

**COOLBRANDS INTERNATIONAL INC.**

**Interim Consolidated Financial Statements**

**For the Third Quarter Ended May 31, 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 May 31, 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)

	May 31, 2009	August 31, 2008
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents (Note 4)	\$ 18,360	\$ 8,372
Short-term investments (Note 4)	43,936	52,800
Interest receivable (Note 7)	-	726
Prepaid expenses	128	158
Current assets of discontinued operations (Note 5)	300	299
Other assets (Note 7)	-	3,489
	<hr/>	<hr/>
<b>Total current assets</b>	62,724	65,844
Capital assets (Note 6)	100	157
Other assets (Note 7)	4,610	532
	<hr/>	<hr/>
<b>Total assets</b>	<u>\$ 67,434</u>	<u>\$ 66,533</u>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 239	\$ 244
Current liabilities of discontinued operations (Note 5)	3,477	4,550
	<hr/>	<hr/>
<b>Total current liabilities</b>	3,716	4,794
Other liabilities (Note 8)	2,728	2,783
	<hr/>	<hr/>
<b>Total liabilities</b>	6,444	7,577
<b>Contingencies</b> (Note 13)		
<b>Shareholders' Equity:</b>		
Capital stock (Note 9)	61,972	61,972
Contributed surplus	54,059	53,998
Accumulated other comprehensive loss	(45,466)	(45,466)
Deficit	(9,575)	(11,548)
	<hr/>	<hr/>
<b>Total shareholders' equity</b>	60,990	58,956
	<hr/>	<hr/>
	<u>\$ 67,434</u>	<u>\$ 66,533</u>

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 share data)

	For the three months ended May 31		For the nine months ended May 31	
	2009	2008	2009	2008
<b>Revenue</b>				
Interest and other	\$ 254	\$ 588	\$ 1,269	\$ 1,973
<b>Expenses</b>				
General and administrative	403	295	1,200	1,344
<b>Income (loss) before the following</b>	<u>(149)</u>	<u>293</u>	<u>69</u>	<u>629</u>
Gain (loss) on foreign exchange	(979)	364	1,826	(3,038)
<b>Net income (loss) from continuing operations before income taxes</b>	<u>(1,128)</u>	<u>657</u>	<u>1,895</u>	<u>(2,409)</u>
<b>Provision for (recovery of) income taxes (Note 11)</b>	-	-	-	-
<b>Net income (loss) from continuing operations</b>	<u>(1,128)</u>	<u>657</u>	<u>1,895</u>	<u>(2,409)</u>
<b>Discontinued operations:</b>				
Gain (loss) from operations of discontinued operations	163	(487)	78	(2,008)
Gain on disposal of discontinued operations	-	-	-	6,101
<b>Gain (loss) from discontinued operations</b>	<u>163</u>	<u>(487)</u>	<u>78</u>	<u>4,093</u>
<b>Net income (loss) and other comprehensive income (loss) for the period</b>	<u>\$ (965)</u>	<u>\$ 170</u>	<u>\$ 1,973</u>	<u>\$ 1,684</u>
<b>Income (loss) per common share</b>				
Continuing operations – basic and diluted	\$ (0.02)	\$ 0.01	\$ 0.03	\$ (0.04)
Discontinued operations – basic and diluted	\$ 0.00	\$ (0.01)	\$ 0.00	\$ 0.07
Total – basic and diluted	<u>\$ (0.02)</u>	<u>\$ 0.00</u>	<u>\$ 0.03</u>	<u>\$ 0.03</u>
<b>Number of common shares</b>				
Weighted average basic	56,075,696	56,075,433	56,075,522	56,075,433
Weighted average diluted	57,834,451	57,808,310	57,766,861	58,233,999
Total outstanding	56,075,725	56,075,433	56,075,725	56,075,433

See accompanying notes to consolidated financial statements.

