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# ARCTIC GLACIER INCOME FUND

**ANNUAL INFORMATION FORM  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**Dated: March 30<sup>th</sup>, 2011**

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## GLOSSARY

In this annual information form, the following terms have the meanings set out below:

“**Arctic Glacier**” means Arctic Glacier Inc., a corporation incorporated pursuant to the *Business Corporations Act* (Alberta) and a wholly-owned subsidiary of the Fund. Where the context requires, references to Arctic Glacier may include its subsidiaries considered on a consolidated basis.

“**Business Day**” means a day, which is not a Saturday, Sunday or statutory holiday, when banks in the place at which any action is required to be taken hereunder are generally open for the transaction of commercial banking business;

“**CDS**” means CDS Clearing and Depository Services Inc.;

“**CDS Participant**” a broker, dealer, bank, other financial institution or other person for whom, from time to time, CDS effects book-entry for Debentures deposited with CDS;

“**Change of Control**” means an occurrence involving the acquisition by any person, or group of persons acting jointly or in concert, of voting control of or direction over 66 ⅔% or more of the outstanding Units (after giving effect to the conversion or exchange of securities convertible into, exchangeable for or otherwise carrying the right to acquire Units);

“**Conversion Price**” means the price at which holders of Debentures may, at the holder’s option, convert the Debentures into fully-paid Units at any time prior to the close of business on the Maturity Date or the business day immediately preceding the date fixed for redemption, being a price of C\$12.60 per Unit, subject to adjustment upon the occurrence of certain events;

“**Current Market Price**” means the volume-weighted average trading price for the Units on the TSX for the 20 consecutive trading days ending five trading days prior to the applicable event;

“**Debentures**” means the 6.50% extendible convertible unsecured subordinated debentures issued under the Indenture;

“**Debentureholder**” means a holder from time to time of the Debentures;

“**Debenture Trustee**” means Computershare Trust Company of Canada;

“**Declaration of Trust**” means the declaration of trust for the Fund initially dated as of January 22, 2002, as amended and restated on March 11, 2002 and as further amended and restated on December 6, 2004;

“**DRIP**” means the dividend reinvestment and optional cash purchase plan established by the Fund;

“**DOJ**” means the Antitrust Division of the United States Department of Justice;

“**Event of Default**” has the meaning attributable thereto under the section “Description of the Debentures – Events of Default”;

“**Exempt Plans**” has the meaning attributed thereto under “Risk Factors – Canadian Income Tax Considerations – Ceasing To Be A Qualified Investment For Certain Plans”;

“**Fund**” means Arctic Glacier Income Fund, an unincorporated open-ended mutual fund trust established under the laws of Alberta pursuant to the Declaration of Trust and, where the context requires, the Fund and its subsidiaries considered on a consolidated basis;

“**Indenture**” means the trust indenture dated May 25, 2006 between the Fund and the Debenture Trustee;

**“Interest Obligation”** means the Fund’s obligation to pay interest on the Debentures in accordance with the Indenture;

**“Interest Payment Date”** means a date on which interest on the Debentures is payable in accordance with the Interest Obligation;

**“Maturity Date”** means July 31, 2011;

**“Non-Resident”** means a non-resident of Canada within the meaning of the Tax Act;

**“Person”** means any individual, partnership, association, body corporate, trustee, executor, administrator, legal representative, government, regulatory authority or other entity;

**“Put Date”** has the meaning attributable thereto under the section “Description of the Debentures – Change of Control”;

**“Put Price”** has the meaning attributable thereto under the section “Description of the Debentures – Change of Control”;

**“Redemption Price”** has the meaning attributable thereto under the section “Description of the Debentures – Redemption and Purchase”;

**“Senior Indebtedness”** has the meaning attributable thereto under the section “Description of the Debentures – Subordination”;

**“SIFT”** means a specified investment flow-through as more specifically referred to in the Tax Act;

**“SIFT Trust”** has the meaning attributed thereto under “Risk Factors – Canadian Income Tax Considerations – SIFT Rules”;

**“SIFT Rules”** has the meaning attributed thereto under “Risk Factors – Canadian Income Tax Considerations – SIFT Rules”;

**“Subsidiary Debt”** means the debt of Arctic Glacier held by the Fund from time to time;

**“Subsidiary Shares”** means the shares and other securities of Arctic Glacier held by the Fund from time to time;

**“Tax Act”** means the *Income Tax Act* (Canada);

**“Transfer Agent”** means Computershare Trust Company of Canada at its principal offices in Calgary, Alberta and Toronto, Ontario, the registrar and transfer agent for the Units;

**“Trustees”** means the trustees, from time to time, of the Fund;

**“TSX”** means the Toronto Stock Exchange;

**“Unit”** means a unit of the Fund;

**“Unit Interest Payment Election”** means the Fund’s option to elect, from time to time, to satisfy the Interest Obligation, on an Interest Payment Date, by delivering sufficient Units to the Debenture Trustee to satisfy all or any part of the Interest Obligation in accordance with the Indenture; and

**“Unitholders”** means the holders from time to time of the Units.

In this annual information form, a person or company is considered to be an **“affiliate”** of another person or company if one is a subsidiary of the other, or if both are subsidiaries of the same person or company, or if each of them is controlled by the same person or company.

In this annual information form, the term **“associate”**, when used to indicate a relationship with a person or company, means:

- (a) an issuer of which the person or company beneficially owns or controls, directly or indirectly, voting securities entitling the person or company to more than 10% of the voting rights attached to outstanding securities of the issuer;
- (b) any partner of the person or company;
- (c) any trust or estate in which the person or company has a substantial beneficial interest or in respect of which a person or company serves as trustee or in a similar capacity;
- (d) in the case of a person, a relative of that person, including:
  - (i) the spouse or adult interdependent partner of that person; or
  - (ii) a relative of the person's spouse or adult interdependent partner if the relative has the same home as that person;

In this annual information form, a person or company is considered to be **“controlled”** by a person or company if:

- (a) in the case of a person or company:
  - (i) voting securities of the first-mentioned person or company carrying more than 50 percent of the votes for the election of directors or trustees are held, otherwise than by way of security only, by or for the benefit of the other person or company, and
  - (ii) the votes carried by the securities are entitled, if exercised, to elect a majority of the directors or trustees of the first-mentioned person or company;
- (b) in the case of a partnership that does not have directors, other than a limited partnership, the second-mentioned person or company holds more than 50 percent of the interests in the partnership; or
- (c) in the case of a limited partnership, the general partner is the second-mentioned person or company.

In this annual information form, a person or company is considered to be a **“subsidiary”** of another person or company if:

- (a) it is controlled by:
  - (i) that other, or
  - (ii) that other and one or more persons or companies each of which is controlled by that other, or
  - (iii) two or more persons or companies, each of which is controlled by that other; or
- (b) it is a subsidiary of a person or company that is the other's subsidiary.

Unless the context otherwise requires, any reference in this annual information form to any agreement, instrument, indenture, declaration or other document shall mean such agreement, instrument, indenture or other document, as amended, supplemented and restated at any time and from time to time prior to the date hereof or in the future.

Words importing the singular number only include the plural and vice versa and words importing any gender include all genders.

### **DATE OF INFORMATION**

Unless otherwise specified, information in this annual information form is given as of December 31, 2010, being the last day of the most recently completed financial year of Arctic Glacier Income Fund (the “**Fund**”).

### **FORWARD LOOKING STATEMENTS**

Certain statements in this annual information form are “**forward looking statements**” which reflect management’s expectations regarding the future growth, results of operations, financing arrangements, performance and business prospects and opportunities of the Fund and its subsidiaries. All statements other than statements of historical fact contained in this annual information form are forward looking statements including, without limitation, statements regarding future financial position and profitability, the review and evaluation of financing and strategic alternatives available to the Fund, timing and amount of distributions of the Fund to Unitholders, business strategy, proposed acquisitions, financing arrangements, plans and objectives of the Fund or its subsidiaries. Such forward looking statements reflect management’s current beliefs and are based on information currently available to management. Forward looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward looking statements including risks associated with weather conditions, the impact of seasonality on labour and distribution, competition, compliance with government regulations, outcome of the antitrust investigations and related litigation, application of the SIFT Rules (as defined in the section “Risk Factors – Canadian Income Tax Considerations – SIFT Rules”) to the Fund and other factors influencing the future tax treatment of income trusts, interest rate risks, currency risk, dependence on key personnel, product liability, environmental risk, risks associated with acquisitions, expansion into the United States, effects of price changes in raw materials, restrictions on potential growth, debt refinancing, outcome of negotiations with lenders and completion of a financing or strategic transaction. Although the forward looking statements contained in this annual information form are based upon what management believes to be reasonable assumptions, the Fund cannot assure investors that actual results will be consistent with these forward looking statements. The forward looking statements contained herein are expressly qualified in their entirety by this cautionary statement. These forward looking statements are made as at the date of this annual information form and the Fund assumes no obligation to update or revise them, either publicly or otherwise, to reflect new events, information or circumstances unless otherwise required to do under applicable Canadian securities legislation.

### **REPORTING CURRENCY**

Commencing with the year ended December 31, 2008 the Fund changed its reporting currency to the U.S. dollar. More than 80% of the sales of the Fund’s operating subsidiary Arctic Glacier Inc. (“**Arctic Glacier**”) are made in the United States and the majority of its business is conducted in U.S. dollars. Reporting in U.S. dollars significantly reduces the volatility of reported financial results that occurs when there is fluctuation in the rate of exchange between the Canadian and U.S. dollar. All figures in this annual information form are U.S. dollars except where otherwise noted. All comparative information has been restated to reflect the Fund’s results as if they had been historically reported in U.S. dollars. The Fund’s functional currency continues to be the Canadian dollar (“**C\$**”).

### **ORGANIZATIONAL STRUCTURE**

#### **Overview**

The Fund is an unincorporated open-ended mutual fund trust governed by the laws of the Province of Alberta and created pursuant to a declaration of trust dated January 22, 2002, which declaration was amended and restated on March 11, 2002 to make it more appropriate for a publicly traded income trust and further amended and restated on

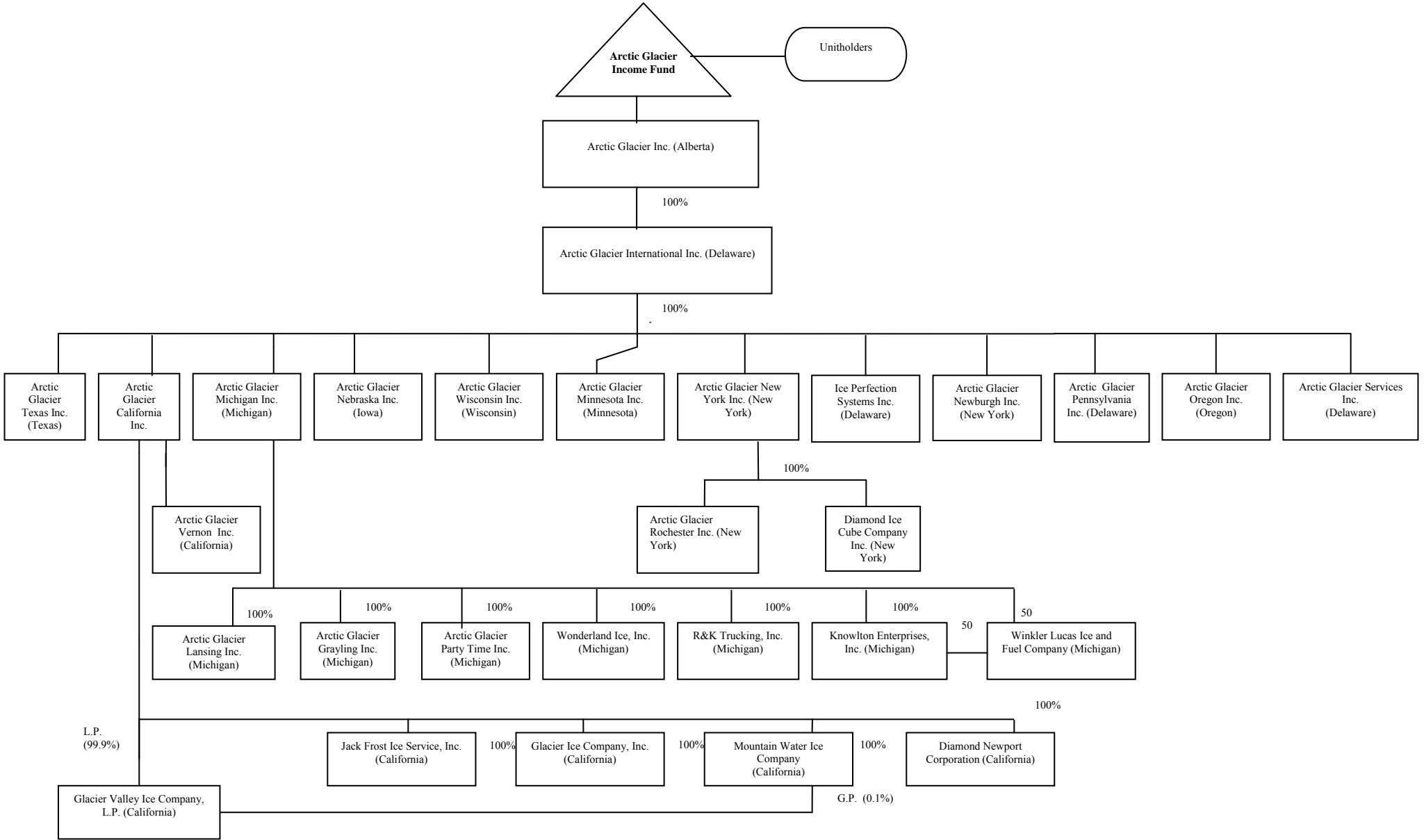
December 6, 2004 to allow for Non-Residents to serve as trustees of the Fund (the “**Declaration of Trust**”). The Fund is administered by a board of trustees (the “**Trustees**”). The principal and head office of the Fund is located at 625 Henry Avenue, Winnipeg, Manitoba R3A 0V1.

The Fund was established to invest in the packaged ice manufacturing and distribution business in Canada and the United States through its wholly-owned subsidiary, Arctic Glacier. Arctic Glacier carries on its business directly and indirectly through its direct and indirect wholly-owned subsidiaries.

The Fund conducts no business directly. The only assets of the Fund consist of the debt it holds in Arctic Glacier (the “**Subsidiary Debt**”) and the shares and other securities it holds in Arctic Glacier ( the “**Subsidiary Shares**”). To the extent permitted by the terms of its’ financing agreements, the Fund will distribute amounts received as dividends on the Subsidiary Shares and interest income from and principal repayments, if any, on the Subsidiary Debt less expenses and any cash redemptions on Units.

### **Structure of the Fund**

The following chart sets out the organizational structure of the Fund, including each of the material subsidiaries of the Fund and their respective jurisdictions of incorporation or formation:



## **RECENT DEVELOPMENTS**

Below is a discussion of certain of the significant events over the last three completed financial years that have influenced the general development of the business of the Fund and Arctic Glacier.

### ***Koldkist Acquisition***

In May 2008, Arctic Glacier acquired the assets and operations of Koldkist Ice of Portland, Oregon. Koldkist Ice is a major supplier of packaged ice and bottled water in the United States Pacific Northwest and a principal supplier in northern Oregon and southern Washington, including the metropolitan Portland region, with pre-acquisition annual revenues of \$8.5 million. The acquisition of Koldkist Ice continued the implementation of Arctic Glacier's growth strategy. The transaction extended Arctic Glacier's market presence northward from California. The business operates a modern automated ice-making plant with a daily production capacity of 390 tons and storage space for more than 3,500 tons. The total consideration paid for the Koldkist Ice acquisition was \$17.4 million. In conjunction with this acquisition, the Fund's lenders increased their commitment under the existing revolving term credit facility by \$26 million, to a total of \$161 million to accommodate the purchase and provide additional working capital.

### ***Reduction / Cancellation of Cash Distributions***

In August 2008, the Fund announced a temporary reduction in the rate of monthly cash distributions to Unitholders. Arctic Glacier's increasing cost base in the context of then current economic conditions led the Fund to examine its ability to finance operations while paying monthly distributions at then current levels. In particular, legal costs of the antitrust investigation in the United States and related expenses had increased to significant levels. These outlays were ongoing and were difficult to quantify. In addition, the slowing economy, coupled with fuel costs at then historic highs created unprecedented economic conditions that were likely to dampen consumer purchasing, which had the potential to reduce Arctic Glacier's sales volumes. In view of these considerations, the Fund deemed it prudent to temporarily reduce its level of distributions. Effective with the August 2008 distribution payable on September 15, 2008, monthly cash distributions were reduced by 18% to C\$0.0750 per Unit or C\$0.90 on an annualized basis from C\$0.0917 per Unit or C\$1.10 annualized.

In September 2008, the Fund announced an indefinite suspension of its monthly cash distributions to Unitholders. At that time, the Trustees of the Fund determined that it would be more prudent to deploy its cash resources to reduce debt and strengthen its balance sheet. In conjunction with the previous reduction to the distribution level for the August 2008 cash distribution, the suspension of the cash distribution conserved cash. The Trustees of the Fund were fully aware of the significance of distributions to Unitholders. However, the Fund felt that this measure was necessary to improve balance sheet strength and better position the Fund for the long term.

### ***Antitrust Investigation and On-Going Litigation***

#### **Antitrust Matters**

On October 13, 2009, a subsidiary of the Fund entered into an agreement with the Antitrust Division of the Department of Justice ("**DOJ**") related to its investigation into the U.S. packaged ice industry. The agreement was accepted by the U.S. District Court on February 11, 2010 and settled all charges related to allegations that three former employees conspired with a co-conspirator company from January 2001 through July 2007 to allocate packaged ice customers in southeastern Michigan. Under terms of the agreement, the subsidiary agreed to plead guilty to one charge of customer allocation in southeast Michigan and to pay a fine of \$9.0 million, payable in installments over a five year period. This obligation was recorded as long-term debt at its discounted present value of \$6.4 million. The first installment of \$1.0 million was paid on March 5, 2010 and the second installment of \$1.0 million was paid on March 3, 2011. The Fund also agreed to cooperate with the DOJ's ongoing investigation of other companies and individuals in relation to the U.S. packaged ice industry. The agreement concludes the DOJ's investigation as it relates in any way to the Fund, its board, management and staff in all markets.

On October 29, 2010, the largest company in the packaged ice industry, Reddy Ice, disclosed that the DOJ will not be taking action against them related to the investigation into the U.S. packaged ice industry, indicating that the

DOJ's extensive investigation of the leading manufacturers of packaged ice in the U.S. has concluded. The Fund believes that this demonstrates that the wide-ranging allegations of antitrust activity between industry leaders in pending civil claims have no basis in fact.

On March 28, 2008, a subsidiary of the Fund received a Civil Investigative Demand ("CID") notice from the Florida Attorney General seeking documents and information in order to determine whether Florida's antitrust laws had been violated by the Fund and its subsidiaries or other packaged ice manufacturers. On June 11, 2008, the Arizona Attorney General served a subsidiary of the Fund with a similar CID notice. A total of 17 other states have signed information sharing agreements with the Florida Attorney General in order to review and share information. The Fund and its subsidiaries are cooperating with authorities in the course of these state antitrust investigations and have provided all requested information over one year ago. There have been no further requests for information made of the Fund since then. At this time, the Fund is unable to predict the timeline or final outcome of these state investigations or any potential effect they may have on the Fund or its operations.

A subsidiary of the Fund received additional CID notices from the Michigan Attorney General on June 11, 2009 and June 2, 2010 regarding claims that the subsidiary violated Michigan's antitrust laws. On September 3, 2010, the subsidiary entered into an agreement with the Michigan Attorney General, without any admission of wrongdoing, to resolve all allegations that it violated Michigan's antitrust laws. Under terms of the agreement, the subsidiary agreed to pay the amount of \$350,000 in two installments in September and December 2010. The first payment of \$125,000 was made on September 3, 2010 and the final payment of \$225,000 was made on December 6, 2010. The settlement concludes and resolves all investigations, inquiries, claims and proceedings by the Michigan Attorney General related to any alleged violations of applicable state and federal antitrust laws.

On November 25, 2008, the United States Department of Justice Civil Division advised Arctic Glacier of its commencement of a civil investigation of the packaged ice industry under the U.S. federal *False Claims Act*. The purpose of this investigation was to determine whether the U.S. federal government or its contractors had been overcharged in their purchases of packaged ice as a result of the conduct investigated by the Department of Justice Antitrust Division. Subsequent to the end of the year, on March 21, 2011, the Department of Justice Civil Division advised that its investigation with respect to Arctic Glacier was closed and no action would be taken against the Fund and its subsidiaries.

On March 30, 2009, the Fund's Executive Vice President, Operations and Vice President, Sales and Marketing were suspended from their duties with pay at the direction of the board of directors of the Fund's operating subsidiary, Arctic Glacier Inc. The board directed an internal investigation to be undertaken and on the basis of its results, the board believes these individuals may have violated certain of the company's policies. Both individuals resigned from their positions shortly following their suspensions.

#### U.S. Civil Litigation

Following the announcement that the DOJ was undertaking an investigation of the U.S. packaged ice industry, a number of civil actions were commenced by direct and indirect purchasers against several packaged ice companies in the United States, including subsidiaries of the Fund, alleging violations of antitrust laws and seeking damages. Pursuant to an order from the Judicial Panel on Multidistrict Litigation ("MDL"), the civil actions pending in U.S. federal courts have been transferred and consolidated for pretrial proceedings in the United States District Court for the Eastern District of Michigan. On September 15, 2009, the plaintiffs in these MDL actions filed consolidated amended complaints.

Subsequent to the end of the year, on March 30, 2011, the Fund agreed to settle the MDL direct purchasers' action. Under terms of the agreement, which remains subject to approval by U.S. District Court, a settlement of \$12.5 million will be paid in two installments. The first installment of \$2.5 million is payable on the later of July 15, 2011 or 15 days after the settlement receives preliminary court approval and a final installment of \$10 million is payable on the later of November 1, 2011 or 30 days after the settlement receives final court approval.

Subsequent to the end of the year, on March 11, 2011, the Court partially granted a motion filed by the Fund to dismiss the non-Michigan claims in the MDL indirect purchasers' action. The Court dismissed many of the indirect

purchasers' state law claims restricting all claims to those states in which the named plaintiffs reside, reducing dramatically the number of claims pending in the action.

On July 23, 2008, an individual, who became an employee of a subsidiary of the Fund for a short period of time in the course of an acquisition before accepting terms of severance, commenced an action in the United States District Court for the Eastern District of Michigan. The action purports to bring antitrust claims as well as state law claims in connection with his termination from employment with Arctic Glacier and his allegation that the defendant manufacturers illegally conspired to prevent his future employment in the ice industry. On May 29, 2009 the court dismissed the bulk of this case, including antitrust claims relating to both federal and state jurisdictions. The Fund is of the opinion that the claim is without merit and will vigorously contest the resulting and narrowed action in court.

Two civil actions were filed by direct purchasers of packaged ice in state courts in Kansas and Wisconsin, alleging violations of state antitrust laws and related claims and seeking similar damages to those sought in the federal actions described above. On February 26, 2009, the Kansas state court dismissed the action commenced in that state, concluding the plaintiff had failed to advance an actionable claim against the Company. On January 22, 2010, the Wisconsin state court denied that plaintiff's request for class certification, effectively restricting the action to a single customer. Subsequent to the end of the year, on March 18, 2011, the Fund resolved the Wisconsin action for \$3,000 and nominal legal expenses and the matter is now closed.

On April 26, 2010, an indirect-purchaser complaint asserting claims under Michigan's antitrust law was filed in the Eastern District of Michigan against three former employees of a subsidiary of the Fund. The complaint asserts the same factual basis as that presented in the MDL indirect purchasers' action pending against subsidiaries of the Fund, except that the plaintiffs are only seeking damages relating to conduct in Michigan. The Fund and its subsidiaries were not named in this action, however, in accordance with its bylaws, a subsidiary of the Fund is obligated to pay for the representation of and to indemnify the three former employees in this action.

Subsequent to the end of the year, on March 4, 2011, a class action complaint was filed in Kansas state court on behalf of indirect purchasers of packaged ice. The action alleges that the Fund, a subsidiary and three former employees, among other defendants, violated Kansas state law by engaging in conduct similar to that alleged in the MDL indirect purchaser action. The Fund has not yet been served in this action.

#### Ontario Investor Class Action

On October 28, 2008, the Fund became aware of a class-action lawsuit filed in the Ontario Superior Court of Justice against the Fund and its trustees, a subsidiary, and certain of its senior officers and directors. The action has been amended several times by the Plaintiffs Alexander Dobbie and Michael Benson, and now alleges various causes of action, all arising from, principally, an alleged failure to make full and timely disclosure of the alleged participation of the Fund in an industry anti-trust conspiracy, as well as an alleged failure to make full and timely disclosure of its costs related to the DOJ investigation. The suit currently seeks damages totaling C\$230 million in compensatory damages, plus C\$15 million in punitive damages, on behalf of all persons who acquired Units of the Fund between March 13, 2002 and September 16, 2008. The Fund is defending this lawsuit in the civil court. At this time, it is not possible to predict the final outcome of the lawsuit, or any potential effect it may have on the Fund or its operations.

Two motions by the Plaintiffs for certification and for leave to amend to add the statutory cause of action in the *Securities Act* (Ontario) for secondary market misrepresentations against the existing defendants (and to add Frank Larson and Gary Cooley as defendants to the statutory cause of action) were heard during the week of October 10, 2010. A decision has not been delivered by the court. Counsel has been appointed for Larson and Cooley.

The Fund has entered into settlement discussions with the Plaintiffs. The settlement discussions are ongoing. At this time it is not possible to predict the final outcome of the lawsuit or any potential effect it may have on the Fund or its operations. No financial provision has been made regarding this matter and the Fund has notified carriers of its directors' and officers' liability insurance of the action.

### Canadian Customer Class Actions

On May 8, 2009, the Fund became aware of a class action lawsuit filed on May 7, 2009 in the Ontario Superior Court of Justice Court File No. 621124. The Statement of Claim was filed by Grand-Slam Concert, Productions Ltd. and Louise Knowles c.o.b. as Special Events Marketing against Arctic Glacier Inc. under the Ontario *Class Proceedings Act, 1992* on behalf of the Plaintiffs on their own behalf and on behalf of a class to be certified of all other persons in Ontario who purchased packaged ice from Arctic Glacier during a stated proposed class period. The Plaintiffs seek damages totaling C\$100 million general damages for conspiracy and/or conduct contrary to Part VI of *The Competition Act* plus punitive and exemplary damages in the amount of C\$10 million plus interest and costs. The Plaintiffs in this action have undertaken to have this action discontinued.

