
ARCTIC GLACIER INCOME FUND

**INITIAL ANNUAL INFORMATION FORM
FOR THE YEAR ENDED DECEMBER 31, 2001**

Dated: December 18, 2002

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GLOSSARY

“**ABCA**” means the *Business Corporations Act* (Alberta), S.A. 2000, c. B-9, as amended, including the regulations promulgated thereunder;

“**Arctic**” means Arctic Glacier Inc., a corporation created by the amalgamation of Arctic Glacier Inc. and The Arctic Group Inc. under the ABCA pursuant to the Arrangement. Arctic is wholly-owned by the Fund. Where the context requires, Arctic may refer to either or both predecessor corporations;

“**Arctic Glacier**” means Arctic Glacier Inc., a predecessor corporation to Arctic;

“**Arctic Group**” means The Arctic Group Inc., a predecessor corporation to Arctic;

“**Arrangement**” means the arrangement under Section 193 of the ABCA involving, among other things, the exchange of common shares of Arctic Group for Subordinated Notes, the exchange of such Subordinated Notes for Units and the amalgamation of Arctic Glacier and Arctic Group, as more particularly set forth in the Plan of Arrangement;

“**Arrangement Agreement**” means the agreement dated January 31, 2002 between Arctic Glacier, Arctic Group and the Fund pursuant to which such parties have proposed to implement the Arrangement;

“**Board of Directors**” means the board of directors of Arctic;

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

“**Common Shares**” means common shares in the capital of Arctic;

“**Court**” means the Court of Queen’s Bench of Alberta;

“**Current Credit Facilities**” means the credit facilities between Arctic Group and certain of its lenders representing all existing indebtedness for borrowed money of Arctic Group and its Subsidiaries including, without limitation, amounts owing under the Prepayment Agreements, other than mortgages on real property of approximately \$1.4 million, indebtedness owed to vendors in respect of certain acquisitions of approximately \$1.5 million and capital leases of approximately \$1.1 million;

“**Debentures**” mean the convertible debentures issued by Arctic Group on November 27, 1997 in the aggregate principal amount of \$6 million bearing interest at 8.5% and maturing on December 8, 2002;

“**Declaration of Trust**” means the amended and restated declaration of trust dated as of March 11, 2002 among Robert Nagy, James E. Clark, Keith Burrows, Peter Hyndman, David Swaine and Gary Filmon as the initial Trustees, and the Initial Unitholder, as amended or amended and restated;

“**Distributable Cash**” means all amounts received by the Fund, including, without limitation, interest and other payments earned on Subordinated Notes and distributions on Common Shares, less all amounts which relate to the redemption of Units and which have become payable in cash and any amount the Trustees consider necessary to pay costs and any income tax liabilities of the Fund. Distributable Cash is not a recognized measure under

Canadian generally accepted accounting principles (GAAP) and does not have a standardized meaning under GAAP. The Fund's method of calculating Distributable Cash may differ from other companies and accordingly, Distributable Cash may not be comparable to measures used by other companies;

"EBITDA" means earnings before interest expense, income taxes, other expense (income) and depreciation and amortization. EBITDA is not a recognized measure under Canadian generally accepted accounting principles (GAAP). Management believes that in addition to net income (loss), EBITDA is a useful supplemental measure as it provides investors with an indication of cash available for distribution prior to debt service, capital expenditures and income taxes. Investors should be cautioned, however, that EBITDA should not be construed as an alternative to net income (loss) determined in accordance with GAAP as an indicator of the Fund's and Arctic's performance or to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. The Fund's method of calculating EBITDA may differ from other companies and accordingly, EBITDA may not be comparable to measures used by other companies;

"Effective Date" means March 22, 2002;

"Effective Time" means the time on the Effective Date that the Certificate of Arrangement is issued;

"Extraordinary Resolution" means a resolution passed by the holders of not less than $66\frac{2}{3}\%$ of the aggregate principal amount of Subordinated Notes outstanding, either in person or by proxy, at a meeting of holders of Subordinated Notes called for the purpose of approving such resolution at which the holders of more than 50% in aggregate principal amount of Subordinated Notes are present in person or by proxy, or approval in writing by the holders of not less than $66\frac{2}{3}\%$ of the aggregate principal amount of Subordinated Notes then outstanding;

"Fund" means Arctic Glacier Income Fund, an unincorporated open-ended mutual fund trust established under the laws of Alberta pursuant to the Declaration of Trust;

"Initial Unitholder" means Laxus Holdings Inc.;

"New Credit Facility" means the credit facility provided by the Canadian chartered bank affiliate of TD Securities and RoyNat Inc., to Arctic and a Subsidiary thereof upon the refinancing of the Current Credit Facilities, the terms of which are set out in a commitment letter agreed to on January 31, 2002 by Arctic Glacier and a Subsidiary thereof;

"New Debenture Exchange Price" means one Unit for each \$9.00 of aggregate principal amount of Debenture exchanged by the holder thereof;

"Non-Resident" means a non-resident of Canada within the meaning of the Tax Act;

"Note Indenture" means the trust indenture providing for issuance of the Subordinated Notes to be dated the Effective Date and made between Arctic and the Note Trustee, as trustee;

"Note Trustee" means Computershare Trust Company of Canada, or its successors as trustee under the Note Indenture;

"Offered Units" means the Units offered pursuant to the Offering;

"Offering" means the offering of Offered Units pursuant to the Prospectus;

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

“**Plan of Arrangement**” means the plan of arrangement set forth as Schedule I to the Arrangement Agreement and any amendment or variation thereto;

“**Prepayment Agreements**” means the agreements between Arctic Group and each of Citicorp and RoyNat pursuant to which term indebtedness (including related prepayment penalties) to Citicorp and RoyNat was repaid indirectly out of the proceeds of the Offering, and all warrants to purchase Arctic Group securities issued to Citicorp and RoyNat expired;

“**Prospectus**” means the prospectus of the Fund dated March 12, 2002 filed with certain securities regulators in each of the Qualifying Jurisdictions in connection with the Offering;

“**Qualifying Jurisdictions**” means each of the provinces and territories of Canada;

“**Reorganization**” means the reorganization of Arctic Group into an income trust structure as contemplated by the Arrangement Agreement and the Plan of Arrangement;

“**RoyNat**” means RoyNat Capital Inc.;

“**Special Resolution**” means a resolution passed by a majority of not less than $66\frac{2}{3}\%$ of the votes cast, either in person or by proxy, at a meeting of Unitholders, called for the purpose of approving such resolution, or approved in writing by the holders of not less than $66\frac{2}{3}\%$ of the Units entitled to be voted on such resolution;

