

COOLBRANDS INTERNATIONAL INC.

Interim Consolidated Financial Statements

For the Second Quarter Ended February 28, 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 February 28, 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)

	February 28, 2009	August 31, 2008
Assets		
Current assets:		
Cash and cash equivalents (Note 4)	\$ 63,801	\$ 8,372
Short-term investments (Note 4)	-	52,800
Interest receivable (Note 7)	-	726
Prepaid expenses	13	158
Current assets of discontinued operations (Note 5)	169	299
Other assets (Note 7)	129	3,489
	<hr/>	<hr/>
Total current assets	64,112	65,844
Capital assets (Note 6)	116	157
Other assets (Note 7)	5,310	532
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Total assets	<u>\$ 69,538</u>	<u>\$ 66,533</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 297	\$ 244
Current liabilities of discontinued operations (Note 5)	4,572	4,550
	<hr/>	<hr/>
Total current liabilities	4,869	4,794
Other liabilities (Note 8)	2,753	2,783
	<hr/>	<hr/>
Total liabilities	<u>7,622</u>	<u>7,577</u>
Contingencies (Note 13)		
Shareholders' Equity:		
Capital stock (Note 9)	61,972	61,972
Contributed surplus	54,020	53,998
Accumulated other comprehensive loss	(45,466)	(45,466)
Deficit	(8,610)	(11,548)
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Total shareholders' equity	61,916	58,956
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	<u>\$ 69,538</u>	<u>\$ 66,533</u>

See accompanying notes to consolidated financial statements.

CoolBrands International Inc.
Consolidated Statements of Income and Other Comprehensive Income

(Unaudited)

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

	For the three months ended February 28		For the six months ended February 28	
	2009	2008	2009	2008
Revenue				
Interest and other	\$ 449	\$ 664	\$ 1,015	\$ 1,385
Expenses				
General and administrative	385	564	797	1,049
Income before the following	<u>64</u>	<u>100</u>	<u>218</u>	<u>336</u>
Gain (loss) on foreign exchange	243	(407)	2,805	(3,402)
Net income (loss) from continuing operations before income taxes	<u>307</u>	<u>(307)</u>	<u>3,023</u>	<u>(3,066)</u>
Provision for (recovery of) income taxes (Note 11)	-	-	-	-
Net income (loss) from continuing operations	<u>307</u>	<u>(307)</u>	<u>3,023</u>	<u>(3,066)</u>
Discontinued operations:				
Gain (loss) from operations of discontinued operations	163	(1,771)	(85)	(1,521)
Gain on disposal of discontinued operations	-	6,910	-	6,101
Gain (loss) from discontinued operations	<u>163</u>	<u>5,139</u>	<u>(85)</u>	<u>4,580</u>
Net income and other comprehensive income for the period	<u>\$ 470</u>	<u>\$ 4,832</u>	<u>\$ 2,938</u>	<u>\$ 1,514</u>
Income (loss) per common share				
Continuing operations – basic and diluted	\$ 0.01	\$ 0.00	\$ 0.05	\$ (0.05)
Discontinued operations – basic and diluted	\$ 0.00	\$ 0.09	\$ 0.00	\$ 0.08
Total – basic and diluted	<u>\$ 0.01</u>	<u>\$ 0.09</u>	<u>\$ 0.05</u>	<u>\$ 0.03</u>
Weighted average shares outstanding	56,075,433	56,075,433	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 February 28, 2009 and 2008**

(Unaudited)

(Amounts expressed in thousands of Canadian dollars)

	<u>Capital stock</u>	<u>Contributed surplus</u>	<u>Currency translation account</u>	<u>Deficit</u>	<u>Total shareholders' equity</u>
Balance as at August 31, 2007	\$ 139,388	\$ 53,941	\$ (45,466)	\$ (94,360)	\$ 53,503
Income and comprehensive income for the period				1,514	1,514
Reduction in stated capital	(77,416)			77,416	-
Stock-based compensation expense		33			33
Balance as at February 29, 2008	<u>\$ 61,972</u>	<u>\$ 53,974</u>	<u>\$ (45,466)</u>	<u>\$ (15,430)</u>	<u>\$ 55,050</u>
Balance as at August 31, 2008	\$ 61,972	\$ 53,998	\$ (45,466)	\$ (11,548)	\$ 58,956
Income and comprehensive income for the period				2,938	2,938
Stock-based compensation expense		22			22
Balance as at February 28, 2009	<u>\$ 61,972</u>	<u>\$ 54,020</u>	<u>\$ (45,466)</u>	<u>\$ (8,610)</u>	<u>\$ 61,916</u>

See accompanying notes to consolidated financial statements.

