

AUDITORS' REPORT

To the Shareholders of CoolBrands International Inc.:

We have audited the consolidated balance sheets of CoolBrands International Inc. as at August 31, 2008 and 2007 and the consolidated statements of income (loss) and other comprehensive income (loss), shareholders' equity and cash flows for the years ended August 31, 2008 and 2007. 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 audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of CoolBrands International Inc. as at August 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

“PricewaterhouseCoopers, LLP”

Chartered Accountants, Licensed Public Accountants
Toronto, Canada
October 29, 2008

CoolBrands International Inc.

Consolidated Balance Sheets as at August 31, 2008 and 2007

(Amounts expressed in thousands of Canadian dollars)

	2008	2007 (Note 2)
Assets		
Current Assets:		
Cash and cash equivalents (Note 5)	\$ 8,372	\$ 68,351
Short-term investments (Note 5)	52,800	-
Interest receivable	726	609
Current assets of discontinued operations (Note 6)	299	2,041
Prepaid expenses	158	134
Other assets (Note 8)	3,489	-
	<u>65,844</u>	<u>71,135</u>
Total current assets	65,844	71,135
Non-current assets of discontinued operations (Note 6)	-	206
Capital assets (Note 7)	157	398
Other assets (Note 8)	532	5,737
	<u>\$ 66,533</u>	<u>\$ 77,476</u>
Liabilities and Shareholders' Equity		
Current Liabilities:		
Secured notes payable and interest due to a related company (Note 9)	\$ -	\$ 9,784
Accounts payable and accrued liabilities	244	605
Income taxes payable	-	7
Current liabilities of discontinued operations (Note 6)	4,550	10,739
	<u>4,794</u>	<u>21,135</u>
Total current liabilities	4,794	21,135
Other liabilities (Note 10)	2,783	2,838
	<u>7,577</u>	<u>23,973</u>
Total liabilities	7,577	23,973
Contingencies (Note 16)		
Shareholders' Equity:		
Capital stock (Note 11)	61,972	139,388
Contributed surplus	53,998	53,941
Accumulated other comprehensive loss	(45,466)	(45,466)
Deficit	(11,548)	(94,360)
	<u>58,956</u>	<u>53,503</u>
Total shareholders' equity	58,956	53,503
	<u>\$ 66,533</u>	<u>\$ 77,476</u>

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors

“Michael Serruya”

_____, Director

“Ronald W. Binns”

_____, Director

CoolBrands International Inc.

Consolidated Statements of Income (Loss) and Other Comprehensive Income (Loss) for the years ended August 31, 2008 and 2007

(Amounts expressed in thousands of Canadian dollars, except for per share data)

	2008	2007 (Note 2)
Revenue		
Interest and other	\$ 2,747	\$ 2,575
Expenses		
General and administrative	1,731	2,108
Loss on foreign exchange	23	6,106
	<u>1,754</u>	<u>8,214</u>
Net income (loss) from continuing operations before income taxes	<u>993</u>	<u>(5,639)</u>
Recovery of income taxes:		
Current	-	18
Future	-	-
	<u>-</u>	<u>18</u>
Net income (loss) from continuing operations	<u>993</u>	<u>(5,621)</u>
Discontinued operations:		
Net income (loss) from discontinued operations (Note 6)	<u>4,403</u>	<u>(15,692)</u>
Net income (loss) and other comprehensive income (loss) for the year	<u>\$ 5,396</u>	<u>\$ (21,313)</u>
Income (loss) per share		
Continuing operations – basic and diluted	\$ 0.02	\$ (0.10)
Discontinued operations – basic and diluted	\$ 0.08	\$ (0.28)
Total		
- basic	\$ 0.10	\$ (0.38)
- diluted	\$ 0.09	\$ (0.38)

See accompanying notes to consolidated financial statements.

CoolBrands International Inc.

