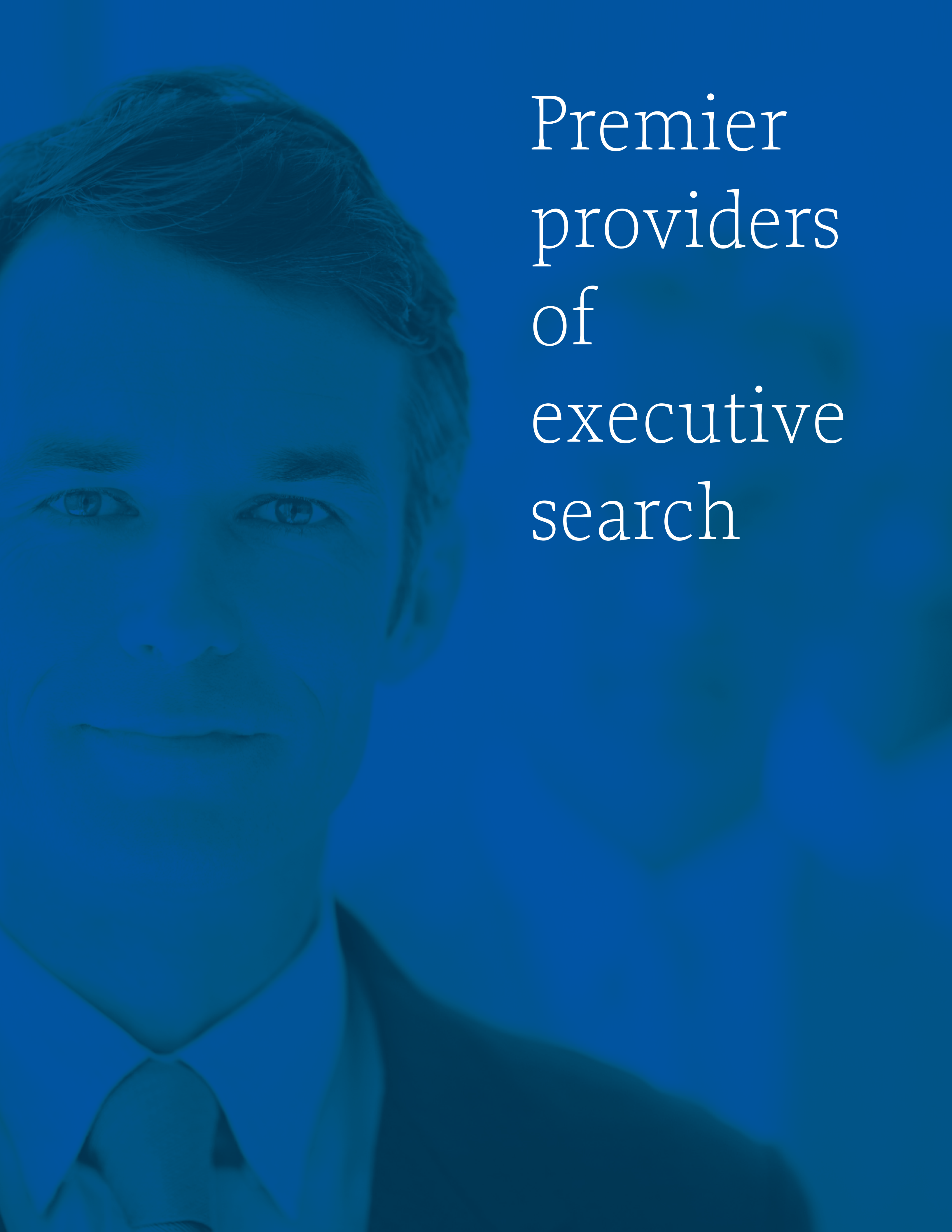
CALDWELL PARTNERS

The Caldwell Partners International Inc.

Annual Report 2011



Premier providers of executive search

Dear Shareholders, Clients, and Friends:

Fiscal 2011 was another year of continuing growth and change for Caldwell Partners. We opened a new office in Atlanta, made five important partner hires, established a strategic alliance with an executive search firm headquartered in Hong Kong, and moved to one common operating database for the first time since the expansion into the United States began. These additions and improvements helped fuel increases in our average fees and billings per partner, both of which contributed to a revenue increase of 27% year-over-year.

Caldwell Partners has now transformed from a respected Canadian brand to a firm with a strong North American presence. We began our fiscal 2009 year with 13 partners in Canada and no operations or partners in the United States. Three years later, 23 of our 34 partners are located in six American offices, accounting for 63% of our total operating revenues.

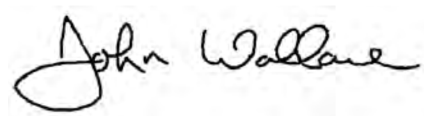
It has been an exciting undertaking to transform this business, and the investments we have made in growing the company have broadened our footprint, deepened our industry and functional expertise and extended our brand across North America. Additionally, the strategic alliances we have established with executive search firms based in London and Hong Kong, further strengthen our international presence and enhance our platform for continued growth.

Having achieved multiple years of strong revenue growth from these strategic investments, we will continue to devote our energies in fiscal 2012 to improving profitability. Our strong focus will remain on enhancing shareholder value with strategic additions of quality people being made to the team.

We are pleased by the great efforts our team made this year, and by the results we are beginning to see. We continue to grow revenues, our team is getting stronger and more cohesive, we are extending our reach with like-minded allies in important international markets, and we remain relentlessly focused on delivering superior service to our clients.

We'd like to thank each and every member of the Caldwell team for the strong financial results that we collectively achieved over the course of the past fiscal year. We are excited about what we've achieved and look forward to the year ahead!

Yours sincerely,



G. Edmund King

Chair of the Board

John N. Wallace

President & Chief Executive Officer

Management Discussion and Analysis

For the Years Ended August 31, 2011 and 2010

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

Company description

The Caldwell Partners International Inc. ("Caldwell Partners" or "the Company") is one of North America's premier providers of executive search and has been for over 40 years. As one of the region's 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.

With offices in Vancouver, San Francisco, Los Angeles, Dallas, Calgary, Atlanta, Toronto, Stamford, New York City, and strategic alliances in London and Hong Kong, the Company takes pride in delivering unmatched level of service and expertise to its 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 herein. Caldwell Partners assumes no obligation to update the forward-looking statements, or to update the reasons why actual results could differ from those reflected in the forward-looking statements.

Presentation

The following discussion and analysis, prepared on November 28, 2011, should be read in conjunction with the audited consolidated financial statements and related notes for the year ended August 31, 2011. The statements have been prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP). All currency amounts are provided in Canadian dollars unless otherwise noted. All references to quarters or years are for the fiscal periods unless otherwise noted. All numbers (except percentages and per share amounts) are expressed in thousands of dollars unless otherwise noted. Certain comparative account balances have been reclassified to achieve comparability to current year balances.

While gross profit, operating profit and unencumbered cash are non-GAAP measures, the Company believes that they provide a useful appreciation of the performance of its core human capital service operations as they exclude income or loss from investments and taxes. The summary of the most recent eight quarters is provided for each income statement category.

