

**COOLBRANDS INTERNATIONAL INC.**

**Interim Consolidated Financial Statements**

**For the First Quarter Ended November 30, 2009**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the period ended November 30, 2009.

**CoolBrands International Inc.  
210 Shields Court  
Markham, Ontario  
L3R 8V2**

**Stock Symbol: TSX - COB**

**CoolBrands International Inc.**  
**Consolidated Balance Sheets**

(Unaudited)

(Amounts expressed in thousands of Canadian dollars)

	<b>November 30, 2009</b>	<b>August 31, 2009</b>
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents (Note 4)	\$ 50,199	\$ 17,907
Short-term investments (Note 4)	14,462	43,991
Interest receivable	-	821
Prepaid expenses	47	88
Current assets of discontinued operations (Note 5)	50	135
Other assets (Note 7)	1,222	3,575
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<b>Total current assets</b>	<b>65,980</b>	<b>66,517</b>
Capital assets (Note 6)	69	84
Other assets (Note 7)	187	483
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<b>Total assets</b>	<b>\$ 66,236</b>	<b>\$ 67,084</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 149	\$ 205
Current liabilities of discontinued operations (Note 5)	2,668	3,163
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<b>Total current liabilities</b>	<b>2,817</b>	<b>3,368</b>
Other liabilities (Note 8)	2,609	2,686
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<b>Total liabilities</b>	<b>5,426</b>	<b>6,054</b>
<b>Contingencies (Note 13)</b>		
<b>Shareholders' Equity:</b>		
Capital stock (Note 9)	61,972	61,972
Contributed surplus	54,082	54,070
Accumulated other comprehensive loss	(45,466)	(45,466)
Deficit	(9,778)	(9,546)
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<b>Total shareholders' equity</b>	<b>60,810</b>	<b>61,030</b>
	<hr/>	<hr/>
	<b>\$ 66,236</b>	<b>\$ 67,084</b>

See accompanying notes to consolidated financial statements.

**CoolBrands International Inc.****Consolidated Statements of Income (Loss) and Other Comprehensive Income (Loss)**

(Unaudited)

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

	<b>For the three months ended November 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Revenue</b>		
Interest and other	\$ 175	\$ 566
<b>Expenses</b>		
General and administrative	332	412
<b>Income (loss) before the following</b>	<u>(157)</u>	<u>154</u>
Gain (loss) on foreign exchange	<u>(181)</u>	<u>2,562</u>
<b>Net income (loss) from continuing operations before income taxes</b>	(338)	2,716
<b>Provision for (recovery of) income taxes</b> (Note 11)	<u>-</u>	<u>-</u>
<b>Net income (loss) from continuing operations</b>	<u>(338)</u>	<u>2,716</u>
<b>Discontinued operations:</b>		
Net income (loss) from discontinued operations	<u>106</u>	<u>(248)</u>
<b>Net income (loss) and other comprehensive income (loss)</b>	<u>\$ (232)</u>	<u>\$ 2,468</u>
<b>Income (loss) per share:</b>		
Continuing operations - basic and diluted	\$ (0.01)	\$ 0.05
Discontinued operations - basic and diluted	\$ 0.00	\$ (0.00)
Total - basic and diluted	<u>\$ (0.00)</u>	<u>\$ 0.04</u>
<b>Weighted average shares outstanding</b>	56,075,433	56,075,433

See accompanying notes to consolidated financial statements.

**CoolBrands International Inc.****Consolidated Statements of Shareholders' Equity for the periods ended November 30, 2009 and 2008**

(Unaudited)

(Amounts expressed in thousands of Canadian dollars)

	<b>Capital stock</b>	<b>Contributed surplus</b>	<b>Currency translation account</b>	<b>Deficit</b>	<b>Total shareholders' equity</b>
Balance as at August 31, 2008	\$ 61,972	\$ 53,998	\$ (45,466)	\$ (11,548)	\$ 58,956
Income and other comprehensive income for the period	-	-	-	2,468	2,468
Stock-based compensation	-	11	-	-	11
Balance as at November 30, 2008	<u>\$ 61,972</u>	<u>\$ 54,009</u>	<u>\$ (45,466)</u>	<u>\$ (9,080)</u>	<u>\$ 61,435</u>
Balance as at August 31, 2009	\$ 61,972	\$ 54,070	\$ (45,466)	\$ (9,546)	\$ 61,030
Loss and other comprehensive loss for the period	-	-	-	(232)	(232)
Stock-based compensation	-	12	-	-	12
Balance at November 30, 2009	<u>\$ 61,972</u>	<u>\$ 54,082</u>	<u>\$ (45,466)</u>	<u>\$ (9,778)</u>	<u>\$ 60,810</u>

See accompanying notes to consolidated financial statements.