Consolidated Statements of Shareholders' Equity for the years ended August 31, 2008 and 2007

(Amounts expressed in thousands of Canadian dollars)

	Capital stock	Contributed surplus	Accumulated other comprehensive loss (Note 2)	Deficit	Total shareholders' equity
Balance as at August 31, 2006	\$ 139,388	\$ 51,955	\$ (50,337)	\$ (73,047)	\$ 67,959
Loss and other comprehensive loss for the year	-	-	-	(21,313)	(21,313)
Translation adjustment for restatement in Canadian dollars (Note 2)	-	-	4,871	-	4,871
Fair value of warrants granted for services	-	1,980	-	-	1,980
Stock-based compensation expense	-	6	-	-	6
Balance as at August 31, 2007	139,388	53,941	(45,466)	(94,360)	53,503
Income and other comprehensive income for the year	-	-	-	5,396	5,396
Reduction in stated capital (Note 11)	(77,416)	-	-	77,416	-
Stock-based compensation expense	-	57	-	-	57
Balance as at August 31, 2008	<u>\$ 61,972</u>	<u>\$ 53,998</u>	<u>\$ (45,466)</u>	<u>\$ (11,548)</u>	<u>\$ 58,956</u>

See accompanying notes to consolidated financial statements.

CoolBrands International Inc.

Consolidated Statements of Cash Flows for the years ended August 31, 2008 and 2007

(Amounts expressed in thousands of Canadian dollars)

	2008	2007 (Note 2)
Cash and cash equivalents provided by (used in):		
Operating activities:		
Income (loss) from continuing operations	\$ 993	\$ (5,621)
Adjustments to reconcile income (loss) to net cash flows from operating activities		
Depreciation and amortization	180	851
Stock-based compensation expense	57	6
Gain on sale of capital assets	-	(129)
Change in fair value of short-term investments	(461)	-
Cash effect of changes from continuing operations		
Interest receivable	(117)	(648)
Prepaid expenses	(24)	(28)
Income taxes recoverable	-	13,106
Accounts payable and accrued liabilities	(361)	206
Income taxes payable	(7)	(150)
Other assets	1,743	(189)
Other liabilities	(55)	48
Cash provided by operating activities	<u>1,948</u>	<u>7,452</u>
Investing activities:		
Purchase of capital assets	(3)	(11)
Proceeds from sale of capital assets	64	769
Purchase of short-term investments	(50,248)	-
Cash (used in) provided by investing activities	<u>(50,187)</u>	<u>758</u>
Financing activities:		
Repayments of notes payable	(9,784)	(11,205)
Repayment of notes payable of majority owned subsidiary, in default	-	(2,343)
Repayment of long-term debt	-	(390)
Cash (used in) financing activities	<u>(9,784)</u>	<u>(13,938)</u>
(Decrease) increase in cash flows due to changes in foreign exchange rates	<u>(2,093)</u>	<u>3,996</u>
Cash flows provided by discontinued operations:		
Loss from discontinued operations	(1,560)	(14,068)
Operating	2,477	21,463
Investing	(780)	62,251
Financing	-	-
Cash provided by discontinued operations	<u>137</u>	<u>69,646</u>
(Decrease) increase in cash and cash equivalents	<u>(59,979)</u>	<u>67,914</u>
Cash and cash equivalents – beginning of year	<u>68,351</u>	<u>437</u>
Cash and cash equivalents – end of year	<u>\$ 8,372</u>	<u>\$ 68,351</u>
Non-cash financing activities:		
Purchase of indebtedness of majority owned subsidiary by 2118769 Ontario Inc. (see Note 9)	\$ -	\$ 24,561
Payment of expenses in connection with the purchase of indebtedness by 2118769 Ontario Inc.	\$ -	\$ 306
Payment by trustee in bankruptcy to 2118769 Ontario Inc.(see Note 9)	\$ (6,469)	\$ (15,200)
Supplemental cash flow information:		
Income taxes paid relating to discontinued operations	\$ 208	\$ -
Interest paid relating to discontinued operations	\$ 1,267	\$ 515

See accompanying notes to consolidated financial statements.

CoolBrands International Inc.

Notes to Consolidated Financial Statements for the years ended August 31, 2008 and 2007

(Amounts expressed in thousands of Canadian dollars)

Note 1. Description of business:

CoolBrands International Inc. (“CoolBrands”) was formed in 1994 and had 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 and, as a result, the decision was made to sell certain of the Company’s businesses to generate liquidity.

