

The Caldwell Partners International Inc.



CALDWELL

Annual Report 2007

The Caldwell Partners International Inc.

Company Profile

The first and largest executive search firm in Canada, The Caldwell Partners is unmatched in breadth and depth of experience. For over 35 years, we have helped clients achieve greater profitability and performance by identifying and attracting talent of the highest calibre - leaders, directors and senior executives whose strengths exceed our clients' expectations.

Above all, we are problem solvers. We establish loyal partnerships with our corporate clients, helping them attract exceptional talent. We act as trusted stewards, offering our clients decision support services to assist them in solving their strategic, organizational, and compensation problems. Through Caldwell Interim Executives, we are able to provide our clients with proven senior managers, functional specialists and top executives to fill short-term management roles on a contract basis.

We judge our success by a simple standard: our ability to deliver superior results through our commitment to help clients and candidates achieve their personal and organizational goals. We assess, evaluate, and attract executives, putting all the firm's resources – fresh insight, intuitive skills, experience, and knowledge – at the client's disposal. Simply, we deliver the best-qualified candidates in the shortest possible time.

Our professional search teams serve clients from coast to coast – through our offices in Halifax, Montréal, Ottawa, Toronto, Calgary and Vancouver – as well as globally through our worldwide network.



Business Principles

1. **CLIENT-FOCUSED** Their interest always comes first. Our foremost goal, our consistent focus, is finding new and better ways of serving clients, by providing quality candidates faster, and always being nimble, creative, and innovative.

2. **QUALITY-DRIVEN** Every aspect of our service is quality driven – personalized professional attention is our proud reputation. We always strive to be the very best, rather than the biggest.

3. **VALUE-DRIVEN** Our raison d'être is to enhance the value of our clients' business operations. We do so by systematically identifying, evaluating, and attracting the most outstanding candidates in a manner that enhances the reputation of our clients and our profession.

4. **REPUTATION-DRIVEN** We listen, understand, comment, develop insight, and consult. Only then do we act. Our key assets are our people and our reputation. If we neglect or diminish either, both are extremely difficult to restore.

5. **DEDICATED** The dedication of our people to the organization and the intense effort we give our clients are key components of our success. Our commitment to prompt, effective completion of every assignment is proven.

6. **ACCOUNTABLE** The introducing partner assumes complete responsibility for the quality and results of the engagement from start to finish.

7. **ETHICAL** As members of the Association of Executive Search Consultants, we are bound by a code of ethics, and are dedicated to complying fully with the letter and spirit of the laws, rules, and ethical principles that govern us.

8. **INNOVATIVE** We stress innovation and creativity in everything we do. We have pioneered many of the practices and techniques that have become standard in the industry.

9. **TEAM-ORIENTED** Our approach involves continuous communication and strong internal co-operation. While individual creativity is always encouraged, we have found that team effort produces the best results.

10. **DISCREET AND HONEST** We regularly receive private information as part of our client and candidate relationships. All information relating to clients and individuals is treated with absolute discretion and confidentiality.

11. **RESPONSIVE** We are big enough to undertake the largest engagement, yet entrepreneurial enough to maintain the loyalty, intimacy, and esprit de corps that our clients value so highly.

12. **SHAREHOLDER-FOCUSED** Profitability is critical to achieving superior long-term returns; our goal is to provide value and healthy returns to shareholders. Significant employee stock ownership aligns the interest of our stakeholders and our shareholders.



Chairman's Letter

Dear Shareholders, Clients, and Friends

We are pleased to report that The Caldwell Partners accomplished both solid growth in our business in fiscal 2007 and made good progress in carrying out our strategic growth plan, by investing in the further development and revitalization of our organization. Further, based on the strength of our new business bookings in the second half of the year, we entered fiscal 2008 with very positive momentum.

Operating Revenue Increases 15%

All references are for the fiscal periods unless otherwise noted and all currency amounts are in Canadian dollars.

We recorded a 15 percent increase in operating revenue in 2007 to \$15,544,000, compared with \$13,524,000, mainly as the result of growth in new business bookings in the second half of the year.

As we have been advising for more than a year, our strategic plan to create long-term growth, increased value for our shareholders, and expanded services for our clients, requires that we invest in a number of initiatives. We are fortunate that The Caldwell Partners has the financial strength and stability to execute this plan over the course of several years. These initiatives, particularly the development and addition of new partners and other professional staff including consultants and researchers, mean that increases in our operating costs are likely to outpace our growth in operating revenue for some time.

Such was the case in 2007 as these higher expenses were a significant factor accounting for a decline in our operating income to \$318,000 from \$1,122,000 in 2006. In addition to higher compensation expense attributable to the growth in revenue, we incurred the expected increased costs related to the significant investments needed to bring on-stream new partners and other professional staff.

