

# Q2

**SECOND QUARTER**

Report to Unitholders

FOR THE PERIOD ENDED JUNE 30, 2006

# Q2

We are pleased to report operating results for the second quarter of 2006.

During this period the Fund announced its largest-ever acquisition — California Ice — and as well completed another platform acquisition in its key New York market — Happy Ice of Fairport, New York. The Fund also benefited from the accretive acquisition of Hometown Ice of Milwaukee, completed in the third quarter of 2005. We also undertook several important rationalization and integration initiatives and enjoyed generally favorable weather conditions over most of Arctic Glacier's markets.

As a result, the Fund posted record highs for virtually all principal metrics.

Sales during the second quarter increased by 28% to a record \$60.5 million. Arctic Glacier's acquisitions in California and New York, as well as in Wisconsin last September, have greatly enlarged our scale of operations, set new performance benchmarks and enhanced unitholder value. The second-quarter results clearly indicate the accretive nature of the acquisitions and point to higher results expected in the third quarter.

For the first six months of 2006, sales advanced 23% to \$75.1 million.

EBITDA for the second quarter moved up 36% to an unprecedented \$20.5 million. The increase is largely attributable to the acquisitions of California Ice, Hometown Ice and Happy Ice.

EBITDA jumped by 62% to \$16.2 million for the first six months of 2006.

The Fund's broadened scale of operations also led to higher earnings. For the second quarter, earnings rose 41% to a new high of \$8.9 million. Earnings per unit increased to \$0.30 per unit from \$0.27 per unit last year. For the six-month period the total was \$4.6 million, an increase of \$4.0 million. Earnings per unit moved up to \$0.16 from \$0.03 in 2005.

The Fund's larger operational base powered a distributable cash increase of 39% to \$16.2 million in the second quarter. This increase equated to \$0.54 per unit, versus \$0.50 per unit last year.

The first six months of 2006 saw distributable cash rise to \$9.5 million or \$0.33 per unit, from \$3.8 million or \$0.16 per unit in 2005.

The Fund declared distributions to unitholders totaling \$8.5 million during the quarter, up 33% from 2005. That equates to \$0.28 per unit for the second quarter in both years. The Fund's current monthly distribution rate of \$0.0917 per unit equates to an annualized distribution rate of \$1.10 per unit.

The Fund expects to continue generating sufficient cash in 2006 to exceed the current distribution rate, while meeting ongoing obligations.

Arctic Glacier continues to strongly benefit from acquisitions. Our additions to the Fund's operating base have broadened geographical coverage, accelerated market momentum and enhanced unitholder value. Rising distributable cash per unit points to the accretiveness of new operations and underlines their contribution to the financial results of the Fund.

Equally important are post-acquisition rationalization and integration activities. This aspect of operations will be particularly significant over the balance of this year and 2007 as the six acquired companies comprising California Ice are integrated. This process will seek to reduce costs and enhance productivity growth by streamlining production processes, simplifying distribution networks and scaling administrative functions.

Going forward, Arctic Glacier will continue to seek new and innovative opportunities to further enhance unitholder value. The Fund is on track for another record year, and I look forward to keeping you informed of our progress in the fall.

**ROBERT J. NAGY**

President and  
Chief Executive Officer

# Management's DISCUSSION & ANALYSIS

of Operating Results and Financial Position  
for the three and six months ended June 30, 2006

Management's Discussion and Analysis ("MD&A") of operating results and financial position of Arctic Glacier Income Fund (the "Fund" or "Arctic Glacier") is provided to enable readers to assess the financial condition, material changes in financial condition, results of operations, cash flows, liquidity and capital resources of the Fund for the three and six months ended June 30, 2006 and in comparison to the preceding year. This MD&A has been prepared taking into account material events up to August 8, 2006, and should be read in conjunction with the MD&A in the annual report of the Fund for the year ended December 31, 2005.

Due to the seasonal nature of Arctic Glacier's business, the results of operations for the interim periods reported are not necessarily indicative of results to be expected for the year. Arctic Glacier usually generates significant sales and profits in the second and third quarters, with lower sales and significant losses in the first and fourth quarters. Cash flows peak in the third and fourth quarters and drop off in the first and second quarters.

## Table of Contents

<b>REVIEW OF OPERATIONS</b>	<b>3</b>
Highlights	3
Acquisitions	3
Non-GAAP Financial Measures	4
Distributable Cash	4
Distributions	5
Financial Results	6
Quarterly Results	7
<b>LIQUIDITY AND CAPITAL RESOURCES</b>	<b>8</b>
Cash Requirements and Obligations	8
Sources and Uses of Cash	8
Credit Facilities	10
Outstanding Securities	11
<b>ACCOUNTING POLICIES AND ESTIMATES</b>	<b>11</b>
<b>RELATED PARTY TRANSACTIONS</b>	<b>11</b>
<b>RISK MANAGEMENT</b>	<b>11</b>
Financial Instruments	11
Business Risks	11
<b>OUTLOOK</b>	<b>11</b>

## Forward-Looking Statements

This interim report contains forward-looking statements, which reflect management's expectations regarding the future growth, results of operations, performance and business prospects and opportunities of the Fund and its subsidiaries. Forward-looking statements typically contain words such as "anticipates," "believes," "continue," "could," "expects," "indicates," "plans" or similar expressions suggesting future outcomes or events. 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 labor and distribution, competition, compliance with government regulations, 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 and debt refinancing. Although the forward-looking statements contained in this interim report are based upon what management believes to be reasonable assumptions, the Fund cannot assure readers 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 interim report, and the Fund assumes no obligation to update or revise them, either publicly or otherwise, to reflect new events, information or circumstances.

## REVIEW OF OPERATIONS

### Highlights for the Three Months Ended June 30, 2006

- > Acquired initial four of six companies comprising California Ice, the largest manufacturer and distributor of packaged ice in California
- > Acquired Happy Ice of Fairport, New York, expanding market coverage in upstate New York
- > Completed construction of new production plant near Milwaukee and opened a new distribution center north of Philadelphia, Pennsylvania
- > Increased sales \$13.2 million or 28%
- > Improved EBITDA \$5.5 million or 36%
- > Improved earnings \$2.6 million or 41%
- > Improved distributable cash by \$4.5 million or 39%

### Acquisitions

In May 2006, Arctic Glacier announced that it had entered into purchase agreements to acquire 100% of the equity interests of a group of six companies located in California, collectively known as California Ice, for an aggregate cash purchase price of approximately U.S. \$188.7 million. These acquisitions, with combined annual sales of approximately C\$75 million, are the key to establishing Arctic Glacier as the market leader and largest packaged ice supplier in California, one of the most attractive ice markets in North America. California Ice is the market leader in California and services all major markets in the state including Los Angeles, San Diego, Palm Springs, San Francisco, Oakland, San Jose and Sacramento.

On May 25, 2006, Arctic Glacier acquired the first four of these companies and subsequent to the end of the quarter, on August 8, 2006, acquired the remaining two companies. Arctic Glacier made payments of U.S. \$146.8 million at the May closing and U.S. \$31.7 million at the August closing, with the remaining U.S. \$10.2 million to be paid in October 2007.

On June 15, 2006, Arctic Glacier acquired 100% of the assets and operations of Happy Ice LLC of Fairport, New York for cash consideration of \$17.0 million (U.S. \$15.4 million). This acquisition of the largest ice company in upstate New York, with annual sales of approximately C\$10 million, significantly expands Arctic Glacier's coverage in the important northeastern U.S. market.

**CALIFORNIA ICE**

**Sales** Approximately C\$75 million

**Companies** – Diamond Newport Corporation (Santa Ana)  
Glacier Ice Company, Inc. (Fremont) \*  
Glacier Valley Ice Company, L.P. (Elk Grove)  
Jack Frost Ice Service, Inc. (Modesto)  
Mountain Water Ice Company (Carson)  
South Bay Ice LLC (Fremont) \*

**Markets** – Los Angeles, San Diego, Palm Springs,  
San Francisco, Oakland, San Jose, Sacramento

**Production Plants** – Bakersfield, Carson, Elk Grove, Fremont, Fresno,  
Modesto, Oceanside, Santa Ana

**Distribution Centers** – 5 throughout California

\*Acquisitions completed August 8, 2006.

**HAPPY ICE**

**Sales** Approximately C\$10 million

**Markets** – Buffalo, Rochester, Albany, Syracuse

**Production Plants** – Fairport, New York

**Distribution Centers** – 4 throughout New York

## Management's DISCUSSION & ANALYSIS

of Operating Results and Financial Position  
for the three and six months ended June 30, 2006

### Non-GAAP Financial Measures

EBITDA<sup>(1)</sup> and distributable cash are not recognized measures under Canadian generally accepted accounting principles (GAAP) and do not have standardized meanings prescribed by GAAP. EBITDA is a performance measure used by many investors to provide an indication of cash available for distribution from ongoing operations prior to debt service, capital expenditures and income taxes and is often used to compare companies and income trusts on the basis of ability to generate cash from ongoing operations. Distributable cash is a performance measure used by many investors as an indicator of funds available for distribution to unitholders in an income trust. Management believes that these are useful supplemental measures that may assist investors in assessing the Fund's financial results.