**CoolBrands International Inc.**  
**Consolidated Statements of Cash Flows**

(Unaudited)

(Amounts expressed in thousands of Canadian dollars)

	<b>For the three months ended November 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash and cash equivalents provided by (used in):</b>		
<b>Operating activities:</b>		
Income (loss) from continuing operations	\$ (338)	\$ 2,716
Adjustments to reconcile loss to net cash flows from operating activities		
Amortization	15	22
Stock-based compensation	12	11
Cash effect of changes from continuing operations		
Interest receivable	788	(139)
Prepaid expenses	41	73
Accounts payable and accrued liabilities	(56)	16
Other assets	-	202
Other liabilities	(77)	-
Cash provided by operating activities	<u>385</u>	<u>2,901</u>
<b>Investing activities</b>		
Decrease in short-term investments	29,529	52,800
Promissory note advance	(1,000)	-
Repayments of promissory notes	3,219	-
Proceeds from sale of warrants	262	-
Cash provided by investing activities	<u>32,010</u>	<u>52,800</u>
<b>Increase (decrease) in cash flows due to changes in foreign exchange rates</b>		
	<u>90</u>	<u>106</u>
<b>Cash flows provided by (used in) discontinued operations</b>		
Gain (loss) from discontinued operations	106	(248)
Operating activities	(299)	(673)
<b>Cash (used in) discontinued operations</b>	<u>(193)</u>	<u>(921)</u>
<b>Increase in cash and cash equivalents</b>	32,292	54,886
<b>Cash and cash equivalents – beginning of period</b>	<u>17,907</u>	<u>8,372</u>
<b>Cash and cash equivalents – end of period</b>	<u>\$ 50,199</u>	<u>\$ 63,258</u>
<b>Supplemental cash flow information:</b>		
Income taxes (recovered) relating to discontinued operations	\$ (9)	\$ (75)

See accompanying notes to consolidated financial statements.

**CoolBrands International Inc.**  
**Notes to Consolidated Interim Financial Statements**  
**November 30, 2009 and 2008**  
(Unaudited)

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(Amounts are expressed in thousands of Canadian dollars)

**1. Significant accounting policies**

These consolidated financial statements include the accounts of CoolBrands International Inc. (“CoolBrands”) and its direct and indirect wholly-owned subsidiaries, collectively referred to as “the Company”.

These financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada for interim financial statements. The financial statements have, in management’s opinion, been properly prepared using judgment within reasonable limits of materiality. These interim financial statements do not include all the note disclosures required for annual financial statements and therefore they should be read in conjunction with the Company’s audited financial statements for the year ended August 31, 2009. The significant accounting policies follow those disclosed in the most recently reported annual financial statements, except as described in note 2 below.

**2. Changes in accounting policies and recent accounting pronouncements not yet adopted**

Effective September 1, 2009 the Company adopted the following recently introduced Canadian Institute of Chartered Accountants handbook sections:

a) Goodwill and intangible assets:

CICA Handbook Section 3064, “Goodwill and Intangible Assets”, establishes revised standards for recognition, presentation and disclosure of goodwill and intangible assets. The adoption of this standard as at September 1, 2009 did not have a material impact on the Company’s consolidated financial statements.

b) Financial instruments – recognition and measurement:

CICA Handbook Section 3855, “Financial Instruments – Recognition and Measurement”, provides guidance to assess whether there is objective evidence of impairment of available-for-sale financial assets, as well as guidance on reclassifications of embedded derivatives that cannot be separated from the host contract. The adoption of this standard as at September 1, 2009 did not have a material impact on the Company’s consolidated financial statements.

c) Financial instruments – disclosures:

CICA Handbook Section 3862, “Financial Instruments – Disclosures”, provides for additional disclosures in the Company’s annual financial statements on fair value and liquidity risk disclosures by requiring Company’s to disclose a fair value hierarchy used in assessing the values of financial instruments, a maturity analysis of financial liabilities and a description of the management of liquidity risk. The Company will be providing this required disclosure in its annual consolidated financial statements for the year ended August 31, 2010.

In January 2009, the CICA issued CICA Handbook Section 1582, “Business Combinations”, Section 1601, “Consolidations”, and Section 1602, “Non-controlling interests”. These sections replace the former CICA Handbook Section 1581, “Business Combinations”, and Section 1600, “Consolidated Financial Statements” and establish a new section for accounting for a non-controlling interest in a subsidiary.