The decline in operating income also is attributable to increased legal expenses. The Company has been informed that its insurer will cover substantially all of the legal expenses, but the recovery of these costs has not been reflected in the 2007 financial statements as reimbursement has not yet been received.

Investment income for 2007 was down slightly from the previous year at \$645,000, compared with \$659,000, reflecting the weakness in stock markets during the summer as well as losses incurred on the sale of some preferred shares. It is notable that at year-end, the market value of our investments was \$417,000 above the book value. This unrealized gain is not reflected in the financial statements.

At year-end, \$8.2 million of the company's \$13.7 million in marketable securities was being managed by third-party investment managers, compared with about \$4 million at the end of 2006. The balance of the portfolio is almost entirely invested in preferred shares. The Company's holding of cash and cash equivalents is in government treasury bills, money market instruments, and bank deposits. No amount is affected by the liquidity issues associated with the publicized asset-backed commercial paper problems affecting the banking community and many companies.

Net income for 2007 amounted to \$691,000 (\$0.04 per basic and fully diluted share), compared with \$1,175,000 (\$0.07 per share on a basic and fully diluted basis) in 2006.

We believe that The Caldwell Partners can be justly proud of the fact that since our founding in 1970, through strong and weak economies, and regardless of what investments we needed to make to establish and build on our position of industry leadership, the Company has been profitable each year. That is a performance level that is unmatched in our industry in North America and likely in the world.



Further, with the payment of dividends of \$0.02 per Class A non-voting and Class B voting in each quarter of 2007, we have paid cash dividends in 61 of the 72 quarters since becoming a publicly owned company in 1989. The \$0.08 per share that we paid for the year represents a yield of about 5.3 percent based on the closing price of our shares on the Toronto Stock Exchange, as I write this letter.

The Management Discussion and Analysis section that follows this letter provides a detailed discussion of our financial performance.

The Need for Leadership

In last year's annual report, we noted that "the growing, seemingly insatiable demand for talent is true across public, private, and government sectors from coast to coast." This demand is being driven by growth in many sectors of the Canadian economy, as well as by the rising rate of retirements of the boomer generation, coupled with the fact that over the years many organizations reduced the depth of senior and mid-level executives in their efforts to tightly manage costs and improve productivity and financial performance.

Our experience has shown that the demand for both talent and for leadership is very high. This is confirmed by a Global Human Capital Study issued in October 2007 by IBM Global Services called, "Unlocking the DNA of the Adaptable Workforce".

The study found that, "a lack of leadership capability has become a significant barrier to growth for many organizations...Without sufficient leadership talent, who will set the direction? Who will paint the vision? Who will lead the change? It's not only an HR issue. It is a business imperative. Companies cite a lack of leadership capability as one of their foremost challenges."

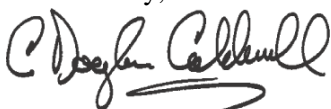
The Caldwell Partners recognized many years ago the critical importance of the need to develop, identify, and recognize today's and tomorrow's leaders across all sectors, public and private, profit and non-profit. This was a major reason why we founded and continue to promote the prestigious national awards programs recognizing Canada's Outstanding CEO of the Year™ and Canada's Top 40 Under 40™, and continue to very actively support the Canada's CFO of the Year Award™ program. Each of these programs continues to flourish with Canada's Outstanding CEO of the Year™ and Canada's Top 40 Under 40™ programs now in their respective 18th and 13th years.

Our strategic plan is aimed at further strengthening The Caldwell Partners' premium brand and our role in assisting our clients find the right people for their requirements and then integrate them into their organizations.

We are confident that, with the obviously growing need for the expertise and services that The Caldwell Partners provides, the future for our business continues to look very exciting.

I extend my appreciation to those of our colleagues who retired in 2007 and thank them for the contributions that they made to our success over the years. I also am pleased to welcome the additions to our Company who I know will be important in extending the leadership of The Caldwell Partners into the future. I also thank our Board of Directors for their efforts, wisdom, and support that has proven valuable in charting our course.

Yours sincerely,



C. Douglas Caldwell, Founder and Chairman

November 23, 2007



Management Discussion and Analysis

Canada's Largest and Only National Human Capital Services Company

The Caldwell Partners International Inc. ("The Caldwell Partners" or "the Company"), founded in 1970, is Canada's first and most respected retained executive search firm. In 1989, the Company went public and remains Canada's only publicly traded executive search firm. Today it is the only truly national human capital services company in Canada, serving clients across the country as well as internationally. 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™, each in their 18th and 13th years respectively. The Company also continues to actively support Canada's Outstanding CFO of the Year Award™ program.