Investors should be cautioned that EBITDA and distributable cash should not be construed as alternatives to earnings, cash from operations or other financial measures determined in accordance with GAAP as indicators of the Fund's performance. The Fund's method of calculating EBITDA and distributable cash may differ from other companies and income trusts and, accordingly, may not be comparable to measures used by them.

The following is a reconciliation of EBITDA to earnings as calculated in accordance with GAAP:

(thousands)	Three Months		Six Months	
	2006	2005	2006	2005
Earnings for the period	\$ 8,945	\$ 6,332	\$ 4,595	\$ 625
Add (deduct) non-operating items:				
Amortization	5,507	4,517	10,114	8,970
Interest	2,494	2,157	3,594	3,619
Acquisition integration expenses	173	187	287	479
Loss (gain) on disposal of property, plant and equipment	(115)	24	(126)	4
Loss (gain) on foreign exchange options	(464)	231	(273)	361
Debt settlement costs	751	—	751	—
Income tax expense (reduction)	3,247	1,638	(2,773)	(4,061)
EBITDA <sup>(1)</sup>	\$ 20,538	\$ 15,086	\$ 16,169	\$ 9,997

(1) Earnings before interest, taxes, depreciation, amortization and non-recurring expenses including acquisition integration expenses.

### Distributable Cash

The Fund generated distributable cash totaling \$16.2 million for the second quarter of 2006, an increase of \$4.5 million or 39% compared to \$11.6 million for the same period of 2005. The increase is primarily driven by the contribution of acquisitions made during the quarter. On a per unit basis, distributable cash totaled \$0.54 for the second quarter of 2006, an increase of \$0.04 or 8% compared to \$0.50 for the same period of 2005.

Distributable cash for the six months ended June 30, 2006 totaled \$9.5 million, an increase of \$5.8 million or 154% compared to the same period of 2005. On a per unit basis, distributable cash for the first six months of 2006 totaled \$0.33, an increase of \$0.17 or 106% compared to the same period of 2005.

The packaged ice business is very seasonal. The Trustees of the Fund have eliminated the impact of seasonal fluctuations on unitholders by equalizing the monthly distributions over the course of the year. However, the seasonality of the business does create a discrepancy between the timing of distributable cash generated and distributions. Demand for packaged ice is very light during the first four months of the year, which

are characterized by lower sales levels and a distributable cash deficiency. Demand picks up in spring but is very dependent upon temperature and precipitation. The third quarter of the year includes the peak summer sales period and is the financial driver for the business. Demand tapers off after the summer season ends, and, as a result, the last quarter of the year is characterized by modest distributable cash. Because of this seasonality, the calculation of distributable cash for any portion of the year is not necessarily indicative of the distributable cash to be expected for the year.

Management expects that recent acquisitions will be accretive to distributable cash per unit in 2006, and that the Fund will continue to generate sufficient cash in 2006 to exceed the current distribution rate.

## Management's DISCUSSION & ANALYSIS

of Operating Results and Financial Position  
for the three and six months ended June 30, 2006

### Distributable Cash

(thousands, except per unit amounts)	Three Months		Six Months	
	2006	2005	2006	2005
Cash from operating activities	\$ 20,439	\$ 4,804	\$ 12,553	\$ (5,192)
Adjustments:				
Changes in working capital items	(2,593)	7,821	(340)	10,997
	17,846	12,625	12,213	5,805
Less sustaining capital expenditures, net of dispositions	(1,687)	(1,001)	(2,668)	(2,054)
<b>Distributable cash</b>	<b>\$ 16,159</b>	<b>\$ 11,624</b>	<b>\$ 9,545</b>	<b>\$ 3,751</b>
Weighted average number of units	29,817.7	23,384.0	28,863.1	23,371.9
<b>Distributable cash per unit</b>	<b>\$ 0.54</b>	<b>\$ 0.50</b>	<b>\$ 0.33</b>	<b>\$ 0.16</b>
Distributions declared	\$ 8,538	\$ 6,434	\$ 16,214	\$ 12,744
<b>Distributions declared per unit</b>	<b>\$ 0.28</b>	<b>\$ 0.28</b>	<b>\$ 0.55</b>	<b>\$ 0.55</b>
Distributions declared per unit (annualized)	\$ 1.10	\$ 1.10	\$ 1.10	\$ 1.09

### Distributions

The Trustees of the Fund declare cash distributions on a monthly basis, payable to unitholders of record on the last business day of each month and paid within 15 days following the end of the month. The distribution rate was increased in March 2005 to \$0.0917 per unit per month, or \$1.10 on an annualized basis.

The Fund declared cash distributions totaling \$8.5 million during the second quarter of 2006, an increase of \$2.1 million or 33% compared to 2005. On a per unit basis,

declared distributions totaled \$0.28 for the second quarter of 2006, which is consistent with the same period of 2005.

For the six months ended June 30, 2006, the Fund has declared cash distributions totaling \$16.2 million, an increase of \$3.5 million or 27% compared to 2005.

On a per unit basis, declared distributions total \$0.55 for the first six months of 2006, consistent with the same period of 2005.

### 2006 Distributions

Month	Record Date	Payment Date	Per Unit	Amount
January	January 31, 2006	February 15, 2006	\$ 0.0917	\$ 2,558
February	February 28, 2006	March 15, 2006	0.0917	2,559
March	March 31, 2006	April 14, 2006	0.0917	2,559
			0.2751	7,676
April	April 28, 2006	May 15, 2006	0.0917	2,560
May	May 31, 2006	June 15, 2006	0.0917	2,989
June	June 30, 2006	July 14, 2006	0.0917	2,989
			0.2751	8,538
<b>Total</b>			<b>\$ 0.5502</b>	<b>\$ 16,214</b>

# Management's DISCUSSION & ANALYSIS

of Operating Results and Financial Position  
for the three and six months ended June 30, 2006

## Financial Results

### Sales

Sales for the second quarter ended June 30, 2006 totaled \$60.5 million, an increase of \$13.2 million or 28% compared to sales of \$47.3 million for the second quarter of 2005.

The increase in sales is primarily attributable to the California, Happy and Hometown acquisitions, which contributed \$14.3 million to sales during the second quarter. In addition, sales in previously serviced markets were up \$2.5 million or 6% as a result of increased volumes and pricing. While many of our markets enjoyed normal to above normal temperatures this spring, the populous northeastern U.S. market experienced a very wet spring.

Sales were impacted negatively by the stronger Canadian dollar during the second quarter of 2006, which decreased the Canadian dollar value of sales generated in U.S. markets by \$3.6 million compared to the same period of 2005.

Sales for the six months ended June 30, 2006 totaled \$75.1 million, an increase of \$14.0 million or 23% compared to the same period of 2005. Acquisitions have contributed \$15.0 million during this period and sales in previously serviced markets are up by \$3.2 million or 6%. These factors were partially offset by the stronger Canadian dollar, which reduced reported sales by \$4.2 million this year.

### Cost of sales, selling, general and administration expenses

Cost of sales, selling, general and administration expenses for the second quarter of 2006 totaled \$39.9 million, an increase of \$7.7 million or 24% compared to \$32.2 million for the same period of 2005.

The increase in expenses is primarily the result of the California, Happy and Hometown acquisitions, which added \$7.8 million to operating costs in the quarter. Expenses in previously serviced markets were up by \$2.3 million or 8%, primarily the result of higher energy costs, the timing of management incentive payments, and additional costs incurred in Pennsylvania related to starting up the new distribution center north of Philadelphia. These factors were partially offset by the stronger Canadian dollar, which decreased the Canadian dollar value of costs incurred in U.S. operations by \$2.4 million.

Cost of sales, selling, general and administration expenses for the six months ended June 30, 2006 totaled \$59.0 million, an increase of \$7.9 million or 15% compared to the same period of 2005. The California, Happy and Hometown acquisitions have added costs of \$8.9 million in 2006 and costs in previously serviced markets are up by \$2.1 million or 4%. Partially offsetting this is the stronger Canadian dollar, which decreased the Canadian dollar value of costs incurred in U.S. markets by \$3.1 million this year.

