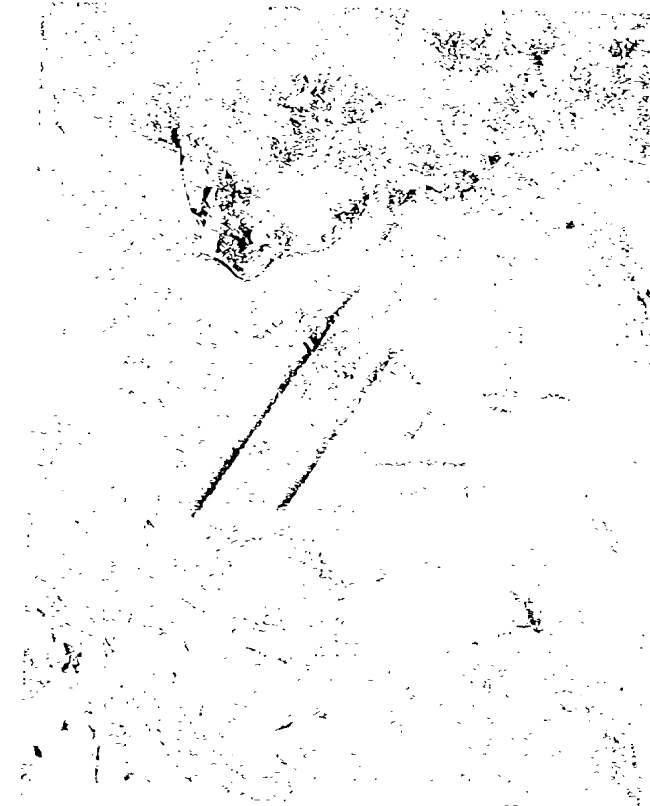




The Arctic Group Inc.

**SECOND QUARTER REPORT  
TO SHAREHOLDERS**

For the three months ended  
**June 30, 1999**



**INTERIM CONSOLIDATED STATEMENT OF  
EARNINGS AND RETAINED EARNINGS**

Three months ended June 30, 1999 and July 31, 1998  
(unaudited)  
(in \$ thousands)

	June 30 1999	July 31 1998
Sales	\$ 22,393	\$ 19,863
Cost of sales, selling, general and administrative expenses	15,139	12,767
	7,254	7,096
Amortization expense	1,923	788
Interest expense	2,132	257
Non-recurring expenses	201	-
Earnings before income taxes	2,998	6,051
Current tax recovery (provision)	15	(1,252)
Deferred tax provision	(1,488)	(1,200)
<b>Net earnings</b>	<b>1,525</b>	<b>3,599</b>
Deficit, beginning of period	(3,159)	(1,910)
Convertible debenture equity adjustment	(83)	-
<b>Retained earnings (deficit), end of period</b>	<b>(1,717)</b>	<b>1,689</b>
Weighted average number of common shares	35,689,107	20,860,042
Earnings per share for the three month period Basic	\$ 0.043	\$ 0.173

The Arctic Group Inc.

**INTERIM CONSOLIDATED CASH FLOW  
STATEMENT**

Three months ended June 30, 1999 and July 31, 1998  
(unaudited)  
(in \$ thousands)

	June 30 1999	July 31 1998
<b>Cash flows from operating activities</b>		
Net earnings	\$ 1,525	\$ 3,599
Items not involving cash		
Amortization on capital assets	1,450	587
Amortization on goodwill and other assets	473	201
Deferred income tax recovery	1,488	1,200
<b>Funds from operations</b>	<b>4,936</b>	<b>5,587</b>
Changes in non-cash working capital	(3,712)	(2,024)
	1,224	3,563
<b>Cash flows from investing activities</b>		
Additions to capital assets	(4,426)	(1,164)
Acquisition of subsidiaries	(15,275)	(43,007)
Other	(191)	(469)
	(19,892)	(44,640)
<b>Cash flows from financing activities</b>		
Payable to vendors	(1,600)	-
Proceeds from long-term debt	17,604	13,244
Increase in bank indebtedness	7,813	-
Principal payments on long-term debt	(297)	-
Interest on equity portion of convertible debentures	(137)	-
Issuance of common shares	-	27,666
Principal payments under capital lease obligations	(48)	-
	23,335	40,910
Foreign exchange loss on cash held in foreign currency	(78)	-
Increase (decrease) in cash	4,667	(167)
Cash, beginning of period	(18)	4,118
<b>Cash or bank indebtedness, end of period</b>	<b>\$ 4,571</b>	<b>\$ 3,951</b>
<b>Cash flows provided by operations, per common share</b>		
Basic	\$ 0.138	\$ 0.268

The Arctic Group Inc.

