The Caldwell Partners International Inc.

Annual Report 2012

Premier providers of executive search

Dear Shareholders, Clients, and Friends:

Fiscal 2012 was a year of important milestones for Caldwell Partners. We reinstated a quarterly dividend in the third quarter, were named a top 10 – and the fastest growing – executive search firm in North America, and posted an annual operating profit of $1.0M. We entered fiscal 2012 with a stated commitment to our Shareholders to devote our energies to improving profitability. In spite of a business climate that remained challenging, our ongoing attention to the management of our cost structure resulted in a substantial year over year increase in profit.

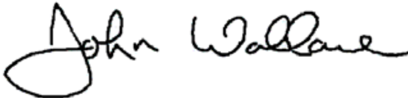
We continue our work to evolve Caldwell Partners into a strong North American firm, and the recognition of our top-10 status was an exciting sign that we have made real progress. We began our fiscal 2009 year with 13 partners in Canada and no operations or partners in the United States. Four years later, 23 of our 34 partners are located in six American offices, accounting for 69% of our total operating revenues.

Our primary objectives are - and always have been - to keep improving our service to our clients and to creating value for our shareholders. To that end, we remain focused on improving our overall market presence and competitiveness. Over the course of this past year, clients have been cautious in making human capital investments, given the economic uncertainty. We remain confident, however, about the long term prospects for executive search in North America and will continue to invest in the growth of our firm.

Our current partner team is a cohesive group of experienced professionals with a remarkable esprit de corps, representing a solid platform from which we can grow. We will make targeted, strategic additions to this team to continue to add to the depth and breadth of our sector and functional experience.

We are pleased by the great efforts our team made this year, and by the results we are attaining. We'd like to thank each and every member of the Caldwell Partners team for the solid financial results that we collectively achieved over the course of the past fiscal year. We are energized by what we have accomplished together 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, 2012 and 2011

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

Company description

The Caldwell Partners International Inc. ("The 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 a strategic presence 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. The 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 23, 2012, should be read in conjunction with the consolidated annual financial statements and related notes for the year ended August 31, 2012. These are the Company's first set of annual financial statements prepared in accordance with the International Financial Reporting Standards (IFRS) thus IFRS1 First –time Adoption of International Financial Reporting Standards have been applied. 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 unless otherwise noted.

Operating Results

Revenue

	Q1	Q2	Q3	**Q4**	**Annual**
2012	$7,271	$7,221	$9,356	**$8,856**	**$32,704**
2011	$6,455	$8,844	$9,562	**$9,377**	**$34,238**

Fiscal 2012 fourth quarter revenue decreased by 6% over the comparable period last year to $8,856. Revenues from US operations represent 66% or $5,841 of the fourth quarter total, decreasing 5% from $6,147 in the comparable period of 2011. Revenues from Canadian operations decreased 7% to $3,015 in the current period from $3,230 in the comparable period of 2011. Sequentially, 2012 fourth quarter revenues were 5% lower than those of the third quarter of fiscal 2012.

Fiscal 2012 annual revenues decreased 4% over the same period a year earlier to $32,704. The decrease is attributable to weakness in Canadian search revenues (down 20%) more than offsetting growth in US search revenues (up 5%). For the full fiscal year US revenues represent 69% of consolidated revenues.

Cost of Sales

	Q1	Q2	Q3	Q4	Annual
2012	$5,912	$5,675	$6,759	**$6,236**	**$24,582**
2011	$5,621	$6,924	$7,240	**$6,912**	**$26,697**

Cost of sales, being both variable and fixed compensation and related costs of employees involved in search activities, decreased 10% to $6,236 in the fiscal 2012 fourth quarter (2011: $6,912). With the majority of these costs being partner compensation that is tied directly to performance, this decreased cost reflects the 6% decline in revenues, as well as a reduction in the amortized cost of new partner sign-on bonuses this year versus last.

Fiscal 2012 annual direct costs decreased 8% to $24,582 reflecting revenue declines of 4% for the year as well as the first quarter reversal of some remaining accruals for fiscal 2011 partner compensation which were no longer required. As well, having secured financial sponsorship for one of the awards programs in the current year, net expense of this program was reduced by $442 over fiscal 2011 levels. Fiscal 2012 direct costs represent 75% of operating revenue, down from 78% of revenue last year.

Gross Profit and Margin

	Q1	Q2	Q3	Q4	Annual
2012	$1,358	$1,546	$2,597	**$2,621**	**$8,122**
	19%	21%	28%	**30%**	**25%**
2011	$834	$1,920	$2,322	**$2,465**	**$7,541**
	13%	22%	24%	**26%**	**22%**

Gross profit in the fourth quarter of fiscal 2012 increased 6% to $2,621 (2011: $2,465). The

gross margin in the fourth quarter of fiscal 2012 increased to 30% (2011: 26%), reflecting an 8% decrease in direct costs that more than offset the 4% revenue decline, as discussed above.

Fiscal 2012 annual gross operating profit rose to $8,122, up from $7,541. The gross operating margin for the year increased to 25% (2011: 22%).

Expenses

	Q1	Q2	Q3	**Q4**	**Annual**
2012	$1,758	$1,792	$1,888	**$1,673**	**$7,111**
2011	$1,842	$1,787	$1,808	**$1,993**	**$7,430**

Expenses decreased 16% from $1,993 in the fourth quarter last year to $1,673 in fiscal 2012. In the fourth quarter of fiscal 2011, the Company wrote off the remaining balance of its legacy search software, resulting in higher than normal expenses during the quarter. As well, management bonus accruals were lower in the current year's fourth quarter as compared to fiscal 2011.

Fiscal 2012 annual expenses totaled $7,111, down 4% over last year for the reasons noted above. As well, higher occupancy costs with new leased premises and higher marketing and public relations costs, have been offset by decreases in foreign exchange expense.

Operating Profit (Loss)

	Q1	Q2	Q3	**Q4**	**Annual**
2012	($401)	($246)	$710	**$948**	**$1,011**
	-	0%	8%	**11%**	**3%**
2011	($1,009)	$133	$514	**$473**	**$111**
	-	2%	5%	**5%**	**0%**

As compared to the comparable period of fiscal 2011, higher gross profit margins and lower expenses in the fourth quarter of fiscal 2012 resulted in an operating profit of $948, double the $473 earned in the previous year. The fiscal 2012 annual operating profit of $1,011 represents a $900 improvement over the $111 earned last year for reasons discussed above.

Investment Income

	Q1	Q2	Q3	Q4	Annual
2012	$2	$7	$1	**$5**	**$15**
2011	$16	$15	$20	**$195**	**$246**

The Company 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. 100% of the $3,303 in the investment portfolio is placed with a third party investment manager and held in two pooled funds.