### EBITDA

EBITDA for the second quarter of 2006 totaled \$20.5 million, an increase of \$5.5 million or 36% compared to \$15.1 million for the same period in 2005. The California, Happy and Hometown acquisitions contributed \$6.5 million of EBITDA during the quarter, while EBITDA from previously serviced operations was up by \$0.2 million or 2% as a result of the sales and cost factors already noted. These factors were partially offset by the stronger Canadian dollar, which decreased the Canadian dollar value of EBITDA earned in U.S. markets by \$1.2 million.

EBITDA for the six months ended June 30, 2006 totaled \$16.2 million, an increase of \$6.2 million or 62% compared to \$10.0 million for the same period in 2005. Acquisitions have contributed \$6.1 million during this period and EBITDA from previously serviced markets is up by \$1.2 million or 13%, while the stronger Canadian dollar offset these factors reducing EBITDA by \$1.1 million.

EBITDA totaled 34.0% of sales for the second quarter of 2006, an improvement compared to 31.9% for the same period in 2005 as a result of the timing of acquisitions late in the quarter when margins are higher. For the six months ended June 30, 2006, EBITDA totaled 21.5% of sales compared to 16.4% for the same period in 2005.

### Amortization

Amortization expense totaled \$5.5 million for the second quarter of 2006, an increase of \$1.0 million or 22% compared to the previous year. Amortization of property, plant and equipment increased by \$0.3 million or 7% due to the increase in depreciable assets from acquisitions made during the quarter and capital expenditures made during the last year. Amortization of intangible assets increased by \$0.7 million or 80% due to the increase in the value assigned to customer relationships and non-competition agreements resulting from acquisitions.

Amortization expense for the six months ended June 30, 2006 totaled \$10.1 million, an increase of \$1.1 million or 13% compared to the same period of 2005.

### Interest

Interest expense totaled \$2.5 million for the second quarter of 2006, an increase of \$0.3 million or 16% compared to the previous year. The increase is primarily due to increased debt levels and the issuance of convertible debentures to fund the California and Happy acquisitions. Interest on convertible debentures totaled \$0.8 million during the second quarter of 2006, including \$0.2 million of accretion. The average cost of debt was 5.9% during the second quarter of 2006, compared to 5.8% for the same period last year.

Interest expense for the six months ended June 30, 2006 totaled \$3.6 million, consistent with the same period of 2005.

### Acquisition integration expenses

Acquisition integration expenses reflect the non-operating outlays associated with integrating acquired operations into Arctic Glacier's business model, subsequent to the completion of an acquisition, along with the costs of maintaining an acquisition department. Acquisition integration expenses totaled \$0.2 million for the second quarter of 2006 related to initial integration activities for the California and Happy acquisitions. This compares to \$0.2 million for the same period of 2005 when integration efforts were underway for the Losquadro and Party Time acquisitions.

Acquisition integration charges for the six months ended June 30, 2006 totaled \$0.3 million compared to \$0.5 million for the same period of 2005.

## Loss (gain) on disposal of property, plant and equipment

The gain on disposal of property, plant and equipment totaled \$0.1 million for the second quarter of 2006 and resulted from the disposal of redundant production equipment from recent acquisitions.

For the six months ended June 30, 2006, the gain on disposal of property, plant and equipment totaled \$0.1 million compared to a negligible amount in the same period of 2005.

## Loss (gain) on foreign exchange options

The gain on foreign exchange options totaled \$0.5 million for the second quarter of 2006, comprised of \$0.1 million of cash gains realized on the exercise of maturing options and \$0.4 million of unrealized gains resulting from the non-cash, period end mark-to-market adjustment of outstanding currency option contracts at the end of the quarter. This compares to a loss of \$0.2 million for the same period in 2005 primarily comprised of a non-cash, period end fair-value reduction of the value of the asset associated with outstanding currency option contracts.

For the six months ended June 30, 2006, the gain on foreign exchange options totaled \$0.3 million, comprised of \$0.1 million of cash gains realized on the exercise of maturing options and \$0.2 million of unrealized gains on the mark-to-market period-end adjustment. This compares to a loss on foreign exchange options totaling \$0.4 million for the same period of 2005, including less than \$0.1 million of cash costs associated with exercising options that matured during the period and \$0.3 million of unrealized losses on the mark-to-market period-end adjustment at June 30, 2005.

## Debt settlement costs

In May 2006, the terms of the revolving credit facility were amended and restated in conjunction with the California and Happy Ice acquisitions, resulting in a settlement of the original credit facility for accounting purposes and a write-off of unamortized deferred financing costs of \$0.8 million.

## Income tax expense

Income tax expense for the second quarter of 2006 totaled \$3.2 million, an increase compared to \$1.6 million for the same period in 2005. Current tax expense increased by \$0.1 million. Future income tax expense increased by \$1.5 million due to the increase in earnings for the second quarter this year.

Income taxes recoverable for the six months ended June 30, 2006 totaled \$2.8 million compared to \$4.1 million for the same period of 2005.

## Earnings and earnings per unit

Earnings for the second quarter of 2006 totaled \$8.9 million, an increase of \$2.6 million or 41% compared to \$6.3 million for the same period in 2005. On a per unit basis, earnings were \$0.30 per unit (basic and diluted), an increase compared to \$0.27 for the same period in 2005.

For the six months ended June 30, 2006, earnings totaled \$4.6 million, an increase of \$4.0 million or 635% compared to \$0.6 million for the same period of 2005. Earnings per unit for the six months ended June 30, 2006 totaled \$0.16 per unit compared to \$0.03 per unit for the same period of 2005.

## Quarterly Results

(thousands, except per unit amounts)	2006		2005				2004		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Sales	\$ 60,464	\$ 14,662	\$ 21,771	\$ 73,584	\$ 47,275	\$ 13,809	\$ 16,484	\$ 50,640	\$ 36,088
EBITDA	20,538	(4,369)	(551)	31,567	15,086	(5,089)	1,423	20,197	10,553
Earnings (loss)	8,945	(4,350)	(1,809)	17,149	6,332	(5,707)	215	11,566	5,574
Earnings (loss) per unit:									
Basic and diluted	0.30	(0.16)	(0.06)	0.72	0.27	(0.24)	0.01	0.50	0.24

The majority of Arctic Glacier's operations are in Canada and the northeastern, central, and western United States. As a result, the business is affected by seasonal weather patterns. Demand for packaged ice is very light during the first four months of the year, which are characterized by negative EBITDA and significant losses. Demand picks up in spring but is very dependent upon temperature and precipitation. As a result, May and June enjoy positive EBITDA and modest earnings. The third quarter of the year includes the peak

summer sales period and is the financial driver for the business. Demand tapers off after the summer season ends and, as a result, the last quarter of the year is characterized by slightly negative EBITDA and losses.

For the first two quarters of 2006, sales, EBITDA, earnings and earnings per unit were impacted by the Hometown, California and Happy Ice acquisitions, and by the stronger Canadian dollar compared to the same period of 2005.

## Management's DISCUSSION & ANALYSIS

of Operating Results and Financial Position  
for the three and six months ended June 30, 2006

### LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations, together with cash on hand and unutilized credit available on existing credit facilities are expected to be sufficient to meet operating requirements, capital expenditures and anticipated distributions.

### Cash Requirements and Obligations

The Fund's contractual obligations have increased as a result of the acquisition of the California and Happy Ice acquisitions. The Fund and its subsidiaries have contractual obligations that require future cash payments as follows:

#### Contractual Obligations

(thousands)	Total commitments	Payments Due by Period			
		Within current fiscal year	2 - 3 years	4 - 5 years	After 5 years
Long-term debt	\$ 144,560	\$ 568	\$ 2,424	\$ 141,568	\$ —
Payable to vendors of acquired assets	11,012	—	11,012	—	—
Acquisition agreements	37,389	35,381	2,008	—	—
Operating leases	51,641	3,940	12,346	8,820	26,535
Purchase obligations	2,470	628	1,842	—	—
<b>Total contractual obligations</b>	<b>\$ 247,072</b>	<b>\$ 40,517</b>	<b>\$ 29,632</b>	<b>\$ 150,388</b>	<b>\$ 26,535</b>

Additional disclosure on long-term debt and payable to vendors of acquired assets is provided in notes 5 and 6 to the interim consolidated financial statements. Contractual obligations under acquisition agreements relates to payment obligations of U.S. \$31.7 million in August 2006 and U.S. \$1.8 million in October 2007 under agreements to purchase the equity interests of Glacier Ice Company, Inc. and South Bay Ice LLC.

At June 30, 2006, the Fund had purchase obligations totaling U.S. \$1.6 million under an agreement to acquire the manufacturing facility located in Fresno, California from the landlord in 2007 and U.S. \$0.6 million related to the installation of drying and packaging equipment in the Twin Oaks, Pennsylvania plant later this year. These obligations will be funded through a combination of debt and working capital.