The Company continued to incur significant losses in fiscal 2006 and was in default of its financial covenants with respect to its corporate credit facilities. During fiscal 2006 and 2007, the Board of Directors approved the active marketing of certain of the Company’s business lines for sale. As a result, the majority of the Company’s operations were disposed of during fiscal 2007. At August 31, 2008, the Company’s principal operations consist of the management of its cash resources, including reviewing and considering potential opportunities to deploy such cash resources, and revenue earned from renting an owned building located in New Jersey.

Note 2. Summary of significant accounting policies:

These consolidated financial statements include the accounts of CoolBrands and its principal direct and indirect wholly-owned subsidiaries: Integrated Brands, Inc., Eskimo Pie Corporation, Eskimo Pie Frozen Distribution, Inc., Integrated Brands Franchise Corporation and CoolBrands Smoothies Corporation, collectively referred to as “the Company”. All significant intercompany transactions are eliminated. The Company has prepared these consolidated financial statements in accordance with Canadian generally accepted accounting principles.

Change in reporting currency and reclassifications

Effective September 1, 2007, the Company changed its reporting currency to Canadian dollars. The Company had reported its financial statements in U.S. dollars commencing September 1, 2005. Management believes that presenting its financial statements in Canadian dollars would be more informative to its shareholders, the majority of which are Canadian, as the bulk of its U.S. operations were sold in fiscal 2007 and the Company closed its U.S. offices. In making this change in reporting currency, the Company followed the recommendations of the Emerging Issues Committee (EIC) of the Canadian Institute of Chartered Accountants (CICA), set out in EIC-130, *Translation Method when the Reporting Currency Differs from the Measurement Currency or there is a Change in the Reporting Currency*.

In accordance with EIC-130, the financial statements for all years and periods presented have been translated in to the new reporting currency using the current rate method. Under this method, the statements of operations and cash flows statements items for each year and period have been translated into the reporting currency using the average exchange rates prevailing during each reporting period. All assets and liabilities have been translated using the exchange rate prevailing at the consolidated balance sheets dates. Shareholders’ equity transactions since September 1, 2005 have been translated using the rates of exchange in effect as of the dates of the various capital transactions. All resulting exchange differences arising from the translation are included as a separate component of accumulated other comprehensive loss. This change in reporting currency resulted in the comparative figures in these financial statements being restated in Canadian dollars based on the U.S./Canadian dollar exchange rate applicable to the financial statement component. The impact of this change resulted in the Accumulated Other Comprehensive Loss account being adjusted from US\$5,333 to CDN\$(45,466) as at August 31, 2007.

Certain August 31, 2007 amounts have been reclassified to conform to the presentation adopted for the August 31, 2008 financial statements.

Use of estimates and measurement uncertainty

The preparation of these consolidated 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, accrued liabilities and contingencies. By their nature these estimates are subject to measurement uncertainty. Actual results could differ from those estimates. The effect on

CoolBrands International Inc.

Notes to Consolidated Financial Statements for the years ended August 31, 2008 and 2007

(Amounts expressed in thousands of Canadian dollars)

the financial statements of changes in estimates in future periods could be material and would be accounted for in the period the change occurs.

Cash and cash equivalents short-term investments

All highly liquid commercial paper purchased with maturities of three months or less is classified as a cash equivalent. Cash equivalents are stated at fair market value. Commercial paper and bank term deposits purchased with maturities greater than three months are classified as short-term investments.

Capital assets

Capital assets 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.

Revenue recognition

Interest revenue is recognized on an accrued basis and rental revenue is recognized as earned.

Financial instruments

The Company carries a number of financial instruments including cash, short-term investments, interest receivable, accounts receivable, promissory note receivable, accounts payable, accrued liabilities and income taxes payable. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted, due to the relatively short-term nature of their maturities.

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 its cash and short-term investments by adhering to its Statement of Investment Policy that specifies investments be made in institutions with AAA or equivalent ratings.

Earnings 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.

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 of the losses from foreign exchange on converting the U.S. denominated assets and liabilities into Canadian dollars using the temporal method in the statement of income (loss) and other comprehensive income (loss). Under this method,

CoolBrands International Inc.