Operating Results

Operating Revenue

	Q1	Q2	Q3	**Q4**	**Annual**
2011	$6,455	$8,844	$9,562	**$9,377**	**$34,238**
2010	$3,830	$5,282	$7,366	**$10,426**	**$26,904**

While fiscal 2011 fourth quarter revenues reflect favourably against recent quarters, they are down 10% over the comparable period last year to $9,377. Fiscal 2010 fourth quarter revenues were unusually high due to the commencement of a number of very high-level engagements, as well as some significant final billings, with professional fees being trued up to reflect the actual compensation of placed candidates upon completion of the engagement. While a normal part of the Company's revenue stream, the number and magnitude of some of these fees were unusually high in the fourth quarter of fiscal 2010. Revenues generated in the United States of America (US) represent 66% or $6,147 of the fiscal 2011 fourth quarter total, decreasing from $6,491 in the comparable period of 2010. Revenues from Canadian operations were $3,230 in the fourth quarter of fiscal 2011, also down from $3,935 in the comparable period of 2010.

Annual fiscal 2011 operating revenues increased 27% over fiscal 2010 levels to $34,238. The increase is attributable to year over year growth in Canadian search revenues (6% increase) and strong year over year growth in the US (44% increase), the result of both an increased number of partners and improved partner productivity. The exceptional fiscal 2010 fourth quarter led to a comparably softer fiscal 2011 first quarter, but in the last three quarters of fiscal 2011, revenues rebounded to levels more representative of the Company's current productive resources. Given the Company's size, sector focus, and market volatility, sequential quarterly revenues may continue to be somewhat variable.

Direct Cost of Revenue

	Q1	Q2	Q3	**Q4**	**Annual**
2011	$5,621	$6,924	$7,240	**$6,912**	**$26,697**
2010	$3,188	$3,845	$5,719	**$7,989**	**$20,741**

Direct costs associated with the generation of revenue, being both variable and fixed compensation and related costs of employees involved in search activities, decreased 13% to $6,912 in the fiscal 2011 fourth quarter (2010: $7,989). This decrease reflects the Company's 10% decrease in operating revenue and lower effective rates of commissions paid. Direct costs represented 74% of operating revenue in the fiscal 2011 fourth quarter as compared to 77% in the comparable period of fiscal 2010.

Fiscal 2011 annual direct costs totalled $26,697 or 78% of operating revenues, as compared to $20,741 or 77% in the same period last year. This proportionate increase reflects the Company's ongoing investment in additional search professionals as it executes its strategic growth plan to hire seasoned partners. At August 31, 2011, the firm employed 34 partners compared to 31 partners at August 31, 2010.

Gross Profit and Margin

	Q1	Q2	Q3	**Q4**	**Annual**
2011	$834	$1,920	$2,322	**$2,465**	**$7,541**
	13%	22%	24%	**26%**	**22%**
2010	$642	$1,437	$1,647	**$2,436**	**$6,162**
	17%	27%	22%	**23%**	**23%**

Gross profit in the fourth quarter of fiscal 2011 increased slightly over fiscal 2010 to $2,465 (2010: $2,436). Fiscal 2011 fourth quarter gross margin improved to 26% (2010: 23%). This increased gross margin reflects a 13% decrease in direct costs as compared to a 10% decline in revenue levels.

Annual fiscal 2011 gross operating profit increased to $7,541, up 22% over fiscal 2010 gross operating profit of $6,162. The gross operating margin for the year decreased slightly to 22% (2010: 23%).

General and Administrative Expenses

	Q1	Q2	Q3	**Q4**	**Annual**
2011	$1,942	$1,887	$1,814	**$1,816**	**$7,459**
2010	$1,838	$1,583	$1,696	**$1,660**	**$6,777**

Fiscal 2011 fourth quarter general and administrative expenses increased $156 or 9% over the fourth quarter of last year to $1,816. This increase is attributable to the write-off of the Company's legacy search software. New software was implemented during the fiscal 2011 to improve efficiency and fully-integrate both the US and Canadian operations, making the legacy search software redundant.

Annual general and administrative expenses total $7,459 for fiscal 2011, increasing $682 as compared to $6,777 a year earlier. Approximately half of this increase is the result of foreign exchange losses incurred this year. The aforementioned software write-off, occupancy costs that were comparably higher than the previous year due to the opening of a new Atlanta office and expansions of both the New York and San Francisco offices, and additional compensation costs also contributed to this increase.

Operating Profit

	Q1	Q2	Q3	**Q4**	**Annual**
2011	($1,108)	$33	$508	**$649**	**$82**
	-	0%	5%	**7%**	**0%**
2010	($1,195)	($146)	($49)	**$776**	**($614)**
	-	-	-	**7%**	**-**

Operating margin in the fourth quarter of fiscal 2011 was consistent with the fiscal 2010 fourth quarter at 7%. Operating income in the fourth quarter of fiscal 2011 was down 16% to $649 (2010: $776).

The company achieved a small annual operating profit of $82 for fiscal 2011, improving from an operating loss of $614 in the previous year.

Investment Income

	Q1	Q2	Q3	**Q4**	**Annual**
2011	$16	$15	$20	**$195**	**$246**
2010	$26	$96	$158	**$83**	**$363**

The Company manages market risk by selecting from various instruments available to invest in that meet specific investment criteria established and approved by the Board of Directors and designed to adequately diversify the Company's investments to reduce exposure to market risk. Based on current market values at August 31, 2011, $3,127 (100%) of the investment portfolio is placed with a third party investment manager and held in two pooled funds.

For the fourth quarter of fiscal 2011, the Company reported investment income of $195 versus $83 in the comparable period last year, largely the result of realizing capital gains of $105 in the most recent quarter Annual investment income for the fiscal 2011 year totalled $246 as compared to $363 in fiscal 2010. As a result of a reduction of investments in preferred shares in fiscal 2011, dividend income was only $65 as compared to $103 in fiscal 2010. At the fiscal 2011 year end, the Company held none of its portfolio in preferred shares.

At August 31, 2011 the market value of investments held by the Company was $231 above book value. This unrealized gain has been reflected in both other comprehensive income and in the stated value of the investment portfolio.

Net Earnings

Net Earnings (Loss) Before Tax

	Q1	Q2	Q3	**Q4**	**Annual**
2011	($1,092)	$48	$528	**$844**	**$328**
2010	($1,170)	($1,051)	$109	**$859**	**($1,253)**

Fourth quarter net earnings before tax were $844 in fiscal 2011 as compared to $859 in the comparable period a year earlier, the result of factors noted in the above discussion. Annual net earnings before tax were $328 as compared to a loss of $1.253 million in the comparable period of fiscal 2010.

Fiscal 2010 results also reflect a one-time restructuring charge of $1.0 million relating to the retirement of the Company's founder, C. Douglas Caldwell, executive chairman and director of the Company, and the related agreement to accelerate the planned conversion of the Company's voting Class B Shares to non-voting Class A Shares.

Net Earnings (Loss) After Tax

	Q1	Q2	Q3	Q4	Annual
2011	($1,092)	$48	$528	**$675**	**$159**
2010	($1,170)	($1,051)	$109	**$859**	**($1,253)**
		Earnings (Loss) Per Share			
2011	($0.064)	$0.002	$0.032	**$0.039**	**$0.009**
2010	($0.071)	($0.064)	$0.007	**$0.052**	**($0.076)**

Current tax expense of $242 arose in fiscal 2011 as the result of book to filing differences. No offsetting future tax recovery was recognized as management considered it prudent to adopt a conservative approach in the recognition of tax loss recoveries. As a result a net tax expense of $169 was recorded in fiscal 2011 versus tax expense of nil in fiscal 2010.

