

The Arctic Group Inc.

2nd Quarter Report

For the period ending June 30, 2000

During the second quarter The Arctic Group remained focused on our disciplined three-step growth strategy of making synergistic acquisitions, rationalizing and improving operations to enhance margins, and developing brand and market awareness. Our operations have continued to perform well during the second quarter of 2000 despite unseasonably cool temperatures in several of our key markets.

Sales increased 12.8% during the second quarter to \$25.3 million compared to \$22.4 million in the same period last year. EBITDA increased 14.5% during this same period to \$8.3 million compared to \$7.3 million in 1999. For the six months ended June 30 sales increased 11.1% to \$33.4 million compared to \$30.1 million in the same period last year. EBITDA for the first six months was \$6.7 million compared to \$5.9 million in 1999, an increase of 13.3%.

Net income for the second quarter was \$1.4 million compared to \$1.5 million for the same period last year. Net loss for the six months ended June 30 was \$2.2 million compared to a net loss of \$1.3 million for the same period in 1999. The seasonality of our business in the winter and early spring results in losses for the first four months of the year and modest income for May and June in the second quarter. The third quarter is the driver for the annual financial performance of the company.

Non-cash amortization charges related to our deferred financing costs were higher in the first half of 2000 as compared to 1999 as a result of the refinancing of the Company in the third quarter of last year. The financing, which provided the Company with a solid capital base, was used to refinance existing debt and to fund the continued growth of the Company. A larger deferred financing cost base, in conjunction with changes to our amortization policy relating to deferred financing costs, resulted in increased non-cash charges of \$.6 million for the first six months of the current year compared to the same period last year. Additional non-cash amortization costs are reflective of the larger asset base of the Company. Net income was also impacted by the changes in the global interest rate environment and the Company's continued growth.

The Arctic Group completed three acquisitions during the second quarter of 2000, all of which were within Arctic's geographically focused area, which is consistent with Arctic's strategy of synergistic acquisitions that create long-term shareholder value. As well, during the period we continued to rationalize operations to increase operating performance.

During this period we made significant progress in our brand and market development. In the spring of this year we expanded our Arctic Glacier Premium Ice brand to the United States market. This U.S. rollout of our branded ice product is a continuation of our four-year plan to establish Arctic Glacier as North America's premier brand of packaged ice. During the first half of 2000 we continued the implementation of our system-wide Quality Assurance Program by investing in equipment for improved packaging, filtration equipment for improved water quality and drying systems for drying the ice prior to packaging. These upgrades are a key part of our program to

position Arctic Glacier as the leading, premium quality branded product in the marketplace.

The Arctic Group signed its first licensing agreement with a U.S. ice manufacturer during the second quarter. Under our licensing program Arctic will license qualified ice manufacturers that meet our quality standards to package their ice products under our brand name Arctic Glacier Premium Ice. Discussions continue with other interested parties in the industry.

Earlier this year, The Arctic Group announced the development of an automated in-store ice production and packaging unit. The automated machine filters, produces, packages and merchandises quality packaged ice at the point of sale. During the second quarter the Company established a new company called Ice Perfection System, Inc. based in Phoenix, Arizona responsible for the marketing of Arctic's in-store bagging program. The automated machine will be available during the fourth quarter of this year to the appropriate existing and potential retailers in markets serviced by Arctic, as well as being available for licensing by other producers of quality packaged ice across the continent.

We continue to be pleased with the progress that The Arctic Group is making on our long term strategic plan. The Arctic Group is committed to creating sustainable value for our shareholders.