Notes to Consolidated Financial Statements for the years ended August 31, 2008 and 2007

(Amounts expressed in thousands of Canadian dollars)

monetary assets and liabilities have been translated at the year-end exchange rate. Non-monetary assets and liabilities have been translated at historical rates and revenue and expenses have been translated at the average exchange rate for the year.

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.

Stock-based compensation

The Company accounts for stock-based compensation using the fair value method of accounting. Under this method, compensation expense is measured at fair value at the grant date using the Black-Scholes option pricing model and recognized over the vesting period using the graded vesting method with a corresponding increase to contributed surplus. Balances in contributed surplus are transferred to share capital when the options are exercised.

Note 3. Changes in accounting policies:

- a) Effective September 1, 2007 the Company adopted new accounting standards for financial instruments issued by The Accounting Standards Board (“AcSB”) of the CICA that comprehensively address when an entity should recognize a financial instrument on its balance sheet, or how it should measure the financial instrument once recognized. These standards have been adopted on a retroactive without restatement basis. The new standards comprise four sections of the CICA Handbook:
 - i) CICA Section 3855, “Financial Instruments – Recognition and Measurement”, establishes the criteria for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It also specifies how financial instrument gains and losses are to be presented. In accordance with this standard, the Company now classifies all financial instruments as either held-to-maturity, available for sale, held for trading, loans and receivables or other liabilities. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading, are measured at amortized cost.

Available for sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized in the statement of operations.

The Company has made the following classifications:

- Cash, short-term investments, interest receivable and investments in marketable securities are classified as financial assets held for trading and are measured at fair value;
- Promissory note receivable is treated as a held-to-maturity investment and is recorded at amortized cost using the effective interest method;
- Accounts receivable are classified as loans and receivables, and are initially measured at fair value and subsequent period revaluations are recorded at amortized cost; and
- Accounts payable and accrued liabilities are classified as other liabilities and are initially measured at fair value and subsequent period revaluations are recorded at amortized cost.

The adoption of Section 3855 as at September 1, 2007 measuring financial assets and liabilities did not have a material impact on the consolidated financial statements.

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- ii) CICA Section 3861, “Financial Instruments – Disclosure and Presentation”, enhances financial statement users’ understanding of the significance of financial instruments to an entities financial position, performance and cash flows. Disclosure requirements include the entities use of financial instruments, the business purposes they serve, the risks associated with financial instruments and management’s policies for controlling these risks. As the standard deals with disclosure issues, the adoption of this standard did not have an impact on the consolidated financial statements.

The Company selected September 1, 2007, as its transition date for embedded derivatives. An embedded derivative is a component of a financial instrument or other contract of which the characteristics are similar to a derivative. This had no impact on the consolidated financial statements.

- iii) CICA Section 3865, “Hedges”, provides optional alternative treatments to CICA Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. This new standard replaces AcG-13, “Hedging Relationships”, and builds on CICA Section 1651, “Foreign Currency Translation”, and specifies how hedge accounting is applied and what disclosures are necessary when CICA Section 3865 is applied. The adoption of this standard did not have an impact on the consolidated financial statements for the year ended August 31, 2008.

- iv) CICA Section 1530, “Comprehensive Income”, establishes standards for the reporting and display of comprehensive income. These standards require that an entity present comprehensive income and its components in a separate financial statement that is displayed with the same prominence as other financial statements. The components of other comprehensive income will include unrealized gains and losses on financial assets classified as available-for-sale and the effective portion of cash flow hedges, if any. There were no such components to be recognized in comprehensive income upon transition or for the year ended August 31, 2008. As the Company has no items of other comprehensive income or loss, the net income (loss) for the periods are equivalent to comprehensive income (loss).

Note 4. Recent accounting pronouncement not yet adopted:

- a) Capital disclosures:

In December 2006, the CICA issued Handbook Section 1535, “Capital Disclosures”. This standard requires that an entity disclose information that enables users of its financial statements to evaluate an entity’s objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically September 1, 2008 for the Company. This new standard is not expected to have a material impact to the Company’s financial statements as it only addresses disclosure requirements.

