

COOLBRANDS INTERNATIONAL INC.
2007 ANNUAL REPORT

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Dear Fellow Shareholders:

As a result of changes in industry dynamics and the sizeable losses incurred by the Company in fiscal 2005 and fiscal 2006, a decision was made to sell the Company's business units in order to protect the remaining value of the Company. Fiscal 2007 results reflect the impact of this decision.

Operating results

The audited financial statements for the year ended August 31, 2007 contained in this annual report disclose the results, in U.S. dollars, of the Company's operations, segregated between the results of continuing operations and the results of discontinued operations. Discontinued operations are those businesses that were sold in 2007 and prior, and which accounted for the majority of the Company's previous revenue and expenses.

For Fiscal 2007, the Company had a loss of \$19,040,000 compared to a loss of \$70,182,000 in Fiscal 2006. The Fiscal 2006 results were adversely affected by a number of impairment provisions as a result of the decision to discontinue certain operations. The Fiscal 2007 results were comprised of a loss from discontinued operations of \$13,636,000 combined with a loss from continuing operations of \$5,420,000. Included in the loss from continuing operations was a foreign exchange loss of \$5,455,000 reflecting a change in the method of accounting for the Company's investments in its U.S. based subsidiaries and the impact of the appreciation of the Canadian dollar compared to the U.S. dollar on the Company's U.S. cash investments. Without this foreign exchange loss, the Company was marginally profitable in its continuing operations as the interest earned on its cash funds exceeded the general and administrative costs of the ongoing business.

Proceeds received from the sale of the business units were used to repay the amounts owing under the Company's credit facilities, such that by the end of the year, the Company had no debt owing to its bankers. The bank debt owing by the Americana Limited Partnership ("Americana"), in which the Company had a 50.1% interest, was acquired by 2118769 Ontario Inc. Americana was placed into bankruptcy in October 2006 and it is expected that the bankruptcy will be finalized shortly. Certain of the funds held by the bankruptcy estate will be used to repay the majority of the loan that was acquired.

At the end of Fiscal 2007, the Company had cash and short-term investments of \$64,702,000 and working capital of \$46,958,000. The significant improvement in these measures of liquidity was the result of the business sales consummated in 2007 and the wind-down of the Company's U.S. operations, including the closure of its U.S. offices. We continue to address the collection and realization of the Company's non-cash assets and the settlement of the Company's remaining liabilities.

Business outlook

CoolBrands International Inc. has undergone a momentous transformation over the past two years. The decisions made in 2006 and 2007 were necessary to protect the Company's remaining value. We are managing the process of winding down the Company's operations. At the same time, management and our new board of directors are seeking out and evaluating opportunities to deploy the Company's cash resources in ways they believe will benefit our shareholders. We will keep our shareholders updated as we proceed in this process.



Michael Serruya
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Amounts are expressed in thousands of U.S. dollars, except per share data)

The following is Management's Discussion and Analysis ("MD&A") of the financial position of CoolBrands International Inc. ("CoolBrands" or the "Company") and the financial review for the years ended August 31, 2007 ("Fiscal 2007") and August 31, 2006 ("Fiscal 2006"). This MD&A is dated November 29, 2007 and has been approved by the Board of Directors of CoolBrands on the recommendation of the audit committee of the Board of Directors.

This MD&A should be read in conjunction with the Company's audited consolidated financial statements and the related notes, which may be found on pages 13 to 28 of this annual report.

Unless otherwise indicated, all financial information herein is prepared in accordance with Canadian generally accepted accounting principles and all dollar amounts referred to herein are in United States dollars.

Cautionary statement regarding forward looking statements

The information in this document contains certain forward-looking statements with respect to CoolBrands International Inc., its subsidiaries and affiliates. These statements are often, but not always made through the use of words or phrases such as "expect", "should continue", "continue", "believe", "anticipate", "estimate", "contemplate", "target", "plan", "budget", "may", "will", "schedule" and "intend" or similar formulations. By their nature, these forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management, are inherently subject to significant, known and unknown, business, economic, competitive and other risks, uncertainties and other factors affecting CoolBrands specifically or its industry generally that could cause actual performance, achievements and financial results to differ materially from those contemplated by the forward-looking statements. These risks and uncertainties include the Company's ability to recover its assets relating to the sale of its businesses over the past year; its ability to sell the remaining assets or rebuild the business; the ability of CoolBrands to effectively manage the risks inherent with mergers and acquisitions; the ability of the Company to minimize the negative impact of any litigation; the effect on foreign operations of political, economic and regulatory risks; currency risk exposure; the ability to recruit and retain qualified employees; and other risks described from time to time in publicly filed disclosure documents of CoolBrands and its subsidiaries and affiliates. In view of these uncertainties we caution readers not to place undue reliance on these forward-looking statements. CoolBrands disclaims any intention or obligation to update or revise any statements made herein, whether as a result of new information, future events or otherwise.

Overall performance

CoolBrands was formed in 1994 and has, over the past few years, been focused on the marketing and selling of a broad range of ice cream and frozen snack products. As a result of significant financial losses over the past three years, CoolBrands undertook a significant restructuring process whereby the majority of the business operations of the Company and its subsidiaries were sold or discontinued. The narrative that follows in this MD&A describes the transactions that were completed as the Company downsized its operations. As a result of this downsizing, the continuing operations of the Company are significantly diminished compared to the operations reported in prior years. For this reason, comparisons of financial results between Fiscal 2007 and Fiscal 2006 may not be appropriate. The commentary on operations is focused on both the continuing operations and to some extent on the prior operations that have now been discontinued.

For Fiscal 2007, CoolBrands incurred a loss of \$19,040, of which \$5,404 was from continuing operations and \$13,636 was from discontinued operations.

For Fiscal 2006, CoolBrands incurred a loss of \$70,182, of which \$2,981 was from continuing operations and \$67,201 was from discontinued operations.

In December 2005, the Company sold certain assets relating to its franchising business for proceeds totaling \$8,000 to Aaron Serruya, a former officer of the Company, who is a director of the Company and the brother of Michael Serruya, the President, Chief Executive Officer and Chairman of the board of directors of the Company. The proceeds were used to repay a portion of existing debt.

On April 21, 2006, the Company refinanced its existing debt by entering into the following:

1. a \$48,000 senior secured revolving credit facility (the "Corporate Credit Facility"); and
2. a \$25,500 senior secured revolving credit facility consisting of an \$8,000 senior secured revolving credit facility and \$17,500 of term loans, in which Americana Foods Limited Partnership ("Americana Foods"), which was owned 50.1% by the Company, was the borrower (together the "Americana Credit Facility").

The proceeds from the borrowings were used to retire all then existing debt.

As at August 31, 2006, the Company had external debt of \$33,578 under the above noted credit facilities.

The Company continued to incur significant losses in Fiscal 2006 and was in default under the financial covenants at May 31, 2006 and August 31, 2006 with respect to the Corporate Credit Facility and the Americana Credit Facility. As a result, in Fiscal 2006, the Company and its subsidiaries sold various assets as described below in order to generate cash and reduce debt.

In September 2006, the Company completed the sale of its Value America division to an unaffiliated third party for \$8,250. In November 2006, the Company consummated the sale of substantially all of Eskimo Pie Frozen Distribution ("EPFD") to an unaffiliated third party for \$5,736. The proceeds from these sales were used to reduce the outstanding balance owing under the Corporate Credit Facility.

In October 2006, certain of the Company's subsidiaries, as creditors of Americana Foods, filed an involuntary petition of bankruptcy against Americana Foods under Chapter 7 of the Federal Bankruptcy Code and Americana Foods ceased operations.

On January 24, 2007, the Company sold, through its subsidiaries Eskimo Pie Corporation and Integrated Brands, Inc., their Eskimo Pie and Chipwich Brands and Real Fruit trademarks, along with the foodservice business segment, including the related Eskimo Pie and soft serve product line, to Dreyer's Grand Ice Cream Inc., an indirect subsidiary of Nestlé S.A., for a purchase price of approximately \$18,925. A portion of the proceeds were utilized to pay off the remaining balance of the Corporate Credit Facility.

On January 30, 2007, the Company sold, through its subsidiary Integrated Brands, Inc., all of the issued and outstanding stock of CoolBrands Dairy, Inc. ("CBD"), the Company's yogurt business. As consideration for the transaction, the Company received cash of \$45,000, a promissory note of \$5,000 and warrants to purchase shares in the acquirer.

On April 1, 2007, the Company sold its Whole Fruit and Fruit-a-Freeze assets to an unaffiliated third party for cash proceeds of approximately \$4,600.

On October 29, 2007, the Company made a filing with the Securities and Exchange Commission ("SEC") in order to terminate its obligations under the United States Securities Exchange Act of 1934 and deregister its securities with the SEC.

Reporting currency

The Company uses the U.S. dollar as its reporting currency. The translation of assets and liabilities of the Company into U.S. dollars is based on the exchange rate as at the period end. The difference resulting from this translation method is included in the currency translation account in the Company's financial statements.

Prior to March 31, 2007, the Company's U.S. based subsidiaries were considered financially and operationally self-sustaining and for financial reporting purposes were treated as self-sustaining subsidiaries. Under this accounting treatment, translation gains or losses of the accounts of these foreign subsidiaries were deferred as a separate component of shareholders' equity.

Effective April 1, 2007, management determined that the foreign subsidiaries were no longer financially and operationally self-sustaining. The closure of the Company's offices in the United States and the sale of the majority of the Company's U.S. operations caused management to consider the foreign subsidiaries to be an integral part of the Canadian operations. This determination resulted in the elimination of the deferral of foreign exchange losses in the currency translation account and the inclusion in the statement of operations and deficit of the losses from foreign exchange on converting the U.S. denominated assets and liabilities into Canadian dollars.

Business strategy

Historically, the Company manufactured and distributed ice cream, sorbet, frozen yogurt and other frozen dairy-based snacks and fresh yogurt. The Company's line of ice cream and frozen dessert products were marketed throughout the United States and select markets in Canada. The Company also manufactured and/or distributed frozen and refrigerated products for other companies (the "Partner Brands"). Americana Foods, which manufactured 45% of the products purchased by the Company for sale and distribution, generated significant losses in Fiscal 2006 and ceased operations in October 2006.

Due to the continued losses and the resulting lack of liquidity, the Company and its subsidiaries began selling certain of its businesses and assets, as previously discussed. As a result of these asset sales, the Company does not have any outstanding debt, except for the secured notes payable and interest due to a related company of \$9,262, and has cash as of August 31, 2007 of approximately \$65 million.

The board of directors is currently determining the future direction for the Company, including the deployment of the Company's cash resources.

Brand portfolio

During the past few years the Company's brands included, among others, the following:

Breyers Yogurt. America's second leading brand for "fruit-on-the-bottom" yogurt, with a strong heritage of high quality, all natural dairy products. This brand, which the Company acquired from Kraft Foods in March 2005, was manufactured and distributed under license from Unilever. The Company's yogurt portfolio also included the "Crème Savers Yogurt" product line manufactured and sold under license from Wm. Wrigley Jr. Company. On January 30, 2007, the Company sold its Yogurt business.

Eskimo Pie. The original chocolate-coated ice cream bar, invented in 1921 and still one of the nation's best known ice cream snack brands. The Company acquired the Eskimo Pie brand when it acquired Eskimo Pie Corporation in October 2000. On January 24, 2007, the Company sold the Eskimo Pie trademark and the related food service business.

