



ANNUAL REPORT **2009**



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Dear Fellow Shareholders:

2009 was a good year for CoolBrands International Inc.

We successfully dealt with a number of legacy issues resulting from the sale of our previous operations. The final amount of approximately U.S. \$4,000,000 owing to the Company from the sale of CoolBrands Dairy, Inc. was collected in November 2009. We have now collected all amounts related to the sales of our former operations.

In December 2009, we successfully put the lawsuit with Capricorn Investors III Limited Partnership behind us. We were able to negotiate a settlement agreement with Capricorn that ended the litigation and related appeals. Our vigorous defence against this claim proved to be a winning strategy for the Company. Several court decisions over the past two years in the Company's favour enabled us to achieve a settlement for a fraction of the originally claimed amount.

During 2009, management reviewed more investment opportunities than in any other year. While we have yet to consummate a transaction, we are excited by the nature and quality of opportunities presented to us. We continue to review deals in order to identify, investigate and complete a transaction that will provide an excellent opportunity for our shareholders. In the meantime, we continue to invest our cash funds in short-term, lower-risk investments that protect our capital.

Operating results

For Fiscal 2009, the Company reported income of \$2,002,000 compared to income of \$5,396,000 in Fiscal 2008. The Fiscal 2009 results were comprised of income from continuing operations of \$1,803,000 and income from discontinued operations of \$199,000. Interest earned on the investment of the Company's cash funds and rental income earned on a building owned by a subsidiary company, substantially covered the Company's general operating expenses incurred during the year. Also, the Company was able to convert a significant portion of its funds that were held in U.S. dollars into Canadian dollars during the year at favorable exchange rates, resulting in foreign exchange gains realized in the amount of \$1,888,000. Entering 2010, our exposure to exchange rate fluctuations has been greatly reduced.

At August 31, 2009, the Company had cash and short-term investments of \$61,898,000 and working capital of \$63,149,000.

We look forward to communicating to our shareholders our plans for investing these funds.



Michael Serruya

President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Tabular amounts are expressed in thousands of dollars, except per share data)

The following is Management's Discussion and Analysis ("MD&A") of the financial position of CoolBrands International Inc. ("CoolBrands") and its consolidated subsidiaries (collectively "the Company") and the financial review for the years ended August 31, 2009 ("Fiscal 2009") and August 31, 2008 ("Fiscal 2008"). This MD&A is dated November 18, 2009 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 August 31, 2009 consolidated financial statements and the related notes, which can be found on pages 12 to 28 of this annual report. Additional information relating to the Company, including the Company's Annual Information Form, can also be accessed on the SEDAR website.

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 Canadian dollars. As a result of rounding differences, certain figures in this MD&A may not total.

Cautionary statement regarding forward looking statements

The information in this document contains certain forward-looking statements with respect to CoolBrands International Inc., and its subsidiaries. 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 remaining balances relating to the sale of its businesses; 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. 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.

Overview

During fiscal 2006 and 2007 CoolBrands sold the majority of its business operations in order to eliminate ongoing operating losses and repay outstanding debt. The Company continues to own land and a building in New Jersey and certain other assets remaining from its prior operations. As a result of the sale of the businesses, the Company has significantly reduced its income and expenses and is investing its cash resources until such time that the Board of Directors determines the future direction for the Company. CoolBrands management and its Board of Directors continue to seek and evaluate opportunities to invest the Company's cash resources.

For Fiscal 2009, CoolBrands reported income of \$2,002,000, of which \$1,803,000 was from continuing operations and \$199,000 related to discontinued operations.

For Fiscal 2008, CoolBrands reported income of \$5,396,000, of which \$993,000 was from continuing operations and \$4,403,000 related to discontinued operations.

Business strategy

During fiscal 2006 and 2007, the Company sold the majority of its operations. As a result of these asset sales, the Company was able to repay all outstanding bank debt and, at the end of Fiscal 2009, had cash and short-term investments of \$61,898,000. The cash and short-term investments are currently being invested in short-term interest bearing securities. The Board of Directors and management continue to seek out and evaluate acquisition opportunities. There were no acquisitions completed during Fiscal 2009. In assessing potential acquisitions, the Board of Directors remains flexible in considering various industry or business segment opportunities.

Financial results

For Fiscal 2009, the Company had net income of \$2,002,000, or \$0.03 per fully diluted share, of which \$1,803,000 was from continuing operations and \$199,000 was from discontinued operations.

Contributing to the income from continuing operations was a foreign exchange gain of \$1,888,000 as a result of the Company converting approximately U.S.\$35 million into Canadian dollars at exchange rates higher than the rate used in reporting these amounts in the prior year's financial statements.

Interest and other income decreased in Fiscal 2009 compared to Fiscal 2008 due to a decline in interest rates offered on short-term securities purchased by the Company. As a result of reduced interest and other income, administrative expenses exceeded the revenue earned by the Company on its investments. Administrative expenses include the costs incurred in managing CoolBrands' head office operations and the costs associated with CoolBrands being a publicly listed company in Canada.

The income from discontinued operations included an income tax recovery of \$546,000 as a result of refunds of state income taxes and the settlement of a state tax liability at an amount less than the amount which had been recorded in the Company's financial statements.

For Fiscal 2008, the Company had income of \$5,396,000, or \$0.09 per fully diluted share, of which \$993,000 was from continuing operations and \$4,403,000 was from discontinued operations.

Fiscal 2008 results reflected the realization on the Company's non-cash assets and the settlement of prior liabilities. Interest earned on invested cash funds exceeded the Company's administrative expenses by approximately \$1,000,000.

During Fiscal 2008, a number of litigation matters were settled and the remaining debt from the Company's investment in the Americana Foods Limited Partnership ("Americana Foods") was repaid. As well, the settlement with the bankruptcy trustee of Americana Foods resulted in the Company reversing approximately \$6.8 million of liabilities that were recorded in the Company's financial statements. This amount was included in the gain on disposal of discontinued operations.

Contributing to the Fiscal 2008 loss from operations of discontinued operations was CoolBrands' payment of \$1,937,000 pursuant to its guarantee of the Americana Foods debt that was assumed by 2118769 Ontario Inc. in November 2006.

Cash and working capital

Cash and cash equivalents and short-term investments increased by \$726,000 to \$61,898,000 compared to \$61,172,000 at August 31, 2008. Working capital increased to \$63,149,000 at August 31, 2009 compared to \$61,050,000 at August 31, 2008, and the current ratio increased to 19.75 to 1.0 at August 31, 2009 from 13.73 to 1.0 at August 31, 2008. The increase in cash during the year was primarily due to exchange gains realized during the year on converting a majority of the Company's investments held in U.S. dollars into Canadian dollars.