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 October 25, 2007, should be read in conjunction with the audited consolidated financial statements and related notes included in this Annual Report to Shareholders. 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 defined 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

The fourth quarter of 2007 marked the strongest quarter for the Company since 2000, and the strongest fourth quarter since 1998. Fourth quarter operating revenue increased 53% over the comparable period last year, to \$5,021,000. Twelve-month operating revenue increased 15% to \$15,544,000 from



\$13,524,000 in 2006. The Company experienced significant growth in new business bookings throughout the year and particularly in the third and fourth quarters. The 53% gain in fourth quarter operating revenue was driven by both a 50% quarter over quarter increase in third quarter bookings and an 80% increase in fourth quarter bookings. The significant gains in fourth quarter bookings should also positively impact 2008 first quarter operating revenue, given the Company's three month billing cycle.

2006					2007				
Q1	Q2	Q3	Q4	year	Q1	Q2	Q3	Q4	year
\$3,946	\$2,995	\$3,299	\$3,284	\$13,524	\$3,109	\$3,846	\$3,568	\$5,021	\$15,544

Direct Cost of Revenue

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 70% to \$3,423,000 in the 2007 fourth quarter versus \$2,008,000 in the comparative quarter of 2006. Year over year, direct costs have increased 26% from \$8,511,000 to \$10,704,000, as compared to the 15% increase in operating revenue. Both quarterly and annual increases are the result of increased compensation costs, largely variable compensation which has increased as a result of higher operating revenues period over period. As well, the Company has made significant investments in new partners and other professional staff as it executes its strategic plan to increase revenues and profitability.

2006					2007				
Q1	Q2	Q3	Q4	year	Q1	Q2	Q3	Q4	year
\$2,595	\$1,930	\$1,978	\$2,008	\$8,511	\$2,276	\$2,403	\$2,602	\$3,423	\$10,704

Gross Operating Profit and Margin

Gross operating margins in the fourth quarter of 2007 increased to \$1,598,000 or 32% of operating revenues, from \$966,000 or 27% in the third quarter as the result of the significant increase in revenue. When compared to the fourth quarter of 2006, gross operating margins increased from \$1,276,000 to \$1,598,000 on larger operating revenues. However, as a percentage of operating revenues, operating margins have declined from 39% to 32%, the result of the Company's continued investment in recruiting and developing professional staff.

2006					2007				
Q1	Q2	Q3	Q4	year	Q1	Q2	Q3	Q4	year
\$1,351	\$1,065	\$1,321	\$1,276	\$5,013	\$833	\$1,443	\$966	\$1,598	\$4,840
34%	36%	40%	39%	37%	27%	38%	27%	32%	31%

General and Administrative Expenses

2007 fourth quarter general and administrative expenses decreased \$309,000 from \$1,303,000 in the third quarter to \$994,000. This is largely the result of a decline in legal expenses recorded in the fourth versus the third quarter. On the year, general and administrative expenses have increased \$631,000 or 16% from \$3,891,000 last year to \$4,522,000 this year.



Legal expenses for the year total \$585,000, up \$443,000 over last year's expense of \$142,000. Eliminating the impact of these increased legal expenses would result in general and administrative expenses increasing only \$191,000 over last year, the result of higher marketing costs and some additional compensation charges, both associated with executing the Company's strategic growth plan.

The Company has submitted a claim on its Directors and Office insurance policy to its insurers for coverage of its litigation expenses. The Company has recently been informed that its insurer will cover substantially all of its defense costs. However, the recovery of these costs has not yet been reflected in the Company's accounts as the amount of the reimbursement is not yet determinable.

2006					2007				
Q1	Q2	Q3	Q4	year	Q1	Q2	Q3	Q4	year
\$1,090	\$962	\$934	\$905	\$3,891	\$1,070	\$1,155	\$1,303	\$994	\$4,522

Net Operating Profit

Fourth quarter net operating profit increased 63% or \$233,000 from \$371,000 last year to \$604,000 this year. On a year-to-date basis, net operating profit was \$318,000 as compared to last year's \$1,122,000. Again, removing the impact of higher legal costs this year over last, operating profit this year would improve by \$443,000 and result in an operating profit of \$761,000, only \$361,000 below last year. This decline is largely attributable to the increase in compensation costs arising from both higher levels of revenue and additions to professional staff.

As the Company continues to execute its strategic plan, profit margins will be impacted as higher levels of expenses are incurred with the investment in new professionals. The Company is confident that these investments will drive higher revenues and ultimately improve profitability.

2006					2007				
Q1	Q2	Q3	Q4	year	Q1	Q2	Q3	Q4	year
\$261	\$103	\$387	\$371	\$1,122	(\$237)	\$288	(\$337)	\$604	\$318
7%	3%	12%	11%	8%	-	8%	-	12%	2%

Investment Income

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. In addition, a professional investment manager invests and manages specific amounts in accordance with the Company's investment policies. All investments are carried at cost and when there is other than a temporary decline in market value, the investments are written down to provide for the loss.