INTERIM CONSOLIDATED BALANCE SHEET
Six Months ended June 30, 2000 and 1999

(unaudited)
(in thousands)

	2000	1999
Assets		
Current assets:		
Cash held in trust	\$ 58	\$ 442
Accounts receivable	12,851	11,075
Inventories	3,964	2,628
Prepaid expenses and deferred charges	4,312	1,081
	<u>21,185</u>	<u>15,226</u>
Capital Assets:		
Land, buildings and equipment	101,870	82,702
Accumulated amortization	(15,788)	(8,849)
	<u>86,082</u>	<u>73,853</u>
Goodwill - net	70,835	71,063
Other Assets	12,401	4,467
	<u>\$ 190,503</u>	<u>\$ 164,609</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Bank indebtedness	\$ 3,814	\$ 3,677
Accounts payable and accrued liabilities	10,579	12,020
Principal due within the fiscal year	2,669	2,797
	<u>17,062</u>	<u>18,494</u>
Obligations under capital leases	1,655	459
Long-term debt	113,890	89,369
Future income taxes	5,368	6,195
Shareholders' equity:		
Capital stock	46,333	46,219
Equity portion of convertible debentures	9,359	5,172
Deficit	(3,797)	(1,717)
Cumulative translation adjustment	633	418
	<u>52,528</u>	<u>50,092</u>
	<u>\$ 190,503</u>	<u>\$ 164,609</u>

Common shares outstanding:

	Number of shares		\$	
	2000	1999	2000	1999
	(unaudited)		(unaudited)	
Common shares issued:				
Beginning of period	36,215	34,581	46,327	44,288
Acquisition of subsidiaries	-	46	-	85
Exercise of common share purchase warrants	-	1,366	-	1,708
Exercise of Agent common share purchase warrants	-	150	-	113
Conversion of convertible debentures	3	17	5	25
Issued from treasury	1	-	1	-
Common shares issued, end of period	<u>36,219</u>	<u>36,160</u>	<u>46,333</u>	<u>46,219</u>

INTERIM CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS
Six months ended June 30, 2000 and 1999

(unaudited)
(in thousands, except for per share data)

	2000	1999
Sales	\$ 33,397	\$ 30,066
Cost of sales, selling, general and administrative expenses	26,704	24,160
Earnings before the undernoted	6,693	5,906
Amortization	4,133	2,694
Interest expense	4,964	3,709
Loss on disposal of capital assets	276	-
Non-recurring expenses	67	268
Loss before income taxes	(2,747)	(765)
Income taxes:		
Current	218	(15)
Future recovery	(1,485)	(99)
	(1,267)	(114)
Loss before goodwill charges	(1,480)	(651)
Goodwill charges (net of applicable future income taxes of \$196 (1999 - \$172))	(755)	(694)
Net loss	(2,235)	(1,345)
Deficit, beginning of period	(1,431)	(225)
Interest on equity portion of convertible debentures (net of applicable future income taxes of \$87 (1999 - \$99))	(131)	(147)
Deficit, end of period	\$ (3,797)	\$ (1,717)
Weighted average number of common shares	36,219	35,689
Basic and fully diluted loss per share:		
Excluding goodwill charges	\$ (0.04)	\$ (0.02)
Including goodwill charges	\$ (0.07)	\$ (0.04)

INTERIM CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS
Three months ended June 30, 2000 and 1999

(unaudited)
(in thousands, except for per share data)

	2000	1999
Sales	\$ 25,265	\$ 22,393
Cost of sales, selling, general and administrative expenses	16,957	15,139
Earnings (loss) before the undernoted	8,308	7,254
Amortization	2,495	1,450
Interest expense	2,488	2,132
Loss on disposal of capital assets	276	-
Non-recurring expenses	67	201
Earnings before income taxes	2,982	3,471
Income taxes:		
Current	218	(15)
Future	949	1,572
	1,167	1,557
Earnings before goodwill charges	1,815	1,914
Goodwill charges (net of applicable future income taxes of \$124 (1999 - \$84))	(422)	(389)
Net earnings	1,393	1,525
Deficit, beginning of period	(5,130)	(3,159)
Interest on equity portion of convertible debentures (net of applicable future income taxes of \$40 (1999 - \$53))	(60)	(83)
Deficit, end of period	\$ (3,797)	\$ (1,717)
Weighted average number of common shares	36,219	35,689
Basic and fully diluted earnings per share:		
Excluding goodwill charges	\$ 0.05	\$ 0.05
Including goodwill charges	\$ 0.04	\$ 0.04

INTERIM CONSOLIDATED CASH FLOW STATEMENT
Six months ended June 30, 2000 and 1999

(unaudited)
(in thousands, except per share data)