The Company invests its funds primarily in short-term securities, consisting of corporate commercial paper (non-asset backed), bank term deposits, bankers acceptances and money market funds. Approximately 50% of the Company's funds have been allocated to an investment manager who invests these funds in an active manner with the prime objective to maintain a high degree of liquidity with emphasis on security of principal and the elimination of default risk. This investment manager invests in short term investments issued by corporations that have a minimum rating of R-1 or A, by the Dominion Bond Rating Service (DBRS). Over the past two years, the Company has not invested in any securities with a maturity date greater than nine months. This practice may change depending on yield curves presented to the Company and discussions with its investment managers.

Selected annual information

The following chart shows selected annual information for the three most recently completed fiscal years.

	Year ended August 31,		
	2009	2008	2007
Total revenues from continuing operations	\$ 1,447	\$ 2,747	\$ 2,575
Net income (loss) from continuing operations	1,803	993	(5,621)
Income (loss) from discontinued operations	199	(1,560)	(14,068)
Gain (loss) on disposal of discontinued operations	-	5,963	(1,624)
Income (loss) from discontinued operations	199	4,403	(15,692)
Net income (loss) for the year	\$ 2,002	\$ 5,396	\$ (21,313)
Income (loss) per share from continuing operations: Basic and Diluted	0.03	0.02	(0.10)
Income (loss) per share from discontinued operations: Basic and Diluted	0.00	0.08	(0.28)
Income (loss) per share: Basic	0.04	0.10	(0.38)
Diluted	0.03	0.09	(0.38)
Total assets	67,084	66,533	77,476
Total long-term financial liabilities	2,686	2,783	2,838

Comparison of Fiscal 2009 and Fiscal 2008

As noted in the above table, the Company had earnings in Fiscal 2009 of \$2,002,000 versus income in Fiscal 2008 of \$5,396,000.

The significant differences between Fiscal 2009 and Fiscal 2008 were as follows:

- A reduction in interest and other income of \$1,300,000 as a result of lower interest rates earned on the Company's investment of its cash resources in short-term securities and reduced interest accrued on a promissory note during Fiscal 2009.
- A foreign exchange gain of \$1,888,000 in Fiscal 2009 versus a foreign exchange loss of \$(23,000) in Fiscal 2008, as the Company converted the majority of its U.S. dollar investment holdings into Canadian dollars at exchange rates higher than the rate used to record the U.S. dollar amounts in the August 31, 2008 financial statements.
- A reduction in general and administrative expenses of \$199,000 between Fiscal 2008 and Fiscal 2009. The reduction was primarily due to lower director's fees and reduced corporate legal and audit fees, offset by an increase in legal fees associated with a lawsuit commenced by the Company to enforce an indemnification agreement covering environmental contamination at its property in New Jersey.
- A reduction in the loss from discontinued operations before income taxes of \$1,716,000 primarily as a result of reduced legal fees and settlement costs associated with litigation matters.
- Fiscal 2008 results included a non-recurring gain on disposal of discontinued operations of \$5,963,000.

Comparison of Fiscal 2008 and Fiscal 2007

Fiscal 2008 earnings were \$5,396,000 compared to a loss in Fiscal 2007 of \$(21,313,000). There was an improvement in earnings in both continuing operations and in the results of discontinued operations between Fiscal 2008 and Fiscal 2007.

The increase in earnings from continuing operations of \$6,614,000 resulted primarily from a reduction in foreign exchange losses of \$6,083,000. The Company had a significant net U.S. dollar asset position and experienced large fluctuations in the U.S./Canadian dollar exchange rates during Fiscal 2007 and Fiscal 2008.

Income from continuing operations also increased in Fiscal 2008 as a result of an increase in the amount of interest income earned and lower administrative expenses. The higher interest income was the result of cash funds being available for investment during the entire fiscal year versus being available only for a part of Fiscal 2007. However, lower average interest rates in 2008 versus 2007 had a negative impact on interest income.

The increase in earnings from discontinued operations of \$20,095,000 resulted primarily from the elimination of the losses from a number of the business segments that were sold in Fiscal 2007. The loss from discontinued operations in Fiscal 2008 resulted primarily from legal fees and accruals related to a number of litigation matters, a payment pursuant to a guarantee to 2118769 Ontario Inc. and interest expense incurred on a note payable to 2118769 Ontario Inc. (see comments below in section on Transactions with Related Parties).

The Fiscal 2008 gain on disposal of discontinued operations resulted primarily from the elimination of certain liabilities relating to Americana Foods.

Interest expense

Interest expense from discontinued operations was nil in 2009, \$377,000 in 2008 and \$1,501,000 in 2007. Included in such amounts was interest expense of \$377,000 and \$1,294,000 incurred in 2008 and 2007, respectively, with respect to a debt related to Americana Foods.

Recovery of income taxes

The effective tax rate was nil in 2009, nil in 2008 and nil in 2007. The effective tax rate differs from the Canadian Federal/Provincial Statutory Rate primarily due to the utilization of previously unrecognized operating loss carry-forwards and valuation allowances established against the tax benefit of loss carry-forwards. As the utilization of loss carry-forwards cannot be assured, the Company has recorded valuation allowances against both the Canadian and U.S. tax loss carry-forwards. In the event that the Company has taxable income in a future year, to the extent the Company is able to apply the loss carry-forwards against such taxable income, there will be no taxes payable on those earnings.

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, 2009	May 31, 2009	February 28, 2009	November 30, 2008
Total revenues from continuing operations	\$ 178	\$ 254	\$ 449	\$ 566
Income (loss) from continuing operations	(92)	(1,128)	307	2,716
Income (loss) from discontinued operations	121	163	163	(248)
Income (loss) for the quarter	\$ 29	\$ (965)	\$ 470	\$ 2,468
Earnings per share (diluted)				
Income (loss) per share from continuing operations	\$ 0.00	\$ (0.02)	\$ 0.01	\$ 0.05
Income (loss) per share from discontinued operations	\$ 0.00	\$ 0.00	\$ 0.00	\$ (0.00)
Income (loss) per share	\$ 0.00	\$ (0.02)	\$ 0.01	\$ 0.04

Quarter ended	August 31, 2008	May 31, 2008	February 28, 2008	November 30, 2007
Total revenues from continuing operations	\$ 774	\$ 588	\$ 664	\$ 721
Income (loss) from continuing operations	3,402	657	(307)	(2,759)
Gain (loss) on sale of discontinued operations	(138)	-	6,910	(809)
Income (loss) from discontinued operations	448	(487)	(1,771)	250
Income (loss) for the quarter	\$ 3,712	\$ 170	\$ 4,832	\$ (3,318)
Earnings per share (diluted)				
Income (loss) per share from continuing operations	\$ 0.05	\$ 0.01	\$ 0.00	\$ (0.04)
Income (loss) per share from discontinued operations	\$ 0.01	\$ (0.01)	\$ 0.09	\$ (0.01)
Income (loss) per share	\$ 0.06	\$ 0.00	\$ 0.09	\$ (0.06)

Liquidity

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

	Year Ended August 31,	
	2009	2008
Cash and short-term investments	\$ 61,898	\$ 61,172
Working capital	\$ 63,149	\$ 61,050
Current ratio	19.75 to 1.0	13.73 to 1.0

The increase in working capital of \$2,099,000 was primarily due to exchange gains on converting U.S. dollar funds into Canadian dollars and the receipt of U.S. state income tax overpayments.

