The Caldwell Partners International Inc.

Management Discussion and Analysis & Annual Audited Financial Statements

For the Years Ended August 31, 2009 and 2008

Management Discussion and Analysis

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

The Caldwell Partners International

The Caldwell Partners International Inc. ("The Caldwell Partners" or "the Company"), founded in 1970, was Canada's first retained executive search firm. Today the human-capital services company serves clients across Canada, in the United States of America and internationally with offices in Los Angeles, San Francisco, Vancouver, Calgary, Dallas, Toronto, New York City and Stamford. The Caldwell Partners focuses, in particular, on recruiting "C-class" executives (chief executive, chief financial, chief operating and chief information officers, as well as other senior executives). The Caldwell Partners takes pride in delivering unmatched depth of service and expertise to its clients, in the calibre and experience of its staff, and in the successful completion of its engagements. The Caldwell Partners founded and continues to promote the prestigious national awards programs recognizing Canada's Outstanding CEO of the Year™ and Canada's Top 40 Under 40™, and advises and supports the Canada's Outstanding CFO of the Year Award™ program. This year, Canada's Outstanding CEO of the Year™ and Canada's Top 40 Under 40™ programs marked their respective 19th and 14th anniversaries.

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 discussions and analysis, prepared November 11, 2009, should be read in conjunction with the audited consolidated financial statements and related notes for the year ended August 31, 2009. The statements have been prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP). All currency amounts are provided in Canadian dollars unless otherwise noted. All references to quarters or years are for the fiscal periods unless otherwise noted. All numbers in tables (except percentages and per share amounts) are expressed in thousands unless otherwise noted.

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

Operating Results

Operating Revenue

2008				2009			
Q1	Q2	Q3	**Q4**	Q1	Q2	Q3	**Q4**
$ 4,553	$ 3,493	$ 4,635	**$ 4,531**	$ 4,136	$ 3,312	$ 4,092	**$ 4,591**

Fiscal 2009 fourth quarter operating revenue increased 1% over the comparable period last year, to $4,591. For the full year, operating revenues decreased 6% or $1,082 to $16,130.

Weakened market conditions that have existed since the fall of 2008 have continued to have a significant impact on the Company's ability to generate revenues. Operating revenue in Canada declined 16% in 2009 and 15% in the fourth quarter as compared to the respective 2008 levels. As the Company focused on higher-value search assignments, the total number of searches in Canada declined in 2009 while the average fee revenues per engagement increased by 19%. Increases in revenue for interim executive fulfillments in the year and fourth quarter were partially offset by a decline in print advertising revenue mainly as the result of a change in the mix of clients and a reduced number of assignments.

Late in the second quarter of this fiscal year, the Company began operating in the United States of America, with contributions from these operations helping offset the impact of year-over-year declines experienced in Canada. On a year-to-date basis, revenue from the USA totalled $1,679, representing 10% of consolidated operating revenues, with $723 of that revenue being generated in the fourth quarter

Direct Cost of Revenue

2008				2009			
Q1	Q2	Q3	**Q4**	Q1	Q2	Q3	**Q4**
$ 3,193	$ 2,635	$ 3,049	**$ 3,123**	$ 3,625	$ 2,744	$ 3,599	**$ 4,855**

Direct costs associated with the generation of revenue, being both variable and fixed compensation costs of employees involved in search activities, print advertising, interim candidate costs, and reimbursable expenses, increased to $4,855 in the fiscal 2009 fourth quarter (2008: $3,123). For the full year, direct costs were $14,823 up $2,823 from 2008.

The increase in direct costs is largely attributable to the execution of the Company's announced plan to invest in new offices, and new partners and search staff in the United States. Since February 2009, the Company has added offices in Los Angeles, San Francisco, New York City and Dallas, with partners in Chicago. Almost one half of the Company's partners are now situated in the United States. This expansion resulted in incremental costs in the quarter of $1,823 and $2,341 for the year. As anticipated, these investments have impacted operating margins in part due to sign on bonus expenses for new partners, which are amortized over 24 months. As well, while all of these partners are established search professionals, it will take some time for their revenue to properly align with compensation levels.

Direct costs in fiscal 2009 represent 92% of operating revenue, up from 70% in fiscal 2008. The aforementioned start up and transition costs associated with the US expansion has increased direct costs as a proportion of operating revenue in the fourth quarter and year results. In addition, the transition to a new partner compensation plan in the year increased direct costs. The new partner compensation plan is designed to better attract and retain top-producing professional staff and is expected to approximate the aggregate costs associated with the old compensation methodology. Also, in this tough economic environment, the Company's revenue was largely generated by a small group of top professionals, resulting in increased direct costs as a percentage of revenue in the year as those individuals qualified for higher payouts. A higher proportion of interim placement revenue, which carries a lower margin return than traditional search revenues also impacted the rate of direct costs to revenue. Going forward, management expects that as Partner revenues align with compensation levels and as transition costs from the old Canadian compensation plan are reduced, direct costs should be reduced.

Gross Operating Profit and Margin

2008				2009			
Q1	Q2	Q3	**Q4**	Q1	Q2	Q3	**Q4**
$ 1,359	$ 858	$ 1,586	**$ 1,409**	$ 511	$ 568	$ 492	**$ (264)**
30%	25%	34%	**31%**	12%	17%	12%	**-**

Gross operating margin in the fourth quarter of fiscal 2009 decreased to a loss of $264 from a profit of $1,409 in the same period last year. Year-to-date gross operating profit has decreased from $5,212 to $1,307 and average gross margins have fallen from 30% last year to 8% this year. The quarterly and year-to-date declines are the result of decreased revenues and increased direct costs as previously explained.