Chipwich. The chocolate chip cookie ice cream sandwich that created the premium frozen snack category, Chipwich was acquired in July 2002. On January 24, 2007, the Company sold the Chipwich trademark.

Whole Fruit Sorbet. The leading brand nationwide for all natural fruit sorbet sold in pint sized containers, Whole Fruit Sorbet was acquired from Dreyer's in July 2003. On April 1, 2007, the Company sold the Whole Fruit brand to an unaffiliated third party.

Godiva Ice Cream. The license rights to the Godiva trademark for ice cream were acquired from Dreyer's in July 2003. The Company manufactured and distributed Godiva Ice Cream in pints and ice cream bars under license from Godiva Chocolatier, Inc.

No Pudge! Frozen Snacks. In Fiscal 2005, the Company introduced its "No Pudge!" line of low fat frozen snacks under license from No Pudge! Foods, Inc., marketers of the popular low fat brownie mix.

Tropicana Fruit Bars. In 1997, the Company began manufacturing and distributing the Tropicana fruit bars under license from Tropicana Products, Inc.

Snapple On Ice Pops. In Fiscal 2005, the Company introduced its "Snapple On Ice" line of frozen juice pops, under license from Snapple Beverage Corp.

Crayola Color Pops. In Fiscal 2005, the Company introduced its "Crayola Color Pops" line of frozen snacks, under license from Binney & Smith Properties, Inc.

Disney. In Fiscal 2006, the Company introduced its "Disney" line of ice cream snacks, under license from Walt Disney, Inc.

Historically, the Company pursued acquisitions and new brand licensing partnerships in an effort to keep pace with rapid changes in consumer preferences and new trends in the snack food industry. During 2002, the Company acquired Chipwich and Fruit-a-Freeze. During 2003, the Company acquired three super-premium brands from Dreyer's Grand Ice Cream: Dreamery Ice Cream, Whole Fruit Sorbet and the license for Godiva Ice Cream. During 2004, as low-carb dieting became a powerful force throughout the food industry, the Company entered into a license with Atkins Nutritionals, Inc. to manufacture, sell and distribute Atkins Endulge super premium ice cream products for carb-conscious consumers. This license enabled the Company to realize significant revenue and earnings growth in Fiscal 2004. However, in Fiscal 2005 the rapid decline in low-carb dieting led to a similarly rapid decline in sales of Atkins Endulge Ice Cream products. In July 2004, the Company learned that its license for Weight Watchers Smart Ones would not be extended beyond September 28, 2004, on which date the license would expire, subject to a negotiated nine-month period ending May 1, 2005 to sell off and balance out inventories. Primarily due to the decline in Atkins Endulge sales and the loss of Weight Watchers Smart Ones from its portfolio, the Company experienced significant erosion of its sales and market share in Fiscal 2005, which was only partially offset by several new product introductions, specifically the No Pudge!, Snapple On Ice and Crayola Color Pops.

In Fiscal 2005, the Company attempted to add diversity to its brand portfolio through the acquisition, by its subsidiary CBD, of Breyers Yogurt from Kraft Foods, Inc. in March 2005. The Breyers brand gave the Company an established position in the market for refrigerated yogurt, and a platform for future brand development in the refrigerated snack foods category, via a license-based strategy. However, the Company continued to generate losses across substantially all product lines in the frozen dessert segment and in Fiscal 2007, the yogurt business segment was sold.

Distribution channels

The Company's products were offered for sale in a diverse range of retail outlets, including supermarkets, mass merchants, drug stores, convenience stores and club stores, as well as foodservice outlets, such as restaurants, cafeterias, theme parks and ice cream parlors.

The Company distributed its products primarily by direct shipment to supermarket owned warehouses, independent distributors and foodservice broad-line distributors. In addition, the Company operated a proprietary direct-store-distribution ("DSD") system that serviced several distribution channels in selected U.S. markets, including out-of-home accounts such as convenience stores, drug stores and gas station food marts. The Company also provided distribution services through its DSD system for Partner Brands.

In Fiscal 2005, the Company increased its penetration of the out-of-home (or "impulse") channel by introducing a complete line of single-serve frozen snacks under its proprietary brands, primarily Eskimo Pie. Also in Fiscal 2005, the Company refocused its DSD operations in the western states of the United States (California, Oregon and Washington) to reduce supermarket distribution operations in those markets in favor of increased focus on the impulse channel.

Manufacturing operations

During Fiscal 2007 and Fiscal 2006, the Company manufactured its frozen products primarily at Americana Foods in Dallas, Texas, its 50.1% owned subsidiary. Americana Foods produced a diverse range of soft serve mixes, packaged ice cream, frozen snacks and other similar products. The Company invested in Americana Foods in 2002 to gain more control over the manufacturing process and to vertically integrate its business. However, Americana Foods continued to generate significant losses in Fiscal 2005 and Fiscal 2006, and in October 2006 due to continuing defaults under various financial covenants, Americana's lender demanded full repayment of amounts outstanding, and certain Company subsidiaries, as creditors of Americana Foods, filed an involuntary petition of bankruptcy under Chapter 7 of the Federal Bankruptcy Code against Americana Foods and Americana Foods ceased operations.

The Company manufactured its refrigerated yogurt products at its 100% owned subsidiary CBD in North Lawrence, New York. As discussed above, CBD was sold in January 2007.

Americana Foods and CBD also manufactured products for Partner Brands.

The Company's dairy components segment manufactured and sold a full line of quality flavours, chocolate coatings, fudge sauces, powders for chocolate milk, eggnog bases and other ingredients. In September 2006, the Company sold substantially all of its dairy components segment, which included Value America.

The Company also manufactured products at its facilities in Russellville, Arkansas and Norwalk, California. Both of these facilities were sold in Fiscal 2007.

Financial results

Fiscal 2007 results reflect the decision of the Company and its subsidiaries to sell a majority of their operations in order to eliminate the losses generated from such businesses and to raise capital to repay outstanding debt obligations. The Company has accounted for these businesses as discontinued operations in its financial statements. As well, the majority of the Company's expenses have been classified as part of discontinued operations and have been included in the reported loss from discontinued operations in the financial statements.

The Company's results from continuing operations reflect the interest income earned on the Company's cash resources and the general and administrative expenses associated with the Company's head office operation and the costs associated with CoolBrands being a publicly listed company in Canada.

As well, as a result of the Company changing its method of accounting for its foreign subsidiaries and the change in the value of the Canadian dollar compared to the U.S. dollar, the August 31, 2007 financial results reflect a foreign exchange loss of \$5,455.

The comparative figures for Fiscal 2006 have been reclassified to conform to the presentation of discontinued operations followed in Fiscal 2007. As a result, the majority of the financial results of operations have been classified in discontinued operations.

For Fiscal 2007, CoolBrands incurred a loss of \$19,040 (\$0.34 per share), of which \$5,404 was from continuing operations and \$13,636 was from discontinued operations.

The loss from continuing operations was primarily the result of the loss on foreign exchange of \$5,455 as explained above. The interest income earned on the Company's cash investments was sufficient to cover the general and administrative expenses of the Company resulting in income of \$35 before the loss on foreign exchange.

The loss from discontinued operations of \$12,185 resulted from losses incurred in many of the businesses that were subsequently disposed of or closed during the year. Revenue from these businesses amounted to \$93,963 up to their date of sale. The Company also recorded a loss of \$1,451 relating to the sale of these businesses.

For Fiscal 2006, CoolBrands incurred a loss of \$70,182 (\$1.25 per share), of which \$2,981 was from continuing operations and \$67,201 was from discontinued operations.

The Company did not have excess funds available to earn interest income in 2006, and accordingly, the results of continuing operations report a loss for the Fiscal 2006 year. As well, the administrative costs incurred by the Company were higher due to higher legal fees and larger fees paid to the then board of directors.

The loss from discontinued operations was \$67,201. Revenue relating to these discontinued operations was \$359,365 in Fiscal 2006. Contributing to the Fiscal 2006 loss were the losses incurred by Americana Foods of \$23,542 and impairment provisions of approximately \$18,000 that were recorded in Fiscal 2006 in anticipation of the sales of businesses and in order to reflect amounts at the lower of cost or net realizable value.

Cash and working capital

Cash increased to \$64,702 at August 31, 2007, compared to \$393 at August 31, 2006. Working capital increased to \$46,958 at August 31, 2007, compared to \$(21,696) at August 31, 2006. The current ratio increased to 3.35 to 1.0 at August 31, 2007 from 0.77 to 1.0 at August 31, 2006. The improvement in working capital balances resulted from the proceeds received from the sale of businesses described above. The Company invests its cash funds primarily in bank term deposits.

Selected annual information

The following chart shows selected annual information for the two most recently completed fiscal years. The amounts for August 31, 2006 have been reclassified in accordance with the Company's current year presentation of the results from continuing operations.

	Year ended August 31,	
	2007	2006
Total revenues from continuing operations	\$ 1,919	\$ 60
Loss from continuing operations	(5,404)	(2,981)
Loss from operations of discontinued operations	(12,185)	(67,611)
Gain (loss) on sale of discontinued operations	(1,451)	410
Loss from discontinued operations	(13,636)	(67,201)
Loss for the year	\$ (19,040)	\$ (70,182)
Loss per share from continuing operations:		
Basic and Diluted	\$ (0.10)	\$ (0.05)
Loss per share from discontinued operations:		
Basic and Diluted	\$ (0.24)	\$ (1.20)
Loss per share:		
Basic and Diluted	\$ (0.34)	\$ (1.25)
Total assets	\$ 73,338	\$ 160,548
Total long-term debt ⁽¹⁾	\$ -	\$ -

⁽¹⁾ The Company was in default under both the Corporate Credit Facility and the Americana Credit Facility and accordingly, the balance of the debt which was \$10,077 and \$23,501, respectively, was included in current liabilities as of August 31, 2006.

⁽²⁾ Comparative information for the year ended August 31, 2005 has not been presented in the above table as the Company does not have the records necessary to complete the reclassification of discontinued operations for 2005.

Comparison of Fiscal 2007 and Fiscal 2006

In Fiscal 2007, the Company completed the sale of a number of its business segments. Following the sale of these segments, the Company was left with a balance of cash, certain assets and liabilities relating to the sale transactions and other assets and liabilities relating to continuing activities of the Company.

The statement of operations and deficit discloses the results of the Company's continuing operations and the impact of discontinued operations on the results for the year.

Interest and other income increased by \$1,859 compared to Fiscal 2006 as the Company earned interest income on the funds received from the sales of businesses discussed earlier in this MD&A. Prior to the sale of the businesses, the Company did not have cash resources available as its operations were financed by borrowings from its lenders.

General and administrative expenses decreased by \$1,233 compared to Fiscal 2006. This decrease was primarily the result of lower audit and legal fees of \$1,039 and lower fees paid to the board of directors of \$244.

Loss on foreign exchange increased by \$5,531, partially as a result of the Company changing the manner in which it accounted for its U.S. based subsidiaries. In 2006, these subsidiaries were considered self-sustaining operations and the impact of changes in foreign exchange rates on the consolidated financial statements was included in a currency translation account. In 2007, management determined that these subsidiaries should be accounted for as integrated subsidiaries for financial accounting purposes and, as a result, the deferred foreign exchange loss was expensed in 2007. In addition, as the Company holds its investments in U.S. dollars, the increase in the value of the Canadian dollar compared with the U.S. dollar resulted in a foreign exchange loss related to these investment holdings.