**CoolBrands International Inc.****Consolidated Statements of Shareholders' Equity for the periods ended May 31, 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				1,684	1,684
Reduction in stated capital	(77,416)			77,416	-
Stock-based compensation expense		45			45
Balance as at May 31, 2008	<u>\$ 61,972</u>	<u>\$ 53,986</u>	<u>\$ (45,466)</u>	<u>\$ (15,260)</u>	<u>\$ 55,232</u>
Balance as at August 31, 2008	\$ 61,972	\$ 53,998	\$ (45,466)	\$ (11,548)	\$ 58,956
Income and comprehensive income for the period				1,973	1,973
Stock-based compensation expense		61			61
Balance as at May 31, 2009	<u>\$ 61,972</u>	<u>\$ 54,059</u>	<u>\$ (45,466)</u>	<u>\$ (9,575)</u>	<u>\$ 60,990</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 May 31		For the nine months ended May 31	
	2009	2008	2009	2008
<b>Cash and cash equivalents provided by (used in):</b>				
<b>Operating activities:</b>				
Income (loss) from continuing operations	\$ (1,128)	\$ 657	\$ 1,895	\$ (2,409)
Adjustments to reconcile loss to net cash flows from operating activities				
Amortization	16	17	57	170
Stock-based compensation expense	39	12	61	45
Cash effect of changes from continuing operations:				
Prepaid expenses	(115)	(220)	30	(97)
Accounts payable and accrued liabilities	(58)	(34)	(5)	(463)
Other assets	125	530	255	1,710
Other liabilities	(26)	-	(56)	(35)
Cash provided by (used in) operating activities	<u>(1,147)</u>	<u>962</u>	<u>2,237</u>	<u>(1,079)</u>
<b>Investing activities:</b>				
Proceeds from sale of capital assets	-	-	-	35
Promissory note advance	(725)	-	(725)	-
Repayment of promissory note	725	-	725	-
Decrease (increase) in short-term investments	(43,936)	(50,248)	8,864	(50,248)
Cash provided by investing activities	<u>(43,936)</u>	<u>(50,248)</u>	<u>8,864</u>	<u>(50,213)</u>
<b>Financing activity:</b>				
Increase (decrease) in amount due to a related company	<u>-</u>	<u>(2,994)</u>	<u>-</u>	<u>(2,608)</u>
<b>Decrease in cash flows due to changes in foreign exchange rates</b>	<u>34</u>	<u>(301)</u>	<u>(11)</u>	<u>(895)</u>
<b>Cash flows provided by (used in) discontinued operations</b>				
Gain (loss) from discontinued operations	163	(487)	78	(2,008)
Operating activities	(555)	(666)	(1,180)	(3,871)
Investing activities	-	102	-	(90)
<b>Cash (used in) discontinued operations</b>	<u>(392)</u>	<u>(1,051)</u>	<u>(1,102)</u>	<u>(5,969)</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<u>(45,441)</u>	<u>(53,632)</u>	<u>9,988</u>	<u>(60,764)</u>
<b>Cash and cash equivalents – beginning of period</b>	<u>63,801</u>	<u>61,219</u>	<u>8,372</u>	<u>68,351</u>
<b>Cash and cash equivalents – end of period</b>	<u>\$ 18,360</u>	<u>\$ 7,587</u>	<u>\$ 18,360</u>	<u>\$ 7,587</u>
<b>Non-cash financing activity</b>				
Payment to 2118769 Ontario Inc. by Americana Foods trustee in bankruptcy	\$ -	\$ 6,500	\$ -	\$ 6,500
<b>Supplemental cash flow information:</b>				
Income taxes paid (recovered) relating to discontinued operations	\$ 194	\$ 133	\$ (285)	\$ 803

See accompanying notes to consolidated financial statements.

**Notes to Consolidated Interim Financial Statements**

**May 31, 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.**  
**Notes to Consolidated Interim Financial Statements**  
**May 31, 2009 and 2008**  
(Unaudited)

(Amounts are expressed in thousands of Canadian dollars)

**4. Cash and cash equivalents**

	<b>May 31, 2009</b>	<b>August 31, 2008</b>
On deposit with financial institutions	\$ 298	\$ 423
Bank term deposits and bankers acceptances	21,646	10,157
Money market accounts	18,062	7,949
Government guaranteed and crown corporation fixed income securities	18,105	-
Corporate commercial paper	4,185	42,643
	<u>62,296</u>	<u>61,172</u>
Less commercial paper, term deposits and fixed income securities classified as short-term investments	(43,936)	(52,800)
Cash and cash equivalents	<u>\$ 18,360</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.