For the fourth quarter of fiscal 2012, the Company reported investment income of $5 versus $195 in the comparable period last year. Last year's reported amount includes interest and dividend income as well as capital gains on the disposition of preferred share holdings while the current year includes only interest income.

The fiscal 2012 annual investment income was $15 versus $246 in the preceding year for the reasons noted above.

At August 31, 2012, the market value of investments held by the Company was $407 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
2012	($399)	($239)	$711	**$953**	**$1,026**
2011	($992)	$148	$534	**$667**	**$357**

The fourth quarter net earnings before income tax was $953 in fiscal 2012 representing a 43% improvement over net earnings of $667 in the comparable period a year earlier, the result of factors noted in the above discussion.

The fiscal 2012 annual net earnings before income tax was $1,026, a $669 or 187% improvement over the $357 earned last year.

Tax expense of $45 in the fiscal 2012 year arose as the result of marginal taxable income earned on US operations. While the Company carries forward Canadian tax losses, management has adopted a conservative approach and has not recorded the benefit of any future tax recoveries in the Company's accounts.

Net Earnings (Loss)

	Q1	Q2	Q3	**Q4**	**Annual**
2012	($445)	($241)	$711	**$956**	**$981**
2011	($993)	$148	$534	**$498**	**$187**
Earnings (Loss) Per Share					
2012	($0.025)	($0.014)	$0.040	**$0.056**	**$0.058**
2011	($0.058)	$0.009	$0.031	**$0.029**	**$0.011**

The fourth quarter net earnings was $956 ($0.056 per share) in fiscal 2012 as compared to $498 ($0.029 per share) in the comparable period a year earlier.

The fiscal 2012 annual net earnings was $981 ($0.058 per share) in fiscal 2012, a $794 or 425% improvement over the $187 ($0.011 per share) last year.

Dividends

The Board of Directors has declared a dividend of 1.5 cents per share, payable to holders of Common Shares of record on November 26, 2012 on December 14, 2012.

Since shareholders approved a restatement of capital on May 1, 2012 which allowed the Company to reinstate the payment of quarterly dividends, total dividends declared to date are 4.5 cents per share or $764 in total.

Liquidity and Capital Resources

As of August 31, 2012, the Company had $3,303 of marketable securities plus cash and cash equivalents of $6,494, for a total of $9,797, down slightly from $10,071 at year-end fiscal 2011.

Cash and marketable securities represented approximately 50% of the Company's total assets on August 31, 2012, up from 48% at the end of fiscal 2011. After considering current accounts receivable and current accounts payable, unencumbered cash and marketable securities total approximately $7,100 at August 31, 2012, up from $5,600 at the end of fiscal 2011. The Company's investments in marketable securities now comprise only professionally managed funds.

Accounts receivable were $6,123 at the end of fiscal 2012, down $414 from $6,537 at the end of fiscal 2011, due to lower fourth quarter revenues this year versus last. Days outstanding at August 31, 2012 were 56 versus 48 at August 31, 2011. At August 31, 2012, a provision equal to approximately 41% of accounts over 90 days old has been taken.

Total accounts payable were $9,123 at August 31, 2012, down from $11,308 at the end of fiscal 2011. This decrease largely reflects lower accruals required in fiscal 2012 for partner commission and management bonuses given the declines in revenue over fiscal 2011. As well, with the final payment of contingent consideration being made in fiscal 2012, that liability has now been eliminated as compared to an accrual of $510 at August 31, 2011.

The Company's investment in property and equipment at August 31, 2012 was $1,504 compared with $1,701 at the 2011 year-end. This reflects additions of $187 and depreciation expense of $390, net of the impact exchange rate fluctuations over the period. Capital expenditures included computer hardware and software as well as office equipment.

Shareholders' equity at August 31, 2012 was $11,007 up from $10,310 at year-end 2011. This increase reflects the fiscal 2011 year-to-date net profit, an unrealized gain on marketable securities of $176, translation gains on consolidation of $31 and stock

compensation costs of $18, net of $510 for the dividends paid on June 15, 2012 and September 15, 2012. On May 1, 2012, shareholders of the Company approved a resolution to reduce the stated capital of Common Shares by 75%, adding $12,048 to Contributed Surplus. This reduction had no impact on total shareholders' equity, but allowed the Company to reinstate dividend payments and institute a normal course issuer bid to repurchase shares.

The Board of Directors believes that the payment of regular dividends is in the best interests of the Company and all shareholders. Subsequent to shareholder approval of the restatement of capital on May 1, 2012, the Company has now declared three quarterly dividends each of 1.5 cents per common share. While it is the Board of Director's intention to continue quarterly dividend payments, dividends for future periods will be declared at the discretion of the Board of Directors and dependent on the Company's ongoing performance and cash flow requirements.

Business Outlook

Over the past three years, The Caldwell Partners has evolved 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 three Canadian offices 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 2012, 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.

While the overall business climate remains challenging, the Company's ongoing commitment to management of its cost structure has resulted in a substantial year over year increase in earnings. Client companies have been cautious in making human capital investments, given the economic uncertainty, but management remains confident regarding the long term prospects for executive search in North America and will continue to invest in the growth of the Company.

The Company's primary objectives continue to be improving service to its clients and creating value for shareholders. The Company remains focused on improving its

overall market presence and competitiveness and making targeted, strategic additions to its team.

Related Party Transactions

The Company paid rent 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 (2011 - $200,343), pursuant to the Company's lease commitments. 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.

Accounting Estimates

The Company makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. Estimates and judgments applied by management that most significantly affect the Company's financial statements include revenue recognition, allowance for doubtful accounts and impairment of goodwill. 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.

Changes in Accounting Policies

The Company is required to prepare financial statements in accordance with IFRS starting with the first quarter of fiscal 2012 including comparative data for fiscal 2011. Detailed notes on changes to previously reported amounts are included in the notes to the consolidated financial statements for the period ended August 31, 2012.

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 $3,303 investment portfolio in accordance with the Company's investment policies. As at August 31, 2012, marketable securities, cash and cash equivalents total approximately $9,797. 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 $7,100.

As the Company's operations in the United States continue to expand, foreign exchange risk will also increase. At August 31, 2012, the Company held one forward contract to sell US dollars totalling $1,000 USD, expiring on September 14, 2012. That contract settled shortly after the end of the quarter generating a foreign exchange gain of $43. 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, 2012, 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 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 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 IFRS as of August 31, 2012.

Management has also evaluated whether there were changes in the Company's internal controls over financial reporting during the reporting period ended August 31, 2012 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, 2012.