### Sources and Uses of Cash

(thousands)	Three Months		Six Months	
	2006	2005	2006	2005
Cash from (used in) operating activities				
Funds from operations	\$ 17,846	\$ 12,625	\$ 12,213	\$ 5,805
Changes in working capital items	2,593	(7,821)	340	(10,997)
	20,439	4,804	12,553	(5,192)
Cash used in investing activities	(212,414)	(4,230)	(216,673)	(8,737)
Cash from (used in) financing activities	194,946	(6,302)	203,284	(10,163)
Foreign exchange gain (loss) on cash held in foreign currency	(719)	(27)	(595)	204
<b>Increase (decrease) in cash during the period</b>	<b>\$ 2,252</b>	<b>\$ (5,755)</b>	<b>\$ (1,431)</b>	<b>\$ (23,888)</b>

## Cash from operating activities

Funds from operations totaled \$17.8 million for the second quarter of 2006, an increase of \$5.2 million or 41% compared to the same period of 2005. The increase is directly attributable to the growth in the scale of operations this year from acquisitions. For the six months ended June 30, 2006, funds from operations totaled \$12.2 million, an increase of \$6.4 million or 110% compared to the same period of 2005.

Changes in working capital items resulted in a source of cash of \$2.6 million for the second quarter of 2006, compared to a use of cash of \$7.8 million for the same period of 2005. The increase in cash is primarily the result of an increase in payables at the end

of the second quarter from acquisition and financing related expenses for the California and Happy Ice acquisitions, partially offset by a larger seasonal increase in accounts receivable due to the expanded scale of operations. For the six months ended June 30, 2006, changes in non-cash working capital items resulted in a source of cash of \$0.3 million compared to a use of cash of \$11.0 million for the same period of 2005.

## Cash used in investing activities

(thousands)	Three Months		Six Months	
	2006	2005	2006	2005
Sustaining capital expenditures, net of dispositions	\$ 1,687	\$ 1,001	\$ 2,668	\$ 2,054
Growth capital expenditures	6,185	3,225	9,188	6,471
Acquisition of business operations	196,991	—	197,266	—
Additions to other assets	7,551	4	7,551	212
Cash used in investing activities	\$ 212,414	\$ 4,230	\$ 216,673	\$ 8,737

Cash used in investing activities totaled \$212.4 million for the second quarter of 2006 compared to \$4.2 million for the same period of 2005. Sustaining capital expenditures, which represents the replacement of property, plant and equipment to sustain current business operations, totaled \$1.7 million for the second quarter of 2006, and \$2.7 million for the six months ended June 30, 2006. Sustaining capital expenditures are funded from operating cash flow and are expected to average between 3.5 and 4% of sales on an annual basis.

Growth capital expenditures, representing outlays that are integral with acquisition initiatives or that grow the business and enhance distributable cash, totaled \$6.2 million for the second quarter of 2006. These expenditures are primarily related to the new Milwaukee production plant and the new distribution center north of Philadelphia.

Growth capital expenditures of \$3.2 million in the same period of 2005 related primarily to construction of the new plant in Newburgh, New York. For the six months ended June 30, 2006, growth capital expenditures totaled \$9.2 million compared to \$6.5 million for the same period of 2005.

Cash totaling \$197.0 million was used during the quarter for acquisitions. The Fund used cash of \$178.5 million to acquire the first four of the six companies that comprise California Ice, \$18.2 million to acquire Happy Ice and \$0.3 million for one small tuck-in acquisition.

Additions to other assets totaled \$7.6 million for the second quarter of 2006, comprised of \$5.2 million of issue costs for the convertible debentures and \$2.4 million of deferred financing costs for the amended credit facility.

## Management's DISCUSSION & ANALYSIS

of Operating Results and Financial Position  
for the three and six months ended June 30, 2006

### Cash from (used in) financing activities

(thousands)	Three Months		Six Months	
	2006	2005	2006	2005
<b>Sources</b>				
Long-term debt	\$ 57,664	\$ —	\$ 73,742	\$ 2,318
Convertible debentures issued	100,000	—	100,000	—
Units issued, net of costs	47,094	273	47,272	490
Total sources of cash	204,758	273	221,014	2,808
<b>Uses</b>				
Long-term debt repayments	83	131	327	265
Capital lease obligations	—	12	—	24
Payments of amounts due to vendors of acquired assets	1,621	—	1,621	—
Cash distributions paid	8,108	6,432	15,782	12,682
Total uses of cash	9,812	6,575	17,730	12,971
Total cash from (used in) financing activities	\$ 194,946	\$ (6,302)	\$ 203,284	\$ (10,163)

On May 25, 2006, concurrent with the acquisition of California Ice, the Fund completed a bought deal public offering of 4.67 million subscription receipts at \$10.70 each for gross proceeds of \$50.0 million and \$100.0 million of extendible convertible unsecured subordinated debentures. The subscription receipts were exchanged on a one-for-one basis for units of the Fund upon the simultaneous closing of the California Ice acquisition. The Fund realized net proceeds of \$46.9 million from the issuance of units after deducting underwriters' fees and other issuance costs. The maturity date of the convertible debentures was extended to July 31, 2011 upon the closing of the acquisition. The convertible debentures bear interest at an annual rate of 6.5% payable semi-annually on January 31 and July 31 of each year, and are convertible into Fund units at the option of the holder at a conversion price of \$12.60 per unit.

The Fund raised cash of \$204.8 million during the second quarter of 2006, primarily related to the acquisitions of California and Happy Ice. This was comprised of \$100.0 million from issuing convertible debentures, \$57.7 million drawn on the amended revolving term credit facility, \$46.9 million from the unit offering, and \$0.2 million from the issuance of units under the Distribution Reinvestment and Optional Cash Purchase ("DRIP") Plan. The funds raised were utilized to finance investments in the California and Happy Ice acquisitions, growth capital expenditures and a small tuck-in acquisition, along with seasonal working capital requirements. In addition, the Fund utilized \$8.1 million for distributions to unitholders, \$1.6 million for scheduled payments of amounts due to the sellers of Losquadro Ice, and \$0.1 million to make scheduled payments of deferred acquisition consideration.

During the same period in 2005, the Fund generated proceeds of \$0.3 million from issuing units under the DRIP Plan. The Fund used cash of \$0.1 million to make scheduled payments of deferred acquisition consideration and other loans and obligations under capital leases, and \$6.4 million of cash for distributions to unitholders.

### Credit Facilities

On May 25, 2006, concurrent with the public offering and the acquisition of California Ice, the terms of the Fund's revolving credit agreement were amended by the syndicate of lenders. The amended agreement was comprised of a four-year U.S. \$115 million senior secured revolving term facility and a one-year \$150 million senior secured non-revolving bridge term facility. The bridge term facility was not required and expired following the successful completion of the public offering of subscription receipts and convertible debentures.

At June 30, 2006, the Fund's credit facilities were comprised of a U.S. \$60 million senior note facility and a U.S. \$115 million revolving term credit facility. The senior notes are due January 1, 2010 and carry a fixed annual interest rate of 5.35%, payable monthly, with principal due at maturity. The revolving credit facility matures May 25, 2010, can be drawn in either Canadian or U.S. dollars, does not require scheduled principal repayments prior to maturity, and bears interest at a floating rate based on prime, LIBOR or banker's acceptances plus a margin based on the Fund's quarterly leverage ratio.

The Fund had long-term debt outstanding at June 30, 2006 of \$144.6 million, comprised of senior notes of \$67.0 million (U.S. \$60 million), senior debt under the revolving term credit facility of \$74.0 million, deferred acquisition consideration of \$1.0 million and amounts owing under a non-competition agreement of \$2.6 million. The Fund had credit available under the revolving term credit facility of \$54.4 million at June 30, 2006.

An interest rate swap was completed on May 25, 2006 to convert U.S. \$30 million of the senior debt drawn on the revolving term credit facility from floating to fixed rates at 5.59% plus the margin for a term to May 25, 2010.

The Fund's net debt<sup>(1)</sup> to EBITDA ratio at June 30, 2006 was 2.1 to 1<sup>(2)</sup> compared to 3.3 to 1<sup>(3)</sup> the previous year. The Fund's intention is to maintain a net debt to EBITDA ratio of less than 2.25 to 1, excluding any temporary bridge financing of acquisitions.

The Fund's financing arrangements contain various financial covenants. The Fund is in compliance with all debt covenants at June 30, 2006.

- (1) Net debt is defined as total long-term debt, obligations under capital leases and bank indebtedness, reduced by cash and excludes convertible debentures.
- (2) With June 30, 2006 trailing EBITDA increased by \$19.0 million to give effect to the trailing 12 month contribution of acquisitions and the realized gain on foreign currency options.
- (3) With June 30, 2005 trailing EBITDA increased by \$6.9 million to give effect to the trailing 12 month contribution of acquisitions and the realized gain on foreign currency options.

