

COOLBRANDS INTERNATIONAL INC.

Interim Consolidated Financial Statements

For the Second Quarter Ended February 28, 2010

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, 2010.

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

Stock Symbol: TSX - COB

CoolBrands International Inc.
Consolidated Balance Sheets

(unaudited)

(in thousands of dollars)

| | February 28, 2010 | August 31, 2009 |
|---|--------------------------|------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents (Note 4) | \$ 65,130 | \$ 17,907 |
| Short-term investments (Note 4) | - | 43,991 |
| Interest receivable | 28 | 821 |
| Prepaid expenses | 7 | 88 |
| Current assets of discontinued operations (Note 5) | 50 | 135 |
| Other assets (Note 7) | - | 3,575 |
| | 65,215 | 66,517 |
| Capital assets (Note 6) | 55 | 84 |
| Other assets (Note 7) | 188 | 483 |
| | \$ 65,458 | \$ 67,084 |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 212 | \$ 205 |
| Current liabilities of discontinued operations (Note 5) | 2,591 | 3,163 |
| | 2,803 | 3,368 |
| Other liabilities (Note 8) | 2,603 | 2,686 |
| | 5,406 | 6,054 |
| Contingencies (Note 13) | | |
| Shareholders' Equity | | |
| Capital stock (Note 9) | 62,047 | 61,972 |
| Contributed surplus | 54,081 | 54,070 |
| Accumulated other comprehensive loss | (45,466) | (45,466) |
| Deficit | (10,610) | (9,546) |
| | 60,052 | 61,030 |
| | \$ 65,458 | \$ 67,084 |

See accompanying notes to consolidated financial statements.

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

(unaudited)

(in thousands of dollars, except for per share amounts)

| | For the three months ended February 28 | | For the six months ended February 28 | |
|---|---|------------|---|------------|
| | 2010 | 2009 | 2010 | 2009 |
| Revenue | | | | |
| Interest and other | \$ 134 | \$ 449 | \$ 309 | \$ 1,015 |
| Expenses | | | | |
| General and administrative | 417 | 385 | 749 | 797 |
| Income (loss) before the following | (283) | 64 | (440) | 218 |
| Gain (loss) on foreign exchange | 17 | 243 | (164) | 2,805 |
| Net income (loss) from continuing operations before income taxes | (266) | 307 | (604) | 3,023 |
| Provision for (recovery of) income taxes (Note 11) | - | - | - | - |
| Net income (loss) from continuing operations | (266) | 307 | (604) | 3,023 |
| Income (loss) from operations of discontinued operations | (566) | 163 | (460) | (85) |
| Net income (loss) and other comprehensive income (loss) for the period | \$ (832) | \$ 470 | \$ (1,064) | \$ 2,938 |
| Income (loss) per common share | | | | |
| Continuing operations – basic and diluted | \$ (0.01) | \$ 0.01 | \$ (0.01) | \$ 0.05 |
| Discontinued operations – basic and diluted | \$ (0.01) | \$ 0.00 | \$ (0.01) | \$ 0.00 |
| Total – basic and diluted | \$ (0.02) | \$ 0.01 | \$ (0.02) | \$ 0.05 |
| Weighted average shares outstanding | 56,082,100 | 56,075,433 | 56,078,748 | 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)

(in thousands of dollars)

| | <u>Capital stock</u> | <u>Contributed surplus</u> | <u>Accumulated other comprehensive loss</u> | <u>Deficit</u> | <u>Total shareholders' equity</u> |
|--|----------------------|----------------------------|---|----------------|-----------------------------------|
| Balance as at August 31, 2008 | \$ 61,972 | \$ 53,998 | \$ (45,466) | \$ (11,548) | \$ 58,956 |
| Income and other comprehensive income for the period | | | | 2,938 | 2,938 |
| Stock-based compensation expense | | 22 | | | 22 |
| Balance as at February 29, 2009 | \$ 61,972 | \$ 54,020 | \$ (45,466) | \$ (8,610) | \$ 61,916 |
| Balance as at August 31, 2009 | \$ 61,972 | \$ 54,070 | \$ (45,466) | \$ (9,546) | \$ 61,030 |
| Income (loss) and other comprehensive income (loss) for the period | | | | (1,064) | (1,064) |
| Stock-based compensation expense | | 26 | | | 26 |
| Exercise of stock options | 75 | (15) | | | 60 |
| Balance as at February 28, 2010 | \$ 62,047 | \$ 54,081 | \$ (45,466) | \$ (10,610) | \$ 60,052 |

See accompanying notes to consolidated financial statements.