Fourth quarter net earnings after tax were $675 or $0.039 per share in fiscal 2011 as compared to $859 ($0.052 per share) in the comparable period a year earlier. Annual earnings after tax of $159 ($0.009 per share) compare to a $1.25 million loss ($0.076 per share) in the comparable period of fiscal 2010.

Dividends

In light of the Company's recent performance and its inability to pay a dividend based on its deficit position, the Company has suspended its dividend.

Liquidity and Capital Resources

The Company's financial performance and its policy of conserving its financial resources in prior years has enabled Caldwell Partners to remain debt-free. As at August 31, 2011, the Company had $3,127 of marketable securities plus cash and cash equivalents of $6,944, for a total of $10,071 down from $10,581 at year-end fiscal 2010. This decline is largely the result of increases in working capital balances and the exclusion of $250 in restricted cash in the form of a term deposit set aside as collateral security enabling the Company to enter foreign exchange hedges with a Canadian financial institution.

The Company continues to take advantage of its financial strength and market opportunities to strategically expand its organization and business, and to build a solid platform for sustainable revenue growth and profitable future returns. These initiatives will continue to require some investment of the Company's capital reserves over a period of time. Management believes that the Company has sufficient liquidity and cash resources to fund both its ongoing operations and its strategic growth initiatives.

In fiscal 2009, the Company began executing its strategic growth plan by opening three new offices, hiring eleven additional partners and acquiring an office in New York City. During fiscal 2010, this growth continued with the addition of eight new partners across the country and opening a fifth new office in Stamford, Connecticut. During the current year the Company opened its newest office in Atlanta, Georgia and added net three new partners. These investments are most often incurred as sign on bonuses for new partner hires which are reflected in operating results over a 24 to 36 month amortization period and in transition costs as revenue levels ramp up relative to new partner draw levels.

Cash and equivalent marketable securities represented approximately 47% of the Company's total balance sheet at August 31, 2011, down from 48% at the end of the fiscal 2010. After considering current accounts receivables and current accounts payable, unencumbered cash and marketable securities total approximately $5.4 million. The Company's investment in marketable securities now comprises only professionally managed investment funds.

Accounts receivable were $6,537 at the end of fiscal 2011, up $662 from $5,875 at the end of fiscal 2010 reflecting an increase in the average number of days outstanding from 42 days last year to 48 days in the current year. This increase in aging is largely attributable the timing of new bookings, with a relatively disproportionate amount of billings occurring late in the fourth quarter of fiscal 2010 as compared to the comparable period this year. Accounts payable were $10,724 at August 31, 2011, up $1,550 from $9,174 at the end of fiscal 2010 with the increase largely reflecting compensation accruals in excess of payments made to partners during the year.

The Company's investment in property and equipment was $1,782 compared with $1,656 at the 2010 year-end. This reflects net additions of $507 net of depreciation of $381. Capital expenditures primarily included leasehold improvements, furniture, computer and office equipment acquired to outfit and equip the Company's new and expanded offices.

Shareholders' equity at August 31, 2011 was $10,744 up from $10,615 at year-end 2010. This increase reflects the net earnings, an unrealized loss on marketable securities of $54 and stock compensation costs of $25.

Business Outlook

Over the past two years, Caldwell Partners has transformed from a respected Canadian brand to a firm with a strong North American presence. The Company began its fiscal 2009 year with 13 partners in Canada and no operations or partners in the United States. In the spring of 2009, the Company opened its first office in the United States and at the end of fiscal 2011, now has 23 of its total 34 partners located in six American offices. The Company has also established strategic alliances with executive search firms based in London and Hong Kong, further strengthening its international presence and enhancing its platform for continued growth.

The importance of the strategic decision to establish operations in the United States is highlighted in the Company's current year. Revenues from the United States year-to-date represent 63% of fiscal 2011 operating revenues. With the addition of four new partners in fiscal 2011, the American operation is poised to continue to grow and is expected to represent an increasing proportion of Company revenues and profitability. With many of the initial investments required to hire new partners now having been expensed, the ongoing costs of partner acquisition should be reduced. Coupled with increasing revenues as these partners ramp up, increasing levels of profitability from operations in the United States are anticipated.

While the Company has more than doubled its revenue-producing potential over the past two and one half years, it has also seen significant improvements in both the average fee level and billings per partner. While entry into new geographic markets will be considered, much of the investment in infrastructure has been completed. As revenues continue to improve, the Company will continue to leverage these costs and with a view to delivering improved profitability and sustainable value for its shareholders over the longer term.

Having achieved multiple years of strong revenue growth from strategic investments made to expand the business, the Company will continue to devote its energies in fiscal 2012 to improving profitability. The Company's strong focus will remain on enhancing shareholder value with strategic additions of quality people being made to the team.

Despite the persistent global economic uncertainty, the executive search business remains relatively healthy in most industry sectors. However, given the relative size of the Company's client-facing team, its sector focus and market variability, fluctuations in quarterly revenues will likely continue. The first quarter of each fiscal year in particular is typically affected by the seasonal impact of slower summer bookings.

Related Party Transactions

The Company paid rent at the exchange amount to affiliated companies owned by a shareholder (C. Douglas Caldwell, until March 23, 2010, Executive Chairman) in the amount of $200 for fiscal 2011 (2010 - $235), net of recoveries from other related parties also controlled by the same shareholder, pursuant to the Company's lease commitments. The exchange amount is the amount of consideration agreed to by the parties of the transaction and was determined to be fair market rental rates at the inception of the lease by two commercial leasing agents.

On August 7, 2009, the Company entered into an amended lease agreement, extending the term for a further ten years and for a reduced amount of space. The terms of this lease were determined to approximate fair market rental rates at the inception of the lease amendment by an independent commercial real estate counsellor and was approved by the independent members of the Board of Directors.

Accounting Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Critical areas where such estimates are made are in the valuation of accounts receivable, marketable securities and the allocation of fair value of acquired intangible assets. Actual results could differ from those estimates.

Risks and Uncertainties

The Company operates in a highly competitive industry and its results may be affected by a number of factors. These factors include, but are not limited to, competition from other companies directly or indirectly engaged in executive search; the ability of the Company to execute its growth strategies; the performance of the Canadian domestic and international economies; the Company's ability to attract and retain key personnel, particularly partners who generate business; and the Company's ability to invest retained earnings in marketable securities and in short-term money market instruments to generate consistent investment income returns. Investments in marketable securities are inherently subject to market risk, which the Company endeavours to manage through a conservative investment policy that adheres to specific criteria set and reviewed by its Board of Directors. The Company is invested in pooled short-term money market instruments designed to adequately diversify its investments to reduce investment risk. Currently, professional investment managers invest and manage the entire $3,127 investment portfolio in accordance with the Company's investment policies. As at August 31, 2011, marketable securities, cash and cash equivalents total approximately $10,071. With the volatility of capital markets, returns on the Company's investment portfolio may diminish. After considering current accounts receivables and current accounts payable, unencumbered cash and marketable securities total approximately $5.4 million.