CICA Handbook Section 1582 establishes standards for accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standards (“IFRS”) 3, “Business Combinations”. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

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CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements.

CICA Handbook Section 1602 established standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS 27, "Consolidated and Separate Financial Statements".

Section 1601 and 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

International financial reporting standards. In February 2008, the Canadian Accounting Standards Board set January 1, 2011 as the date that IFRS will replace the current Canadian GAAP for publicly accountable enterprises. IFRS uses a conceptual framework similar to Canadian GAAP, but there may be significant differences on recognition, measurement and disclosure that may materially impact the Company's consolidated financial statements. The implementation of IFRS will apply to the Company's interim and annual financial statements beginning on September 1, 2011 (fiscal 2012), including the restatement of comparative amounts for fiscal 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.

**3. Accounting estimates**

The preparation of financial statements in conformity with generally accepted accounting principles in Canada requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimated.

**4. Cash and cash equivalents and short-term investments**

	<b>November 30, 2009</b>	<b>August 31, 2009</b>
<b>Cash and cash equivalents</b>		
On deposit with financial institutions	\$ 295	\$ 190
Treasury bills	1,075	75
High interest savings accounts at Canadian chartered banks	17,808	-
Bank term deposits and bankers acceptances	18,164	-
TransCanada Pipeline commercial paper	5,412	-
Enbridge Gas discount note	2,999	-
Money market accounts	4,446	17,642
	<u>50,199</u>	<u>17,907</u>
<b>Short-term investments</b>		
Bank term deposits and bankers acceptances	-	21,694
Government guaranteed agency bonds	14,462	18,093
TransCanada Pipeline commercial paper	-	4,204
	<u>14,462</u>	<u>43,991</u>
Total cash and cash equivalents and short-term investments	<u>\$ 64,661</u>	<u>\$ 61,898</u>

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(Unaudited)

(Amounts are expressed in thousands of Canadian dollars)

**5. Discontinued operations**

Below is a summary of the components of the assets and liabilities arising from the sale in prior years of certain of the Company's operations.

	<b>November 30, 2009</b>	<b>August 31, 2009</b>
<b>Current assets of discontinued operations</b>		
Receivables, net	\$ -	\$ 85
Deposits	50	50
	<u>\$ 50</u>	<u>\$ 135</u>
<b>Current liabilities of discontinued operations</b>		
Accounts payable	\$ 268	\$ 506
Accruals and other liabilities	2,303	2,565
Income taxes payable	97	92
	<u>\$ 2,668</u>	<u>\$ 3,163</u>

**6. Capital assets**

	<b>November 30, 2009</b>	<b>August 31, 2009</b>
Land	\$ 25	\$ 25
Building, machinery and equipment	2,157	2,157
	<u>2,182</u>	<u>2,182</u>
Less Accumulated amortization	(2,113)	(2,098)
	<u>\$ 69</u>	<u>\$ 84</u>

**7. Other assets**

	<b>November 30, 2009</b>	<b>August 31, 2009</b>
Promissory notes receivable	\$ 1,222	\$ 3,575
Warrants	-	289
Investment in marketable securities	187	194
	<u>1,409</u>	<u>4,058</u>
Less amount due within one year	(1,222)	(3,575)
Other assets – long-term portion	<u>\$ 187</u>	<u>\$ 483</u>

**8. Other liabilities**

	<b>November 30, 2009</b>	<b>August 31, 2009</b>
Accrued benefit cost of post-retirement benefits	\$ 2,432	\$ 2,432
Accrued benefit cost of non-registered pension plan	174	177
Accrued environmental liability	3	77
	<u>\$ 2,609</u>	<u>\$ 2,686</u>

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**9. Capital stock and capital management**

Authorized: unlimited number of common shares

	<b>November 30, 2009</b>	<b>August 31, 2009</b>
Issued: 56,075,433 common shares	\$ 61,972	\$ 61,972

At November 30, 2009, there were 5,500,000 warrants and 700,000 stock options outstanding. For the three months to November 30, 2009 there no changes to the number of common shares, warrants or stock options.

The Company's capital is comprised of its shareholders' equity. The Company's objectives when managing capital are to (i) safeguard its cash resources by investing funds so as to minimize collection risk and (ii) retain liquidity to provide financial flexibility to fund operations and possible acquisitions.