	2000	1999
Operating activities:		
Net loss	\$ (2,235)	\$ (1,345)
Adjustments for:		
Amortization of capital assets	3,381	2,694
Amortization of deferred financing costs	752	-
Loss on disposal of capital assets	235	-
Goodwill charges	755	694
Accretion of convertible debenture principal	324	-
Future income taxes	(1,485)	(99)
Funds from operations	1,727	1,944
Changes in the following:		
Cash held in trust	522	(7)
Accounts receivable	(6,726)	(6,596)
Inventories	(1,619)	(463)
Prepaid expenses and deferred charges	(2,999)	(631)
Accounts payable and accrued liabilities	5,389	3,004
Cash flow used in operating activities	(3,706)	(2,749)
Investing activities:		
Additions to capital assets	(6,578)	(6,244)
Proceeds on disposal of capital assets	570	-
Additions to other assets	(1,462)	(191)
Acquisition of subsidiaries and operating assets, net of cash acquired of \$nil (1999 - \$75)	(9,275)	(29,375)
Cash flow used in investing activities	(16,745)	(35,810)
Financing activities:		
Change in payable to vendors	(808)	(2,419)
Proceeds from long term debt	15,595	32,094
Proceeds from obligation under capital lease	95	-
Principal payments under capital lease obligations	(183)	(109)
Principal payments on long-term debt	(2,815)	(688)
Interest on equity portion of convertible debentures	(218)	(246)
Issuance of common shares	1	1,905
Cash flow from financing activities	11,667	30,537
Foreign exchange gain (loss) on cash held in foreign currency	88	(93)
(Decrease) increase in cash and cash equivalents	(8,696)	(8,115)
Cash and cash equivalents, beginning of period	4,882	4,438
(Bank indebtedness) cash and cash equivalents, end of period	\$ (3,814)	\$ (3,677)
Basic and fully diluted funds from operations per share:	\$ 0.05	\$ 0.05

INTERIM CONSOLIDATED CASH FLOW STATEMENT
Three months ended June 30, 2000 and 1999

(unaudited)
(in thousands, except per share data)

	2000	1999
Operating activities:		
Net earnings	\$ 1,393	\$ 1,525
Adjustments for:		
Amortization of capital assets	2,119	1,450
Amortization of deferred financing costs	377	-
Loss on disposal of capital assets	235	-
Goodwill charges	422	389
Accretion of convertible debenture principal	135	-
Future income taxes	949	1,572
Funds from operations	5,630	4,936
Changes in the following:		
Cash held in trust	161	(7)
Accounts receivable	(7,397)	(6,368)
Inventories	(1,579)	(10)
Prepaid expenses and deferred charges	(2,082)	(216)
Accounts payable and accrued liabilities	4,931	2,889
Cash flow (used in) from operating activities	(336)	1,224
Investing activities:		
Additions to capital assets	(3,821)	(4,425)
Proceeds from disposal of capital assets	570	-
Additions to other assets	(587)	(191)
Acquisition of subsidiaries and operating assets, net of cash acquired of \$nil (1999 - \$nil)	(6,125)	(15,275)
Cash flow used in investing activities	(9,963)	(19,891)
Financing activities:		
Change in payable to vendors	-	(1,600)
Proceeds from long term debt	8,426	17,604
Proceeds from obligation under capital lease	95	-
Principal payments under capital lease obligations	(89)	(48)
Principal payments on long-term debt	(2,243)	(297)
Interest on equity portion of convertible debentures	(100)	(137)
Issuance of common shares	-	-
Cash flow from financing activities	6,089	15,522
Foreign exchange gain (loss) on cash held in foreign currency	55	(78)
(Decrease) increase in cash and cash equivalents	(4,155)	(3,223)
Cash and cash equivalents, beginning of period	341	(454)
(Bank indebtedness) cash and cash equivalents, end of period	\$ (3,814)	\$ (3,677)
Funds from operations per share:		
Basic	\$ 0.16	\$ 0.14
Fully Diluted	\$ 0.11	\$ 0.12