The Company's holding of cash and cash equivalents is in government treasury bills, money market instruments, and bank deposits. No amount is affected by the liquidity issues associated with the publicized asset-backed commercial paper problems affecting the banking community and many companies.



Investment income in the fourth quarter decreased from \$176,000 one year ago to \$20,000 in the current year. This decline was largely due to an increase in capital losses incurred from \$47,000 in the fourth quarter of last year to \$118,000 this year. On a year-to-date basis, investment income in 2007 totals \$645,000 versus \$659,000.

As at August 31, 2007, the market value of investments was \$417,000 in excess of book cost. This unrealized gain has not been reflected in the accounts of the Company.

This year, \$8.2 million of the investment portfolio has been placed with third party investment managers which had previously been deployed in dividend-producing preferred shares. At the end of 2006, \$4.0 million had only just been placed with third party investment managers.

Commencing in 2008, the Company will be adopting the new Financial Instruments Standard for public companies, with the investment portfolio to be carried at market and any unrealized gains or losses to be recorded in Other Comprehensive Income.

2006					2007				
Q1	Q2	Q3	Q4	year	Q1	Q2	Q3	Q4	year
\$171	\$158	\$154	\$176	\$659	\$133	\$160	\$332	\$20	\$645

Net Earnings

Net Earnings Before Tax

Fourth quarter net earnings before tax increased 14% from \$547,000 last year to \$623,000 in the current year. For the year, earnings before tax are \$963,000 versus \$1,781,000 in 2006.

2006					2007				
Q1	Q2	Q3	Q4	year	Q1	Q2	Q3	Q4	year
\$432	\$261	\$541	\$547	\$1,781	(\$104)	\$449	(\$5)	\$623	\$963

Net Earnings After Tax

The fourth quarter of 2007 yielded net earnings of \$355,000 or \$0.02 per share up 50% over net earnings of \$237,000 or \$0.02 per share in the fourth quarter of 2006. Year-to-date net earnings total \$691,000 or \$0.04 per share versus \$1,175,000 or \$0.07 per share in 2006.

2006					2007				
Q1	Q2	Q3	Q4	year	Q1	Q2	Q3	Q4	year
\$328	\$222	\$388	\$237	\$1,175	(\$46)	\$321	\$61	\$355	\$691

Earnings per Share									
\$0.02	\$0.01	\$0.02	\$0.02	\$0.07	\$0.00	\$0.02	\$0.00	\$0.02	\$0.04



Dividends

In view of the Company's performance and the desire to maintain a stable dividend to shareholders, the Board of Directors declared cash dividends of \$0.02 per Class A non-voting and Class B voting share payable on November 16, 2007 to shareholders of record on November 6, 2007. On an annualized basis, this dividend represents a yield of approximately 5.5% based on the closing price of the company's shares on The Toronto Stock Exchange on October 24, 2007.

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, 2007, the company had \$13,735,000 of marketable securities plus cash and cash equivalents of \$5,839,000, for a total of \$19,574,000 as compared to the \$19,575,000 at year-end 2006. These resources have remained largely unchanged compared to last year. While the Company has expended resources in supporting a dividend \$674,000 in excess of earnings, invested \$302,000 in additions to computer and telecommunications equipment and website development costs, these have been offset by increases in working capital and other non-cash items of \$892,000.

The Company's strategic plan is to invest some or all of its capital through the acquisition of businesses, groups of people or individuals that over time would be expected to contribute to the growth of its business and to the creation of additional value for its shareholders.

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 other investments represented approximately 73% of the Company's total balance sheet stated assets at August 31, 2007, down slightly from 76% at the close of 2006. The Company's investment in marketable securities comprises primarily preferred stocks of Canadian public companies rated P1, P2, or the equivalent, and managed investment funds. Dividend income earned on these funds is a very tax-efficient method of enhancing income.

Accounts receivable were \$3,887,000 at the end of the fourth quarter of 2007, up \$923,000 from \$2,964,000 at the end of the prior year, largely the result of 2007 fourth quarter revenues being \$1,737,000 higher than the comparable period of 2006. Accounts payable were \$2,961,000 at the end of August 2007, up from \$1,989,000 at the end of fiscal 2006 largely attributable to higher accruals for variable partner compensation costs, resulting again from higher fourth quarter revenues as compared to the prior year.

The Company's investment in property and equipment was \$2,191,000 compared with \$2,236,000 at the 2006 year-end. This reflects additions of \$302,000 net of amortization of \$346,000. Capital expenditures included improvements to computer and telecommunications equipment, website re-development costs and the implementation of new accounting and information system software. Capital expenditures in fiscal 2008 are estimated to be \$250,000. Management is confident that its cash flow and retained cash and short-term investments are sufficient to fund its operations in fiscal 2008.

