares from 21,275,155 to 20,129,555.

Business Outlook

In Canada during the first half of fiscal 2016, we experienced significant economic challenges in the Western Canada market, spurred by the impact of falling oil prices to which the region's economy is tied. In the second half of the fiscal year, Canada saw continued weakness in Western Canada, as well as in the Financial Services sector during the third quarter. Stabilization was seen during the fourth quarter with some modest improvements, yet still reflecting a 23% reduction in search volumes in the region year to date.

In the United States, where the majority of our search business is generated, volumes during the first half of the year stayed relatively strong; however there was some weakening during the second half with overall volumes on a per partner basis falling from the historic highs set in the second half of last year. We entered fiscal 2016 with search delivery and support staffing levels suitable to accommodating these high performance levels which did not sustain.

In the United Kingdom, operating results were negatively impacted by our investments in the region, which included the assimilation of two new partners in the fourth quarter of fiscal 2015. The addition of these costs, coupled with weak revenue transitioning in from hires resulted in substantial operating losses

in the UK in the fourth quarter of \$269 (2015: operating loss of \$175) and year to date of \$1,224 (2015: operating loss of \$231).

As a result of the continued weakness in Canada, softening of search volumes in the US, and lack of revenue achievement in the UK, we moved to reduce search delivery and support staffing and certain fixed costs. Specifically, over the last quarter we reduced our non-partner search delivery team from 68 at the end of February to 62 at the end of May to 59 at the end of August. We also reduced the size of our management support team, aligning responsibilities more effectively. During August, 2016, a partner hired last year in the UK whose compensation and related costs were significantly higher than the revenue produced, left the firm. Also during August, as discussed in our Operating Results we subleased our New York office and relocated to an office with a smaller footprint with the goal of reducing costs and improving net cash flow while providing an enhanced office experience for clients, candidates and employees.

We believe our cost structure is now streamlined for our current revenue levels, and taking into account the above actions taken to date globally and to be taken during the first quarter of fiscal 2017 specific to the UK, we anticipate being in a position to achieve the type of growing profitability that we obtained over the prior three years. We remain committed to being in the United Kingdom as important to our strategy of delivering services to our clients and growing a long-term globally profitable business. This may result in additional modest operating losses in the UK region during fiscal 2017, but as a result of our recent actions, not of the magnitude we saw this year.

Additional revenue and earnings growth remains a priority for the Company, but at a measured pace that will not otherwise impede the long term profitability and continuation of regular dividend payments. We expect future growth to be driven by targeted partner hires as we seek to continue to build our practice and functional offerings across geographies in United States, Canada and Europe. As appropriate, we will review acquisition opportunities.

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, 2016 in the amount of \$223 (2015: \$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. 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.

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

Below are the material risks facing our Company. 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 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.

Our business is impacted by economic conditions

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.

Competition

The executive search business is highly competitive in terms of both winning and pricing new engagements. See the “Competition” section in the Annual Information Form. The level of future profits of the Company will depend on its ability to retain its established client base, attracting new clients and maintaining fee levels. One key 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.

Significant Shareholder

C. Douglas Caldwell, the former Chief Executive Officer of The Caldwell Partners International, Inc., is reported to own, directly or indirectly approximately 20% 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.

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. In the current quarter, approximately 80% 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.

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 the Company’s 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 the company 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 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

The Company currently has 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.

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 Company has mitigated the negative impact of share price movements on compensation by also linking the payments to profitability of the Company after accounting for such fluctuations.

Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Company's disclosure controls and procedures. The Chief Executive Officer and Chief 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 Financial Officer, after evaluating the effectiveness of the Company's disclosure procedures as at August 31, 2016, 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 has also evaluated whether there were changes in the Company's internal controls over financial reporting during the reporting period ended August 31, 2016 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 quarter ended August 31, 2016 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.