As the Company's operations in the United States continue to expand, foreign exchange risk will also increase. During the year the Company entered into a forward contract with a commercial banker to sell $2,000 USD to mitigate this risk. That forward agreement expired on August 31st. Subsequent to year-end, two additional forward contracts to sell US dollars totalling $2,000 USD were entered into. Currently, none of the Company's investment portfolio is denominated in U.S. dollars.

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, 2011, 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 financial statements for external purposes in accordance with Canadian GAAP.

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 judgement in evaluating controls and procedures.

Management has used the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organization of the Treadway Commission, to design and assess the effectiveness of internal controls over financial reporting. Based on this assessment the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these internal controls over financial reporting for the Company are effective to provide reasonable assurance regarding the reliability of financial reporting, and the preparation of financial statements for external purpose in accordance with GAAP as of August 31, 2011.

Management has also evaluated whether there were changes in the Company's internal controls over financial reporting during the reporting period ended August 31, 2011 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, 2011.

International Financial Reporting Standards

On February 13, 2008, the Canadian Accounting Standards Board confirmed that the International Financial Reporting Standards (IFRS) will replace Canada's current generally accepted accounting principles for publicly accountable profit-oriented enterprises for interim and annual financial statements effective January 1, 2011.

With an August 31st fiscal year end, the Company will have an IFRS opening balance sheet date of September 1, 2010. Starting with the first quarter of fiscal 2012, the Company will be presenting its financial statements under IFRS. The Company is evaluating the effects of adopting these reporting standards. The key elements of the Company's changeover plan include:

Scoping and diagnostic.

1 High-level analysis to:

- Assess differences between IFRS and GAAP.
- Identify elective and mandatory exceptions available under IFRS.
- Scope out potential impacts on systems and processes.
- Identify impacts on business relationships including contractual arrangements.

2 Impact analysis, evaluation and design:

- Determine projected impact of adopting IRS on financial statements and develop accounting processes.
- Develop and finalize changes to systems and internal controls.
- Address business activities including contractual obligations, hedging, compensation arrangements, budgeting/forecasting.
- Prepare reporting templates and training plan.

3 Implementation and review:

- Collect and compile IFRS information for reporting.
- Train staff.
- Execute changes to information systems and business activities.
- Communicate.

The Company has completed the scoping and diagnostic phase of the changeover plan, has completed the impact analysis, evaluation and design phase, and created an opening IFRS balance sheet as at September 1, 2010.

The Company has identified the following significant differences between its current accounting policies and those required or expected to apply in preparing IFRS financial statements:

- Business combinations: Currently, the Company's US subsidiary is considered a fully-integrated entity and the Company uses the temporal method to translate US dollar monetary items of its US subsidiary at the balance sheet date upon consolidation. This results in all unrealized foreign exchange gains or losses currently being recognized in the operating results of the Company. All non-monetary assets and liabilities are translated at historical exchange rates unless such items are carried at market, in which case they are translated at the balance sheet rate. Under IFRS, the functional currency of the US subsidiary will differ from that of its Canadian parent. As such, all balance sheet items will be translated using the exchange rate in effect at the balance sheet date, rather than applying to monetary items only. The resultant unrealized foreign exchange gain or loss will be captured in other comprehensive income, rather than in the Company's consolidated statements of earnings (loss) as it is currently.

IFRS will also impact the company's note disclosures and likely the classification of certain expenses on its consolidated statement of earnings (loss).

With regards to IFRS transition, the Company is in the process of analyzing the optional exemptions available under IFRS 1 “First-time Adoption of International Financial Reporting Standards” (“IFRS 1”). The exemptions under IFRS 1 applicable to the Company are as follows:

- Business combinations: IFRS1 allows for guidance under the IFRS business combinations standard to be applied either retrospectively or prospectively from the date of transition to IFRS. Retrospective application would require an entity to restate all business acquisitions that meet the definition of business under IFRS occurring before its transition date. The Company is currently assessing its options in this regard.
- Fair value or revaluation as deemed cost: IFRS 1 allows an entity to initially measure an item of property and equipment upon transition to IFRS at fair value as deemed cost, or under certain circumstances using a previous GAAP revaluation. Management has concluded that the depreciated cost under Canadian GAAP is not materially different than under IFRS. Accordingly, no transition adjustment is required.
- Share-based payment transactions: IFRS 1 allows a first time adopter to prospectively apply IFRS 2 “Share Based Payments” to the equity instruments that were granted subsequent to November 2, 2002, and are unvested at the date of transition. The Company’s current method of accounting for stock option expense under GAAP is consistent with the treatment under IFRS. Accordingly, no transitional adjustment is required.
- Designation of previously recognized financial assets and liabilities: The Company has decided that no charges are necessary to the previously recognized financial asset and liability classifications. Accordingly, no transitional adjustment is required.
- Cumulative translation adjustment (CTA): IFRS 1 allows a first-time adopter to zero out the cumulative translation balance on transition. The Company will take this election as they will be accounting for their US operations as a self-sustaining foreign subsidiary prospectively.

The IFRS changeover plan is progressing on schedule.

Other Information

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

Consolidated Financial Statements

For the Years Ended August 31, 2011 and 2010

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. ("the Company"). The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada 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 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 accountants, has been appointed by the shareholders as external auditors of the Company. The 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

Karen E. Richards, CA

SECRETARY AND CHIEF FINANCIAL OFFICER

November 28, 2011

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.** (the Company) and its subsidiaries which comprise the consolidated balance sheets as at August 31, 2011 and August 31, 2010 and the consolidated statements of earnings (loss), comprehensive earnings (loss), shareholders' equity and accumulated other comprehensive income 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 Canadian generally accepted accounting principles, 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.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries as at August 31, 2011 and August 31, 2010 and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants
November 28, 2011
Toronto, Ontario

THE CALDWELL PARTNERS INTERNATIONAL INC.

CONSOLIDATED BALANCE SHEET

	As at August 31	
	2011	*2010*
Assets		
Current Assets		
Cash and short-term deposits	$6,944,084	$6,456,274
Marketable securities (note 4)	3,126,827	4,124,785
Accounts receivable	6,537,347	5,875,065
Income taxes receivable	80,053	87,377
Prepaid expenses and other assets	1,178,793	1,693,133
	17,867,104	18,236,634
Restricted cash	250,000	0
Loans receivable, long-term (note 5)	162,543	471,020
Property and equipment (note 6)	1,781,892	1,655,907
Intangible assets (note 7)	682,829	1,015,728
Goodwill (note 3)	1,235,218	723,390
Future income taxes (note 8)	72,834	0
	$22,052,420	$22,102,679
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	$10,724,428	$9,174,008
Deferred revenue	0	207,346
Current portion of incentive accrual (note 9)	530,250	1,639,818
	11,254,678	11,021,172
Long-term incentive accrual (note 9)	53,490	466,614
	11,308,168	11,487,786
Shareholders' equity		
Capital stock (note 10)	16,064,078	16,064,078
Contributed surplus (note 10)	4,179,399	4,154,196
Deficit	(9,729,821)	(9,888,438)
Accumulated other comprehensive income	230,596	285,057
	10,744,252	10,614,893
	$22,052,420	$22,102,679

Commitments (note 13)
The accompanying notes are an integral part of these 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 (LOSS)