Shareholders' equity at August 31, 2007 was \$21,833,000, down from \$22,507,000 at year-end 2006, the decline reflecting dividend payments in excess of net earnings for the year.



Business Outlook

With a strengthening Canadian economy, the company sees good demand continuing in most sectors in 2008. Strong new business bookings in fiscal 2007 have continued into the early part of fiscal 2008. The pipeline of new business is strong in most offices across the country and the company is confident that the implementation of its strategic growth plan will further enhance its current volume of business.

Related Party Transactions

The Company paid rent at fair market rental rates, as confirmed by a third party commercial leasing consultant at the inception of the lease, to affiliated companies owned by a shareholder in the amount of \$247,580 (2006 - \$262,193), net of recoveries from other related parties, pursuant to lease commitments.

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 and marketable securities. 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 \$8.2 million of the investment portfolio in accordance with the Company's investment policies. The Company does not incur any material foreign exchange risk as nearly all of its business is done in Canada and it has few dealings with international currencies. Currently, none of the company's investment portfolio is denominated in U.S. dollars. When considered necessary, the company hedges its U.S. dollar exposure through regular foreign exchange forward contracts with commercial bankers. Accordingly, the foreign exchange risk is immaterial. No foreign exchange forward contracts are currently in place.

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. Details of this claim are provided in note 3 to the annual financial statements. The Company, and the directors believe this claim is completely without merit and are defending this action to the fullest extent. The Company has been informed that C. Douglas Caldwell is also defending this action to the fullest extent.

The case is currently expected to go to discovery before the end of calendar 2007. A trial date has not yet been set. The outcome of this lawsuit is currently not determinable and, as a result, no accrual for any potential liability or loss has been recorded in the annual financial statements. For the year ended 2007, the Company incurred legal cost of \$584,538 (2006, \$142,165), substantially all pertaining to defense of this claim.

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, 2007, 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, 2007 that have materially affected, or are reasonably likely to materially affect, its ICFR. No such changes were identified through their evaluation.

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 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.



C. Douglas Caldwell
CHAIRMAN AND CHIEF EXECUTIVE OFFICER
October 25th, 2007



Karen E. Richards, CA
SECRETARY AND CHIEF FINANCIAL OFFICER



Auditors Report to Shareholders

The Caldwell Partners International Inc. Consolidated Financial Statements for the Years Ended August 31, 2007 and 2006

We have audited the consolidated balance sheets of The Caldwell Partners International Inc. as at August 31, 2007 and 2006 and the consolidated statements of earnings, shareholders' equity and 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, 2007 and 2006 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
Toronto, Canada
October 25, 2007



THE CALDWELL PARTNERS INTERNATIONAL INC.
CONSOLIDATED BALANCE SHEETS

	<i>As at August 31</i>	
	2007	2006
Assets		
Current Assets		
Cash and cash equivalents	\$5,839,292	\$10,005,443
Accounts receivable	3,886,522	2,963,787
Income taxes receivable	679,337	269,562
Prepaid expenses	169,545	146,590
	<u>10,574,696</u>	<u>13,385,382</u>
Marketable securities (note 2)	13,734,660	9,569,342
Loans receivable, net (note 4)	355,966	631,546
Property and equipment (note 5)	2,190,973	2,235,574
Future income taxes (note 6)	24,041	24,041
	<u>\$26,880,336</u>	<u>\$25,845,885</u>
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$2,961,487	\$1,988,590
Deferred revenue	397,854	250,112
	<u>3,359,341</u>	<u>2,238,702</u>
Other long-term liabilities (note 7)	1,337,148	785,680
Future income taxes (note 6)	350,968	314,968
Shareholders' Equity		
Capital stock (note 8)	20,595,326	20,595,326
Contributed surplus	204,803	204,803
Retained earnings	1,032,750	1,706,406
	<u>21,832,879</u>	<u>22,506,535</u>
	<u>\$26,880,336</u>	<u>\$25,845,885</u>

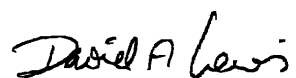
Commitments and contingencies (notes 3 & 9)

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 EARNINGS

	<i>Year ending August 31</i>	
	2007	2006
Operating revenue	\$15,544,458	\$13,523,855
Expenses:		
Employee compensation, general and administration	14,295,856	11,913,058
Other expenses (note 3)	584,538	142,165
Amortization	346,344	347,032
	<u>15,226,738</u>	<u>12,402,255</u>
Earnings before the following:	317,720	1,121,600
Investment income, net (note 2)	644,841	659,169
Net income before tax	962,561	1,780,769
Provision for income taxes (note 6)		
Current	236,000	610,000
Future	36,000	(4,000)
	<u>272,000</u>	<u>606,000</u>
Net earnings for the year	\$690,561	\$1,174,769
Earnings per Class A and Class B share:		
Basic and fully diluted	\$0.04	\$0.07
Weighted average number of shares outstanding	17,052,233	17,052,233