The loss from discontinued operations was \$(13,636) in 2007, compared to \$(67,201) in 2006.

The loss from discontinued operations in 2007 was primarily a result of continuing losses from a number of the business segments, particularly the DSD segment, and the costs incurred in closing the Company's U.S. operations, including severance and pay-to-stay payments made to the staff in the Company's Ronkonkoma and other office locations. Offsetting this loss was a reversal of a future tax liability of \$2,000 as the sale of the businesses resulted in the assets that contributed to the future tax liability being disposed of during the year. The Company recorded a loss on sale of discontinued operations of \$1,451 in 2007.

The loss in 2006 reflected operations of the business segments for the entire year, while in 2007 many of these segments that were incurring losses were sold during the initial first six months of the year. The loss in 2006 was primarily due to the continued losses sustained in the Company's frozen dessert segment including Americana Foods and EPFD, the margin erosion that impacted substantially all of the businesses and the recognition of losses on impairment of assets to recognize their fair value, including the assets of Americana Foods in bankruptcy. In addition, the Fiscal 2006 results were adversely effected by:

1. The loss on impairment of goodwill of \$3,500 incurred with respect to the frozen dessert segment to recognize the deterioration in value of the business as a result of the declining sales or the potential abandonment or termination of various licensing agreements.
2. The loss on impairment relating to certain licenses that were considered not likely to continue, and related prepaid packaging and design costs totaling \$3,609.
3. The loss on impairment of \$1,890 incurred with respect to property, plant and equipment in storage.
4. The write-off of debt acquisition costs totaling \$2,015.
5. The loss on impairment of \$1,140 relating to deferred acquisition costs, prepaid royalties and net receivables from Americana Foods.
6. The loss generated by the Company's majority owned subsidiary, Americana Foods, which totaled \$23,542, net of minority interest, and which included the losses on impairment aggregating \$11,150 relating to the reduction to estimated fair market value of accounts receivable (\$1,500), inventory (\$5,750), and property, plant and equipment (\$3,900).
7. The recording of a loss on impairment of goodwill associated with the yogurt segment. An impairment of \$5,428 was recorded to recognize the difference between the carrying value of the net assets of the yogurt segment and the fair value based upon the definitive agreement to sell the yogurt segment to an unaffiliated third party.

The 2006 results reflect a gain on the disposition of the franchising segment of \$410.

Comparison of Fiscal 2006 to Fiscal 2005

CoolBrands' decline in total net revenues during 2006 of \$45,937 or 32.2% compared to 2005 resulted from sales decreases primarily in the frozen dessert segment. Other income decreased from \$6,837 in 2005 to \$2,412 in 2006. The principal component was franchise and licensing fees, which decreased from \$3,103 to \$982 due to the expiration in December 2005, in accordance with its terms, of the Whole Fruit license granted to Dreyers. Accordingly only four months of licensing fee income is recorded in 2006 as compared to twelve months for 2005. There was also a \$1,000 decrease in merchandising credit from Dreyers due to a decrease in sales volume and therefore a decrease in the related credit for those sales.

CoolBrands' net loss in 2005 was primarily due to the substantial decline in net sales due to the loss of the Weight Watchers Smart Ones license agreement, the decline in net sales of the Atkins Indulge and other frozen dessert product lines, the resulting decrease in gross profit dollars, the \$25,627 decline in drayage and other income, which was generated by Eskimo Pie Frozen Distribution, and an asset impairment charge of \$55,525.

Net sales

Net sales for each discontinued segment are summarized in the following table:

	As at August 31,			Percentage of Net Sales		
	2007	2006	2005	2007	2006	2005
Frozen dessert	\$ 40,756	\$ 203,057	\$ 271,086	43.4	56.5	74.3
Yogurt	43,730	109,304	44,007	46.5	30.3	12.1
Foodservice	7,484	20,901	17,736	8.0	5.8	4.9
Dairy components	1,774	22,490	19,538	1.9	6.3	5.3
Franchising and licensing	219	3,613	12,319	0.2	1.1	3.4
Total	\$ 93,963	\$ 359,365	\$ 364,686	100.0	100.0	100.0

The decrease in net sales of discontinued operations in 2007 reflects the sale of the businesses segments in 2007 and an overall decline in sales up to the date of sale.

The decrease in net sales for 2006 in the frozen dessert segment came from a substantial number of the frozen dessert brands, partially offset by generally modest sales of products introduced in Fiscal 2006. In connection with the settlement of the Weight Watchers litigation, CoolBrands agreed to discontinue the sale of all Weight Watchers products on May 1, 2005, approximately five months sooner than required by the Weight Watchers License Agreement.

Interest expense

Interest expense from discontinued operations was \$1,341 in 2007 compared to \$4,197 in 2006 and \$2,578 for 2005. Included in such amounts is interest expense of \$1,156, \$1,599 and \$1,079 incurred in 2007, 2006 and 2005, respectively, with respect to Americana Foods, which ceased operations in October 2006.

Recovery of income taxes

The effective tax benefit rate was nil in 2007, (8.6)% in 2006 and (10.2)% in 2005. The effective tax benefit rate for Fiscal 2006 reflects the maximum recovery of income taxes that the Company is entitled to based upon the carryback rules. The effective tax rate differs from the Canadian Federal/Provincial Statutory Rate primarily due to valuation allowances established against the tax benefit of loss carryforwards, permanent differences related to the non-deductible goodwill impairment charges recognized in Fiscal 2005, and due to the impact of the Company's operations in foreign countries with lower effective tax rates. Future effective tax rates could be adversely affected by earnings being lower than anticipated in countries that have lower statutory rates or changes in the valuation of our future income tax assets or liabilities.

Summary of quarterly results

The following table presents a summary of the Company's financial results for the last eight quarters:

Quarter ended	August 31, 2007	May 31, 2007	February 28, 2007	November 30, 2006
Total revenues from continuing operations	\$ 870	\$ 937	\$ 55	\$ 57
Income (loss) from continuing operations	874	(5,242)	(366)	(670)
Gain (loss) on sale of discontinued operations ¹	(7,169)	3,069	970	1,679
Income (loss) from discontinued operations ¹	5,276	(703)	(10,904)	(5,854)
Loss for the quarter	<u>\$ (1,019)</u>	<u>\$ (2,876)</u>	<u>\$ (10,300)</u>	<u>\$ (4,845)</u>
Earnings per share (basic and diluted)				
Loss per share from continuing operations	\$ 0.01	\$ (0.09)	\$ (0.01)	\$ (0.01)
Loss per share from discontinued operations	(0.03)	0.04	(0.18)	(0.07)
Loss per share	<u>\$ (0.02)</u>	<u>\$ (0.05)</u>	<u>\$ (0.19)</u>	<u>\$ (0.08)</u>

¹ During the preparation of the financial results for the year ended August 31, 2007 certain adjustments were made to reclassify balances between gain (loss) on sale of discontinued operations and income (loss) from discontinued operations.

Quarter ended	August 31, 2006	May 31, 2006	February 29, 2006	November 30, 2005
Total revenues from continuing operations	\$ 10	\$ 14	\$ 17	\$ 19
Loss from continuing operations	(755)	(951)	(621)	(654)
Gain from sale of discontinued operations	4	-	406	-
Loss from discontinued operations	(45,261)	(10,863)	(7,737)	(3,750)
Loss for the quarter	<u>\$ (46,012)</u>	<u>\$ (11,814)</u>	<u>\$ (7,952)</u>	<u>\$ (4,404)</u>
Earnings per share (basic and diluted)				
Loss per share from continuing operations	\$ (0.01)	\$ (0.02)	\$ (0.01)	\$ (0.01)
Loss per share from discontinued operations	(0.81)	(0.19)	(0.13)	(0.07)
Loss per share	<u>\$ (0.82)</u>	<u>\$ (0.21)</u>	<u>\$ (0.14)</u>	<u>\$ (0.08)</u>

Liquidity

The following sets forth certain measures of the Company's liquidity:

	Year ended August 31,	
	2007	2006
Cash, investments and restricted cash	\$ 64,702	\$ 393
Working Capital	\$ 46,958	\$ (21,696)
Current Ratio	3.35 to 1.0	0.77 to 1.0

The increase in working capital of \$68,654 was primarily due to proceeds received from the sale of businesses in Fiscal 2007 and the collection of a tax refund as a result of the carryback of tax losses in the United States to recover taxes previously paid.

Cash flows provided by (used in) operating activities from continuing operations

Cash of \$6,701 was generated by operating activities of the continuing operations in Fiscal 2007, as compared to a use of cash of \$(2,434) in Fiscal 2006. The primary contributor to the positive cash flow from operations was the collection of a tax refund of \$11,709 relating to the carryback of tax losses in the United States to recover taxes previously paid.

Cash provided by investing activities from continuing operations

In 2007, cash of \$677 was generated from investing activities of the continuing operations through the sale of capital assets. In 2006, cash generated from investing activities was \$17,248 due primarily to the redemption of investments of \$7,500, and the decrease in restricted cash of \$10,000 (used to repay debt), partially offset by the purchase of property, plant and equipment of \$267.

Cash (used in) financing activities from continuing operations

In 2007, cash of \$12,518 was used in financing activities as the Company repaid its borrowings under its credit facilities. In Fiscal 2006, the Company used \$27,245 in financing activities, as, \$33,995 was provided by the borrowings under the Corporate Credit Facility and the Americana Credit Facility, offset by the repayment of short-term debt of \$34,553, and the repayment of long-term debt of \$26,409.

Cash flows provided by operating activities from discontinued operations

Cash flows from operations of discontinued operations were \$6,990 in Fiscal 2007 compared to a loss of \$(18,893) in Fiscal 2006. In 2007, the Company realized on the assets of the discontinued operations as a result of the sale transactions. In 2006 cash flows were negatively impacted due to the deterioration of the EPFD business.

Cash flows provided by investing activities from discontinued operations

The cash flows from investing activities of discontinued operations were \$55,616 in Fiscal 2007 due to the proceeds received on the sale of the businesses. In Fiscal 2006 the investing cash flow was \$7,425, primarily relating to the sale of the franchising and licensing segment.

Contractual obligations

The Company does not have any remaining material contractual obligations pertaining to its continuing operations.

Capital resources

The Company does not plan for any material purchases of capital assets in 2008. Capital resources may be used as part of the board of directors' decisions to deploy the Company's capital in possible acquisitions.

In addition, the Company expects that it will be required to pay, under its guarantee approximately \$3,000 to 2118769 Ontario Inc. as the potential shortfall in funds from the Americana bankruptcy that are available to repay the secured note payable and interest due to 2118769 Ontario Inc.

Risk factors and uncertainties

The Company may in the future make acquisitions of, or significant investments in, businesses or assets. Acquisitions involve numerous risks, including but not limited to: 1) diversion of management's attention from other operational matters; 2) the inability to realize expected synergies from the acquisition; 3) impairment of acquired intangible assets as a result of worse-than-expected-performance of the acquired operations; 4) integration and retention of key employees; and 5) integration of operations. Mergers and acquisitions are inherently subject to significant risks, and the inability to effectively manage these risks could materially and adversely affect the Company's financial condition and results of operations.