General and Administrative Expenses

2008				2009			
Q1	Q2	Q3	**Q4**	Q1	Q2	Q3	**Q4**
$ 1,178	$ 1,516	$ 1,501	**$ 2,547**	$ 1,465	$ 1,041	$ 2,010	**$ 1,525**

Fiscal 2009 fourth quarter general and administrative expenses decreased $1,022 or 40% over the fourth quarter of last year to $1,525. The decrease is primarily attributable to two factors. Legal expenses in the fourth quarter of last year were $829 due largely to an accrual for $500 in litigation settlement costs plus significant litigation related legal fees. In the fiscal 2009 fourth quarter, net legal costs were negligible after recognizing the benefit of insurance proceeds received during the quarter. In addition, in the fourth quarter the Company reversed substantially all accruals made throughout the year for management bonuses that were ultimately not awarded. Offsetting these expense reductions was the accrual for $544 in expenses relating to the closure of one of the Company's Montreal office in August 2009, as Management determined that a strategic alliance will provide a more effective means to service the Quebec market.
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Year-to-date general and administrative expenses have decreased $701 or 10% from $6,742 last year to $6,041 in the current year. As noted above, there were some significant year-over-year savings in the fourth quarter that contributed to the annual decrease in this area. Offsetting those was an increase in overhead costs associated with the new operations compensation costs, excluding bonuses, were higher in the current year with the President and Chief Executive Officer on board for the full year versus only six months in fiscal 2008 as President and Chief Operating Officer.

Net Operating Profit

2008				2009			
Q1	Q2	**Q3**	**Q4**	Q1	Q2	**Q3**	**Q4**
$ 181	$ (658)	$ 84	**$ (1,138)**	$ (953)	$ (474)	$ (1,518)	**$ (1,789)**
4%	-	2%	**-**	-	-	-	**-**

The fiscal 2009 fourth quarter net operating loss was $1,789 (2008: $1,138). Annually, the net operating loss has increased from $1,531 last year to $4,734 this year.

Management expects profitability will remain strained as the Company continues to execute its strategic growth plan. Profit margins will be impacted as higher levels of expenses are incurred with the investment in new professionals. Management is confident that these investments will drive higher revenues and ultimately improve profitability on the longer term.

Investment Income

2008				2009			
Q1	Q2	Q3	**Q4**	Q1	Q2	Q3	**Q4**
$ 64	$ 624	$ 154	**$ (542)**	$ 96	$ 48	$ (1,224)	**$ (1,567)**

The Company manages market risk by investing in Canadian and foreign equities, preferred shares of Canadian companies, fixed income instruments and short-term investments that meet specific investment criteria established and approved by the Board of Directors and designed to adequately diversify the Company's investments to reduce exposure to market risk. Based on current market values, approximately $3,000 of the investment portfolio is placed with a third party investment manager.

Commencing September 1, 2007, the Company adopted the new Financial Instruments Standard for public companies. Under the new standard, the investment portfolio is carried at market and any unrealized gains or losses are recorded in other comprehensive income.

Investment losses increased from $542 in the fourth quarter of fiscal 2008 to $1,567 in fiscal 2009. This decline is the result of realized capital losses of $681 incurred on the disposition of some of the funds managed by a third party investment manager and the decision to take a $929 provision for impairment in value of the preferred and common share portfolio. These previously unrecognized losses comprised part of the other comprehensive loss reported in the third quarter of fiscal 2009. The proceeds from this quarter's disposition have been reinvested in money-market instruments and high-interest savings accounts.

For the year, the Company has reported an investment loss of $2,647 versus a gain of $301 last year. This is the result of realizing $1,902 in capital losses that had been carried unrealized on the Company's books for some time and taking an impairment provision as noted above.

As at August 31, 2009, the market value of investments was $175 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

2008				2009			
Q1	Q2	Q3	**Q4**	Q1	Q2	Q3	**Q4**
$ 245	$ (33)	$ 239	**$ (1,681)**	$ (857)	$ (426)	$ (2,742)	**$ (3,356)**

Fourth quarter net loss before tax increased from $1,681 last year to $3,356 this year, resulting in a full year loss of $7,381 (2008: $1,230). The losses incurred in the quarter and full year relate to the factors noted in the discussions above.

Net Earnings (Loss) After Tax

2008				2009			
Q1	Q2	Q3	**Q4**	Q1	Q2	Q3	**Q4**
$ 160	$ 212	$ 69	**$ (1,188)**	$ (532)	$ (286)	$ (2,460)	**$ (4,292)**
Earnings per Share							
$ 0.009	$ 0.012	$ 0.004	**$ (0.070)**	$ (0.032)	$ (0.018)	$ (0.150)	**$ (0.252)**

The fourth quarter of fiscal 2009 yielded a net loss after tax of $4,292 or $0.252 per share as compared to a net loss of $1,188 or $0.07 per share in the fourth quarter of fiscal 2008. The fiscal 2009 year-to-date loss was $7,570 or $0.461 per share versus a loss of $747 or $0.044 per share in fiscal 2008.

As previously noted, primary contributors to the annual net loss after tax include a 6% decline in revenue caused by the onset of a severe economic recession which coincided with the start of the fiscal year, significant investments made to double the future revenue generating capability of the Company by aggressively expanding into the United States and adding partners in Canada, transition to a more competitive compensation plan to enhance the Company's ability to attract and retain experience search professionals, restructuring charges associated with the closure of one Canadian office, and significant realized and unrealized losses on the Company's investment portfolio.