## Outstanding Securities

As at June 30, outstanding unit data were as follows:

(thousands)	2006	2005
Units outstanding	<b>32,600.0</b>	23,394.5
Unit options outstanding	<b>2,335.0</b>	1,440.0

As at August 8, 2006, the Fund had 32.61 million units and 2.33 million options outstanding.

## ACCOUNTING POLICIES AND ESTIMATES

The critical accounting policies and estimates and discussion of new accounting policies are substantially unchanged from those identified in the MD&A for the year ended December 31, 2005.

## RELATED PARTY TRANSACTIONS

A subsidiary of the Fund leases a production facility located in Arizona from a company indirectly owned and controlled by a trustee and officer of the Fund. The lease agreement is for a period of up to nine years on commercially reasonable terms and includes an option to purchase the facility during the term on commercially reasonable terms. The subsidiary made lease payments totaling \$0.1 million during the three and six months ended June 30, 2006.

## RISK MANAGEMENT

### Financial Instruments

The Fund and its subsidiaries generate significant cash flows in U.S. dollars and are therefore subject to fluctuations in the value of the Canadian dollar relative to the U.S. dollar in the normal course of business. In order to reduce this risk, the Fund has an exchange management program that uses derivative financial instruments, which are not held or issued for speculative purposes.

In February 2006, the Fund and its subsidiaries entered into a series of foreign exchange option contracts that provide a floor exchange rate of \$1.1350 Canadian dollars per U.S. dollar on U.S. \$13.5 million. These contracts have settlement dates that extend

to December of 2006, and contain knock-in provisions that call for the balance of any options to be exercised at \$1.1350 if the spot exchange rate exceeds \$1.2105 at any point prior to maturity.

At June 30, 2006, the aggregate notional amount of foreign exchange option contracts outstanding was U.S. \$18.4 million.

## Business Risks

The factors affecting the business remain substantially unchanged from those identified in the MD&A for the year ended December 31, 2005.

## OUTLOOK

Arctic Glacier's strong growth, rationalization activities and profitable operations, coupled with generally favorable weather patterns to date, position the Fund well for the balance of fiscal 2006.

The second quarter saw Arctic Glacier announce two acquisitions. California Ice, the Fund's largest-ever acquisition, captures one of the largest markets in North America and extends coverage to the west coast of the United States for the first time. The acquisition of Happy Ice in Fairport, New York further strengthens Arctic Glacier's position as the leading packaged ice company in the northeastern United States. The two initiatives solidify Arctic Glacier's position as the second-largest packaged ice company in North America.

Both acquisitions substantially enhance the Fund's sales, EBITDA and distributable cash. Rationalization and integration of the six companies that comprise California Ice will further enhance accretiveness of the acquisition. In the same manner, completion of a new production plant near Milwaukee during the second quarter complements the 2005 acquisition of Hometown Ice in Wisconsin. A new distribution center north of Philadelphia, which also came onstream during the quarter, is a productivity-enhancing measure that will add to operational efficiency in the northeast.

The Fund financed these initiatives with a balanced mix of public equity and debt offerings and committed bank credit facilities. As a result, Arctic Glacier completed these substantial acquisitions and capital improvements while remaining within the Fund's leverage guidelines and retaining balance sheet strength.

Weather patterns in Arctic Glacier's market regions to the end of the second quarter were mixed but generally favorable. At the midpoint of the third quarter, unusually hot and humid conditions in many parts of North America during July point to good sales results for the key summer months when retail demand for packaged ice is highest.

Management is confident that the combination of accretive acquisitions and profitable operations will enhance distributable cash per unit. As a result, the Fund is expected to continue generating distributable cash in excess of requirements for distributions to unitholders at the current annualized rate of \$1.10 per unit.

Arctic Glacier's strong growth, comprehensive rationalization activities, secure market coverage, robust financial position and active management provide the Fund with the means for secure distributions and continued unitholder value growth, well into the future.

## Interim Consolidated BALANCE SHEETS

As at June 30, 2006 and 2005 and December 31, 2005 (unaudited)

(thousands)	June 30, 2006	June 30, 2005	December 31, 2005
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	\$ 4,882	\$ —	\$ 6,313
Accounts receivable	33,577	21,297	8,569
Inventories	12,347	7,494	6,012
Prepaid expenses	4,279	3,263	2,381
	<b>55,085</b>	32,054	23,275
<b>Property, plant and equipment</b>	<b>155,034</b>	123,717	119,847
<b>Investments (Note 4)</b>	<b>515</b>	—	—
<b>Other assets</b>	<b>8,776</b>	3,359	2,714
<b>Intangible assets</b>	<b>127,862</b>	24,973	24,782
<b>Goodwill</b>	<b>170,333</b>	107,851	106,899
	<b>\$ 517,605</b>	\$ 291,954	\$ 277,517
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Bank indebtedness	\$ —	\$ 9,133	\$ —
Accounts payable and accrued liabilities	39,168	17,720	9,269
Distributions payable to unitholders	2,989	2,145	2,557
Current portion of payable to vendors of acquired assets	1,618	—	1,686
Current obligations under capital leases	—	13	—
Principal due within one year on long-term debt	1,155	520	400
	<b>44,930</b>	29,531	13,912
<b>Payable to vendors of acquired assets (Note 5)</b>	<b>8,591</b>	—	1,686
<b>Long-term debt (Note 6)</b>	<b>143,405</b>	116,404	70,743
<b>Convertible debentures (Note 7)</b>	<b>89,999</b>	—	—
<b>Future income taxes</b>	<b>4,733</b>	6,156	7,920
<b>Unitholders' equity</b>			
Capital contributions (Note 8)	297,019	202,212	249,747
Contributed surplus	775	624	723
Equity portion of convertible debentures (Note 7)	10,161	—	—
Cumulative translation adjustment	(23,957)	(15,719)	(20,782)
Accumulated deficit	(58,051)	(47,254)	(46,432)
	<b>225,947</b>	139,863	183,256
	<b>\$ 517,605</b>	\$ 291,954	\$ 277,517

See accompanying notes to interim consolidated financial statements.

Approved on behalf of the Trustees by:

**ROBERT J. NAGY**  
Trustee

**GARY A. FILMON**  
Trustee

## Interim Consolidated STATEMENTS OF OPERATIONS

Three and six months ended June 30, 2006 and 2005 (unaudited)

	Three Months		Six Months	
	2006	2005	2006	2005
(thousands, except per unit amounts)				
<b>Sales</b>	<b>\$ 60,464</b>	\$ 47,275	<b>\$ 75,126</b>	\$ 61,084
Cost of sales, selling, general and administration expenses	<b>39,926</b>	32,189	<b>58,957</b>	51,087
Earnings before the undernoted	<b>20,538</b>	15,086	<b>16,169</b>	9,997
Amortization	<b>5,507</b>	4,517	<b>10,114</b>	8,970
Interest	<b>2,494</b>	2,157	<b>3,594</b>	3,619
Acquisition integration expenses	<b>173</b>	187	<b>287</b>	479
Loss (gain) on disposal of property, plant and equipment	<b>(115)</b>	24	<b>(126)</b>	4
Loss (gain) on foreign exchange options	<b>(464)</b>	231	<b>(273)</b>	361
Debt settlement costs (Note 9)	<b>751</b>	–	<b>751</b>	–
<b>Earnings (loss) before income taxes</b>	<b>12,192</b>	7,970	<b>1,822</b>	(3,436)
<b>Income tax expense</b>				
Current	<b>258</b>	138	<b>340</b>	349
Future (reduction)	<b>2,989</b>	1,500	<b>(3,113)</b>	(4,410)
	<b>3,247</b>	1,638	<b>(2,773)</b>	(4,061)
<b>Earnings for the period</b>	<b>\$ 8,945</b>	\$ 6,332	<b>\$ 4,595</b>	\$ 625
<b>Earnings per unit (Note 10)</b>				
Basic	<b>\$ 0.30</b>	\$ 0.27	<b>\$ 0.16</b>	\$ 0.03
Diluted	<b>0.30</b>	0.27	<b>0.16</b>	0.03

See accompanying notes to interim consolidated financial statements.

## Interim Consolidated STATEMENTS OF ACCUMULATED DEFICIT

Three and six months ended June 30, 2006 and 2005 (unaudited)

	Three Months		Six Months	
	2006	2005	2006	2005
(thousands)				
<b>Accumulated deficit, beginning of period</b>	<b>\$ (58,458)</b>	\$ (47,152)	<b>\$ (46,432)</b>	\$ (35,135)
Earnings for the period	<b>8,945</b>	6,332	<b>4,595</b>	625
Distributions declared (Note 11)	<b>(8,538)</b>	(6,434)	<b>(16,214)</b>	(12,744)
<b>Accumulated deficit, end of period</b>	<b>\$ (58,051)</b>	\$ (47,254)	<b>\$ (58,051)</b>	\$ (47,254)

See accompanying notes to interim consolidated financial statements.