The Company is currently dependent upon a small number of key management personnel and continued success will depend, in part, upon their abilities. The loss of these key personnel may adversely affect the performance of the Corporation.

The Company currently invests its cash resources in U.S. dollar investments. The change in the U.S. dollar compared to the value of the Canadian dollar can have a significant impact on the value of the Company's cash resources and the reported results of its operations. While the Company is considering diversifying its cash investments in currencies other than the U.S. dollar it may not be able to do so at rates that do not result in a negative impact on its financial results.

The Company is subject to legal proceedings and disputes with franchisees, former franchisees and others. The outcome in these legal proceedings may have a negative impact on the Company's financial results.

Transactions with related parties

In November 2006, Mr. Michael Serruya, the Chairman and Chief Executive Officer of the Company, through 2118769 Ontario Inc., purchased the debt outstanding under the Americana Credit Facility, which aggregated \$21,408, from the lender. The holding company received a first lien security interest in the assets of Americana Foods. Additionally, through the holding company, Mr. Michael Serruya issued an irrevocable letter of credit with a face value of \$5 million to secure the Corporate Credit Facility. The Company has agreed to reimburse Mr. Serruya for the letter of credit fee, as well as certain other expenses he incurred. In connection with these transactions, Mr. Serruya received warrants to purchase 5,500 common shares of the Company. The exercise price of each warrant is Cdn \$0.50 and the warrants expire in November 2011. The warrants issued by the Company in connection with this transaction were valued at \$1,764 using the Black-Scholes model and the following assumptions: 2.5 years expected life, no dividends, 67% volatility and 4.6% risk free rate, and were expensed in the first quarter of Fiscal 2007.

Fourth quarter

In the fourth quarter of Fiscal 2007, the Company experienced a loss of \$(1,009), or \$(0.02 per share). The Company earned income of \$874 from continuing operations, offset by a loss of \$(1,893) from discontinued operations. The income from continuing operations resulted from interest earned on bank deposits of \$870, general and administrative expenses of \$307 and a foreign exchange gain of \$311.

In the fourth quarter of Fiscal 2006, the Company generated a loss of \$(46,012), or \$(0.82 per share), including a loss from continuing operations of \$(755), and a loss of \$(45,257) from discontinued operations. The loss from discontinued operations was impacted by a provision for impairment totaling \$26,717, including \$11,250 with respect to Americana Foods. Additionally, the Company recorded a provision for inventory obsolescence charge of \$2,002 and wrote off certain debt acquisition costs of \$1,700.

Disclosure controls and internal controls

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Company's disclosure controls and procedures and internal control over financial reporting.

The Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures and the design of internal controls at August 31, 2007, have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its subsidiaries would have been known to them.

Through the evaluation of the design of its internal controls, the current management has identified certain pre-existing internal control weaknesses and these weaknesses were identified and discussed in the prior year's MD&A. Certain material weaknesses were discovered relating to inventory held at third party warehouses and the Company's information technology platform. Additionally, significant deficiencies were found relating to financial reporting and controls over accounts payable and accounts receivable.

As a result of the significant downsizing and sale of a majority of the Company's operations, the weaknesses in internal controls that were previously identified are no longer applicable to the current operations of the Company. Management recognizes that the internal controls it has established for its current operations are impacted by the potential lack of segregation of duties due to a limited number of staff involved in performing accounting and financial disclosure activities.

Critical accounting policies and related estimates

The accounting policies and related estimates discussed in this section are those that management considers to be particularly critical to an understanding of the Company's financial statements because their application places the most significant demands on management's ability to judge the effect of inherently uncertain matters on the Company's financial results. For all of these policies, the Company cautions that future events rarely develop exactly as forecast, and management's best estimates may require adjustment.

Allowance for doubtful accounts

An allowance for doubtful accounts is estimated for losses resulting from customers' inability to pay amounts owed to the Company, for unresolved amounts that customers have refused to pay due to disputes over promotions, co-op advertising and new product introductory allowances (slotting fees).

The allowance is a combination of specific and general reserves based upon management's evaluation of the customers' ability to pay determined by the Company's assessment of their liquidity and financial condition through credit rating agencies, or the credibility of backup provided on disputed amounts. Write-offs against the allowances generally occur after management assesses the particular customer's liquidity, financial condition and their basis for non-payment on disputed items and conclude that collection is highly unlikely. Estimates of losses bear the risk of change due to the uncertainty of determining the likelihood of customer non-payment.

Income taxes

The Company records reserves for estimates of probable settlements of foreign and domestic tax audits. At any one time, many tax years are subject to audit by various taxing jurisdictions. The results of these audits and negotiations with taxing authorities may affect the ultimate settlement of these issues. The Company also records a valuation allowance against its future tax assets arising from certain net operating losses when it is more likely than not that some portion or all of such net operating losses will not be realized. In Fiscal 2006, the Company reversed certain tax assets recorded with respect to stock compensation expense (with a corresponding reduction in additional paid in capital) and provided a valuation allowance against all other future tax assets.

The effective tax rate in a given financial statement period may be materially impacted by the changes in the mix and level of earnings, changes in the expected outcome of audit controversies or changes in the future tax valuation allowance. Management currently expects the effective tax rate for Fiscal 2008 to be zero with respect to US federal and state income taxes.

Legal matters

CoolBrands is subject to various legal proceedings and claims, either asserted or unasserted, that arise in the ordinary course of business. CoolBrands evaluates, among other things, the degree of probability of an unfavorable outcome and reasonably estimates the amount of the loss. Significant judgment is required in both the determination of the probability and as to whether an exposure can be reasonably estimated. When CoolBrands determines that it is probable that a loss has been incurred, the effect is recorded in the Consolidated Financial Statements. Although the legal outcome of these claims cannot be predicted with certainty, CoolBrands does not believe that any of the existing legal matters will have a material adverse affect on its financial condition or results of operations. However, significant changes in legal proceedings and claims or the factors considered in the evaluation of those matters could have a material adverse affect on CoolBrands business, financial condition and results of operation.

In September 2006, Americana Foods Corporation (“AFC”), the Company’s 49.9% joint venture partner in Americana Foods, filed a complaint (the “AFC Action”) in the Supreme Court of the State of New York against the Company, IBI, CBA Foods, LLC, CB Americana and certain officers and directors of the Company and Americana Foods. The complaint alleges gross mismanagement of the business operations of Americana Foods and seeks to prevent the Company from selling control of the Company to a third party without paying AFC the financial return required by certain provisions of the Americana Limited Partnership Agreement, or sell any part of the foodservice segment without using the sales proceeds to repay the debt of Americana Foods. On or about October 11, 2006, the general partner of Americana Foods caused the entity to file an involuntary petition under the United States Bankruptcy code. In light of the bankruptcy proceedings and other factors, the AFC Action is effectively stayed pending ongoing discussions with the bankruptcy trustee.

On October 31, 2006, Capricorn Investors III, L.P. (“Capricorn”), the parent of Americana Foods Corporation, filed a complaint in the Supreme Court of the State of New York against the Company, IBI, CBA Foods LLC, CB Americana and certain officers and directors of the Company asserting allegations against the defendants for breaches of contract, breach of fiduciary duty, fraud and conspiracy and seeks injunctive relief and damages of over \$60 million. On June 8, 2007, the Company and its co-defendants moved to dismiss the Complaint. The Court directed the parties to begin engaging in document discovery and indicated it would rule on the Defendants motion to dismiss by February 2008.

The Company has informed AFC and Capricorn that it does not believe that there are any amounts due AFC and Capricorn. The Company intends to vigorously defend against these complaints. The amount of loss, if any, cannot be determined at this time.

On March 12, 2007, the Company was served notice by Godiva Chocolatier, Inc. and Godiva Brands, Inc., alleging that the Company had breached its license agreement and the licensor filed a claim in the Supreme Court of the State of New York for damages of \$14 million for breach of contract plus additional damages. On October 26, 2007, the Company announced that it had settled this litigation and agreed to pay Godiva \$2.75 million. The cost of the settlement has been included in these financial statements in loss from discontinued operations.

New accounting pronouncements

The Company has identified the following recently enacted accounting standards that may have an impact on the Company’s future financial statements. The Company has not yet quantified the impact of the implementation of these new accounting pronouncements on its financial results.

(i) Comprehensive income:

The CICA issued section 1530 of the CICA Handbook, Comprehensive Income. The section is effective for fiscal years beginning on or after October 1, 2006. It describes how to report and disclose comprehensive income and its components. Comprehensive income is the change in a company’s net assets that results from transactions, events and circumstances from sources other than the company’s shareholders.

(ii) Financial instruments – disclosures and presentation

CICA handbook sections 3862 and 3863 revise and enhance disclosure requirements and reiterate the presentation requirements of financial instruments. The new sections are effective for financial years beginning after October 1, 2007.

(iii) Financial instruments – accounting

The CICA issued section 3865 of the CICA Handbook providing new requirements for the recognition and measurement of financial instruments. These requirements are effective for financial years beginning after October 1, 2006.

Outstanding share data

As of November 29, 2007, the Company had 56,075,433 common shares outstanding. All stock options outstanding at the beginning of the fiscal year were exercised or cancelled during the year.

Outlook

The consolidated results of operations for Fiscal 2008 will be dependent on the decision by the board of directors as to the future direction of the Company. It is not possible to predict with a high degree of certainty the ultimate success of the future operations of the Company, including the results of the deployment of the Company’s financial resources.

The Company believes that the proceeds from the Americana Foods bankruptcy estate will not be sufficient to repay Michael Serruya, who as disclosed above, purchased the outstanding indebtedness under the Americana Foods Credit Facility. To the extent that the proceeds in the estate are less than the amounts outstanding to Mr. Serruya, the Company will be required to make a payment under its guarantee of the Americana Foods Credit Facility.

The Company’s future performance is subject to all of the risk factors and uncertainties previously disclosed.

Auditors' Report

To the Shareholders of CoolBrands International Inc.

We have audited the consolidated balance sheet of CoolBrands International Inc. as of August 31, 2007 and the consolidated statements of operations and deficit and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit 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 CoolBrands International Inc. as at August 31, 2007, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements of CoolBrands International Inc. as of and for the year ended August 31, 2006, were audited by other auditors whose report dated January 26, 2007, expressed an unqualified opinion on those statements.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Canada
November 29, 2007

Consolidated Balance Sheets as at August 31, 2007 and 2006
(Amounts expressed in thousands of U.S. dollars)

	<u>2007</u>	<u>2006</u>
Assets		
Current Assets:		
Cash	\$ 64,702	\$ 393
Interest receivable	205	-
Current assets of discontinued operations (Note 3)	1,931	60,770
Income taxes recoverable	-	11,000
Prepaid expenses	127	102
Total current assets	66,965	72,265
Non-current assets of discontinued operations (Note 3)	191	85,468
Property, plant and equipment (Note 4)	377	1,509
Other assets (Note 5)	5,805	771
Goodwill	-	535
	<u>\$ 73,338</u>	<u>\$ 160,548</u>
Liabilities and Shareholders' Equity		
Current Liabilities:		
Secured notes payable and interest due to a related company (Note 6)	\$ 9,262	\$ -
Notes payable in default (Note 6)	-	10,077
Notes payable of majority owned subsidiary in default (Note 6)	-	23,501
Accounts payable	35	-
Accrued liabilities	537	686
Income taxes payable	7	140
Current liabilities of discontinued operations (Note 3)	10,166	59,557
Total current liabilities	20,007	93,961
Other liabilities (Note 9)	2,687	2,644
Non-current liabilities of discontinued operations (Note 3)	-	825
Future income taxes	-	2,000
Total liabilities	22,694	99,430
Contingencies (Note 11)		
Shareholders' Equity:		
Capital stock (Note 7)	97,804	97,804
Contributed surplus (Note 7)	40,581	38,812
Currency translation account	5,333	(1,464)
Deficit	(93,074)	(74,034)
Total shareholders' equity	50,644	61,118
	<u>\$ 73,338</u>	<u>\$ 160,548</u>

See accompanying notes to consolidated financial statements.