Prior to any substantive steps being taken in that action, a second claim was issued by the same law firm on behalf of the same Plaintiff Louise Knowles c.o.b. as Special Events Marketing on March 1, 2010. This action is proceeding. Grand-Slam is no longer a Plaintiff, and Keith Corbin and Reddy Ice Holdings, Inc. have been added as Defendants. This second action is brought on behalf of a class to be certified of all persons in Ontario, British Columbia, Manitoba and Saskatchewan, and certain persons in Quebec, who purchased packaged ice from Arctic Glacier during a stated proposed class period. The Plaintiffs seek damages totaling C\$100 million general damages for conspiracy and/or conduct contrary to Part VI of *The Competition Act* plus punitive and exemplary damages in the amount of C\$10 million plus interest and costs. The action arises from an alleged conspiracy between Arctic and Reddy Ice in which Reddy Ice agreed not to compete in these Canadian markets, so that customers, being the Plaintiffs and the other class members, were required to pay non-competitive and artificially high prices for packaged ice. Arctic is defending this lawsuit in the civil court. A case management Judge has been appointed, and the parties have exchanged materials for a certification motion to be heard in the spring of 2011.

The Fund has entered into settlement discussions with the Plaintiffs. Those settlement discussions remain ongoing. At this time it is not possible to predict the final outcome of the lawsuit or any potential effect it may have on the Fund or its operations.

On June 25, 2009, the Fund became aware of a class action lawsuit commenced in the Court of Queen's Bench of Alberta, Judicial District of Calgary, Action No. 0901-09552. The Statement of Claim was filed by 1008021 Alberta Ltd. against Arctic Glacier Inc. being a proceeding under the Alberta *Class Proceedings Act, 2003* on behalf of the Plaintiffs on their own behalf and on behalf of a proposed class of all other persons in Alberta who purchased packaged ice from Arctic Glacier during a proposed class period. The Plaintiffs seek damages totaling C\$100 million general damages for conspiracy and/or conduct contrary to Part VI of *The Competition Act*, plus punitive and exemplary damages in the amount of C\$10 million plus interest and costs. The action arises from an alleged conspiracy to increase profits by unlawfully raising, maintaining, fixing and stabilizing the price of packaged ice through a number of mechanisms, including *inter alia*, allocating markets, territories and customers during the class period so that customers, being the Plaintiffs and the other class members, were required to pay non-competitive and artificially high prices for packaged ice. Arctic is defending this lawsuit in the civil court. This action is being held in abeyance by agreement of the parties while the Knowles action (see above) is being advanced. At this time it is not possible to predict the final outcome of the lawsuit or any potential effect it may have on the Fund or its operations.

### ***Amendments to Loan Agreements***

In February 2008, the Fund's lenders, through its subsidiaries, amended the terms of the revolving term credit facility to increase the size of the facility by \$20 million to a total of \$135 million to accommodate the increased scale and seasonal borrowing needs of the Fund.

In April 2008, the Fund's lenders amended the revolving term credit facility to provide financing for the acquisition of Koldkist Ice, future acquisitions and growth capital expenditures. The amendments included increasing the size of the facility by \$26 million to a total of \$161 million and amending the Fund's quarterly leverage covenants. Concurrently, the terms of the \$60 million of senior secured notes issued by the Fund, through its subsidiaries, to other lenders were amended to accommodate these changes.

In September 2008, the Fund's lenders amended the revolving term credit facility to temporarily accommodate higher debt to EBITDA ratios (as defined in the credit facility), which had increased due to rising costs of the antitrust investigations and related litigation, reduced operating results due to poor weather and the slowing North American economy, and the weakening of the Canadian dollar at the end of the year. In addition, the Fund was not able to access the equity markets because of uncertainty about the outcome of the antitrust investigations and was not able to complete a planned equity offering to optimize debt and equity levels following acquisitions completed since its last Unit offering in February 2007. The amendments to the facility included increasing quarterly leverage covenants. The size of the revolving credit facility decreased by \$1.25 million per month starting November 1, 2008 in order to optimize the size of the credit facility relative to leverage covenant limits and eliminate commitment fees for borrowing capacity not required. Concurrently, the terms of the senior secured notes were amended to accommodate these changes.

On December 31, 2008, the Fund's lenders amended certain terms of the revolving term credit facility and the senior secured notes to accommodate the impact of suspending cash distributions to Unitholders and adopting the U.S. dollar as the reporting currency.

On December 31, 2009, the Fund announced that it had reached an agreement with John Hancock Life Insurance Company to extend the maturity date of the \$60 million senior secured notes previously scheduled to mature on January 4, 2010 until March 1, 2010 in order to provide the Fund with additional time to refinance its maturing debt.

On February 10, 2010, the Fund entered into a four-year term loan in the amount of \$185 million (US\$138.4 million and C\$50 million) with a group of lenders including affiliates of CPPIB Investments Inc. and West Face Capital Inc. The loan is secured by a second charge on all assets of the Fund and its subsidiaries and matures on February 10, 2014. The term loan bears interest at a floating rate that is the greater of 11% or a base rate of banker's acceptances or LIBOR plus 9%, plus payment in kind ("PIK") interest of 1%. Interest is payable quarterly, except for PIK interest, which is accrued and payable at maturity. There are scheduled annual principal repayments of US\$1.384 million and C\$0.5 million plus an annual payment based on calculation of excess cash flow, with the remainder due at maturity. In connection with the new loan, the Fund issued unlisted warrants to the term loan lenders to acquire up to 3.0 million units of the Fund at any time prior to February 9, 2014 at an exercise price of C\$4.00 per unit. The proceeds of this loan were used to repay the maturing senior secured notes, pay fees and expenses related to the refinancing and reduce the amount outstanding on the revolving term credit facility.

On February 10, 2010, the Fund's lenders also amended the revolving term credit facility to accommodate the new secured term loan. The facility, which is secured by a first charge on all assets of the Fund and its subsidiaries, was reduced in size from \$143.8 million to \$70 million and the maturity date was extended to February 10, 2013. The lenders' commitment under the revolving term credit facility will decrease by \$2.5 million on December 31 of each year to minimize commitment fees on unutilized borrowing capacity. Certain financial covenants of the facility were also amended.

At December 31, 2010, the Fund's credit facilities were comprised of a \$189.0 million term loan and a \$67.5 million revolving term credit facility. At December 31, 2010, the Fund had \$67.5 million of undrawn room on the revolving credit facility, of which \$3.1 million is available liquidity within approved covenant restrictions. In addition, the Fund had cash on hand totaled \$9.2 million. See "Material Contracts" and "Risk Factors – Risks Relating to Arctic Glacier – Debt Financing".

Subsequent to the end of the year, on March 30, 2011, the Fund's term loan lenders amended the terms of the loan in conjunction with providing the required consent necessary for a subsidiary of the Fund to enter into a class action litigation settlement agreement. The lenders amended certain covenants of the loan, including the minimum EBITDA and maximum leverage covenants, in order to provide the Fund with additional liquidity on the revolving term loan and increased financial flexibility. The term loan lenders also increased the PIK interest rate by 1% for the remainder of the term and the cost of the prepayment option by 3%. In connection with this amendment, the term loan lenders required the Fund to amend the exercise price of 3.0 million unlisted warrants that were previously issued to them. The effective date of the amended warrant exercise price will be 10 business days from the date of the amendment. The warrant exercise price has been amended to be the lesser of (i) C\$1.60 per Unit and (ii) an amount calculated as a 20% premium to the volume-weighted average price of Units traded on the Toronto Stock Exchange ("TSX") during the five consecutive trading days ending on the fifth trading day following the effective

date of the warrant amendment, provided that the exercise price per warrant shall not be less than the volume weighted average price at which the Units have traded on the TSX during the five consecutive trading days ending on the date prior to March 30, 2011. All other material terms of the unlisted warrants remain the same.

Also on March 30, 2011, the Fund's revolving term credit facility lenders amended the terms of the facility, providing consent for the Fund's subsidiary to enter into a class action settlement agreement and providing for similar covenant amendments.

### ***Maturity Date for Debentures***

The Fund currently has 6.50% extendible convertible unsecured subordinated debentures of the Fund (the "**Debentures**") in the aggregate principal amount of C\$90.6 million maturing on July 31, 2011. In September 2010, the Fund engaged TD Securities Inc. of Toronto, Ontario as financial advisor to conduct a comprehensive review of financing and strategic alternatives, seek submission of proposals from interested parties and execute a financing or strategic transaction. The Fund is working towards completing such a financing or strategic transaction. However, at the present time it cannot be certain if the Fund will be successful in executing a transaction prior to the maturity of the Debentures. In the event that the Fund is unable to complete a financing or strategic transaction that allows it to refinance the Debentures at or prior to maturity, the Fund has the option, on not less than 30 days prior notice and subject to applicable regulatory approval, to satisfy its obligations related to the debentures by issuing Fund Units to the Debentureholders. The Fund is seeking to refinance those Debentures and is currently reviewing and evaluating financing and strategic alternatives available to the Fund with the objective of enhancing Unitholder value. There can be no assurance that any particular alternative will be available or pursued, or of the specific nature of any transaction that may occur. See "Description of the Debentures – Payment on Redemption or Maturity, Financial Strategy in Current Economic Environment", "Recent Developments - Special Committee to Evaluate Financing and Strategic Alternatives" and "Risk Factors".

### ***Special Committee to Evaluate Financing and Strategic Alternatives***

In September 2010 the Board of Trustees initiated a comprehensive review and evaluation of financing and strategic alternatives available to the Fund with the objective of enhancing Unitholder value. A special committee comprised of the Fund's independent trustees will oversee this process and has engaged TD Securities Inc. to act as exclusive financial advisor. Since the initiation of this review, the Fund, under the supervision of the special committee, has reviewed and analyzed various financing and strategic alternatives. The Fund will now make select information available to third parties who wish to participate in the process and enter into a confidentiality agreement. The Fund will then seek submission of proposals from interested parties regarding a financing or strategic transaction. All proposals received as a result of this process will then be considered and evaluated. The process is expected to require a period of several months to complete. While there can be no assurance that any particular alternative will be pursued, or of the specific nature of any transaction that may occur, the Fund will continue to act with a view to enhancing Unitholder value.

## **INDUSTRY OVERVIEW**

### **North American Packaged Ice Industry Overview**

The North American packaged ice industry serves a large and growing market, with total annual sales of approximately \$3.6 billion at the retail level and \$1.8 billion at the wholesale level (International Packaged Ice Association). Packaged ice is distributed through retail, commercial and industrial channels, with retail accounting for the vast majority of all packaged ice sales, according to management estimates. Retail customers are wide ranging, and include mass merchandisers, large regional or national grocery chains, convenience stores and gas stations and commercial users include special events and festivals, airlines, restaurants, hotels and bars. Industrial users, which represent the balance of the market, include bakeries, meat and poultry processors, construction, chemical manufacturing, concrete plants, fisheries, industrial plants and tanneries.

Overall, the ice manufacturing and distribution industry is highly fragmented and regionalized. Management of Arctic Glacier estimates that there are over 1,000 companies in the ice production and distribution business, with the

vast majority generating less than \$2.0 million in revenue per year. However, in addition to Arctic Glacier there are two other large regional multi-facility operators - Reddy Ice and Home City Ice.

## **Current Industry Trends**

### *Consolidating Customer Base*

The retail customer base for packaged ice has undergone significant consolidation as national and multi-regional supermarkets and convenience stores are replacing traditional smaller independents. As this customer base continues to consolidate, their service requirements increase, requiring higher volumes across a larger geographic area. Management of Arctic Glacier believes that established packaged ice manufacturers with the scale required to meet these needs, such as Arctic Glacier, will be better positioned to retain their current customers and attract new ones as retailers grow and their needs increase.

### *Increasing Consumer Focus on Product Safety*

Growing concern regarding the safety of food and water is increasing consumer demand for premium quality products. This increasing consumer awareness of product quality requires all retailers and food processors to focus upon and ensure strict adherence to high product quality production standards. Arctic Glacier's customers seek to reduce risks of manufacturing and selling substandard or unsafe products to consumers. Arctic Glacier has made significant investments in integrated water filtration and sterilization systems and has rigorous quality testing standards that exceed packaged ice industry benchmarks and ensure delivery of a premium quality and safe product in all markets.

## **DESCRIPTION OF THE BUSINESS**

### **Overview**

Arctic Glacier is the second largest producer of packaged ice in North America. It is the largest producer of packaged ice in Canada and the second largest producer of packaged ice in the United States. Further, management of Arctic Glacier believes that Arctic Glacier is one of the leading manufacturers and distributors of packaged ice in each of the markets in which it operates. Arctic Glacier's principal markets in Canada are Quebec, southern Ontario, Manitoba, southern Saskatchewan, Alberta and the lower mainland of British Columbia. In the United States, Arctic Glacier's principal markets are Arizona, California, western Connecticut, northern Delaware, Iowa, Kansas, northeastern Maryland, western Massachusetts, Michigan, Minnesota, Nebraska, northern and western New Jersey, New York including New York City and Long Island, North Dakota, northern Oregon, eastern Pennsylvania, South Dakota, western Texas, southern Washington and Wisconsin. Customers in many additional communities in Canada and the northeastern, central and western United States that are not serviced on a direct delivery basis purchase packaged ice produced by Arctic Glacier through an alternate distribution network.

For the year ended December 31, 2010, approximately 81% of Arctic Glacier's sales were generated in the United States, while the remaining 19% were generated in Canada. Arctic Glacier provides service to approximately 75,000 customer locations. Arctic Glacier's largest customer accounts for approximately 4% of sales, derived from hundreds of locations throughout multiple states and provinces. In aggregate, Arctic Glacier's 20 largest customers account for less than 37% of sales derived from thousands of locations throughout multiple states and provinces. Arctic Glacier's customers include most mass merchandisers, national and regional grocery chains, convenience store chains and gasoline outlets in Canada and the northeastern, central and western United States.

Arctic Glacier operates 39 production and 48 distribution facilities throughout Canada and the northeastern, central and western United States. In addition to production capacity of 11,300 tons per day, Arctic Glacier has refrigerated storage facilities sufficient to store approximately 62,000 pallets of finished product representing more than 17 million seven pound retail bags of ice. In Canada, Arctic Glacier operates 8 production facilities with a daily production capacity of approximately 1,100 tons and 4 distribution warehouses with total cold storage capacity between the production and distribution facilities for 3,800 pallets of finished product. Canadian operations are located in Alberta, British Columbia, Manitoba, Ontario, Quebec and Saskatchewan. In the United States, Arctic Glacier operates 31 production facilities with approximately 10,200 tons of daily production capacity as well as an

additional 44 distribution warehouses with total cold storage capacity between production and distribution facilities for 58,500 pallets of finished product. These operations are located in Arizona, California, Iowa, Kansas, Michigan, Minnesota, Nebraska, New Jersey, New York, North Dakota, Oregon, Pennsylvania, South Dakota, Texas and Wisconsin. Arctic Glacier owns real estate for 22 of its production facilities and 14 of its distribution facilities and leases real estate for the remaining 17 production facilities and 34 distribution facilities.

During the 2010 fiscal year, Arctic Glacier and its subsidiaries averaged a total of approximately 1,100 employees during the winter months and approximately 2,300 employees during the summer months. These numbers typically fluctuate throughout the year with the largest number of employees being retained during the summer months and the smallest number of employees being retained in the winter months.

### **Corporate Strategy**

Arctic Glacier plans to continue to strengthen its competitive position, enhance profitability and ensure long-term business vitality. Arctic Glacier's long-term strategy is focused on maintaining its industry leading level of customer service, capitalizing upon positive industry trends, increasing financial strength, optimizing capital investments including acquisitions and maintaining access to capital. The strategy is designed to take advantage of the expertise of an experienced senior management team combined with the skill and dedication of Arctic Glacier's employees. It plays a critical role in determining markets to be served and allocation of time and resources to major growth initiatives.

Arctic Glacier's corporate strategy is focused on three core elements:

- Margin improvement;
- Brand development; and,
- Growth through acquisition.

#### ***Margin Improvement***

Arctic Glacier seeks to improve operational efficiency by reducing operating costs incurred in production, distribution and administrative functions. Over the past few years, Arctic Glacier has invested in a comprehensive framework of initiatives and investments and deployment of best practices across operations designed to improve standardization and enhance efficiency. In order to improve the efficiency of acquired operations, and therefore to increase margins, Arctic Glacier has invested approximately \$16 million since May 1, 1997 to improve product quality and rationalize production, distribution and administrative systems. Specifically, Arctic Glacier has closed numerous facilities, re-organized its distribution network and consolidated or eliminated administrative functions. Arctic Glacier also continues to invest in initiatives to improve administrative efficiency, including centralization of certain functions and technology to improve processes and staff utilization.

#### ***Production Rationalization***

Subsequent to establishing a regional presence through acquisition, Arctic Glacier rationalizes production capacity to introduce economies of scale. Twenty-six smaller, less efficient production facilities have been closed since May 1, 1997 and new or expanded production facilities are now used to maximize production and distribution efficiencies.

Higher volumes in fewer production facilities have resulted in improved operating efficiencies and plant utilization both during the busy summer season and the slower winter season. In addition, Arctic Glacier has invested in plant automation technology and equipment in high-volume plants as well as sophisticated packaging equipment that has reduced the cost of packaging materials, increased production speeds, and reduced labour costs.

The greatest benefits of production rationalization are typically seen in the off-season. Closing smaller production facilities and operating larger production facilities enables Arctic Glacier to reduce the number of core staff and skilled employees required during this slow period.

### *Distribution Rationalization*

Since May 1, 1997, Arctic Glacier has restructured its distribution infrastructure to maximize efficiency. Strategic and geographically contiguous growth has enhanced sales density enabling Arctic Glacier to have a more efficient distribution system with fewer operating vehicles. Arctic Glacier has invested in technology and processes to improve fleet performance and safety and optimize delivery routing across the distribution network in order to improve efficiency, reduce costs and improve customer service levels. During this time, Arctic Glacier closed 22 redundant distribution facilities and expanded a number of others.

### *Administrative Rationalization*

Arctic Glacier operates a centralized administrative structure, with most administrative functions centralized at its corporate offices in Winnipeg, Manitoba. This centralization has allowed Arctic Glacier to improve the efficiency of administrative functions of the companies that it has acquired and realize personnel reductions in accounting and administration functions. Arctic Glacier also continues to invest in initiatives to improve administrative efficiency, including centralization of certain additional functions and technology to improve processes and staff utilization.

### *Quality Initiative*

The consolidation of production into larger facilities has enabled Arctic Glacier to invest in additional water treatment processes to produce a higher quality ice product. Arctic Glacier has added supplemental water treatment systems, including micro and carbon filtration and ultra violet sterilization, in each of its production facilities to ensure that its ice products are produced from water that meets enhanced quality standards. In locations where water contains high mineral content, Arctic Glacier has added reverse osmosis systems to improve the quality of water in certain facilities.

Arctic Glacier completes weekly third party testing of its product for microbial contamination. The International Packaged Ice Association (IPIA) has established a set of quality control standards, adherence to which is a requirement of membership. Arctic Glacier's products are also subject to various federal, provincial and state regulations as a food product, which, among other things, require regular testing of the product for microbial contamination. Management believes that Arctic Glacier's quality and testing standards exceed current governmental and industry association requirements.

In most markets, ice has typically been packaged in a clear or lightly tinted package with minimal graphics. Arctic Glacier has invested in sophisticated packaging equipment in many markets, which produces a heat sealed "pillow pack" comparable to packaging used by most frozen food producers. Arctic Glacier continues to seek additional ways of enhancing product packaging quality.

### *Brand Development*

Arctic Glacier markets its packaged ice products primarily under the brand name Arctic Glacier<sup>®</sup> Premium Ice. This creates significant economies of scale resulting in cost efficiencies, particularly in packaging requirements.

Historically, packaged ice has been viewed by most industry participants, retailers and consumers as a commodity product. Ice manufacturers have not focused on brand development with an established set of product attributes. Ice has been viewed as a refrigerant and not as a food product.

The key elements of brand development of the Arctic Glacier<sup>®</sup> Premium Ice brand and other key brands consist of increasing brand awareness, maintaining and promoting consistent product quality attributes and deepening market penetration in existing and new markets. A key component of Arctic Glacier's brand development has been water quality. Arctic Glacier has invested in water filtration and treatment equipment and improved product drying processes and management believes that the ice produced in Arctic Glacier's production facilities meets or exceeds the water quality of most bottled water. Arctic Glacier has invested in water filtration and treatment equipment, improved product drying processes and sophisticated packaging equipment that are a key part in positioning "Arctic Glacier<sup>®</sup>" and its' other key brands as leading, premium quality products that are distinct from commodity grade ice products.

Arctic Glacier believes its high level of customer service, quality products and competitive prices establish a reputation that ensures a high level of customer satisfaction and retention and provides opportunities to enhance and expand its market footprint.

#### *Brand Awareness*

Arctic Glacier markets its main product of packaged ice principally under the brand name Arctic Glacier® Premium Ice. The size and scope of the market area serviced by Arctic Glacier has allowed it to take advantage of the economies of scale that the name, with a high quality, consistent image allows. Increased brand awareness is being built through colour design and decals on much of Arctic Glacier's fleet of approximately 500 vehicles in Canada and the United States — thus creating 500 moving billboards – and also on its' 50,000 merchandisers. In certain markets, Arctic Glacier also sells ancillary products such as dry ice, bottled water, packaged wood and rock salt, which are marketed under names other than Arctic Glacier.

#### *Brand Development through Franchising*

Arctic Glacier also broadens the geographic presence of the Arctic Glacier® Premium Ice brand into markets it would not otherwise be in through a licensing program. This allows Arctic Glacier to offer a broader service package to national and regional chain customers. Under the licensing program, independent ice companies that meet strict Arctic Glacier manufacturing quality standards enter into manufacturing and distribution agreements allowing them to package their ice under the brand name Arctic Glacier® Premium Ice. In return for being provided with an exclusive territory in which to market Arctic Glacier® Premium Ice and the right to service Arctic Glacier's national or regional accounts in that exclusive territory, the franchisee pays Arctic Glacier a per unit royalty and provides Arctic Glacier with a right of first refusal to acquire the franchisee's business. Arctic Glacier currently has franchise agreements with seven companies operating in a variety of jurisdictions.

Arctic Glacier believes that the franchising program provides a means of increasing brand awareness for Arctic Glacier while providing a financial return on the "Arctic Glacier®" brand name. The program broadens the geographic presence of the Arctic Glacier® Premium Ice brand into markets it would not otherwise be able to serve. This allows Arctic Glacier to offer broader services to national and regional chain customers at locations outside of its' immediate markets.

#### *Growth Through Acquisitions*

Acquisitions have historically been an integral part of Arctic Glacier's long-term strategy. Acquisitions within the highly fragmented packaged ice industry have typically been the most rapid and effective vehicle for expanding into new markets or improving customer density and efficiency in existing markets. Arctic Glacier's disciplined acquisition strategy generally first involves establishing a presence in a new market area by acquiring a leading manufacturer and distributor in that market as a strategic growth platform. Once a significant infrastructure has been acquired or established in a market, the second phase of the strategy is to acquire smaller ice companies in that market and to integrate them into the infrastructure platform, thereby increasing customer density, improving efficiency, reducing costs and increasing margins.

Arctic Glacier follows a disciplined acquisition analysis based on specific geographic and financial criteria for identifying candidates and determining acquisition prices. Arctic Glacier evaluates the attributes of each potential platform acquisition target considering certain specific criteria including:

- geographic contiguity to current operations;
- levels of profitability, with significant market share and proven management who are prepared to stay on following the acquisition;
- quality of equipment and infrastructure, including additional investment required to meet Arctic Glacier's standards;
- above average potential to enhance return on investment through smaller follow-on acquisitions or rationalization; and

- accretive value to annualized distributable cash on a per unit basis in the first complete fiscal year.

Beginning in 1997, Arctic Glacier commenced an aggressive acquisition program. Since May 1, 1997, Arctic Glacier has acquired 79 packaged ice businesses in Canada and the United States at a cost of approximately \$470 million. These strategic acquisitions have established Arctic Glacier's critical economic mass. Management of Arctic Glacier believes that Arctic Glacier is one of the largest producer and distributor of packaged ice in each of the markets in which it operates. Acquisitions have provided Arctic Glacier with the opportunity to enhance performance through the rationalization of production facilities and the expansion of distribution networks and also enable Arctic Glacier to leverage its existing investment in infrastructure and brand development. Over the past few years, a key objective of Arctic Glacier's management team has been to rationalize acquired operations as well as increase sales revenue.

Arctic Glacier did not complete any significant acquisitions in 2010. Although the Company has identified an attractive landscape of potential acquisition opportunities, significant acquisition activity was not possible during the year due to limited access to new external financing resulting from uncertainty created by the antitrust investigations and related litigation and other uncertainty in global financial markets. It is anticipated that the resolution of the US Department of Justice (Antitrust Division) investigation in February 2010, and the future resolution of related investigations and litigation, combined with a completion of a refinancing of the Fund's Debentures will enable Arctic Glacier to capitalize on opportunities and invest in future growth. However, there can be no assurance that any particular refinancing alternative will be available or pursued, or of the specific nature of any transaction that may occur. Further, at this time, the Fund is unable to predict the timeline or final outcome of the remainder of the antitrust investigations and related litigation, or any potential effect it may have on the Fund or its operations.

#### ***Financial Strategy In Current Economic Environment***

The Fund continued to face a number of challenges during 2010. The current economic environment continues to be challenging and uncertain in both the United States and Canada. Weakness in the economy is combined with other factors including high levels of unemployment, significant increases in fuel and energy costs and reduced availability of financing. The cumulative effect of these factors has negatively affected consumer confidence and business prospects of some of Arctic Glacier's commercial customers. If consumer activities associated with the consumption of packaged ice products continue to decline or the business activities of commercial customers continue to decrease, then dampened demand for Arctic Glacier products will lead to reduced sales volumes, profits and cash flows.