“**Subordinated Notes**” means the unsecured, subordinated promissory notes of Arctic issuable pursuant to the Note Indenture;

“**Subsidiary**” means, when used to indicate a relationship with another body corporate (for such purposes, as if the Fund was a corporation rather than a trust):

- (a) a body corporate which is controlled by (i) that other, or (ii) that other and one or more bodies corporate, each of which is controlled by that other, or (iii) two or more bodies corporate each of which is controlled by that other, or
- (b) a subsidiary of a body corporate that is the other’s subsidiary;

“**Tax Act**” means the *Income Tax Act* (Canada), R.S.C. 1985, c.1, 5th Supplement, as amended;

“**TD Securities**” means TD Securities Inc., financial advisor to Arctic and co-manager of a soliciting dealer group with respect to the Arrangement;

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

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

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

“**Underwriters**” means collectively TD Securities, Scotia Capital Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., National Bank Financial Inc. and Wellington West Capital Inc.;

“**Underwriting Agreement**” means the underwriting agreement dated March 12, 2002 in respect of the Offered Units, among the Fund, Arctic, Arctic Group and the Underwriters;

“**Unit**” means a unit of the Fund;

“**Unit Option Plan**” means the option plan established by the Fund as of the Effective Date; and

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

Words importing the singular number only include the plural and vice versa and words importing any gender include all genders. All dollar amounts set forth in this Initial Annual Information Form are in Canadian dollars, except where otherwise indicated.

FORWARD LOOKING STATEMENTS

Certain statements in this Initial Annual Information Form are “forward looking statements” which reflect management’s expectations regarding the Fund’s future growth, results of operations, performance and business prospects and opportunities. 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 the impact of seasonality on labour 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 Initial Annual Information Form are based upon what management believes to be reasonable assumptions, the Fund cannot assure investors that actual results will be consistent with these forward looking statements. These forward looking statements are made as at the date of this Initial Annual Information Form, and the Fund assumes no obligation to update or revise them to reflect new events or circumstances.

ARCTIC GLACIER INCOME FUND

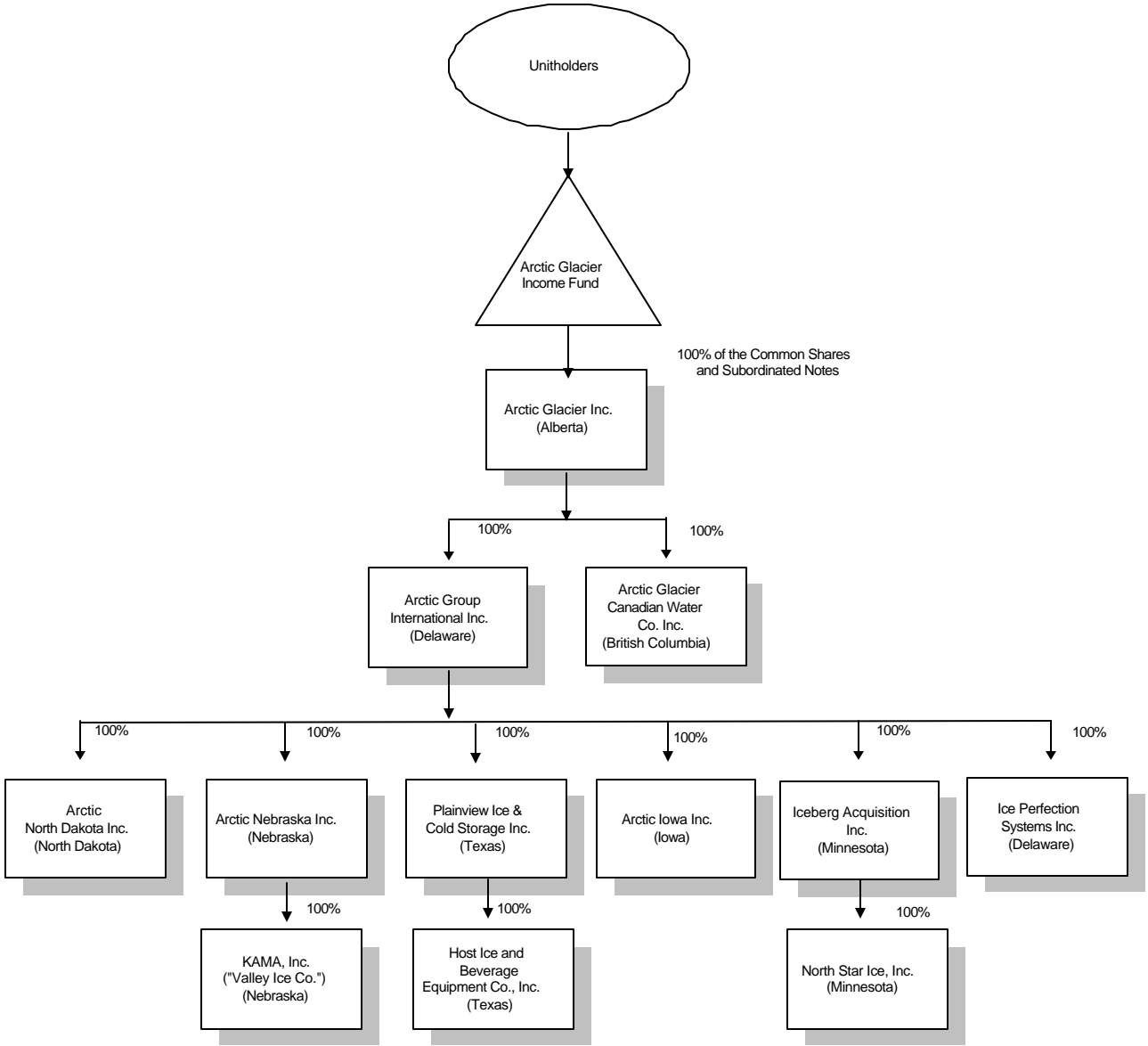
Arctic Glacier Income Fund (the “Fund”) is an unincorporated open-ended mutual fund trust governed by the laws of the Province of Alberta and created pursuant to the Declaration of Trust. The Fund is administered by a board of trustees (the “Trustees”). The principal and head office of the Fund is located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

The Fund was established to invest in the packaged ice manufacturing and distribution business in Canada and the United States initially through the acquisition of Arctic Group through the Fund’s wholly-owned subsidiary, Arctic Glacier. Following the acquisition of Arctic Group and pursuant to the Reorganization, Arctic Group and Arctic Glacier were amalgamated to form Arctic. The Fund owns all of the Common Shares and Subordinated Notes issued by Arctic and Arctic operates the packaged ice manufacturing and distribution business formally operated by Arctic Group.