As a consequence of the current financial crises and the decline in economic activity, market interest rates on investment instruments have declined significantly over the past several months. The impact of such decline has resulted in a reduction of investment returns on the Company's invested funds. Assuming that these interest rates continue at a low level, the revenue earned by the Company over the next year will be lower when compared to prior periods. As well, investment returns may not be sufficient to offset the Company's general and administrative expenses, such that income from continuing operations may be negative in the future.

Due to the nature of the Company's current operations and its significant cash resources, the Company is not dependent on the availability of credit facilities nor is it subject to any lending covenants that impact its business.

One of the Company's subsidiaries is a sponsor of a defined benefit pension plan. The last actuarial report, effective January 1, 2009, showed actuarial liabilities in excess of plan assets of U.S. \$494,000 or 19% of the actuarial liability. The Company's actuary has advised that no funding of this shortfall will be required in Fiscal 2010. However, in the event that the actuarial liability exceeds the value of the pension plan assets in the future, it may be necessary for the subsidiary to fund such shortfall.

Cash flows provided by operating activities from continuing operations

Cash of \$2,194,000 was generated by operating activities of continuing operations in Fiscal 2009, as compared to cash generated of \$1,948,000 in Fiscal 2008.

Contributing to the cash earned from continuing operations in 2009 were exchange gains on converting U.S. funds to Canadian dollars and the collection of remaining escrow funds relating to prior years' asset sales.

The primary contributor to the positive cash flow from operations in Fiscal 2008 was the excess of investment income earned on its cash and short-term investments in an amount exceeding its administration expenses by \$1,016,000. Also contributing to the cash generated from operating activities was the collection of cash funds held in escrow accounts relating to fiscal 2007 asset sales.

Cash provided by (used in) investing activities from continuing operations

Cash provided by investing activities in Fiscal 2009 of \$8,640,000 resulted from a reduction in short-term investments of \$8,915,000, offset by an advance under a promissory note to an unrelated party of \$275,000.

In Fiscal 2008, cash used in investing activities amounted to \$50,187,000 primarily as a result of certain of the Company's cash funds being invested in bank term deposits and commercial paper with maturity dates exceeding three months. These investments are treated as short-term investments in the Company's consolidated financial statements.

Cash (used in) financing activities from continuing operations

In Fiscal 2008, cash used in financial activities amounted to \$9,784,000 as a secured note payable was repaid.

There was no cash used in financing activities in Fiscal 2009.

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

Cash flows from operations of discontinued operations were \$(933,000) in Fiscal 2009 compared to \$917,000 in Fiscal 2008.

In Fiscal 2009, cash flows were used in discontinued operations for the payment of legal fees and settlement payments relating to litigation matters and the payment of a state tax liability resulting from a settlement agreement with state authorities.

The 2008 amount was positively impacted by the elimination of liabilities relating to Americana Foods from the Company's balance sheet.

Cash flows provided by (used in) investing activities from discontinued operations

In Fiscal 2008 the Company used \$780,000 in investing activities of discontinued operations as a result of adjustments to the purchase price of certain business operations sold in the prior year.

Contractual obligations

The Company does not have any remaining material contractual obligations pertaining to its continuing operations, other than obligations pertaining to employment contracts described in further detail in the Company's Management Information Circulars.

Capital resources

The Company does not plan for any material purchases of capital assets in fiscal 2010. Capital resources may be used in fiscal 2010 resulting from decisions made by the Board of Directors to invest the Company's capital in possible acquisitions.

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 a portion of its cash resources in U.S. dollar investments. The change in value of the U.S. dollar compared to the value of the Canadian dollar can impact the value of the Company's cash resources and the reported results of its operations. The Company has significantly reduced its exposure to changes in the U.S. dollar exchange rate during Fiscal 2009 by converting the majority of its U.S. funds to Canadian dollars.

The Company is subject to legal proceedings and disputes with former franchisees and others. The outcome of 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. ("2118769"), purchased the debt outstanding under the Americana Foods Credit Facility, which aggregated \$24,561,000, from the lender. Americana Foods was a limited partnership in which one of CoolBrands subsidiaries held a partnership interest. Additionally, through the holding company, Mr. Michael Serruya issued an irrevocable letter of credit with a face value of U.S.\$5 million to secure the Company's then existing corporate credit facility. The Company 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 5,500,000 common shares of the Company. The exercise price of each warrant is \$0.50 and the warrants expire in November 2011.

Americana Foods was placed into bankruptcy in October 2006 and the independent trustee in bankruptcy sold or liquidated all of the assets of Americana Foods. In March 2007, the bankruptcy trustee, pursuant to the secured note, made a payment of U.S.\$13,000,000 to 2118769 and in March 2008, pursuant to a settlement agreement between the parties, made a final payment of U.S.\$6,500,000 to 2118769. As the Company was a guarantor of the debt owing to 2118769, the shortfall of U.S.\$1,907,000 plus accrued interest of \$1,878,000 was paid by the Company to 2118769 in March 2008.

Off-balance sheet arrangements

The Company does not have any off-balance sheet arrangements, other than as a sponsor of a defined-benefit pension plan for former employees of one of its subsidiaries. As disclosed in the Company's financial statements, the net assets available to pay accrued pension liabilities is less than the actuarial pension liabilities by approximately \$494,000 as at August 31, 2009. The Company has been advised by its actuary that there are no funding requirements for Fiscal 2010.

Fourth quarter

In the fourth quarter of Fiscal 2009, the Company had net income of \$29,000, or \$0.00 per share. The Company had a loss \$(92,000) from continuing operations and income of \$121,000 from discontinued operations. The loss from continuing operations included interest earned on short-term investments of \$178,000, a foreign exchange gain of \$62,000, offset by general and administrative expenses of \$332,000.