The effect of these factors was compounded in 2010 by below-average weather conditions throughout the spring and summer in west coast markets and a significant increase in competitive activity in California and Oregon. These cooler and wetter spring and summer conditions reduced sales volumes and had a negative impact on margins because of resulting reduced fixed cost efficiency. Although Arctic Glacier experienced favorable summer weather conditions in the northeastern U.S. and central Canadian markets in 2010, incremental costs of servicing these markets where demand temporarily outstripped supply mitigated much of the benefit. The Fund has continued to incur significant expenses related to the antitrust investigations in the U.S. and related litigation for a third consecutive year, with a cumulative cost of \$34.4 million to December 31, 2010. These factors have significantly reduced the Fund's financial flexibility.

In this economic environment, Arctic Glacier has been highly focused on the objectives of conserving cash, securing adequate liquidity and preserving balance sheet strength to allow the Fund to adjust to changing financial circumstances. In September 2008 the Trustees of the Fund suspended cash distributions indefinitely so that the Fund could conserve cash, redeploy available resources against the revolving term credit facility and maintain compliance with financial terms of its credit facilities. The trustees of the Fund do not anticipate paying distributions for the foreseeable future as the Fund's lending agreements effectively prevent payment of distributions through February 2014. During this time of financial uncertainty, management has continued to closely monitor expenses and capital outlays to further conserve cash. While management continues to investigate accretive acquisition opportunities in strategic markets, completion of significant acquisitions has been deferred due to limited access to new capital and the need to conserve cash for debt reduction. Management monitors the Fund's assets and

liabilities to ensure it has sufficient cash and access to credit to meet normal operating requirements in the current market environment.

At December 31, 2010, the Fund had \$67.5 million undrawn room on the revolving credit facility, of which \$3.1 million could be drawn within approved covenant restrictions. In addition, the Fund had cash on hand of \$9.2 million, for total available liquidity of \$12.3 million. Subsequent to the end of the year, the Fund's lenders amended the Fund's leverage covenants to increase available liquidity on the revolving credit facility and provide improved financial flexibility.

The Fund has convertible debentures (i.e. the Debentures) with a face value of C\$90.6 million that mature on July 31, 2011. In September 2010, the Fund engaged TD Securities Inc. of Toronto, Ontario as financial advisor to conduct a comprehensive review of financing and strategic alternatives, seek submission of proposals from interested parties and execute a financing or strategic transaction. The Fund is working towards completing such a financing or strategic transaction. However, at the present time it cannot be certain if the Fund will be successful in executing a transaction prior to the maturity of the Debentures. In the event that the Fund is unable to complete a financing or strategic transaction that allows it to refinance the Debentures at or prior to maturity, the Fund has the option, on not less than 30 days prior notice and subject to applicable regulatory approval, to satisfy its obligations related to the Debentures by issuing Fund Units to the Debentureholders.

The trustees of the Fund have previously identified the intention to convert the Fund from an income trust to a corporation during 2011, subject to approval from Unitholders and lenders. This initiative has been deferred pending the completion of a financing or strategic transaction.

## **Products**

The primary product produced by Arctic Glacier is packaged ice. Packaged ice for human consumption is sold by Arctic Glacier in various package sizes ranging from two to 20 kilograms in Canadian markets and three to 40 pounds in United States markets. Packaged ice products are sold to retail customers, such as mass merchandisers, grocery stores and convenience stores, and to a variety of commercial users including special events and festivals, airlines, restaurants, hotels and bars. Arctic Glacier also sells ice in bulk quantities to a variety of industrial users including the food processing, construction, chemical manufacturing and other commercial industries. Revenue from packaged ice products represented more than 94% of total annual revenues in 2010.

Arctic Glacier markets other products such as bottled water, dry ice, packaged wood, rock salt and sells and leases ice-making and dispensing equipment in certain markets. Revenue from these ancillary products represented less than 6% of total annual revenues in 2010.

## **Production Process**

Arctic Glacier uses municipal water that it filters at its manufacturing facilities prior to producing its ice products. In addition to micro and carbon filtration, Arctic Glacier has installed ultra violet sterilization to kill any micro-organisms which may have survived municipal water treatment. Arctic Glacier also uses water softeners and reverse-osmosis systems where water contains high mineral content to ensure the proper water quality to produce a clear product. All Arctic Glacier packaged ice manufacturing facilities are certified by the IPIA as meeting their quality control standards. Arctic Glacier's products are also subject to various federal, provincial and state regulations as a food product, which, among other things, require regular testing of the product for microbial contamination. Management believes that Arctic Glacier's quality and testing standards exceed current governmental and industry association requirements.

Arctic Glacier utilizes ice making equipment that manufactures plate ice at 17 of its manufacturing facilities. These ice makers freeze ice in sheets on vertical plates by applying refrigerant to the interior surface of the plate. During the freezing process impurities are further reduced. This action is continued until ice of the desired thickness is formed. Once the freezing cycle has been completed and a sheet of ice is formed, hot gas is introduced into the system allowing the sheet of ice to drop into a breaker bar system. The sheet of ice is broken into smaller pieces and then augured into a central refrigerated holding bin called a rake bin where the ice is mechanically raked and dried. The ice is augured over a shaker system to remove snow and very small pieces and then passes through a screening

system that separates the ice according to size. The ice is then processed through packaging machines, packaged into a variety of bag sizes, palletized and stored in Arctic Glacier's cold storage warehouse.

Arctic Glacier utilized ice making equipment that manufactures tube ice at 21 of its manufacturing facilities. These ice makers freeze ice inside vertical stainless steel tubes. Direct application of the refrigerant to the outside surface of the tube results in fast and energy efficient production of ice. The circulation of the water during the freezing process further reduces impurities producing a clear and taste-free ice. Water is circulated over the inner surface of the tubes and ice forms. At the start of the thawing process, hot gas is introduced into the system area releasing the ice, which falls onto a motor driven cutter plate. The ice is then augured into a rake bin and to the packaging machines where it is packaged and palletized.

The manufacturing facility in Van Nuys exclusively manufactures block ice in 300 pound sizes using block tanks.

Arctic Glacier manufacturing facilities use ammonia and freon refrigerants in manufacturing and cold storage operations.

All supplies for the manufacture, processing, packaging and distribution of ice products are purchased from non-associated companies. With the exception of utilities services, all other supplies are available from a wide range of suppliers.

### **Distribution**

Arctic Glacier produces and packages ice at centrally located manufacturing facilities and subsequently sells the product with two primary delivery alternatives. These delivery alternatives include (i) delivering packaged ice directly to the customer's retail location for stocking or resale; or (ii) warehouse shipments of ice from Arctic Glacier facilities to the facilities of its customers who choose to deliver ice to their retail locations through their own distribution network. Arctic Glacier delivers ice through traditional distribution methods using its own fleet of temperature-controlled vehicles and through independent franchisees and distributors in certain markets. Arctic Glacier owns approximately 220 vehicles and has long-term leases on a further 270 vehicles. Arctic Glacier rents additional vehicles during the summer months on short-term leases.

Arctic Glacier serves most of its customer locations through traditional distribution methods; principally through the use of its stand alone ice merchandising freezer units that are installed at most of the locations. Arctic Glacier owns approximately 50,000 merchandising freezer units, with most varying in size from 28 cubic feet to 100 cubic feet. Merchandising units are sized according to the service requirements of each individual location.

Approximately 82% of Arctic Glacier's ice sales are completed on a scheduled direct store delivery ("DSD") basis. A large percentage of mass merchandisers, gasoline service outlets, grocery stores and convenience stores are serviced in this manner, whereby Arctic Glacier's delivery personnel visit all customers on a particular route and fill customer requirements at varying frequencies depending on individual customer requirements ranging from daily to every other week. Delivery personnel issue an invoice to the customer at the time each delivery is completed.

Approximately 18% of ice sales by Arctic Glacier represent wholesale warehouse business. These customers distribute Arctic Glacier's products from their central warehouses to their own retail locations as well as to other independent grocery retailers. The majority of the wholesale warehouse business is delivered by Arctic Glacier to customer warehouses, with the balance picked up by the customer at Arctic Glacier's facilities.

## Facilities and Operations

The following table provides a summary of Arctic Glacier's production and distribution facilities:

| <u>Province</u>             | <u>Manufacturing</u> | <u>Distribution</u> | <u>Total</u> |
|-----------------------------|----------------------|---------------------|--------------|
| <b><u>Canada</u></b>        |                      |                     |              |
| Alberta.....                | 2                    | 1                   | 3            |
| British Columbia.....       | 1                    | -                   | 1            |
| Manitoba.....               | 1                    | -                   | 1            |
| Ontario.....                | 2                    | 3                   | 5            |
| Quebec.....                 | 1                    | -                   | 1            |
| Saskatchewan.....           | 1                    | -                   | 1            |
|                             | <hr/>                | <hr/>               | <hr/>        |
|                             | 8                    | 4                   | 12           |
| <b><u>United States</u></b> |                      |                     |              |
| <u>State</u>                | <u>Manufacturing</u> | <u>Distribution</u> | <u>Total</u> |
| Arizona.....                | 1                    | -                   | 1            |
| California.....             | 10                   | 5                   | 15           |
| Iowa.....                   | 2                    | 6                   | 8            |
| Kansas.....                 | 1                    | 2                   | 3            |
| Michigan.....               | 4                    | 4                   | 8            |
| Minnesota.....              | 3                    | 3                   | 6            |
| Nebraska.....               | 1                    | 4                   | 5            |
| New Jersey.....             | -                    | 1                   | 1            |
| New York.....               | 4                    | 6                   | 10           |
| North Dakota.....           | -                    | 2                   | 2            |
| Oregon.....                 | 1                    | -                   | 1            |
| Pennsylvania.....           | 1                    | 2                   | 3            |
| South Dakota.....           | -                    | 2                   | 2            |
| Texas.....                  | 1                    | 4                   | 5            |
| Wisconsin.....              | 2                    | 3                   | 5            |
|                             | <hr/>                | <hr/>               | <hr/>        |
|                             | 31                   | 44                  | 75           |
| <b>Total</b>                | <hr/>                | <hr/>               | <hr/>        |
|                             | 39                   | 48                  | 87           |

## Customers

Approximately 81% of Arctic Glacier's revenues are generated in the United States, while the remaining 19% are generated in Canada. Arctic Glacier services approximately 75,000 customer locations. Arctic Glacier's largest customer accounts for approximately 4% of sales derived from hundreds of locations throughout multiple states and provinces. In aggregate, Arctic Glacier's 20 largest customers account for less than 37% of sales derived from thousands of locations throughout multiple states and provinces. Arctic Glacier's customers include most national and regional grocery chains, convenience store chains and gasoline outlets in Canada and the northeast, central and western United States.

Approximately 86% of Arctic Glacier's sales are made to retail stores, primarily comprised of grocery stores, mass merchandisers and convenience stores including gas stations. Arctic Glacier services most regional and national retail supermarket and convenience store chains located within its market areas.

Approximately 14% of Arctic Glacier's sales are made to commercial and industrial customers that include restaurants, bakeries, airlines, meat and poultry processors, fisheries, chemical plants, tanneries and the construction industry.

## **Suppliers**

Arctic Glacier uses significant amounts of electricity and water in the production of its products. Suppliers of these inputs are generally regulated utilities and, as a result, supply has been reliable. Arctic Glacier also uses a significant amount of diesel fuel to operate its distribution fleet and is subject to fluctuations in the price of the underlying commodity, oil. During extended periods of high oil prices, Arctic Glacier has historically been able to retain its margin levels through price increases to customers. With the exception of utility services, all other supplies are available from a wide range of suppliers.

## **Competition**

Management of Arctic Glacier believes that Arctic Glacier is one of the leading manufacturers and distributors of packaged ice in each of the markets in which it operates. Arctic Glacier's principal markets in Canada are Quebec, southern Ontario, Manitoba, southern Saskatchewan, Alberta and the lower mainland of British Columbia. In the United States, Arctic Glacier's principal markets are Arizona, California, western Connecticut, northern Delaware, Iowa, Kansas, northeastern Maryland, western Massachusetts, Michigan, Minnesota, Nebraska, northern and western New Jersey, New York including New York City and Long Island, North Dakota, northern Oregon, eastern Pennsylvania, South Dakota, western Texas, southern Washington and Wisconsin. Customers in many additional communities in Canada and the northeast, central and western United States that are not serviced on a direct delivery basis purchase packaged ice produced by Arctic Glacier through third party distributors or warehouse distribution.

In all its markets, Arctic Glacier competes with numerous smaller local competitors that generally are less able to provide a comparable level of quality product and service to larger regional and national accounts. These smaller producers tend to compete for independent local business, generally on the basis of price. Arctic Glacier's economies of scale, brand development, superior levels of service and quality product enable Arctic Glacier to maintain its market share in these very competitive areas. Management believes that there are two other large regional multi-facility producers of packaged ice in the United States with combined annual revenue estimated to be in excess of \$400 million. In some cases, Arctic Glacier services markets that are also serviced by these large producers. Certain of these large producers compete with Arctic Glacier for the administration of national ice programs of certain large U.S. based national retailers.

## **Competitive Advantages**

Management of Arctic Glacier estimates that there are over 1,000 ice companies involved in the ice production and distribution industry in North America, most of which have sales of less than \$2 million per annum. Management further believes that Arctic Glacier's significantly larger size and leading position in the markets in which it operates provides Arctic Glacier with significant competitive advantages when compared to other industry participants, including:

### ***Experienced Management Team***

Arctic Glacier has a strong and experienced management team. The Arctic Glacier senior management team has collectively more than 200 years of industry experience. In aggregate, regional management each has an average of more than 20 years of experience in the packaged ice industry. Production, distribution and sales management personnel each have on average more than 10 years industry experience in the packaged ice industry.

### ***Economies of Scale***

Arctic Glacier's leading position in its chosen markets has established customer density resulting in reduced distribution costs. The rationalization of markets has enabled Arctic Glacier to operate larger manufacturing facilities and take advantage of reduced operating costs resulting from implementation of best practices, utilization of sophisticated packaging equipment and reduced labour costs. Arctic Glacier has centralized administrative functions and has invested significantly in an integrated computerized hand-held routing and billing system in order to reduce administrative costs.

### ***Strong Industry Position***

Arctic Glacier is the largest producer of packaged ice in Canada and the second largest producer of packaged ice in the United States. Arctic Glacier is one of the largest producers and distributors of packaged ice in all of the regional markets in which it operates.

### ***Production and Distribution Network***

Arctic Glacier's multiple manufacturing and distribution facilities enable it to reliably supply its customers. During periods of increased demand, Arctic Glacier can easily transport its branded product from one market area to another. In addition, Arctic Glacier has invested in a sophisticated hand-held routing and billing system that allows for efficient scheduling of deliveries, thereby reducing distribution costs and eliminating customer inventory shortages while at the same time reducing accounting and administrative costs.

### **Seasonality**

The packaged ice industry is a seasonal business with a high proportion of sales occurring during the second and third quarter of the calendar year. Arctic Glacier's Canadian and northern United States business is more seasonally affected than Arctic Glacier's operations in the southern and western United States. Over the past three years, Arctic Glacier has generated an average of 75% of its annual revenue during the period of April 1 to September 30.

### **Sales and Marketing**

Arctic Glacier employs regional sales staff in each of the markets it services to solicit business from independent retailers, chains and commercial accounts.

At the national level, a group of senior marketing executives service major convenience store and supermarket chains. These executives seek to negotiate national or regional service agreements for Arctic Glacier to be the exclusive supplier of packaged ice, even in areas where Arctic Glacier does not operate itself. Under these national or regional service agreements, Arctic Glacier engages local companies to provide service to stores outside of Arctic Glacier's service reach.

### **Capital Expenditures**

Arctic Glacier made significant capital investments of \$121 million since May 1, 1997, comprised of approximately \$65 million for improving product quality, upgrading facilities, rationalizing operations, expanding market area and assimilating newly acquired operations, approximately \$6 million for corporate infrastructure and technology expenditures and \$50 million for maintenance capital expenditures to maintain production and distribution capacity.

As a percent of revenue, capital expenditures totaled 7.8% in 2010, comprised of 3.5% for maintenance capital expenditures and 4.3% for expenditures related primarily to growth and rationalization. Government regulations or unforeseen projects may cause variations in any given fiscal period.

Arctic Glacier's management estimates annual sustaining capital expenditures, prior to deducting any proceeds of dispositions, should approximate between 3% and 4% of annual sales. This amount represents capital expenditures required to maintain Arctic Glacier's infrastructure along with investment in strategic improvements to production and distribution infrastructure. Sustaining capital expenditures are funded from cash from operations on an annual basis. Arctic Glacier management also expects to allocate approximately 1.25% of sales on an annual basis toward the periodic replacement or major renovation of existing facilities. The funds allocated will be used to temporarily reduce debt and the periodic expenditures will be funded from long-term credit facilities.

**Figure 2: Historical Capital Expenditures<sup>(1)</sup>**

|  | <u>2008</u>         | <u>2009</u>         | <u>2010</u>         |
|--|---------------------|---------------------|---------------------|
| Strategic and growth expenditures <sup>(2)</sup> .....       | \$4,848,000         | \$1,881,000         | \$9,967,000         |
| Corporate infrastructure and technology <sup>(3)</sup> ..... | 1,528,000           | 425,000             | nil                 |
| Maintenance expenditures .....                               | <u>7,069,000</u>    | <u>8,477,000</u>    | <u>\$8,201,000</u>  |
| Total.....   | <u>\$13,445,000</u> | <u>\$10,783,000</u> | <u>\$18,198,000</u> |

## Notes:

- (1) Net of proceeds from the disposals of equipment and real estate.
- (2) Includes costs related to the development and installation of in-store bagging technology, expansion into new markets and improvements in packaging, water treatment and product drying equipment.
- (3) Primarily represents investment in the computerized hand-held routing and billing system, including for acquired operations, as well as technology to improve distribution efficiency.

**Trademarks**

The name “Arctic Glacier<sup>®</sup>” and the phrase “Ice Perfection System<sup>®</sup>” are registered trademarks of Arctic Glacier in Canada and the United States. Arctic Glacier also holds a number of other registered trademarks that it uses in the packaged ice business, and manufactures products under trademarks that are licensed from third parties.

Arctic Glacier has registered the trademark “Viva Flam<sup>®</sup>” and the associated flame design in Canada and the United States. Viva Flam<sup>®</sup> and the associated flame design are used in relation to the distribution and sale of packaged wood products.

**Government Regulation**

The packaged ice industry is subject to various federal, provincial, state and municipal laws and regulations. These laws require, among other things, that Arctic Glacier obtain licenses for its facilities and comply with standards for quality control within its plants. Arctic Glacier’s products are also subject to various federal, provincial, state and local regulations as a food product. These regulations, among other things, require regular testing of the product for microbial contamination and labeling that provides package weight, nutritional content and other information. Arctic Glacier believes that its facilities meet or exceed all existing regulations. Although the most stringent jurisdictions require less frequent testing, Arctic Glacier’s products are tested for microbial contamination on a weekly basis by independent third parties. In addition, the IPIA has published a set of quality control standards with which its members must comply. These standards, known as PIQCS (Packaged Ice Quality Control Standards) require monthly testing for microbial contamination.

While there can be no assurance about what measures may be enacted by governmental bodies in the future, there has been a trend toward greater regulation of product quality standards for packaged ice. Packaged ice has become increasingly viewed by government regulators as a food product, rather than as a refrigerant. Such changes may in the future require Arctic Glacier to make investments in equipment or enhanced process standards.

**Environmental Matters**

Commercial ice manufacturing equipment utilizes various hazardous chemicals as refrigerants. These refrigerants, including Freon and ammonia, are subject to various federal, provincial, state and local regulations. These substances are dangerous if released in significant quantities, can cause explosions if exposed to flame and can cause asphyxiation in an enclosed area. In the event of a release however, the gases quickly dissipate with ventilation.

Arctic Glacier believes that its facilities meet or exceed current environmental regulations. Arctic Glacier has implemented risk and safety management plans at its facilities, as required under applicable laws and regulations, based on the quantity of ammonia used at a location. Arctic Glacier has and will continue to invest in control and warning systems that will assist in the event of a release of these chemicals. Government regulation is likely to

continue to become more stringent. Arctic Glacier believes that its investments to date position it to comply with enhanced future regulation.

Arctic Glacier typically conducts Phase 1 environmental assessments on production facilities that it has acquired. These assessments were conducted in order to identify any actual or potential environmental contaminants that existed as a result of current or past activities at these properties.

## **DESCRIPTION OF THE FUND**

### **General**

The Fund is an unincorporated open-ended mutual fund trust established under the laws of the Province of Alberta and created pursuant to the Declaration of Trust. The Fund is administered by a board of trustees (the “**Trustees**”). The principal and head office of the Fund is located at 625 Henry Avenue, Winnipeg, Manitoba R3A 0V1.

### **Business of the Fund**

The Fund is a limited purpose trust and is restricted to the following activities, provided that such activity does not result in: (i) the Fund not being considered either a “unit trust” or a “mutual fund trust” for purposes of the Tax Act; or (ii) the Units being considered “foreign property” (or the Fund becoming obligated to pay a tax in respect of its holdings of “foreign property”) for the purposes of the Tax Act:

- (a) investing in such securities as may be approved from time to time by the Trustees including securities of Arctic Glacier and otherwise lending funds to Arctic Glacier and its affiliates and borrowing funds for any such purpose;
- (b) issuing guarantees of the obligations and indebtedness of any of its Subsidiaries or affiliates and charging, pledging, hypothecating or granting any security interest, mortgage or encumbrance over or with respect to any or all of the Fund’s property or assets in connection with any such guarantee;
- (c) disposing of any part of the assets of the Fund;
- (d) temporarily holding cash, short term investments and other investments for the purpose of paying the expenses and liabilities of the Fund, paying amounts payable by the Fund in connection with the redemption of any Units and making distributions to Unitholders; and
- (e) undertaking such other activities as shall be approved by the Trustees from time to time.

### **Units**

An unlimited number of Units may be created and issued pursuant to the Declaration of Trust. As at December 31, 2010, there were 39,043,380 Units issued and outstanding. Each Unit represents an equal fractional undivided beneficial interest in any distributions from the Fund and in any net assets of the Fund in the event of termination or winding-up of the Fund. All Units are of the same class with equal rights and privileges. Each Unit is transferable, entitles the holder thereof to participate equally in distributions, including the distributions of net income and net realized capital gains of the Fund and distributions on liquidation, is fully paid and non-assessable and entitles the holder thereof to one vote at all meetings of Unitholders for each Unit held.

The Units do not represent a traditional investment and should not be viewed by investors as “shares” in either Arctic Glacier or the Fund. As holders of Units in the Fund, the Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring “oppression” or “derivative” actions. The price per Unit is a function of anticipated distributable income from Arctic Glacier and the combined ability of the Trustees to affect long term growth in the value of the Fund. The market price of the Units will be sensitive to a variety of market conditions including, but not limited to, interest rates, the

distributions generated by Arctic Glacier and the ability of the Fund to acquire additional assets. Changes in market conditions may adversely affect the trading price of the Units.

**The Units are not “deposits” within the meaning of the *Canada Deposit Insurance Corporation Act (Canada)* and are not insured under the provisions of that act or any other legislation. Furthermore, the Fund is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.**

### **Unitholder Limited Liability**

On July 1, 2004, the *Income Trusts Liability Act (Alberta)* came into force. This act creates a statutory limitation on the liability of unitholders of Alberta income trusts such as the Fund. The legislation provides that a Unitholder will not be, as a beneficiary, liable for any act, default, obligation or liability of the Trustees that arises after the legislation comes into effect.

Further, the Declaration of Trust provides that no Unitholder will be subject to any liability in connection with the Fund or its obligations and affairs and, in the event that a court determines Unitholders are subject to any such liabilities, the liabilities will be enforceable only against, and will be satisfied only out of, the Unitholder's share of the Fund's assets. Pursuant to the Declaration of Trust, the Fund will indemnify and hold harmless each Unitholder from any cost, damages, liabilities, expenses, charges and losses suffered by a Unitholder resulting from or arising out of such Unitholder not having such limited liability.

Further, the Declaration of Trust provides that the Trustees and the Fund will make reasonable efforts to include a provision in all written instruments signed by or on behalf of the Fund to the effect that such obligation will not be binding upon Unitholders personally. Notwithstanding the terms of the Declaration of Trust and the *Income Trust Liability Act (Alberta)*, Unitholders may not be protected from liabilities of the Fund to the same extent as a shareholder is protected from the liabilities of a corporation. Personal liability may also arise in respect of claims against the Fund (to the extent that claims are not satisfied by the Fund) that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities. The possibility of any personal liability to Unitholders of this nature arising is considered unlikely in the view of the Fund due to the fact that the primary activity of the Fund is to hold securities, and all of the operations will be carried on by Arctic Glacier, directly or indirectly.

The activities of the Fund and its wholly-owned subsidiary, Arctic Glacier, will be conducted, upon the advice of counsel, in such a way and in such jurisdictions as to avoid as far as possible any material risk of liability to the Unitholders for claims against the Fund including, where commercially reasonable, by obtaining appropriate insurance, where available, for the operations of Arctic Glacier and, where commercially reasonable, having written agreements signed by or on behalf of the Fund include a provision that such obligations are not binding upon Unitholders personally.

### **Issuance of Units**

The Declaration of Trust provides that Units or rights to acquire Units may be issued at the times, to the persons, for the consideration and on the terms and conditions that the Trustees determine. At the option of the Trustees, Units may be issued in satisfaction of any distribution of the Fund to Unitholders on a pro rata basis to the extent the Fund does not have available cash to fund such distributions. The Declaration of Trust also provides that, unless the Trustees determine otherwise, immediately after any pro rata distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will be consolidated such that each Unitholder will hold after the consolidation the same number of Units as the Unitholder held before the non-cash distribution, except where tax was required to be withheld. In this case, each certificate, if any, representing a number of Units prior to the non-cash distribution is deemed to represent the same number of Units after the non-cash distribution and the consolidation.

## Cash Distributions

Pursuant to the Declaration of Trust, the amount of cash to be distributed per Unit shall be equal to a pro rata share of all amounts received by the Fund in each month including, without limitation, interest and principal payments on the Subsidiary Debt and dividends or other distributions on or in respect of Subsidiary Shares owned by the Fund less: (i) administrative expenses and other obligations of the Fund; and (ii) amounts which may be paid by the Fund in connection with any cash redemptions of Units. Arctic Glacier may apply some or all of its cash flow to capital expenditures prior to making any distributions to the Fund in the form of principal repayments on the Subsidiary Debt or dividends or other distributions on the Subsidiary Shares. Any income of the Fund that is applied to any such cash redemptions of Units or is otherwise unavailable for cash distribution will be distributed to Unitholders in the form of additional Units. Such additional Units will be issued pursuant to applicable exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing. See “Distribution History” for further information on the distribution policy of the Fund. Also see “Recent Developments – Reduction/Cancellation of Cash Distributions”, “Description of the Business – Corporate Strategy – Financial Strategy in Current Economic Environment” and “Risk Factors” for a discussion of various factors that may affect the distributions of the Fund.