As at August 31, 2009, the Company has non-capital losses totalling approximately $7,100 expiring in 2028 and 2029 as well as capital losses of $3,700 which may be carried forward indefinitely. To be conservative, the future benefit of tax losses incurred this year have not been recognized in the Company's financial results. Consequently, the benefit will be recognized in earnings as the tax losses are utilized.

Dividends

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

Liquidity and Capital Resources

The Company's financial performance and its policy of conserving its financial resources in prior years has enabled The Caldwell Partners to remain debt-free. As at August 31, 2009, the Company had $5,325 of marketable securities plus cash and cash equivalents of $4,718, for a total of $10,043 down from $18,918 at year-end fiscal 2008. The decline is primarily the result of investment losses of $2,647, operating losses after tax of $5,086, the cost of acquiring the assets of a New York based executive search firm of $1,306, and an $835 decrease in working capital balance largely related to the payment of partner commissions and bonuses subsequent to the fiscal 2008 year-end.

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

During the past year, the Company began executing its strategic growth plan by opening four new offices, hiring eleven additional partners and acquiring an office in New York City. These investments will most

often be incurred as sign on bonuses for new partner hires which will be reflected in operating results over a 24 month amortization period and in transition costs as revenue levels ramp up relative to new partner draw levels.

Reflecting the fact that The Caldwell Partners is a professional services firm whose most important asset is the intangible value of its people, cash and equivalent securities represented approximately 55% of the Company's total balance sheet stated assets at August 31, 2009, down from 73% at the end of the fiscal 2008. The Company's investment in marketable securities comprises primarily preferred stocks of Canadian public companies rated P1, P2, or the equivalent, and investment funds. Dividend income earned on the preferred shares is a tax-efficient method of enhancing income.

Accounts receivable were $3,097 at the end of fiscal 2009, up $68 from $3,029 at the end of fiscal 2008, due to slightly elevated fiscal 2009 fourth quarter revenues. Accounts payable were $3,939 at the end of August 2009, down from $4,637 at the end of fiscal 2008. Significant accruals were recorded at the end of fiscal 2008 with respect to litigation settlement costs and management bonuses, with no corresponding amounts accrued in the current year.

The Company's investment in property and equipment was $1,977 compared with $1,860 at the 2008 year-end. This reflects additions of $590 net of amortization of $388 and disposals of $84. Capital expenditures included leasehold improvements in new premises in Calgary, and leasehold improvements, furniture, computer and office equipment acquired to outfit new offices in Los Angeles, San Francisco, Dallas and New York.

Shareholders' equity at August 31, 2009 was $11,703 down from $18,464 at year-end 2008, the decline reflecting the year's net loss, the inclusion of accumulated other comprehensive gains of $175 and the re-purchase and cancellation of 8,200 Class A Non-Voting shares of the Company under its normal course issuer bid.

On February 19, 2009, shareholders of the Company approved a reduction in the Stated Capital of the Class A and Class B shares by 18 percent, thereby reducing Capital Stock by $3,526 with a corresponding increase in Contributed Surplus.

On April 8, 2009, The Caldwell Partners announced that the Toronto Stock Exchange had accepted its notice of intention to conduct a normal-course issuer bid (NCIB) to enable it to purchase up to 626,000 of its Class A Non-Voting Shares, representing approximately five per cent of the approximately 12,523,423 Class A Shares outstanding as at March 31, 2009. Purchases under the bid may be made until April 12, 2010 or until the company completes its permitted purchases or until the date of notice by The Caldwell Partners of termination of the bid. The Company made no purchases under the NCIB during the 2009 fourth quarter and is currently unable to continue the share repurchase due to insufficient retained earnings.

Business Outlook

The Company's fiscal 2009 year coincided with the onset of the worst of the current recession and ended as it appeared economic recoveries were underway in Canada, the United States, and elsewhere. Reflecting the fact that economic conditions were worse than most had forecast, revenues in Canada declined about 16% in fiscal 2009. However, incremental revenues generated by the Company's new operations in the United States combined with Canadian revenues to yield an overall decline of 6%. This performance does not fully reflect the benefits of the Company's expansion as the majority of its new partners joined during

the second half of the fiscal year. The impact of their addition to the Company will be significantly greater through the course of fiscal 2010.

During fiscal 2009, as most, if not all, companies in the executive search industry contracted, The Caldwell Partners took advantage of its financial strength to pursue market opportunities to expand its business, establishing new sector practices and a significant presence in the U.S. market. Management believes that the Company has built a solid platform for sustainable and profitable growth that will become increasingly evident as the North American and global economies recover. The Caldwell Partners' business is diversified across sectors and North America, making it less dependent on the performance of particular industries, clients or regions.

Following the announcement of its plans in February 2009, the Company aggressively expanded into the United States, doubling the number of its offices and partners in North America. The Company added offices in Los Angeles, San Francisco, Dallas, New York, and Stamford, with additional partners in Chicago. It also added partners in Calgary and Toronto. Each new partner joined with a proven track record of success in the executive search industry. The Company elected to form an alliance with a firm in Montreal, rather than to continue operating its own office there, as a more effective means of servicing the Quebec market.

While recent economic forecasts indicate that the recovery may have begun, Management remains cautious in its outlook. Management believes that The Caldwell Partners is well-positioned to compete and to grow. In fiscal 2010, the Company will continue to invest in expanding its business in several ways. While it does not plan to open additional offices, it expects to add partners to those already established to further strengthen its operations both geographically and in the key sectors that have been identified as offering the greatest opportunities for profitable growth. The Company also will focus on a rigorous approach to marketing and business development to maintain and gain market share.

The Company will continue to capitalize on the advantage of its financial strength. The Caldwell Partners remains debt-free with approximately $10,043 in marketable securities and cash and equivalents as at August 31, 2009. Management believes that these capital resources are sufficient to fund the Company's anticipated peak cash requirements arising from its strategic initiatives and ongoing operations.