	Year Ending August 31 *2011*	*2010*
Operating revenue	$34,237,803	$26,903,811
Direct cost of revenue	26,696,894	20,741,431
Gross operating profit	7,540,909	6,162,380
Expenses:		
Other employee compensation, general and administration	6,415,995	6,201,296
Depreciation of property and equipment	381,051	325,812
Amortization of intangibles	334,579	271,372
Foreign exchange (gain) loss	327,463	(21,766)
	7,459,088	6,776,714
Earnings (loss) before the following	81,821	(614,334)
Investment income, net	246,261	362,629
Earnings (loss) before the following	328,082	(251,705)
Restructuring costs (note 11)	0	(1,001,055)
Net earnings (loss) before tax	328,082	(1,252,760)
Provision for (recovery of) income taxes (note 8)		
Current	242,299	0
Future	(72,834)	0
	169,465	0
Net earnings (loss) for the year	$158,617	($1,252,760)
Earnings (loss) per share:		
Basic and fully-diluted	$0.009	($0.076)
Weighted average number of shares outstanding:		
Basic	16,985,505	16,587,596
Fully-diluted	17,505,505	17,307,596

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)

	Year Ending August 31 *2011*	*2010*
Net earnings (loss) for the year	$158,617	($1,252,760)
Other comprehensive income:		
Unrealized gain on marketable securities	230,596	285,057
Reclassification of gains included in the consolidated statement of earnings (loss)	(285,057)	(175,384)
	(54,461)	109,673
Comprehensive earnings (loss) for the year	$104,156	($1,143,087)

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

THE CALDWELL PARTNERS INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME

	Deficit	Capital Stock			Contributed Surplus	Accumulated Other Comprehensive Income	Total Shareholders' Equity
		Common Shares	Class A Non-Voting Shares	Class B Voting Shares			
Balance - August 31, 2009	**($8,635,678)**	**$0**	**$16,046,899**	**$17,179**	**$4,098,998**	**$175,384**	**$11,702,782**
Net loss for the year ended August 31, 2010	(1,252,760)	0	0	0	0	0	(1,252,760)
Conversion of Class B to Class A shares, and reclassification to Common shares (note 1(	0	16,064,078	(16,046,899)	(17,179)	0	0	0
Stock compensation (note 10)	0	0	0	0	55,198	0	55,198
Change in unrealized gains and losses on marketable securities available for sale	0	0	0	0	0	109,673	109,673
Balance - August 31, 2010	**($9,888,438)**	**$16,064,078**	**$0**	**$0**	**$4,154,196**	**$285,057**	**$10,614,893**
Net earnings for the year ended August 31, 2011	158,617	0	0	0	0	0	158,617
Stock compensation (note 10)	0	0	0	0	25,203	0	25,203
Change in unrealized gains and losses on marketable securities available for sale	0	0	0	0	0	(54,461)	(54,461)
Balance - August 31, 2011	**($9,729,821)**	**$16,064,078**	**$0**	**$0**	**$4,179,399**	**$230,596**	**$10,744,252**

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

THE CALDWELL PARTNERS INTERNATIONAL INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ending August 31	
	2011	*2010*
Operating Activities		
Net earnings (loss) for the year	$158,617	($1,252,760)
Items not affecting cash		
Depreciation of property and equipment	381,051	325,812
Amortization of intangibles	334,579	271,372
Gain on sale of marketable securities	(176,206)	(198,567)
Stock compensation expense	25,203	55,198
Non-cash incentive compensation	117,122	294,300
Future income taxes	(72,834)	0
	767,532	(504,645)
Net changes in working capital balances related to operations		
Increase in accounts receivable	(662,282)	(2,777,731)
Decrease in income taxes receivable	7,324	233,201
Decrease (increase) in prepaid expenses and other assets	514,340	(673,104)
Increase in accounts payable and accrued liabilities	1,038,592	4,931,529
Decrease in incentive accrual	(1,639,814)	(439,374)
Decrease in deferred revenue	(207,346)	(118,863)
	(181,654)	651,013
Investment Activities		
Proceeds on sale of marketable securities	2,119,703	1,508,615
Purchase of marketable securities	(1,000,000)	0
Decrease (increase) in loans receivable, long-term	308,477	(52,083)
Additions to property and equipment	(507,036)	(264,434)
Disposals of property and equipment	0	4,615
Acquisition of business costs	0	(3,758)
Acquisition of intangible assets	(1,680)	(105,708)
Increase in restricted cash	(250,000)	0
	669,464	1,087,247
Net increase in cash and cash equivalents during the year	487,810	1,738,260
Cash and cash equivalents, beginning of year	6,456,274	4,718,014
Cash and cash equivalents, end of year	$6,944,084	$6,456,274
Cash and cash equivalents is comprised of the following:		
Cash	$6,944,084	$5,734,574
Short-term deposits	0	721,700
	$6,944,084	$6,456,274
Supplementary information:		
Income taxes paid	$262,611	$104,400

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

THE CALDWELL PARTNERS INTERNATIONAL INC.

Notes to Consolidated Financial Statements
For The Years Ended August 31, 2011 and 2010

1. Basis of Presentation

The consolidated financial statements for the years ended August 31, 2011 and 2010 include the accounts of the Company and its subsidiaries: The Caldwell Partners International Ltd., Prince Arthur Advertising Inc., Caldwell Interim Executives Inc. and Caldwell Investments Inc. All material intercompany transactions have been eliminated on consolidation.

2. Significant Accounting Policies

Revenue Recognition

Substantially all revenue is derived from fees for professional services related to executive recruitment performed on a retained basis. The Company also provides its clients from time to time with interim executive placement services and recruitment advertising through subsidiary companies.

Fee revenue from recruitment activities is generally one-third of the placed candidate's first year compensation. Revenue is recognized as services are rendered, generally over a two and one half month period commencing upon client acceptance. Any fees earned in excess of the initial estimate or fees that are contingent on a candidate's future compensation are billed when actual compensation of the placed candidate is known. Where applicable, a portion of revenue for executive searches is deferred until services are fully rendered.

Property and Equipment

Property and equipment are stated at cost, less accumulated amortization. Amortization is calculated at the following annual rates to amortize the cost of assets over their estimated useful lives:

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

Long-Lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, an impairment loss is recognized. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value.

Foreign Currency Translation

Transactions of the Company's Canadian operations denominated in foreign currencies are recorded in Canadian dollars at exchange rates in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are adjusted to reflect exchange rates at the balance sheet date. Foreign exchange gains and losses are recorded as incurred in the consolidated statement of earnings (loss).

The Company's US operations are considered an integrated operation of the parent company and as a result, the net assets have been translated using the temporal method, which translates monetary items at the rate of exchange in effect on the balance sheet date and non-monetary items at historical rates. Revenue and expense items are translated at the rate of exchange in effect on the dates they occur. Foreign exchange gains and losses arising on translation of the US operations are included in the consolidated statement of earnings (loss).

Future Income Taxes

The Company accounts for income taxes using the asset and liability method of income tax allocation. Under this method, assets and liabilities are recorded for the future income tax consequences attributable to differences between the financial statement carrying values of assets and liabilities and their respective income tax bases. These future income tax assets and liabilities are recorded using substantively enacted income tax rates. The effect of a change in income tax rates on these future income tax assets or liabilities is included in income or other comprehensive income in the period in which the change occurs.

Cash and Cash Equivalents

Cash and cash equivalents comprises cash and short-term deposits with original maturity dates of less than three months. Short-term deposits are held in treasury bills, money market instruments and bank deposits earning interest at short-term market rates.