CoolBrands International Inc.
Consolidated Statements of Cash Flows

(unaudited)

(in thousands of dollars)

| | For the three months ended February 28 | | For the six months ended February 28 | |
|--|---|-----------|---|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| Cash and cash equivalents provided by (used in): | | | | |
| Operating activities: | | | | |
| Income (loss) from continuing operations | \$ (266) | \$ 307 | \$ (604) | \$ 3,023 |
| Adjustments to reconcile loss to net cash flows from operating activities | | | | |
| Amortization | 14 | 19 | 29 | 41 |
| Stock-based compensation expense | 14 | 11 | 26 | 22 |
| Cash effect of changes from continuing operations | | | | |
| Interest receivable | (28) | - | 760 | - |
| Prepaid expenses | 40 | 72 | 81 | 145 |
| Accounts payable and accrued liabilities | 63 | 37 | 7 | 53 |
| Other assets | 5 | (19) | 5 | 130 |
| Other liabilities | (6) | (30) | (83) | (30) |
| Cash provided by (used in) operating activities | (164) | 397 | 221 | 3,384 |
| Investing activities: | | | | |
| Decrease in short-term investments | 14,462 | - | 43,991 | 52,800 |
| Promissory note advance | - | - | (1,000) | - |
| Repayments of promissory notes | 1,221 | - | 4,440 | - |
| Proceeds from sale of warrants | - | - | 262 | - |
| Cash provided by investing activities | 15,683 | - | 47,693 | 52,800 |
| Financing activity: | | | | |
| Issuance of shares on exercise of stock options | 60 | - | 60 | - |
| Decrease in cash flows due to changes in foreign exchange rates | (14) | (65) | 76 | (45) |
| Cash flows provided by (used in) discontinued operations | | | | |
| Gain (loss) from discontinued operations | (566) | 163 | (460) | (85) |
| Operating activities | (68) | 48 | (367) | (625) |
| Cash provided by (used in) discontinued operations | (634) | 211 | (827) | (710) |
| Increase in cash and cash equivalents | 14,931 | 543 | 47,223 | 55,429 |
| Cash and cash equivalents – beginning of period | 50,199 | 63,258 | 17,907 | 8,372 |
| Cash and cash equivalents – end of period | \$ 65,130 | \$ 63,801 | \$ 65,130 | \$ 63,801 |

Supplemental cash flow information:

| | | | | |
|--|------|--------|------|--------|
| Income taxes recovered relating to discontinued operations | \$ - | \$ 404 | \$ 9 | \$ 479 |
|--|------|--------|------|--------|

See accompanying notes to consolidated financial statements.

CoolBrands International Inc.
Notes to Consolidated Interim Financial Statements
February 28, 2010 and 2009
(unaudited)

(in thousands of 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, 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(R), “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, with early adoption permitted.

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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 IAS 27, "Consolidated and Separate Financial Statements".

Sections 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.

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

| | February 28, 2010 | August 31, 2009 |
|--|--------------------------|------------------------|
| Cash and cash equivalents | | |
| On deposit with financial institutions | \$ 270 | \$ 190 |
| Treasury bills | 9,053 | 75 |
| High interest savings accounts at Canadian chartered banks | 26,024 | - |
| Bank term deposits and bankers acceptances | 14,998 | - |
| TransCanada Pipeline commercial paper | 4,216 | - |
| Enbridge Gas discount note | 3,000 | - |
| Terasen Gas discount note | 3,000 | - |
| Money market accounts | 4,569 | 17,642 |
| | <u>65,130</u> | <u>17,907</u> |
| Short-term investments | | |
| Bank term deposits and bankers acceptances | - | 21,694 |
| Government guaranteed agency bonds | - | 18,093 |
| TransCanada Pipeline commercial paper | - | 4,204 |
| | - | <u>43,991</u> |
| Total cash and cash equivalents and short-term investments | <u>\$ 65,130</u> | <u>\$ 61,898</u> |

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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, 2010 | August 31, 2009 |
|---|--------------------------|------------------------|
| Current assets of discontinued operations | | |
| Receivables, net | \$ - | \$ 85 |
| Deposits | 50 | 50 |
| | <u>\$ 50</u> | <u>\$ 135</u> |
| Current liabilities of discontinued operations | | |
| Accounts payable | \$ 257 | \$ 506 |
| Accruals and other liabilities | 2,237 | 2,565 |
| Income taxes payable | 97 | 92 |
| | <u>\$ 2,591</u> | <u>\$ 3,163</u> |

6. Capital assets

| | February 28, 2010 | August 31, 2009 |
|-----------------------------------|--------------------------|------------------------|
| Land | \$ 25 | \$ 25 |
| Building, machinery and equipment | 2,157 | 2,157 |
| | <u>2,182</u> | <u>2,182</u> |
| Less Accumulated amortization | (2,127) | (2,098) |
| | <u>\$ 55</u> | <u>\$ 84</u> |