Related Party Transactions

The Company paid rent for the year ended August 31, 2009 at the exchange amount to affiliated companies owned by a shareholder (C. Douglas Caldwell, Chairman) in the amount of $291 (2008: $291), net of recoveries from other related parties also controlled by the same shareholder, pursuant to the Company's lease commitments. The exchange amount is the amount of consideration agreed to by the parties of the transaction and was determined to be fair market rental rates at the inception of the lease by two commercial leasing agents.

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

Accounting Estimates

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

Risks and Uncertainties

The Company operates in a highly competitive industry and its results may be affected by a number of factors. These factors include, but are not limited to, competition from other companies directly or indirectly engaged in executive search; the ability of the Company to execute its growth strategies; the performance of the Canadian domestic and international economies; the Company's ability to attract and retain key personnel, particularly partners who generate business; and the Company's ability to invest retained earnings in marketable securities, primarily preferred shares of Canadian publicly-owned companies rated P1, P2, or the equivalent 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 and is designed to adequately diversify its investments to reduce exposures. Currently, professional investment managers invest and manage $3,000 of the investment portfolio in accordance with the Company's investment policies. Currently, marketable securities, cash and cash equivalents total approximately $10,043.

As the Company's US operations continue to expand, foreign exchange risk will also increase. Management is considering various methods to minimize this risk. Currently, none of the Company's investment portfolio is denominated in U.S. dollars. With the volatility of capital markets returns on the Company's investment portfolio may diminish.

On November 17, 2006, a statement of claim was issued in the Superior Court of Justice of Ontario against the Company, each of its directors and certain companies which are wholly-owned by C. Douglas Caldwell, the Chairman and Chief Executive Officer of the Company.

On November 27, 2008, the Company signed a Settlement Agreement, setting out terms upon which this lawsuit would be dismissed and all parties released from claims with respect to matters alleged in the pleadings. This claim was formally dismissed by the Ontario Superior Court of Justice on December 2, 2008. As part of this agreement, on February 19, 2009, C. Douglas Caldwell and the plaintiffs voted in support of combining the Company's voting and non-voting shares into a single class of voting shares. Voting Class B shares will receive 1.149 Class A common shares for each of their Class B shares and all Class A shares will become single-voting common shares. The conversion will take effect on November 1, 2011.

The Company also agreed to reimburse the plaintiffs to a maximum of $500 of their litigation costs. This expense was accrued in the Company's accounts for fiscal 2008 and paid in the first quarter of fiscal 2009. The Company has submitted claims so its insurer for a portion of its legal costs incurred to date. In fiscal 2009, the Company received $487 from its insurer.

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, 2009, have concluded that the Company's disclosure controls and procedures are adequate and effective to ensure that material information relating to the Company's and its subsidiaries would have been known to them.

Internal Control Over Financial Reporting

Internal Control Over Financial Reporting ("ICFR") is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its compliance with GAAP in its financial statements. The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were changes to its ICFR during the quarter ended August 31, 2009 that have materially affected, or are reasonably likely to materially affect, its ICFR. No such changes were identified through their evaluation.

International Financial Reporting Standards

On February 13, 2008, the Canadian Accounting Standards Board confirmed that the International Financial Reporting Standards (IFRS) will replace Canada's current generally accepted accounting principles for publicly accountable profit-oriented enterprises for interim and annual financial statements effective January 1, 2011. The Company is evaluating the effects of adopting this standard. The key elements of the Company's changeover plan include:

1. Scoping and diagnostic

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

2. Impact analysis, evaluation and design

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

3. Implementation and review

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

The Company recently began its scoping and diagnostic phase based on new guidance and current and proposed changes in the business. Areas that could have a potential significant impact include revenue recognition, financial instruments, leases and income taxes. Management expects that most of the adjustments required on the transition to IFRS will be made retrospectively against opening retained earnings as of the date of the first comparative balance sheet presented.

The Company will be assessing the impact on financial reporting, business processes, internal controls and information systems to ensure a timely conversion. With an August 31 fiscal year end, the Company will be converting to IFRS as at September 1, 2011.

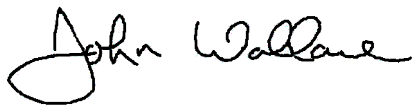
Other Information

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

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 Corporation. 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 corporation 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, an independent firm of chartered accountants, has been appointed by the shareholders as external auditors of the Corporation. The Auditors' 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 Corporation, 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 for approval.



John N. Wallace
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Karen E. Richards, CA
SECRETARY AND CHIEF FINANCIAL OFFICER

November 11, 2009

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Auditors' Report

To the Shareholders of
The Caldwell Partners International Inc.

We have audited the consolidated balance sheets of **The Caldwell Partners International Inc.** (the Company) as at August 31, 2009 and 2008 and the consolidated statements of loss, comprehensive loss, shareholders' equity and accumulated other comprehensive income (loss), cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Mississauga, Ontario
November 11, 2009

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity.

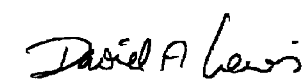
THE CALDWELL PARTNERS INTERNATIONAL INC.