In the fourth quarter of Fiscal 2008, the Company earned income of \$3,402,000 from continuing operations and \$310,000 from discontinued operations. The income from continuing operations included interest earned on short-term investments of \$334,000, interest earned on a promissory note of \$110,000 and a foreign exchange gain of \$3,015,000, offset by general and administrative expenses of \$387,000.

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.

There have been no changes in internal controls over financial reporting during the year ended August 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls 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 and operation of internal controls at August 31, 2009, 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. No material weaknesses were identified during this evaluation.

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.

Changes in accounting policies

Effective September 1, 2008, the Company adopted the new recommendations of CICA Handbook Section 1535, Capital Disclosures. This Section requires that an entity disclose information that enables users of its financial statements to evaluate an entities objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. The adoption of Section 1535 as at September 1, 2008 did not have a material impact on the consolidated financial statements.

On September 1, 2008, the Company adopted the new recommendations of CICA Handbook Sections 3862, Financial Instruments – Disclosures and Handbook Section 3863, Financial Instruments – Presentation.

CICA Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity's financial position and its performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the year and at the balance sheet date, and how the entity manages those risks.

CICA Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, gains and losses, and circumstances in which financial assets and financial liabilities are offset.

The adoption of Section 3862 and 3863 as at September 1, 2008 did not have a material impact on the consolidated financial statements.

Significant estimates:

Allowance for doubtful accounts

An allowance for doubtful accounts is estimated for losses resulting from customers' inability to pay amounts owed to the Company and for unresolved amounts that customers have refused to pay due to disputes.

The allowance is based on specific reserves based upon management's evaluation of the likelihood of the amount to be collected. 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 may be 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.

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 2010 to be zero with respect to Canadian and US federal and state income taxes, as it anticipates that any potential taxes on earnings will be offset by the utilization of tax loss carry-forwards.

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.

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 sought injunctive relief and damages of over \$60 million. On June 8, 2007, the Company and its co-defendants moved to dismiss the Complaint. 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. 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. On July 16, 2009, the Court rendered its decision and dismissed all claims made by Capricorn against CoolBrands and its affiliated companies. In May 2009 Capricorn filed an appeal of the June 13, 2008 decision. In September 2009 Capricorn filed its Notice to Appeal the Court's July 16, 2009 decision that dismissed the litigation and all remaining claims brought by Capricorn. On October 1, 2009, the Supreme Court, Appellate Division, issued its decision affirming the June 13, 2008 decision previously issued by the Supreme Court.

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) Goodwill and intangible assets:

CICA Handbook 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 October 1, 2008. The Company does not expect the adoption of this Section to have a significant effect on its financial statements.

ii) International financial reporting standards (IFRS)

Pursuant to the pronouncement by the Canadian Accounting Standards Board, the Company is required to adopt IFRS for its fiscal year beginning September 1, 2011. The Company is currently considering the impact the conversion to IFRS will have on its accounting policies, information systems and financial statements. Finance personnel are assessing the key differences between Canadian GAAP and IFRS. CoolBrands conversion project, utilizing the services of a third-party software program, is focusing on the significant differences between Canadian GAAP and IFRS and reviewing its accounting policies for compliance with IFRS.

The table below illustrates key elements of the Company's conversion plan, milestones and status. The Company expects to meet all milestones through to completion of the conversion to IFRS.

Activity	Milestones	Status
<p>Financial reporting:</p> <ul style="list-style-type: none"> Assessment of the key differences in accounting treatment and financial reporting Selection of accounting policies and IFRS 1 elections to be IFRS compliant Development of IFRS financial statement format, including note disclosures Quantification of effects of IFRS conversion 	<p>Senior management and audit committee approval for accounting policy decisions by March 2010</p> <p>Senior management and audit committee approval on financial statement format by March 2011</p> <p>Final quantification of conversion effects on August 31, 2011 comparative period by Q1 2012</p>	<p>Mapping process of existing accounting policies against IFRS policies has began.</p> <p>Selection of IFRS accounting policies and the elections for IFRS 1 exemptions underway.</p>
<p>Systems and procedures:</p> <ul style="list-style-type: none"> Assessment of impact of changes on systems and processes Implementation of any system and process design changes Documentation and testing of internal controls over new systems and processes 	<p>Systems, process and internal control changes implemented by February 2011</p> <p>Testing of internal controls for 2011 comparatives by Q1 2012</p>	<p>No work undertaken to date on system and internal controls changes.</p>
<p>Business:</p> <ul style="list-style-type: none"> Assessment of impacts of changes resulting from implementation of IFRS on business activities Communicate changes internally and externally 	<p>Assessment will be completed by March 2011</p> <p>Communication will be made throughout conversion process</p>	<p>Assessment has not yet been undertaken.</p> <p>Internal communication is ongoing.</p>

Financial instruments and other instruments

The Company has identified a number of financial instruments relating to its operations and has made the following classification of these financial instruments in its financial statements:

- 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. Fair value of investments in short-term investments and marketable securities has been provided by the financial institution holding these investments and is based on prevailing market rates for such instruments;
- Promissory notes receivable are treated as a held-to-maturity investment and are recorded at amortized cost using the effective interest method. No provision has been made against these receivables for potential collection risk;
- Accounts receivable are classified as loans and receivables and are initially measured at fair value. Subsequent period revaluations are recorded at amortized cost using the effective interest rate method; and
- Accounts payable and accrued liabilities are classified as other liabilities and are initially measured at fair value. Subsequent periodical revaluations are recorded at amortized cost using the effective interest rate method.

These financial instruments subject the Company to the following risks:

- Interest rate risk arises from the investment of its cash resources in interest-bearing securities such that a reduction in market interest rates would reduce the amount of interest revenue earned by the Company. The Company has invested its funds in short-term investments that mature at various dates within six months from the date of investment. A mixture of maturity dates allows the Company to reinvest funds based on prevailing interest rates over a range of dates.
- Foreign exchange risk arises as the Company holds certain financial instruments in U.S. dollar based currency. The amounts of the U.S. dollar based assets exceed the amounts of the Company's U.S. dollar based liabilities. As a result, a decrease in the value of the U.S. dollar compared to the Canadian dollar exposes the Company to foreign exchange losses in its financial statements. During Fiscal 2009 the Company converted the majority of its U.S. funds into Canadian dollars resulting in a significantly reduced exposure to fluctuations in foreign exchange rates.
- Credit risk exists as a result of investments in financial institutions and other commercial enterprises. The Company attempts to mitigate this risk by investing only in institutions with minimum of A or equivalent ratings by recognized rating agencies and has not invested in asset-backed securities.

The Company has not purchased any financial instruments that provide a hedge against the above-noted risks.