Other Information

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

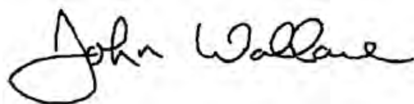
Consolidated Financial Statements

For the Years Ended August 31, 2012 and 2011

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 23, 2012

November 23, 2012

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 statements of financial position as at August 31, 2012, August 31, 2011 and September 1, 2010 and the consolidated statements of earnings, comprehensive earnings (loss), changes in equity and cash flows for the years ended August 31, 2012 and August 31, 2011, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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, 2012, August 31, 2011 and September 1, 2010 and their financial performance and their cash flows for the years ended August 31, 2012 and August 31, 2011 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

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THE CALDWELL PARTNERS INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in $Canadian)

	As at August 31		September 1
	2012	2011	2010
Assets			
Current assets			
Cash and cash-equivalents	6,494,246	6,944,084	$6,456,274
Marketable securities (note 7)	3,303,044	3,126,827	4,124,785
Accounts receivable	6,122,577	6,537,347	5,875,065
Income taxes receivable	49,501	80,053	87,377
Prepaid expenses and other assets	775,572	1,178,793	1,693,133
	16,744,940	17,867,104	18,236,634
Non-current assets			
Restricted cash	252,966	250,000	0
Advances	92,023	162,543	471,020
Property and equipment (note 8)	1,504,015	1,700,721	1,609,306
Intangible assets (note 9)	488,647	597,322	995,769
Goodwill (note 6)	973,458	967,236	1,053,255
Deferred income taxes (note 12)	73,302	72,834	0
Total assets	20,129,351	21,617,760	22,365,984
Liabilities			
Current liabilities			
Accounts payable	2,338,238	2,768,994	2,536,838
Compensation payable	6,343,417	7,445,147	6,326,109
Contingent consideration	0	510,286	722,338
Dividends payable	254,782	0	0
Deferred revenue	0	0	207,346
Current portion of incentive accrual (note 14)	0	530,250	1,639,818
	8,936,437	11,254,677	11,432,449
Non-current liabilities			
Long-term incentive accrual (note 14)	186,267	53,490	466,614
	9,122,704	11,308,167	11,899,063
Equity attributable to owners of the Company			
Share capital (note 15)	4,016,020	16,064,078	16,064,078
Contributed surplus (note 15)	16,245,848	4,179,399	4,154,196
Accumulated other comprehensive income (loss)	122,292	(84,927)	285,057
Deficit	(9,377,513)	(9,848,957)	(10,036,410)
Total equity	11,006,647	10,309,593	10,466,921
Total liabilities and equity	20,129,351	21,617,760	22,365,984

Commitments (note 17)

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

Signed on behalf of the Board:

G. Edmund King
Chair of the Board

Kathryn A. Welsh
Chair of the Audit Committee

THE CALDWELL PARTNERS INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF EARNINGS

(in $Canadian)

	Year Ending August 31	
	2012	*2011*
Revenues	32,703,717	34,237,803
Cost of sales (note 10)	24,582,103	26,696,894
Gross profit	8,121,614	7,540,909
Expenses (note 10)		
General and administrative	6,534,699	6,686,344
Sales & marketing	616,726	577,872
Other gains and losses (net)	(40,696)	166,036
	7,110,729	7,430,252
Operating profit	1,010,885	110,657
Investment income	14,941	246,261
Earnings before income tax	1,025,826	356,918
Income tax (note 12)	44,818	169,465
Net earnings for the year attributable to owners of the Company	981,008	187,453
Earnings per share (note 13):		
Basic and diluted	$0.058	$0.011

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)

(in $Canadian)

	Year Ending August 31	
	2012	*2011*
Net earnings for the year	981,008	187,453
Other comprehensive income:		
Unrealized gain (loss) on marketable securities (net of tax - $0)	176,217	(54,459)
Cumulative translation adjustment (net of tax - $0)	31,002	(315,525)
Comprehensive earnings (loss) for the year attributable to owners of the Company	1,188,227	(182,531)

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

THE CALDWELL PARTNERS INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in $Canadian)

	Deficit	Capital Stock	Contributed Surplus	Accumulated Other Comprehensive Income (Loss) Cumulative Translation Adjustment	Accumulated Other Comprehensive Income (Loss) Unrealized Gains (Losses) on Marketable Securities	Total Equity
Balance - September 1, 2010	**(10,036,410)**	**16,064,078**	**4,154,196**	**0**	**285,057**	**10,466,921**
Net earnings for the year	187,453	0	0	0	0	187,453
Share based payment expense	0	0	25,203	0	0	25,203
Change in unrealized gains and losses on marketable securities available for sale	0	0	0	0	(54,459)	(54,459)
Change in cumulative translation adjustment	0	0	0	(315,525)	0	(315,525)
Balance - August 31, 2011	**(9,848,957)**	**16,064,078**	**4,179,399**	**(315,525)**	**230,598**	**10,309,593**
Net earnings for the year	981,008	0	0	0	0	981,008
Dividend payments declared	(509,564)	0	0	0	0	(509,564)
Share based payment expense	0	0	18,391	0	0	18,391
Reduction of stated capital	0	(12,048,058)	12,048,058	0	0	0
Change in unrealized gains and losses on marketable securities available for sale	0	0	0	0	176,217	176,217
Change in cumulative translation adjustment	0	0	0	31,002	0	31,002
Balance - August 31, 2012	**(9,377,513)**	**4,016,020**	**16,245,848**	**(284,523)**	**406,815**	**11,006,647**

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

THE CALDWELL PARTNERS INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in $Canadian)

	Year Ending August 31	
	2012	*2011*
Cash flow provided by (used in)		
Operating activities		
Net earnings for the year	981,008	187,453
Adjustments for:		
Depreciation	390,406	381,070
Amortization of intangibles	115,016	336,259
Gain on sale of marktable securities	0	(176,206)
Stock compensation expense	18,391	25,203
Unrealized foreign exchange on subsidiary loans	(75,067)	60,529
Non-cash incentive compensation	132,777	117,122
Deferred income taxes	0	(69,005)
Taxes paid	(44,818)	(249,760)
Net changes in working capital		
Decrease (increase) in accounts receivable	484,368	(929,176)
Decrease in income taxes receivable	74,873	257,185
Decrease in prepaid expenses and other assets	409,015	489,870
(Decrease) increase in accounts payable	(455,849)	309,187
(Decrease) increase in compensation payable	(1,169,804)	1,326,157
(Decrease) increase in contingent consideration	(510,286)	(197,856)
Decrease in incentive accrual	(530,250)	(1,639,814)
Decrease in deferred revenue	0	(201,154)
Net cash generated by (used in) operating activities	(180,220)	27,064
Investment activities		
Proceeds on sale of marketable securities	0	2,119,703
Purchase of marketable securities	0	(1,000,000)
Decrease in advances	79,855	208,647
Additions to property and equipment	(187,202)	(508,735)
Additions to intangible assets	0	(1,679)
Increase in restricted cash	(2,966)	(250,000)
Net cash generated by (used in) investing activities	(110,313)	567,936
Financing activities		
Dividend payments	(254,782)	0
Net cash used in financing activities	(254,782)	0
Effect of exchange rate changes on cash and cash equivalents	95,477	(107,190)
Net (decrease) increase in cash and cash equivalents	(449,838)	487,810
Cash and cash equivalents, beginning of year	6,944,084	6,456,274
Cash and cash equivalents, end of year	6,494,246	6,944,084

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

THE CALDWELL PARTNERS INTERNATIONAL INC.