CONSOLIDATED BALANCE SHEETS

	As at August 31	
	2009	*2008*
Assets		
Current Assets		
Cash and cash equivalents	$4,718,014	$8,007,963
Marketable securities (note 4)	5,325,160	10,909,603
Accounts receivable	3,097,334	3,029,381
Income taxes receivable	320,578	1,081,032
Prepaid expenses and other assets	1,020,029	266,222
	14,481,115	23,294,201
Loans receivable, long term (note 5)	418,937	333,978
Property and equipment (note 6)	1,977,367	1,859,562
Intangible assets (note 3)	925,925	-
Goodwill (note 3)	415,896	-
Future income taxes (note 7)	-	-
	$18,219,240	$25,487,741
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	$3,938,743	$4,637,343
Deferred revenue	326,209	256,409
Current portion of incentive accrual (note 8)	530,250	530,250
	4,795,202	5,424,002
Long-term incentive accrual (note 8)	1,721,256	1,599,266
Shareholders' Equity		
Capital stock (note 9)	16,064,078	19,603,150
Contributed surplus (note 9)	4,098,998	488,693
Deficit	(8,635,678)	(1,066,075)
Accumulated other comprehensive income (loss)	175,384	(561,295)
	11,702,782	18,464,473
	$18,219,240	$25,487,741

Commitments and contingencies (notes 12 & 13)
The accompanying notes are an integral part of these financial statements.

Signed on behalf of the Board:



C. Douglas Caldwell
Director

David A. Lewis
Director

THE CALDWELL PARTNERS INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF LOSS

	Year ending August 31	
	2009	*2008*
Operating revenue	$16,130,469	$17,212,296
Expenses:		
Employee compensation, general and administration (note 14)	19,851,426	18,383,466
Other expense (note	544,361	-
10)	388,374	352,378
Amortization	79,843	7,066
Foreign exchange loss		
	20,864,004	18,742,910
Loss before the following:	(4,733,535)	(1,530,614)
Investment (loss) income, net	(2,647,068)	300,738
Net loss before tax	(7,380,603)	(1,229,876)
Provision (recovery) for income taxes (note 7)		
Current	189,000	(156,000)
Future	0	(327,000)
	189,000	(483,000)
Net loss for the year	($7,569,603)	($746,876)
Loss per Class A and Class B share:		
Basic and fully diluted	($0.461)	($0.044)
Weighted average number of shares outstanding:		
Basic and fully diluted	16,407,366	16,928,291

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Year ending August 31	
	2009	*2008*
Net loss for the year	($7,569,603)	($746,876)
Unrealized gain (loss) on marketable securities available for sale	175,384	(1,064,015)
Reclassification of losses on marketable securities included the consolidated statements of loss	561,295	160,857
Change in unrealized gain/(loss) on marketable securities	736,679	(903,158)
Comprehensive loss for the year	($6,832,924)	($1,650,034)

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

THE CALDWELL PARTNERS INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	Retained Earnings (Deficit)	Capital Stock		Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
		Class A Non-Voting Shares	Class B Voting Shares			
Balance - August 31, 2007	**1,032,750**	**20,574,376**	**20,950**	**204,803**	**-**	**21,832,879**
Dividends paid	(1,351,615)	-	-	-	-	(1,351,615)
Net loss for the year ended August 31, 2008	(746,876)	-	-	-	-	(746,876)
Repurchase and cancellation of Class A Non-voting Shares	(334)	(992,176)	-	283,890	-	(708,620)
Adoption of new handbook standard (net of tax) (note 4)	-	-	-	-	341,863	341,863
Change in unrealized gains and losses on marketable securities available for sale	-	-	-	-	(903,158)	(903,158)
Balance - August 31, 2008	**($1,066,075)**	**$19,582,200**	**$20,950**	**$488,693**	**($561,295)**	**$18,464,473**
Net loss for the year ended August 31, 2009	(7,569,603)	-	-	-	-	(7,569,603)
Repurchase and cancellation of Class A Non-voting Shares	-	(12,811)	-	5,416	-	(7,395)
Stock compensation				78,628		78,628
Reduction of stated capital (note 9)		(3,522,490)	(3,771)	3,526,261		0
Change in unrealized gains and losses on marketable securities available for sale	-	-	-	-	736,679	736,679
Balance - August 31, 2009	**($8,635,678)**	**$16,046,899**	**$17,179**	**$4,098,998**	**$175,384**	**$11,702,782**

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

THE CALDWELL PARTNERS INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended August 31	
	2009	*2008*
Operating Activities		
Net loss for the year	($7,569,603)	($746,876)
Items not affecting cash		
Amortization	388,374	352,378
Realized loss on sale of marketable securities	1,901,515	160,857
Provision for writedown of marketable securities	929,459	-
Future income taxes	0	(327,000)
Stock option expense	78,628	-
Incentive compensation, net	121,990	792,368
Net changes in working capital balances:		
(Increase) decrease in accounts receivable	(67,953)	857,141
Decrease (increase) in income taxes receivable	760,454	(401,623)
Increase in prepaid expenses and other assets	(753,807)	(11,677)
(Decrease) increase in accounts payable and accrued liabilities	(698,600)	1,675,856
Increase (decrease) in deferred revenue	69,800	(141,445)
	(4,839,743)	2,209,979
Investing Activities		
Proceeds on sale of marketable securities	6,281,227	2,102,906
Purchases of marketable securities	(2,791,079)	-
Increase in loans receivable, net	(84,959)	(63,012)
Acquisition of business	(1,384,086)	-
Additions to property and equipment	(547,931)	(69,460)
Disposals of property and equipment	84,017	48,493
	1,557,189	2,018,927
Financing Activities		
Dividends paid	-	(1,351,615)
Repurchase of Class A Shares	(7,395)	(708,620)
	(7,395)	(2,060,235)
Net (decrease) increase in cash and cash equivalents during the year	(3,289,949)	2,168,671
Cash and cash equivalents, beginning of year	8,007,963	5,839,292
Cash and cash equivalents, end of year	$4,718,014	$8,007,963
Cash and cash equivalents is comprised of the following:		
Cash	$965,597	$815,716
Short-term deposits	3,752,417	7,192,247
	$4,718,014	$8,007,963
Supplementary information:		
Income taxes paid	$239,400	$472,000

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

THE CALDWELL PARTNERS INTERNATIONAL INC.