Approved by the Board



Director
Michael Serruya



Director
Ronald W. Binns

Consolidated Statements of Operations and Deficit for the years ended August 31, 2007 and 2006
(Amounts expressed in thousands of U.S. dollars, except for per share data)

	<u>2007</u>	<u>2006</u>
Interest and other income	\$ 1,919	\$ 60
Expenses		
General and administrative	1,884	3,117
Loss on foreign exchange	5,455	(76)
	<u>7,339</u>	<u>3,041</u>
Loss from continuing operations before income taxes	<u>(5,420)</u>	<u>(2,981)</u>
Recovery of income taxes:		
Current	16	-
Future	-	-
	<u>16</u>	<u>-</u>
Loss from continuing operations	<u>(5,404)</u>	<u>(2,981)</u>
Discontinued operations:		
(Loss) from operations of discontinued operations (Note 3)	(12,185)	(67,611)
Gain (loss) on sale of discontinued operations	(1,451)	410
Loss from discontinued operations	<u>(13,636)</u>	<u>(67,201)</u>
Loss for the year	<u>(19,040)</u>	<u>(70,182)</u>
Deficit, beginning of year	<u>(74,034)</u>	<u>(3,852)</u>
Deficit, end of year	<u>\$ (93,074)</u>	<u>\$ (74,034)</u>
Loss per share (basic and diluted):		
Continuing operations	\$ (0.10)	\$ (0.05)
Discontinued operations	(0.24)	(1.20)
	<u>\$ (0.34)</u>	<u>\$ (1.25)</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows for the years ended August 31, 2007 and 2006

(Amounts expressed in thousands of U.S. dollars)

	2007	2006
Cash and short-term investments provided by (used in):		
Operating activities:		
Loss from continuing operations	\$ (5,404)	\$ (2,981)
Adjustments to reconcile loss to net cash flows from operating activities		
Depreciation and amortization	761	99
Stock-based compensation expense	5	443
Gain on sale of capital assets	(115)	-
Cash effect of changes from continuing operations		
Interest receivable	(205)	-
Prepaid expenses	(25)	-
Income taxes recoverable	11,709	-
Accounts payable	35	-
Accrued liabilities	149	(27)
Income taxes payable	(133)	5
Other assets	(169)	(35)
Other liabilities	43	62
Cash (used in) provided by operating activities	6,651	(2,434)
Investing activities:		
Purchase of property, plant and equipment	(10)	(267)
Proceeds from sale of capital assets	687	-
Decrease in restricted cash	-	10,000
Redemption of investments	-	7,500
Decrease (increase) in notes receivable	-	15
Cash provided by investing activities	677	17,248
Financing activities:		
Proceeds from (repayments of) notes payable in default	(10,077)	10,077
Proceeds from notes payable of majority owned subsidiary, in default	-	23,918
Repayment of notes payable of majority owned subsidiary, in default	(2,093)	(417)
Proceeds from issuance of share capital	-	139
Repayment of short term borrowings	-	(34,553)
Repayment of long-term debt	(348)	(26,409)
Cash (used in) financing activities	(12,518)	(27,245)
Increase in cash flows due to changes in foreign exchange rates	6,893	230
Cash flows provided by (used in) discontinued operations:		
Loss from discontinued operations	(12,185)	(67,611)
Operating	19,175	48,718
Investing	55,616	7,425
Financing	-	-
Cash provided by (used in) discontinued operations	62,606	(11,468)
Increase (decrease) in cash and cash equivalents	64,309	(23,669)
Cash and cash equivalents – beginning of year	393	24,062
Cash and cash equivalents – end of year	\$ 64,702	\$ 393
Non-cash financing activities:		
Purchase of indebtedness of majority owned subsidiary by 2118769 Ontario Inc. (see Note 6)	\$ 21,407	\$ -
Payment of expenses in connection with the purchase of indebtedness by 2118769 Ontario Inc.	\$ 267	\$ -
Payment by trustee in bankruptcy to 2118769 Ontario Inc. (see Note 6)	\$ (13,000)	\$ -

See accompanying notes to consolidated financial statements.

(Amounts expressed in thousands of U.S. dollars)

Note 1. Description of business:

CoolBrands International Inc. ("CoolBrands" or "the Company") was formed in 1994 and has, over the past few years, been focused on the marketing and selling of a broad range of ice cream and frozen snack products.

In fiscal 2005 the Company experienced significant financial losses reflecting the loss of two significant brands, as well as unfavorable industry dynamics throughout the year. During the third quarter of fiscal 2005, the decision was made to sell certain of the Company's businesses to generate liquidity. In December 2005, CoolBrands sold certain assets relating to its franchising business, using the proceeds to repay a portion of existing debt.

The Company continued to incur significant loss in fiscal 2006 and was in default of its financial covenants with respect to its corporate credit facilities. During fiscal 2006, the board of directors of the Company approved the active marketing of certain of its business lines for sale, including Eskimo Pie Frozen Distribution, Inc. ("EPFD"), the Company's direct store door business and a component of its frozen dessert segment, Value America, substantially all of the Company's dairy components segment, and CoolBrands Dairy, Inc. ("CBD"), the Company's yogurt segment, in order to generate cash and reduce debt.

On September 14, 2006, the Company completed the sale of the Value America division to an unaffiliated third party for \$8,250, and on November 17, 2006, the Company consummated the sale of substantially all of EPFD to an unaffiliated third party for \$5,736.

In October 2006, certain of the Company's subsidiaries, as creditors of Americana Foods Limited Partnership ("Americana Foods"), (a 50.1% owned subsidiary of the Company), filed an involuntary petition of bankruptcy against Americana Foods under Chapter 7 of the Federal Bankruptcy Code and Americana Foods ceased operations.

On January 24, 2007, the Company sold, through its subsidiaries Eskimo Pie Corporation and Integrated Brands, Inc., their Eskimo Pie and Chipwich Brands and Real Fruit trademark, along with Eskimo Pie soft serve brands and related foodservice business segment to an unaffiliated third party for \$18,990, and utilized a portion of the proceeds to repay the amounts outstanding under its Corporate Credit Facility (see Note 7).

On January 30, 2007, the Company sold 100% of the issued and outstanding stock of CBD to an unaffiliated third party. The Company received cash of \$45,000, a note of \$5,000 and warrants with an ascribed value of \$250.

On April 1, 2007, the Company sold its Whole Fruit and Fruit-a-Freeze assets to an unaffiliated third party for cash proceeds of approximately \$4,600.

As a result of the above transactions, the majority of the Company's operations were disposed of during the year. At August 31, 2007, the Company's principal operations consist of the management of its cash resources, including reviewing and considering potential opportunities to employ such cash resources, and the holding of land and a building situated in New Jersey that the Company expects to lease to an unaffiliated third party.

Note 2. Summary of significant accounting policies:

Basis of presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries: Integrated Brands, Inc., Eskimo Pie Corporation, Eskimo Pie Frozen Distribution, Inc., Integrated Brands Franchise Corporation and CoolBrands Smoothies Corporation. All significant intercompany transactions are eliminated. The Company has prepared these consolidated financial statements in accordance with Canadian generally accepted accounting principles and has elected to report its financial statements in U.S. dollars. Under this basis of presentation, all asset and liability balances are converted from Canadian dollars to U.S. dollars based on the year end exchange rate and shareholders equity balances are converted to U.S. dollars based on historical exchange rates. The difference resulting from this translation process is reflected in these financial statements in the Currency Translation Account.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the year. Significant estimates are used in determining, but are not limited to, the allowance for doubtful accounts, income tax valuation allowances, the useful lives and valuation of intangible assets, contingencies and the fair value of the reporting units for purposes of goodwill impairment costs. Actual results could differ from those estimates.

Cash

All highly liquid commercial paper purchased with maturities of three months or less is classified as a cash equivalent. Cash equivalents are stated at cost, which approximates market value.

(Amounts expressed in thousands of U.S. dollars)

Inventories

Inventories consist primarily of ice cream, frozen yogurt and frozen dessert products, food supplies and packaging. Inventories are valued at the lower of cost and net realizable value, with cost determined principally by the first-in, first-out (FIFO) method.

Property, plant and equipment

Property, plant and equipment are stated at the lower of cost less accumulated depreciation and net recoverable amount. Depreciation of buildings and machinery and equipment is provided by the straight-line or declining balance methods, using the estimated useful lives of the assets, principally 20 to 38 years and 2 to 10 years, respectively.

Intangible and other assets

Intangible and other assets consist of license agreements, trademarks, trademark rights and other assets. Amortizing intangibles are stated at cost less accumulated amortization and allowances for impairment. Amortization is provided by the straight-line method using the terms of the agreements, which range from 4 to 20 years.

Goodwill and other non-amortizable intangible assets

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is not amortized and is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case, the implied fair value of a reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess. The Company performs its annual goodwill assessment in the fourth quarter of its fiscal year unless circumstances warrant an assessment at an earlier date.

Revenue recognition

Revenue from sales of the Company's products is recognized at the time of sale, which is generally when products are shipped to customers. Product introduction expenditures (i.e. slotting fees) are recognized as reductions of revenues at the time product introduction offers are accepted by customers, which for measurement purposes is at the time of the first shipment of the product to each customer.

Financial instruments

The carrying amount of financial instruments including cash, restricted cash, receivables, accounts payable, accrued liabilities and income taxes payable and income taxes recoverable approximates fair value at August 31, 2007 and 2006 because of the relatively short maturity of these instruments. The carrying amount of long-term debt approximates fair value at August 31, 2007 and 2006 because of their variable interest rates.

Concentration of credit risk

Financial instruments, which potentially subject the Company to concentration of credit risk, consist principally of cash, investments and receivables. The Company attempts to minimize credit risk with respect to receivables by reviewing customers' credit history before extending credit, and by regularly monitoring customers' credit exposure. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information.

Loss per share

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the year. The computation of diluted earnings per share assumes the basic weighted average number of shares outstanding during the year is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued. The dilutive effect of warrants and stock options is determined using the treasury stock method.

Foreign currency translation

Prior to March 31, 2007, the Company's U.S. based subsidiaries were considered financially and operationally self-sustaining and for financial reporting purposes were treated as self-sustaining subsidiaries. Under this accounting treatment, translation gains or losses of the accounts of these foreign subsidiaries were deferred as a separate component of shareholders' equity unless there was a realized reduction in the net investment in the subsidiary.