Notes to Consolidated Financial Statements
For The Years Ended August 31, 2012 and 2011

(in $ Canadian)

1. General Information

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

The Company was incorporated by articles of incorporation under the Business Corporations Act (Ontario) on August 22, 1979 and is listed on the Toronto Stock Exchange (symbol: CWL). With operations in both Canada and the United States, the Company's head office is located at 165 Avenue Road, Toronto, Ontario.

The Board of Directors approved these consolidated financial statements for issue on November 23, 2012.

2. Basis of Presentation

These consolidated financial statements include the assets and liabilities and results of operations 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.

3. Adoption of IFRS

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, these are the first annual consolidated financial statements prepared in accordance with IFRS as issued by the IASB. In these consolidated financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These consolidated financial statements have been prepared in compliance with IFRS. Subject to certain transition elections disclosed in note 5, the Company has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position as at September 1, 2010 throughout all periods presented, as if these policies had always been in effect. Note 5 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended August 31, 2011 reported under Canadian GAAP.

4. Significant Accounting Policies, Judgments and Estimation Uncertainty

Significant Accounting Policies

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

Basis of measurement

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

Consolidation

The consolidated financial statements of the Company consolidate the accounts of the Company and its subsidiaries. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Subsidiaries are those entities which the Company controls by having the power to govern the financial and operating policies. Subsidiaries are fully consolidated from the date on which control is obtained and are de-consolidated from the date that control ceases.

Acquisitions are accounted for using the acquisition method. The acquisition method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. On initial recognition, the assets and liabilities of the acquired subsidiary are included in the consolidated balance sheet at their fair values. Goodwill is determined after separately identifying intangible assets. Goodwill represents the excess of acquisition costs over the fair value of the Company's share of identifiable assets of the acquiree at the date of acquisition. Any excess of identifiable net assets over acquisition cost is recognized in profit or loss immediately after acquisition. Transaction costs are expensed as incurred.

The Company records contingent consideration agreements at fair value and classifies them at fair value through profit or loss with movement in the fair value being recognized in the statement of earnings.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

Foreign currency translation

(i) Functional and presentation currency

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

The financial statements of subsidiaries that have a functional currency different from the presentation currency are translated into Canadian dollars as follows: assets and liabilities – at the closing rate at the date of the statement of financial position, and income and expenses – at the average rate of the period (as this is considered a reasonable approximation of the actual rates prevailing at the transaction dates).

All resulting changes are recognized in other comprehensive income as cumulative translation adjustments.

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

(ii) Transactions and balances

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

Cash and cash equivalents

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

Restricted cash

Restricted cash includes a term deposit set aside by a Canadian financial institution for collateral security on foreign exchange contracts entered into by the Company.

Financial instruments

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

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

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

(i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category. The only instruments held by the Company classified in this category are short-term foreign exchange contracts to sell U.S. currency (see (v) below) and contingent consideration as at August 31, 2011 and September 1, 2010.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of earnings. Gains and losses arising from changes in fair value are presented in the statement of earnings within other gains and losses (net) in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which is classified as non-current.

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

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

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

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

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

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

(v) Derivative financial instruments: The Company has entered into short-term foreign-exchange contracts to sell U.S. currency. Foreign 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 foreign exchange contracts are valued at fair value at each reporting period. Gains and losses on forward-exchange contracts are included in general and administrative expense on the consolidated statement of earnings.

Impairment of financial assets

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

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

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

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

Property and equipment

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

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

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

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

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the statement of earnings.

Identifiable intangible assets

The Company's intangible assets are stated at cost less accumulated amortization and are comprised of client lists and non-competition and non-solicitation agreements. These intangible assets are amortized on a straight-line basis in the statement of earnings over their estimated useful lives of 3 to 10 years. Also included in the intangible assets are software costs that are not integral to the related hardware. These software costs are being amortized over 3 years.

Impairment of non-financial assets

Property and equipment and intangible assets (other than goodwill) are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

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

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

Stock-based compensation

The Company grants stock options and restricted stock units periodically to certain employees.

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

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. The Board of Directors may elect to settle in either cash or shares; should the Board of Directors elect to settle in shares, the individual may elect to receive up to half of the settlement in cash. Fair value of each tranche is based on the fair value of the awards at the date of grant, with the fair value being updated at each reporting date. Compensation expense is recognized on a straight-line basis over the vesting period.

The vested awards have been recorded as a current or long-term incentive accrual depending on when they are expected to be paid.

Commission and bonus plans

The Company recognizes a liability and an expense for bonuses and commissions, based on performance measures relevant to the particular employee group. Revenue-producing employees earn bonuses tied directly to individual and team revenue production. Management bonuses are primarily determined based on achievement of planned revenue and operating profit levels, approved by the Board of Directors at the outset of the fiscal year. The Company recognizes the expense and related liability in the year such performance levels are attained.

Provisions

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

Income tax

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

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

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

liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary difference can be recognized.

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

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

Revenue

Revenue is recognized when it is probable that the economic benefits will flow to the Company and service has been provided, the fee is determinable, and collectability is reasonably assured. Fee revenue from recruitment services is generally one-third of the placed candidate's first year compensation. Revenue is recognized as services are rendered, generally over a two and a half month period commencing upon engagement by the client. Any fees earned in excess of the initial retainer 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.

Cost of sales

Cost of sales includes direct costs associated with the generation of revenue, being both variable and fixed compensation and related costs of employees involved in search activities.

Leases

Leases are classified as either operating or finance, based on the substance of the transaction at the inception of the lease.

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

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

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

Share capital

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

Dividends

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

Earnings per share

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

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

Accounting Standards Issued But Not Yet Applied

International Financial Reporting Standard 9, *Financial Instruments* ("IFRS 9")

IFRS 9, Financial Instruments, was issued in November 2009 and addresses classification and measurement for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments — Recognition and Measurement,* except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

This standard is required to be applied for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

The following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

IFRS 10, Consolidated Financial Statements, requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement in the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policy of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC – 12 Consolidation-Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements. The Company has assessed that the adoption of this IFRS will not impact the Company's consolidated financial statements.

IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The adoption of this IFRS will not have a material impact on the Company's consolidated financial statements. However, it will impact the annual disclosures and these disclosures could be extensive.