	<b>May 31, 2009</b>	<b>August 31, 2008</b>
<b>Current assets of discontinued operations</b>		
Receivables, net	\$ 190	\$ 223
Deposits	110	76
	<u>\$ 300</u>	<u>\$ 299</u>
<b>Current liabilities of discontinued operations</b>		
Accounts payable	\$ 524	\$ 1,012
Accruals and other liabilities	2,881	3,223
Income taxes payable	72	315
	<u>\$ 3,477</u>	<u>\$ 4,550</u>

**6. Capital assets**

	<b>May 31, 2009</b>	<b>August 31, 2008</b>
Land	\$ 25	\$ 25
Building, machinery and equipment	2,157	2,157
	<u>2,182</u>	<u>2,182</u>
Less Accumulated amortization	(2,082)	(2,025)
	<u>\$ 100</u>	<u>\$ 157</u>

**7. Other assets**

	<b>May 31, 2009</b>	<b>August 31, 2008</b>
Promissory note receivable and accrued interest	\$ 4,152	\$ 3,186
Warrants	289	289
Investment in marketable securities	169	243
Cash held in escrow	-	303
	<u>4,610</u>	<u>4,021</u>
Less amount due within one year	-	(3,489)
Other assets – long-term portion	<u>\$ 4,610</u>	<u>\$ 532</u>

**May 31, 2009 and 2008**  
(Unaudited)

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

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**

	<b>May 31, 2009</b>	<b>August 31, 2008</b>
Accrued benefit cost of post-retirement benefits	\$ 2,432	\$ 2,432
Accrued benefit cost of non-registered pension plan	188	193
Accrued environmental liability	108	158
	<u>\$ 2,728</u>	<u>\$ 2,783</u>

**9. Capital stock and capital management**

Authorized: unlimited number of common shares

	<b>May 31, 2009</b>	<b>August 31, 2008</b>
Issued and outstanding: 56,075,725 common shares	\$ 61,972	\$ 61,972

**Outstanding warrants and stock options:**

	<b>May 31, 2009</b>		<b>August 31, 2008</b>	
	Number	Exercise Price	Number	Exercise Price
Warrants	5,500,000	\$0.50	5,500,000	\$0.50
Options - granted February 14, 2008	300,000	\$0.78	300,000	\$0.50
- granted March 27, 2009	400,000	\$0.60	-	-

On March 27, 2009, the Company granted an aggregate of 400,000 stock options (of which 200,000 vested immediately and of which 200,000 vest on March 27, 2010) with a weighted average fair value of \$0.15 (as calculated under the Black-Scholes pricing model). These options expire on March 27, 2014.

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.

(Amounts expressed in thousands of Canadian dollars)

## 10. Financial instruments

The classification of financial instruments as of May 31, 2009 and August 31, 2008 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 May 31, 2009</b>						
Cash and cash equivalents	18,360				18,360	18,360
Short-term investments	43,936				43,936	43,936
Investments in marketable securities	169				169	169
Promissory note receivable and accrued interest		4,152			4,152	4,152
Accounts receivable			190		190	190
Accounts payable and accrued liabilities				3,644	3,644	3,644

	<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, 2008</b>						
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 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.

**CoolBrands International Inc.**  
**Notes to Consolidated Interim Financial Statements**  
**May 31, 2009 and 2008**  
(Unaudited)

(Amounts are expressed in thousands of Canadian dollars)

- **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 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. 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 May 31, 2009, the weighted average interest rate earned on invested funds was 0.74% (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 \$155.

**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>May 31, 2009</b>	<b>August 31, 2008</b>
Cash and cash equivalents	\$ 520	\$ 346
Short-term investments	3,833	39,822
Interest receivable (included in Other assets at May 31, 2009)	-	683
Current assets of discontinued operations	284	495
Other assets	4,207	3,229
Current liabilities of discontinued operations	(3,224)	(4,286)
Other liabilities	(2,360)	(2,408)
Net U.S. dollar monetary position	<u>\$ 3,260</u>	<u>\$ 37,881</u>

**CoolBrands International Inc.**

Notes to Consolidated Interim Financial Statements

**May 31, 2009 and 2008**  
(Unaudited)

(Amounts are expressed in thousands of Canadian dollars)

A 1% strengthening/weakening of the Canadian dollar against the U.S. dollar at May 31, 2009 would have decreased/increased net income for the three months ended May 31, 2009 by \$57. 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 nine month periods ended May 31, 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.

	<b>For the three months ended</b>	
	<b>May 31, 2009</b>	<b>May 31, 2008</b>
Rent paid in respect of shared premises	\$ 12	\$ 12
Expenses recovered in respect of shared employee	\$ 11	\$ 21

At May 31, 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. On May 21, 2009, Capricorn submitted its brief to the Appellate Division of the New York Supreme

(Amounts are expressed in thousands of Canadian dollars)

Court. Defendant's response to the appeal will be filed in due course. 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.

#### *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 May 31, 2009, the Company has one segment.

#### **15. Reclassification**

Certain comparative figures have been reclassified to conform to the current year's presentation.