## Interim Consolidated STATEMENT OF CASH FLOWS

Three and six months ended June 30, 2006 and 2005 (unaudited)

(thousands)	Three Months		Six Months	
	2006	2005	2006	2005
<b>Cash from (used in):</b>				
<b>Operating activities</b>				
Earnings for the period	\$ 8,945	\$ 6,332	\$ 4,595	\$ 625
Adjustments for:				
Amortization	5,507	4,517	10,114	8,970
Accretion of convertible debenture principal and payable to vendors of acquired assets	160	—	160	—
Non-cash portion of debt settlement costs (Note 9)	751	—	751	—
Loss (gain) on disposal of property, plant and equipment	(115)	24	(126)	4
Unit-based compensation	20	56	52	290
Unrealized loss (gain) on foreign exchange options	(411)	196	(220)	326
Future income taxes	2,989	1,500	(3,113)	(4,410)
Funds from operations	17,846	12,625	12,213	5,805
Changes in working capital items (Note 12)	2,593	(7,821)	340	(10,997)
	20,439	4,804	12,553	(5,192)
<b>Investing activities</b>				
Additions to property, plant and equipment	(8,328)	(4,321)	(12,383)	(8,732)
Proceeds from disposal of property, plant and equipment	456	95	527	207
Additions to other assets	(7,551)	(4)	(7,551)	(212)
Acquisition of business operations (Note 3)	(196,991)	—	(197,266)	—
	(212,414)	(4,230)	(216,673)	(8,737)
<b>Financing activities</b>				
Proceeds from long-term debt	57,664	—	73,742	2,318
Principal repayments on long-term debt	(83)	(131)	(327)	(265)
Principal payments under capital lease obligations	—	(12)	—	(24)
Payments of amounts due to vendors	(1,621)	—	(1,621)	—
Convertible debentures issued	100,000	—	100,000	—
Units issued	47,094	273	47,272	490
Cash distributions paid	(8,108)	(6,432)	(15,782)	(12,682)
	194,946	(6,302)	203,284	(10,163)
<b>Foreign exchange gain (loss) on cash held in foreign currency</b>	(719)	(27)	(595)	204
<b>Increase (decrease) in cash</b>	2,252	(5,755)	(1,431)	(23,888)
<b>Cash (bank indebtedness), beginning of period</b>	2,630	(3,378)	6,313	14,755
<b>Cash (bank indebtedness), end of period</b>	\$ 4,882	\$ (9,133)	\$ 4,882	\$ (9,133)
Supplementary cash flow information				
Interest paid	\$ 1,487	\$ 1,724	\$ 2,702	\$ 2,599
Income taxes paid	259	138	340	349

The net present value of the portion of the purchase price or additional consideration on acquisitions of business operations satisfied by the issuance of deferred consideration in the amount of \$8,485 (2005 - \$nil) has been excluded from the financing and investing activities.

See accompanying notes to interim consolidated financial statements.

## NOTES to Interim Consolidated Financial Statements

Three and six months ended June 30, 2006 and 2005 (unaudited)  
(amounts in thousands, except per unit amounts)

### 1. ORGANIZATION

Arctic Glacier Income Fund (the "Fund") is an unincorporated, open-ended limited purpose mutual fund trust established under the laws of the Province of Alberta on January 22, 2002. The Fund, through its subsidiaries, operates in the packaged ice manufacturing and distribution business in Canada and the United States and is active in acquiring ice manufacturing and distribution companies. The Fund also licenses its trade names and proprietary technology to independently owned companies in Canada and the United States under franchise and license agreements.

### 2. BASIS OF PRESENTATION

These unaudited consolidated financial statements of the Fund have been prepared in accordance with Canadian accounting principles generally accepted for interim financial statements and contain the financial position, results of operations and cash flows of the Fund and its subsidiaries.

The interim consolidated financial statements and related notes do not include all of the information required for complete financial statements, and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2005. The interim consolidated financial statements are prepared in accordance with the same accounting policies and methods of their application as the most recent annual consolidated financial statements. When necessary, the financial statements include amounts based on informed estimates and best judgments of management.

Due to the seasonal nature of the operations of the Fund, the results of operations for the interim periods reported are not necessarily indicative of results to be expected for the year. The Fund usually generates significant sales and profits in the second and third quarters, with lower sales and significant losses in the first and fourth quarters. Cash flows peak in the third and fourth quarters and drop off in the first and second quarters.

### 3. BUSINESS ACQUISITIONS

During the three months ended June 30, 2006, the Fund commenced with the acquisition of a group of six entities (collectively referred to as "California Ice") comprising the leading packaged ice manufacturing and distribution business in California. On May 25, 2006, a subsidiary of the Fund acquired 100% of the equity interests of four of the six entities: Diamond Newport Corporation of Santa Ana, California, Glacier Valley Ice Company, L.P. of Elk Grove, California, Jack Frost Ice Service, Inc. of Modesto, California, and Mountain Water Ice Company of Carson, California for aggregate cash consideration of \$170,342 (U.S. \$154,519), including \$8,485 (U.S. \$7,697) to be paid in October 2007. In addition, the Fund incurred acquisition and restructuring costs of \$16,686 related to professional fees and other costs associated with the purchase of these businesses.

On June 15, 2006, a subsidiary of the Fund acquired the assets and operations of Happy Ice LLC of Fairport, New York for aggregate cash consideration of \$16,950 (U.S. \$15,376). In addition, the Fund has incurred acquisition and restructuring costs of \$1,202 related to professional fees and other costs associated with the purchase of these assets and operations.

During the six months ended June 30, 2006, the Fund and its subsidiaries acquired the assets of two additional packaged ice companies for aggregate cash consideration of \$571 including acquisition costs related to professional fees and other costs associated with the purchase of these assets and operations.

Subsequent to the end of the second quarter on August 8, 2006, a subsidiary of the Fund completed the acquisition of California Ice by acquiring 100% of the equity interests of each of the remaining two entities: Glacier Ice Company, Inc. and South Bay Ice LLC, both of Fremont, California for aggregate cash consideration of U.S. \$33,497, including U.S. \$1,799 to be paid in October 2007.

These transactions have been accounted for by the purchase method and the results of operations are included in the Fund's accounts from the dates of acquisition.

	California Ice (Initial)	Happy Ice	Other	2006
Net assets acquired, at fair value:				
Current assets	\$ 7,865	\$ 1,451	\$ —	\$ 9,316
Property, plant and equipment	25,076	8,399	321	33,796
Investments	508	—	—	508
Intangible assets	95,941	5,810	130	101,881
Goodwill	62,831	3,203	120	66,154
	192,221	18,863	571	211,655
Less current liabilities	5,144	711	—	5,855
Less future income taxes	49	—	—	49
	\$ 187,028	\$ 18,152	\$ 571	\$ 205,751
Purchase consideration:				
Cash	\$ 161,857	\$ 16,950	\$ 501	\$ 179,308
Deferred consideration	8,485	—	—	8,485
Acquisition and restructuring costs	16,686	1,202	70	17,958
	\$ 187,028	\$ 18,152	\$ 571	\$ 205,751

## NOTES to Interim Consolidated Financial Statements

Three and six months ended June 30, 2006 and 2005 (unaudited)  
(amounts in thousands, except per unit amounts)

### 4. INVESTMENTS

Certain subsidiaries of the Fund hold a non-controlling interest in a captive reinsurance company, which is an investment accounted for using the cost method. The captive provides reinsurance to underwriters who have insured the subsidiaries and other unrelated parties. A shareholder agreement places restrictions on a shareholder's ability to sell shares, and the subsidiaries may be required to contribute additional funds if the captive's capital is eroded by the payment of losses, or to increase capital above minimum regulatory requirements.

### 5. PAYABLE TO VENDORS OF ACQUIRED ASSETS

Under the terms of the amended purchase agreement for the five companies known as the Losquadro Ice Group, the sellers are entitled to receive additional consideration totaling U.S. \$1,450 payable in April 2007.

Under the terms of the purchase agreements for the four California Ice companies acquired in May 2006, the sellers are entitled to receive additional consideration totaling U.S. \$8,416 payable in October 2007. The payment has been discounted to reflect its fair market value of U.S. \$7,697.

These future obligations have been recorded as an addition to goodwill.