Notes to Consolidated Financial Statements
For The Years Ended August 31, 2009 and 2008

1. Basis of Presentation

The consolidated financial statements for the years ended August 31, 2009 and 2008 include the accounts of the Company and its subsidiaries The Caldwell Partners International Inc. (a Delaware corporation), Prince Arthur Advertising Inc., Caldwell Interim Executives Inc., and Caldwell Investments Inc. All material intercompany transactions have been eliminated.

2. Significant Accounting Policies

Revenue Recognition

While the Company's principal activity is that of executive search consulting and related services, it also provides its clients with interim executive placement services and recruitment advertising through subsidiary companies.

Revenue is recognized as services are rendered, generally over a three and one half month period commencing in the month of initial acceptance of a search engagement. A portion of revenue for executive searches may be deferred until services have been fully rendered. Revenue includes both professional and other fees and recovered expenses.

Property and Equipment

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

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

Long-Lived Assets

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

Foreign Currency Translation

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

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

Future Income Taxes

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

Cash and Cash Equivalents

Cash and cash equivalents comprises cash and short-term deposits with original maturity dates of less than three months. Short-term deposits are held in treasury bills, money market instruments and bank deposits earning interest at short-term market rates and have a duration of less than 90 days.

Income from Short-Term Investments and Marketable Securities

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

Prepaid Expenses and Other Assets

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

Intangible Assets

Intangible assets are recorded at cost and are comprised of client backlog, client lists and non-competition and non-solicitation agreements. These intangible assets are subject to amortization on a straight-line basis over their estimated useful lives from 6 months to 10 years.

Goodwill

Goodwill represents the excess of the purchase price, including acquisition costs, over the fair value of identifiable net assets acquired. Goodwill is reviewed for impairment annually, or more frequently if events or circumstances indicate that it is more likely than not that the asset might be impaired and the carrying value of goodwill in excess of its fair value is charged to income.

Stock Based Compensation

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

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Adoption of New Accounting Pronouncements

Effective September 1, 2008, the Company adopted the CICA Handbook Section 3862, "Financial Instruments – Disclosure", Section 3863, "Financial Instruments – Presentation" and Section 1535, "Capital Disclosures". Section 3862 describes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. Section 3863, "Financial Instruments –Presentation", establishes standards for presentation of the financial instruments and non-financial derivatives. Section 1535 establishes guidelines for disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital.

The new standards have no impact on the recognition, measurement or classification of the Company's financial instruments. However, the adoption of the new standards has resulted in additional disclosures with regard to financial instruments and the Company's objectives, policies and process for managing capital (note 15 and 16).

Recently Issued Accounting Pronouncements Not Yet Effective

Goodwill and intangible assets: Section 3064, which replaces "Goodwill and intangible assets" Section 3062, and "Research and development costs", Section 3450, establishes standards for recognition, measurement and disclosure of goodwill and intangible assets. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. Management does not expect the adoption of this standard to have a material impact on the consolidated financial statements.

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests: Section 1582, "Business Combinations", Section 1601, "Consolidated financial statements", and Section 1602, "Non controlling interest" replace the former Section 1581, "Business Combinations" and Section 1600, "Consolidated Financial Statements" and establish a new section for accounting for a non-controlling interest in a subsidiary. These sections provide the Canadian equivalent to International Financial Reporting Standards ("IFRS") 3, "Business Combinations" and International Accounting Standard 27, "Consolidated and Separate Financial Statements". Section 1582 is effective for business combinations for which the acquisition date is on/after the beginning of the first annual reporting period beginning on or after January 1, 2011. Section 1601 and Section 1602 apply to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011. Management has not yet determined the impact of the adoption of these pronouncements in its financial statements

International Financial Reporting Standards: On February 13, 2008, the Canadian Accounting Standards Board confirmed that the International Financial Reporting Standards will replace Canada's current generally accepted accounting principles for publicly accountable profit-oriented enterprises for interim and annual financial statements effective January 1, 2011. The Company is currently evaluating the effects of adopting this standard.

3. Business Acquisition

On August 7, 2009, the Company acquired certain assets of a New York based company which provides executive search consulting services to clients across the United States of America. The purchase price consisted of a cash payment of $1,305,840 and transaction costs of $78,246. Further contingent consideration may add to this acquisition cost in future years dependent on actual revenues achieved over pre-defined thresholds for fiscal 2010 and 2011. There is no maximum to the contingent consideration that could be paid. Currently, such contingent consideration cannot be reasonably estimated and as a result any additional consideration paid in the future will be recorded as an increase in goodwill.
The results of these operations have been consolidated with those of the Company from the date of acquisition. The following table summarizes the estimated fair value of the assets acquired at the date of

Assets acquired:	
Property, plant and equipment	$42,265
Intangible assets	925,925
Goodwill	415,896
Total consideration paid (including transaction costs of $78,426)	$1,384,086

acquisition. These fair values are based on management's estimates.

The acquired value of intangible assets of $925,925 was assigned to client backlog, client lists and non-competition and non-solicitation agreements and are subject to amortization over their estimated useful lives from 6 months to 10 years. The intangible assets and goodwill amounts are deductible for tax purposes.