7. Other assets

| | February 28, 2010 | August 31, 2009 |
|-------------------------------------|--------------------------|------------------------|
| Promissory notes receivable | \$ - | \$ 3,575 |
| Warrants | - | 289 |
| Investment in marketable securities | 188 | 194 |
| | <u>188</u> | <u>4,058</u> |
| Less amount due within one year | - | (3,575) |
| Other assets – long-term portion | <u>\$ 188</u> | <u>\$ 483</u> |

8. Other liabilities

| | February 28, 2010 | August 31, 2009 |
|---|--------------------------|------------------------|
| Accrued benefit cost of post-retirement benefits | \$ 2,432 | \$ 2,432 |
| Accrued benefit cost of non-registered pension plan | 171 | 177 |
| Accrued environmental liability | - | 77 |
| | <u>\$ 2,603</u> | <u>\$ 2,686</u> |

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(in thousands of dollars)

9. Capital stock and capital management

Authorized: unlimited number of common shares

| | February 28, 2010 | August 31, 2009 |
|---|--------------------------|------------------------|
| Issued and outstanding: 56,175,433 (August 31, 2009 - 56,075,433 common shares) | \$ 62,047 | \$ 61,972 |

Stock options and warrants

The following table summarizes stock option activity for the three and six month periods ended February 28, 2010:

| | <u>Shares (in thousands)</u> | <u>Weighted average exercise price</u> | <u>Weighted avg. contractual life (in years)</u> |
|---|----------------------------------|--|--|
| Outstanding at August 31, 2009 and November 30, 2009 | 700 | \$ 0.69 | 4.1 |
| Granted | 250 | \$ 1.13 | 5.0 |
| Exercised | <u>(100)</u> | \$ 0.60 | |
| Outstanding at February 28, 2010 | <u>850</u> | \$ 0.82 | 4.0 |

There are also warrants to purchase 5.5 million common shares at a price of \$0.50 per share that expire in November 2011.

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, 2010 and August 31, 2009 and their respective carrying values and fair values were as follows:

| | Held-for trading \$ | Loans and receivables \$ | Other financial liabilities \$ | Carrying value \$ | Fair value \$ |
|--|------------------------------------|---|---|----------------------------------|------------------------------|
| As at February 28, 2010 | | | | | |
| Cash and cash equivalents | 65,130 | | | 65,130 | 65,130 |
| Interest receivable | | 28 | | 28 | 28 |
| Investments in marketable securities | 188 | | | 188 | 188 |
| Accounts payable and accrued liabilities | | | 2,706 | 2,706 | 2,706 |

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| | 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 | | |

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 and held in investment manager's 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 receivables 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. 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 may be exposed to credit risk relating to promissory note advances made from time to time. At February 28, 2010 there were no promissory note advances outstanding.

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(in thousands of dollars)

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, 2010, the weighted average interest rate earned on invested funds was 0.39% (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 \$162.

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, 2010 | August 31, 2009 |
|--|--------------------------|------------------------|
| Cash and cash equivalents | \$ 4,660 | \$ 115 |
| Short-term investments | - | 4,075 |
| Interest receivable | - | 750 |
| Current assets of discontinued operations | 50 | 128 |
| Other assets | 179 | 3,427 |
| Current liabilities of discontinued operations | (2,577) | (2,926) |
| Other liabilities | (2,252) | (2,323) |
| Net U.S. dollar monetary position | <u>\$ 60</u> | <u>\$ 3,246</u> |

A 1% strengthening/weakening of the Canadian dollar against the U.S. dollar at February 28, 2010 would have decreased/increased net income for the three months ended February 28, 2010 by \$23. This analysis assumes that all other variables remain constant. The Company does not use derivative instruments nor enter into any hedging relationship 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, 2010 and 2009, income tax expense was nil as the Company has recorded a valuation allowance against potential future tax assets arising from net operating losses.

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.

| | February 28, 2010 | February 28, 2009 |
|--|------------------------------|------------------------------|
| Rent paid in respect of shared premises | \$ 12 | \$ 12 |
| Expenses recovered in respect of shared employee | \$ 9 | \$ 11 |

At February 28, 2010 there was no amount payable to related parties (August 31, 2009 - \$nil).

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(in thousands of 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.

Following several successful decisions rendered by the Court in favour of the Company, 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 were dismissed with prejudice. Pursuant to the settlement agreement, CoolBrands agreed to make a payment to Capricorn of U.S. \$1,050,000. The Company’s insurer agreed to contribute 50% of the settlement amount. The net amount of U.S. \$525,000 has been paid and 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.