To the maximum extent possible, the Fund intends to make monthly cash distributions to Unitholders of the interest income or principal repayments received in respect of the Subordinated Notes, dividends and other distributions received on, and amounts, if any, received on redemption of, Common Shares, after any cash redemptions of Units and expenditures.

Structure of the Fund

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



RECENT DEVELOPMENTS

The Arctic Group Inc. (“Arctic Group”), the predecessor corporation to Arctic was incorporated in 1996. In November 2001, the board of directors and management of Arctic Group considered several alternatives to enhance shareholder value, increase liquidity of Arctic Group’s securities and maximise Arctic Group’s access to capital and future growth prospects. The board of directors of Arctic Group concluded that the best alternative to accomplish these goals would be to convert Arctic Group into an income fund trust.

Arrangement Agreement

On January 31, 2002, Arctic Glacier, Arctic Group and the Fund entered into the Arrangement Agreement which provided for implementation of the Arrangement pursuant to Section 193 of the ABCA. The Arrangement Agreement contained covenants, representations and warranties of and from each of Arctic Glacier, Arctic Group and the Fund and various conditions precedent, both mutual and with respect to each corporation and the Fund, to the implementation of the Arrangement. The Arrangement became effective on March 22, 2002. On the Effective Date, each of the events below occurred in the following sequence:

- (a) all of the right, title and interest of Arctic Group securityholders in the Arctic Group securities was transferred to Arctic Glacier in exchange for Subordinated Notes on the basis of one Subordinated Note for every six (6) Arctic Group securities transferred, resulting in the acquisition by Arctic Glacier of all of the issued and outstanding Arctic Group securities;
- (b) all outstanding options to acquire shares of Arctic Group not exercised prior to the Effective Date were cancelled as of the Effective Time;
- (c) all right, title and interest of Arctic Group securityholders in the Subordinated Notes were transferred to the Fund in exchange for Units of the Fund on the basis of one Unit for each Subordinated Note, resulting in the acquisition by the Fund of all of the issued and outstanding Subordinated Notes;
- (d) Arctic Glacier and Arctic Group were amalgamated and continued as one corporation, and:
 - (i) all of the issued and outstanding Arctic Group securities, all of which were then held by Arctic Glacier, were cancelled without any repayment of capital; and
 - (ii) the name of the amalgamated corporation became “Arctic Glacier Inc.”; and
- (e) the Debentures became obligations of Arctic, were amended such that they became exchangeable for Units at the New Debenture Exchange Price. On any exchange the Fund will acquire the relevant Debenture on issuance of Units to the holder of an exchanged Debenture and Arctic will become indebted to the Fund in an amount equal to the principal amount of Debentures exchanged. The Fund will hold all exchanged Debentures.

Upon completion of the Arrangement, the Fund became the holder of all of the issued and outstanding Common Shares and Subordinated Notes. For details respecting the terms of the Common Shares and Subordinated Notes, refer to the heading “Share and Loan Capital of Arctic”.

Initial Public Offering of the Fund

Pursuant to the Underwriting Agreement, the Fund sold and TD Securities Inc., Scotia Capital Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., National Bank Financial Inc. and Wellington West Capital Inc. (the "Underwriters") purchased, on March 22, 2002, an aggregate of 9,052,632 Units at a purchase price of \$9.50 per Unit, for aggregate gross consideration of \$86,000,000, payable to the Fund by the Underwriters against delivery of the Units. The Underwriters received a fee of \$5,160,000 resulting in net proceeds to the Fund of \$80,840,000. These net proceeds were received by the Fund on March 22, 2002 and were used to subscribe for Common Shares and Subordinated Notes. Arctic used most of these proceeds, together with the New Credit Facility, to retire the Current Credit Facilities.

New Credit Facility

On closing of the Offering and completion of the Arrangement, Arctic repaid all amounts owing under the Current Credit Facilities. Arctic entered into a New Credit Facility with TD Bank and RoyNat which provided for a debt facility in the amount of approximately \$60.4 million, which provided Arctic and its Subsidiary, Arctic Group International Inc., with (i) approximately \$55.4 million to assist in the repayment of the Current Credit Facilities, and (ii) an undrawn balance of approximately \$5 million to meet ongoing operating requirements. The New Credit Facility was secured by (i) a guarantee of the Fund secured by all or substantially all of the assets of the Fund, and (ii) all or substantially all of the assets of Arctic and its Subsidiaries. The New Credit Facility ranks senior to all other indebtedness of Arctic (including debt owed to the Fund) and is subject to customary terms, conditions, covenants and other provisions. The maximum interest rate under the New Credit Facility is equal to Canadian Banker's Acceptance Rate plus 250 basis points.

DESCRIPTION OF THE BUSINESS

Overview

The Fund owns all of the issued Common Shares and Subordinated Notes of Arctic. Arctic is the largest producer of packaged ice in Canada and is among the largest producers of packaged ice in the United States. Arctic has a production capacity of approximately 2,600 tons of ice daily and serves more than 35,000 customer locations.

Arctic Group was incorporated in 1996 for the purpose of creating an entity to acquire and operate packaged ice businesses in Canada and the United States. In 1996, Arctic Group was comprised of three western Canadian operations based in Winnipeg, Calgary and Vancouver. Through its subsidiary companies, the business carried on in Western Canada by Arctic Group was first established in 1882 in Winnipeg, 1911 in Calgary and 1918 in Vancouver. Arctic Group completed its initial public offering on March 25, 1997 and the Arctic Group securities were listed for trading on The Alberta Stock Exchange on April 9, 1997. On December 31, 1999, Arctic Group began trading on The Toronto Stock Exchange. Arctic Glacier was incorporated by the Fund in 2001. Arctic Group was acquired by Arctic Glacier and amalgamated with Arctic Glacier pursuant to the Arrangement.

Arctic's business is primarily the production and distribution of packaged ice. Arctic has increased its production capacity from approximately 300 tons per day in 1997 to current production of approximately 2,600 tons per day through a series of acquisitions and the development of new facilities. Consistent with this expansion, Arctic's revenues have increased from \$5.3 million in the year ended April 30, 1997 to \$91.4 million for the year ended December 31, 2001. Through significant capital investments Arctic has upgraded acquired operations and improved their operating margins. Arctic is now poised to generate significant sustainable free cash flow from its operations.