CoolBrands International Inc.
Consolidated Statements of Cash Flows

(Unaudited)

(Amounts expressed in thousands of Canadian dollars)

	For the three months ended February 28		For the six months ended February 28	
	2009	2008	2009	2008
Cash and cash equivalents provided by (used in):				
Operating activities:				
Income (loss) from continuing operations	\$ 307	\$ (307)	\$ 3,023	\$ (3,066)
Adjustments to reconcile loss to net cash flows from operating activities				
Amortization	19	116	41	153
Stock-based compensation expense	11	33	22	33
Cash effect of changes from continuing operations:				
Prepaid expenses	72	62	145	123
Accounts payable and accrued liabilities	37	(95)	53	(429)
Other assets	(19)	(64)	130	1,180
Other liabilities	(30)	(26)	(30)	(35)
Cash provided by (used in) operating activities	<u>397</u>	<u>(281)</u>	<u>3,384</u>	<u>(2,041)</u>
Investing activities:				
Proceeds from sale of capital assets	-	35	-	35
Decrease in short-term investments	-	-	52,800	-
Cash provided by investing activities	<u>-</u>	<u>35</u>	<u>52,800</u>	<u>35</u>
Financing activity:				
Increase in amount due to a related company	-	224	-	386
Decrease in cash flows due to changes in foreign exchange rates	<u>(65)</u>	<u>(59)</u>	<u>(45)</u>	<u>(594)</u>
Cash flows provided by (used in) discontinued operations				
Gain (loss) from discontinued operations	163	(1,771)	(85)	(1,521)
Operating activities	48	1,040	(625)	(3,205)
Investing activities	-	523	-	(192)
Cash provided by (used in) discontinued operations	<u>211</u>	<u>(208)</u>	<u>(710)</u>	<u>(4,918)</u>
Increase (decrease) in cash and cash equivalents	543	(289)	55,429	(7,132)
Cash and cash equivalents – beginning of period	63,258	61,508	8,372	68,351
Cash and cash equivalents – end of period	<u>\$ 63,801</u>	<u>\$ 61,219</u>	<u>\$ 63,801</u>	<u>\$ 61,219</u>
Supplemental cash flow information:				
Income taxes paid (recovered) relating to discontinued operations	\$ (404)	\$ 234	\$ (479)	\$ 670

See accompanying notes to consolidated financial statements.

CoolBrands International Inc.
Notes to Consolidated Interim Financial Statements
February 28, 2009 and 2008
(Unaudited)

(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 principal 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, 2008. 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

Effective September 1, 2008 the Company adopted the following recently introduced Canadian Institute of Chartered Accountants handbook sections:

- a) CICA Section 1535, “Capital Disclosures”. This section establishes standards for disclosing information about an entity’s capital and how it is managed. Information is to be disclosed to assist users of its financial statements to evaluate the entity’s objectives, policies and processes for managing capital. The adoption of this standard did not have a material impact on the Company’s financial results as it only addresses disclosure requirements.
- b) CICA Sections 3862, “Financial Instruments – Disclosures”, and Section 3863, “Financial Instruments – Presentation”. These sections replace CICA Section 3861, “Financial Instruments – Disclosure and Presentation”, requiring disclosures of both qualitative and quantitative information on the nature and extent of risks arising from financial instruments to which the Company is exposed and how it manages those risks. The adoption of this standard did not have a material impact on the Company’s financial results as it only addresses presentation and disclosure requirements.
- c) International financial reporting standards. In February 2008, the Canadian Accounting Standards Board confirmed that Canadian public companies will need to adopt IFRS effective for years beginning on or after January 1, 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.

CoolBrands International Inc.
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(Amounts are expressed in thousands of Canadian dollars)

4. Cash and cash equivalents

	February 28, 2009	August 31, 2008
On deposit with financial institutions	\$ 555	\$ 423
Bank term deposits and bankers acceptances	21,973	10,157
Money market accounts	20,267	7,949
Bonds	8,013	-
Corporate commercial paper	12,993	42,643
	<u>63,801</u>	<u>61,172</u>
Less commercial paper and term deposits classified as short-term investments	-	(52,800)
Cash and cash equivalents	<u>\$ 63,801</u>	<u>\$ 8,372</u>

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.

	February 28, 2009	August 31, 2008
Current assets of discontinued operations		
Receivables, net	\$ 99	\$ 223
Deposits	70	76
	<u>\$ 169</u>	<u>\$ 299</u>
Current liabilities of discontinued operations		
Accounts payable	\$ 630	\$ 1,012
Accruals and other liabilities	3,466	3,223
Income taxes payable	476	315
	<u>\$ 4,572</u>	<u>\$ 4,550</u>

6. Capital assets

	February 28, 2009	August 31, 2008
Land	\$ 25	\$ 25
Building, machinery and equipment	2,157	2,157
	<u>2,182</u>	<u>2,182</u>
Less Accumulated amortization	(2,066)	(2,025)
	<u>\$ 116</u>	<u>\$ 157</u>

7. Other assets

	February 28, 2009	August 31, 2008
Promissory note receivable and accrued interest	\$ 4,829	\$ 3,186
Warrants	289	289
Investment in marketable securities	192	243
Cash held in escrow	129	303
	<u>5,439</u>	<u>4,021</u>
Less amount due within one year	(129)	(3,489)
Other assets – long-term portion	<u>\$ 5,310</u>	<u>\$ 532</u>

CoolBrands International Inc.
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(Unaudited)

(Amounts are expressed in thousands of Canadian dollars)

The Promissory note receivable, resulting from the sale of CoolBrands Dairy, Inc., was due on January 31, 2009. The Company has been advised by the debtor of the note that it proposes to extend the due date for the note, plus the accrued interest owing on the note. The Company is in discussions with the debtor on the proposed terms. As a result, the note and accrued interest have been reclassified as a long-term asset in these financial statements.