### 6. LONG-TERM DEBT

	June 30, 2006	June 30, 2005	December 31, 2005
U.S. \$60 million 5.35% notes, due January 1, 2010	\$ 66,972	\$ 73,524	\$ 69,780
Revolving term credit facility	73,972	41,311	—
Deferred acquisition consideration	1,005	2,089	1,363
Other	2,611	—	—
	<b>144,560</b>	116,924	71,143
Less principal included in current liabilities	1,155	520	400
	<b>\$ 143,405</b>	\$ 116,404	\$ 70,743

On May 25, 2006, in connection with the acquisition of California Ice and the public offering, the terms of the revolving term credit facility were amended by a syndicate of lenders, replacing the previous term facility. The amended facility consists of a four-year U.S. \$115,000 commitment and can be drawn in either Canadian or U.S. dollars, bears interest at a floating rate of prime, LIBOR or banker's acceptances plus a margin based on the Fund's quarterly leverage ratio, and does not require scheduled principal repayments prior to maturity. The amended facility matures on May 25, 2010. In connection with the amendment of this facility, financing costs of \$2,338 were incurred that are being amortized over the remaining term of the facility. The balance outstanding on the credit facility at June 30, 2006 was \$73,972 (2005 - \$41,311), including \$7,000 (2005 - \$7,000) repayable in Canadian funds and \$60,000 (2005 - \$28,000) repayable in U.S. funds.

The senior secured notes and the revolving term credit facility are jointly collateralized on a pari passu basis, and are secured by debentures issued by the Fund's subsidiaries together with other security agreements providing both a fixed and floating charge over all of the assets and undertakings of the Fund and its subsidiaries.

The Fund has an interest rate swap agreement to fix the interest rate on US \$30,000 of the aggregate principal amount of the revolving term credit facility at 5.6% per annum for four years. The maturity dates and other significant terms of the interest rate swap match those of the underlying indebtedness. The interest rate swap is designated as a cash flow hedge, and is an effective hedge of the interest rate risk. Any changes in the fair value of the cash flow hedge are deferred and not recognized until the hedged transactions are recorded in income.

## NOTES to Interim Consolidated Financial Statements

Three and six months ended June 30, 2006 and 2005 (unaudited)  
(amounts in thousands, except per unit amounts)

### 7. CONVERTIBLE DEBENTURES

On May 25, 2006, the Fund completed an offering for \$100,000 of 6.5% convertible unsecured subordinated debentures, which are due on July 11, 2011. The debentures pay interest semi-annually in arrears on January 31 and July 31 of each year, commencing July 31, 2006. The debentures are convertible at the option of the holders into Fund units at any time prior to maturity at a conversion price of \$12.60 per unit. The debentures can not be redeemed by the Fund on or before July 31, 2009. They can be redeemed by the Fund after July 31, 2009 and on or prior to July 31, 2010 provided that the market price of Fund units is not less than 125% of the conversion price, and after July 31, 2010 on 30 to 60 days notice. Subject to regulatory approval, the Fund may satisfy its obligation to repay the principal amount of the debentures on redemption or at maturity, in whole or in part, by delivering the number of Fund units equal to the amount due divided by 95% of the 20 day volume-weighted average trading price of the trust units at that time, plus accrued and unpaid interest in cash.

The initial liability component of these debentures of \$89,839 (2005 - \$nil) represents the present value, effective the date of the issue, of the mandatory cash payments of principal and interest due under the terms of the debenture discounted at 9%, being the rate of interest that would have been applicable to a debt only instrument of comparable term and risk. The discount is accreted to interest expense over the term of the debentures.

The equity component of \$10,161 (2005 - \$nil) represents the estimated fair market value of the holder's conversion option on the date of issue, and is calculated as the difference between the face value of the debenture and the liability component.

Issuance costs of \$5,213 related to the convertible debentures are included in deferred financing charges and are amortized over the term of the convertible debentures.

During the three and six months ended June 30, 2006, no convertible debentures were converted into Fund units.

### 8. CAPITAL CONTRIBUTIONS

#### Issued

Fund units are included in unitholders' capital contributions on the interim consolidated balance sheet as follows:

	Number of Units		Amount
Balance at December 31, 2004	23,350.0	\$	201,721
Units issued for cash consideration on September 20, 2005 at \$11.25 per unit, net of issue costs of \$ 2,982	4,450.0		47,081
Units issued for cash consideration under Distribution Reinvestment and Optional Cash Purchase Plan	87.7		945
Balance at December 31, 2005	27,887.7		249,747
Additional issue costs of units issued on September 20, 2005	—		(26)
Units issued for cash consideration on May 25, 2006 at \$10.70 per unit, net of issue costs of \$3,106	4,673.0		46,895
Units issued for cash consideration under Distribution Reinvestment and Optional Cash Purchase Plan	39.3		403
Balance at June 30, 2006	32,600.0	\$	297,019

#### Options

Changes in the number of options, with their weighted average exercise prices, are summarized as follows:

	2006		2005	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Balance at beginning of period	2,350.0	\$ 11.25	840.0	\$ 11.50
Granted	—	—	600.0	11.92
Expired	(15.0)	\$ 11.64	—	—
Balance end of period	2,335.0	\$ 11.25	1,440.0	\$ 11.68
Exercisable end of period	1,400.0	\$ 11.68	1,140.0	\$ 11.61
Weighted average fair value per unit of options granted during the period		\$ —		\$ 0.53

## NOTES to Interim Consolidated Financial Statements

Three and six months ended June 30, 2006 and 2005 (unaudited)  
(amounts in thousands, except per unit amounts)

The range of exercise prices for options outstanding at June 30, 2006 is as follows:

Exercise Price	Options Outstanding			Options Exercisable	
	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
\$ 10.60	935.0	4.2 years	\$ 10.60	–	\$ –
11.50	810.0	2.8 years	11.50	810.0	11.50
11.92	590.0	3.6 years	11.92	590.0	11.92
	<b>2,335.0</b>	<b>3.8 years</b>	<b>\$ 11.25</b>	<b>1,400.0</b>	<b>\$ 11.68</b>

The compensation expense related to options granted under the stock option plan for the three and six months ended June 30, 2006 totaled \$20 (2005 - \$56) and \$52 (2005 - \$290) respectively. The compensation expense was determined based on the fair value of the options at the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2006	2005
Expected option life	n/a	5 years
Risk-free interest rate	n/a	3.6%
Distribution yield	n/a	9.0%
Expected volatility	n/a	18.0%

### 9. DEBT SETTLEMENT COSTS

The amendment and restatement of the terms of the revolving term credit facility on May 25, 2006 is deemed a settlement of the original credit facility resulting in a write-off of deferred financing costs related to this facility for the three and six months ended June 30, 2006 in the amount of \$751 (2005 - \$nil).

### 10. EARNINGS PER UNIT

The computation for basic and diluted earnings per unit is as follows:

(thousands)	Three Months		Six Months	
	2006	2005	2006	2005
Earnings available to unitholders	\$ 8,945	\$ 6,332	\$ 4,595	\$ 625
Dilutive effect of convertible debentures	–	–	–	–
Diluted earnings available to unitholders	\$ 8,945	\$ 6,332	\$ 4,595	\$ 625
Basic weighted average number of units	29,817.7	23,384.0	28,863.1	23,371.9
Dilutive effect of:				
Convertible debentures	–	–	–	–
Options	40.8	–	28.4	–
Diluted weighted average number of units	29,858.5	23,384.0	28,891.5	23,371.9
Earnings per unit:				
Basic	\$ 0.30	\$ 0.27	\$ 0.16	\$ 0.03
Diluted	\$ 0.30	\$ 0.27	\$ 0.16	\$ 0.03

## NOTES to Interim Consolidated Financial Statements

Three and six months ended June 30, 2006 and 2005 (unaudited)  
(amounts in thousands, except per unit amounts)

### 11. DISTRIBUTIONS DECLARED

Distributions are made monthly to unitholders of record on the last business day of each month. Distributions for the three and six months ended June 30, 2006 were as follows:

Month	Record Date	Payment Date	Distributions	
			Per Unit	Amount
January 2006	January 31, 2006	February 15, 2006	\$ 0.0917	\$ 2,558
February 2006	February 28, 2006	March 15, 2006	0.0917	2,559
March 2006	March 31, 2006	April 14, 2006	0.0917	2,559
			0.2751	7,676
April 2006	April 28, 2006	May 15, 2006	0.0917	2,560
May 2006	May 31, 2006	June 15, 2006	0.0917	2,989
June 2006	June 30, 2006	July 14, 2006	0.0917	2,989
			0.2751	8,538
<b>Total</b>			<b>\$ 0.5502</b>	<b>\$ 16,214</b>

### 12. CHANGES IN WORKING CAPITAL ITEMS

The changes in working capital items are as follows:

	Three Months		Six Months	
	2006	2005	2006	2005
Accounts receivable	\$ (21,283)	\$ (16,314)	\$ (18,295)	\$ (13,452)
Inventories	(2,050)	(41)	(3,918)	(1,532)
Prepaid expenses	499	1,080	(1,490)	(1,408)
Accounts payable and accrued liabilities	25,427	7,454	24,043	5,395
	\$ 2,593	\$ (7,821)	\$ 340	\$ (10,997)

## NOTES to Interim Consolidated Financial Statements

Three and six months ended June 30, 2006 and 2005 (unaudited)  
(amounts in thousands, except per unit amounts)

### 13. SEGMENTED INFORMATION

The Fund has determined that it operates in one business segment, the manufacturing and distribution of packaged ice and other products. The Fund and its subsidiaries operate in Canada and the United States.