4. Marketable Securities

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

	2009		2008	
	Market value	Cost, net of writedowns & provisions	Market value	Cost, net of writedowns & provisions
Preferred shares	$2,242,305	$2,242,305	$2,640,436	$3,128,427
Pooled funds	2,966,463	2,791,080	8,143,954	8,182,743
Common shares	116,392	116,392	125,213	159,728
	$5,325,160	$5,149,777	$10,909,603	$11,470,898

During the year, the Company disposed of marketable securities with a cost of $8,182,742 and recorded a realized loss on disposition of $1,901,515. As a result of the decline in equity markets, the Company also determined that its investments in preferred and common shares had experienced an other than temporary decline in value and recorded an impairment charge of $929,459 in 2009.

5. Loans Receivable, Net

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

6. Property and Equipment

	2009 Cost	2009 Accumulated Amortization	2009 Net Book Value	2008 Cost	2008 Accumulated Amortization	2008 Net Book Value
Furniture & Equipment	$1,780,423	$1,314,494	$465,929	$1,766,252	$1,436,080	$330,172
Computer Equipment	1,782,398	1,571,611	210,787	2,008,818	1,821,651	187,167
Computer software	1,704,288	1,351,792	352,496	1,716,318	1,291,753	424,565
Leasehold improvements	2,467,599	1,519,444	948,155	2,552,807	1,635,149	917,658
	$7,734,708	$5,757,341	$1,977,367	$8,044,195	$6,184,633	$1,859,562

7. Income Taxes

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

	2009 %	2008 %
Combined statutory income tax rate	33.1	33.6
Decrease resulting from:		
Dividends received on preferred and common shares	0.6	5.2
Non-taxable portion of capital losses	(12.1)	(2.2)
Increase in valuation allowance	(23.3)	-
Increase resulting from:		
Non-deductible expenses	(0.1)	(0.4)
Other	(0.8)	3.1
	(2.6)	39.3

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

	2009	2008
Future income tax assets:		
Capital and non capital losses and other deductions available to offset future taxable income (net of valuation allowance of $1,659,064)	$304,850	$340,000
Future income tax liabilities:		
Excess of the carrying values of property and equipment over the tax base	(304,850)	(340,000)
Net future income tax liability	-	-

As at August 31, 2009, the Company has non-capital losses with the following expiry dates available to reduce taxable income in future years:

Expiry	Amount
2028	$996,458
2029	$6,101,173

The Company also has capital losses of $3,721,806 that can only be utilized against capital gains and are without expiry date.

8. Other Long-term Liabilities

Included in Other Long-term Liabilities is an accrual for long-term incentive compensation for the Company's consistently top revenue-producing employees. The current portion reflects payments that have vested and will be paid in the next twelve months.

9. Capital Stock and Contributed Surplus

The authorized share capital of the Company consists of an unlimited number of Class A Non-voting Shares of which 12,523,423 (2008 – 12,531,623) are issued and outstanding, an unlimited number of Class B Voting Shares of which 3,883,450 (2008 – 3,883,450) are issued and outstanding, and 240,000 Class C Special Shares of which nil (2008 - nil) are issued and outstanding. The holders of Class A Non-voting
Shares are entitled to share equally, share for share, with the holders of Class B Shares in all dividends declared by the Company and equally in the event of a liquidation, dissolution or winding-up of the Company or other distribution of the assets among shareholders. As further described in note 14, on November 11, 2011 the Company's voting and non-voting shares will be converted into a single class of voting shares . Voting Class B shares will receive 1.149 Class A shares for each of their Class B shares and all Class A shares will become single-voting common shares.

Class A Shares

Over the course of 2009, the Company under its normal course issuer bid, repurchased and canceled 8,200 (2008 - 637,160) of its Class A Non-voting shares.

Class B Shares

The Class B Voting Shares are convertible to Class A Non-voting Shares on a one-for-one basis. There was no activity in Class B Shares in 2009 and 2008.

Contributed Surplus

On February 19, 2009, the Company's shareholders approved an amended resolution to reduce the Stated Capital of Class A and Class B shares by 18%, with a corresponding increase to contributed surplus.

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:

	2009		2008	
	Number of Options Outstanding	Weighted Average Exercise Price	Number of Options Outstanding	Weighted Average Exercise Price
Outstanding at beginning of year	-	-	-	-
Options granted	600,000	$1.05	-	-
Outstanding at end of year	600,000	$1.05	-	-

On September 11, 2008, 600,000 options to purchase Class A Non-voting Shares were approved and issued to the Chief Executive Officer and the Chairman. These options have a grant price of $1.05, vest over three years and have a contractual life of five years. Options are exercisable at various times over this five-year period, commencing one year from the date of grant, based on the market price of the stock on the date of grant. Stock compensation expense of $78,628 has been record in the 2009 statement of earnings (2008 – nil). The fair value of these options was determined using the Black-Scholes option pricing model (using an expected volatility of 22.7%, a risk-free interest rate of 2.5% and an estimated useful life of 4 years).

10. Other Expense

Other expense includes restructuring costs of $544,361 relating to the closure of one of the Company's Canadian offices in August 2009. These costs relate primarily to severance costs and an accrual for a lease exit charge.

11. Segmented Information

In 2009, the Company extended its business geographically through expansion into the United States of America. As a result, the Company now has operations across North America. Both the Canadian and American geographic segments provide retained executive search consulting services to clients and have similar economic characteristics.

The following table provides a reconciliation of revenue by country to the consolidated results (operating revenues are attributed to countries based on the location of clients):

	2009	2008
Operating revenue:		
Canada	$14,450,923	$17,212,296
United States of America	1,679,546	-
	$16,130,469	$17,212,296

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

	2009	2008
Property and equipment and goodwill:		
Canada	$1,553,464	$1,859,562
United States of America	$839,799	$0
	$2,393,263	$1,859,562

12. Commitments

The Company's future operating lease commitments for premises excluding operating costs are as follows:

2010	$1,211,154
2011	1,177,574
2012	1,121,673
2013	872,809
2014	496,258
2015 & thereafter	1,408,614
	$6,288,082

The Company also has access to a $1.1 million operating line of credit which is currently undrawn.