- b) Financial Instruments – Presentation and Disclosure:

In October 2006, the CICA issued Handbook – Sections 3862 and 3863 to replace Section 3861, “Financial Instruments – Disclosure and Presentation”. This standard requires an increased emphasis on disclosures about the nature and extent of risk arising from financial instruments and how an entity manages those risks. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically September 1, 2008 for the Company. As this standard only addresses presentation and disclosure requirements, it is not expected to have a material impact on the Company’s financial statements.

- c) Goodwill and intangible assets:

Section 3064, “Goodwill and Intangible Assets”, establishes revised standards for recognition, measurement, presentation, and disclosure of goodwill and intangible assets. The standard is effective for fiscal years beginning on or after January 1, 2009. The Company does not expect the adoption of this Section to have a significant effect on its financial statements.

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Notes to Consolidated Financial Statements for the years ended August 31, 2008 and 2007

(Amounts expressed in thousands of Canadian dollars)

d) International financial reporting standards (“IFRS”):

In 2006, the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The transition date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended August 31, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Note 5. Cash and cash equivalents and short-term investments:

The cash and cash equivalents and short-term investments balance are comprised of the following:

	2008	2007
GE Capital commercial paper	\$ 42,643	\$ 3,367
Bank term deposits	10,157	63,355
Money market accounts	7,949	-
On deposit with financial institutions	423	1,629
	<u>61,172</u>	<u>68,351</u>
Less commercial paper and term deposits classified as short-term investments	(52,800)	-
Cash and cash equivalents	<u>\$ 8,372</u>	<u>\$ 68,351</u>

Included in cash and cash equivalents and short-term investments is \$43,005 (August 31, 2007 - \$68,338) held in U.S. dollar denominated investments and deposits.

Note 6. Discontinued operations:

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

	2008	2007
Current assets of discontinued operations:		
Receivables, net	\$ 223	\$ 1,944
Inventories	-	69
Prepaid expenses	76	28
	<u>\$ 299</u>	<u>\$ 2,041</u>
Non-current assets of discontinued operations:		
Capital assets	\$ -	\$ 165
Other long term assets	-	41
	<u>\$ -</u>	<u>\$ 206</u>
Current liabilities of discontinued operations:		
Accounts payable	\$ 1,012	\$ 2,521
Accruals and other liabilities	3,223	6,758
Income taxes payable	315	1,460
	<u>\$ 4,550</u>	<u>\$ 10,739</u>

CoolBrands International Inc.

Notes to Consolidated Financial Statements for the years ended August 31, 2008 and 2007

(Amounts expressed in thousands of Canadian dollars)

Income (loss) from discontinued operations:

	For the year ended August 31	
	2008	2007
Revenue	\$ 402	\$ 105,173
(Loss) before income taxes	\$ (1,560)	\$ (16,307)
Future income taxes	-	2,239
(Loss) for the year	(1,560)	(14,068)
Gain (loss) on disposal of discontinued operations	5,963	(1,624)
Income (loss) from discontinued operations	\$ 4,403	\$ (15,692)

During fiscal 2007, the Company recorded a provision for impairment of goodwill of \$535.

Note 7. Capital assets:

	2008	2007
Land	\$ 25	\$ 25
Building, machinery and equipment	2,157	5,246
	2,182	5,271
Less Accumulated amortization	(2,025)	(4,873)
	\$ 157	\$ 398

Amortization expense during the year was \$180 (2007 - \$851).

Note 8. Other assets:

	2008	2007
Promissory note receivable	\$ 3,186	\$ 3,297
Warrants	289	289
Investment in marketable securities	243	891
Cash held in escrow	303	1,260
	4,021	5,737
Less amount due within one year	(3,489)	-
Other assets – long-term portion	\$ 532	\$ 5,737

The Promissory note receivable, resulting from the sale of CoolBrands Dairy, Inc., is due January 30, 2009 and bears interest at 12.9%.

The warrant entitles the Company to purchase 200 shares in the company that acquired CoolBrands Dairy, Inc. for U.S. \$12,500 per share and may be exercised during a 30 day period after January 30, 2012 or at an earlier date should a liquidating event, as defined in the warrant, occur.