Outstanding share data

As of November 18, 2009, the Company had 56,075,433 common shares outstanding. 400,000 stock options were issued during the year at an exercise price of \$0.60, expire in February 2014 and remain outstanding. 300,000 stock options at an exercise price of \$0.78 that expire in February 2013 and 5,500,000 warrants to purchase common shares at an exercise price of \$0.50 that expire in November 2011 are also outstanding. At August 31, 2009, 400,000 stock options were vested with a weighted average price of \$0.69.

Outlook

The consolidated results of operations for Fiscal 2010 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 investment of the Company's financial resources.

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



Michael Serruya
President and Chief Executive Officer



Ken MacKenzie
Chief Financial Officer

November 18, 2009

FINANCIAL STATEMENTS RESPONSIBILITY

Management is responsible for the preparation of the accompanying consolidated financial statements and all other information contained in the Annual Report. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles, which involve management's best estimates and judgments based on available information.

Management maintains a system of internal accounting controls designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are reliable for preparing financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board is assisted in exercising its responsibilities through the Audit Committee of the Board. The Committee meets periodically with management and the independent auditors to satisfy itself that management's responsibilities are properly discharged and to recommend approval of the consolidated financial statements to the Board.

PricewaterhouseCoopers LLP were appointed as the Company's auditors in 2007. Their report on the accompanying consolidated financial statements follows. Their report outlines the extent of their examination, as well as an opinion on the financial statements.



Michael Serruya
Chief Executive Officer



Ken MacKenzie
Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of CoolBrands International Inc.:

We have audited the consolidated balance sheets of CoolBrands International Inc. as at August 31, 2009 and 2008 and the consolidated statements of income and other comprehensive income, shareholders' equity and cash flows for the years ended August 31, 2009 and 2008. 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, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants, Licensed Public Accountants
Toronto, Canada

November 18, 2009

Consolidated Balance Sheets as at August 31, 2009 and 2008

(Amounts expressed in thousands of Canadian dollars)

	2009	2008
Assets		
Current Assets:		
Cash and cash equivalents (Note 5)	\$ 17,907	\$ 8,372
Short-term investments (Note 5)	43,991	52,800
Interest receivable	821	726
Current assets of discontinued operations (Note 6)	135	299
Prepaid expenses	88	158
Other assets (Note 8)	3,575	3,489
Total current assets	66,517	65,844
Capital assets (Note 7)	84	157
Other assets (Note 8)	483	532
	\$ 67,084	\$ 66,533
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 205	\$ 244
Current liabilities of discontinued operations (Note 6)	3,163	4,550
Total current liabilities	3,368	4,794
Other liabilities (Note 10)	2,686	2,783
Total liabilities	6,054	7,577
Contingencies (Note 17)		
Shareholders' Equity:		
Capital stock (Note 11)	61,972	61,972
Contributed surplus	54,070	53,998
Accumulated other comprehensive loss	(45,466)	(45,466)
Deficit	(9,546)	(11,548)
Total shareholders' equity	61,030	58,956
See accompanying notes to consolidated financial statements.	\$ 67,084	\$ 66,533

Approved by the Board of Directors



Michael Serruya
Director



Ron Binns
Director

Consolidated Statements of Income and Other Comprehensive Income for the years ended August 31, 2009 and 2008

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

	2009	2008
Revenue		
Interest and other	\$ 1,447	\$ 2,747
Expenses		
General and administrative	1,532	1,731
Income (loss) before the following	(85)	1,016
Gain (loss) on foreign exchange	1,888	(23)
Net income from continuing operations before income taxes	1,803	993
Provision for income taxes (Note 12):		
Current	-	-
Future	-	-
Net income from continuing operations	1,803	993
Discontinued operations:		
Net income from discontinued operations (Note 6)	199	4,403
Net income and other comprehensive income for the year	\$ 2,002	\$ 5,396
Earnings per share (Note 11)		
Continuing operations – basic and diluted	\$ 0.03	\$ 0.02
Discontinued operations – basic and diluted	\$ 0.00	\$ 0.08
Total - basic	\$ 0.04	\$ 0.10
- diluted	\$ 0.03	\$ 0.09

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholder's Equity for the years ended August 31, 2009 and 2008

(Amounts expressed in thousands of Canadian dollars)

	Capital stock	Contributed surplus	Accumulated other comprehensive loss (Note 2)	Deficit	Total shareholder's equity
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	-	57	-	-	57
Balance as at August 31, 2008	61,972	53,998	(45,466)	(11,548)	58,956
Income and other comprehensive income for the year	-	-	-	2,002	2,002
Stock-based compensation	-	72	-	-	72
Balance as at August 31, 2009	<u>\$ 61,972</u>	<u>\$ 54,070</u>	<u>\$ (45,466)</u>	<u>\$ (9,546)</u>	<u>\$ 61,030</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows for the years ended August 31, 2009 and 2008

(Amounts expressed in thousands of Canadian dollars)

	2009	2008
Cash and cash equivalents provided by (used in):		
Operating activities:		
Income from continuing operations	\$ 1,803	\$ 993
Adjustments to reconcile income to net cash flows from operating activities		
Depreciation and amortization	73	180
Stock-based compensation	72	57
Change in fair value of short-term investments	21	(461)
Cash effect of changes from continuing operations		
Interest receivable	(72)	(117)
Prepaid expenses	70	(24)
Accounts payable and accrued liabilities	(39)	(361)
Income taxes payable	-	(7)
Other assets	364	1,743
Other liabilities	(98)	(55)
Cash provided by operating activities	<u>2,194</u>	<u>1,948</u>
Investing activities:		
Purchase of capital assets	-	(3)
Proceeds from sale of capital assets	-	64
Promissory note advances	(1,000)	-
Repayments of promissory note	725	-
Decrease (increase) in short-term investments	8,915	(50,248)
Cash provided by (used in) investing activities	<u>8,640</u>	<u>(50,187)</u>
Financing activities:		
Repayments of notes payable	-	(9,784)
Cash (used in) financing activities	<u>-</u>	<u>(9,784)</u>
Decrease in cash flows due to changes in foreign exchange rates	<u>(366)</u>	<u>(2,093)</u>
Cash flows provided by discontinued operations:		
Income (loss) from discontinued operations	199	(1,560)
Operating	(1,132)	2,477
Investing	-	(780)
Financing	-	-
Cash provided by (used in) discontinued operations	<u>(933)</u>	<u>137</u>
Increase (decrease) in cash and cash equivalents	<u>9,535</u>	<u>(59,979)</u>
Cash and cash equivalents – beginning of year	<u>8,372</u>	<u>68,351</u>
Cash and cash equivalents – end of year	<u>\$ 17,907</u>	<u>\$ 8,372</u>
Non-cash financing activities:		
Payment by trustee in bankruptcy to 2118769 Ontario Inc. (Note 9)	\$ -	\$ (6,469)
Supplemental cash flow information:		
Income taxes recovered (paid) relating to discontinued operations	\$ 296	\$ (208)
Interest paid relating to discontinued operations	\$ -	\$ 1,267

See accompanying notes to consolidated financial statements.