The Company has not historically paid dividends to its shareholders. The Company is not subject to externally imposed capital requirements.

**10. Financial instruments**

The classification of financial instruments as of November 30, 2009 and August 31, 2009 and their respective carrying values and fair values were as follows:

	<b>Held-for Trading \$</b>	<b>Held-to- maturity \$</b>	<b>Loans and receivables \$</b>	<b>Other financial liabilities \$</b>	<b>Carrying value \$</b>	<b>Fair value \$</b>
<b>As at November 30, 2009</b>						
Cash and cash equivalents	50,199				50,199	50,199
Short-term investments	14,462				14,462	14,462
Investments in marketable securities	187				187	187
Promissory notes receivable		1,222			1,222	1,222
Accounts payable and accrued liabilities				2,720	2,720	2,720

	<b>Held-for Trading \$</b>	<b>Held-to- maturity \$</b>	<b>Loans and receivables \$</b>	<b>Other financial liabilities \$</b>	<b>Carrying value \$</b>	<b>Fair value \$</b>
<b>As at August 31, 2009</b>						
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

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**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 unaudited interim 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.

**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. The Company attempts to mitigate credit risk by investing only in institutions that provide strong liquidity and by restricting investments to less than 180 days. Also, the Company has promissory notes receivable from two third parties that, while they are expected to be paid in fiscal 2010, exposes the Company to some amount of collection risk.

**Interest rate risk**

The Company is exposed to interest rate risk 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. The Company attempts to minimize interest rate risk by investing funds based at prevailing interest rates over a range of dates.

At November 30, 2009, the weighted average interest rate earned on invested funds was 0.43% (August 31, 2009 – 0.51%). A 100 basis point change in this interest rate would result in a change in income for the three months of \$161.

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(Unaudited)

(Amounts are expressed in thousands of Canadian dollars)

**Foreign exchange risk**

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:

	<b>November 30, 2009</b>	<b>August 31, 2009</b>
Cash and cash equivalents	\$ 194	\$ 115
Short-term investments	6,127	4,075
Interest receivable	-	750
Current assets of discontinued operations	50	128
Other assets	177	3,427
Current liabilities of discontinued operations	(2,562)	(2,926)
Other liabilities	(2,257)	(2,323)
Net U.S. dollar monetary position	<u>\$ 1,729</u>	<u>\$ 3,246</u>

A 1% strengthening/weakening of the Canadian dollar against the U.S. dollar at November 30, 2009 would have decreased/increased net income for the three months ended November 30, 2009 and equity as at November 30, 2009 by \$23. This analysis assumes that all other variables remain constant. The Company does not use derivative instruments to reduce its exposure to foreign exchange risk.

**11. Income taxes**

The Company has determined that for the period ended November 30, 2009, income tax expense was nil as the Company had sufficient unutilized income tax losses carried forward from prior periods to offset income recorded in the current period.

**12. 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.

	<b>November 30, 2009</b>	<b>November 30, 2008</b>
Rent paid in respect of shared premises	\$ 12	\$ 12
Expenses recovered in respect of shared employee	\$ 9	\$ 9

At November 30, 2009 there was no amounts payable to related parties (November 30, 2008 - \$6).

**CoolBrands International Inc.**  
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(Unaudited)

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(Amounts are expressed in thousands of Canadian dollars)

### **13. 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 (“the Court”) 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. This decision was appealed by Capricorn but was subsequently upheld by the Supreme Court, Appellate Division on October 1, 2009. On July 14, 2009, the Court rendered its second decision and dismissed all remaining claims made by Capricorn against CoolBrands and its affiliated companies. In September 2009, Capricorn filed a Notice of Appeal of the Court’s July 14, 2009 decision.

On December 21, 2009, CoolBrands and certain related entities entered into a settlement agreement with Capricorn relating to this lawsuit. All claims in the lawsuit shall be dismissed with prejudice and Capricorn has agreed to withdraw its Notice of Appeal. Pursuant to the settlement agreement, CoolBrands agreed to make a payment to Capricorn of U.S. \$1,050. The Company’s insurer has agreed to contribute 50% of the settlement amount. The net amount of U.S. \$525 will be expensed in the Company’s second quarter fiscal 2010 financial results.

#### *Legal matters*

In addition, the Company is a party to other legal proceedings and disputes which arise in the ordinary course of business. In the opinion of the Company, it is unlikely that the liabilities, if any, arising from these other legal proceedings and disputes will have a material adverse effect on the consolidated financial position of the Company.

#### *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 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 U.S. \$370 to cover potential clean up costs.