IAS 1, Presentation of Financial Statements, has been amended to require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. The Company has assessed that the adoption of this IFRS will not materially impact the Company's consolidated financial statements. However, adoption of this IFRS will require additional disclosures.

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

Critical accounting estimates and judgments

The Company makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The following are the estimates and judgments applied by management that most significantly affect the Company's 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 its services performed to date as a proportion of the total services to be performed based on time required to complete a project. Errors in estimating the amount of work required to complete an assignment could lead to an under or overvaluation of revenue.

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 operation in future periods.

Impairment of Goodwill
The Company tests at least annually whether goodwill is subject to any impairment in accordance with the accounting policy stated in Note 4. Various assumptions are made in performing this test, including estimates of future revenue streams, operating costs and discount rates. These assumptions are disclosed in note 6. Future results that differ from management's current estimates would affect the results of operation in future periods.

5. Transition to IFRS

The effect of the Company's transition to IFRS, described in note 3, is summarized in this note as follows:

(i) Transition elections;
(ii) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS; and
(iii) Adjustments to the statement of cash flows.

(i) Transition elections

The Company has applied two transition exemptions from full retrospective application of IFRS, being business combinations and cumulative translation differences. See note 5 (ii) a and b for further explanation.

(ii) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS

Equity	**Explanatory note**	**August 31, 2011**	**September 1, 2010**
Total equity as reported under Canadian GAAP		10,744,252	10,614,893
IFRS adjustments increase (decrease)			
Retroactive restatement of business combinations	a	(213,084)	(80,486)
Translation gain (loss) on consolidation of subsidiary	b	(221,575)	(67,486)
Total equity as reported under IFRS		10,309,593	10,466,921

Comprehensive income	**Explanatory note**	**Year Ended August 31, 2011**
Comprehensive income for the period as reported under Canadian GAAP		104,156
IFRS adjustments increase (decrease)		
Retroactive restatement of business combination	a	(132,598)
Translation gain (loss) on consolidation of subsidiary	b	(154,089)
Comprehensive loss for the period reported under IFRS		(182,531)

Explanatory notes

a. Retroactive restatement of business combination

In accordance with IFRS transition provisions, the Company elected to retrospectively apply IFRS standards with regard to the August 7, 2009 business combination. As a result, the balance sheet as at September 1, 2010 was adjusted as follows:

- Increase in goodwill and contingent consideration of $410,351 following the requirement to measure contingent consideration at fair value under IFRS at the date of acquisition with movements in the fair value being included in the statement of earnings. Under Canadian GAAP, any payment of contingent consideration adjusted the value of goodwill and was not provided for until it was likely to be paid. See note 6 below for the revised purchase equation under IFRS.
- Decrease in goodwill and increase in the deficit of $80,486 for transaction costs that were previously capitalized under Canadian GAAP but are required to be expensed under IFRS.

During the year ended August 31, 2011, under IFRS, the Company recorded an expense of $132,598 in the fourth quarter pertaining to the movement in the fair value of the contingent consideration.

b. Translation gain (loss) on consolidation of subsidiary

Under Canadian GAAP, the Company classified its foreign subsidiary as an integrated foreign operation and therefore the foreign exchange gains and losses on consolidation of the subsidiary was recognized in the statement of earnings. Under IFRS, this method is not permitted and the Company has determined that the functional currency of its foreign subsidiary is the US Dollar. All foreign exchange gains and losses on consolidation are now recognized in accumulated and other comprehensive income (loss). As a result of this change, all non-monetary assets are now translated at current rates which resulted in a decrease in the values of goodwill, intangible assets and property and equipment at September 1, 2010.

In accordance with IFRS transition provisions, the Company has also elected to reset the cumulative translation adjustment account, which includes gains and losses arising from translation of the Company's foreign subsidiary, to zero at the date of transition to IFRS. Accumulated other comprehensive income has been decreased and deficit has been increased by $67,486 at September 1, 2010. During the year ended August 31, 2011, accumulated other comprehensive income has been decreased and the comprehensive loss for the year has been increased by $154,089.

(iii) Adjustments to the statement of cash flows

The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by the Company except for the impact of foreign exchange rate changes on cash and cash equivalents, which are now shown as a separate line in the statement of cash flows following the change in the consolidation method of the US subsidiary discussed above.

6. Business Acquisition

On August 7, 2009, the Company acquired certain assets of Cromwell Partners, 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.

As noted in note 5(ii)a, the Company elected to retrospectively apply IFRS standards with regard to this acquisition. The following table summarizes the fair value of the assets acquired at the date of acquisition.

Assets acquired:	
Property and equipment	39,627
Prepaid rent	34,010
Intangible assets	868,151
Goodwill	1,007,628
Total consideration paid	1,949,416
Consideration comprised of:	
Cash	1,258,369
Contingent consideration	691,047
	1,949,416

The acquired value of intangible assets of $868,151 were assigned to client backlog ($89,478), client lists ($722,581) and non-competition and non-solicitation agreements ($56,092). All of these intangible assets are subject to amortization over their estimated useful lives from 6 months to 10 years. As at August 31, 2012, the client backlog and non-competition and non-solicitation agreements intangible assets have been fully amortized and the client lists 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.

Total consideration includes an amount of $691,047 which is the estimated fair market value of the contingent consideration at the date of acquisition. This contingent consideration was dependent on the acquired company's ability to meet or exceed pre-determined revenue thresholds in each of its first two years of operation. The total amount of contingent consideration was known at August 31, 2011, with $132,598 being the difference between the amount actually paid out and the amount accrued. This additional amount was expensed in general and administrative expenses in the consolidated statement of earnings in the fourth quarter of fiscal 2011.

As the goodwill only relates to this acquisition, it has been fully allocated to this cash generating unit.

In assessing goodwill for impairment at August 31, 2012 and 2011, the Company compared the aggregate recoverable amount of the assets included in the cash generating unit (CGU) in its US segment to its respective carrying amount. The recoverable amount has been determined based on the estimated value in use of the CGU using five year cash flow budgets. For periods beyond the budget period, cash flows were extrapolated using growth rates in the table below. Assumptions made were as follows:

	2012	2011
Average growth rate	5%	5%
Expected gross margin	28%	34%
Discount rate	8%	8%
Client attrition rate	10%	10%

The impairment tests performed resulted in no impairment at August 31, 2012 or August 31, 2011.

7. Marketable Securities

The Company has investments in marketable securities (classified as available for sale financial assets) which are comprised of the following:

	2012		2011		September 1, 2010	
	market value	cost, net of writedowns & provisions	market value	cost, net of writedowns & provisions	market value	cost, net of writedowns & provisions
Managed funds	3,303,044	2,896,231	3,126,827	2,896,231	3,076,927	2,791,081
Preferred shares	-	-	-	-	915,550	932,255
Common shares	-	-	-	-	132,308	116,392
	3,303,044	2,896,231	3,126,827	2,896,231	4,124,785	3,839,728

During fiscal 2012, the Company recorded no realized gains or losses on disposition of available for sale marketable securities.