(Amounts expressed in thousands of U.S. dollars)

Effective April 1, 2007, management determined that the foreign subsidiaries were no longer financially and operationally self-sustaining. The closure of the Company's offices in the United States and the sale of the majority of the Company's U.S. operations caused management to consider the foreign subsidiaries to be an integral part of the Canadian operations. This determination resulted in the elimination of the deferral of foreign exchange losses in the Currency Translation Account and the inclusion in the statement of operations and deficit of the losses from foreign exchange on converting the U.S. denominated assets and liabilities into Canadian dollars.

Income taxes

The Company provides for income taxes using the asset and liability method of accounting for income taxes. Under this method future income tax assets and liabilities are determined based on temporary differences between financial statement values and tax values of assets and liabilities and are measured using substantively enacted income tax rate laws expected to be in effect when the differences are expected to reverse. The Company establishes a valuation allowance against future income tax assets if it cannot demonstrate through the use of objectively verifiable available information that it is more likely than not that the future income tax asset will be realized.

Business segments

Frozen dessert segment

Revenues in the frozen dessert segment were generated from manufacturing and selling a variety of prepackaged frozen dessert products to distributors, including EPFD, and various retail establishments including supermarkets, grocery stores, club stores, gourmet shops, delicatessens and convenience stores.

CoolBrands' subsidiary, EPFD, operated a direct store door ice cream distribution system in selected markets in the U.S., serving CoolBrands products and certain Partner Brands to supermarkets, convenience stores and other retail customers.

CoolBrands' 50.1% owned subsidiary, Americana Foods, was a manufacturer and supplier of packaged ice cream, frozen yogurt and sorbet products, frozen snacks, soft-serve mixes and other food products to well-known national retailers, food companies and restaurant chains. Americana Foods manufactured products purchased by the Company for sale and distribution.

Yogurt segment

CoolBrands' subsidiary, CBD, manufactured cup yogurt at its plant located in North Lawrence, New York. Products were marketed under the Breyers brand pursuant to a trademark rights agreement, which granted the rights in perpetuity, and under the Crème Savers brand pursuant to a long-term license agreement.

Dairy components segment

Revenues in the dairy components segment were generated from the manufacturing and selling of various ingredients to the dairy industry and from the manufacturing and selling of flexible packaging, such as private label ice cream novelty wraps. CoolBrands' dairy components segment manufactured a full line of quality flavours, chocolate coatings, fudge sauces, powders for chocolate milk, eggnog bases and other ingredients.

Foodservice segment

Revenues in the foodservice segment were generated from manufacturing and selling soft-serve yogurt and premium ice cream mixes to broad-line foodservice distributors, yogurt shops and other foodservice establishments which, in turn, sell soft-serve ice cream and yogurt products to consumers.

Reclassifications

Certain August 31, 2006 amounts have been reclassified to conform to the presentation adopted for the August 31, 2007 financial statements.

Note 3. Discontinued operations:

Effective December 23, 2005, the Company sold substantially all of its franchising and licensing segment to International Franchise Corp. for a cash consideration of \$8,000 in a related party transaction. International Franchise Corp. is a company controlled by Aaron Serruya, a director of CoolBrands and the former senior executive who was responsible for the franchising division at CoolBrands, who is the brother of Michael Serruya, the Company's President, CEO and Chairman. Aaron Serruya resigned as executive vice president of CoolBrands as a result of this transaction, but continues as a director. The sale transaction was reviewed and unanimously recommended to the board of directors of CoolBrands by a committee of independent directors of CoolBrands, and was unanimously approved by the board of directors of CoolBrands.

As a part of their review of the transaction, the independent committee and the board of directors received a fairness opinion from Duff & Phelps, LLC who acted as exclusive financial advisor to CoolBrands and who assisted CoolBrands in marketing the division to potential buyers.

(Amounts expressed in thousands of U.S. dollars)

During fiscal 2006, the Company's board of directors approved the decision to sell its Value America division, part of its dairy components segment, Eskimo Pie Frozen Distribution, part of its frozen dessert segment, and CBD, its yogurt segment and began actively marketing these businesses for sale.

On September 1, 2006, Eskimo Pie Corporation, a wholly owned subsidiary of the Company, entered into an asset purchase agreement with Denali New Berlin, LLC and Denali Ingredients, LLC to sell its Value America flavor and ingredients division, which comprised substantially all of the dairy components segment. The sale of assets was consummated September 14, 2006 for a price of \$8,250, which exceeded the carrying value of the assets sold, of which \$7,500 was paid in cash and \$750 was placed in escrow subject to collection of certain accounts receivable. The escrow funds of \$750 are included in Other assets in these financial statements. The Company has classified the assets and liabilities of Value America as assets and liabilities of discontinued operations on the balance sheets as of August 31, 2007 and 2006 and included the components of its operating results in loss from discontinued operations in the statements of operations and deficit and the components of cash flows as net cash flows from discontinued operations in the statements of cash flows for the years ended August 31, 2007 and 2006.

On November 14, 2006, the Company announced that its wholly owned subsidiary, EPFD had entered into a definitive agreement to sell substantially all of its direct store door ("DSD") frozen distribution assets in Florida, California, Oregon and Washington for a net sales price of \$5,736, which equaled the carrying value of the related assets acquired net of the liabilities assumed, to an unaffiliated third party. The transaction closed on November 17, 2006. The Company has classified the assets and liabilities of EPFD as assets and liabilities of discontinued operations on the balance sheets as of August 31, 2007 and 2006 and included the components of its operating results in loss from discontinued operations in the statements of operations and deficit and the components of cash flows as net cash flows from discontinued operations in the statements of cash flows for the years ended August 31, 2007 and 2006.

On January 24, 2007, the Company sold, through its subsidiaries Eskimo Pie Corporation and Integrated Brands, Inc., their Eskimo Pie and Chipwich Brands and Real Fruit trademark, along with Eskimo Pie soft serve brands and related foodservice business segment to Dreyer's, an indirect subsidiary of Nestlé S.A., for a purchase price of approximately \$19,925. The Company utilized a portion of the proceeds to pay off the Corporate Credit Facility (see Note 7). The Company has classified the assets and liabilities of the foodservice segment as assets and liabilities of discontinued operations on the balance sheets as of August 31, 2007 and August 31, 2006 and included the components of its operating results in loss from discontinued operations in the statements of operations and deficit and the components of cash flows as net cash flows from discontinued operations in the statements of cash flows for the years ended August 31, 2007 and 2006.

On January 30, 2007, the Company consummated the sale of all of the issued and outstanding stock of CBD, which included the yogurt business acquired from Kraft Inc. in 2005, to an unaffiliated third party. The Company received cash of \$45,000, a note of \$5,000 and warrants. The Company recorded a loss on impairment of \$5,428 in fiscal 2006 to adjust the carrying value of CBD's net assets to approximate fair value based upon the definitive agreement. The Company has classified the net assets and liabilities of CBD as assets and liabilities of discontinued operations held for sale on the balance sheet as of August 31, 2006 and included the components of its operating results in loss from discontinued operations in the statements of operations and deficit and the components of cash flows as net cash flows from discontinued operations in the statements of cash flows for the years ended August 31, 2007 and 2006.

On April 1, 2007, the Company sold through its subsidiaries, CoolBrands Manufacturing Inc. and Integrated Brands, Inc. its Whole Fruit and Fruit-a-Freeze assets for cash proceeds of approximately \$4,600. The assets and liabilities of the Whole Fruit and Fruit-a-Freeze operations have been classified as assets and liabilities of discontinued operations on the balance sheets as of August 31, 2007 and 2006 and included the components of the operating results of this business in loss from discontinued operations and the gain on sale resulting from the sale has been included in gain on sale of discontinued operations in the statements of operations and deficit and included the components of cash flows as cash flows from discontinued operations in the statements of cash flows for the years ended August 31, 2007 and 2006.

In 2002, the Company entered into a joint venture agreement to acquire a 50.1% interest in Americana Foods, a manufacturer and processor of frozen desserts. Americana Foods generated losses in each year of its operations. In April 2006, the Company refinanced the debt of Americana Foods, under the Americana Credit Facility, as previously discussed, but Americana Foods was in default under the facility as of May 2006 and August 2006. In October 2006, certain subsidiaries of the Company, as creditors of Americana Foods, filed an involuntary petition of bankruptcy against Americana Foods under Chapter 7 of the Federal Bankruptcy Code and Americana Foods ceased operations. The Company has received a report from the bankruptcy trustee indicating the amount of cash funds held by the trustee resulting from realization on the assets of Americana Foods, an estimate of future costs expected to be incurred by the trustee to finalize the bankruptcy and a list of creditors of Americana Foods. Based on this report, the Company has included \$453 in current liabilities of discontinued operations in these financial statements.

As the assets held by the trustee, net of projected expenditures to finalize the bankruptcy estate and pay priority claims, will not be sufficient to repay the secured creditor, the amounts owing to the other secured creditor and the unsecured creditors will, in all likelihood, not be paid or will be paid in an amount less than reflected in the Company's financial statements. The Company expects to realize a gain, the amount of which cannot be determined at this time, once the trustee finalizes the bankruptcy estate.

(Amounts expressed in thousands of U.S. dollars)

Below is a summary of the components of the assets and liabilities arising from the sale of the operations and the respective operating results of the business units sold for each of the years presented:

	2007	2006
Current assets of discontinued operations:		
Receivables, net	\$ 1,840	\$ 36,068
Inventories	65	23,151
Prepaid expenses	26	1,551
	<u>\$ 1,931</u>	<u>\$ 60,770</u>
Non-current assets of discontinued operations:		
Capital assets	\$ 157	\$ 35,716
Other long term assets	34	16,087
Goodwill	-	33,665
	<u>\$ 191</u>	<u>\$ 85,468</u>
Current liabilities of discontinued operations:		
Accounts payable	\$ 2,387	\$ 36,108
Accruals and other liabilities	6,397	23,449
Income taxes payable	1,382	-
	<u>\$ 10,166</u>	<u>\$ 59,557</u>
Non-current liabilities of discontinued operations	<u>\$ -</u>	<u>\$ 825</u>

Loss from discontinued operations by business segment:

	Frozen Dessert / Corporate	Franchising and Licensing	Yogurt	Dairy Components	Foodservice	Total
For the year ended August 31, 2007						
Revenue	\$ 40,756	\$ 219	\$ 43,730	\$ 1,774	\$ 7,484	\$ 93,963
Income (loss) before income taxes	\$ (15,921)	\$ (359)	\$ 3,030	\$ (824)	\$ (111)	\$ (14,185)
Future income taxes	2,000	-	-	-	-	2,000
(Loss) income for the year	<u>\$ (13,921)</u>	<u>\$ (359)</u>	<u>\$ 3,030</u>	<u>\$ (824)</u>	<u>\$ (111)</u>	<u>\$ (12,185)</u>
For the year ended August 31, 2006						
Revenue	\$ 203,057	\$ 3,613	\$ 109,304	\$ 22,490	\$ 20,901	\$ 359,365
Income (loss) before income taxes	\$ (63,259)	\$ (193)	\$ (2,355)	\$ 2,800	\$ 1,351	\$ (61,656)
Income taxes	(5,955)	-	-	-	-	(5,955)
(Loss) income for the year	<u>\$ (69,214)</u>	<u>\$ (193)</u>	<u>\$ (2,355)</u>	<u>\$ 2,800</u>	<u>\$ 1,351</u>	<u>\$ (67,611)</u>

During fiscal 2007, the Company recorded a provision for impairment of \$535 with respect to the goodwill of the dairy components segment.