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



THE CALDWELL PARTNERS INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

	Retained Earnings	Class A Non-voting Shares	Capital Stock Class B Voting Shares	Class C Special Shares	Contributed Surplus	Total Shareholders' Equity
Balance - August 31, 2005	\$1,926,947	\$20,574,376	\$20,950	-	\$204,803	\$22,727,076
Refundable taxes	(31,000)					(31,000)
Dividends paid	(1,364,310)					(1,364,310)
Net earnings for the year ended August 31, 2006	1,174,769					1,174,769
Balance - August 31, 2006	1,706,406	20,574,376	20,950	-	204,803	22,506,535
Dividends paid	(1,364,217)					(1,364,217)
Net earnings for the year ended August 31, 2007	690,561					690,561
Balance - August 31, 2007	\$1,032,750	\$20,574,376	\$20,950	-	\$204,803	\$21,832,879

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



THE CALDWELL PARTNERS INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	<i>Years ended August 31</i>	
	<i>2007</i>	<i>2006</i>
Operating Activities		
Net earnings for the year	\$690,561	\$1,174,769
Items not affecting cash		
Amortization	346,344	347,032
Loss on sale marketable securities	4,671	189,016
Other realized gains on investments	(82,471)	-
Future income taxes	36,000	(4,000)
Non-cash incentive compensation	551,468	525,846
Net changes in working capital balances:		
Increase in accounts receivable	(922,735)	(139,406)
(Increase) decrease in income taxes receivable	(409,775)	769,353
Decrease in loans receivable, net	275,580	137,546
Increase in prepaid expenses	(22,955)	(43,944)
Increase (decrease) in accounts payable and accrued liabilities	972,897	(885,955)
Increase (decrease) in deferred revenue	147,742	(203,421)
	<u>1,587,327</u>	<u>1,866,836</u>
Investing Activities		
Proceeds on sale of marketable securities	6,359,962	9,050,327
Purchases of marketable securities	(10,447,480)	(5,740,878)
Additions to property and equipment	(301,743)	(266,906)
	<u>(4,389,261)</u>	<u>3,042,543</u>
Financing Activities		
Dividends paid	(1,364,217)	(1,364,310)
Refundable taxes	-	(31,000)
	<u>(1,364,217)</u>	<u>(1,395,310)</u>
Net (decrease) increase in cash and cash equivalents during the year	(4,166,151)	3,514,069
Cash and cash equivalents, beginning of year	10,005,443	6,491,374
Cash and cash equivalents, end of year	<u>\$5,839,292</u>	<u>\$10,005,443</u>
Supplementary information:		
Income taxes paid	\$787,000	\$547,500
Cash and cash equivalents is comprised of the following:		
Cash	\$1,130,709	\$ 716,141
Short-term deposits	4,708,583	9,289,302
	<u>\$5,839,292</u>	<u>\$10,005,443</u>

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, 2007 and 2006

1. Basis of Presentation

The consolidated balance sheets and the consolidated statements of earnings, shareholders' equity, and cash flows for the years ended August 31, 2007 and 2006 include the accounts of the Company and its subsidiaries. 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. In some instances, a portion of revenue may be deferred until services have been fully rendered. Revenue includes both professional fees, recovered expenses and administration fees.

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 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.

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 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.

Marketable Securities

The Company invests in marketable securities which are carried at cost, and comprised of the following:

	<u>2007</u>	<u>2006</u>
Preferred shares	\$5,392,190	\$5,409,614
Managed funds	8,182,742	4,000,000
Common shares	159,728	159,728
	<u>\$13,734,660</u>	<u>\$9,569,342</u>

When there is an other than temporary decline in market value, these investments are written down to provide for the loss. During the year, the Company did not record a provision for potential losses on marketable securities (2006 – nil). At August 31, 2007, the market value of marketable securities was \$14,151,821 (2006 - \$9,561,002).

The Company records dividend and interest income on an accrual basis. Dividend income is recorded on the dividend declaration date and interest is recorded as earned.

Financial Instruments

The carrying value of cash and cash equivalents, accounts receivable, income taxes receivable, accounts payable and accrued liabilities approximate fair values due to the short period to settlement.

Investments in marketable securities are subject to market risk. The Company manages market risk by investing in Canadian and foreign equities, preferred shares, 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. In addition, professional investment managers invest and manage specific amounts (managed funds) in accordance with the Company's investment policies.