Arctic operates 16 production and 33 distribution facilities throughout Canada and the central United States. In addition to production capacity of 2,600 tons per day, Arctic has refrigerated storage facilities sufficient to store 12,000 pallets of finished product representing approximately 3.5 million retail bags of ice. Approximately 40% of Arctic's revenues are generated in Canada and 60% in the United States. In Canada, Arctic operates eight production facilities with a daily production capacity of approximately 1,100 tons and six distribution warehouses with total cold storage capacity between the production and distribution facilities for 4,800 pallets of finished product. Canadian operations are located in Quebec, Ontario, Manitoba, Saskatchewan, Alberta and British Columbia. In the United States, Arctic operates eight production facilities with approximately 1,500 tons of daily production capacity as well as an additional 27 distribution warehouses with total cold storage capacity between production and distribution facilities for 7,200 pallets of finished product. These operations are located in Minnesota, North and South Dakota, Wisconsin, Iowa, Nebraska, Kansas and Texas. Arctic leases real estate for four of its production facilities and 22 of its distribution facilities. The balance of Arctic's locations are owned facilities.

Since May 1, 1997, Arctic Group invested more than \$160 million on acquisition of packaged ice businesses and capital expenditures, including upgrading facilities and rationalizing operations. The most recent acquisition by Arctic Group was completed in September 2000. These investments have resulted in a 27% compound annual growth rate and 43% compound annual growth rate in revenues and EBITDA, respectively, from 1998 to 2001.

During the 2001 fiscal year, Arctic and its subsidiaries averaged a total of approximately 500 employees during the winter months and approximately 850 employees during the summer months. These numbers typically fluctuate throughout the year with the largest number of employees being retained during the summer months and the smallest number of employees being retained in the winter months.

Corporate Strategy

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

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

Growth through acquisition

Beginning in 1997, Arctic Group commenced an aggressive acquisition program. Since May 1, 1997, Arctic Group acquired 41 packaged ice businesses in Canada and the United States at a cost of approximately \$135 million. These geographically contiguous acquisitions have established Arctic's critical mass. Arctic is now the largest producer and distributor of packaged ice in each of the markets in which it has chosen to operate. These acquisitions provide Arctic with the opportunity to enhance performance through the rationalization of production facilities and the expansion of distribution networks and also enable Arctic to leverage existing investment in infrastructure and brand development. Over the past two years, the focus of Arctic management has been on rationalizing acquired operations as well as increasing sales revenue. Arctic intends to continue to grow through contiguous acquisitions, with a focus on growing its presence in the United States.

Arctic will continue to follow a disciplined acquisition approach based on specific geographic and financial criteria for identifying candidates and determining acquisition prices. In assessing potential acquisitions, Arctic will apply the following criteria:

- ! accretive to Unitholders;
- ! geographic proximity to current operations;
- ! profitability with proven management and market share;
- ! continuing involvement of owners, managers or key employees;
- ! above average potential to enhance return on investment; and
- ! compatibility with Arctic's growth strategies.

Arctic intends to finance its continued acquisition strategy through future Unit offerings and/or debt financings. Management believes that the transactions implemented pursuant to the Reorganization will provide the Fund with access to currency in the form of Units which will enhance its ability to continue Arctic's acquisition strategy as opportunities arise. The yield provided by the Units is expected to substantially improve the acceptance of this equity by potential vendors of suitable packaged ice businesses.

Margin improvement

In order to improve the efficiency of acquired operations, Arctic Group invested approximately \$13 million since May 1, 1997 to improve product quality and rationalize production, distribution and administrative systems. Specifically, Arctic Group closed several facilities, re-organized its distribution network and consolidated or eliminated administrative functions. This has resulted in an improvement in EBITDA margins from 19.2% in 1998 to current margins of approximately 27.4% for the year ended December 31, 2001. Arctic continues to examine additional means to rationalize operations and reduce or eliminate administrative functions.

Production Rationalization

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

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

The biggest benefit to the production rationalization Arctic Group effected occurs in the off-season. Closing smaller production facilities and operating larger production facilities enables Arctic to reduce the number of core staff and skilled employees required during this slow period.

Distribution Rationalization

Since 1998, Arctic Group restructured its distribution infrastructure to maximize efficiency. The geographically contiguous growth has enhanced sales density enabling Arctic to have a more efficient distribution system with fewer operating vehicles. Over the past three years, Arctic Group closed five redundant distribution facilities and has created centralized distribution centres in each operating region. Arctic now distributes its products from 16 production facilities and 33 distribution facilities.

In addition, during 2000, Arctic Group upgraded its distribution infrastructure by investing in a sophisticated hand-held routing and billing system that enabled Arctic to better manage and adjust delivery schedules. This system allows drivers to enter customer data directly into Arctic's accounting system at the point of sale, which allows Arctic to control inventory more effectively, improve the efficiency of sales calls and product delivery, reduce administrative errors and reduce the time required to complete each delivery.

Administrative Rationalization

In an ongoing program that will be completed in 2002, Arctic has centralized accounting functions at its head office in Winnipeg. The accounting centralization has allowed Arctic to realize personnel reductions in accounting and administration departments. On a regional basis, order desks have been consolidated into one central location, thereby eliminating permanent positions at the various distribution locations. In addition, the hand-held routing and billing system described above allows Arctic to download sales data directly into the accounting system. Along with reducing the number of data entry personnel required, the system has substantially reduced clerical errors.

Brand Development

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

Arctic believes that by developing a recognized brand with consistent quality attributes, a tremendous opportunity exists to not only increase its market share, but also increase the size of the market. Management believes that the same opportunity exists in the packaged ice industry today as existed in the bottled water industry ten years ago. Management believes that the ice produced in Arctic's production facilities meets or exceeds the water quality of most bottled water. A key component of Arctic's brand development has been water quality.

In 1999, Arctic Group announced that it would brand its products under the name "Arctic Glacier® Premium Ice". In addition to raising national awareness of the "Arctic Glacier®" brand, this initiative created significant economies of scale, allowing Arctic to realize cost efficiencies, particularly in its packaging requirements. Arctic has also invested in water filtration and treatment equipment, improved product drying processes and sophisticated packaging equipment that are a key part in positioning "Arctic Glacier" as a leading, premium quality, branded product, distinct from commodity grade ice products.

Quality Initiative

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

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

Arctic has also committed resources to overcoming the problem of "wet ice" which results in ice sticking together or clumping in the bag through a process of "freeze drying" the ice. This process leaves the ice product free of moisture and therefore the product is less prone to clumping, resulting in a significant improvement in the quality of the finished product.