8. Other liabilities

	February 28, 2009	August 31, 2008
Accrued benefit cost of post-retirement benefits	\$ 2,432	\$ 2,432
Accrued benefit cost of non-registered pension plan	190	193
Accrued environmental liability	131	158
	<u>\$ 2,753</u>	<u>\$ 2,783</u>

9. Capital stock and capital management

Authorized: unlimited number of common shares

	February 28, 2009	August 31, 2008
Issued and outstanding: 56,075,433 common shares	\$ 61,972	\$ 61,972

At February 28, 2009, there were 5,500,000 warrants and 300,000 stock options outstanding, with exercise prices of \$0.50 and \$0.78 respectively. For the three and six months to February 28, 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 February 28, 2009 and August 31, 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 February 28, 2009						
Cash and cash equivalents	63,801				63,801	63,801
Investments in marketable securities	192				192	192
Promissory note receivable and accrued interest		4,829			4,829	4,829
Accounts receivable			99		99	99
Accounts payable and accrued liabilities				4,393	4,393	4,393

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(Amounts expressed in thousands of Canadian dollars)

	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

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 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 manager.

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 note 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.

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.

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(Amounts are expressed in thousands of Canadian dollars)

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 is exposed to credit risk relating to a promissory note receivable from a third party that was not paid on its due date of January 31, 2009.

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 February 28, 2009, the weighted average interest rate earned on invested funds was 1.25% (August 31, 2008 – 2.64%). A 100 basis point change in this interest rate would result in a change in income for the three months of \$157.

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:

	February 28, 2009	August 31, 2008
Cash and cash equivalents	\$ 4,838	\$ 346
Short-term investments	-	39,822
Interest receivable (included in Other assets at February 28, 2009)	-	683
Current assets of discontinued operations	148	495
Other assets	4,305	3,229
Current liabilities of discontinued operations	(3,690)	(4,286)
Other liabilities	(2,381)	(2,408)
Net U.S. dollar monetary position	<u>\$ 3,220</u>	<u>\$ 37,881</u>

A 1% strengthening/weakening of the Canadian dollar against the U.S. dollar at February 28, 2009 would have decreased/increased net income for the three months ended February 28, 2009 by \$67. 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 three and six months periods ended February 28, 2009 and 2008, 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.

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(Amounts are expressed in thousands of Canadian dollars)

	February 28, 2009	February 28, 2008
Rent paid in respect of shared premises	\$ 12	\$ 12
Expenses recovered in respect of shared employee	\$ 11	\$ -

At February 28, 2009 there was no amount payable to related parties (August 31, 2008 - \$nil).

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 against CoolBrands, Integrated Brands, Inc., CBA Foods LLC, CB Americana LLC and certain officers and directors of CoolBrands asserting allegations against the defendants for breaches of contract, breach of fiduciary duty, fraud and conspiracy and seeks injunctive relief and damages of over \$60 million. On June 8, 2007, CoolBrands and its co-defendants moved to dismiss the Complaint. The Court directed the parties to begin engaging in document discovery and indicated it would rule on the Defendants motion to dismiss. On June 13, 2008, the Court granted CoolBrands motion to dismiss as to seven of the ten claims made by Capricorn in its complaint. The Court provisionally dismissed all of Capricorn's claims against CoolBrands and its subsidiary company Integrated Brands, Inc. but permitted the plaintiff an opportunity to re-plead its case to include these parties. Capricorn's claims alleging civil conspiracy, breaches of fiduciary duty, fraud, negligent misrepresentation and promissory estoppel were dismissed and all claims that Capricorn brought against individual officers and directors of CoolBrands were dismissed. The Court converted to a breach of contract claim Capricorn's declaratory judgment claim involving the change of control provision in the Americana Foods Limited Partnership Agreement and also sustained its breach of contract claim for alleged failure to submit operational and financial information pursuant to the Partnership Agreement. Litigation continues on these matters. On August 21, 2008, Capricorn filed a Notice of Appeal and Pre-Argument Statement concerning only certain aspects of the Decision. Specifically, Capricorn has appealed the dismissal of its claims for fraudulent inducement, negligent misrepresentation and promissory estoppel. Defendants filed a Counter Pre-Argument on October 14, 2008. Capricorn has until May 22, 2009 to finalize its appeal. On August 25, 2008, CoolBrands and its remaining co-defendants filed a motion to dismiss Capricorn's Third Amended Complaint and oral arguments were held on November 6, 2008. The Court indicated it would render a decision in early 2009. The decision is still pending.

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

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.

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(Amounts are expressed in thousands of Canadian dollars)

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 \$370 to cover potential clean up costs.

14. 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 the consolidated balance sheets and the components of their operating results have been included in loss from discontinued operations on the consolidated statements of operations. At February 28, 2009, the Company has one segment.