## Redemption Right

Units are redeemable at any time on demand by the holders thereof. A Unitholder who holds Units in the name of an investment dealer and who wishes to exercise the redemption right will be required to obtain a redemption notice form from the Unitholder’s investment dealer who will be required to deliver the completed redemption notice form to the CDS for delivery to the Fund. Upon receipt of the redemption request by the Fund, all rights to and under the Units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per Unit (the “**Redemption Price**”) equal to the lesser of: (i) 90% of the “market price” of the Units on the principal market on which the Units are quoted for trading during the ten trading day period commencing immediately after the date on which the Units are surrendered for redemption (the “**Redemption Date**”); and (ii) the “closing market price” on the principal market on which the Units are quoted for trading on the Redemption Date.

For the purposes of this calculation, “**market price**” will be an amount equal to the weighted average of the closing price of the Units for each of the trading days on which there was a closing price; provided that, if the applicable exchange or market does not provide a closing price but only provides the highest and lowest prices of the Units traded on a particular day, the “market price” shall be an amount equal to the weighted average of the highest and lowest prices for each of the trading days on which there was a trade; and provided further that if there was trading on the applicable exchange or market for fewer than five of the ten trading days, the market price shall be the weighted average of the following prices established for each of the ten trading days: the weighted average of the last bid and last ask prices for each day on which there was no trading; the closing price of the Units for each day that there was trading if the exchange or market provides a closing price; and the weighted average of the highest and lowest prices of the Units for each day that there was trading, if the market provides only the highest and lowest prices of Units traded on a particular day. The “**closing market price**” shall be an amount equal to the closing price of the Units if there was a trade on the date and the exchange or market provides a closing price; an amount equal to the weighted average of the highest and lowest prices of the Units if there was trading and the exchange or other market provides only the highest and lowest prices of Units traded on a particular day; or the weighted average of the last bid and last ask prices if there was no trading on the date.

The aggregate Redemption Price payable by the Fund in respect of any Units surrendered for redemption during any calendar month shall be satisfied by way of a cash payment on or before the last day of the following month; provided that the entitlement of Unitholders to receive cash upon the redemption of their Units is subject to the limitations that: (i) the total amount payable by the Fund in respect of such Units and all other Units tendered for redemption in the same calendar month shall not exceed C\$50,000 (provided that the Trustees may, in their sole discretion, waive such limitation in respect of any calendar month); (ii) at the time such Units are tendered for redemption the outstanding Units shall be listed for trading on a stock exchange or traded or quoted on any other market which the Trustees consider, in their sole discretion, provides representative fair market value prices for the Units; and (iii) the normal trading of Units is not suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, on any market on which the Units are quoted for trading) on the

Redemption Date or for more than five trading days during the ten day trading period commencing immediately after the Redemption Date.

If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of the foregoing limitations, then the Redemption Price for such Units shall be the fair market value thereof, as determined by the Trustees in the circumstances described in subparagraphs (ii) and (iii) above, and shall, subject to any applicable regulatory approvals, be paid and satisfied by way of distribution in specie of a pro rata number of securities of Arctic Glacier held by the Fund. No fractional Subsidiary Shares or Subsidiary Debt in integral multiples of less than C\$100 will be distributed and where the number of securities of Arctic Glacier includes a fraction or a multiple of less than C\$100, such number shall be rounded to the next lowest whole number or integral of C\$100. The Fund shall be entitled to all interest paid or accrued and unpaid on the Subsidiary Debt and distributions paid on the Subsidiary Shares on or before the date of the distribution in specie. Where the Fund makes a distribution in specie of a pro rata number of securities of Arctic Glacier on the redemption of Units of a Unitholder, the Fund currently intends to designate to that Unitholder any capital gain realized by the Fund as a result of the distribution of such securities to the Unitholder.

It is anticipated that the redemption right will not be the primary mechanism for holders of Units to dispose of their Units. Subsidiary Debt and Subsidiary Shares which may be distributed in specie to Unitholders in connection with a redemption will not be listed on any stock exchange and no market is expected to develop in such Subsidiary Debt or Subsidiary Shares and such securities may be subject to an indefinite “hold period” or other resale restrictions under applicable securities laws. Holders of Subsidiary Debt will be required to acknowledge that they are subject to subordination agreements. Subsidiary Debt and Subsidiary Shares may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans and deferred profit sharing plans.

#### **Limitations on Non-Resident Unitholders**

Certain provisions of the Tax Act require that the Fund not be established nor maintained primarily for the benefit of Non-Residents. Accordingly, in order to comply with such provisions, the Declaration of Trust contains restrictions on the ownership of Units by Unitholders who are Non-Residents. The Trustees may require declarations as to the jurisdictions in which beneficial owners of Units are resident. If the Trustees become aware, as a result of requiring such declarations as to beneficial ownership, that the beneficial owners of 45% of the Units then outstanding are, or may be, Non-Residents or that such a situation is imminent, the Trustees may issue a public announcement thereof and shall not accept a subscription for Units from or issue or register a transfer of Units to a person unless the person provides a declaration that the person is not a Non-Resident. If, notwithstanding the foregoing, the Trustees determine that a majority of the Units are held by Non-Residents, the Trustees may send a notice to Non-Resident holders of Units, chosen in inverse order to the order of acquisition or registration or in such manner as the Trustees may consider equitable and practicable, requiring them to sell their Units or a portion thereof within a specified period of not less than 60 days. If the Unitholders receiving such notice have not sold the specified number of Units or provided the Trustees with satisfactory evidence that they are not Non-Residents within such period, the Trustees may on behalf of such Unitholders sell such Units and, in the interim, shall suspend the voting and distribution rights attached to such Units. Upon such sale the affected holders shall cease to be holders of Units and their rights shall be limited to receiving the net proceeds of sale upon surrender of the certificates representing such Units.

#### **Meetings of Unitholders**

The Declaration of Trust provides that meetings of Unitholders must be called and held for, among other matters, the election or removal of Trustees (except filling casual vacancies), the appointment or removal of the auditors of the Fund, the approval of amendments to the Declaration of Trust (except as described under “Description of the Fund – Amendments to the Declaration of Trust”), the sale of the assets of the Fund as an entirety or substantially as an entirety (other than as part of an internal reorganization), the termination of the Fund and the direction of the Trustees as to the election of the directors of Arctic Glacier. Meetings of Unitholders will be called and held annually for, among other things, the election of the Trustees, the appointment of auditors of the Fund and the direction of the Trustees as to the election of the directors of Arctic Glacier. A resolution appointing or removing a Trustee, the auditors of the Fund or the direction of the Trustees as to the election of the directors of Arctic Glacier

must be passed by a simple majority of the votes cast by Unitholders. The balance of the foregoing matters must be passed by at least 66 <sup>2</sup>/<sub>3</sub>% of the votes cast at a meeting of Unitholders called for such purpose.

A meeting of Unitholders may be convened at any time and for any purpose by the Trustees and must be convened if requisitioned by the holders of not less than 10% of the Units then outstanding by a written requisition. A requisition must, among other things, state in reasonable detail the matters proposed to be dealt with at the meeting.

Unitholders may attend and vote at all meetings of Unitholders either in person or by proxy and a proxyholder need not be a Unitholder. Two persons present in person or represented by proxy and representing in the aggregate at least 5% of the votes attaching to all outstanding Units shall constitute a quorum for the transaction of business at all such meetings.

The Declaration of Trust contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Unitholders.

### **Information and Reports**

The Fund will file and/or furnish to Unitholders, in accordance with applicable securities laws, the audited annual and unaudited quarterly consolidated financial statements of the Fund and other materials as are from time to time required by applicable securities laws. The Fund will also furnish Unitholders with such other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders' tax returns under the Tax Act and equivalent provincial legislation.

Prior to each meeting of Unitholders, the Trustees will provide the Unitholders (along with notice of such meeting) all such information as is required by applicable law and the Declaration of Trust to be provided to such holders.

### **Takeover Bids**

The Declaration of Trust contains provisions to the effect that if a takeover bid is made for the Units and not less than 90% of the Units (other than Units held at the date of the takeover bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Units held by Unitholders who did not accept the takeover bid on the terms offered by the offeror. Further, the Board of Trustees has approved the adoption of a Unitholder Rights Plan containing additional provisions affecting takeover bids. See "Description of the Fund – Unitholder Rights Plan".

### **Trustees**

The Declaration of Trust establishes a board of trustees comprised of not more than nine nor less than three members. Trustees shall be reappointed or replaced every year as may be determined by a majority of the votes cast at an annual meeting of the Unitholders. The Declaration of Trust provides that, subject to the terms and conditions thereof, the Trustees may, in respect of the trust assets, exercise any and all rights, powers and privileges that could be exercised by a legal and beneficial owner thereof and shall supervise the investments and conduct the affairs of the Fund. The Trustees are responsible for, among other things: (i) acting for, voting on behalf of and representing the Fund as a shareholder and noteholder of Arctic Glacier; (ii) maintaining records and providing reports to Unitholders; (iii) supervising the activities of the Fund; (iv) managing the affairs of the Fund; (v) voting in favour of the Fund's nominees to serve as directors of Arctic Glacier; (vi) ensuring that the restrictions in the Declaration of Trust on Non-Resident ownership are met; and (vii) declaring distributions from the Fund to Unitholders.

A Trustee may resign upon written notice to the Fund and may be removed by a majority of the votes cast at a special meeting of the Unitholders and the vacancy created by such removal may be filled at the same meeting, failing which it may be filled by the Trustees.

A quorum of the Trustees, being the greater of two Trustees or a majority of the Trustees then holding office, may fill a vacancy in the Trustees, except a vacancy resulting from an increase in the number of Trustees or from a failure of the Unitholders to elect the required number of Trustees. In the absence of a quorum of the Trustees, or if the vacancy has arisen from a failure of the Unitholders to elect the required number of Trustees, the Trustees shall

forthwith call a special meeting of Unitholders to fill the vacancy. If the Trustees fail to call such meeting or if there are no Trustees then in office, any Unitholder may call the meeting.

The Declaration of Trust provides that the Trustees may, between annual meetings of the Unitholders, appoint one or more additional Trustees to serve until the next annual meeting of the Unitholders, but the number of additional Trustees shall not at any time exceed one-third of the number of Trustees who held office at the expiration of the immediately preceding annual meeting of the Unitholders.

The Declaration of Trust provides that the Trustees shall act honestly and in good faith with a view to the best interests of the Fund and in connection therewith shall exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Declaration of Trust provides that the Trustees shall be entitled to indemnification from the Fund in respect of the exercise of their powers and the discharge of their duties in the absence of breach of their duties and standard of care. The duties and standard of care of the Trustees provided in the Declaration of Trust are similar to those imposed on a director of a corporation.

Except as expressly prohibited by law, the Trustees may grant or delegate certain of the Trustees' authority to effect the actual administration of the duties of the Trustees under the Declaration of Trust. The Trustees may grant broad discretion to a third party to administer and manage the day-to-day operations of the Fund, and to make executive decisions which conform to the general policies and general principles set forth in the Declaration of Trust or otherwise established by the Trustees.

### **Compensation of Trustees**

The Trustees are entitled to compensation for services rendered to the Fund in their capacities as Trustees. The Trustees also serve as directors of Arctic Glacier and are entitled to compensation in that capacity.

### **Amendments to the Declaration of Trust**

The Declaration of Trust may be amended or altered from time to time by at least 66 <sup>2</sup>/<sub>3</sub>% of the votes cast at a meeting of the Unitholders called for such purpose.

The Trustees may, without the approval of the Unitholders, amend the Declaration of Trust to make certain amendments to the Declaration of Trust, including amendments:

- (a) for the purpose of ensuring continuing compliance with applicable laws (including the Tax Act), regulations, requirements or policies of any governmental or other authority having jurisdiction over the Trustees or over the Fund;
- (b) deemed necessary or advisable to ensure that the Fund has not been established nor maintained primarily for the benefit of Non-Residents;
- (c) which, in the opinion of the Trustees, provide additional protection for or benefit to the Unitholders;
- (d) to remove any conflicts or inconsistencies in the Declaration of Trust or making corrections, including the correction or rectification of any ambiguities, defective provisions, errors, mistakes or omissions, which are, in the opinion of the Trustees, necessary or desirable and not prejudicial to the Unitholders; and
- (e) which, in the opinion of the Trustees, are necessary or desirable as a result of changes in taxation laws.

### **Distribution Reinvestment Plan**

The Fund has a Distribution Reinvestment and Optional Cash Purchase Plan (“**DRIP**”) that permits eligible Unitholders to reinvest monthly distributions (each a “**Distribution**”) in additional Units. To the extent permitted by

applicable law and regulatory rulings, a participating Unitholder (a “**Plan Participant**”) also has the option to purchase Units with additional cash payments (each an “**Optional Cash Payment**”), provided that Optional Cash Payments by any Plan Participant shall not be less than C\$1,000 per Distribution Date and not more than C\$12,000 per calendar year. The price of Units issued under the DRIP is based on the volume weighted average price for the sale of Units on the TSX during the ten days preceding the relevant Distribution Date (the “**Market Price**”). The Purchase Price of Units purchased with distributions under the DRIP is 95% of the Market Price. The Purchase Price of Units purchased with an Optional Cash Payment is 100% of the Market Price. There are no commissions or brokerage charges payable on the purchase of Units under the DRIP. All administrative costs of the DRIP are borne by the Fund. Eligible Unitholders may participate by directing the broker, dealer or investment advisor holding their Units to notify the plan administrator, Computershare Trust Company of Canada, through CDS. To participate in the DRIP for any particular Distribution, an eligible beneficial owner of Units on the record date for such Distribution (the “**Record Date**”), must notify CDS prior to its cut-off date of his or her intention to participate in the DRIP for the Distribution. Residents of Canada are eligible to participate in the DRIP. At this time Non-Residents are not eligible. Subject to any relevant agreement governing the account in which Units are held, participation in the DRIP may be terminated at any time prior to the CDS cut-off date in respect of a Distribution. All reporting to the beneficial owner of transactions under the DRIP is provided by the broker, dealer or financial advisor.

### **Unitholder Rights Plan**

The Fund has entered into a Unitholder Rights Plan Agreement dated April 21, 2003 with Computershare Trust Company of Canada as rights agent (the “**Unitholder Rights Agreement**”) which contains the terms and conditions of the Fund’s Unitholder rights plan (the “**Unitholder Rights Plan**”). The Board initially approved the adoption of the Unitholder Rights Agreement as of April 21, 2003. The Unitholders initially approved of the Unitholder Rights Agreement at the Unitholder meeting held on May 27, 2003. At the Unitholder’s meeting held on April 27, 2006, the Unitholders ratified the continued existence of the Unitholder Rights Plan Agreement until the close of business on the date of the Fund’s annual meeting of Unitholders in 2011, unless terminated at an earlier date by the Board. The Unitholder Rights Plan does not in any way alter the financial condition of the Fund or its current business plans.

#### *Objectives of Unitholder Rights Plan*

The primary objective of the Unitholder Rights Plan is to provide the Board with sufficient time to explore and develop alternatives for maximizing Unitholder value if a take-over bid is made for the Fund and to provide every Unitholder with an equal opportunity to participate in such a bid. The Unitholder Rights Plan encourages a potential acquirer to proceed either by way of Permitted Bid (as defined in the Unitholder Rights Agreement and described briefly below), which requires the take-over bid to satisfy certain minimum standards designed to promote fairness, or with the concurrence of the Board.

While the Unitholder Rights Plan is intended to regulate certain aspects of take-over bids for the Fund, it is not intended to deter a *bona fide* attempt to acquire control of the Fund if the offer is made fairly. The Unitholder Rights Plan does not affect the duty of the Board to give due and proper consideration to any offer that is made and to act honestly, in good faith and in the best interests of the Fund and its Unitholders.

#### *Terms of Unitholder Rights Plan*

The following is a summary of the principal terms of the Unitholder Rights Agreement. The summary is qualified in its entirety by the full text of the Unitholder Rights Agreement which is available on SEDAR at [www.sedar.com](http://www.sedar.com). A Unitholder may also obtain a copy of the Unitholder Rights Agreement free of charge by contacting the Fund at 625 Henry Avenue, Winnipeg, Manitoba, R3A 0V1.

#### *Description of Rights*

The rights (“**Rights**”) are issued pursuant to the Unitholder Rights Agreement between the Fund and Computershare Trust Company of Canada, as rights agent. Each Right entitles the registered holder thereof to purchase from the Fund one Unit at the Exercise Price (as defined in the Unitholder Rights Agreement), subject to adjustments, at any time after the Separation Time (as defined in the Unitholder Rights Agreement and described below). Prior to the

Separation Time, the Exercise Price will be three times the market price of a Unit. From and after the Separation Time, the Exercise Price will be three times the market price of a Unit as at the Separation Time. The Exercise Price is subject to adjustment in accordance with the Unitholder Rights Agreement. If a Flip-in Event (as defined in the Unitholder Rights Agreement and described below) occurs, each Right will entitle the holder to purchase from the Fund that number of Units that have an aggregate market price at the relevant time equal to twice the Exercise Price for an amount in cash equal to the Exercise Price. The Rights are not exercisable until the Separation Time.

#### *Term*

The Expiration Time (as defined in the Unitholder Rights Agreement) is such that the Rights will expire at the close of business on the date of the Fund's annual meeting of Unitholders in 2011, unless terminated at an earlier date by the Board.

#### *Trading Rights*

Until the Separation Time, the Rights will be evidenced by the outstanding certificates for Units and the Rights may be transferred with, and only with, the Units. Until the Separation Time (or earlier termination or expiration of the Rights), the surrender for transfer of a certificate representing Units will also constitute the transfer of the rights associated with the Units represented by the certificate. As soon as practicable following the Separation Time, separate certificates evidencing the Rights ("**Rights Certificates**") will be mailed to holders of record of Units as of the close of business at the Separation Time and the separate Rights Certificates will thereafter evidence the Rights.

#### *Separation Time*

The Rights will separate and trade apart from the Units and become exercisable 10 business days (the "**Separation Time**"), following the earlier to occur of:

- (a) the first date of public announcement of facts indicating that a Person has become an Acquiring Person;
- (b) the date of commencement of, or first public announcement of the intention of any person (other than the Fund or any of its subsidiaries) to commence, a take-over bid (other than a Permitted Bid or Competing Permitted Bid, discussed below); and
- (c) the date upon which a Permitted Bid ceases to be such.

The Separation Time can also be such later time as may be determined by the Board.

#### *Acquiring Person*

In general, an "**Acquiring Person**" is a person who, at any time after the date of the Unitholder Rights Agreement, is a beneficial owner of 20% or more of the outstanding Units of the Fund. A person who becomes a beneficial owner of more than 20% of the Units through certain enumerated types of transactions, however, is exempted from the definition. The principal exemptions are for Unit Reductions (generally, a repurchase of Units held by others which has the effect of increasing a person's percentage ownership of the Fund), a Permitted Bid Acquisition (an acquisition of Units made pursuant to a Permitted Bid or Competing Permitted Bid, discussed below), an Exempt Acquisition (an acquisition prior to the Unitholders Rights Agreement or exempted from the application of the Unitholders Rights Agreement by the Board) and a Pro Rata Acquisition (generally, the acquisition of Units pursuant to a rights offering, a public offering or a private placement to the extent necessary to prevent dilution of the Person's Unitholding), provided that the person does not, as a result, acquire a greater percentage of Units so offered than the percentage beneficially owned by such person before the acquisition.

#### *Flip-in Event*

A Flip-in Event occurs when any Person becomes an Acquiring Person. A Right will convert into the right to purchase, upon exercise, that number of Units that have an aggregate market price at the relevant time equal to twice

the Exercise Price for an amount in cash equal to the Exercise Price. However, any Rights beneficially owned by an Acquiring Person (including such person's associates and affiliates and persons with whom it is acting in concert) will be void. A Flip-in Event would not be caused by a Unit Reduction, a Permitted Bid Acquisition, an Exempt Acquisition or a Pro Rata Acquisition.

*Permitted Bid and Competing Permitted Bid*

The requirements of a Permitted Bid include the following:

- (a) the take-over bid is made to all holders of record of Units of the Fund, other than the bidder, on identical terms and conditions;
- (b) the take-over bid must not permit Units tendered pursuant to the take-over bid to be taken up or paid for (i) prior to the close of business on the date which is not less than 45 days following the date of the take-over bid and (ii) then only if at such date more than 50% of the then outstanding Units held by persons other than the bidder, any affiliate or associate of, or person acting jointly or in concert with, the bidder have been deposited or tendered to the take-over bid and not withdrawn; and
- (c) if the requirement in (b) is met, the bidder must make a public announcement of that fact and the take-over bid must remain open for deposits and tenders of Units for not less than 10 days from the date of such public announcement.

The Unitholder Rights Plan allows for a competing Permitted Bid (a "**Competing Permitted Bid**") to be made while a Permitted Bid is in existence. A Competing Permitted Bid must satisfy all the requirements of a Permitted Bid in addition to other conditions.

*Redemption*

The Board may, at any time prior to the Separation Time, with the prior consent of the Unitholders, elect to redeem all but not less than all of the Rights at a redemption price of C\$0.0001 per Right, subject to appropriate adjustment in certain events.

*Waiver*

The Board may, prior to the occurrence of a Flip-in Event, waive the application of the Unitholder Rights Plan to a particular Flip-in Event where the take-over bid is made by a take-over bid circular to all holders of Units or where an Acquiring Person became an Acquiring Person by inadvertence and without any intention to become an Acquiring Person. Where the Board exercises the waiver power for one take-over bid, the waiver will also apply to any other take-over bid for the Fund made by a take-over bid circular to all holders of Units prior to the expiry of the first mentioned take-over bid.

*Amendments*

The Board may amend the Unitholder Rights Plan with the approval of a majority of the votes cast by holders of Units (or the holders of Rights if the Separation Time has occurred) voting in person and by proxy at a meeting duly called for that purpose. The Board without such approval may correct clerical or typographical errors and may amend the Unitholder Rights Agreement to maintain the validity of the Unitholder Rights Plan as a result of any change in applicable legislation, rules or regulations thereunder.

*Protection Against Dilution*

The Exercise Price, the number and kind of securities subject to purchase upon exercise of each Right and the number of Rights outstanding are subject to adjustment from time to time to prevent dilution:

- (a) in the event of a subdivision, combination or reclassification of, the Units;

- (b) upon the grant to holders of Units of certain rights or warrants to subscribe for Units or convertible securities at less than the current market price of the Units; or
- (c) upon distribution to holders of Units of evidences of indebtedness, cash (other than regular periodic cash distributions or distributions payable in Units) or rights or warrants.

*Exemptions for Investment Advisors*

Investment advisors (for fully managed accounts), trust companies (acting in their capacities as trustees and administrators), statutory bodies whose business includes the management of funds and administrators of registered pension plans are exempt from triggering a Flip-in Event, provided that they are not making, or are not part of a group making, a Take-over Bid.

**Term of the Fund and Sale of Substantially All Assets**

The Fund has been established for a term ending 21 years after the date of death of the last surviving issue of Her Majesty, Queen Elizabeth, alive on January 22, 2002. Pursuant to the Declaration of Trust, termination of the Fund or the sale or transfer of the assets of the Fund as an entirety or substantially as an entirety, except as part of an internal reorganization of the assets of the Fund as approved by the Trustees, requires approval by at least 66 ⅔% of the votes cast at a meeting of the Unitholders.

**Exercise of Voting Rights Attached to Common Shares of Arctic Glacier**

The Declaration of Trust provides that the Trustees of the Fund shall not, among other things, authorize:

- (a) any issue of shares in the capital of Arctic Glacier other than to the Fund;
- (b) any disposition of all or substantially all of the assets of Arctic Glacier, except in conjunction with an internal reorganization;
- (c) any amalgamation, arrangement or other merger with any other person, except in conjunction with an internal reorganization;
- (d) any material amendment to the note indenture governing the Subsidiary Debt issued by Arctic Glacier, other than in contemplation of an issuance of further Units; or
- (e) any material amendment to the articles of Arctic Glacier to change the authorized share capital in a manner that may be prejudicial to the Fund;

without the authorization of at least 66⅔% of the votes cast at a meeting of the Unitholders called for such purpose.

**DESCRIPTION OF THE DEBENTURES**

The 6.50% extendible convertible unsecured subordinated debentures of the Fund (the “**Debentures**”) have been issued under a trust indenture (the “**Indenture**”) dated May 25, 2006 between the Fund and Computershare Trust Company of Canada (the “**Debenture Trustee**”). The following is a description of the terms of the Indenture, a copy of which was filed with the Canadian securities regulatory authorities. The following summary of certain provisions of the Indenture is subject to, and is qualified in its entirety by reference to, all the provisions of the Indenture.

**General**

The Debentures were issued under the Indenture. On May 25, 2006, Debentures in an aggregate principal amount of C\$100,000,000 were issued. As at December 31, 2010, Debentures in an aggregate principal amount of C\$90,600,000 remained outstanding. The aggregate principal amount of Debentures authorized for issue is

unlimited. The Fund may, from time to time, without the consent of the holders of the Debentures but subject to the limitations described therein, issue additional debentures of the same series or of a different series under the Indenture.

The outstanding Debentures are dated as May 25, 2006. The Debentures are issuable only in denominations of C\$1,000 and integral multiples thereof. The Debentures are due July 31, 2011 (the “**Maturity Date**”).

The Debentures bear interest at 6.50%, payable semi-annually in arrears on January 31 and July 31 of each year.

The principal amount of the Debentures is payable in lawful money of Canada or, at the option of the Fund and subject to applicable regulatory approval, by payment of Units. See “Description of the Debentures - Payment upon Redemption or Maturity” and “Description of the Debentures - Redemption and Purchase”. The interest on the Debentures is payable in lawful money of Canada or, at the option of the Fund and subject to applicable regulatory approval, in accordance with the Unit Interest Payment Election (as defined in the “Glossary”). See “Description of the Debentures - Interest Payment Option”. Payment of interest to a Non-Resident holder of Debentures, whether paid in cash or Units, will be subject to Canadian withholding tax.