During fiscal 2011, the Company disposed of available for sale marketable securities with a cost of $1,943,497 and recorded a realized gain on disposition of $176,206. This realized gain was reclassified out of accumulated other comprehensive income (loss) and has been reflected in investment income on the consolidated statement of earnings.

8. Property and Equipment

	furniture and equipment	computer equipment	computer application software	leasehold improvements	total
As at September 1, 2010:					
Cost	1,841,684	1,897,539	538,634	2,467,252	6,745,109
Accumulated depreciation	(1,389,519)	(1,649,710)	(468,491)	(1,628,083)	(5,135,803)
Net book value	452,165	247,829	70,143	839,169	1,609,306
Year ended August 31, 2011:					
Opening net book value	452,165	247,829	70,143	839,169	1,609,306
Additions	269,131	35,335	95,345	107,225	507,036
Depreciation for the period	(114,259)	(76,995)	(67,022)	(122,794)	(381,070)
Exchange differences	(16,738)	(9,397)	(3,197)	(5,219)	(34,551)
Closing net book value	590,299	196,772	95,269	818,381	1,700,721
At September 1, 2011:					
Cost	2,094,077	1,923,477	630,782	2,569,258	7,217,594
Accumulated depreciation	(1,503,778)	(1,726,705)	(535,513)	(1,750,877)	(5,516,873)
Net book value	590,299	196,772	95,269	818,381	1,700,721
Period ended August 31, 2012:					
Opening net book value	590,299	196,772	95,269	818,381	1,700,721
Additions	67,383	62,239	52,301	5,279	187,202
Depreciation for the period	(126,782)	(69,243)	(59,333)	(135,048)	(390,406)
Exchange differences	4,527	978	(442)	1,435	6,498
Closing net book value	535,427	190,746	87,795	690,047	1,504,015
At August 31, 2012:					
Cost	2,165,987	1,986,694	682,641	2,575,972	7,411,294
Accumulated depreciation	(1,630,560)	(1,795,948)	(594,846)	(1,885,925)	(5,907,279)
Net book value	535,427	190,746	87,795	690,047	1,504,015

Depreciation of property and equipment is included in general and administrative expenses in the consolidated statement of earnings.

9. Intangible Assets

	client lists	non-competition & non-solicitation agreements	computer software	total
As at September 1, 2010:				
Cost	755,300	58,632	1,294,604	2,108,536
Accumulated amortization	(75,532)	(19,543)	(1,017,692)	(1,112,767)
Net book value	679,768	39,089	276,912	995,769
Year ended August 31, 2011:				
Opening net book value	679,768	39,089	276,912	995,769
Amortization for the period	(81,050)	(15,632)	(239,577)	(336,259)
Additions	-	-	1,679	1,679
Exchange differences	(21,522)	(10,906)	(31,439)	(63,867)
Closing net book value	577,196	12,551	7,575	597,322
At September 1, 2011:				
Cost	733,778	47,726	1,264,844	2,046,348
Accumulated amortization	(156,582)	(35,175)	(1,257,269)	(1,449,026)
Net book value	577,196	12,551	7,575	597,322
Period ended August 31, 2012:				
Opening net book value	577,196	12,551	7,575	597,322
Amortization for the period	(91,742)	(14,514)	(8,760)	(115,016)
Exchange differences	3,193	1,963	1,185	6,341
Closing net book value	488,647	-	-	488,647
At August 31, 2012:				
Cost	736,971	49,689	1,266,029	2,052,689
Accumulated amortization	(248,324)	(49,689)	(1,266,029)	(1,564,042)
Net book value	488,647	-	-	488,647

Amortization of intangible assets is included in general and administrative expenses in the consolidated statement of earnings.

10. Nature of Expenses

	2012	2011
Compensation costs	26,528,286	28,005,990
Occupancy costs	2,978,331	2,582,171
Marketing and business development costs	616,726	577,872
Depreciation	390,406	381,070
Amortization	115,016	336,259
Change in contingent consideration	-	132,598
Other	1,064,067	2,111,186
	31,692,832	34,127,146

11. Compensation of Key Management

Key management includes the Board of Directors and named executive officers of the Company. Compensation awarded to key management included:

	2012	2011
Salaries & short-term benefits	1,237,539	1,564,001
Share-based payments	123,878	48,917
	1,361,417	1,612,918

12. Income Taxes

	2012	2011
Current tax:		
Current tax on net earnings for the year	45,286	242,299
Deferred tax:		
Origination and reversal of timing differences	(468)	(72,834)
	44,818	169,465

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

	2012	2011
	%	%
Combined statutory income tax rate	28.6	31.9
Dividends received on preferred and common shares	0.0	(11.4)
Non-taxable portion of capital losses	0.0	(15.4)
Utilization of future tax asset not previously recognized	(28.4)	(102.2)
Non-deductible expenses	3.2	5.3
Tax rate differences	0.9	137.0
Other	0.1	2.3
	4.4	47.5

The weighted average applicable tax rate was 4.4% (2011: 47.5%). The decrease is the result of tax rate differences that were incurred in 2011.

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2012	2011
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	319,379	351,395
Deferred tax asset to be recovered within 12 months	125,897	72,834
Deferred tax liabilities:		
Deferred tax liabiltities to be recovered after more than 12 months	(319,379)	(351,395)
Deferred tax liabilities to be recovered within 12 months	(52,595)	0
Deferred tax assets (net)	73,302	72,834

The movement of the deferred income tax account is as follows:

	2012	2011
As of September 1	72,834	0
Credit to the statement of earnings	468	72,834
As of August 31	73,302	72,834

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

Deferred tax asset:

	Compensation Payable	Non-Capital Losses	Total
At September 1, 2010	0	452,422	452,422
(Charged)/credited to statement of earnings	72,834	(101,027)	(28,193)
At August 31, 2011	72,834	351,395	424,229
(Charged)/credited to statement of earnings	468	20,579	21,047
At August 31, 2012	73,302	371,974	445,276

Deferred tax liability:

	Excess Carrying Value of Plant & Equipment Over Tax Base	Other	Total
At September 1, 2010	384,457	67,965	452,422
(Charged)/credited to statement of earnings	(33,062)	(67,965)	(101,027)
At August 31, 2011	351,395	0	351,395
(Charged)/credited to statement of earnings	(32,016)	52,595	20,579
At August 31, 2012	319,379	52,595	371,974

Deferred income tax assets are recognized for tax loss carry-forwards and other timing differences to the extent that realization of the related tax benefit through future taxable earnings are probable. The Company did not recognize deferred income tax assets of $2,124,000 (2011: $2,247,000) that can be carried forward against future taxable income.