Note 9. Secured note payable and interest due to a related company:

	2008	2007
Secured note payable and interest due to a related company	\$ -	\$ 9,784

In November 2006, 2118769 Ontario Inc. ("2118769"), a company controlled by Michael Serruya, the Chairman, President and CEO of the Company, purchased all bank indebtedness of Americana Foods Limited Partnership ("Americana Foods"), which aggregated US\$21,407, (excluding accrued interest and professional fees totaling US\$267, which was paid by 2118769) from the lender. 2118769 received a first lien security interest in the assets of Americana Foods. CoolBrands was the guarantor of the Americana Foods debt. In October 2006, Americana Foods was placed into bankruptcy and the independent trustee has now sold or liquidated all of the assets of Americana Foods. In March 2007, the trustee made an initial payment to 2118769 of U.S.\$13,000 and a final payment of U.S.\$6,500 was made by the trustee in March 2008. In March 2008 the Company, pursuant to its guarantee, repaid the remaining balance of the secured notes payable and accrued interest owing to the related company.

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Notes to Consolidated Financial Statements for the years ended August 31, 2008 and 2007

(Amounts expressed in thousands of Canadian dollars)

Note 10. Other liabilities:

	2008	2007
Accrued benefit cost of post-retirement benefits (see Note 13)	\$ 2,432	\$ 2,432
Accrued benefit cost of non-registered pension plan	193	218
Accrued environmental liability	158	188
	<u>\$ 2,783</u>	<u>\$ 2,838</u>

Note 11. 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.

On February 27, 2008, the shareholders of the Company approved a special resolution to reduce the stated capital of the Company by \$77,416, together with a corresponding reduction in the Company's accumulated deficit.

Changes in capital stock for the two years ended August 31, 2008 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, 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 and 2008	<u>-</u>	<u>-</u>	<u>56,075</u>

Stock options

Under the Company's stock option plans, non-qualified options to purchase subordinate voting shares (prior to May 31, 2007) or common 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 (in thousands)	Weighted average exercise price	Weighted avg. contractual life (in years)
Outstanding at August 31, 2006	2,462	\$ 11.55	5.4
Forfeited or cancelled	(2,462)	\$ 11.55	
Outstanding at August 31, 2007	-		-
Granted	300	\$ 0.78	5.0
Outstanding at August 31, 2008	<u>300</u>	\$ 0.78	4.5
Options exercisable at August 31, 2008	<u>100</u>	\$ 0.78	

Stock-based compensation expense was recognized in the amount of \$57 (2007 - \$6) in the consolidated statements of income (loss). During fiscal 2008, the Company granted an aggregate 300 stock options (of which 100 were vested immediately and of

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Notes to Consolidated Financial Statements for the years ended August 31, 2008 and 2007

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which 200 vest ratably over two years from the date of the grant) with a weighted average fair value of Cdn \$0.31 (as calculated under the Black-Sholes pricing model).

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,	2008	2007
Expected dividend yield	Nil	Nil
Risk-free interest rate	3.47 %	4.48 %
Expected volatility	40 %	67.65 %
Expected life	5 years	10 years

Warrants

In connection with the purchase of bank indebtedness by 2118769, as described in Note 9, as well as 2118769 entering into a forbearance agreement and providing a letter of credit to the Company’s former lenders, the board of directors of CoolBrands issued to Michael Serruya warrants to purchase up to 5.5 million common shares. The warrants expire in November 2011 and the exercise price is \$0.50 per warrant.

Income (loss) per share

The calculation of income (loss) per share is as follows:

	2008	2007
Numerator:		
Net income (loss) from continuing operations	\$ 993	\$ (5,621)
Net gain (loss) from discontinued operations	4,403	(15,592)
Net income (loss) for the year	<u>\$ 5,396</u>	<u>\$ (21,313)</u>
Denominator:		
Basic weighted average shares outstanding	56,075	56,075
Diluted effect of stock awards	2,147	-
	<u>58,222</u>	<u>56,075</u>
Income (loss) from continuing operations – basic and diluted	\$ 0.02	\$ (0.10)
Gain (loss) from discontinued operations – basic and diluted	0.08	(0.28)
Income (loss) for the year		
- basic	<u>\$ 0.10</u>	<u>\$ (0.38)</u>
- diluted	<u>\$ 0.09</u>	<u>\$ (0.38)</u>

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 an anti-dilutive effect.