Restricted Cash

As at August 31, 2011, restricted cash includes a term deposit set aside by a Canadian financial institution for collateral security on a foreign exchange hedge entered into by the Company.

Income from Short-Term Investments and Marketable Securities

Realized gains and losses on the disposal of marketable securities are included in investment income. Dividend income is recorded on the dividend record date and interest is recorded as earned.

Prepaid Expenses and Other Assets

Prepaid expenses are capitalized expenditures being amortized over their respective contract periods. Other assets include sign-on bonuses to certain employees which are being amortized over the next twelve to thirty-six months. These payments are contingent on the employee's continued employment and are subject to clawback provisions should the employee terminate his employment prior to the expiration of the clawback period.

Intangible Assets

Intangible assets are recorded at cost and are comprised of client lists and non-competition and non-solicitation agreements. These intangible assets are subject to amortization on a straight-line basis over their estimated useful lives from 3 to 10 years. Also included in the intangible assets is software costs that are not integral to the related hardware. These software costs are being amortized over a period of 2 to 10 years.

Goodwill

Goodwill represents the excess of the purchase price, including acquisition costs, over the fair value of identifiable net assets acquired. Goodwill is reviewed for impairment annually, or more frequently if events or circumstances indicate that it is more likely than not that the asset might be impaired. A discounted cash flow model is used to estimate the fair value of the individual reporting unit. Any write down of goodwill arising from impairment in value is recorded in the period in which the impairment is identified.

Stock Based Compensation

The Company accounts for both its stock option and restricted stock unit plans using the fair value method of accounting for stock based compensation and records stock based compensation over the vesting period of the grants.

Financial instruments

Financial instruments are financial assets and liabilities of the Company which, in general, provide the Company the right to receive cash or another financial asset from another party or require the Company to pay another party cash or other financial assets.

Recognition and Measurement

Financial assets and liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments. Relevant accounting standards require that all financial instruments be classified as either held-for-trading, held-to-maturity, available-for-sale, loans and receivables or liabilities. All financial assets should be measured at amortized cost or fair value depending on the type of instrument and any optional designations by the Company. Financial liabilities are subsequently measured at amortized cost or at fair value if they are classified as held-for-trading purposes. See note 15 for details of the Company's classification of its financial instruments.

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 valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other industry standard valuation techniques derived from observable market inputs.

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.

Derivative Financial Instruments

The Company has entered into short-term foreign-exchange contracts to sell U.S. currency. Forward exchange contracts are purchased from a reputable financial institution. The Company has a risk of loss in the event that the counter-party to the transaction is unable to fulfill its contractual obligation. All forward-exchange contracts are marked-to-market at each reporting period. Gains and losses on forward-exchange contracts are included in (income) expense.

Use of estimates

The preparation of these consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant assumptions made by management in the preparation of the consolidated financial statements relate to allowance for doubtful accounts and fair values to identify potential goodwill and long-lived asset impairments. Actual results could differ from these estimates.

Future Accounting Policy Changes

On February 13, 2008, the Canadian Accounting Standards Board confirmed that the International Financial Reporting Standards (IFRS) will replace Canada's current generally accepted accounting principles (Canadian GAAP) for publicly accountable profit-oriented enterprises for interim and annual financial statements effective January 1, 2011.

With an August 31st fiscal year end, the Company will have an IFRS opening balance sheet date of September 1, 2010. Starting with the first quarter of fiscal 2012, the Company will be presenting its financial statements under IFRS.

The Company is in the process of analyzing the optional exemptions available under IFRS 1 "First-time Adoption of International Financial Reporting Standards ("IFRS 1"). The Company is still in the process of determining which optional exemptions they will elect in compiling their opening IFRS balance sheet.

The only significant difference currently identified by the Company between IFRS and Canadian GAAP involves business combinations and the translation of the Company's US subsidiary on consolidation. In addition to this identified difference, IFRS is also expected to impact the Company's note disclosures and likely the classification of certain expenses on the Company's income statement.

3. Business Acquisition

On August 7, 2009, the Company acquired certain assets of a New York based company which provides executive search consulting services to clients across the United States of America. The results of these operations have been consolidated with those of the Company from the date of acquisition.

The following table summarizes the estimated fair value of the assets acquired at the date of acquisition.

Assets acquired:	
Property, plant and equipment	$42,265
Intangible assets	925,925
Goodwill	415,896
Total consideration paid (including transaction costs of $78,246)	$1,384,086

The acquired value of intangible assets of $925,925 were assigned to client backlog, client lists and non-competition and non-solicitation agreements. All of these intangible assets are subject to amortization over their estimated useful lives from 6 months to 10 years. As at August 31, 2011, the client backlog intangible asset has been fully amortized and the client lists and non-solicitation agreements continue to be amortized over their estimated useful lives set at the date of acquisition. The intangible assets and goodwill amounts are deductible for tax purposes.

In fiscal 2010, additional transaction costs of $3,758 were added to goodwill along with contingent consideration of $303,736 due to actual revenues of the acquired company exceeding the predefined thresholds for fiscal 2010 as per the purchase and sale agreement. Similarly, a further $511,828 was added to goodwill in fiscal 2011, reflecting additional contingent consideration on total revenues generated over the first two years, as per the purchase and sale agreement. This additional consideration remained unpaid at year-end and is accrued within accounts payable and accrued liabilities and represents the final payment under this agreement.

4. Marketable Securities

The Company has investments in marketable securities which are comprised of the following:

	2011 market value	2011 cost, net of writedowns & provisions	2010 market value	2010 cost, net of writedowns & provisions
Managed funds	$ 3,126,827	$ 2,896,231	$ 3,076,927	$ 2,791,081
Preferred shares	0	0	915,550	932,255
Common shares	0	0	132,308	116,392
	$ 3,126,827	$ 2,896,231	$ 4,124,785	$ 3,839,728

During fiscal 2011, the Company disposed of marketable securities with a cost of $1,943,497 and recorded a realized gain on disposition of $176,206

During fiscal 2010, the Company disposed of marketable securities with a cost of $1,310,048 and recorded a realized gain on disposition of $198,567.

5. Loans Receivable

Loans receivable include advances and amounts receivable from employees of the Company. The loans receivable balance is shown net of any amounts owing to employees, where the legal right of offset and net settlement option exists. The loan balances do not bear interest and have various repayment terms. The fair value approximates the carrying value of these loans.

6. Property and Equipment

	2011 cost	2011 accumulated amortization	2011 net book value	2010 cost	2010 accumulated amortization	2010 net book value
Furniture & equipment	$2,134,523	$1,504,615	$629,908	$1,866,918	$1,390,191	$476,727
Computer equipment	1,943,312	1,726,747	216,565	1,907,428	1,650,235	257,193
Computer application software	641,883	536,616	105,267	545,065	468,849	76,216
Leasehold improvements	2,580,862	1,750,710	830,152	2,474,157	1,628,386	845,771
	$7,300,580	$5,518,688	$1,781,892	$6,793,568	$5,137,661	$1,655,907

7. Intangible Assets

	2011 cost	2011 accumulated amortization	2011 net book value	2010 cost	2010 accumulated amortization	2010 net book value
Computer system software	$1,189,667	$1,187,988	$1,679	$1,187,952	$991,029	$196,923
Acquired intangible assets	1,030,063	348,913	681,150	1,030,063	211,258	818,805
	$2,219,730	$1,536,901	$682,829	$2,218,015	$1,202,287	$1,015,728

8. Income Taxes

The following table reconciles income taxes calculated at the combined statutory tax rate with the income tax provision in the consolidated financial statements.