13. Related Party Transactions

The Company paid rent at the exchange amount to affiliated companies owned by a shareholder (C. Douglas Caldwell, Chairman) in the amount of $291,415 (2008 - $291,415), net of recoveries from other related parties also controlled by the same shareholder, pursuant to the Company's lease commitments. The exchange amount is the amount of consideration agreed to by the parties of the transaction and was determined to be fair market rental rates at the inception of the lease by two commercial leasing agents.

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

14. Shareholder Litigation Settlement

On November 27, 2008, Minutes of Settlement were filed with the Ontario Superior Court of Justice to dismiss the statement of claim made against the Company and its directors by three shareholders in November 2006. As part of this settlement, C. Douglas Caldwell and the plaintiffs agreed to vote in support of amending the Company's Articles to combine the Company's voting and non-voting shares into a single class of voting shares at the Company's Annual General Meeting of Shareholders held on February 19, 2009. The resolution was passed and the Company's Articles have been amended accordingly. Voting Class B shares will receive 1.149 Class A shares for each of their Class B shares and all Class A shares will become single-voting common shares. The conversion will take effect on November 11, 2011. Further, two new independent directors were selected in co-operation with the plaintiffs, and were appointed to the Board of Directors.

The Company also agreed under the terms of the settlement to reimburse the plaintiffs for $500,000 of their litigation costs. This amount was accrued in the Company's accounts for fiscal 2008 and paid in early fiscal 2009. For the year ended August 31, 2009, the Company incurred legal costs of $484,086 (2008 - $1,467,385). The Company received from its insurer a portion of its defence and settlement costs in the amount of $487,016 in 2009. Net legal costs for 2009 were therefore a recovery of $2,930. Further reimbursements may be received in the future and will be reflected in the Company's accounts as reimbursements are received.

15. Financial Instruments

Classification of Financial Instruments

Under Canadian generally accepted accounting principles, financial instruments are classified into one of the following categories: held for trading, held to maturity, available for sale, loans and receivable, other financial liabilities and derivatives. As at August 31, 2009, the classification of the financial instruments, as well as their carrying amounts and fair values, are shown in the table below.

	Classification	Measurement	Carrying Amount	Fair Value
Cash and cash equivalents	held for trading	fair value	$ 4,718,014	$ 4,718,014
Marketable securities	available for sale	fair value	5,325,161	5,325,161
Accounts receivable	loans & receivables	amortized cost	3,097,334	3,097,334
Loans receivable	loans & receivables	amortized cost	418,937	418,937
Accounts payable & accrued liabilities	other financial liabilities	amortized cost	3,938,743	3,938,743

Fair value

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

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

The adoption of the new financial instruments standard in 2007 resulted in fair valuing the marketable securities and recording an unrealized gain of $341,863 (net of tax) as an adjustment to the opening balance of Accumulated Other Comprehensive Income as at September 1, 2007.

Embedded derivatives (elements of contracts whose cash flows more independently from the host contract) are required to be separated and measured at fair values if certain criteria are met. Under an election permitted by the new standard, management reviewed its existing contracts and determined that the Company does not currently have any significant embedded derivatives in these contracts that require separate accounting and disclosure.

16. Capital management

The Company's capital is comprised of common shares of the Company and retained earnings. The Company manages its capital to ensure financial flexibility, to increase shareholder value through organic growth and selective acquisitions, as well as to allow the Company to respond to changes in economic and or/market conditions. While the Company has access to a line of credit, it continues to remain debt free. The Company is not subject to any externally imposed capital requirements. There were no changes in the Company's approach to capital management during the year.

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

Foreign currency risk

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

At August 31, 2009, the Company has net monetary asset exposure of $1,018,178 denominated in U.S. dollars. A 5% depreciation or appreciation in the Canadian dollar against the U.S. dollar, assuming that all other variables had remained the same, would have resulted in an increase or decrease in foreign exchange gain/(loss) of $50,908 recognized in the consolidated statement of loss for the year ended August 31, 2009.

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 liquidity to meet its liabilities as they come due.

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

The contractual maturities of the Company's significant financial liabilities as at August 31, 2009 are as follows:

	less than 1 year	1 to 3 years
Accounts payable & accrued liabilities	$3,938,743	
Current portion of incentive accrual	$530,250	
Long-term portion of incentive accrual		$1,721,256

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to credit risk consist principally of cash and cash equivalents and accounts receivable. The Company places its cash and cash equivalents with high credit quality financial institutions.

The carrying amount of the accounts receivable, net of applicable allowances for doubtful accounts, represent the Company's estimated potential credit risk with its clients. The Company's accounts receivable are not highly concentrated with particular clients or with clients in particular industry sectors, thereby minimizing credit risk. Further, the Company monitors its accounts receivable aging on a regular basis. As at August 31, 2009, $581,837 is past due (greater than 90 days) with a provision for doubtful accounts of $368,023.

Interest Rate Risk

The Company has no external debt and therefore exposure to interest rate risk on debt facilities is nil. 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. Included within marketable securities are preferred shares which to a certain extent are also subject to interest rate risk. The remaining portfolio is invested in equities and pooled funds which are also subject to market price risk (ie. fair value fluctuates based on changes in market prices).

17. Comparative Figures

Certain comparative account balances have been reclassified to achieve comparability to current year balances.