During fiscal 2006, the Company recorded a provision for impairment of \$5,428 with respect to the goodwill of the yogurt segment. The impairment of the goodwill of the yogurt segment is included in loss of discontinued operations in the year ended August 31, 2006. Additionally, the Company recorded losses on impairment totaling \$21,289 in fiscal 2006 with respect to:

1. The loss on impairment incurred with respect to certain licenses that were not likely to continue and related prepaid packaging and design cost totaling \$3,609;
2. The loss on impairment of goodwill of \$3,500 incurred with respect to the frozen dessert segment to recognize the deterioration of the business as the result of the abandonment or termination of various licensing agreements;
3. The loss on impairment of \$1,890 related to certain property, plant and equipment in storage;
4. The loss on impairment of \$1,140 relating to deferred acquisition costs, prepaid royalties and net receivables of Americana Foods;
5. The loss on impairment of \$11,150 to recognize the loss in value of the assets of Americana Foods in bankruptcy (accounts receivable - \$1,500, inventory - \$5,750 and property, plant and equipment - \$3,900).

(Amounts expressed in thousands of U.S. dollars)

Note 4. Property, plant and equipment:

	<u>2007</u>	<u>2006</u>
Land	\$ 24	\$ 22
Building, machinery and equipment	4,554	4,931
	<u>4,578</u>	<u>4,953</u>
Less Accumulated depreciation, amortization and allowance for impairment Building, machinery and equipment	4,201	3,444
	<u>\$ 377</u>	<u>\$ 1,509</u>

Note 5. Other assets:

Other assets consist primarily of investments in marketable securities held to fund obligations of one of the Company's subsidiaries pursuant to a non-registered pension plan, cash funds held in escrow accounts relating to certain business sales, and a promissory note of \$5,000 and warrants with an ascribed value of \$250 resulting from the sale of the CBD. The promissory note is due January 30, 2009 and bears interest at 12.9% per annum. The warrants entitle the Company to purchase shares in the company that acquired CBD and may be exercised during a 30 day period following the fifth anniversary of the date of the sale of CBD (January 30, 2012) or at an earlier date should a liquidating event, as defined in the warrant, occur.

Note 6. Long-term debt:

	<u>2007</u>	<u>2006</u>
Secured note payable and interest due to a related company	\$ 9,262	\$ -
Senior secured revolving credit facility in default	-	10,077
Senior secured revolving credit facility in default - Americana	-	6,418
Term loans in default, secured - Americana	-	17,083
	<u>9,262</u>	<u>33,578</u>
Less: Current maturities	9,262	-
Current maturities due to default status	-	33,578
	<u>\$ -</u>	<u>\$ -</u>

In December 2000, the Company, through a subsidiary, borrowed \$30,000, to finance the acquisition of Eskimo Pie Corporation (the "EPC Term Loan"). As of August 31, 2005, the EPC Term Loan balance was \$10,500. The EPC Term Loan was repaid in April 2006 as part of the overall refinancing described below.

The Company was in default of its financial covenants at May 31, 2005 and August 31, 2005 under the EPC Term Loan, and on September 2, 2005, the Company entered into an amendment to its existing credit facilities.

The September 2, 2005 Amendment eliminated all of the financial covenants from the loan agreements through the remainder of the term and granted a security interest to the lender in the personal property assets (other than certain excluded assets relating to the operations of Americana Foods), and reduced its outstanding indebtedness to the bank to \$40,500, including short term borrowings of \$30,000.

Term loans in default, secured - Americana

On November 19, 2002, Americana Foods entered into a credit agreement with a financial institution that included a term loan of \$10,000 (the "Americana Term Loan"). The Americana Term Loan was collateralized by Americana Foods' property, plant and equipment. Principal payments were payable in fixed monthly installments of \$81 based upon a fifteen-year amortization that was originally scheduled to mature on November 19, 2007. The Americana Term Loan bore interest at prime plus 0.5% (7.0% at August 31, 2005). As of August 31, 2005, the Americana Term Loan balance was \$8,610.

The Americana Term Loan was repaid in April 2006 as part of the overall refinancing described below.

2006 Credit Facilities – Senior secured revolving credit facility in default and Senior secured revolving credit facility in default - Americana

On April 21, 2006, the Company entered into the following new credit facilities:

1. a \$48,000 senior secured revolving credit facility (the "Corporate Credit Facility"); and
2. a \$25,500 senior secured credit facility consisting of an \$8,000 senior secured revolving credit facility and an aggregate of \$17,500 in term loans (the "Americana 2006 Term Loans"), in which Americana Foods was the borrower (the "Americana Loan Facility").

The proceeds from these facilities were used to repay all of the then existing debt, including those described above.

(Amounts expressed in thousands of U.S. dollars)

Each of the facilities was for an initial term of three years and originally provided for interest at the prime rate until November 30, 2006 (8.25% as of August 31, 2006). The standby fee on the unused portion of the facilities was 0.375%.

As of August 31, 2006, the Company had \$10,077 outstanding under its Corporate Credit Facility and Americana Foods had \$23,501 outstanding against the Americana Loan Facility. The total outstanding balance under the two facilities at August 31, 2006 was \$33,578 and was included in current maturities of long-term debt on the August 31, 2006 balance sheet as the Company was in default under certain of its financial covenants under each of its credit facilities as of August 31, 2006. In October 2006, Americana Foods was advised by its lenders that because of continuing defaults, they would no longer lend to Americana Foods and demanded full and immediate repayment of all amounts outstanding under the Americana Loan Facility, which aggregated \$21,830 and which was guaranteed by the Company. The Company, through certain of its subsidiaries, as creditors of Americana Foods, filed an involuntary petition of bankruptcy against Americana Foods under Chapter 7 of the Federal Bankruptcy Code.

The loan outstanding under the Corporate Credit Facility was repaid during the year from proceeds from the sale of the operations and net assets of certain of the Company's business units and the Americana Loan Facility was repaid as noted below.

Secured note payable and interest due to a related company

In November 2006, the outstanding amounts under the Americana Loan Facility, totaling \$21,407 (excluding accrued interest and professional fees totaling \$267, which was paid by 2118769), was purchased by 2118769 Ontario Inc. ("2118769"), a company controlled by Michael Serruya, the Chairman, President and Chief Executive Office of the Company, from the lender. 2118769 received a first lien security interest in the assets of Americana Foods. The Company remains the guarantor of the Americana Foods loan facility. In connection with this purchase, 2118769 also entered into a forbearance agreement with the Company pursuant to which 2118769 agreed, for a period of six months, not to take any action to demand repayment of the indebtedness on account of existing defaults under the Americana Credit Facility. Mr. Serruya, through 2118769, also established a \$5,000 letter of credit in favour of the senior lenders of Americana Foods as additional security for the \$8,000 senior secured revolving credit facility.

In March 2007, the trustee of the Americana Foods bankruptcy made an initial payment to 2118769 of \$13,000. To the extent that the proceeds from the bankruptcy liquidation are not sufficient to pay the amount owing to 2118769, the Company may be required to make a payment under its guarantee. The remaining balance of the secured note payable and interest due to 2118769 of \$9,262 is included in these financial statements.

In consideration for 2118769 entering into both the forbearance agreement and providing the letter of credit to the senior lenders, the board of directors of the Company issued to Mr. Serruya warrants to purchase up to 5.5 million shares of the Company. The warrants expire in November 2011 and the exercise price is Cdn \$0.50 per warrant.

All interest expense for fiscal 2007 has been classified as a component of discontinued operations. Interest paid relating to discontinued operations during fiscal 2007 was \$1,341 compared to \$4,197 in fiscal 2006. The interest paid includes \$1,156 and \$1,599, respectively, with respect to Americana Foods.

(Amounts expressed in thousands of U.S. dollars)

Note 7. Shareholders' equity and stock options:*Capital Stock*

On May 31, 2007, the Company filed articles of amendment in order to affect the elimination of its dual class share structure. As a result of the elimination of the Company's dual class structure, a total of 6,025 multiple voting shares and 50,050 subordinate voting shares were changed into 56,075 common shares.

The Company's articles of amendment authorize an unlimited number of Common Shares.

Changes in Capital stock for the two years ended August 31, 2007 are as follows:

	(In thousands of shares)		
	Class A Subordinate voting shares outstanding	Class B Multiple voting shares outstanding	Common shares outstanding
Balance at August 31, 2005	49,918	6,029	-
Issuance of shares for stock options exercised	128	-	-
Multiple voting shares converted to subordinate voting shares	3	(3)	-
Balance at August 31, 2006	50,049	6,026	-
Multiple voting shares converted to subordinate voting shares	1	(1)	-
Subordinate voting shares exchanged for common shares	(50,050)	-	50,050
Multiple voting shares exchanged for common shares	-	(6,025)	6,025
Balance at August 31, 2007	-	-	56,075

Balance at August 31, 2005	\$ 97,578
Issuance of shares for stock options exercised in 2006	226
Balance at August 31, 2006 and 2007	\$ 97,804

Contributed surplus

Balance at August 31, 2005	\$ 46,376
Issuance of shares for stock options exercised in 2006	(87)
Stock based compensation expense	443
Reversal of deferred tax asset set up in connection with stock-based compensation expense	(7,920)
Balance at August 31, 2006	38,812
Stock based compensation expense	5
Fair value of warrants granted for services	1,764
Balance at August 31, 2007	\$ 40,581

(Amounts expressed in thousands of U.S. dollars)

Stock options

Under the Company's stock option plans, non-qualified options to purchase subordinate voting shares were granted to directors, officers, consultants and key employees at exercise prices equal to the fair market value of the stock at the date of grant.

The following table summarizes stock option activity for all stock option plans:

	Shares	Weighted average exercise Price (Cdn)	Weighted avg. contractual life (in years)
Outstanding at August 31, 2005	3,917	\$ 14.89	4.9
Granted	320	\$ 2.84	
Exercised	(128)	\$ 1.27	
Forfeited or cancelled	(1,647)	\$ 18.59	
Outstanding at August 31, 2006	<u>2,462</u>	\$ 11.55	<u>5.4</u>
Granted	-		
Exercised	-		
Forfeited or cancelled	(2,462)	\$ 11.55	
Outstanding at August 31, 2007	<u>-</u>		
Options exercisable at August 31, 2007	<u>-</u>		

The Company accounts for stock-based compensation using the fair value method of accounting. Stock-based compensation expense was recognized in the amount of \$5 (fiscal 2006 - \$443) in the consolidated statements of operations. During fiscal 2006, the Company granted an aggregate 320 stock options (of which 60 were vested immediately and of which 260 vest ratably over three years from the date of the grant) with a weighted average fair value of Cdn \$2.84 (as calculated under the Black-Scholes pricing model) totaling \$712 Cdn (\$620 USD based upon the average currency translation rate for fiscal 2006).