The Debentures are direct obligations of the Fund and are not secured by any mortgage, pledge, hypothec or other charge and are subordinated to other liabilities of the Fund. See “Description of the Debentures - Subordination”. The Indenture does not restrict the Fund from incurring additional indebtedness for borrowed money or other liabilities or from mortgaging, pledging or charging its properties to secure any indebtedness.

### **Conversion Privilege**

The Debentures are convertible at the holder’s option into fully paid and non-assessable Units at any time before the close of business on the earlier of the Maturity Date and the business day immediately preceding the date fixed for redemption at C\$12.60, subject to adjustment upon the occurrence of certain events (the “**Conversion Price**”), being a ratio of approximately 79.365 Units per C\$1,000 principal amount of Debentures. No adjustment will be made to the record dates for distributions on Units issuable on conversion of, or interest accrued on, Debentures surrendered for conversion. Holders converting their Debentures will receive accrued and unpaid interest thereon up to, but excluding, the date of conversion. Holders converting their Debentures shall become holders of record of Units of the Fund on the business day immediately after the conversion date. Notwithstanding the foregoing, no Debentures may be converted during the five business days preceding January 31 and July 31 in each year, as the registers of the Debenture Trustee will be closed during such periods.

Subject to the provisions thereof, the Indenture provides for the adjustment of the Conversion Price in certain events including:

- (a) the subdivision or consolidation of the outstanding Units;
- (b) the distribution of Units to holders of Units by way of distribution or otherwise, other than an issue of securities to holders of Units who have elected to receive distributions in securities of the Fund in lieu of receiving cash distributions paid in the ordinary course;
- (c) the issuance of options, rights or warrants to holders of Units entitling them to acquire Units or other securities convertible into Units at less than 95% of the then volume-weighted average trading price for the Units on the TSX for the 20 consecutive trading days ending five trading days prior to the applicable event (the “**Current Market Price**”) of the Units, other than pursuant to the distribution reinvestment plan of the Fund; and
- (d) the distribution to all holders of Units of any securities or assets (other than cash distributions and equivalent distributions in securities paid in lieu of cash distributions in the ordinary course).

There will be no adjustment of the Conversion Price in respect of any event described in (b), (c) or (d) above if the holders of the Debentures are allowed to participate as though they had converted their Debentures prior to the

applicable record date or effective date. The Fund will not be required to make adjustments in the Conversion Price unless the cumulative effect of such adjustments would change the Conversion Price by at least 1%.

In the case of a reclassification or a capital reorganization (other than a change resulting from consolidation or subdivision) of the Units or in the case of any consolidation, amalgamation or merger of the Fund with or into any other entity, or in the case of a sale or conveyance of the properties and assets of the Fund as, or substantially as, an entirety to any other entity, or a liquidation, dissolution, winding-up of the Fund or other similar transaction, the terms of the conversion privilege shall be adjusted so that each holder of a Debenture shall, after such reclassification, capital reorganization, consolidation, amalgamation, merger, sale, conveyance, liquidation, dissolution, winding up or other similar transaction, be entitled to receive the number of Units, other securities or consideration such holder would be entitled to receive if on the effective date thereof, it had been the holder of the number of Units into which the Debenture was convertible immediately prior to the effective date of such reclassification, capital reorganization, consolidation, amalgamation, merger, sale, conveyance, liquidation, dissolution, winding up or other similar transaction.

No fractional Units will be issued on any conversion but in lieu thereof the Fund shall satisfy fractional interests by a cash payment equal to the Current Market Price of any fractional interest.

### **Redemption and Purchase**

The Debentures were redeemable on or before July 31, 2009. After July 31, 2009 and on or prior to July 31, 2010, the Debentures were redeemable in whole or in part from time to time at the option of the Fund on not more than 60 days and not less than 30 days prior notice at a price equal to their principal amount (the “**Redemption Price**”) plus accrued and unpaid interest thereon, provided that the Current Market Price of the Units on the date on which notice of redemption is given is not less than 125% of the Conversion Price. After July 31, 2010, the Debentures have been redeemable at any time before the Maturity Date in whole or in part from time to time at the option of the Fund on not more than 60 days’ and not less than 30 days’ prior notice at a price equal to their principal amount plus accrued and unpaid interest.

In the case of redemption of less than all of the Debentures, the Debentures to be redeemed will be selected by the Debenture Trustee on a pro rata basis or in such other manner as the Debenture Trustee deems equitable.

The Fund will have the right to purchase Debentures in the market, by tender, or by private contract, provided however, that if an event of default under the Indenture has occurred and is continuing, the Fund or any of its affiliates will not have the right to purchase Debentures by private contract.

### **Payment upon Redemption or Maturity**

On redemption or at maturity, the Fund will repay the indebtedness represented by the Debentures by paying to the Debenture Trustee in lawful money of Canada an amount equal to the aggregate Redemption Price of the outstanding Debentures which are to be redeemed or the principal amount of the outstanding Debentures which have matured, together with accrued and unpaid interest thereon. The Fund may, at its option, on not more than 60 days and not less than 30 days prior notice, subject to applicable regulatory approval and provided no Event of Default (as defined below) has occurred, elect to satisfy its obligation to pay the Redemption Price of the Debentures which are to be redeemed or the principal amount of the Debentures which are due on maturity, as the case may be, by issuing freely tradeable Units to the holders of the Debentures. Any accrued and unpaid interest thereon will be paid in cash. The number of Units to be issued will be determined by dividing the aggregate Redemption Price of the outstanding Debentures which are to be redeemed or the principal amount of the outstanding Debentures which have matured, as the case may be, by 95% of the Current Market Price on the date fixed for redemption or the Maturity Date, as the case may be. No fractional Units will be issued on redemption or maturity but in lieu thereof the Fund shall satisfy fractional interests by a cash payment equal to the Current Market Price of any fractional interest.

### **Subordination**

The payment of the principal of, and interest on, the Debentures will be subordinated in right of payment, as set forth in the Indenture, to the prior payment in full of all Senior Indebtedness of the Fund. “**Senior Indebtedness**” is

defined in the Indenture as the principal of and premium, if any, and interest on and other amounts in respect of all indebtedness including indebtedness to trade creditors of the Fund (whether outstanding as at the date of Indenture or thereafter incurred), other than indebtedness evidenced by the Debentures and all other existing and future debentures or other instruments of the Fund which, by the terms of the instrument creating or evidencing the indebtedness, are expressed to be *pari passu* with, or subordinate in right of payment to, the Debentures. Subject to statutory or preferred exceptions or as may be specified by the terms of any particular securities, each debenture of the same series of debentures issued under the Indenture will rank *pari passu* with all other present and future subordinated and unsecured indebtedness of the Fund except for sinking fund provisions (if any) applicable to different series of debentures or similar types of obligations of the Fund.

The Indenture provides that in the event of any insolvency or bankruptcy proceedings, or any receivership, liquidation, reorganization or other similar proceedings relative to the Fund, or to its property or assets, or in the event of any proceedings for voluntary liquidation, dissolution or other winding-up of the Fund, whether or not involving insolvency or bankruptcy, or any marshalling of the assets and liabilities of the Fund, then those holders of Senior Indebtedness, including any trade creditors of the Fund, will receive payment in full before the holders of Debentures will be entitled to receive any payment or distribution of any kind or character, whether in cash, property or securities, which may be payable or deliverable in any such event in respect of any of the Debentures or any unpaid interest accrued thereon. The Indenture also provides that the Fund will not make any payment, and the holders of the Debentures will not be entitled to demand, institute proceedings for the collection of, or receive any payment or benefit (including without any limitation by set-off, combination of accounts or realization of security or otherwise in any manner whatsoever) on account of indebtedness represented by the Debentures (a) in a manner inconsistent with the terms (as they exist on the date of issue) of the Debentures or (b) at any time when an event of default has occurred under the Senior Indebtedness and is continuing and the notice of such event of default has been given by or on behalf of the holders of Senior Indebtedness to the Fund, unless the Senior Indebtedness has been repaid in full.

The Debentures are also effectively subordinate to claims of creditors of each subsidiary of the Fund except to the extent the Fund or one of its other subsidiaries is a creditor of such subsidiary ranking at least *pari passu* with such other creditors.

### **Priority Over Fund Distributions**

The Declaration of Trust provides that certain expenses of the Fund must be deducted in calculating the amount to be distributed to the Unitholders. Accordingly, the funds required to satisfy the interest payable on the Debentures, as well as the amount payable upon redemption or maturity of the Debentures or upon an Event of Default (as defined below), will be deducted and withheld from the amounts that would otherwise be payable as distributions to Unitholders.

### **Change of Control of the Fund**

Upon an occurrence involving the acquisition by any person, or group of persons acting jointly or in concert, of voting control of or direction over 66 2/3% or more of the outstanding Units (after giving effect to the conversion or exchange of securities convertible into, exchangeable for or otherwise carrying the right to acquire Units) ("**Change of Control**"), each holder of Debentures may require the Fund to purchase, on the date which is 30 days following the giving of notice of the Change of Control as set out below (the "**Put Date**"), the whole or any part of such holder's Debentures at a price equal to 101% of the principal amount thereof (the "**Put Price**") plus accrued and unpaid interest to the Put Date. The Indenture contains notification provisions to the following effect: (i) the Fund will promptly give written notice to the Debenture Trustee of the occurrence of a Change of Control and the Debenture Trustee will thereafter give to the holders of Debentures notice of the Change of Control, the repayment right of the holders of Debentures and the right of the Fund to redeem untendered Debentures under certain circumstances, and (ii) a holder of Debentures, to exercise the right to require the Fund to purchase its Debentures, must deliver to the Debenture Trustee, not less than five business days prior the Put Date, written notice of the holder's exercise of such right, together with the Debentures with respect to which the right is being exercised, duly endorsed for transfer.

If 90% or more in aggregate principal amount of the Debentures outstanding on the date of the giving of notice of the Change of Control have been tendered for purchase on the Put Date, the Fund will have the right to redeem all the remaining Debentures on such date at the Put Price, together with accrued and unpaid interest to such date. Notice of such redemption must be given by the Fund to the Debenture Trustee prior to the Put Date, and as soon as possible thereafter, by the Debenture Trustee to the holders of the Debentures not tendered for purchase.

### **Interest Payment Option**

From time to time, subject to applicable regulatory approval and provided no Event of Default has occurred, the Fund may make the Unit Payment Interest Election. The Indenture provides that, upon such election, the Debenture Trustee shall, subject to any applicable securities laws (a) accept delivery from the Fund of Units, (b) accept bids with respect to, and consummate sales of, such Units, each as the Fund shall direct in its absolute discretion, (c) invest the proceeds of such sales in short-term permitted government securities (as defined in the Indenture) that mature prior to the applicable date on which interest on the Debentures is payable (the “**Interest Payment Date**”) in accordance with the Fund’s obligation to pay interest on the Debentures (the “**Interest Obligation**”) in accordance with the Indenture, and use the proceeds received from such permitted government securities, together with any proceeds from the sale of Units not invested as aforesaid, to satisfy the Interest Obligation, and (d) perform any other action necessarily incidental thereto.

The Indenture sets forth the procedures to be followed by the Fund and the Debenture Trustee in order to effect the Unit Interest Payment Election. If a Unit Interest Payment Election is made, the sole right of a Debentureholder in respect of interest will be to receive cash from the Debenture Trustee out of the proceeds of the sale of Units (plus any amount received by the Debenture Trustee from the Fund attributable to any fractional Units) in full satisfaction of the Interest Obligation, and the holder of such Debentures will have no further recourse to the Fund in respect of the Interest Obligation.

Neither the Fund’s making of the Unit Interest Payment Election nor the consummation of sales of Units will (a) result in the holders of the Debentures not being entitled to receive on the applicable Interest Payment Date cash in an aggregate amount equal to the interest payable on such Interest Payment Date, or (b) entitle such holders to receive any Units in satisfaction of the Interest Obligation.

### **Events of Default**

The Indenture provides that an event of default (“**Event of Default**”) in respect of the Debentures will occur if any one or more of the following described events has occurred and is continuing with respect of the Debentures: (i) failure for 15 days to pay interest on the Debentures when due; (ii) failure to pay principal or premium, if any, when due on the Debentures, whether at maturity, upon redemption, by declaration or otherwise; (iii) certain events of bankruptcy, insolvency or reorganization of the Fund under bankruptcy or insolvency laws; or (iv) default in the observance or performance of any material covenant or condition of the Indenture and continuance of such default for a period of 30 days after notice in writing has been given by the Debenture Trustee to the Fund specifying such default and requiring the Fund to rectify the same. If an Event of Default has occurred and is continuing, the Debenture Trustee may, in its discretion, and shall, upon request of holders of not less than 25% in principal amount of the principal amount of Debentures, declare the principal of and interest on all outstanding Debentures to be immediately due and payable. In certain cases, the holders of a majority of the principal amount of the Debentures then outstanding may, on behalf of the holders of all Debentures, waive any Event of Default and/or cancel any such declaration upon such terms and conditions as such holders shall prescribe.

### **Offers for Debentures**

The Indenture contains provisions to the effect that if an offer is made for the Debentures which is a take-over bid for Debentures within the meaning of the *Securities Act* (Ontario) and not less than 90% of the Debentures (other than Debentures held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Debentures held by the holders of Debentures who did not accept the offer on the terms offered by the offeror.

## **Modification**

The rights of the holders of the Debentures as well as holders of any other series of debentures that may be issued under the Indenture may be modified in accordance with the terms of the Indenture. For that purpose, among others, the Indenture contains certain provisions which will make binding on all holders of debentures resolutions passed at meetings of the holders of debentures by votes cast thereat by holders of not less than 66⅔% of the principal amount of the debentures present at the meeting or represented by proxy, or rendered by instruments in writing signed by the holders of not less than 66⅔% of the principal amount of the debentures. In certain cases, the modification will, instead or in addition, require assent by the holders of the required percentage of debentures of each particularly affected series.

## **Limitation on Non-Resident Ownership**

The Declaration of Trust provides that at no time may Non-Residents be the beneficial owners of more than 49% of the Units, including any Units which are issued upon conversion, redemption or maturity of the Debentures. The Debenture Trustee may, upon receipt of written direction of the Fund, require declarations as to the jurisdictions in which beneficial owners of Debentures are resident. If the Fund becomes aware as a result of requiring such declarations as to beneficial ownership, that the beneficial owners of 45% or more of the Units then outstanding, on a fully diluted basis, are, or may be, Non-Residents or that such a situation is imminent, it shall make a public announcement thereof and shall notify the Debenture Trustee in writing and the Debenture Trustee shall not accept a subscription from or issue or register a transfer of Debentures to a person unless the person provides a declaration that the person is not a Non-Resident. If, notwithstanding the foregoing, the Fund determines that more than 45% of the Units, on a fully diluted basis, assuming conversion of the Debentures are held by Non-Residents, the Fund shall send a notice to Non-Resident holders of Debentures, chosen in inverse order to the order of acquisition or registration of the Debentures or in such manner as the Fund may consider equitable and practicable, requiring them to sell their Debentures or a portion thereof within a specified period of not less than 60 days. If the Debentureholders receiving such notice have not sold the specified number of Debentures or provided the Fund with satisfactory evidence that they are not Non-Residents within such period, the Fund may on behalf of such Debentureholder sell such Debentures, and, in the interim, shall suspend the rights attached to such Debentures. Upon such sale the affected holders shall cease to be holders of Debentures, and their rights shall be limited to receiving the net proceeds of sale upon surrender of such Debentures. The Trustees have similar obligations in respect of the Units which are summarized in this annual information form under the section “Description of the Fund – Limitations on Non-Resident Unitholders.”

## **Book-Entry System**

The Debentures were issued in “book-entry only” form and must be purchased or transferred through a CDS Participant (as defined below). On issuance, the Debenture Trustee caused the Debentures to be delivered to CDS and registered in the name of its nominee. The Debentures are evidenced by a single book-entry only certificate. Registration of interests in and transfers of the Debentures will be made only through the depository service of CDS.

Except as described below, a purchaser acquiring a beneficial interest in the Debentures will not be entitled to a certificate or other instrument from the Debenture Trustee or CDS evidencing that purchaser’s interest therein, and such purchaser will not be shown on the records maintained by CDS, except through a CDS Participant. Such purchaser will receive a confirmation of purchase from the registered dealer from whom Debentures are purchased.

The Fund does not assume any liability for: (a) any aspect of the records relating to the beneficial ownership of the Debentures held by CDS or the payments relating thereto; (b) maintaining, supervising or reviewing any records relating to the Debentures; or (c) any advice or representation made by or with respect to CDS and contained in this annual information form and relating to the rules governing CDS or any action to be taken by CDS or at the direction of the broker, dealer, bank, other financial institution or other person for whom, from time to time, CDS effects book-entry for Debentures deposited with CDS (“**CDS Participant**”). The rules governing CDS provide that it acts as the agent and depository for the CDS Participants. As a result, CDS Participants must look solely to CDS and beneficial owners of Debentures must look solely to CDS Participants for the payment of the principal and interest on the Debentures paid by or on behalf of the Fund to CDS.

As indirect holders of Debentures, investors should be aware that they (subject to the situations described below): (a) may not have Debentures registered in their name; (b) may not have physical certificates representing their interest in the Debentures; (c) may not be able to sell the Debentures to institutions required by law to hold physical certificates for securities they own; and (d) may be unable to pledge Debentures as security.

The Debentures will be issued to beneficial owners of Debentures in fully registered and certificate form only if: (a) required to do so by applicable law; (b) the book-entry only system ceases to exist; (c) the Fund or CDS advises the Debenture Trustee that CDS is no longer willing or able to properly discharge its responsibilities as depository with respect to the Debentures and the Fund is unable to locate a qualified successor; (d) the Fund, at its option, decides to terminate the book-entry only system through CDS; or (e) after the occurrence of an Event of Default (as described under “Description of the Debentures - Events of Default”), CDS Participants acting on behalf of beneficial owners of Debentures representing, in the aggregate, more than 25% of the aggregate principal amount of the Debentures then outstanding advise CDS in writing that the continuation of a book-entry only system through CDS is no longer in their best interest provided the Debenture Trustee has not waived the Event of Default in accordance with the terms of the Indenture.

Upon the occurrence of any of the events described in the immediately preceding paragraph, the Debenture Trustee must notify CDS, for and on behalf of CDS Participants and beneficial owners of Debentures, of the availability through CDS of debenture certificates in fully registered and certificate form. Upon surrender by CDS of the single certificate representing the Debentures and receipt of instructions from CDS for the new registrations, the Debenture Trustee will deliver the Debentures in the form of debenture certificates in fully registered and certificate form and thereafter the Fund will recognize the holders of such debenture certificates in fully registered and certificate form as holders of debentures under the Indenture.

Interest on the Debentures will be paid directly to CDS while the book-entry only system is in effect. If debenture certificates in fully registered and certificate form are issued, interest will be paid by cheque drawn on the Fund and sent by prepaid mail to the registered holder or by such other means as may become customary for the payment of interest. Payment of principal, including payment in the form of Units if applicable, and the interest due, at maturity or on a redemption date, will be paid directly to CDS while the book-entry only system is in effect. If debenture certificates in fully registered and certificate form are issued, payment of principal, including payment in the form of Units if applicable, and interest due, at maturity or on a redemption date, will be paid upon surrender thereof at any office of the Debenture Trustee or as otherwise specified in the Indenture.

## **RISK FACTORS**

An investment in securities of the Fund involves a number of risks and uncertainties. This section describes the general material risks that management of the Fund believes may impact securityholders and/or the Fund. If any of the following risks actually occur, the Fund’s business, results of operations and financial condition, and the amount of cash available for distribution to Unitholders, could suffer. Further, the risks described below are not the only risks that the Fund faces. Additional risks not currently known to management of the Fund or that are currently deemed immaterial also may have a negative impact on securityholders and/or the Fund.

### **Canadian Income Tax Considerations**

#### ***SIFT Rules***

On June 22, 2007 the *Income Tax Act* (Canada) (the “**Tax Act**”) was amended to create a new tax regime (the “**SIFT Rules**”) for certain publicly traded income trusts. The SIFT Rules apply to trusts that are resident in Canada for purposes of the Tax Act, that hold one or more “non-portfolio properties”, and the trust units of which are listed on a stock exchange or other public market (a “**SIFT Trust**”). A SIFT Trust effectively is subject to tax on its income from non-portfolio properties and taxable capital gains from dispositions of non-portfolio properties paid, or made payable, to unitholders at a rate comparable to the combined federal and provincial corporate income tax rate. For the purposes of the SIFT Rules the Fund became a SIFT Trust, and the taxes under the SIFT Rules therefore became applicable to the Fund, effective January 1, 2011.

The Fund expects that the SIFT Rules will result in adverse tax consequences to the Fund and certain Unitholders and may affect the level of the Fund's cash distributions. In particular, management of the Fund believes that the SIFT Rules will reduce the net amounts the Fund has available to distribute to Unitholders to the extent of any tax payable by the Fund on non-portfolio earnings after the time the Fund becomes a SIFT Trust.

As part of its ongoing strategic planning, the Fund will continue to examine and evaluate its various strategic alternatives, including its ability to reorganize its legal and tax structure to mitigate the expected impact of the SIFT Rules. See "Risk Factors - Risks Relating to the Units – Change in Structure of the Fund".

#### ***Mutual Fund Trust Status***

The Fund currently qualifies as a mutual fund trust for purposes of the Tax Act and intends to continue to so qualify. The Fund may not, however, always be able to satisfy any future requirement for the maintenance of mutual fund trust status. Should the status of the Fund as a mutual fund trust be lost or successfully challenged by a relevant tax authority, certain materially adverse consequences may arise for the Fund and Unitholders.

To qualify as a "mutual fund trust" for purposes of the Tax Act, the Fund must continuously satisfy certain requirements as to the nature of its undertakings (primarily that it must restrict its activities to the investment of funds), its ability to distribute Units to the public, the dispersal of ownership of its Units and the requirement that, unless it meets certain exceptions, it must not be reasonable to consider that it was established or is maintained primarily for the benefit of Non-Residents.

To the extent the Fund believes such measures are necessary, the Fund may take certain measures in the future to ensure the Fund maintains its status as a mutual fund trust. These measures could be adverse to certain holders of Units.

#### ***Ceasing To Be A Qualified Investment For Certain Plans***

If the Fund ceases to qualify as a "mutual fund trust", the Units will cease to be qualified investments for trusts governed by "registered retirement savings plans", "registered retirement income funds", "deferred profit sharing plans" and "registered education savings plans", each as defined in the Tax Act (collectively, "**Exempt Plans**") and for trusts governed by "tax-free savings accounts", as defined in the Tax Act. Where, at the end of any month, an Exempt Plan holds Units that are not qualified investments, the Exempt Plan must, in respect of that month, pay a tax under Part XI.1 of the Tax Act equal to 1% of the fair market value of the Units at the times such Units were acquired by the Exempt Plan. In addition, where a trust governed by a "registered retirement savings plan" or "registered retirement income fund" holds Units that are not qualified investments, such trust will become taxable on its income attributable to the Units while they are not qualified investments, including the full amount of any capital gain realized on a disposition of Units while they are not qualified investments. Where a trust governed by a "registered education savings plan" holds Units that are not qualified investments, the plan's registration may be revoked. Where a trust governed by a "tax-free savings account" holds Units that cease to be qualified investments, the holder of that "tax-free savings account" may be required to pay a tax under Part XI.01 of the Tax Act equal to 50% of the fair market value of such Units at the time the Units ceased to be a qualified investment.

#### ***Interest Deductibility***

Income fund structures generally involve a significant amount of inter-company or similar debt, generating substantial interest expense, which reduces earnings and therefore income tax payable. There can be no assurance that taxation authorities will not seek to challenge the amount of interest expense deducted on the Subsidiary Debt. Management believes that the interest expense inherent in the structure of the Fund is supportable and reasonable in the circumstances. If such a challenge were to succeed it could adversely affect the amount of distributable cash available.

***Further Changes in Legislation.***

There can be no assurance that income tax laws related to the status of SIFT Trusts, the taxation of SIFT Trusts, the status of “mutual fund trusts”, the taxation of “mutual fund trusts”, or other matters will not be changed in a manner which adversely affects the Fund or Unitholders.

**Risks Relating to the Units of the Fund**

Risk factors specific to the Units include, but are not limited to the following:

***Cash Distributions are Not Guaranteed and will Fluctuate with the Performance of Arctic Glacier***

A return on an investment in Units of the Fund is not comparable to the return on an investment in a fixed-income security. The recovery of an investment in Units is at risk, and any anticipated return on an investment in Units is based on many performance assumptions.

In September 2008, the Fund announced an indefinite suspension of its monthly cash distributions to Unitholders. The Trustees of the Fund are fully aware of the significance of distributions to Unitholders. However, the Trustees of the Fund felt that this measure was necessary to improve balance sheet strength and better position the Fund for the long term. The Fund will move to reinstate distributions when it is deemed appropriate by the Trustees to do so. The ability of the Fund to make cash distributions and the actual amount distributed will be dependant upon numerous factors including, but not limited to, the application of the SIFT Rules to the Fund, the financial performance of Arctic Glacier and its subsidiaries, their debt covenants and obligations, their working capital requirements, their future capital requirements and the future tax treatment of income trusts. In addition, the market value of the Units may decline if the Fund is unable to meet its cash distribution targets in the future and that decline may be significant. See "Risk Factors – Canadian Income Tax Considerations – SIFT Rules".

The trustees do not anticipate paying distributions for the foreseeable future as the Fund’s lending agreements effectively prevent payment of distributions through February 2014.

It is important for a person making an investment in Units of the Fund to consider the particular economic and risk factors that may affect both the Fund and the industry in which the Fund, through its subsidiaries, operates and which may therefore affect the stability of the cash distributions on the Units of the Fund. See the other risk factors set out in this section which describes Arctic Glacier’s assessment of those risk factors, as well as the potential consequences to a Unitholder if a risk should occur. Also see “Recent Developments – Reduction/Cancellation of Cash Distributions”, “Description of the Business – Corporate Strategy – Financial Strategy in Current Economic Environment” and “Risk Factors” for a discussion of various factors that may or presently have an effect upon the distributions of the Fund.