In most markets, ice has typically been packaged in a clear or lightly tinted package with minimal graphics, and closed with a wire clip. Arctic believes that this method of packaging is not consumer friendly and is inconsistent with ice being a food product. Arctic has invested in sophisticated form and fill packaging equipment which produces a heat sealed "pillow pack" comparable to packaging used by most frozen food producers. Arctic continues to seek additional ways of enhancing product quality.

Brand Awareness

Arctic believes that the development and rollout of the brand name "Arctic Glacier® Premium Ice" has been a significant success for Arctic. The size and scope of the market area serviced by Arctic has allowed it to take advantage of the economies of scale that one name, with a high quality, consistent image allows. Increased brand awareness is being built through the addition of new colour design and decals on Arctic's fleet of 300 vehicles in Canada and the United States — thus creating 300 moving billboards. Across Arctic's market, tens of thousands of consumers see the brand image every day. Arctic is moving to update the same image over the next several years on company-owned ice merchandising units located at approximately 27,000 of the 35,000 customer locations it serves.

Brand Development through Franchising

During 2001, Arctic Group initiated its franchising program. Under this program, Arctic licenses qualified ice producers that meet Arctic's quality standards to package their products under the brand name "Arctic Glacier® Premium Ice". In return for being provided with an exclusive territory in which to market "Arctic Glacier® Premium Ice" and the right to service Arctic's national or regional accounts in that exclusive territory, the franchisee pays Arctic a per unit royalty and provides Arctic with a right of first refusal to acquire the franchisee's business. The first three franchise agreements were signed with Tour Ice of Pierre, South Dakota, an independent producer and distributor of packaged ice in South Dakota; Crystal Ice of Westpoint, Iowa, a large independent producer and distributor of packaged ice in the central United States servicing markets in Iowa and Missouri; and The Ice House Inc. of Rapid City, South Dakota, an independent producer and distributor of packaged ice in western South Dakota.

National and regional service agreements, whereby Arctic administers the customer's packaged ice program, are one of the cornerstones of Arctic's franchising program. In addition to a recognized brand name, Arctic can provide a franchisee with a territory that will include all of Arctic's national and regional accounts administered under these service agreements.

Arctic believes that the franchising program provides a means of increasing brand awareness for Arctic while providing a financial return on the “Arctic Glacier®” brand name. Arctic believes that the wider geographic market created by the franchising program will allow Arctic to provide better service to its growing number of national accounts.

Products

The primary product produced by Arctic is packaged ice. Packaged ice for human consumption is sold by Arctic in various package sizes ranging from 2 kilogram to 20 kilogram packages. Packaged ice products are also supplied to a variety of commercial users including bakeries and meat processors. Arctic also produces ice in bulk containers sold primarily to poultry processors, the commercial fishing industry, chemical plants and concrete plants. Revenue from packaged ice products represented more than 90% of total annual revenue in each of the 2000 and 2001 fiscal years.

Arctic markets other ancillary products such as bottled water, dry ice, packaged wood, rock salt and ice-making and dispensing equipment in certain regions. Revenue from these ancillary products represented less than 10% of total annual revenue in each of the 2000 and 2001 fiscal years.

Production Process

Arctic uses municipal water that it filters at its production facilities prior to producing its ice products. In addition to micro filtration, Arctic has installed ultra violet filtration to kill any micro-organisms which may have survived municipal water treatment.

At its Winnipeg, Calgary, Mississauga, Chatham, Montreal and Wichita facilities, Arctic produces plate ice using “turbo” ice manufacturing equipment. Plate ice is frozen in sheets on vertical plates by applying refrigerant to the interior surface of the plate. During the freezing process impurities are further reduced. Once the freezing cycle has been completed and a sheet of ice is formed, hot gas is introduced into the system allowing the sheet of ice to drop into a breaker bar system. The sheet of ice is broken into smaller pieces and then augured into a central refrigerated holding bin called a rake bin. The ice is augured over a shaker system to remove snow and very small pieces and then passes through a screening system that separates the ice according to size. The ice is then processed through packaging machines, packaged, palletized and stored in Arctic’s cold storage facilities.

The production facilities in Surrey, Edmonton, Regina, Lubbock, Ames, Omaha, Fridley, West St. Paul, Marshall, and Dubuque use the tube ice method of making ice. Ice is frozen inside vertical stainless steel tubes. Direct application of the refrigerant to the outside surface of the tube results in fast and energy efficient production of ice. The circulation of the water during the freezing process further reduces impurities producing a clear and taste-free ice. Water is circulated over the inner surface of the tubes and ice forms. This action is continued until ice of the desired thickness is formed. At the start of the thawing process, hot gas is introduced into the system area releasing the ice, which falls onto a motor driven cutter plate. The ice is then augured into a rake bin and to the packaging machines where it is packaged and palletized.

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

Distribution

Arctic owns approximately 27,000 merchandising freezer units situated at various customer locations. The merchandising units vary in size from 15 cubic feet to 100 cubic feet. The merchandising unit is sized according to the service requirements of the individual location. Ice products are delivered using refrigerated vehicles. Arctic owns approximately 200 such vehicles and has long-term leases on a further 100 vehicles. Arctic leases additional vehicles during the summer months on short-term leases.

Approximately 80% of Arctic's sales are done on a scheduled delivery basis. A large percentage of gasoline service outlets, grocery stores and convenience stores are serviced in this manner, whereby Arctic's delivery personnel visit all customers on a particular route and fill customer requirements on a twice per week, once per week, or once every other week basis depending on individual customer requirements. The delivery person issues an invoice at the time the delivery is completed.

Approximately 10% of ice sales by Arctic represent wholesale warehouse business. These customers distribute Arctic's products from their central warehouses to their own retail locations as well as to other independent grocery retailers. Approximately 60% of the wholesale warehouse business is delivered by Arctic to customer warehouses, with the balance picked up by the customer at Arctic's facilities.

The remaining 10% of ice sales by Arctic are sold to a variety of commercial and industrial users that include restaurants, bakeries, meat and poultry processors, fisheries, chemical plants, tanneries and concrete plants.