Note 12. Income taxes:

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

	2008	2007
Combined basic Canadian Federal and Provincial income tax rate	34.38 %	(36.12) %
Utilization of net operating loss carryforwards	(34.38)	-
Valuation allowance	-	36.12
	<u>- %</u>	<u>- %</u>

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Significant components of the Company's deferred tax assets as of August 31, 2008 are as follows:

Future tax asset related to losses

Federal net operating and capital loss carry forwards	\$ 17,952
Valuation allowance	(17,952)
	<u>\$ -</u>

Future tax asset related to other temporary differences

Deductible temporary differences	\$ 9,098
Valuation allowance	(9,098)
	<u>\$ -</u>

At August 31, 2008, the Company has net operating loss carryforwards for federal income tax purposes of approximately Cdn \$11,329 in Canada and U.S. \$38,728 in the United States expiring as follows:

Canadian losses:

2010	\$ 366
2026	4,478
2027	6,485
	<u>\$ 11,329</u>

U.S. losses:

2026	\$ 6,758
2027	31,970
	<u>\$ 38,728</u>

Note 13. 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".

The following table reconciles the changes in benefit obligations and plan assets in 2008 and 2007, and reconciles the funded status to accrued benefit cost at August 31, 2008 and August 31, 2007:

Benefit Obligation	<u>Pension Benefits</u>	<u>Other Benefits</u>
Beginning balance at August 31, 2006	\$ 2,681	\$ 2,217
Interest cost	147	100
Actuarial gain	(27)	-
Benefit payments	(101)	-
Loss (gain) on foreign exchange	(124)	115
Balance at August 31, 2007	<u>2,576</u>	<u>2,432</u>
Interest cost	134	-
Actuarial gain	(276)	-
Benefit payments	(109)	-
Ending balance at August 31, 2008	<u>\$ 2,325</u>	<u>\$ 2,432</u>

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Plan assets – Basic value

Beginning balance at August 31, 2006	\$	2,737
Actual return on plan assets		308
Loss on foreign exchange		(138)
Benefit payments		(79)
Balance at August 31, 2007		2,828
Actual return on plan assets		(280)
Loss on foreign exchange		(4)
Benefit payments		(78)
Ending balance at August 31, 2008	\$	2,466

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

	<u>Other Benefits</u>
Benefit obligations in excess of Plan assets	\$ 2,432
Accrued benefit cost	\$ 2,432

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

	<u>Pension Benefits</u>	<u>Other Benefits</u>
Interest cost	\$ 134	\$ -
Expected return on Plan assets	(199)	-
Recognized net actuarial loss	65	-
Net period benefit cost	\$ -	\$ -

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

	<u>Pension Benefits</u>
Benefit obligation discount rate	6.0% (2007 – 6%)
Expected return on plan assets, during the year	7.5% (2007 – 8%)

The Company's allocation of Pension Benefit assets at August 31, 2008 and 2007, target allocations for Fiscal 2009, 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
	2009	2008	2007	2009
Asset category				
Large capitalization equities	35.0%	33.4%	36.1%	3.1%
Mid capitalization equities	10.0%	10.1%	9.6%	1.2%
Small Capitalization equities	9.0%	7.8%	6.1%	1.0%
International equities	30.0%	31.5%	32.1%	3.0%
Fixed income bonds	12.0%	12.7%	12.7%	0.6%
Cash and cash equivalents	4.0%	4.5%	3.4%	0.1%
	100%	100%	100%	9.0%

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.

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The Company expects that there will be no minimum regulatory funding requirements that will need to be made during the Fiscal 2009.

Expected benefit payments are as follows over future years:

<u>Fiscal year</u>	<u>Pension benefits</u>	<u>Other benefits</u>
2009	\$ 95	\$ 212
2010	93	212
2011	95	212
2012	94	212
2013	114	212
2014 – 2018	647	1,168

Note 14. Financial instruments:

Foreign exchange risk and sensitivity on foreign exchange fluctuations:

The Company holds financial assets and liabilities and incurs expenses and earns revenue denominated in U.S. dollars.