Further, at the option of the Trustees of the Fund, additional “in-kind” Units may be issued in satisfaction of any distribution of the Fund to Unitholders (i.e. in lieu of cash distributions) on a pro rata basis to the extent the Fund does not have available cash to fund such distributions. In general, an “in-kind” distribution of Units to a Canadian resident will be treated as income for income tax purposes (and is subject to Canadian income tax). In such circumstances, each Unit received will have a cost base to the Unitholder of an amount equal to the fair market value of the Unit at the time of the distribution.

***Dependence Upon Arctic Glacier***

The Fund is an unincorporated open-ended, limited purpose mutual fund trust which is entirely dependent upon the operations and assets of Arctic Glacier and its subsidiaries. Accordingly, the Fund’s ability to make cash distributions to the Unitholders will be dependent upon the operations and assets of Arctic Glacier and its subsidiaries and the actual amounts distributed to the Fund, directly and indirectly, by Arctic Glacier and its subsidiaries.

### ***Change in the Structure of the Fund***

As a result of the adoption of the SIFT Rules, the Fund may, from time to time, evaluate the organizational and capital structure of the Fund and its subsidiaries to ensure that it remains appropriate and efficient for the business of the Fund and the benefit of Unitholders. Such evaluation and review may result in the recommendation that Unitholders approve a conversion of the Fund to a corporation.

In the event that such a recommendation were to be made, approved and implemented, the Fund's income trust structure would be reorganized into a corporation and the Unitholders would become shareholders of that corporation which would own all of the Units of the Fund. Each Unitholder would exchange its Units for shares of the successor corporation. Such a reorganization would be subject to approval of the Unitholders and to such other approvals as may be required, including regulatory, stock exchange and court approvals.

In connection with any such reorganization, the current distribution policies of the Fund would be replaced by the dividend policy of the successor corporation which may result in a decrease in the cash amount distributed compared with the then current cash distributions of the Fund. Furthermore, the reorganization would result in the conversion of the Fund into an entity that would be subject to Canadian federal and provincial income tax.

Any such reorganization may have an adverse impact on the market price of the Units. Further, any such reorganization may have adverse tax consequences to a Unitholder depending on their own particular circumstances.

### ***Return of Capital***

The following risk factors are associated with the return of capital:

- cash distributions do not represent a “yield” in the traditional sense as they may represent both return of capital and return on investment;
- a return on an investment in the Fund is not comparable to the return on an investment in a fixed-income security;
- the recovery of initial investment is at risk, and the anticipated return on an investment in the Fund is based on many performance assumptions;
- the actual amount of distributions will depend upon numerous factors including:
  - the ability of Arctic Glacier to maintain or grow its business;
  - changes in the underlying market conditions that may adversely affect the revenue of Arctic Glacier;
  - any changes in applicable tax regulations that may adversely affect the ability of the Fund to make distributions of its available cash; and
  - applicable restrictions as contained in the Fund's lending agreements.
- cash distributions may be implemented, increased, reduced or suspended at any time at the discretion of the Trustees;
- there can be no assurance regarding the amount of income to be generated by the subsidiaries of the Fund and paid to the Fund;
- cash distributions are not guaranteed and will fluctuate with the performance of the Fund's subsidiaries; and
- the market value of the Units may decline if the Fund is unable to meet its cash distribution targets in the future, and that decline may be significant.

It is important to note that the trustees do not anticipate paying distributions for the foreseeable future as the Fund's lending agreements effectively prevent payment of distributions through February 2014.

### ***Structural Subordination of the Units***

In the event of a bankruptcy, liquidation or reorganization of the Fund or its subsidiaries, holders of certain of their indebtedness and certain trade creditors will generally be entitled to payment of their claims from the assets of the Fund or its subsidiaries before any assets are made available for distribution to the Fund. The Units will be effectively subordinated to most of the indebtedness and other liabilities of the Fund and its subsidiaries. Neither the Fund nor its subsidiaries will be limited in their ability to incur secured or unsecured indebtedness.

### ***Redemption Right***

It is anticipated that the redemption right will not be the primary mechanism for Unitholders to liquidate their investments. Subsidiary Debt or Subsidiary Shares which may be distributed in specie to Unitholders in connection with a redemption will not be listed on any stock exchange and no established market is expected to develop for such Subsidiary Debt or Subsidiary Shares. Cash redemptions are subject to limitations. See “Description of The Fund — Redemption Right”.

A Subsidiary Share, Subsidiary Debt or other property received as a result of redemption of Units may not be a qualified investment for an Exempt Plan which could give rise to adverse consequences to an Exempt Plan or the annuitant under the Exempt Plan.

### ***Nature of Units***

The Units do not represent a traditional investment and should not be viewed as “shares” in either the Fund or Arctic Glacier. As holders of Units, Unitholders will not have the statutory rights normally associated with ownership of shares of a company including, for example, the right to bring “oppression” or “derivative” actions. The Units represent a fractional interest in the Fund. The Fund’s primary assets are the Subsidiary Debt and Subsidiary Shares. The Units are not “deposits” within the meaning of the *Canada Deposit Insurance Corporations Act* (Canada) and are not insured under the provisions of that Act or any other legislation. Furthermore, the Fund is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

### ***Distribution of Securities on Redemption or Termination of the Fund***

Upon a redemption of Units or termination of the Fund, the Trustees may distribute securities and/or obligations of the Fund or held by the Fund directly to the Unitholders, subject to obtaining any required regulatory approvals. Such securities and/or obligations so distributed may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, depending upon the circumstances at the time.

### ***Unitholder Limited Liability***

Certain provinces in Canada have passed legislation that creates a statutory limitation on the liability of unitholders of income trusts such as the Fund. The legislation provides that a Unitholder will not be, as a beneficiary, liable for any act, default, obligation or liability of the Trustees that arises after the legislation comes into effect.

Further, the Declaration of Trust provides that no Unitholder will be subject to any liability in connection with the Fund or its obligations and affairs and, in the event that a court determines Unitholders are subject to any such liabilities, the liabilities will be enforceable only against, and will be satisfied only out of, the Unitholder’s share of the Fund’s assets. Pursuant to the Declaration of Trust, the Fund will indemnify and hold harmless each Unitholder from any cost, damages, liabilities, expenses, charges and losses suffered by a Unitholder resulting from or arising out of such Unitholder not having such limited liability.

Further, the Declaration of Trust provides that the Trustees and the Fund will make reasonable efforts to include a provision in all written instruments signed by or on behalf of the Fund to the effect that such obligation will not be binding upon Unitholders personally. Notwithstanding the terms of the Declaration of Trust and the *Income Trust*

*Liability Act* (Alberta), Unitholders may not be protected from liabilities of the Fund to the same extent as a shareholder is protected from the liabilities of a corporation. Personal liability may also arise in respect of claims against the Fund (to the extent that claims are not satisfied by the Fund) that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities. The possibility of any personal liability to Unitholders of this nature arising is considered unlikely in the view of the Fund due to the fact that the primary activity of the Fund is to hold securities, and all of the operations will be carried on by Arctic Glacier, directly or indirectly.

The activities of the Fund and its wholly-owned subsidiary, Arctic Glacier, will be conducted, upon the advice of counsel, in such a way and in such jurisdictions as to avoid as far as possible any material risk of liability to the Unitholders for claims against the Fund including, where commercially reasonable, by obtaining appropriate insurance, where available, for the operations of Arctic Glacier and, where commercially reasonable, having written agreements signed by or on behalf of the Fund include a provision that such obligations are not binding upon Unitholders personally.

### ***Capital Investment***

The timing and amount of capital expenditures will directly affect the amount of cash available for distribution to Unitholders. If and when reinstated, cash distributions may be reduced, or even eliminated, at times when significant capital or other expenditures are made.

### ***The Fund May Issue Additional Units Diluting Existing Unitholders' Interests***

The Declaration of Trust authorizes the Fund to issue an unlimited number of Units for the consideration and on those terms and conditions as are established by the Trustees without the approval of any Unitholders. Additional Units issued by the Fund may be dilutive to Unitholders.

### ***Restrictions on Potential Growth***

If and when cash distributions are reinstated, the payout by Arctic Glacier of substantially all of its operating cash flow will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of those funds could limit the future growth of Arctic Glacier and its cash flow.

### ***Management and Operation of Arctic Glacier***

The board of directors of Arctic Glacier oversees the management and operation of Arctic Glacier's business. As a result, holders of Units will have limited say in matters affecting the operation of Arctic Glacier and, if such holders are in disagreement with the decisions of the board of directors of Arctic Glacier, they will have limited recourse. The control exercised by the board of directors of Arctic Glacier may make it more difficult for others to attempt to gain control or influence the activities of Arctic Glacier's business.

### **Risks Relating to the Debentures of the Fund**

Risk factors specific to the Debentures include, but are not limited to, the following:

#### ***Investment Eligibility***

The Fund will endeavour to ensure that the Debentures (and the Units issuable upon conversion of the Debentures) continue to be qualified investments for Exempt Plans. No assurance can be given in this regard. The Tax Act imposes penalties for the acquisition or holding of non-qualified investments.

#### ***Prior Ranking Indebtedness***

The Debentures rank *pari passu* with any indebtedness that is not Senior Indebtedness and are subordinate to all Senior Indebtedness, including debt owed to trade creditors of the Fund. The Debentures are also effectively subordinate to claims of creditors of each subsidiary of the Fund except to the extent the Fund is directly, or

indirectly through one of its other subsidiaries, a creditor of such subsidiary ranking at least *pari passu* with such other creditors. See “Description of Debentures — Subordination”.

#### ***Absence of Covenant Protection***

The Indenture does not restrict the Fund or any of its subsidiaries from incurring additional indebtedness or from mortgaging, pledging or charging its assets to secure any indebtedness. The Indenture does not contain any provisions specifically intended to protect holders of the Debentures in the event of a future leveraged transaction involving the Fund or any of its subsidiaries.

#### ***Redemption Prior to Maturity***

The Debentures may be redeemed, at the option of the Fund, at any time and from time to time after July 31, 2009, at the redemption prices set for the under “Description of the Debentures – Redemption and Purchase”, together with any accrued and unpaid interest. Holders of Debentures should assume that this redemption option will be exercised if the Fund is able to refinance at a lower interest rate or it is otherwise in the interest of the Fund to redeem the Debentures.

#### ***Inability to Fund Purchase of Debentures***

The Fund is required to offer to purchase all outstanding Debentures upon the occurrence of a Change of Control. However, it is possible that following a Change of Control, the Fund will not have sufficient funds at that time to make the required purchase of outstanding Debentures or that restrictions contained in other indebtedness will restrict those purchases. See “Description of Debentures — Change of Control of the Fund”.

#### ***Dilutive Effects on Holders of Units***

The Fund may issue Units in connection with the conversion, redemption or repayment of the Debentures. Accordingly, holders of Units may suffer dilution.

#### ***Conversion Right Following Certain Transactions***

In the event of certain transactions, pursuant to the terms of the Indenture, each Debenture will become exchangeable for securities, cash or property receivable by a holder of Units in the kind and amount of securities, cash or property into which the Debenture was exchangeable immediately prior to the transaction. This change could substantially lessen or eliminate the value of the conversion privilege associated with the Debentures in the future.

#### **Risks Relating to Arctic Glacier**

Risk factors specific to Arctic Glacier include, but are not limited to, the following:

#### ***Maturity Date for Debentures***

The Fund currently has 6.50% extendible convertible unsecured subordinated debentures of the Fund (the “**Debentures**”) in the aggregate principal amount of C\$90.6 million maturing on July 31, 2011. In September 2010, the Fund engaged TD Securities Inc. of Toronto, Ontario as financial advisor to conduct a comprehensive review of financing and strategic alternatives, seek submission of proposals from interested parties and execute a financing or strategic transaction. The Fund is working towards completing such a financing or strategic transaction. However, at the present time it cannot be certain if the Fund will be successful in executing a transaction prior to the maturity of the Debentures. In the event that the Fund is unable to complete a financing or strategic transaction that allows it to refinance the Debentures at or prior to maturity, the Fund has the option, on not less than 30 days prior notice and subject to applicable regulatory approval, to satisfy its obligations related to the debentures by issuing Fund Units to the Debentureholders. The Fund is seeking to refinance those Debentures and is currently reviewing and evaluating financing and strategic alternatives available to the Fund with the objective of enhancing Unitholder value. There can be no assurance that any particular alternative will be available or pursued, or of the specific nature of any transaction that may occur. See “Description of the Debentures – Payment on Redemption or Maturity, Financial

Strategy in Current Economic Environment” and “Recent Developments - Special Committee to Evaluate Financing and Strategic Alternatives.”

### ***Financial Strategy In Current Economic Environment***

See “Financial Strategy In Current Economic Environment”.

### ***US Antitrust Investigations***

See the sections of this annual information form entitled “Recent Developments – US Antitrust Investigation and Related Matters” for disclosure on certain legal and regulatory proceedings and investigations in which the Arctic Glacier and the Fund are involved. It is not known at this time how long the various US state antitrust investigations will continue. If these investigations continue for a lengthy period of time, this could have a continued negative impact on the value of the Fund’s Units. Further, if the investigations continue to require the utilization by Arctic Glacier of substantial time and financial resources, the financial performance of Arctic Glacier and the Fund could be negatively impacted which could in turn negatively impact the value of the Fund’s Units. Further, the final outcome with respect these investigations and related litigation cannot be predicted at the present time. If the final outcome is not favourable to the Fund and Arctic Glacier, the operations and financial performance could be negatively impacted which could in turn negatively impact the value of the Fund’s Units.

### ***Fluctuations in Operating Results and Seasonality***

Arctic Glacier’s operating results have been and are expected to continue to be subject to quarterly and other fluctuations due to a variety of factors including changes in purchasing patterns, pricing policies and weather conditions. This could affect Arctic Glacier’s ability to finance future activities. Operations could also be adversely affected by general economic downturns or limitations on spending.

### ***Competition***

The packaged ice industry is very competitive. Arctic Glacier faces a number of competitors including smaller independent ice manufacturers and retailers that manufacture and package ice at individual store locations as well as one larger competitor with a similar strategy to that of Arctic Glacier. Competition exists mainly on a regional basis with the main competitive factors being price, service and quality. Additionally, there can be no assurance that Arctic Glacier’s competitors will not achieve greater market acceptance due to pricing or other factors.

### ***Interest Rates***

Arctic Glacier and its subsidiaries may have certain floating rate loans and may be negatively impacted by increases in interest rates, the effect of such increases would be to reduce the amount of cash available for distributions. If interest rates decline, however, cash available for distributions may increase. In addition, it is anticipated that the market price of the Units at any given time will be affected by the level of interest rates prevailing at such time. A rise in interest rates may negatively impact the market price of the Units, and vice-versa.

### ***Currency Risk***

A substantial portion of Arctic Glacier’s sales, earnings and cash flows are now, and are expected to continue to be, realized in currencies other than Canadian dollars, primarily the United States dollar. Fluctuations in the exchange rate between the Canadian dollar and such other currencies may have a material adverse effect on Arctic Glacier’s results of operations.

### ***Risk of Product Liability***

Arctic Glacier is subject to the inherent business risk of product liability claims and adverse publicity if any of its products are alleged to have resulted in adverse effects to a user of such products. Arctic Glacier currently carries product liability insurance that management believes is adequate under Arctic Glacier’s current circumstances, although there can be no assurance that such circumstances will not change and that such insurance will remain

available at reasonable costs, if at all. In the event of an inadequately insured product liability claim, Arctic Glacier's business and financial condition could be materially adversely affected.

#### ***Dependence on Key Personnel***

The success of Arctic Glacier is dependent on the services of a number of members of its senior management. The experience and talents of these individuals will be a significant factor in Arctic Glacier's continued success and growth. The loss of one or more of these individuals could have a material adverse effect on Arctic Glacier's operations and business prospects. Arctic Glacier maintains "key man" insurance on certain members of its senior management. Key man insurance coverage of C\$2,000,000 has been obtained for Keith McMahon. Benefits, in the event of death of Mr. McMahon, will be paid to Arctic Glacier in order to reimburse costs associated with the impact of the death of this senior executive.

#### ***Potential Undisclosed Liabilities Associated with Acquisitions***

To the extent that prior owners of businesses acquired by Arctic Glacier failed to comply with or otherwise violated applicable laws, Arctic Glacier, as a successor owner, may be financially responsible for these violations. The discovery of any material liabilities could have a material adverse effect on Arctic Glacier's business, financial condition or future prospects.

#### ***Acquisitions/Need for Future Financing***

Arctic Glacier intends to grow through acquisitions. However, due to the on-going legal proceedings and investigations referred to under "Recent Developments – Antitrust Investigation and On-Going Litigation", and the current market value of the Fund's Units, Arctic Glacier does not currently have access to the financing necessary to pursue significant additional acquisitions at this time. Once the issues affecting the Fund and Arctic Glacier that stem from those proceedings and investigations have been resolved, and once the market value of the Fund's Units returns to an acceptable level, Arctic Glacier intends to continue to grow through contiguous acquisitions, with a focus on growing its presence in the United States. Subject to the ability of the Fund and Arctic Glacier to obtain financing on acceptable terms, Arctic Glacier intends to finance its continued acquisition strategy through future Unit offerings and/or debt financings. However, there can be no assurance that Arctic Glacier will find suitable companies for acquisition or that Arctic Glacier will be able to access capital on acceptable terms in order to have sufficient capital resources available to implement its acquisition strategy.

#### ***Expansion into New Markets in the United States***

Arctic Glacier views markets in Canada and the United States that it does not currently service as potential markets for expansion of Arctic Glacier's business. The continuing expansion into new markets in the United States is Arctic Glacier's primary focus. There is no assurance that any market for Arctic Glacier's products will develop in these jurisdictions. Arctic Glacier has not determined the extent of competition, if any, it faces or may face in these markets. The presence of any competition in certain jurisdictions may limit Arctic Glacier's capabilities to successfully operate in these markets. Failure to expand into these markets could limit the rate of growth of Arctic Glacier.

#### ***Integration of Acquisitions***

A key element of Arctic Glacier's business strategy is to seek acquisition targets in order to expand and enhance its business. In the event that any significant acquisition cannot be successfully integrated into Arctic Glacier's operations or performs below expectation, Arctic Glacier's business could be materially and adversely affected.

#### ***Effects of Price Changes in Raw Materials***

Arctic Glacier uses large quantities of water and energy in the manufacture and storage of its packaged ice products. Arctic Glacier also uses large quantities of plastic bags. If the prices of such resources should increase from recent levels, Arctic Glacier could experience sudden and significant increases in the cost of plastic bags, fuel, or utilities such as water and electricity. Arctic Glacier may be unable to pass these increases along to its customers.

Historically, market prices for plastic bags have fluctuated in response to a number of factors, including changes in polyethylene prices. Arctic Glacier historically has not attempted to pass through changes in the price of plastic bags, therefore, a large, abrupt change in the price of plastic bags, water, electricity, fuel or other commodity prices could have a material adverse effect on Arctic Glacier's business, results of operations and debt service capabilities.

#### ***Compliance with Government Regulations***

The food industry in Canada and the United States is subject to numerous government standards and regulations. While Arctic Glacier believes that it is currently in compliance with all applicable government standards and regulations, there can be no assurance that all of Arctic Glacier's facilities will be able to continue to comply with all applicable standards and regulations. In particular, if one or more of Arctic Glacier's facilities in Canada fails to meet government standards during inspection, Arctic Glacier may lose its certification. If this occurs, certified facilities and Arctic Glacier may be adversely affected.

#### ***Limitations on the Fund's Subsidiaries to Utilize Their Tax Assets***

As of December 31, 2010, the subsidiaries of the Fund had net operating loss carry-forwards for U.S. federal income tax purposes of approximately \$100 million, of which approximately \$1 million was attributable to entities acquired by subsidiaries of the Fund. Also as of December 31, 2010, the subsidiaries of the Fund had net operating loss carry-forwards for Canadian federal income tax purposes of approximately C\$12 million. There are annual limitations on the utilization of the net operating loss carry-forwards generated by subsidiaries of the Fund due to changes in ownership. There can be no assurance that the subsidiaries of the Fund will be able to utilize their tax assets. If the subsidiaries of the Fund are not able to utilize their tax assets in the manner or in the timeframe that management of Arctic Glacier anticipates, their future after-tax cash flow available for payment of distributions on the Fund's Units may be reduced.

#### ***Lack of Written Customer Agreements***

As is customary in its industry, Arctic Glacier does not generally have written agreements with their customers. As a result, these customers can terminate their relationship with Arctic Glacier at any time without notice or penalty. In addition, even if these customers should decide to continue their relationship with Arctic Glacier, there can be no guarantee that these customers will purchase the same amount of product as in the past, or that purchases will be on similar terms. Any loss of a significant customer, change in the terms of the relationship with a significant customer or a material decrease in the amount of products purchased by a significant customer could have a material adverse affect on the business, results of operation and financial condition of Arctic Glacier and the Fund.

#### ***Debt Financing***

As at December 31, 2010, Arctic Glacier had outstanding indebtedness of \$178.9 million, of which \$178.9 million was principal payments and debt maturing within five years or less. In addition, approximately 3% of that indebtedness was variable rate debt.

On February 10, 2010, subsidiaries of the Fund entered into a four year, \$185 million secured term loan (US\$138.4 million and C\$50.0 million) with a group of lenders including affiliates of CPPIB Investment Inc. and West Face Capital Inc. The loan is secured by a second charge on all assets of the Fund and its subsidiaries and matures on February 10, 2014. The loan bears interest at a rate that is the greater of 11% or LIBOR plus a credit margin of 9%, plus payment in kind ("PIK") interest of 1%. Interest is payable quarterly, except for PIK interest, which is accrued and payable at maturity. The secured term loan requires annual principal repayments of \$1.8 million (US\$1.4 million and C\$0.4 million) on October 31 of each year plus an annual payment based on calculation of excess cash flow, with the balance due at maturity. In connection with the loan, the Fund issued unlisted warrants to the term loan lenders to acquire up to 3.0 million units of the Fund at any time prior to February 9, 2014 at an exercise price of C\$4.00 per Unit. The loan includes a number of financial covenants. The quarterly leverage covenant for debt to EBITDA, as defined by the loan agreement, is 4.00 to 1 until March 2012; 3.75 to 1 from April 2012 until June 2013; and 3.50 to 1 thereafter. A quarterly interest coverage covenant requires a minimum ratio of 1.25 to 1 and a quarterly fixed charge coverage ratio requires a minimum ratio of 1.00 to 1. The Fund is required to maintain minimum liquidity levels of \$15 million at the end of the first and second quarters, \$30 million at the end of the third

quarter and \$40 million at the end of the fourth quarter of each year. Under the restricted payments covenant, the Fund is generally restricted from paying distributions to Unitholders for the term of the agreement. Proceeds of the new term loan were used to repay the maturing senior secured notes, pay fees and expenses related to the refinancing and to reduce the amount outstanding on the revolving term credit facility.

On February 10, 2010, the Fund's lenders also amended terms of the revolving term credit facility to accommodate the new secured term loan. The facility, which is secured by a first charge on all assets of the Fund and its subsidiaries, was reduced in size from \$143.8 million to \$70 million and the maturity date was extended to February 10, 2013. Certain financial covenants of the facility were also amended. The quarterly leverage covenant for debt to EBITDA, as defined by the loan agreement, was increased to 3.95 to 1 until June 2011, 3.75 to 1 from July 2011 until June 2012; and 3.50 to 1 thereafter. The senior and total interest coverage covenants were eliminated. A quarterly senior leverage covenant was added, with a maximum ratio of 1.50 to 1 and the fixed charge coverage covenant was amended with a minimum ratio of 1.00 to 1.

Subsequent to the end of the year, on March 30, 2011, the Fund's term loan lenders amended the terms of the loan in conjunction with providing the required consent necessary for a subsidiary of the Fund to enter into a class action litigation settlement agreement and to provide the Fund with increased liquidity on the revolving term credit facility and improved financial flexibility. The lenders amended the minimum EBITDA covenant to \$45 million until April 1, 2012, and quarterly leverage covenants to 4.9 to 1 for the first quarter of 2011, 5.25 to 1 for the second quarter of 2011, 4.5 to 1 for the third and fourth quarters of 2011 and 5.0 to 1 for the first quarter of 2012. The term loan lenders also increased the PIK interest rate by 1% for the remainder of the term and the cost of the prepayment option by 3%. In connection with this amendment, the term loan lenders required the Fund to amend the exercise price of 3.0 million unlisted warrants that were previously issued to them. The effective date of the amended warrant exercise price will be 10 business days from the date of the amendment. The warrant exercise price has been amended to be the lesser of (i) C\$1.60 per Unit and (ii) an amount calculated as a 20% premium to the volume-weighted average price of Units traded on the Toronto Stock Exchange ("TSX") during the five consecutive trading days ending on the fifth trading day following the effective date of the warrant amendment, provided that the exercise price per warrant shall not be less than the volume weighted average price at which the Units have traded on the TSX during the five consecutive trading days ending on the date prior to March 30, 2011. All other material terms of the unlisted warrants remain the same.

Also on March 30, 2011, the Fund's revolving term credit facility lenders amended the terms of the facility, providing consent for the Fund's subsidiary to enter into a class action settlement agreement and providing for similar covenant amendments.

The ability of Arctic Glacier to make cash distributions to the Fund, which will allow the Fund to make cash distributions or make other payments or advances, are subject to applicable laws and contractual restrictions contained in the financial instruments governing Arctic Glacier's indebtedness as described above. The degree to which Arctic Glacier is leveraged could have important consequences to the holders of the Units, including: that Arctic Glacier's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; that a significant portion of Arctic Glacier's cash flow from operations may be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations and distributions; that certain of Arctic Glacier's borrowings may be at variable rates of interest, which exposes it to the risk of increased interest rates; and that Arctic Glacier may be vulnerable to economic downturns and may be limited in its ability to withstand competitive pressures. Also, there can be no assurance that Arctic Glacier will continue to generate sufficient cash flow from operations to meet required interest and principal payments. Further, Arctic Glacier is subject to the risk that any of its existing indebtedness may not be able to be refinanced upon maturity or that the terms of such financing may not be as favourable as the terms of its existing indebtedness. These factors may adversely affect Arctic Glacier's ability to make cash distributions to the Fund, which in turn may adversely affect the ability of the Fund to make cash distributions.