## CHAIRMAN'S REPORT TO SHAREHOLDERS

We are pleased to report that Arctic recorded EBITDA of \$7.3 million or \$0.20 per share, on sales of \$22.4 million for the three months ended June 30, 1999.

This represents an operating ratio of 32% for the quarter, and is ahead of the \$7.1 million achieved in the prior year and well above the performance targets established in the Company's business plan.

All of the Company's major divisions contributed to the improvements in the financial results. Second quarter sales increased 13% over last year to \$22.4 million. For the spring, the weather patterns in our markets were average, though we were able to attain solid volume increases in eastern Canada. This reflects the investments made to rationalize those markets and the high level of service which Arctic is committed to provide it's customers.

### KEY DEVELOPMENTS

Building on Arctic's expertise, the Company commenced operations at its newest production facility in Mississauga, where we have installed initial capacity to satisfy the demand in southern Ontario. This plant, which began production in June, has enabled Arctic to further integrate this region. The plant employs state-of-the-art ice manufacturing and packaging technology, making it one of the most efficient sites in the Arctic network.

As we continue to enhance the operating profit of existing business units, we have also maintained a focus on corporate development activities. During the second quarter, the Company concluded transactions to acquire companies in Seaforth ON, Oshawa ON, Kingston ON, Chilliwack BC, Marshall MN, and Hutchison KS. These investments will provide incremental volume to existing operations, and are important additions to our regional coverage. At this point in time, the Company is forecasting its annual run rate at \$80 million.

### OUTLOOK

There continue to be numerous opportunities for expansion through acquisition, though our objective is to maintain a disciplined approach to growth and identify investments which integrate with existing

platforms. This fundamental program delivers regional strength and is producing results which are accretive.


Of equal importance, we have begun to implement programs to broaden demand for the ice products, improve quality standards, and identify additional efficiencies from our operations.

The third quarter is the driver for the annual financial performance of Arctic. With a solid first half of the year now completed, we feel confident that the divisions are in an excellent position to capture the opportunities which will arise over the summer season. There is no guarantee with respect to the weather, however the Company is now sufficiently diversified geographically, that we expect to be able to meet our targets for the balance of the year.

### FOOTNOTE

As noted in earlier releases, the Company has changed its reporting cycle to correspond with the calendar year. As a result, the presentation of the current year's results for this quarter include the months of April, May and June. For the second quarter in prior years, we had published the months of May, June and July.

We estimate that compared with 1998, sales for the 3 months ended June 1999 have increased by \$10.1 million or 83%.



Robert J. Nagy

Chairman of the Board and  
Chief Executive Officer

## INTERIM CONSOLIDATED BALANCE SHEET

Three months ended June 30, 1999 and July 31, 1998  
(unaudited)  
(in \$ thousands)

	June 30 1999	July 31 1998
<b>ASSETS</b>		
Current assets:		
Cash and term deposits	\$ 5,013	\$ 4,808
Accounts receivable	11,075	7,368
Inventories	2,628	1,493
Prepaid expenses and deferred charges	1,081	592
	<b>19,797</b>	<b>14,261</b>
Capital assets:		
Land, buildings and equipment	82,702	47,508
Accumulated depreciation	(8,849)	(5,713)
	<b>73,853</b>	<b>41,795</b>
Goodwill - net	71,053	33,681
Deferred income taxes	-	358
Other assets	4,467	1,495
	<b>\$ 169,180</b>	<b>\$ 91,590</b>

### LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Bank indebtedness	\$ 8,248	\$ 857
Accounts payable and accrued liabilities	11,986	6,992
Income taxes payable	34	1,311
Principal due within one year	2,797	862
	<b>23,065</b>	<b>10,022</b>
Obligations under capital leases	459	629
Long term debt	89,369	28,921
Deferred income taxes	6,195	-
Shareholders' equity		
Capital stock	46,219	44,184
Interest on equity portion of convertible debt	-	(67)
Equity portion of convertible debt	5,172	5,121
Retained earnings (deficit)	(1,717)	1,689
	<b>49,674</b>	<b>50,927</b>
Cumulative translation adjustment	418	1,091
	<b>\$ 169,180</b>	<b>\$ 91,590</b>