(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.

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. During fiscal 2009, 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.

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 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 and 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, bank term deposits, bankers acceptances and bonds 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, including any write-downs. Depreciation of buildings and equipment is provided by the straight-line or declining balance methods, using the estimated useful lives of the assets, being 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 notes receivable, accounts payable, and accrued liabilities. 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 minimum of A or equivalent ratings by recognized rating agencies.

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.

(Amounts expressed in thousands of Canadian dollars)

Foreign currency translation

Effective April 1, 2007, the Company began to account for its subsidiaries as integrated operations. As a result, the Company no longer defers foreign exchange losses from converting U.S. denominated balances in the Currency Translation Account. Gains or losses on converting U.S. denominated assets and liabilities into Canadian dollars using the temporal method of accounting are included in the statement of income and other comprehensive income. Under this method, 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:

i) Capital disclosures:

Effective September 1, 2008, the Company adopted the new recommendations of CICA Handbook Section 1535, Capital Disclosures. This Section 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. These new disclosures are included in Note 16. The adoption of Section 1535 as at September 1, 2008 did not have a material impact on the consolidated financial statements.

ii) Financial Instruments – Presentation and Disclosure:

On September 1, 2008, the Company adopted the new recommendations of CICA Handbook Sections 3862, Financial Instruments – Disclosures and Handbook Section 3863, Financial Instruments – Presentation.

CICA Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity's financial position and its performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the year and at the balance sheet date, and how the entity manages those risks.

CICA Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, gains and losses, and circumstances in which financial assets and financial liabilities are offset.

The new disclosures required under these Sections are included in Note 14. The adoption of Section 3862 and 3863 as at September 1, 2008 did not have a material impact on the consolidated financial statements.

Note 4. Recent accounting pronouncements not yet adopted:

i) Goodwill and intangible assets:

CICA Handbook 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 October 1, 2008. The Company does not expect the adoption of this Section to have a significant effect on its financial statements.

(Amounts expressed in thousands of Canadian dollars)

ii) International financial reporting standards ("IFRS"):

In 2006, the Accounting Standards Board ("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 set January 1, 2011 as the date that IFRS will replace the current Canadian GAAP for publicly accountable enterprises. 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:

Cash and cash equivalents and short-term investments balances are comprised of the following:

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents		
On deposit with financial institutions	\$ 190	\$ 423
Treasury bills	75	-
Money market accounts	17,642	7,949
	<u>17,907</u>	<u>8,372</u>
Short-term investments		
Bank term deposits and bankers acceptances	21,694	10,157
Government guaranteed agency bonds	18,093	-
TransCanada Pipeline commercial paper	4,204	-
GE Capital commercial paper	-	42,643
	<u>43,991</u>	<u>52,800</u>
Total cash and cash equivalents and short-term investments	<u>\$ 61,898</u>	<u>\$ 61,172</u>

Included in cash and cash equivalents and short-term investments is \$4,588 (August 31, 2008 - \$43,005) held in U.S. dollar denominated investments and deposits.

(Amounts expressed in thousands of Canadian dollars)

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. Cash flows are generated from the collection of accounts receivable and deposits remaining from the discontinued operations segments. Cash flows are used primarily for payments of fees associated with litigation matters and for liabilities remaining from the discontinued operations. Due to the uncertainty of the date when the litigation matters are resolved, it is not possible to predict the period of time that cash flows will no longer continue from the discontinued operations.

	<u>2009</u>	<u>2008</u>
Current assets of discontinued operations:		
Accounts receivable, net	\$ 85	\$ 223
Deposits	50	76
	<u>\$ 135</u>	<u>\$ 299</u>
Current liabilities of discontinued operations:		
Accounts payable	\$ 506	\$ 1,012
Accruals and other liabilities	2,565	3,223
Income taxes payable	92	315
	<u>\$ 3,163</u>	<u>\$ 4,550</u>
Net income from discontinued operations:		
	For the year ended August 31	
	2009	2008
Revenue	\$ -	\$ 402
Loss for the year before income taxes	\$ (347)	\$ (2,063)
Recovery of income taxes	546	503
Gain on disposal of discontinued operations	-	5,963
Income from discontinued operations	<u>\$ 199</u>	<u>\$ 4,403</u>

Note 7. Capital assets:

	<u>2009</u>	<u>2008</u>
Land	\$ 25	\$ 25
Building and equipment	2,157	2,157
	<u>2,182</u>	<u>2,182</u>
Less Accumulated amortization	(2,098)	(2,025)
	<u>\$ 84</u>	<u>\$ 157</u>

Amortization expense during the year was \$73 (2008 - \$180).

(Amounts expressed in thousands of Canadian dollars)

Note 8. Other assets:

	<u>2009</u>	<u>2008</u>
Promissory notes receivable	\$ 3,575	\$ 3,186
Warrants	289	289
Investment in marketable securities	194	243
Cash held in escrow	-	303
	<u>4,058</u>	<u>4,021</u>
Less amount due within one year	(3,575)	(3,489)
Other assets – long-term portion	<u>\$ 483</u>	<u>\$ 532</u>

A promissory note receivable, resulting from the sale of CoolBrands Dairy, Inc., was due January 30, 2009 and bears interest at 12.9%. On November 18, 2009, the Company received U.S.\$4,025 in settlement of the promissory note receivable, accrued interest on the note and cancellation of the warrants received by the Company to purchase shares in the entity that acquired CoolBrands Dairy, Inc. The funds received were approximately equal to the recorded amount of the promissory note, accrued interest on the note and the warrants.

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

In November 2006, 2118769 Ontario Inc. ("2118769"), a company controlled by Michael Serruya, the Chairman, President and CEO of the Company, purchased all of the bank indebtedness of Americana Foods Limited Partnership ("Americana Foods"), which aggregated U.S.\$21,407 from the lender. CoolBrands was the guarantor of the Americana Foods debt. In October 2006, Americana Foods was placed into bankruptcy and the independent trustee 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 of U.S.\$3,166 and the expenses paid by 2118769 in connection with the purchase of the Americana indebtedness of U.S.\$291.

Note 10. Other liabilities:

	<u>2009</u>	<u>2008</u>
Accrued benefit cost of post-retirement benefits (see Note 13)	\$ 2,432	\$ 2,432
Accrued benefit cost of non-registered pension plan	177	193
Accrued environmental liability	77	158
	<u>\$ 2,686</u>	<u>\$ 2,783</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.