During fiscal 2000, Arctic Group completed development of an in-store ice production system known as the "Ice Perfection System™", with the first placement of the "Ice Perfection System™" taking place in the first quarter of 2001. This system produces, packages and merchandises packaged ice, all at the point of sale. The system features an internal diagnostic program, current status reporting program and remote sensing capabilities that allow production and maintenance to be monitored from a central location. Arctic management believes the technology is suitable for high volume retailers and for retailers located outside Arctic's existing distribution network. Management of Arctic believes the "Ice Perfection System™" is complementary to Arctic's strategy of marketing premium quality ice since it allows Arctic to provide quality packaged ice in retail locations where demand is high and where direct-to-store delivery service in outlying areas is impractical for either Arctic or the retailer. Arctic does not anticipate this segment of its product line to expand dramatically in the foreseeable future but believes the capacity to offer this product is necessary in order to allow it to provide a full range of product alternatives to its customers, particularly national and regional accounts.

Facilities and Operations

Table #1 provides a summary of Arctic's production facilities:

Table #1

<u>City</u>	<u>State/Province</u>	<u>Area (Sq. Ft.)</u>	<u>Owned/Leased</u>
Surrey.....	British Columbia	12,000	Leased
Edmonton.....	Alberta	13,500	Owned
Calgary.....	Alberta	9,000	Owned
Winnipeg.....	Manitoba	17,000 ⁽¹⁾	Owned
Regina.....	Saskatchewan	4,000	Leased
Chatham.....	Ontario	26,900	Owned
Mississauga.....	Ontario	21,459	Owned
Montreal.....	Quebec	56,873 ⁽²⁾	Owned
Lubbock.....	Texas	36,130	Owned
Wichita.....	Kansas	12,181	Owned
Omaha.....	Nebraska	12,000	Owned
Ames.....	Iowa	10,700	Owned
Dubuque.....	Iowa	10,100	Owned
West St. Paul.....	Minnesota	33,320	Leased
Fridley.....	Minnesota	15,000	Leased
Marshall.....	Minnesota	10,500	Owned

Notes:

- (1) Includes Corporate Offices of approximately 4,000 sq. ft.
- (2) Comprised of two buildings of 27,239 and 29,634 sq. ft.

Table #2 provides a summary of each of Arctic's distribution facilities:

Table #2

<u>City</u>	<u>State/Province</u>	<u>Area (Sq. Ft.)</u>	<u>Owned/Leased</u>
Orton.....	Alberta	2,000	Owned
Ottawa.....	Ontario	2,178	Leased
Hamilton.....	Ontario	6,400	Owned
Barrie.....	Ontario	10,000	Owned
Sauble Beach.....	Ontario	1,100	Leased
Quebec City.....	Quebec	2,000	Leased
Amarillo.....	Texas	30,054	Owned
Midland.....	Texas	7,000	Owned
San Angelo.....	Texas	3,000	Leased

<u>City</u>	<u>State/Province</u>	<u>Area (Sq. Ft.)</u>	<u>Owned/Leased</u>
Comanche	Texas	7,000	Leased
Independence.....	Kansas	2,200	Leased
Salina.....	Kansas	10,500	Owned
Pratt.....	Kansas	1,760	Leased
Hutchinson	Kansas	2,000	Owned
Grand Island.....	Nebraska	9,200	Leased
Lincoln.....	Nebraska	9,912	Owned
Norfolk	Nebraska	4,000	Leased
Ogallala	Nebraska	1,500	Leased
Davenport.....	Iowa	1,500	Leased
Des Moines.....	Iowa	5,000	Leased
Peosta	Iowa	3,000	Leased
Iowa City	Iowa	4,000	Leased
Mason City.....	Iowa	16,393	Owned
Osceola	Iowa	2,000	Leased
Storm Lake.....	Iowa	2,000	Owned
Brainerd.....	Minnesota	5,000	Leased
Rochester	Minnesota	5,230	Leased
St. Cloud.....	Minnesota	2,000	Leased
Lacrosse.....	Wisconsin	1,000	Leased
Aberdeen.....	South Dakota	4,000	Leased
Sioux Falls.....	South Dakota	3,000	Leased
Bismarck.....	North Dakota	5,306	Owned
Fargo.....	North Dakota	8,749	Leased

Customers

Approximately 60% of Arctic's revenues are generated in the United States, while the remaining 40% are generated in Canada. Arctic services more than 35,000 customer locations. Arctic's largest customer accounts for approximately 3% of sales. In aggregate, Arctic's 20 largest customers account for less than 28% of sales. Arctic's customers include most national and regional grocery chains, convenience store chains and gasoline outlets in Canada and the central United States.

Approximately 90% of Arctic's sales are made to retail stores, equally split between supermarket grocery stores and convenience stores including gas stations. Arctic services most regional and national retail supermarket and convenience store chains located within its market areas.

Approximately 10% of Arctic's sales are made to commercial and industrial customers that include restaurants, bakeries, meat and poultry processors, fisheries, chemical plants, tanneries and concrete plants.

Suppliers

Arctic uses significant amounts of electricity and water in the production of its products. Suppliers of these inputs are generally regulated utilities and, as a result, supply has been reliable and prices have been relatively stable. Arctic also uses a significant amount of diesel fuel to operate its distribution fleet and is subject to fluctuations in the price of the underlying commodity, oil. During extended periods of high oil prices, Arctic has historically

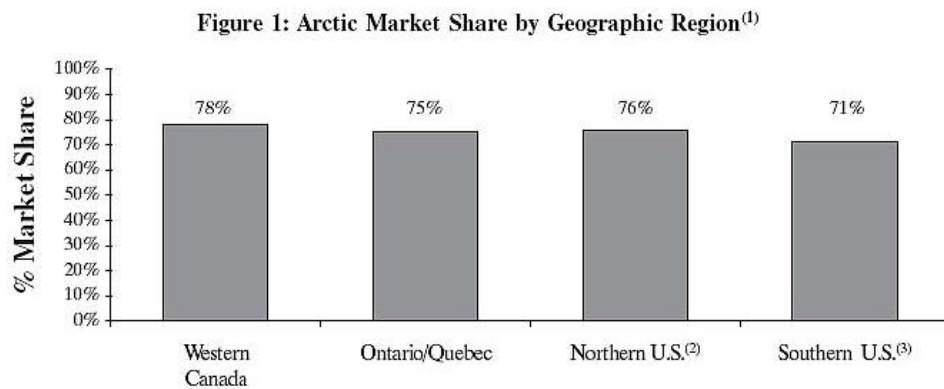
instituted fuel surcharges or price increases. With the exception of utility services, all other supplies are available from a wide range of suppliers.

Competition

Management of Arctic believes that Arctic is the leading manufacturer and distributor of packaged ice in each of the markets in which it operates (see Figure 4). Arctic's principal markets in Canada are Quebec, Southern Ontario, Manitoba, Southern Saskatchewan, Alberta and the lower mainland of British Columbia. In the United States Arctic's principal markets are North and South Dakota, Minnesota, western Wisconsin, Iowa, Nebraska, Kansas and West Texas. Customers in many additional communities in Canada and the central United States that are not serviced on a direct delivery basis purchase packaged ice produced by Arctic through an alternate distribution network.