As at August 31, 2012, the Company has non-capital losses with the following expiry dates available to reduce taxable income in future years:

Expiry	Amount
2029	2,307,525
2030	52,196
2031	399,720

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

13. Earnings per share

(i) Basic

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

	2012	2011
Net earnings for the year attributable to owners of the Company	981,008	187,453
Weighted average number of Common Shares outstanding	16,985,505	16,985,505
Basic earnings per share	$0.058	$0.011

(ii) Diluted

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

	2012	2011
Net earnings for the year attributable to owners of the Company	981,008	187,453
Weighted average number of Common Shares outstanding	16,985,505	16,985,505
Adjustments for:		
- stock options	18,188	11,613
Weighted average number of common shares for diluted earnings per share	17,003,693	16,997,118
Diluted earnings per share	$0.058	$0.011

14. 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. The incentive compensation plan for top revenue-producing employees has now concluded. As at August 31, 2012, all payments due under this plan have been made with no liability remaining. Final payments under this plan made in January 2012 were included in the current portion of the incentive accrual as at August 31, 2011.

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 $132,777 has been recorded in fiscal 2012 within general and administrative expenses (2011– $53,490). A liability has been recorded on the balance sheet at August 31, 2012 within the long-term incentive accrual. For more details on the restricted stock units, see note 15.

15. Capital Stock

Common Shares

As of August 31, 2012, August 31, 2011 and September 1, 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.

Prior to May 1, 2012, the Company had suspended dividend payments given its deficit position. On May 1, 2012, shareholders of the Company approved a special resolution to reduce the stated capital of the Company by 75%. This transaction resulted in a $12,048,058 reduction of stated capital with an equivalent increase in contributed surplus. As a result, the Company was able to reinstitute dividend payments and make an application to the Toronto Stock Exchange for a normal course issuer bid.

On May 1, 2012, the Board of Directors declared a dividend of 1.5 cents per share which was paid on June 15, 2012 ($254,782 in aggregate). On July 12, 2012, the Board of Directors declared a further dividend of 1.5 cents per share, payable to holders of Common Shares of record on July 23, 2012, with the aggregate amount of $254,782 being paid on September 14, 2012. This latter amount has been accrued in the Company's accounts as at August 31, 2012.

On May 30, 2012, the Toronto Stock Exchange accepted the Company's notice of intention to purchase through a normal course issuer bid up to 845,000 of its Common Shares. No shares have been repurchased as of November 23, 2012.

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:

	2012		2011	
	number of options outstanding	weighted average exercise price	number of options outstanding	weighted average exercise price
Outstanding at beginning of period	720,000	$0.97	720,000	$0.97
Options granted	275,000	$0.68	-	-
Outstanding at end of period	995,000	$0.89	720,000	$0.97

All options outstanding are exercisable over a 5 year period from the date of grant and have strike price equal to the market value of Common Shares on the date of issuance. As at August 31, 2012, 680,000 options were exercisable (2011: 440,000).

On September 11, 2008, 600,000 options to purchase Common 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. On February 6, 2012, 275,000 options with a grant price of $0.68 were approved and issued to a member of the management team. All options currently outstanding vest over two or 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 $18,391 has been recorded in the year ended August 31, 2012 (2011 – $25,203) within general and administrative expenses. The fair value of the options granted during the year was

determined using the Black-Scholes option pricing model (using an expected volatility of 24%, a risk-free interest rate of 2%, a dividend yield of 0%, and an estimated life of 4 years).

Restricted Stock Units

On January 13, 2011, 395,000 restricted stock units (RSUs) 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. The Board of Directors may elect to settle in either cash or shares; should the Board of Directors elect to settle in shares, the individual may elect to receive up to half of the settlement in cash. The estimated cost of this plan is being amortized straight-line over the three year vesting period.

On January 12, 2012, 441,000 restricted stock units were granted to members of the management team based on a current market price of $0.63 per share. These restricted stock units have the same terms as the prior grant and are being accounted for in the same manner as those issued on January 13, 2011.

Total outstanding restricted stock units are summarized as follows:

	2012		2011	
	number of RSUs outstanding	weighted average exercise price	number of RSUs outstanding	weighted average exercise price
Outstanding at beginning of period	395,000	$0.60	-	-
RSUs expired or cancelled	-	-	-	-
RSUs granted	441,000	$0.63	395,000	$0.60
Outstanding at end of period	836,000	$0.62	395,000	$0.60

RSU expense of $132,779 has been recorded in the year ended August 31, 2012 (2011 – $53,490) within general and administrative expenses.

16. Segmented Information

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

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

	2012			2011		
	Canada	United States	total	Canada	United States	total
Revenue	10,181,559	22,522,158	32,703,717	12,783,900	21,453,903	34,237,803
Gross profit	3,592,976	4,528,638	8,121,614	3,694,827	3,846,082	7,540,909
General and administrative	(2,408,262)	(4,126,437)	(6,534,699)	(2,563,540)	(4,122,804)	(6,686,344)
Sales and marketing	(143,554)	(473,172)	(616,726)	(181,758)	(396,114)	(577,872)
Other gains and losses (net)	44,640	(3,944)	40,696	(166,036)	-	(166,036)
Operating profit (loss)	1,085,800	(74,915)	1,010,885	783,493	(672,836)	110,657
Investment income	14,046	895	14,941	246,261	-	246,261
Income tax	-	(44,818)	(44,818)	40,685	(210,150)	(169,465)
Net earnings for the year	1,099,846	(118,838)	981,008	1,070,439	(882,986)	187,453

General and administrative expenses include management fees representing a transfer of corporate overhead expenses from the Canadian parent company to its US subsidiary. For year ending August 31, 2012, management fees amounted to $1,583,308 (2011: $1,685,551).

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

	at August 31, 2012			at August 31, 2011			at September 1, 2010		
	Canada	United States	total	Canada	United States	total	Canada	United States	total
Property and equipment	965,161	538,854	1,504,015	1,062,011	638,710	1,700,721	1,177,899	431,407	1,609,306
Intangible assets	-	488,647	488,647	-	597,322	597,322	196,923	798,846	995,769
Goodwill	-	973,458	973,458	-	967,236	967,236	-	1,053,255	1,053,255
Total assets	11,737,883	8,391,468	20,129,351	12,111,360	9,506,400	21,617,760	13,053,219	9,312,765	22,365,984

Depreciation recorded on property and equipment is as follows:

	2012			2011		
	Canada	United States	total	Canada	United States	total
Depreciation expense	205,584	184,822	390,406	257,866	123,204	381,070
Amortization expense	-	115,016	115,016	195,736	140,523	336,259

17. Commitments

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

Twelve months ending August 31, 2013	1,569,578
Twelve months ending August 31, 2014	1,451,130
Twelve months ending August 31, 2015	1,336,544
Twelve months ending August 31, 2016	1,232,756
Twelve months endingAugust 31, 2017	938,532
September 1, 2017 and thereafter	3,099,033
	9,627,573

During the year ended August 31, 2012, the Company expensed $2,270,792 (2011: $1,940,585) relating to operating leases for its nine locations in Canada and the United States, inclusive of rents paid to a related party described in note 18. This expense is included in general and administrative expenses. With the exception of the Toronto office, all leases are with third party commercial landlords at fair market rental rates at the inception of the lease. Lease terms at inception were five to ten years, dependent on the location.