The following tables present key information by geographic segment for the three and six months ended June 30:

	2006			2005		
<b>Three Months Ended June 30</b>	<b>Canada</b>	<b>U.S.</b>	<b>Total</b>			
Sales	\$ 13,176	\$ 47,288	\$ 60,464	\$ 12,020	\$ 35,255	\$ 47,275
Cost of sales, selling, general and administration expenses	9,420	30,506	39,926	9,018	23,171	32,189
	\$ 3,756	\$ 16,782	\$ 20,538	\$ 3,002	\$ 12,084	\$ 15,086
Earnings for the period	\$ 6,273	\$ 2,672	\$ 8,945	\$ 4,225	\$ 2,107	\$ 6,332

  

	2006			2005		
<b>Six Months Ended June 30</b>	<b>Canada</b>	<b>U.S.</b>	<b>Total</b>			
Sales	\$ 16,709	\$ 58,417	\$ 75,126	\$ 15,115	\$ 45,969	\$ 61,084
Cost of sales, selling, general and administration expenses	14,910	44,047	58,957	14,537	36,550	51,087
	\$ 1,799	\$ 14,370	\$ 16,169	\$ 578	\$ 9,419	\$ 9,997
Earnings (loss) for the period	\$ 8,771	\$ (4,176)	\$ 4,595	\$ 4,971	\$ (4,346)	\$ 625
Total assets	\$ 75,183	\$ 442,422	\$ 517,605	\$ 67,819	\$ 224,135	\$ 291,954

### 14. RELATED PARTY TRANSACTION

A subsidiary of the Fund leases a production facility located in Arizona from a company indirectly owned and controlled by a trustee and officer of the Fund. The lease agreement is for up to nine years on commercially reasonable terms and includes an option to purchase the facility during the term on commercially reasonable terms. During the three and six months ended June 30, 2006, lease payments of \$104 (2005 - \$nil) and \$104 (2005 - \$nil) respectively were paid under this agreement.

### 15. COMPARATIVE FIGURES

Certain items in the comparative interim consolidated financial statements have been reclassified from the statements previously presented to conform to the presentation of the interim consolidated financial statements for the current period.

## QUARTERLY Financial Information

(in thousands of dollars, except per unit amounts)

	2006		2005				2004			
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Operating Results</b>										
Sales	<b>60,464</b>	14,662	21,771	73,584	47,275	13,809	16,484	50,640	36,088	11,222
EBITDA	<b>20,538</b>	(4,369)	(551)	31,567	15,086	(5,089)	1,423	20,197	10,553	(4,123)
Earnings (loss)	<b>8,945</b>	(4,350)	(1,809)	17,149	6,332	(5,707)	215	11,566	5,574	(3,054)
Basic earnings (loss) per unit	<b>0.30</b>	(0.16)	(0.06)	0.72	0.27	(0.24)	0.01	0.50	0.24	(0.13)
Diluted earnings (loss) per unit	<b>0.30</b>	(0.16)	(0.06)	0.72	0.27	(0.24)	0.01	0.50	0.24	(0.13)
<b>Cash Flow</b>										
Funds from (used in) operations	<b>17,846</b>	(5,633)	(2,545)	29,238	12,625	(6,820)	954	19,815	9,507	(4,764)
Distributions to unitholders	<b>8,538</b>	7,676	7,670	6,848	6,434	6,310	6,248	6,241	6,236	6,232
Distributions to unitholders per unit	<b>0.28</b>	0.28	0.28	0.28	0.28	0.27	0.27	0.27	0.27	0.27
<b>Financial Position</b>										
Net cash <sup>(1)</sup>	<b>4,882</b>	2,630	6,313	10,351	(9,133)	(3,378)	14,755	11,900	475	4,132
Current assets	<b>55,085</b>	20,271	23,275	38,555	32,054	16,975	30,741	32,025	25,126	17,117
Working capital	<b>10,155</b>	7,778	9,363	22,849	2,523	649	15,781	22,055	11,345	6,209
Total assets	<b>517,605</b>	275,020	277,517	292,695	291,954	274,595	287,042	233,571	231,258	219,619
Long-term debt <sup>(2)</sup>	<b>144,560</b>	90,869	74,515	71,620	116,937	115,660	112,804	55,962	55,016	49,275
Net debt <sup>(3)</sup>	<b>139,678</b>	88,239	68,202	61,269	126,070	119,038	98,049	44,062	54,541	45,143
Unitholders' equity	<b>225,947</b>	171,900	183,256	192,409	139,863	138,549	149,404	160,312	160,302	158,693
<b>Unit Data</b>										
Trading price range, per unit:										
High	<b>\$ 11.95</b>	\$ 11.50	\$ 11.25	\$ 12.14	\$ 12.00	\$ 12.25	\$ 12.06	\$ 12.42	\$ 12.29	\$ 12.20
Low	<b>\$ 10.49</b>	\$ 10.10	\$ 9.05	\$ 10.15	\$ 10.80	\$ 11.50	\$ 10.61	\$ 11.26	\$ 10.50	\$ 10.40
Close	<b>\$ 11.94</b>	\$ 11.08	\$ 10.80	\$ 10.98	\$ 10.95	\$ 11.65	\$ 12.00	\$ 11.95	\$ 11.74	\$ 12.15
Trading volumes (000s)	<b>5,235</b>	5,485	3,974	3,441	2,325	2,619	2,704	1,703	1,430	2,087
Cumulative Trading Volume (000s)	<b>10,720</b>	5,485	12,359	8,385	4,944	2,619	7,924	5,220	3,517	2,087
Units outstanding (000s):										
End of period	<b>32,600</b>	27,908	27,888	27,865	23,395	23,369	23,350	23,331	23,311	23,292
Weighted average (basic)	<b>29,818</b>	27,898	27,878	23,937	23,384	23,360	23,341	23,321	23,302	23,284

(1) Cash and cash equivalents, net of bank indebtedness.

(2) Includes obligations under capital leases, excludes convertible debentures.

(3) Long-term debt and bank indebtedness, net of cash and cash equivalents.

## OFFICERS

**Robert J. Nagy**

President & Chief Executive Officer

**Keith W. McMahon, CA**

Executive Vice President & Chief Financial Officer

**Hugh A. Adams**

Corporate Secretary

## SENIOR MANAGEMENT

**Robert J. Nagy**

President & Chief Executive Officer

**Keith W. McMahon, CA**

Executive Vice President & Chief Financial Officer

**Frank G. Larson**

Senior Vice President, Operations

**Serge Beaudet, CA**

Vice President, Canadian Operating Division

**Keith F. Burrows**

Vice President, Acquisitions and Integration

**Gary D. Cooley**

Vice President, Sales & Marketing

**Richard A. Thibault**

Vice President, Production

**Neil R. Winther**

Vice President, Human Resources & Administration

**Douglas A. Bailey, CA**

Corporate Controller

**Marc G. Fontaine**

Director, Information Systems

**Charles J. Knowlton**

Director, Franchise Operations

**Robin J. Myers-Keller, CA.CIA**

Director, Internal Audit

**Garth D. Waddell, CA**

Director, Finance

## INVESTOR RELATIONS

Arctic Glacier Investor Relations

Toll free : 888.573.9237

Email : [info@arcticglacierinc.com](mailto:info@arcticglacierinc.com)

## LEGAL COUNSEL

**Canada**

**Tapper Cuddy LLP**

Winnipeg, Manitoba

**Shea Nerland Calnan**

Calgary, Alberta

**United States**

**Jones Day**

Dallas, Texas

## AUDITORS

**KPMG LLP**

Winnipeg, Manitoba

## BANKERS

**The Toronto-Dominion Bank**

## TRANSFER AGENT

**Computershare Trust Company  
of Canada**

Calgary, Alberta

## STOCK EXCHANGE LISTING

**Toronto Stock Exchange**

Arctic Glacier Income Fund AG.UN

CUSIP Number 039 675

---

ARCTIC GLACIER INCOME FUND

---

ARCTIC GLACIER INC.

## CORPORATE OFFICE

625 Henry Avenue, Winnipeg, Manitoba, Canada R3A 0V1

Phone: 204.772.2473 • Toll free: 888.573.9237 • Fax: 204.783.9857

[www.arcticglacierinc.com](http://www.arcticglacierinc.com)