In all its markets, Arctic competes with smaller local competitors that typically are less able to service larger regional and national accounts. These smaller producers tend to compete for large independent local business, generally on the basis of price. Arctic's economies of scale and brand development enable Arctic to reduce the impact of competitive pressure from smaller producers. Management believes that there are five other large producers of packaged ice in the United States with annual revenue in excess of US \$20 million each. In some cases, Arctic services markets that are adjacent to markets serviced by these large producers but, in general, does not compete directly with these companies. In addition, certain of these large producers compete with Arctic for the administration of national ice programs of certain large U.S. based national retailers.

Figure 1: Arctic Market Share by Geographic Region⁽¹⁾



Notes:

- (1) Management estimate of current market share.
- (2) North and South Dakota, Minnesota, western Wisconsin, Nebraska and Iowa.
- (3) Kansas and western Texas.

Competitive Advantages

Management of Arctic estimates that there are over 2,000 companies involved in the ice production and distribution industry in North America, 90% of which have sales of less than US \$1 million per annum. Management further believes that Arctic's significantly larger size and leading position in the markets in which it operates provides Arctic with significant competitive advantages when compared to other industry participants. Advantages include:

Experienced Management Team: Arctic has a strong and experienced management team. The Arctic senior management team has collectively over 100 years of industry experience. In aggregate, regional management has over 150 years of experience in the packaged ice industry. Production, distribution and sales management personnel each have on average over ten years industry experience in the packaged ice industry.

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

Financial Strength: Arctic has demonstrated year-over-year improvement in revenues and EBITDA margins with consistently strong operating cash flow. Management of Arctic believes that its financial strength will enable Arctic to continue to expand its market presence.

Strong Industry Position: Arctic is the largest producer of packaged ice in Canada and is among the largest producers of packaged ice in the United States. Arctic is the largest producer and distributor of packaged ice in all of the regional markets in which it operates.

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

Seasonality

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

Sales and Marketing

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

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

Capital Expenditures

Arctic Group made significant capital investments of more than \$25 million since May 1, 1997, comprised of approximately \$13 million for upgrading facilities and rationalizing operations, approximately \$3 million for corporate infrastructure and technology expenditures and more than \$9 million for sustaining capital expenditures

to maintain production and distribution capacity. As a result of these expenditures, Arctic Group increased margins by over 40% between 1998 and 2001 and has dramatically increased operating efficiencies and internal controls.

The majority of the investment and capital expenditures required to rationalize acquired operations has already been incurred. Future capital expenditures are expected to be substantially lower than historical levels. As set out in Figure 2, this reduction in required capital investment was evident in fiscal 2001. Net capital expenditures fell to \$3.5 million for the year ended December 31, 2001, a decrease of 60% from fiscal 2000 and 63% from fiscal 1999.

Arctic management estimates annual sustaining capital expenditures should approximate 4% of annual sales. This amount represents capital expenditures required to maintain Arctic's infrastructure along with investment in strategic improvements to production and distribution infrastructure. Government regulations or unforeseen projects may cause variations in any given fiscal period.

Figure 2: Historical Capital Expenditures⁽¹⁾

	<u>1998</u> <u>(8 months)</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Strategic expenditures ⁽²⁾	\$600,000	\$1,250,000	\$2,250,000	\$75,000
Rationalization ⁽³⁾	1,275,000	4,850,000	2,375,000	700,000
Corporate infrastructure and technology ⁽⁴⁾	225,000	750,000	2,000,000	125,000
Sustaining expenditures	<u>1,817,000</u>	<u>2,814,000</u>	<u>2,410,000</u>	<u>2,641,000</u>
Total.....	<u>\$3,917,000</u>	<u>\$9,664,000</u>	<u>\$9,035,000</u>	<u>\$3,541,000</u>

Notes:

- (1) Net of proceeds from the disposals of equipment and real estate.
- (2) Includes improvements in packaging, water treatment and product drying equipment, and small acquisitions.
- (3) Includes the cost of building new facilities and upgrading or expanding existing facilities to provide sufficient capacity to allow Arctic Group to close redundant or less efficient facilities.
- (4) Primarily represents investment in the computerized hand-held routing and billing system. The balance consists of building expansions and investments in accounting software to facilitate the centralization of accounting at Arctic's head office in Winnipeg.

Trademarks

The name "Arctic Glacier®" is a registered trademark of Arctic in Canada. In the United States the trademark is pending. Arctic is the registered owner of the pending trademark "Ice Perfection System™" in Canada and the United States.

Government Regulation

The packaged ice industry is subject to various federal, provincial, state and municipal laws and regulations. These laws require, among other things, that Arctic obtain licenses for its facilities and comply with standards for quality control within its plants. Arctic's products are also subject to various federal, provincial, state and local regulations as a food product. These regulations, among other things, require regular testing of the product for microbial contamination and labeling that provides package weight, nutritional content and other information. Arctic believes that its facilities meet or exceed all existing regulations. Although the most stringent jurisdictions require less frequent testing, Arctic's products are tested for microbial contamination on a weekly basis by

independent third parties. In addition, the International Packaged Ice Association has published a set of quality control standards with which its members must comply. These standards, known as PIQCS (Packaged Ice Quality Control Standards) require monthly testing for microbial contamination.

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

Environmental Matters

Commercial ice manufacturing equipment utilizes various hazardous chemicals as refrigerants. These refrigerants, including freon and ammonia, are subject to various federal, provincial, state and local regulations. These substances are dangerous if released in significant quantities, can cause explosions if exposed to flame and can cause asphyxiation in an enclosed area. In the event of a release however, the gases quickly dissipate with ventilation and do not generally cause long-term contamination.

Arctic believes that its facilities meet or exceed current environmental regulations. Arctic has and will continue to invest in control and warning systems that will assist in the event of a release of these chemicals. Government regulation is likely to continue to become more stringent. Arctic believes that its investments to date position it to comply with enhanced future regulation.