	2011 %	2010 %
Combined statutory income tax rate	31.9	33.6
Decrease resulting from:		
Dividends received on preferred and common shares	(11.4)	3.0
Non-taxable portion of capital losses	(15.4)	0.0
Decrease in valuation allowance	(102.2)	(32.7)
Increase resulting from:		
Non-deductible expenses	5.3	(3.6)
Book to filing differences	137.0	0.0
Other	6.5	(0.3)
	51.7	0.0

Future income tax assets and liabilities are provided for temporary differences between the consolidated financial statement carrying values of existing assets and liabilities and their respective tax bases. The significant components of future income tax assets and liabilities are as follows:

In fiscal 2011, a future income tax asset, for which a valuation allowance was fully provided in prior years, was utilized to offset a portion of the current tax expense arising from book to filing differences.

	2011	2010
Future income tax assets:		
Capital and non capital losses and other deductions available to offset future taxable income (net of valuation allowance of $2,246,921 (2010 - 2,281,247)	$424,229	$452,422
Future income tax liabilities:		
Excess of the carrying values of property and equipment over the tax base	(351,395)	(452,422)
Net future income tax asset	$72,834	-

As at August 31, 2011, the Company has non-capital losses with the following expiry dates available to reduce taxable income in future years:

Expiry	Amount
2028	$225,329
2029	$2,963,779
2030	-
2031	$249,545

The Company also has capital losses of $3,355,000 that can only be utilized against capital gains and are without expiry date.

9. Current and Long-term Incentive Compensation

Incentive compensation accruals include both incentive compensation for some of the Company's top revenue-producing employees as well as a restricted stock unit plan for members of the management team. Payments that have been vested and will be paid in the next twelve months to top revenue-producing employees have been included in the current portion of the incentive accrual. The incentive compensation plan for some of the Company's top revenue-producing employees has now concluded and there are no long-term commitments under this plan as at August 31, 2011 ($466,614 as at August 31, 2010).

The long-term incentive accrual represents a provision for a restricted stock unit plan issued to members of the Company's management team. Incentive compensation expense of $53,490 has been recorded in fiscal 2011 (2010 – nil). A liability has been recorded on the balance sheet at August 31, 2011 within the long-term incentive accrual. For more details on the restricted stock units, see note 10.

10. Capital Stock

Common Shares

On April 21, 2010, pursuant to a settlement with the Company's founder and former Executive Chairman, C. Douglas Caldwell, holders of both Class A Non-voting Shares and Class B Voting Shares voted in favour of accelerating a previously approved share conversion whereby the Company's voting and non-voting shares were converted into a single class of voting shares. Voting Class B Shares received 1.149 Class A Shares for each of their Class B Shares and all Class A Shares became single-voting common shares. Following approval being received by the Toronto Stock Exchange on May 10, 2010, 3,883,450 Class B Shares were converted to 4,462,082 Class A shares. Immediately following this conversion, all Class A Shares were then reclassified as Common Shares with one vote per share.

As at both August 31, 2011 and 2010, the authorized share capital of the Company consists of an unlimited number of Common Shares of which 16,985,505 are issued and outstanding. 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.

Stock Options

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

	2011		2010	
	number of restricted stock units outstanding	weighted average price on date of grant	number of restricted stock units outstanding	weighted average price on date of grant
Outstanding at beginning of year	-	-	-	-
RSUs expired or cancelled	-	-	-	-
RSUs granted	395,000	$0.60	-	-
Outstanding at end of year	395,000	$0.60	-	-

All options outstanding have a strike price equal to the market value of Common Shares on the date of issuance.

On September 11, 2008, 600,000 options to purchase Class A Non-voting Shares with a grant price of $1.05 were approved and issued to the Chief Executive Officer and the Chairman. On November 16, 2009, a further 120,000 options with a grant price of $0.56 were approved and issued to the Chief Executive Officer and Chairman. All options currently outstanding vest over three years and have a contractual life of five years. Options are exercisable at various times over this five-year period, commencing one year from the date of grant, based on the market price of the stock on the date of grant. Stock option expense of $25,203 has been recorded in fiscal 2011 (2010 – $55,198). The fair value of these options was determined using the Black-Scholes option pricing model (using an expected volatility of 22.7%, a risk-free interest rate of 2.5% and an estimated useful life of 4 years).

Restricted Stock Units

On January 13, 2011, 395,000 restricted stock units were granted to members of the management team based on a current market price of $0.60 per share. Restricted stock units are common shares of the Company that are restricted to be issued to members of the management team. These restricted stock units cliff vest three years from the date of grant, and may be settled either in shares or in cash, at either the board or the individual's discretion. Therefore, the estimated cost of this plan is being amortized straight-line over the three year vesting period.

Total outstanding restricted stock units are summarized as follows:

	2011		2010	
	number of restricted stock units outstanding	weighted average price on date of grant	number of restricted stock units outstanding	weighted average price on date of grant
Outstanding at beginning of year	-	-	-	-
RSUs expired or cancelled	-	-	-	-
RSUs granted	395,000	$0.60	-	-
Outstanding at end of year	395,000	$0.60	-	-

11. Restructuring costs

In the second quarter of fiscal 2010, the Company recorded a restructuring charge of $1,001,055 related to the March 23, 2010 retirement of its founder and shareholder C. Douglas Caldwell from the position of Executive Chairman and Director of the Company, and the related agreement to accelerate the planned conversion of the Company's non-voting Class A shares to voting common shares. This amount consisted of $626,055 for settlement and conclusion of Mr. Caldwell's employment contract, an additional $150,000 paid to Mr. Caldwell for legal and other costs, and $225,000 representing the Company's legal and associated costs. This amount was fully paid prior to the fiscal 2010 year end. This transaction represented a related party transaction and was approved by the Board of Directors.

12. Segmented Information

The Company has operations in both Canada and the United States. Both geographic segments provide retained executive search consulting services to clients and have similar economic characteristics.

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

	2011			2010		
	Canada	United States	total	Canada	United States	total
Operating revenue	$12,783,900	$21,453,903	$34,237,803	$11,976,888	$14,926,923	$26,903,811
Operating profit (loss)	$622,066	($540,245)	$81,821	($51,141)	($563,193)	($614,334)
Net earnings (loss)	$909,012	($750,395)	$158,617	($689,567)	($563,193)	($1,252,760)

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

	2011			2010		
	Canada	United States	total	Canada	United States	total
Property and equipment	$1,062,011	$719,881	$1,781,892	$1,177,900	$478,007	$1,655,907
Goodwill	$0	$1,235,218	$1,235,218	$0	$723,390	$723,390
Total assets	$12,111,360	$9,941,060	$22,052,420	$13,053,219	$9,049,460	$22,102,679

13. 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 14, are as follows:

Year ending August 31, 2012	$1,433,045
Year ending August 31, 2013	1,450,113
Year ending August 31, 2014	1,307,351
Year ending August 31, 2015	1,212,512
Year ending August 31, 2016	1,102,991
September 1, 2016 and thereafter	3,944,463
	$10,450,474

14. Related Party Transactions

The Company paid rent at the exchange amount to affiliated companies owned by a shareholder (C. Douglas Caldwell, until March 23, 2010, the Executive Chairman of the Company) in the amount of $200,343 (2010 - $234,504), net of recoveries from other related parties also controlled by the same shareholder, pursuant to the Company's lease commitments. The exchange amount is the amount of consideration agreed to by the parties of the transaction and was determined to be fair market rental rates at the inception of the lease by two commercial leasing agents.