During 2006, approximately 10% of the Company's investment portfolio was denominated in US dollars. The Company hedged this US dollar exposure through regular foreign exchange forward contracts with commercial bankers. At August 31, 2006 and 2007, none of the investment portfolio was denominated in US dollars and no foreign exchange forward contracts were outstanding.

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.

Stock Based Compensation

The Company has adopted the recommendations of the Canadian Institute of Chartered Accountants' Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments". The recommendations are generally applicable only to awards granted after the date of adoption, except for awards settled in cash. This section was implemented on a prospective basis. The Company accounts for its stock option plan using the fair market value method of accounting for stock based compensation.

3. Contingency – Shareholder Litigation

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. The plaintiffs in this action are J.C. Clark Ltd., The Tailwind Fund Limited Partnership and McElvaine Investment Management Ltd., who disclose in the Statement of Claim that they own cumulatively 38.6% of the Class A Non-Voting Shares of the Company. This Statement of Claim alleges that the defendants have effected, are effecting or threaten to effect a result that is oppressive or unfairly prejudicial to or unfairly disregards the rights and interests of the plaintiffs, and other holders of Class A Non-Voting Shares of the Company. The Statement of Claim requests certain declaratory relief against the Company, as for a termination of the head office lease of the Company, or an amendment of its terms, asks that the Company declare and pay a dividend from the Company's excess cash reserves and asks that C. Douglas Caldwell be restrained from voting any shares of the Company that he owns directly or indirectly, either legally or beneficially.

The Company and the directors believe that this action is without merit and are defending this action to the fullest extent. The Company has been informed that C. Douglas Caldwell is also defending this action to the fullest extent. The case is currently expected to go to discovery before then end of calendar 2007. A trial date has not yet been set. The outcome of this lawsuit is currently not determinable and, as a result, no accrual for any potential liability or loss has been recorded in these financial statements. For the year ended 2007, the Company incurred legal costs of \$584,538 (2006 - \$142,165), substantially all pertaining to defense of this claim.



The Company has recently been informed that its insurer will cover substantially all of its legal defense costs. However, the recovery of these costs has not yet been reflected in the Company's accounts as reimbursement of these costs has not yet been received.

4. 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 option exists. The loan balances do not bear interest and have various repayment terms. Due to the uncertainty over the timing of the repayments, the fair value of these loans is not readily determinable. Certain amounts owing to employees in the prior year have been reclassified from Accounts Payable and Accrued Liabilities and netted against the Loans Receivable to conform with the current year presentation.

5. Property and Equipment

	2007			2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Furniture & Equipment	\$1,854,377	\$1,438,772	\$415,605	\$1,728,731	\$1,362,718	\$366,013
Computer Equipment	2,084,572	1,829,627	254,945	2,015,988	1,752,104	263,884
Computer software	1,676,220	1,186,465	489,755	1,568,719	1,086,519	482,200
Leasehold improvements	2,583,258	1,552,590	1,030,668	2,583,299	1,459,822	1,123,477
	<u>\$8,198,427</u>	<u>\$6,007,454</u>	<u>\$2,190,973</u>	<u>\$7,896,737</u>	<u>\$5,661,163</u>	<u>\$2,235,574</u>

6. Income Taxes

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

	<u>2007</u>	<u>2006</u>
	%	%
Combined Canadian federal and provincial income tax rate	36.1	35.9
Decrease resulting from:		
Dividends received on preferred and common shares	(14.0)	(10.4)
Decrease in future tax asset	-	(1.3)
Non-taxable portion of capital losses	(0.1)	-
Increase resulting from:		
Provision for income tax receivable	5.8	4.5
Non-taxable portion of capital losses	0.1	3.8
Non-deductible expenses	0.2	0.1
Other	0.2	1.4
	<u>28.3</u>	<u>34.0</u>



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:

	<u>2007</u>	<u>2006</u>
Future income tax assets:		
Capital losses and other deductions available to offset future taxable income	\$ 24,041	\$ 24,041
Future income tax liabilities:		
Excess of the carrying values of property and equipment over the tax base	<u>(350,968)</u>	<u>(314,968)</u>
Net future income tax liability	<u>(\$326,927)</u>	<u>(\$290,927)</u>

7. 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 corresponding accrual in the prior year has been reclassified from Accounts Payable and Accrued Liabilities to Other Long-term Liabilities.

8. Capital Stock

The authorized share capital of the Company consists of an unlimited number of Class A Non-voting Shares of which 13,168,783 (2006 – 13,168,783) are issued and outstanding, an unlimited number of Class B Voting Shares of which 3,883,450 (2006 – 3,883,450) are issued and outstanding, and 240,000 Class C Special Shares of which nil (2006 - 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.

Class A Shares

There was no activity in Class A Shares over the past two years.