18. Related Party Transactions

The Company paid rent to an affiliated company owned by a shareholder (C. Douglas Caldwell, until March 23, 2010, the Executive Chairman of the Company) in the amount of $200,343 (2011 - $200,343), pursuant to the Company's lease commitments. 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.

19. Financial Instruments

Classification of Financial Instruments

As at August 31, 2012, 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	loans & receivables	amortized cost	6,494,246	6,494,246
Marketable securities	available for sale	fair value	3,303,044	3,303,044
Accounts receivable	loans & receivables	amortized cost	6,122,577	6,122,577
Restricted cash	loans & receivables	amortized cost	252,966	252,966
Accounts payable	other financial liabilities	amortized cost	2,338,238	2,338,238
Compensation payable	other financial liabilities	amortized cost	6,343,417	6,343,417
Dividends payable	other financial liabilities	amortized cost	254,782	254,782

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	loans & receivables	amortized cost	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
Restricted cash	loans & receivables	amortized cost	250,000	250,000
Accounts payable	other financial liabilities	amortized cost	2,768,994	2,768,994
Compensation payable	other financial liabilities	amortized cost	7,445,147	7,445,147
Contingent consideration	fair value through profit or loss	fair value	510,286	510,286

As at September 1, 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	loans & receivables	amortized cost	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
Accounts payable	other financial liabilities	amortized cost	2,536,838	2,536,838
Compensation payable	other financial liabilities	amortized cost	6,326,109	6,326,109
Contingent consideration	fair value through profit or loss	fair value	722,338	722,338

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 financial 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.

The following table details the fair value hierarchy of the Company's financial instruments measured at fair value by level as at August 31, 2012:

	Level 1	Level 2	Level 3	Total
Marketable securities	3,303,044	-	-	3,303,044

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

	Level 1	Level 2	Level 3	Total
Marketable securities	3,126,827	-	-	3,126,827
Contingent consideration	-	-	510,286	510,286

The following table details the fair value hierarchy of the Company's financial instruments measured at fair value by level as at September 1, 2010:

	Level 1	Level 2	Level 3	Total
Marketable securities	4,124,785	-	-	4,124,785
Contingent consideration	-	-	722,338	722,338

The following table summarizes the changes in contingent consideration:

	2012	2011
Start of year	510,286	722,338
Payments	(510,286)	(311,063)
Accruals	0	99,011
End of year	0	510,286

Fair value

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

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. Realized gains and losses are removed from accumulated other comprehensive income and recognized within the consolidated statement of earnings.

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 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, 2012, the Company has net monetary asset exposure of $3,020,700 denominated in U.S. dollars (2011: $3,412,611). 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 $151,035 recognized in the cumulative translation adjustment in the Company's consolidated statement of financial position for the year ended August 31, 2012 (2011: $170,631).

In fiscal 2011, the Company began entering into foreign exchange forward contracts with a Canadian financial institution to sell US dollars to reduce its foreign exchange risk. Six such contracts each to sell $1 million US expired during the year ending August 31, 2012, generating a net foreign exchange loss of $43,900 (2011: $17,800 loss) which has been recorded in other gains and losses (net) in the consolidated statement of earnings for the year. As at August 31, 2012, the fair value of the foreign exchange forward contract was $28,600 (2011: $0).

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

The contractual maturities of the Company's significant non-derivative financial liabilities as at August 31, 2012 are as follows:

	less than 6 months	6 months to 1 year	1 to 3 years
Accounts payable	2,338,238		
Compensation payable	6,343,417		
Dividends payable	254,782		

The contractual maturities of the Company's significant non-derivative financial liabilities as at August 31, 2011 are as follows:

	less than 6 months	6 months to 1 year	1 to 3 years
Accounts payable	2,768,994		
Compensation payable	7,445,147		

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

As at August 31, 2012, August 31, 2011 and September 1, 2010, accounts receivable were comprised of the following:

	August 31		September 1
	2012	2011	2010
Trade receivables	6,615,460	6,611,404	5,986,341
Less: allowance for doubtful accounts	(531,800)	(225,739)	(152,527)
	6,083,660	6,385,665	5,833,814
Other receivables	38,917	151,682	41,251
	6,122,577	6,537,347	5,875,065

No financial assets are past due except for a portion of trade receivables. As at August 31, 2012, trade receivables of $5,295,752 (2011: $5,843,038) were fully performing, $701,451 (2011: $466,476) were over 90 days but not impaired and $618,257 (2011: $301,890) were over 90 days and impaired.

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

	2012	2011
Start of year	225,739	152,527
Provision for impairment	431,395	147,402
Receivables written off during the year as uncollectible	(50,627)	(21,000)
Unused amounts reversed	(74,707)	(53,190)
End of year	531,800	225,739

Interest Rate Risk and Market Price 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).

At August 31, 2012, the Company has $3,303,044 invested in managed funds (2011: $3,126,827). A 5% variation in the market price of underlying securities would have resulted in an increase or decrease in the value of this asset of $165,152 (2011: $156,341).

20. 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. Because the Company continues to remain debt free, it is not subject to any externally imposed capital requirements. There have been no changes in the Company's approach to capital management during the current year with the exception of a quarterly dividend review which resulted in the declaration on May 1, 2012 of a dividend of 1.5 cents per Common Share which was paid on June 15, 2012. On July 12, 2012, a further dividend of 1.5 cents per Common Share was declared and paid on September 14, 2012.

21. Subsequent event

On November 15, 2012 the Board of Directors declared a dividend of 1.5 cents per share, payable to holders of Common Shares of record on November 26, 2012 and to be paid on December 14, 2012.

Directors

G Edmund King, Chair of the Board
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.

Shareholder Information

Auditors

PricewaterhouseCoopers LLP
Chartered Accountants, Toronto, Ontario

Counsel

Miller Thomson LLP
Barristers and Solicitors, Toronto, Ontario

Stock Exchange Listing

The Toronto Stock Exchange (symbol: CWL)

Transfer Agent

Valiant Trust Company

Valiant Trust Company operates a telephone information inquiry line that can be reached by dialing toll free:
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Correspondence may be addressed to:

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