On August 7, 2009, the Company entered into an amended lease agreement, extending the term for a further ten years and for a reduced amount of space. The terms of this lease were determined to approximate fair market rental rates at the inception of the lease amendment by an independent commercial real estate counselor and was approved by the independent members of the Board of Directors.

15. Financial Instruments

Classification of Financial Instruments

Under Canadian generally accepted accounting principles, financial instruments are classified into one of the following categories: held for trading, held to maturity, available for sale, loans and receivables, other financial liabilities and derivatives.

As at August 31, 2011, the classification of the financial instruments, as well as their carrying amounts and fair values, are shown in the table below.

	Classification	Measurement	Carrying Amount	Fair Value
Cash and cash equivalents	held for trading	fair value	$ 6,944,084	$ 6,944,084
Marketable securities	available for sale	fair value	3,126,827	3,126,827
Accounts receivable	loans & receivables	amortized cost	6,537,347	6,537,347
Income taxes receivable	loans & receivables	amortized cost	80,053	80,053
Restricted cash	loans & receivables	fair value	250,000	250,000
Loans receivable	loans & receivables	amortized cost	162,543	162,543
Accounts payable & accrued liabilities	other financial liabilities	amortized cost	10,724,428	10,724,428
Incentive accrual	other financial liabilities	amortized cost	583,740	583,740

As at August 31, 2010, the classification of the financial instruments, as well as their carrying amounts and fair values, are shown in the table below.

	Classification	Measurement	Carrying Amount	Fair Value
Cash and cash equivalents	held for trading	fair value	$ 6,456,274	$ 6,456,274
Marketable securities	available for sale	fair value	4,124,785	4,124,785
Accounts receivable	loans & receivables	amortized cost	5,875,065	5,875,065
Income taxes receivable	loans & receivables	amortized cost	87,377	87,377
Loans receivable	loans & receivables	amortized cost	471,020	471,020
Accounts payable & accrued liabilities	other financial liabilities	amortized cost	9,174,008	9,174,008
Incentive accrual	other financial liabilities	amortized cost	2,106,432	2,106,432

The following table details the fair value hierarchy of financial instruments by level as at August 31, 2011:

	Quoted prices in active market (level 1)	Other observable inputs (level 2)	Unobservable inputs (level 3)	Total
Marketable securities	$3,126,827	-	-	$3,126,827

The following table details the fair value hierarchy of financial instruments by level as at August 31, 2010:

	Quoted prices in active market (level 1)	Other observable inputs (level 2)	Unobservable inputs (level 3)	Total
Marketable securities	$4,124,785	-	-	$4,124,785

Fair value

Cash and cash equivalents, accounts receivable, income taxes receivable and accounts payable and accrued liabilities are short-term financial instruments whose fair value approximates their carrying amount given that they will mature shortly.

The Company has designated the marketable securities in its portfolio as available for sale and as a result, these are recorded at fair value with unrealized gains and losses that are considered temporary in nature being measured in other comprehensive income. Other than temporary impairments of marketable securities are recorded within the Company's consolidated statement of earnings (loss). Realized gains and losses are removed from accumulated other comprehensive income and recognized within the consolidated statement of earnings (loss).

Embedded derivatives (elements of contracts whose cash flows move independently from the host contract) are required to be separated and measured at fair values if certain criteria are met. Management has reviewed its existing contracts and determined that the Company does not currently have any significant embedded derivatives in these contracts that require separate accounting and disclosure.

16. Capital management

The Company's capital is comprised of common shares of the Company 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. While the Company has access to a line of credit, it continues to remain debt free. The Company 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.

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 risk on U.S. currency denominated monetary assets and liabilities. There is a risk to the Company's earnings from fluctuations in Canadian and U.S. dollar exchange rates and the degree of volatility of these rates as the Company's financial results are reported in Canadian dollars.

At August 31, 2011, the Company has net monetary asset exposure of $3,412,611 denominated in U.S. dollars. A 5% depreciation or appreciation in the Canadian dollar against the U.S. dollar, assuming that all other variables remained the same, would have resulted in an increase or decrease in foreign exchange gain/(loss) of $170,631 recognized in the consolidated statement of earnings (loss) for the year ended August 31, 2011.

In fiscal 2011, the Company began entering into foreign exchange forward contracts with a Canadian financial institution to sell US dollars to reduce is foreign exchange risk. One such contract to sell $2 million US expired on August 31, 2011 generating a foreign exchange loss of $17,800 which has been recorded in the consolidated statement of earnings (loss). Subsequent to year end, on September 2, 2011, the Company entered into two other foreign exchange contracts each to sell $1 million US, expiring on October 17, 2011 and December 2, 2011.

Liquidity risk

Liquidity risk is the risk that 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, that 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 equivalent balances, monitoring its investment portfolio, 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 maturities of the Company's significant financial liabilities as at August 31, 2011 are as follows:

	less than 1 year	1 to 3 years
Accounts payable & accrued liabilities	$10,724,428	
Current portion of incentive accrual	$530,250	
Long-term portion of incentive accrual		$53,490

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 and accounts receivable. The Company places its cash and cash equivalents with high credit quality financial institutions.

The carrying amount of the accounts receivable, net of applicable allowances for doubtful accounts, represent the Company's estimated potential credit risk with its clients. The Company's accounts receivable are not highly concentrated with particular clients or with clients in particular industry sectors, thereby minimizing credit risk. Further, the Company monitors its accounts receivable aging on a regular basis. As at August 31, 2011, the Company has accounts receivable balances of $663,855 greater than 90 days (2010 - $347,673) with a provision for doubtful accounts of $225,739 (2010 - $152,527).

Interest Rate Risk

The Company has no external debt 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 which are also subject to market price risk (ie. fair value fluctuates based on changes in market prices).

17. Comparative Figures

In order to provide a more meaningful presentation of revenue and gross operating margins, certain comparative account balances have been reclassified to achieve comparability to current year balances. Revenues from print advertising and interim placements are now reflected net of associated costs within operating revenue, while certain flow through costs are now shown net of associated revenue within direct cost of revenue. This reclassification has resulted in a decrease in the prior year's reported revenue of $2,296,760 for the year ended August 31, 2010. There has also been a corresponding decrease in other direct search costs, with no impact on the reported gross operating profit or net earnings (loss) for the year.

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Corporate Director

Richard D Innes
Consultant and Corporate Director

David A Lewis
Corporate Director

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

Kathryn A Welsh
Consultant and Corporate Director

Officers

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

Karen E Richards, CA
Chief Financial Officer and Corporate Secretary
The Caldwell Partners International Inc.

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Chartered Accountants, Toronto, Ontario

Counsel

Miller Thomson LLP
Barristers and Solicitors, Toronto, Ontario

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The Toronto Stock Exchange (symbol: CWL)

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