There were no changes in capital stock for the two years ended August 31, 2009.

Stock options

Under the Company's stock option plans, options to purchase 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.

Notes to Consolidated Financial Statements for the years ended August 31, 2009 and 2008

(Amounts expressed in thousands of Canadian dollars)

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

	Shares (in thousands)	Weighted average exercise price	Weighted average contractual life (in years)
Outstanding at August 31, 2007	-	\$ -	-
Granted	300	\$ 0.78	5.0
Outstanding at August 31, 2008	300		
Granted	400	\$ 0.60	5.0
Outstanding at August 31, 2009	700	\$ 0.68	4.1
Options exercisable at August 31, 2009	400	\$ 0.69	4.0

Stock-based compensation expense was recognized in the amount of \$72 (2008 - \$57) in the consolidated statements of income and other comprehensive income. During fiscal 2009, the Company granted an aggregate of 400 stock options (of which 200 options were vested immediately and of which 200 options will vest in March 2010) with a weighted average fair value of \$0.15 using the Black-Scholes options 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 assumptions:

	For the year ended August 31	
	2009	2008
Expected dividend yield	Nil	Nil
Risk-free interest rate	1.73 %	3.47 %
Expected volatility	25 %	40 %
Expected life	5 years	5 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.

Earnings per share

	2009	2008
Numerator:		
Net income from continuing operations	\$ 1,803	\$ 993
Net income from discontinued operations	199	4,403
Net income for the year	<u>\$ 2,002</u>	<u>\$ 5,396</u>
Denominator:		
Basic weighted average shares outstanding	56,075	56,075
Diluted effect of stock awards	1,604	2,147
	<u>57,679</u>	<u>58,222</u>
Income from continuing operations – basic and diluted	\$ 0.03	\$ 0.02
Income from discontinued operations – basic and diluted	-	0.08
Income for the year		
- basic	<u>\$ 0.04</u>	<u>\$ 0.10</u>
- diluted	<u>\$ 0.03</u>	<u>\$ 0.09</u>

Potentially dilutive securities, calculated in terms of weighted-average share equivalent of stock options outstanding, include 300 stock options with an exercise price of \$0.78 that are excluded from the calculations of diluted loss per share as their inclusion would have an anti-dilutive effect.

(Amounts expressed in thousands of Canadian dollars)

Note 12. Income taxes:

The effective income tax rate on income is affected from year to year by the geographic mix of the consolidated income 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:

	<u>2009</u>	<u>2008</u>
Combined basic Canadian Federal and Provincial income tax rate	33.17 %	34.38 %
Utilization of net operating loss carryforwards	(33.17)	(34.38)
Valuation allowance	<u>-</u>	<u>-</u>
	<u>- %</u>	<u>- %</u>

Significant components of the Company's deferred tax assets as of August 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Future tax asset related to losses		
Federal net operating and capital loss carry forwards	\$ 18,281	\$ 17,952
Valuation allowance	(18,281)	(17,952)
	<u>\$ -</u>	<u>\$ -</u>
Future tax asset related to other temporary differences		
Deductible temporary differences	\$ 9,642	\$ 9,098
Valuation allowance	(9,642)	(9,098)
	<u>\$ -</u>	<u>\$ -</u>

At August 31, 2009, the Company has net operating loss carryforwards for federal income tax purposes of approximately Cdn \$9,642 in Canada and U.S.\$37,616 in the United States expiring as follows:

<i>Canadian losses:</i>		<i>U.S. losses:</i>	
2026	\$ 3,157	2026	\$ 6,810
2027	6,485	2027	30,087
	<u>\$ 9,642</u>	2028	233
		2029	486
			<u>\$ 37,616</u>

Note 13. Retirement plans:

A subsidiary of the Company had maintained two defined benefit pension plans covering substantially all salaried and certain executive employees. Upon the acquisition of the subsidiary 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 date of acquisition of the subsidiary by the Company. The above mentioned plans are referred to as the "Pension Benefits."

In addition, the subsidiary 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 who had retired prior to April 1992. Under this agreement, the subsidiary may elect to prepay its remaining obligation. The subsidiary 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, 2009 and 2008

(Amounts expressed in thousands of Canadian dollars)

The following table reconciles the changes in benefit obligations and plan assets of the registered defined benefit plan in 2009 and 2008, and reconciles the funded status to accrued benefit cost at August 31, 2009 and August 31, 2008:

	<u>Pension benefit</u>	<u>Other benefits</u>
Benefit obligation		
Beginning balance at August 31, 2007	\$ 2,257	\$ 2,432
Interest cost	127	-
Actuarial gain	(276)	-
Benefit payments	(78)	-
Balance at August 31, 2008	<u>2,030</u>	<u>2,432</u>
Interest cost	156	-
Actuarial loss	433	-
Benefit payments	(98)	-
Loss on foreign exchange	28	-
Ending balance at August 31, 2009	<u>\$ 2,549</u>	<u>\$ 2,432</u>

Plan assets – Basic value

Beginning balance at August 31, 2007	\$ 2,828
Actual return on plan assets	(280)
Loss on foreign exchange	(4)
Benefit payments	(78)
Balance at August 31, 2008	<u>2,466</u>
Actual return on plan assets	(427)
Gain on foreign exchange and other	114
Benefit payments	(98)
Ending balance at August 31, 2009	<u>\$ 2,055</u>

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	<u>\$ 2,432</u>

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

	<u>Pension benefit</u>	<u>Other benefits</u>
Interest cost	\$ 157	\$ -
Expected return on plan assets	(201)	-
Recognized net actuarial loss	44	-
Net period benefit cost	<u>\$ -</u>	<u>\$ -</u>

The assumptions used in the measurement of the benefit obligations are as follows:

	<u>Pension benefits</u>
Benefit obligation discount rate	7.11% (2008 – 6%)
Expected return on plan assets, during the year	7.5% (2008 – 7.5%)

(Amounts expressed in thousands of Canadian dollars)

The Company's allocation of Pension Benefit assets at August 31, 2009 and 2008, target allocations for Fiscal 2010, and expected long-term rate of return by asset category are as follows:

Fiscal Year	Target	Percentage of Plan Assets		Weighted-average
	allocation	2009	2008	expected long-term
	2010			rate of return
2010	2010	2009	2008	2010
Asset category				
Large capitalization equities	35.0%	34.7%	33.4%	3.1%
Mid capitalization equities	10.0%	11.7%	10.1%	1.1%
Small capitalization equities	9.0%	5.7%	7.8%	0.7%
International equities	30.0%	32.5%	31.5%	3.1%
Fixed income bonds	12.0%	11.6%	12.7%	0.5%
Cash and cash equivalents	4.0%	3.8%	4.5%	0.2%
	100%	100%	100%	8.7%

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.