Arctic Glacier's various credit facilities provide first and second charge security interests on all of its assets to its various lenders. These credit facilities contain numerous terms and covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of Arctic Glacier to create liens or other encumbrances, to pay distributions on its securities or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or

consolidate with another entity. In addition, the credit facilities contain a number of financial covenants that require Arctic Glacier to meet certain financial ratios and financial condition tests. For example, certain of Arctic Glacier's loans require specific leverage and debt service coverage ratios which must be maintained by Arctic Glacier. A failure to comply with the obligations in the credit facilities could result in a default which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the indebtedness under the credit facilities were to be accelerated, there can be no assurance that the assets of Arctic Glacier would be sufficient to repay in full that indebtedness.

### ***Environmental Risk***

As the owner and lessor of real property in businesses operating in the packaged ice and related products industries, Arctic Glacier is subject to various federal, provincial and municipal laws relating to environmental matters. Such laws provide that Arctic Glacier could be liable for the costs of removal and remediation of certain hazardous substances or wastes released or deposited on or in its properties or disposed at other locations. The failure to remove or remediate such substances, if any, could adversely affect Arctic Glacier's ability to sell such real property or to borrow using such real property as collateral and could potentially also result in claims against Arctic Glacier.

Environmental laws and regulations can change rapidly and Arctic Glacier may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have an adverse affect on Arctic Glacier's business.

### ***Impact of Seasonality on Labour and Distribution***

The seasonal nature of Arctic Glacier's business results in increased operating activity during peak periods of demand. While Arctic Glacier has historically been able to source additional labour and distribution vehicles during these periods, there can be no assurances Arctic Glacier will be able to do so in the future.

## **MANAGEMENT**

### **Trustees of the Fund**

The following table sets forth the name, province or state and country of residence, office held with the Fund, current principal occupation, and the approximate number of Units of the Fund beneficially owned or controlled as of December 31, 2010 of each of the current Trustees of the Fund:

| <b><u>Name and Residence</u></b>                                      | <b><u>Current Office</u></b>                    | <b><u>Principal Occupation</u></b>  | <b><u>Units Beneficially Owned or Controlled</u></b> |
|---|---|---|--|
| James E. Clark <sup>(1)(2)(3)(4)(5)</sup><br>British Columbia, Canada | Non-Executive Chairman of the Board and Trustee | Non-Executive Chairman of the Board, Trustee of the Fund and director of Arctic Glacier. President, director and sole shareholder of Jecco Properties Ltd. and Moray Channel Enterprises Ltd. | 263,125<br>(0.67%)                                   |
| Robert J. Nagy <sup>(5)</sup><br>Alberta, Canada                      | Vice-Chairman and Trustee                       | Vice-Chairman, Trustee of the Fund and director of Arctic Glacier.  | 1,273,067<br>(3.26%)                                 |
| Gary A. Filmon <sup>(1)(2)(3)(4)(5)</sup><br>Manitoba, Canada         | Trustee   | Trustee of the Fund and director of Arctic Glacier. Chairman of Exchange Income Corporation.  | 21,076<br>(0.05%)                                    |
| David R. Swaine <sup>(1)(2)(3)(4)(5)</sup><br>North Carolina, USA     | Trustee   | Trustee and director of Arctic Glacier.   | 1,082<br>(0.002%)                                    |

Notes:

- (1) Member of the Audit Committee. For further details on the Audit Committee, please refer to the section entitled "Audit Committee".
- (2) Member of the Compensation Committee.
- (3) Member of the Corporate Governance Committee.
- (4) Member of the Special Committee – Income Trust Taxation.

- (5) Elected to serve until the 2011 annual meeting of Unitholders unless re-elected at that meeting to serve for a further one year term.

### Directors of Arctic Glacier

The following table sets forth the name, province or state and country of residence, office held with Arctic Glacier, current principal occupation, and the approximate number of Units of the Fund beneficially owned or controlled as of December 31, 2010 of each of the current directors of Arctic Glacier:

| <u>Name and Residence</u>                  | <u>Current Office</u>                            | <u>Principal Occupation</u>   | <u>Units Beneficially Owned or Controlled</u> |
|--|--|---|---|
| James E. Clark<br>British Columbia, Canada | Non-Executive Chairman of the Board and director | Non-Executive Chairman of the Board, Trustee of the Fund and director of Arctic Glacier. President, director and sole shareholder of Jecco Properties Ltd. and Moray Channel Enterprises Ltd. | 263,125<br>(0.67%)                            |
| Robert J. Nagy<br>Alberta, Canada          | Vice-Chairman and director                       | Vice-Chairman, Trustee of the Fund and director of Arctic Glacier.  | 1,273,067<br>(3.26%)                          |
| Gary A. Filmon<br>Manitoba, Canada         | Director   | Trustee of the Fund and director of Arctic Glacier. Chairman of Exchange Income Corporation.  | 21,076<br>(0.05%)                             |
| David R. Swaine<br>North Carolina, Canada  | Director   | Trustee of the Fund and director of Arctic Glacier.   | 1,082<br>(0.002%)                             |
| Richard L. Johnson<br>Texas, USA           | Director   | Director of Arctic Glacier.   | 364,583<br>(0.93%)                            |
| Keith W. McMahon<br>Manitoba, Canada       | President, Chief Executive Officer and director  | President, Chief Executive Officer and a director of Arctic Glacier.  | 31,105<br>(0.079%)                            |

### Executive Officers of Arctic Glacier

The following table outlines the name, province or state and country of residence, office held with Arctic Glacier, current principal occupation, and the number of Units of the Fund beneficially owned or controlled as of December 31, 2010 of each of the executive officers of Arctic Glacier:

| <u>Name and Residence</u>             | <u>Current Office</u>                           | <u>Principal Occupation</u>   | <u>Units Beneficially Owned or Controlled</u> |
|---------------------------------------|---|---|---|
| Keith W. McMahon<br>Manitoba, Canada  | President, Chief Executive Officer and director | President, Chief Executive Officer and director of Arctic Glacier                           | 31,105<br>(0.079%)                            |
| Douglas A. Bailey<br>Manitoba, Canada | Chief Financial Officer                         | Chief Financial Officer of Arctic Glacier.  | 19,215<br>(0.05%)                             |
| Hugh A. Adams<br>Manitoba, Canada     | Secretary                                       | Partner, Aikins, MacAulay & Thorvaldson LLP, Barristers and Solicitors, Winnipeg, Manitoba. | 4,266<br>(0.01%)                              |

As of December 31, 2010, 1,977,519 Units were beneficially owned or controlled directly or indirectly by the Trustees of the Fund, and the directors and executive officers of Arctic Glacier, as a group, which represented approximately 5.06% of the issued and outstanding Units of the Fund.

## Biographies

Set out below are brief profiles of each of the current Trustees of the Fund and the current directors and executive officers of Arctic Glacier:

**James E. Clark**, Non-Executive Chairman and Trustee/Director. Mr. Clark has been a Trustee of the Fund since January 22, 2002 and a director of Arctic Glacier since August 23, 1996. Mr. Clark has been Non-Executive Chairman of the Board of the Fund and Arctic Glacier since May 27, 2003 and was Lead Outside Trustee of the Fund from January 22, 2002 to May 27, 2003. Mr. Clark was Vice-Chairman of Arctic Glacier from June 22, 1998 until May 27, 2003. Mr. Clark was also the Vice-President, Finance and Acquisitions and Chief Financial Officer of Arctic Glacier from August 23, 1996 to June 22, 1998. Mr. Clark has been the President, director and sole shareholder of Jecco Properties Ltd. (a real estate development and investment company) since 1991, and has also been President and director and sole shareholder of Moray Channel Enterprises Ltd. (a marina development and management company) since 1991.

**Robert J. Nagy**, Vice-Chairman and Trustee/Director. Mr. Nagy has been the Vice-Chairman of the Board of the Fund and Arctic Glacier since December 29, 2006. Mr. Nagy was the President and Chief Executive Officer of the Fund from January 22, 2002 until his retirement from management on December 29, 2006 and he has been a Trustee of the Fund since January 22, 2002. Mr. Nagy was the Chief Executive Officer of Arctic Glacier from March 1, 1996 until December 29, 2006 and has been a director of Arctic Glacier since March 1, 1996. Mr. Nagy was President of Arctic Glacier from March 1, 1996 until October 2, 2000. Mr. Nagy became President of Arctic Glacier again on August 22, 2002 and served in that capacity until his retirement from management on December 29, 2006. Mr. Nagy was Chairman of the Board of the Fund and Arctic Glacier from January 22, 2002 until May 27, 2003.

**The Honourable Gary A. Filmon, P.C., O.C.**, Trustee/Director. Mr. Filmon has been a Trustee of the Fund since January 22, 2002 and a director of Arctic Glacier since May 25, 2000. Mr. Filmon was Vice Chairman of the Fund and Arctic Glacier from May 27, 2003 until December 29, 2006. Mr. Filmon is the Chairman and a trustee of Exchange Income Corporation and a director of Manitoba Telecom Services Inc., Wellington West Capital Inc. and Canadian Natural Resources Limited. Mr. Filmon was Premier of the Province of Manitoba from 1988 to 1999.

**Richard L. Johnson**, Director. Mr. Johnson has been a director of Arctic Glacier since December 8, 1997. Mr. Johnson was the President and director of Plainview Ice & Cold Storage, Inc. until September 1, 2000, and director of Host Ice & Beverage Equipment Co., Inc. Mr. Johnson is also Past Chairman of South Western Ice Association.

**David R. Swaine**, Trustee/Director. Mr. Swaine has been a Trustee of the Fund since January 22, 2002 and a director of Arctic Glacier, since December 29, 1999. Mr. Swaine was the President of Roynat Business Capital Inc. from October 2003 until December 31, 2007, and was Executive Vice President, Chief Operating Officer and a director of RoyNat Inc. from July 1994 until October 2003.

**Keith W. McMahon**, President, Chief Executive Officer and director. Mr. McMahon has been the President and Chief Executive Officer of Arctic Glacier since December 29, 2006 and has been a director of Arctic Glacier since September 21, 2007. Mr. McMahon was the Executive Vice President and Chief Financial Officer of Arctic Glacier from April 2003 until December 29, 2006, and was Chief Financial Officer of Arctic Glacier from April 17, 2001 until December 29, 2006. Mr. McMahon is a past board member of the International Packaged Ice Association and is a member of the Institute of Chartered Accountants of Manitoba.

**Douglas A. Bailey**, Chief Financial Officer. Mr. Bailey has been the Chief Financial Officer of Arctic Glacier since December 29, 2006. Prior thereto, Mr. Bailey was the Vice President of Accounting and Corporate Controller of Arctic Glacier from October 6, 2003 to December 29, 2006. Mr. Bailey is a member of the Institute of Chartered Accountants of Manitoba.

**Hugh A. Adams**, Secretary. Mr. Adams has been the Secretary of Arctic Glacier from August 23, 1996. Mr. Adams is presently a Partner at Aikins, MacAulay & Thorvaldson LLP, Barristers and Solicitors. Mr. Adams was Senior Corporate Counsel at Tapper Cuddy LLP, Barristers and Solicitors from January 31, 2003 until September 1, 2007. Mr. Adams was a Partner at Tupper & Adams, Barristers and Solicitors from 1982 to January 2003. Mr.

Adams is a Past Chairman, National Constitution Committee and Past Chairman, National Legislation and Law Reform Committee (Canadian Bar Association).

### **Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

To the best of the knowledge of management of the Fund, no person or company who is a Trustee of the Fund or a director or executive officer of Arctic Glacier:

- (a) is, as at the date of this annual information form, or has been, within 10 years before the date of this annual information form, a director, chief executive officer or chief financial officer of any company (including the Fund and Arctic Glacier) that,
  - (i) was subject to an order (as defined below) that was issued while that person was acting in the capacity as director, chief executive officer or chief financial officer; or
  - (ii) was subject to an order that was issued after that person ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer; or
- (b) is, as at the date of this annual information form, or has been within 10 years before the date of this annual information form, a director or executive officer of any company (including the Fund and Arctic Glacier) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (c) has, within the 10 years before the date of this annual information form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of that person.

For the purposes of (a) above, “**order**” means:

- (a) a cease trade order;
- (b) an order similar to a cease trade order; or
- (c) an order that denied the relevant company access to any exemption under securities legislation,

that was in effect for a period of more than 30 consecutive days.

### **Conflict of Interest Restrictions and Provisions**

The Declaration of Trust contains “conflict of interest” provisions that serve to protect Unitholders without creating undue limitations on the Fund. Given that the Trustees are engaged in a wide range of business activities, the Declaration of Trust contains provisions, similar to those contained in the *Canada Business Corporations Act*, that require each Trustee to disclose to the Fund any interest in a material contract or transaction or proposed material contract or transaction with the Fund or the fact that such person is a director or officer of or otherwise has a material interest in any person who is a party to a material contract or transaction or proposed material contract or transaction with the Fund. Such disclosure is required to be made at the first meeting at which a proposed contract or transaction is considered. In the event that a material contract or transaction or proposed material contract or transaction is one that in the ordinary course would not require approval by the Trustees, a Trustee is required to disclose in writing to the Fund or request to have entered into the minutes of the meeting of the Trustees the nature and extent of his or her interest forthwith after the Trustee becomes aware of the contract or transaction or proposed contract or transaction. In any case, a Trustee who has made disclosure to the foregoing effect is not entitled to vote on any resolution to approve the contract or transaction unless the contract or transaction is one relating primarily to

his or her remuneration as a Trustee, officer, employee or agent of the Fund or one for indemnity under the provisions of the Declaration of Trust or liability insurance.

As noted below (refer to the section entitled “Interest of Management and Others in Material Transactions”) one of the Trustees of the Fund has a material interest in the company that owns the Fund’s leased production and distribution facility in Phoenix Arizona. On all matters relevant to the Fund’s interest in this facility the Trustee refrains from any participation in or voting upon matters related thereto. Other than this, neither the Fund nor Arctic Glacier have been advised of any current or potential material conflicts of interest of their Trustees or directors and officers, respectively.

### INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No person or company who is a Trustee of the Fund, a person or company that is the direct or indirect owner of, or who exercises control or direction over, more than 10% of the outstanding Units of the Fund, a director or executive officer of Arctic Glacier, or an associate or affiliate of any of the aforementioned persons or companies, has had any material interest in any transaction with either the Fund or Arctic Glacier within the three most recently completed financial years of the Fund or Arctic Glacier, as applicable, or during the current financial year of either of them, that has or will materially affect either of them, except as follows:

- (a) A subsidiary of the Fund leases a manufacturing facility located in Arizona from a company indirectly owned and controlled by a trustee of the Fund. The lease, which expires in May 2015, provides the Fund with an option to purchase the facility on commercially reasonable terms prior to the expiry of the lease term. The subsidiary made lease payments totaling \$1.3 million in 2010 (2009 - \$1.2 million).
- (b) The Fund has a retirement agreement with a trustee of the Fund who is the former President and Chief Executive Officer of Arctic Glacier. The December 2006 agreement provides a retirement allowance in the amount of C\$1.0 million, to be paid in equal quarterly installments over a period of 10 years ending December 31, 2016. The discounted fair market value of the obligation at the date of issue was reflected in long-term debt in the amount of C\$0.5 million (C\$0.6 million) and the discount is accreted to interest expense over the duration of the obligation.

### MARKET FOR SECURITIES, TRADING PRICE AND VOLUME

#### Units

The Units of the Fund are listed and posted for trading on the TSX under the trading symbol “AG.UN”. The following table sets forth the reported high and low sales prices and the trading volumes as reported by the TSX for the periods indicated:

|                         | <u>Price Range</u> |                  | <u>Volume Traded</u>     |
|-------------------------|--------------------|------------------|--------------------------|
|                         | <u>High (C\$)</u>  | <u>Low (C\$)</u> |                          |
| <b>2010</b>             |                    |                  |                          |
| January.....            | 3.90               | 3.10             | 856,599                  |
| February.....           | 3.90               | 2.89             | 1,070,326                |
| March.....              | 3.45               | 2.58             | 1,538,785                |
| April.....              | 3.24               | 2.68             | 1,454,794                |
| May.....                | 3.00               | 2.00             | 904,306                  |
| June.....               | 2.69               | 2.21             | 690,224                  |
| July.....               | 2.51               | 2.09             | 2,731,503                |
| August.....             | 2.42               | 1.30             | 2,419,597                |
| September.....          | 1.99               | 1.56             | 989,929                  |
| October.....            | 1.84               | 1.27             | 1,111,159                |
| November.....           | 1.70               | 1.19             | 1,969,535                |
| December.....           | 1.22               | 1.02             | <u>1,552,836</u>         |
| <b>Total for Period</b> |                    |                  | <b><u>17,289,593</u></b> |

## Debentures

The Debentures of the Fund are listed and posted for trading on the TSX under the trading symbol "AG.DB". The following table sets forth the reported high and low sales prices and the volume traded and value traded for the Debentures as reported by the TSX for the periods indicated:

|                         | <u>Price Range</u> |                  | <u>Volume Traded</u>  | <u>Value Traded (C\$)</u>   |
|-------------------------|--------------------|------------------|-----------------------|-----------------------------|
|                         | <u>High (C\$)</u>  | <u>Low (C\$)</u> |                       |                             |
| <b>2010</b>             |                    |                  |                       |                             |
| January.....            | 99.50              | 94.00            | 22,370                | 2,173,959.20                |
| February.....           | 99.50              | 97.00            | 26,720                | 2,624,820.90                |
| March.....              | 98.15              | 94.00            | 29,930                | 2,914,041.30                |
| April.....              | 98.25              | 95.00            | 19,600                | 1,903,437.70                |
| May.....                | 98.50              | 94.50            | 17,930                | 1,742,888.40                |
| June.....               | 97.05              | 93.00            | 17,310                | 1,654,200.30                |
| July.....               | 99.50              | 95.01            | 22,190                | 2,190,194.90                |
| August.....             | 99.50              | 90.35            | 42,370                | 4,082,665.40                |
| September.....          | 97.25              | 93.75            | 17,260                | 1,645,485.30                |
| October.....            | 94.75              | 85.00            | 24,970                | 2,271,131.30                |
| November.....           | 90.00              | 78.00            | 38,100                | 3,198,206.20                |
| December.....           | 88.00              | 80.02            | <u>18,010</u>         | <u>1,551,285.80</u>         |
| <b>Total for Period</b> |                    |                  | <b><u>296,760</u></b> | <b><u>27,952,316.70</u></b> |

## DISTRIBUTION HISTORY

The Fund paid monthly cash distributions to its Unitholders from April 2002 until August 2008. In September 2008, the Fund announced an indefinite suspension of its monthly cash distributions to Unitholders. At that time, the Trustees of the Fund determined that it would be more prudent to deploy its cash resources to reduce debt and strengthen its balance sheet. In conjunction with the previous reduction to the distribution level for the August 2008 cash distribution, the suspension of the cash distribution conserved cash. The Trustees of the Fund are fully aware of the significance of distributions to Unitholders. However, the Trustees felt that this measure was necessary to improve balance sheet strength and better position the Fund for the long term. The Fund will move to reinstate distributions when it is deemed appropriate by the Trustees to do so. It is important to note that the trustees do not anticipate paying distributions for the foreseeable future as the Fund's lending agreements effectively prevent payment of distributions through February 2014. The trustees of the Fund have previously identified the intention to convert the Fund from an income trust to a corporation during 2011, subject to approval from Unitholders and lenders. This initiative has been deferred pending the completion of a financing or strategic transaction.

The particulars of distributions declared by the Fund since it acquired The Arctic Group Inc., now Arctic Glacier, on March 22, 2002 to and including the period ending December 31, 2010 are as follows:

| <u>Distribution Period</u> | <u>Payment Date</u> | <u>Amount of Distribution (C\$)</u> | <u>Taxable Portion of Distribution per Unit<sup>(1)</sup> (C\$)</u> |
|----------------------------|---------------------|-------------------------------------|---|
| 2002                       |                     |                                     |   |
| March 22 – April 30        | May 15, 2002        | \$0.11500 per Unit                  | \$0.06008   |
| May                        | June 14, 2002       | \$0.08750 per Unit                  | \$0.04656   |
| June                       | July 15, 2002       | \$0.08750 per Unit                  | \$0.04505   |
| July                       | August 15, 2002     | \$0.08750 per Unit                  | \$0.04655   |
| August                     | September 13, 2002  | \$0.08750 per Unit                  | \$0.04655   |
| September                  | October 15, 2002    | \$0.08750 per Unit                  | \$0.04504   |
| October                    | November 15, 2002   | \$0.08750 per Unit                  | \$0.04654   |
| November                   | December 13, 2002   | \$0.08750 per Unit                  | \$0.04504   |
| December                   | January 15, 2003    | <u>\$0.08750 per Unit</u>           | <u>\$0.04654</u>  |
| <b>Totals for Period</b>   |                     | <b><u>\$0.81500 per Unit</u></b>    | <b><u>\$0.42795</u></b>   |

| <u>Distribution Period</u> | <u>Payment Date</u> | <u>Amount of Distribution<br/>(C\$)</u> | <u>Taxable Portion of<br/>Distribution per Unit<sup>(1)</sup><br/>(C\$)</u> |
|----------------------------|---------------------|---|---|
| 2003                       |                     |   |   |
| January                    | February 14, 2003   | \$0.08920 per Unit                      | \$0.05600   |
| February                   | March 14, 2003      | \$0.08920 per Unit                      | \$0.05058   |
| March                      | April 15, 2003      | \$0.08920 per Unit                      | \$0.05600   |
| April                      | May 15, 2003        | \$0.08920 per Unit                      | \$0.05419   |
| May                        | June 13, 2003       | \$0.08920 per Unit                      | \$0.05600   |
| June                       | July 15, 2003       | \$0.08920 per Unit                      | \$0.04635   |
| July                       | August 15, 2003     | \$0.08920 per Unit                      | \$0.04789   |
| August                     | September 15, 2003  | \$0.08920 per Unit                      | \$0.04789   |
| September                  | October 15, 2003    | \$0.08920 per Unit                      | \$0.04635   |
| October                    | November 14, 2003   | \$0.08920 per Unit                      | \$0.03769   |
| November                   | December 15, 2003   | \$0.08920 per Unit                      | \$0.03647   |
| December                   | January 15, 2004    | <u>\$0.08920 per Unit</u>               | <u>\$0.03767</u>  |
| <b>Totals for Period</b>   |                     | <u>\$1.07040 per Unit</u>               | <u>\$0.57308</u>  |
| 2004                       |                     |   |   |
| January                    | February 13, 2004   | \$0.08920 per Unit                      | \$0.05779   |
| February                   | March 15, 2004      | \$0.08920 per Unit                      | \$0.05405   |
| March                      | April 15, 2004      | \$0.08920 per Unit                      | \$0.05776   |
| April                      | May 14, 2004        | \$0.08920 per Unit                      | \$0.05588   |
| May                        | June 15, 2004       | \$0.08920 per Unit                      | \$0.05773   |
| June                       | July 15, 2004       | \$0.08920 per Unit                      | \$0.05585   |
| July                       | August 13, 2004     | \$0.08920 per Unit                      | \$0.05770   |
| August                     | September 15, 2004  | \$0.08920 per Unit                      | \$0.05768   |
| September                  | October 15, 2004    | \$0.08920 per Unit                      | \$0.05581   |
| October                    | November 15, 2004   | \$0.08920 per Unit                      | \$0.05765   |
| November                   | December 15, 2004   | \$0.08920 per Unit                      | \$0.05577   |
| December                   | January 14, 2005    | <u>\$0.08920 per Unit</u>               | <u>\$0.05762</u>  |
| <b>Totals for Period</b>   |                     | <u>\$1.07040 per Unit</u>               | <u>\$0.68129</u>  |
| 2005                       |                     |   |   |
| January                    | February 15, 2005   | \$0.08920 per Unit                      | \$0.05580   |
| February                   | March 15, 2005      | \$0.08920 per Unit                      | \$0.05038   |
| March                      | April 15, 2005      | \$0.09170 per Unit                      | \$0.05578   |
| April                      | May 13, 2005        | \$0.09170 per Unit                      | \$0.05395   |
| May                        | June 15, 2005       | \$0.09170 per Unit                      | \$0.05574   |
| June                       | July 15, 2005       | \$0.09170 per Unit                      | \$0.05392   |
| July                       | August 15, 2005     | \$0.09170 per Unit                      | \$0.05570   |
| August                     | September 15, 2005  | \$0.09170 per Unit                      | \$0.05569   |
| September                  | October 14, 2005    | \$0.09170 per Unit                      | \$0.05103   |
| October                    | November 15, 2005   | \$0.09170 per Unit                      | \$0.06300   |
| November                   | December 15, 2005   | \$0.09170 per Unit                      | \$0.06099   |
| December                   | January 13, 2006    | <u>\$0.09170 per Unit</u>               | <u>\$0.06278</u>  |
| <b>Totals for Period</b>   |                     | <u>\$1.09540 per Unit</u>               | <u>\$0.67476</u>  |
| 2006                       |                     |   |   |
| January                    | February 15, 2006   | \$0.09170 per Unit                      | \$0.05456   |
| February                   | March 15, 2006      | \$0.09170 per Unit                      | \$0.04927   |
| March                      | April 14, 2006      | \$0.09170 per Unit                      | \$0.05454   |
| April                      | May 15, 2006        | \$0.09170 per Unit                      | \$0.05277   |
| May                        | June 15, 2006       | \$0.09170 per Unit                      | \$0.04609   |
| June                       | July 14, 2006       | \$0.09170 per Unit                      | \$0.04260   |
| July                       | August 15, 2006     | \$0.09170 per Unit                      | \$0.04401   |
| August                     | September 15, 2006  | \$0.09170 per Unit                      | \$0.04400   |
| September                  | October 13, 2006    | \$0.09170 per Unit                      | \$0.04256   |
| October                    | November 15, 2006   | \$0.09170 per Unit                      | \$0.04361   |
| November                   | December 15, 2006   | \$0.09170 per Unit                      | \$0.04289   |
| December                   | January 15, 2007    | <u>\$0.09170 per Unit</u>               | <u>\$0.04431</u>  |
| <b>Totals for Period</b>   |                     | <u>\$1.10040 per Unit</u>               | <u>\$0.56121</u>  |

| <u>Distribution Period</u> | <u>Payment Date</u> | <u>Amount of Distribution</u><br><u>(C\$)</u> | <u>Taxable Portion of</u><br><u>Distribution per Unit</u> <sup>(1)</sup><br><u>(C\$)</u> |
|----------------------------|---------------------|---|--|
| 2007                       |                     |   |  |
| January                    | February 15, 2007   | \$0.09170 per Unit                            | \$0.04526  |
| February                   | March 15, 2007      | \$0.09170 per Unit                            | \$0.03519  |
| March                      | April 13, 2007      | \$0.09170 per Unit                            | \$0.03895  |
| April                      | May 15, 2007        | \$0.09170 per Unit                            | \$0.03768  |
| May                        | June 15, 2007       | \$0.09170 per Unit                            | \$0.03889  |
| June                       | July 13, 2007       | \$0.09170 per Unit                            | \$0.03754  |
| July                       | August 15, 2007     | \$0.09170 per Unit                            | \$0.03857  |
| August                     | September 14, 2007  | \$0.09170 per Unit                            | \$0.03855  |
| September                  | October 15, 2007    | \$0.09170 per Unit                            | \$0.03730  |
| October                    | November 15, 2007   | \$0.09170 per Unit                            | \$0.03854  |
| November                   | December 14, 2007   | \$0.09170 per Unit                            | \$0.03729  |
| December                   | January 15, 2008    | <u>\$0.09170 per Unit</u>                     | <u>\$0.03852</u>   |
| <b>Totals for Period</b>   |                     | <u>\$1,10040 per Unit</u>                     | <u>\$0.46228</u>   |
| 2008                       |                     |   |  |
| January                    | February 15, 2008   | \$0.09170 per Unit                            | \$0.06135  |
| February                   | March 14, 2008      | \$0.09170 per Unit                            | \$0.05738  |
| March                      | April 15, 2008      | \$0.09170 per Unit                            | \$0.06132  |
| April                      | May 15, 2008        | \$0.09170 per Unit                            | \$0.05932  |
| May                        | June 13, 2008       | \$0.09170 per Unit                            | \$0.06128  |
| June                       | July 15, 2008       | \$0.09170 per Unit                            | \$0.05928  |
| July                       | August 15, 2008     | \$0.09170 per Unit                            | \$0.06123  |
| August                     | September 15, 2008  | <u>\$0.07500 per Unit</u>                     | <u>\$0.06119</u>   |
| <b>Totals for Period</b>   |                     | <u>\$0.71690 per Unit</u>                     | <u>\$0.48235</u>   |

## Notes:

- (1) The after-tax return to Unitholders from an investment in Units will depend, in part, on the composition for income tax purposes of distributions paid by the Fund, portions of which may be fully or partially taxable or may constitute non-taxable returns of capital. That composition may change over time, thus affecting a Unitholder's after-tax return.