Included in the under noted accounts are the following balances denominated in U.S. dollars:

	August 31	
	2008	2007
Cash and cash equivalents	\$ 346	\$ 63,753
Short-term investments	39,822	-
Interest receivable	683	577
Current assets of discontinued operations	495	1,742
Other assets	3,229	5,642
Current liabilities of discontinued operations	(4,286)	(19,328)
Other liabilities	(2,408)	(2,455)
Net U.S. dollar monetary position	<u>\$ 37,881</u>	<u>\$ 49,931</u>

A 1% strengthening/weakening of the Canadian dollar against the U.S. dollar at August 31, 2008 would have decreased/increased net income for the year ended August 31, 2008 and equity as at August 31, 2008 by \$402. This analysis assumes that all other variables remain constant. The Company does not use derivative instruments to reduce its exposure to foreign exchange risk.

Interest rate risk and sensitivity analysis on interest rate changes:

The Company is exposed to interest rate risks arising from its investment of its cash resources in interest-bearing securities. Reductions in interest rates would reduce the amount of interest revenue earned by the Company.

At August 31, 2008, the weighted average interest rate earned on invested funds was 2.64%. A 100 basis point change in this interest rate would result in a change in income of \$619.

Credit risk:

The Company is exposed to credit risk as certain of its cash funds are invested in securities issued by financial institutions and commercial enterprises with maturities extending between one and six months. Also, the Company has a promissory note receivable from a third party that, while it is expected to be paid during the next fiscal year, exposes the Company to some amount of collection risk.

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Note 15. 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 one of the Company's directors is also a director of the related party.

	<u>2008</u>	<u>2007</u>
Rent paid in respect of shared premises	\$ 48	\$ 22
Expenses recovered in respect of shared employee	\$ 30	\$ -

There were no outstanding amounts receivable or amounts payable to related parties as at August 31, 2008. At August 31, 2007 the following amounts were owing to 2118769. These amounts were repaid during the year ended August 31, 2008.

Secured notes payable and interest	\$ 9,784
Expenses paid in connection with purchase of Americana indebtedness	\$ 282

Note 16. Contingencies:

Litigation

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 CoolBrands, Integrated Brands, Inc., CBA Foods LLC, CB Americana LLC and certain officers and directors of CoolBrands 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. On June 13, 2008, the Court granted the Company's motion to dismiss as to seven of the ten claims made by Capricorn in its complaint. The Court provisionally dismissed all of Capricorn's claims against CoolBrands and its subsidiary company Integrated Brands, Inc. but permitted the plaintiff an opportunity to re-plead its case to include these parties. Capricorn's claims alleging civil conspiracy, breaches of fiduciary duty, fraud, negligent misrepresentation and promissory estoppel were dismissed and, all claims that Capricorn brought against individual officers and directors of CoolBrands were dismissed. The judge converted to a breach of contract claim Capricorn's declaratory judgment claim involving a change of control provision in the Partnership Agreement and also sustained its breach of contract claim for alleged failure to submit operational and financial information pursuant to the Americana Limited Partnership Agreement. Litigation continues on these points. On September 22, 2008, Capricorn filed its submission with the Court to oppose the Court's earlier decision on the defendant's motion to dismiss. On October 6, 2008, the Company filed its reply brief refuting the matters contained in Capricorn's submission and reiterating its position that the case should not continue against CoolBrands and Integrated Brands. The Court has requested in-person oral arguments on November 6, 2008 and it is anticipated that a Court decision on Capricorn's submission will be rendered by early 2009.

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

Legal matters

The Company is also a party to other legal proceedings and disputes with 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.

Environmental liabilities:

In February 1992, Eskimo Pie Corporation ("EPC") entered into an agreement with the former owner of EPC whereby the former owner agreed to indemnify EPC for damages or expenses resulting from environmental contamination caused by the former owner and its predecessors on an EPC owned property located in New Jersey. Litigation has commenced by the Company

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to demand that the former owner abide by the terms of the agreement. In the event the Company is not successful in this litigation, it may be required to pay the costs associated with remediating the environmental contamination on the property. The cost of remediation cannot be reasonably estimated at this time. EPC has provided a self-guarantee to the State of New Jersey in the amount of \$370 to cover potential clean up costs.

Note 17. 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, 2008 and 2007 and the components of their operating results have been included in loss from discontinued operations on each of the consolidated statements of operations. At August 31, 2008, the Company has one segment.