Based on the latest actuarial report as of January 1, 2009, the Company expects that there will be no minimum regulatory funding requirements that will need to be made during Fiscal 2010. The next actuarial report used for funding purposes will be effective as of January 1, 2010.

Expected benefit payments under the Eskimo Pie Corporation's defined benefit registered pension plan over future years are as follows:

Fiscal year	Pension benefits
2010	\$ 95
2011	97
2012	96
2013	116
2014	116
2015 – 2019	695

(Amounts expressed in thousands of Canadian dollars)

Note 14. Financial instruments:

The classification of financial instruments as of August 31, 2009 and 2008 and their respective carrying values and fair values were as follows:

	Held-for trading \$	Held-to-maturity \$	Loans and receivables \$	Other financial liabilities \$	Carrying value \$	Fair value \$
As at August 31, 2009						
Cash and cash equivalents	17,907				17,907	17,907
Short-term investments	43,991				43,991	43,991
Investments in marketable securities	194				194	194
Promissory notes receivable and accrued interest		4,396			4,396	4,396
Accounts receivable			85		85	85
Accounts payable and accrued liabilities				3,276	3,276	3,276

	Held-for trading \$	Held-to-maturity \$	Loans and receivables \$	Other financial liabilities \$	Carrying value \$	Fair value \$
As at August 31, 2008						
Cash and cash equivalents	8,372				8,372	8,372
Short-term investments	52,800				52,800	52,800
Interest receivable	726				726	726
Investments in marketable securities	243				243	243
Promissory note receivable		3,186			3,186	3,186
Accounts receivable			223		223	223
Accounts payable and accrued liabilities				4,479	4,479	4,479

(Amounts expressed in thousands of Canadian dollars)

Fair value

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The Company uses the following methods and assumptions to establish the fair value for each class of financial instrument for which carrying amounts are included in the consolidated balance sheet as follows:

- Held for trading

Cash and cash equivalents and short-term investments – the carrying amount of cash is recorded at the fair market value based upon the amount of funds held in the Company's bank accounts. Cash invested in short-term investments are valued based on quoted market prices provided by the Company's investment managers.

Investments in marketable securities – the carrying amount is recorded at fair market value based on quoted market prices provided by the investment manager.

- Held to maturity

Promissory notes receivable and accrued interest – the carrying amount is recorded at amortized cost using the effective interest method.

- Loans and receivables

Accounts receivable – the carrying amount is a reasonable approximation of the fair value due to the short-term nature of these financial instruments.

- Other financial liabilities

Accounts payable and accrued liabilities – the carrying amounts included in the balance sheet are measured at amortized cost which approximates fair value due to the short-term nature of accounts payable and accrued liabilities.

The Company records all transaction costs for financial assets and financial liabilities in the consolidated statements of income and other comprehensive income as incurred.

Risk arising from financial instruments

The Company does not use financial derivatives.

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	
	2009	2008
Cash and cash equivalents	\$ 115	\$ 346
Short-term investments	4,075	39,822
Interest receivable	750	683
Current assets of discontinued operations	128	495
Other assets	3,427	3,229
Current liabilities of discontinued operations	(2,926)	(4,286)
Other liabilities	(2,323)	(2,408)
Net U.S. dollar monetary position	<u>\$ 3,246</u>	<u>\$ 37,881</u>

A 1% strengthening/weakening of the Canadian dollar against the U.S. dollar at August 31, 2009 would have decreased/increased net income for the year ended August 31, 2009 and equity as at August 31, 2009 by \$58. 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, 2009, the weighted average interest rate earned on invested funds was 0.51%. A 100 basis point change in this interest rate would result in a change in income of \$154.

(Amounts expressed in thousands of Canadian dollars)

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 nine months. The Company attempts to mitigate credit risk by investing only in institutions that provide strong liquidity and by restricting investments to less than one year maturities.

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.

	2009	2008
Rent paid in respect of shared premises	\$ 48	\$ 48
Expenses recovered in respect of shared employee	\$ 36	\$ 30

There were no outstanding amounts receivable or amounts payable to related parties as at August 31, 2009.

Note 16. Capital

The Company considers its shareholders equity as its capital source. At the present time, the majority of the Company's capital is held in cash, cash equivalents and short-term investments.

The Company is not subject to any externally imposed capital requirements and has no long-term debt. The Company has not historically paid dividends to its shareholders.

The Company's objectives when managing its capital are:

- to safeguard its cash resources by investing funds so as to minimize collection risk;
- to identify opportunities to deploy its capital to provide positive returns for its shareholders; and,
- to be diligent in executing implementation strategies that maximize the potential of capital investments.

During 2009, the Company continued to invest its cash resources and earn investment returns. There were no acquisitions completed during the year.

Note 17. 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 sought injunctive relief and damages of over \$60 million. On June 8, 2007, the Company and its co-defendants moved to dismiss the Complaint. 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. 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. On July 16, 2009, the Court rendered its decision and dismissed all claims made by Capricorn against CoolBrands and its affiliated companies. In May 2009 Capricorn filed an appeal of the June 13, 2008 decision. In September 2009 Capricorn filed its Notice to Appeal the Court's July 16, 2009 decision that dismissed the litigation and all remaining claims brought by Capricorn. On October 1, 2009, the Supreme Court, Appellate Division, issued its decision affirming the June 13, 2008 decision previously issued by the Supreme Court. 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.

(Amounts expressed in thousands of Canadian dollars)

Environmental liabilities:

In February 1992, a subsidiary of the Company entered into an agreement with the former owner of the subsidiary whereby the former owner agreed to indemnify the subsidiary for damages or expenses resulting from environmental contamination caused by the former owner and its predecessors on the subsidiary's owned property located in New Jersey. Litigation has commenced by the Company 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. The subsidiary has provided a self-guarantee to the State of New Jersey in the amount of \$370 to cover potential clean up costs.

Note 18. 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, 2009 and 2008 and the components of their operating results have been included in income from discontinued operations on each of the consolidated statements of operations. At August 31, 2009, the Company has one segment.

BOARD OF DIRECTORS AND OFFICERS

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

Ken MacKenzie
Chief Financial Officer

Ronald W. Binns
Director

Romeo DeGasperis
Director

Garry Macdonald
Director

Aaron Serruya
Director

CORPORATE INFORMATION

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Toronto, Ontario M5K 1G8
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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 Meeting

The Annual Meeting of Shareholders
will be held on Wednesday, February 24th, 2010 at 10:00 am.
at CoolBrands Head Office
210 Shields Court
Markham, Ontario L3R 8V2