### LEGAL PROCEEDINGS OR REGULATORY ACTIONS

Other than as set out under "Recent Developments – Antitrust Investigation and On-Going Litigation", neither the Fund nor Arctic Glacier have been in, nor are presently involved in, any legal proceedings or regulatory actions material to them and insofar as they are aware, no such proceedings are contemplated.

### AUDITOR, TRANSFER AGENT AND REGISTRAR

The auditors of the Fund are KPMG LLP, Chartered Accountants, of Winnipeg, Manitoba.

Computershare Trust Company of Canada at its principal offices in Toronto, Ontario and Calgary, Alberta is the transfer agent and registrar for the Units and the Debentures.

### MATERIAL CONTRACTS

Other than as set out in the list below, there are no contracts, other than contracts entered into in the ordinary course of business, that are material to the Fund or Arctic Glacier that were entered in to within the most recently completed financial year, or before the most recently completed financial year but that are still in effect:

1. The Declaration of Trust. See "Organizational Structure - Overview".
2. The Indenture. See "Description of the Debentures".
3. The Fourth Amended and Restated Loan Agreement, dated as of February 10, 2010 (as may be amended, modified, supplemented, replaced or restated from time to time, the "**Senior Facility Loan Agreement**"),

among Arctic Glacier Inc. and Arctic Glacier International Inc., as borrowers (each a “**Borrower**” and collectively the “**Borrowers**”), Arctic Glacier California Inc., Arctic Glacier Grayling Inc., Arctic Glacier Income Fund, Arctic Glacier IP Inc., Arctic Glacier Lansing Inc., Arctic Glacier Michigan Inc., Arctic Glacier Minnesota Inc., Arctic Glacier Nebraska Inc., Arctic Glacier New York Inc., Arctic Glacier Newburgh Inc., Arctic Glacier Oregon Inc., Arctic Glacier Party Time Inc., Arctic Glacier Pennsylvania Inc., Arctic Glacier Rochester Inc., Arctic Glacier Services Inc., Arctic Glacier Texas Inc., Arctic Glacier Vernon Inc., Arctic Glacier Wisconsin Inc., Diamond Ice Cube Company Inc., Diamond Newport Corporation, Glacier Ice Company, Inc., Glacier Valley Ice Company, L.P., Ice Perfection Systems Inc., Jack Frost Ice Service, Inc., Knowlton Enterprises, Inc., Mountain Water Ice Company, R&K Trucking, Inc., Winkler Lucas Ice and Fuel Company and Wonderland Ice, Inc., as guarantors (each a “**Guarantor**” and collectively the “**Guarantors**”), The Toronto-Dominion Bank, as sole lead arranger and bookrunner, The Toronto-Dominion Bank, as Canadian administration agent (in such capacity, the “**Canadian Senior Facility Agent**”), Toronto Dominion (Texas) LLC, as U.S. administration agent (in such capacity, the “**U.S. Senior Facility Agent**”; and, together with the Canadian Senior Facility Agent, the “**Senior Facility Agents**”), The Toronto-Dominion Bank as syndication agent, and The Toronto-Dominion Bank, The Bank of Nova Scotia, RoyNat Inc., Toronto Dominion (New York) LLC, The Toronto-Dominion Bank, New York Branch, RoyNat Business Capital Inc. and any other lender or lenders who become parties thereto as lenders from time to time (collectively, the “**Senior Facility Lenders**”). See “Recent Developments – Amendments to Loan Agreements” and “Risk Factors – Risks Relating to Arctic Glacier – Debt Financing”.

4. The Loan Agreement, dated as of February 10, 2010 (as may be amended, modified, supplemented, replaced or restated from time to time, the “**Subordinated Facility Loan Agreement**” and together with the Senior Facility Loan Agreement, the “**Loan Agreements**”), among the Borrowers, as borrowers, the Guarantors, as guarantors and CPPIB Credit Investments Inc. (“**CPPIB**”), West Face Long Term Opportunities Limited Partnership, West Face Long Term Opportunities (USA) Limited Partnership, West Face Long Term Opportunities Master Fund L.P., and such other lenders as may from time to time become parties thereto (each a “Subordinated Facility Lender” and collectively the “**Subordinated Facility Lenders**” and together with the Senior Facility Lenders, the “**Lenders**”) and CPPIB as administrative agent for the Subordinated Facility Lenders. See “Recent Developments – Amendments to Loan Agreements” and “Risk Factors – Risks Relating to Arctic Glacier – Debt Financing”.

## **INTERESTS OF EXPERTS**

Audited consolidated financial statements for the Fund for the financial years ended December 31, 2010 and 2009 have been included in filings made by the Fund under National Instrument 51-102 during or relating to the Fund’s most recently completed financial year or during or relating to the Fund’s current financial year. The firm which conducted the audits and signed the audit reports on the aforementioned consolidated financial statements of the Fund was KPMG LLP, Chartered Accountants, of Winnipeg, Manitoba. KPMG LLP is independent of the Fund in accordance with the Rules of Professional Conduct as outlined by the Institute of Chartered Accountants of Manitoba.

## **AUDIT COMMITTEE**

### **Audit Committee Charter**

A copy of the charter of the Audit Committee is attached as Schedule A to this annual information form.

### **Audit Committee Composition**

The Audit Committee consists of Gary A. Filmon, James E. Clark, and David R. Swaine. Each member of the Audit Committee is independent and financially literate, as such terms are defined in National Instrument 52-110 – Audit Committees.

### **Relevant Education and Experience**

In addition to each member's general business experience, the education and experience of each member of the Audit Committee that is relevant to the performance of his responsibilities as a member of the Audit Committee are set forth below.

The Honourable Gary A. Filmon, P.C., O.C., O.M. is the Chairman of the Audit Committee. Mr. Filmon was Premier of the Province of Manitoba from May 1988 to October 1999, and chaired the Province's Treasury Board for five years during this period. Mr. Filmon was also President of Success Commercial College for 11 years. He is currently a Corporate Director and business consultant. He is a director of Wellington West Capital Inc. and Manitoba Telecom Services Inc. He is also Chairman of Exchange Income Corporation and a director of Canadian Natural Resources Limited. He serves on the audit committee of the latter publicly-listed company. In Mr. Filmon's various roles he has necessarily actively supervised persons engaged in preparing, auditing, analyzing or evaluating various types of financial statements. Responsibility for oversight and supervision of provincial budgets and financial reporting combined with practical business knowledge and expertise acquired in the course of his participation in a complex business public company environment affirm his financial literacy as contemplated by National Instrument 52-110 – Audit Committees.

Mr. Clark graduated in 1970 from the University of Calgary with a Bachelor of Commerce Degree (Honours). He then articulated with the firm of Deloitte and Touche, obtaining his chartered accountant's designation in 1971. Mr. Clark in his various roles, either as a C.A. with Deloitte and Touche or in his other active business enterprises as President and director of Jecco Properties Ltd. (a real estate development and investment company) or President and director of Moray Channel Enterprises Ltd. (a marina development and management company) has necessarily actively supervised persons engaged in preparing, auditing, analyzing or evaluating various types of financial statements affirming his financial literacy as contemplated by National Instrument 52-110 – Audit Committees.

Mr. Swaine has been a Trustee of the Fund since January 22, 2002 and a director of Arctic Glacier since December 29, 1999. Mr. Swaine was the President of Roynat Business Capital Inc. from October 2003 until December 31, 2007, and was Executive Vice President and Chief Operating Officer and a director of RoyNat Inc. from July 1994 until October 2003. Throughout Mr. Swaine's 38 year banking career he was responsible for analysis of business and financing proposals including the analysis of and financial statement interpretation of various types of businesses. From 1994-2003 he was Executive Vice President and Chief Operating Officer of Roynat Inc. In that role he was a member of the Senior Credit Committee and responsible for reviewing and approving investment credits from \$4 million to \$25 million or in the case of larger credits recommending to a higher authority. As President and Chief Operating Officer of Roynat's US companies (Roynat Business Capital & Roynat Merchant Capital), he had responsibility for all financing proposals emanating from the US including analysis, review of financial statements and structure of proposed transactions. With his approval further transactional analysis was completed and then submitted to the senior credit committee for further consideration. Mr. Swaine was a member of that committee and participated in the decision making process. Mr. Swaine obtained his Bachelor of Business Administration (cum laude) from St. Francis Xavier University in 1967.

### **Pre-Approval Policies and Procedures**

The Audit Committee must pre-approve all non-audit services to be provided to the Fund or its subsidiary entities by its external auditors or the external auditors of the Fund's subsidiary entities.

### **External Auditor Service Fees**

The aggregate amounts paid or accrued by the Fund with respect to fees payable to KPMG LLP, the auditors of the Fund, for audit (including separate audits of subsidiary entities, financings and regulatory reporting requirements), audit-related, tax and other services in the fiscal years ended December 31, 2010 and 2009 were as follows:

|                                   | <u>2009</u><br>(C\$) | <u>2010</u><br>(C\$) |
|-----------------------------------|----------------------|----------------------|
| Audit fees <sup>(1)</sup>         | \$470,965            | \$498,500            |
| Audit-related fees <sup>(2)</sup> | \$16,860             | \$31,530             |
| Tax fees <sup>(3)</sup>           | \$48,600             | \$18,475             |
| All other fees <sup>(4)</sup>     | <u>nil</u>           | <u>nil</u>           |
| TOTAL                             | <u>\$536,425</u>     | <u>\$548,505</u>     |

## Notes:

- (1) "Audit fees" include the aggregate professional fees paid to KPMG LLP for the audit of the annual consolidated financial statements and other regulatory audits and filings.
- (2) "Audit-related fees" include the aggregate fees paid to KPMG LLP for services related to international financial reporting standards assistance and due diligence with regard to financing requirements.
- (3) "Tax fees" include the aggregate fees paid to KPMG LLP for preparation of applicable federal income tax, state income tax, capital tax and trust returns, tax compliance and tax advisory services.
- (4) "All other fees" include the aggregate fees paid to KPMG LLP for all other services other than those presented in the categories of audit fees, audit-related fees and tax fees, including namely financial advisory services.

The Audit Committee of the Fund considered and agreed that the above fees are compatible with maintaining the independence of the Fund's auditors. Further, the Audit Committee determined that, in order to ensure the continued independence of the auditors, only limited non-audit related services will be provided to the Fund by KPMG LLP and in such case, only with the prior approval of the Audit Committee.

#### ADDITIONAL INFORMATION

Additional information relating to the Fund may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional information, including trustees', directors' and officers' remuneration and indebtedness, principal holders of the Fund's securities and securities authorized for issuance under equity compensation plans, where applicable, is contained in the Fund's Information Circular for its most recent meeting of Unitholders which involved the election of Trustees.

Additional financial information is provided in the Fund's consolidated financial statements and management discussion and analysis for its most recently completed financial year.

**SCHEDULE A****CHARTER OF THE AUDIT COMMITTEE**

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**1. General**

The Board of Trustees of the Fund (the "Board") has established an Audit Committee (the "Committee") to take steps on its behalf as are necessary to assist the Board in fulfilling its oversight responsibilities regarding:

- (a) the integrity of the Fund's financial statements;
- (b) the internal control systems of the Fund;
- (c) the external audit process;
- (d) the internal audit and assurance process;
- (e) risk management;
- (f) investment opportunities and the raising of funds by the Fund;
- (g) the administration, financial reporting and investment activities of pension plan(s);
- (h) the Fund's compliance with legal and regulatory requirements, and
- (i) any additional duties set out in this Charter or otherwise delegated to the Committee by the Board.

**2. Members**

The Board will in each year appoint a minimum of three (3) directors as members of the Committee. All members of the Committee shall be non-management trustees. In addition, the Committee will have an appropriate representation of independent trustees, as required by law.

All members of the Committee shall be financially literate. While the Board shall determine the definition of and criteria for financial literacy, this shall, at a minimum, include the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Fund's financial statements.

The Chief Executive Officer ("CEO") of Arctic Glacier Inc. ("AGI") and, to the extent the Chair of the Board is not otherwise a member of the Committee, the Chair, and all other trustees who are not members of the Committee may be invited to attend all meetings of the Committee in an ex-officio capacity but shall not vote. The CEO shall not attend in-camera sessions.

**3. Duties**

The Committee shall have the following duties:

**(a) Financial Reporting and Disclosure**

- 1. Audited Annual Financial Statements: Review the audited annual financial statements, all related management discussion and analysis ("MD&A"), and earnings press releases for submission to the Board for approval.
- 2. Quarterly Review: Following their review by the external auditor, review the quarterly financial statements, the related MD&A, and earnings press releases for submission to the Board for approval.
- 3. Significant Accounting Principles and Disclosure Issues: Review with management and the external auditor, significant accounting principles and disclosure issues, including complex or unusual transactions, highly judgmental areas such as reserves or estimates, significant changes to accounting principles, and alternative treatments under Canadian GAAP for material transactions. This shall be undertaken with a view to understanding their impact on the financial statements,

and to gaining reasonable assurance that the statements are accurate, complete, do not contain any misrepresentations, and present fairly the Fund's financial position and the results of its operations in accordance with Canadian GAAP.

4. Compliance: Confirm through discussions with management that Canadian GAAP and all applicable laws or regulations related to financial reporting and disclosure have been complied with.
5. Legal Events: Review any actual or anticipated litigation or other events, including tax assessments, which could have a material current or future effect on the Fund's financial statements, and the manner in which these have been disclosed in the financial statements.
6. Off-Balance-Sheet Transactions: Discuss with management the effect of any off-balance- sheet transactions, arrangements, obligations and other relationships with unconsolidated entities or other persons that may have a material current or future effect on the Fund's financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components or revenues and expenses.
7. Other Disclosures: Satisfy itself that adequate procedures are in place for the review of the Fund's public disclosure of financial information, other than the public disclosure of the information referred to in sections 1 and 2 above, and periodically assess the adequacy of those procedures.

**(b) Oversight of Internal Controls**

8. Review and Assessment: Review and assess the adequacy and effectiveness of the Fund's system of internal control and management information systems through discussions with management, the Chief Internal Auditor ("IA"), and the external auditor.
9. Oversight: Oversee system of internal control, by
  - Monitoring and reviewing policies and procedures for internal accounting, internal audit, financial control and management information;
  - Consulting with the external auditor regarding the adequacy of the Fund's internal controls;
  - Reviewing with management its philosophy with respect to internal controls and, on a regular basis, all significant control-related findings together with management's response; and
  - Obtaining from management adequate assurances that all statutory payments and withholdings have been made.
10. Fraud: Oversee investigations of alleged fraud and illegality relating to the Fund's finances.
11. Complaints: Review with management that appropriate procedures exist for the receipt, retention and treatment of complaints received by the Fund regarding accounting, internal accounting controls or auditing matters, the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters, and for the protection from retaliation of those who report such complaints in good faith.

**(c) External Audit**

12. Appointment or Replacement: Recommend the appointment or replacement of the external auditor to the Board, who will consider the recommendation prior to submitting the nomination to the unitholders for their approval.
13. Compensation: Review with management, and make recommendations to the Board, regarding the compensation of the external auditor. In making a recommendation with respect to compensation, the Committee shall consider the number and nature of reports issued by the external auditor, the

quality of internal controls, the size, complexity and financial condition of the Fund, and the extent of internal audit and other support provided by the Fund to the external auditor.

14. Reporting Relationships: The external auditor will report directly to the Committee.
15. Performance: Review with management, on a regular basis, the terms of the external auditor's engagement, accountability, experience, qualifications and performance. Evaluate the performance of the external auditor.
16. Transition: Review management's plans for an orderly transition to a new external auditor, if required.
17. Audit Plan: Review the audit plan and scope of the external audit with the external auditor and management, and consider whether the nature and scope of the planned audit procedures can be relied upon to detect weaknesses in internal controls, frauds or other illegal acts.
18. Audit Plan Changes: Discuss with the external auditor any significant changes required in the approach or scope of their audit plan, management's handling of any proposed adjustments identified by the external auditor, and any actions or inactions by management that limited or restricted the scope of their work.
19. Review of Results: Review, in the absence of management, the results of the annual external audit, the audit report thereon and the auditor's review of the related MD&A, and discuss with the external auditor the quality (not just the acceptability) of accounting principles used, any alternative treatments of financial information that have been discussed with management, the ramifications of their use and the auditor's preferred treatment, and any other material communications with management.
20. Disagreements with Management: Resolve any disagreements between management and the external auditor regarding financial reporting.
21. Material Written Communications: Review all other material written communications between the external auditor and management, including the post-audit management letter containing the recommendations of the external auditor, management's response and, subsequently, follow up identified weaknesses.
22. Interim Financial Statements: Engage the external auditor to review all interim financial statements and review, in the absence of management, the results of the auditor's review of the interim financial statements and the auditor's review of the related MD&A.
23. Other audit matters: Review any other matters related to the external audit that are to be communicated to the Committee under generally accepted auditing standards.
24. Meeting with External Auditor: Meet with the external auditor in the absence of management at least quarterly to discuss and review specific issues as appropriate as well as any significant matters that the auditor may wish to bring to the Committee for its consideration.
25. Correspondence: Review with management and the external auditor any correspondence with regulators or governmental agencies, employee complaints or published reports that raise material issues regarding the Fund's financial statements or accounting policies.
26. Independence: At least annually, and before the external auditor issues its report on the annual financial statements, review and confirm the independence of the external auditor through discussions with the auditor on their relationship with the Fund, including details of all non-audit services provided. Consider the safeguards implemented by the external auditor to minimize any threats to their independence, and take action to eliminate all factors that might impair, or be

perceived to impair, the independence of the external auditor. Consider the number of years the lead audit partner has been assigned to the Fund, and consider whether it is appropriate to recommend to the Board a policy of rotating the lead audit partner more frequently than every five years, as is required under the rules of the Canadian Public Accountability Board.

27. Non-Audit/Audit Services: Pre-approve any non-audit services to be provided to the Fund by the external auditor, with reference to compatibility of the service with the external auditor's independence.
28. Hiring Policies: Review and approve the hiring policies regarding partners, employees and former partners and employees of the present and former external auditor.

**(d) Internal Audit and the Provision of Assurance**

29. Chief Internal Auditor (“IA”): Review and approve the appointment, replacement or dismissal of the IA. The IA reports to the President and Chief Executive Officer (“CEO”) of AGI administratively and to the Committee functionally.
30. Assurance Activities: Review with management and the IA the mandate, staffing, plans, activities, and results of the Fund's assurance providers to gain reasonable assurance that their activities are appropriately comprehensive, effective and coordinated with the external auditor.
31. Assurance Findings: Discuss the impact of any significant assurance findings, together with the appropriateness of management's response, on the adequacy and effectiveness of the Fund's system of internal control.
32. Meeting: Meet with the IA in the absence of management at least annually to discuss and review specific issues as appropriate as well as any significant matters that the IA may wish to bring to the Committee for its consideration, including a discussion of any restrictions or limitations placed on the IA with respect to scope of work or access to required information.

**(e) Risk Management**

33. Adequacy of Policies and Procedures: Review and assess the adequacy of the Fund's risk management policies and procedures with regard to identification of the Fund's principal risks annually. Review and assess the adequacy of the implementation of appropriate systems to mitigate and manage the risks, and report regularly to the Board.

**(f) Financial Planning and Investments**

34. Business Plan: Review and recommend the Business Plan, including the annual Operating and Capital Budgets for submission to the Board for approval. Review periodic financial forecasts.
35. Investment Opportunities: Review and assess investment opportunities of a value exceeding management's authority, in accordance with procedures established by the Board from time to time.
36. Guidelines and Policies: Review and approve guidelines and policies for the investing of cash and marketable securities and review reports from management on the results of such investments against established benchmarks.
37. Additional Funds for Investment: Review and assess management's plans with respect to raising additional funds whether through debt or capital, in accordance with procedures established by the Board from time to time.

**(g) Retirement/Pension Plan**

38. Oversight: Review and assess management's reports on retirement/pension plan oversight including:
- a) Review management controls and processes with respect to the administration of investment activities, financial reporting and funding of the plan(s).
  - b) Confirm the following appointments for the management of the plan(s), subject to exceptions where the appointment authority is assigned to another party as per plan documents:
    - Auditor
    - Trustee
    - Fund Manager
  - c) Review the actuarial assumptions used for the valuation, including the rate of return on investments and the discount rate used to arrive at the funding requirements.
  - d) Review and approve the plan(s) investment objectives and guidelines annually and amend if necessary.
  - e) Review the investment performance of the funds and the investment managers, and their compliance with the investment objectives and guidelines and applicable legislation.
  - f) Review and approve the annual audited financial statements of the plan(s).

**(h) Distribution Reinvestment Plan:**

39. Report to the Board on all matters relating to the Distribution Reinvestment Plan (the "DRIP");
40. Interpret and administer the DRIP;
41. Establish, amend and rescind any rules and regulations relating to the DRIP;
42. Make determinations that are deemed necessary or desirable for the administration of the DRIP; and
43. Correct any deficiency, inconsistency or omission in the DRIP.

**(i) Compliance**

44. Filings with Regulatory Authorities: Review with management the Fund's relationship with regulators, and the timeliness and accuracy of Fund filings with regulatory authorities.
45. Employee Code of Conduct: Review the Fund's Employee Code of Conduct and confirm that adequate and effective systems are in place to enforce compliance. Ensure the Employee Code of Conduct is disclosed in the Fund's annual report or information circular at least every three years or following a material amendment. Alternatively, confirm with management that an up-to-date version of the Employee Code of Conduct is disclosed on the Fund's website.

**(j) Communication**

46. Communication Channels: Establish and maintain direct communication channels with management, the IA, the external auditor and the Board to discuss and review specific issues as appropriate.

47. Coordination with Management: The Committee will coordinate with management on audit and financial matters, and will:

- Meet privately with management at least quarterly to discuss any areas of concern to the Committee or management; and
- Review annually, expenses incurred by the Chair of the Board and Chief Executive Officer (“CEO”) of AGI. Ensure that the CEO reviews all expenses incurred by direct executive reports of the CEO.

**(k) Related Party Transactions**

48. Related Party Transactions: Review with management all related party transactions and the development of policies and procedures related to those transactions.

**(l) Board Relationship and Reporting**

49. Adequacy of Charter: Review and assess the adequacy of the Committee Charter annually and submit such amendments as the Committee proposes to the Governance Committee.

50. Disclosure: Oversee appropriate disclosure of the Committee's Charter, and other information required to be disclosed by applicable legislation, in the Fund's annual information form and all other applicable disclosure documents.

51. Reporting: Report regularly to the Board on Committee activities, issues and related recommendations.

**4. Chair**

The Board will in each year appoint the Chair of the Committee. The Chair shall have accounting or related financial expertise. In the Chair's absence, or if the position is vacant, the Committee may select another member as Chair. The Chair will have the right to exercise all powers of the Committee between meetings but will attempt to involve all other members as appropriate prior to the exercise of any powers and will, in any event, advise all other members of any decisions made or powers exercised.

**5. Meetings**

The Committee shall meet at the request of its Chair, but in any event it will meet at least four times a year. Notices calling meetings shall be sent to all Committee members, to the CEO and CFO of AGI, to the Chair of the Board and to all other trustees. Any member of the Committee may call a meeting of the Committee.

**6. Quorum**

A majority of members of the Committee, present in person, by teleconferencing, or by videoconferencing will constitute a quorum.

**7. Removal and Vacancy**

A member may resign from the Committee, and may be removed and replaced at any time by the Board, and will automatically cease to be a member as soon as the member ceases to be a trustee. The Board will fill vacancies in the Committee by appointment from among the trustees of the Board in accordance with Section 2 of this Charter. Subject to quorum requirements, if a vacancy exists on the Committee, the remaining members will exercise all its powers.

**8. Experts and Advisors**

The Committee may retain or appoint, at the Fund's expense, such experts and advisors as it deems necessary to carry out its duties, and to set and pay their compensation. The Committee shall provide notice to the Governance Committee of its actions in this regard.

**9. Secretary and Minutes**

The Secretary of the Fund, or such other person as may be appointed by the Chair of the Committee, will act as Secretary of the Committee. The minutes of the Committee will be in writing and duly entered into the books of the Fund. The minutes of the Committee will be circulated to all members of the Board.