Class B Shares

The Class B Voting Shares are convertible to Class A Non-voting Shares on a one-for-one basis, given certain conditions over a period of time. There was no activity in Class B Shares over the past two years.

Class C Shares

In 1997, 80,000 Class C Special Shares were issued to employees of the Company. A further 160,000 Class C Special Shares were issued in 1999. These shares were convertible over a period of 5 years commencing one year after their date of issue, into Class A Non-voting Shares. All 240,000 Class C Shares were cancelled in 2005.



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:

	2007		2006	
	Number of Options Outstanding	Weighted Average Exercise Price	Number of Options Outstanding	Weighted Average Exercise Price
Outstanding at beginning of year	2,500	\$0.96	244,743	\$2.43
Options expired or cancelled	(2,500)	\$0.96	(242,243)	\$2.44
Outstanding at end of year	-	-	2,500	\$0.96

The weighted average remaining contractual life of the 2,500 options outstanding at August 31, 2006 was 0.2 years. The current number of options authorized and available for grant is 1,841,600 (2006 - 1,839,100). All options vest upon issuance and have a contractual life of 5 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. No compensation expense has been recognized for the year ending August 31, 2007 as no options have been granted.

9. Lease Commitments

The Company's future operating lease commitments for premises excluding operating costs, which are also discussed in note 10, are as follows:

2008	\$ 610,852
2009	552,357
2010	407,956
2011	141,080
2012 & thereafter	74,879
	<u>\$1,787,124</u>

10. Related Party Transactions

The Company paid rent at fair market rental rates, as confirmed by a third party commercial leasing consultant at the inception of the lease, to affiliated companies owned by a shareholder in the amount of \$247,580 (2006 - \$262,193), net of recoveries from other related parties, pursuant to the Company's lease commitments.

11. Comparative Figures

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



Directors

C. Douglas Caldwell
Chair and Chief Executive Officer
The Caldwell Partners International Inc.

Anne M. Fawcett
Vice Chair
The Caldwell Partners International Inc.

G. Edmund King *
Corporate Director

David A. Lewis *
Chair, Green Shield Canada

Harry W. Macdonell, Q.C.*
Corporate Director

* Member of Audit/Compensation, Nominating
and Corporate Governance Committees.

Officers

C. Douglas Caldwell
Chair and Chief Executive Officer
The Caldwell Partners International Inc.

Anne M. Fawcett
Vice Chair
The Caldwell Partners International Inc.

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

Shareholder Information

Auditors

PricewaterhouseCoopers LLP
Chartered Accountants
Toronto

Counsel

McCarthy Tétrault
Barristers and Solicitors
Toronto

Stock Exchange Listing

The Toronto Stock Exchange
(symbol: CWL.A)

Transfer Agent

CIBC Mellon Trust Company
CIBC Mellon Trust Company operates a
telephone information inquiry line that can be
reached by dialing toll free 1.800.387.0825
or 416.643.5500.

Correspondence may be addressed to:
The Caldwell Partners International Inc.
c/o CIBC Mellon Trust Company
Corporate Trust Services, P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario, M5C 2W9

For other information, please contact:
Karen Richards, Chief Financial Officer
The Caldwell Partners International Inc.
One Six Five Avenue Road
Toronto, Ontario, M5R 3S4
1.888.366.3827 Facsimile 416.920.8533
E-mail: leaders@caldwell.ca

To participate in or learn more about
The Caldwell Partners' Dividend
Reinvestment Program (DRIP), please call
Karen Richards at 1.888.366.3827 or
contact CIBC Mellon Trust at 1.800.387.0825.



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Call us toll-free at 1.888.fone.tcp / 1.888.366.3827

Visit our website at: www.caldwell.ca

Vancouver, British Columbia

1095 West Pender Street, Suite 850, V6E 2M6

tel 604.669.3550 fax 604.669.5095

e-mail vancouver@caldwell.ca

Calgary, Alberta

505 Third Street S.W., Suite 800, T2P 3E6

tel 403-265-8780 fax 403-263-6508

e-mail calgary@caldwell.ca

Toronto, Ontario

165 Avenue Road, M5R 3S4

tel 416.920.7702 fax 416.922.8646

e-mail leaders@caldwell.ca

Ottawa, Ontario

Ottawa, Ontario

421 Gilmour Street K2P 0R5

tel 613.745.1771 fax 613.231.5866

e-mail ottawa@caldwell.ca

Montréal, Québec

1 Place Ville Marie, Suite 1611, H3B 2B6

tel 514.908.2954 fax 514.908.2953

e-mail montreal@caldwell.ca

Halifax, Nova Scotia

500-5657 Spring Garden Road, Park Lane Box 247, B3J 3R4

tel 902.429.5909 fax 902.429.5606

e-mail halifax@caldwell.ca

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