The value of each option granted is estimated on the date of the grant using the Black-Scholes options pricing model with the following "weighted-average assumptions":

For the year ended August 31,	2007 and 2006
Expected dividend yield	Nil
Risk-free interest rate (percentage)	4.48
Expected volatility	67.65
Expected life (in years)	10

Loss per share

The calculation of loss per share is as follows:

	2007	2006
Numerator:		
Loss from continuing operations	\$ (5,404)	\$ (2,981)
Loss from discontinued operations	(13,636)	(67,201)
Loss for the year	<u>\$ (19,040)</u>	<u>\$ (70,182)</u>
Denominator:		
Basic weighted average shares outstanding	56,075	56,047
Dilutive effect of stock awards	-	-
	<u>56,075</u>	<u>56,047</u>
Loss from continued operations – basic and diluted	\$ (0.10)	\$ (0.05)
Loss from discontinued operations – basic and diluted	(0.24)	(1.20)
Loss for the year - basic and diluted	<u>\$ (0.34)</u>	<u>\$ (1.25)</u>

Diluted loss per share for fiscal 2007 and fiscal 2006 is equal to basic loss per share because the effect of common stock equivalents is anti-dilutive. Potentially dilutive securities, calculated in terms of weighted-average share equivalent of stock options outstanding, are excluded from the calculations of diluted loss per share when their inclusion would have anti-dilutive effect.

(Amounts expressed in thousands of U.S. dollars)

Note 8. Income taxes:

The effective income tax rate on (loss) earnings is affected from year to year by the geographic mix of the consolidated (loss) earnings before income taxes. The following table reconciles income tax (recovery) expense computed by applying the combined Canadian Federal/Provincial statutory rate with the actual income tax provision:

	<u>2007</u>	<u>2006</u>
Combined basic Canadian Federal and Provincial income tax rate	(36.12)%	(36.12)%
Valuation allowance	36.12	28.7
Other	-	(1.2)
	<u>-%</u>	<u>(8.62)%</u>

In the year ended August 31, 2005, the Company established an allowance for non-capital loss carry-forwards as the utilization of such loss carry-forwards was considered unlikely.

Significant components of the Company's deferred tax assets as of August 31, 2007 are as follows:

Future Tax Assets

Federal net operating loss carry forwards	\$ 5,800
Valuation allowance	(5,800)
Total future tax assets	<u>\$ -</u>

At August 31, 2007, the Company has operating loss carryforwards for federal income tax purposes of approximately Cdn\$8,373 in Canada and U.S. \$8,327 in the United States expiring as follows:

<i>Canadian losses:</i>		<i>U.S. losses:</i>	
2008	\$1,190	2026	\$6,810
2009	809	2027	1,517
2010	1,365		<u>U.S. \$ 8,327</u>
2014	1,123		
2026	2,289		
2027	1,597		
	<u>Cdn \$ 8,373</u>		

Note 9. Retirement plans:

A subsidiary of the Company, Eskimo Pie Corporation, had maintained two defined benefit pension plans covering substantially all salaried and certain executive employees. Upon the acquisition of Eskimo Pie Corporation by the Company in October 2000, all future participation and all benefits under the plans were frozen. These plans provide retirement benefits based primarily on employee compensation and years of service up to the acquisition of Eskimo Pie Corporation by the Company. The above mentioned plans are referred to as the "Pension Benefits."

In addition, Eskimo Pie Corporation entered into an agreement with the seller of the company to indemnify the cost of retiree health care and life insurance benefits for salaried employees of Eskimo Pie Corporation who had retired prior to April 1992. Under this agreement, Eskimo Pie Corporation may elect to prepay its remaining obligation. Eskimo Pie Corporation did not provide postretirement health and life insurance benefits for employees who retired subsequent to April 1992. This indemnity agreement is referred to as the "Other benefits".

Notes to Consolidated Financial Statements for the years ended August 31, 2007 and 2006

(Amounts expressed in thousands of U.S. dollars)

The following table reconciles the changes in benefit obligations and plan assets in 2007 and 2006, and reconciles the funded status to accrued benefit cost at August 31, 2007 and August 31, 2006:

	Pension benefits	Other benefits
Benefit Obligation		
Beginning balance at August 31, 2005	\$ 2,570	\$ 1,803
Interest cost	142	200
Actuarial gain	(201)	
Benefit payments	(88)	
Balance at August 31, 2006	2,423	2,003
Interest cost	131	100
Actuarial gain	(24)	
Benefit payments	(91)	
Ending balance at August 31, 2007	<u>\$ 2,439</u>	<u>\$ 2,103</u>
Plan assets – Basic value		
Beginning balance at August 31, 2005	\$ 2,359	
Actual return on plan assets	182	
Contributions	20	
Benefit payments	(88)	
Balance at August 31, 2006	2,473	
Actual return on plan assets	275	
Contributions	-	
Benefit payments	(71)	
Ending balance at August 31, 2007	<u>\$ 2,677</u>	

The unfunded status for the post retirement health and life insurance benefits is as follows:

	Other benefits
Benefit obligations in excess of Plan assets	\$ 2,103
Accrued benefit cost	<u>\$ 2,103</u>

The accrued benefit cost of \$2,103 is included in Other liabilities at August 31, 2007 (\$2,003 – August 31, 2006).

The following table provides the components of the net periodic benefit cost:

	Pension benefits	Other benefits
Interest cost	\$ 131	\$ 100
Expected return on Plan assets	(276)	-
Recognized net actuarial loss	145	-
Net period benefit cost (income)	<u>\$ -</u>	<u>\$ 100</u>

The assumptions used in the measurement of the Eskimo Pie Corporation's benefit obligations are as follows:

	Pension benefits
Benefit obligation discount rate	6.0%
Expected return on plan assets, during the year	8.0%

Notes to Consolidated Financial Statements for the years ended August 31, 2007 and 2006

(Amounts expressed in thousands of U.S. dollars)

The Company's allocation of Pension Benefit assets at August 31, 2007 and 2006, target allocations for Fiscal 2008, and expected long-term rate of return by asset category are as follows:

Fiscal Year	Target allocation	Percentage of Plan Assets			Weighted average expected long-term rate of return
		2008	2007	2006	2007
Asset category					
Large capitalization equities	35.0	36.1	38.9	2.5	
Mid capitalization equities	15.0	9.6	10.3	1.0	
Small capitalization equities	9.0	6.1	6.3	0.6	
International equities	25.0	32.1	28.8	2.9	
Fixed income bonds	12.0	12.7	12.1	0.5	
Cash and cash equivalents	4.0	3.4	3.6	-	
	100%	100%	100%	7.5%	

The Company's investment strategy is to obtain the highest possible return commensurate with the level of assumed risk. Investments are well diversified within each of the major asset categories.

The expected long-term rate of return is figured by using the target allocation and expected returns for each asset class as in the table above. The actual historical returns are also relevant.

The Company expects that there will be no minimum regulatory funding requirements that will need to be made during the Fiscal 2008.

Expected benefit payments are as follows over future years:

Fiscal year	Pension benefits	Other benefits
2008	\$ 76	\$ 200
2009	78	200
2010	77	200
2011	79	200
2012	80	200
2013 – 2017	566	1,100

Note 10. Related party transactions:

The following transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The party is considered related as the Company's President and Chief Executive Officer and one other director are also directors of the related party.

	2007	2006
Rent paid in respect of shared premises	\$ 20	\$ 21

There were no outstanding amounts receivable or amounts payable to related parties as at August 31, 2007, except for the amounts owing to Michael Serruya and his holding company as follows:

Secured notes payable and interest due to 211869 Ontario Inc. -	\$ 9,262
Expenses paid in connection with purchase of the Americana indebtedness -	\$ 267

(Amounts expressed in thousands of U.S. dollars)

Note 11. Contingencies:

Litigation

In September 2006, Americana Foods Corporation (“AFC”), the Company’s 49.9% joint venture partner in Americana Foods, filed a complaint (the “AFC Action”) in the Supreme Court of the State of New York against the Company, IBI, CBA Foods, LLC, CB Americana and certain officers and directors of the Company and Americana Foods. The complaint alleges gross mismanagement of the business operations of Americana Foods and seeks to prevent the Company from selling control of the Company to a third party without paying AFC the financial return required by certain provisions of the Americana Limited Partnership Agreement, or sell any part of the foodservice segment without using the sales proceeds to repay the debt of Americana Foods. On or about October 11, 2006, the general partner of Americana Foods caused the entity to file an involuntary petition under the United States Bankruptcy code. In light of the bankruptcy proceedings and other factors, the AFC Action is effectively stayed pending ongoing discussions with the bankruptcy trustee.

On October 31, 2006, Capricorn Investors III, L.P. (“Capricorn”), the parent of Americana Foods Corporation, filed a complaint in the Supreme Court of the State of New York against the Company, IBI, CBA Foods LLC, CB Americana and certain officers and directors of the Company asserting allegations against the defendants for breaches of contract, breach of fiduciary duty, fraud and conspiracy and seeks injunctive relief and damages of over \$60,000. On June 8, 2007, the Company and its co-defendants moved to dismiss the Complaint. The Court directed the parties to begin engaging in document discovery and indicated it would rule on the Defendants motion to dismiss by February 2008.

The Company has informed AFC and Capricorn that it does not believe that there are any amounts due AFC and Capricorn. The Company intends to vigorously defend against these complaints. The amount of loss, if any, cannot be determined at this time.

On March 12, 2007, the Company was served notice by Godiva Chocolatier, Inc. and Godiva Brands, Inc., alleging that the Company had breached its license agreement and the licensor filed a claim in the Supreme Court of the State of New York for damages of \$14,000 for breach of contract plus additional damages. On October 26, 2007, the Company announced that it had settled this litigation and agreed to pay Godiva \$2,750. The cost of the settlement has been included in these financial statements in loss from discontinued operations.

Legal matters

The Company is also a party to legal proceedings and disputes with franchisees, former franchisees and others, which arise in the ordinary course of business. In the opinion of the Company, it is unlikely that the liabilities, if any, arising from the legal proceedings and disputes will have a material adverse effect on the consolidated financial position of the Company. The amount of loss, if any, cannot be determined at this time.

Note 12. Segment information:

As a result of the sale or closure of the operating businesses of the Company, the assets and liabilities of each of these businesses have been classified to assets and liabilities of discontinued operations on each of the consolidated balance sheets as of August 31, 2007 and 2006 and the components of their operating results have been included in loss from discontinued operations on each of the consolidated statements of operations. Therefore, the Company has not separately reported segmented information in these consolidated financial statements.

BOARD OF DIRECTORS AND OFFICERS

Michael Serruya
**President, Chief Executive Officer,
Chairman & Director**

Ken MacKenzie
Chief Financial Officer

Aaron Serruya
Director

Romeo DeGasperis
Director

Ronald W. Binns
Director

Garry Macdonald
Director

CORPORATE INFORMATION

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Markham, Ontario L3R 8V2
Canada
Telephone: 905-479-9249
www.coolbrandsinc.com

Auditor

PricewaterhouseCoopers LLP
Royal Trust Tower, Suite 3000
Toronto Dominion Centre
Toronto, Ontario M5K 1G8
Canada

Listing of Common Shares

The Toronto Stock Exchange
Trading Symbol "COB"

Legal Representation

Stikeman Elliott LLP
Commerce Court West, 53rd Floor
Toronto, Ontario M5L 1B9
Canada

Transfer Agent

Equity Transfer Services Inc.
200 University Avenue, Suite 400
Toronto, Ontario M5H 4H1
Canada

Annual and Special Meeting

The Annual and Special Meeting of Shareholders
will be held on Wednesday, February 27th, 2008 at 10:00 am.
at CoolBrands Head Office
210 Shields Court
Markham, Ontario L3R 8V2