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

DESCRIPTION OF THE FUND

General

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

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

- (a) investing in such securities as may be approved from time to time by the Trustees including the Common Shares and the Subordinated Notes and any other securities of Arctic and otherwise lending funds to Arctic and its affiliates and borrowing funds for any such purpose;
- (b) issuing guarantees of the obligations and indebtedness of any of its Subsidiaries or affiliates and charging, pledging, hypothecating or granting any security interest, mortgage or encumbrance over or with respect to any or all of the Fund's property or assets in connection with any such guarantee;

- (c) disposing of any part of the assets of the Fund;
- (d) temporarily holding cash, short term investments and other investments for the purpose of paying the expenses and liabilities of the Fund, paying amounts payable by the Fund in connection with the redemption of any Units and making distributions to Unitholders; and
- (e) undertaking such other activities as shall be approved by the Trustees from time to time.

To the maximum extent possible, the Fund will make cash distributions to Unitholders of the interest income or principal repayments received in respect of the Subordinated Notes, dividends and other distributions received on, and amounts, if any, received on redemption of, Common Shares, after expenses and any cash redemptions of Units. See “Description of the Fund — Cash Distributions”.

Units

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

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

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

Unitholder Limited Liability

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

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

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

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

Issuance of Units

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

Cash Distributions

The amount of cash to be distributed per Unit shall be equal to a pro rata share of all amounts received by the Fund in each month including, without limitation, interest and principal payments on the Subordinated Notes and dividends or other distributions on or in respect of Common Shares owned by the Fund less: (i) administrative expenses and other obligations of the Fund; and (ii) amounts which may be paid by the Fund in connection with any cash redemptions of Units. Arctic may apply some or all of its cash flow to capital expenditures prior to making any distributions to the Fund in the form of principal repayments on the Subordinated Notes or dividends or other distributions on the Common Shares. Any income of the Fund that is applied to any such cash redemptions of Units or is otherwise unavailable for cash distribution will be distributed to Unitholders in the form of additional Units. Such additional Units will be issued pursuant to applicable exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing.

The Fund will derive interest income from its holdings of Subordinated Notes. The Subordinated Notes will bear interest at 12% per annum, payable monthly, and will mature ten years from the Effective Date, subject to prepayment under limited circumstances as determined by the Board of Directors and subject to extension for an additional ten year term with the consent of the holders of the Subordinated Notes by Extraordinary Resolution. It is expected that the Fund's income will initially be limited to: (i) the interest received on the principal amount of Subordinated Notes; and (ii) dividends, if any, received on Common Shares. See "Share and Loan Capital of Arctic - Subordinated Notes".

The Trustees intend to make monthly cash distributions. Cash distribution for the period from the Effective Date to April 30, 2002 to Unitholders of record on April 30, 2002 was made on May 15, 2002. Thereafter, cash distributions have been made monthly to the Unitholders of record on the last day of each month (unless such day is not a Business Day, in which case the date of record shall be the immediately preceding Business Day) and have been paid on the 15th day of the following month or, if such day is not a Business Day, the immediately preceding Business Day or such other date as determined from time to time by the Trustees. The Trustees expect to continue to make monthly cash distributions on the same basis.

Redemption Right

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

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

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

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

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

Limitations on Non-Resident Unitholders

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

Meetings of Unitholders

The Declaration of Trust provides that meetings of Unitholders must be called and held for, among other matters, the election or removal of Trustees (except filling casual vacancies), the appointment or removal of the auditors of the Fund, the approval of amendments to the Declaration of Trust (except as described under “Amendments to the Declaration of Trust”), the sale of the assets of the Fund as an entirety or substantially as an entirety (other

than as part of an internal reorganization), the termination of the Fund and the direction of the Trustees as to the election of the directors of Arctic. Meetings of Unitholders will be called and held annually for, among other things, the election of the Trustees, the appointment of auditors of the Fund and the direction of the Trustees as to the election of the directors of Arctic. A resolution appointing or removing a Trustee, the auditors of the Fund or the direction of the Trustees as to the election of the directors of Arctic must be passed by a simple majority of the votes cast by Unitholders. The balance of the foregoing matters must be passed by at least $66\frac{2}{3}\%$ of the votes cast at a meeting of Unitholders called for such purpose.

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

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

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

Information and Reports

The Fund will furnish to Unitholders such financial statements (including quarterly and annual financial statements) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders' tax returns under the Tax Act and equivalent provincial legislation.

Prior to each meeting of Unitholders, the Trustees will provide the Unitholders (along with notice of such meeting) a proxy form and an information circular containing information similar to that required to be provided to shareholders of a Canadian public corporation.

Arctic has undertaken to provide the Fund with:

- (a) a report of any material change which occurs in the affairs of Arctic in form and content that it would file with the applicable regulatory authorities as if it were a reporting issuer under applicable securities laws and stock exchange requirements;
- (b) all financial statements that it would be required to file with the applicable regulatory authorities as if it were a reporting issuer under applicable securities laws; and
- (c) a copy of any other document that it would be required to file with the applicable regulatory authorities as if it were a reporting issuer under applicable securities laws and stock exchange requirements.

All such reports and statements will be provided to the Fund in a timely manner so as to permit the Fund to comply with the continuous disclosure requirements relating to reports, material changes in its affairs and the delivery of financial statements as required under applicable securities laws.

Takeover Bids

The Declaration of Trust contains provisions to the effect that if a takeover bid is made for the Units and not less than 90% of the Units (other than Units held at the date of the takeover bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Units held by Unitholders who did not accept the takeover bid on the terms offered by the offeror.

Trustees

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

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

A quorum of the Trustees, being the greater of two Trustees or a majority of the Trustees then holding office, may fill a vacancy in the Trustees, except a vacancy resulting from an increase in the number of Trustees or from a failure of the Unitholders to elect the required number of Trustees. In the absence of a quorum of the Trustees, or if the vacancy has arisen from a failure of the Unitholders to elect the required number of Trustees, the Trustees shall forthwith call a special meeting of Unitholders to fill the vacancy. If the Trustees fail to call such meeting or if there are no Trustees then in office, any Unitholder may call the meeting.

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

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

Except as expressly prohibited by law, the Trustees may grant or delegate certain of the Trustees' authority to effect the actual administration of the duties of the Trustees under the Declaration of Trust. The Trustees may grant broad discretion to a third party to administer and manage the day-to-day operations of the Fund, and to

make executive decisions which conform to the general policies and general principles set forth in the Declaration of Trust or otherwise established by the Trustees.

The Trustees will be entitled to compensation for services rendered to the Fund in their capacities as trustees. The Trustees are anticipated to be the same persons who will be directors of Arctic. Initial compensation for the Trustee/directors that are not employees of Arctic shall be \$12,000 per year and \$2,000 per director/Trustee for attending joint board of directors/Trustees' meetings where combined with committee meetings or \$1,000 for attending committee meetings where not combined with board of directors/Trustees' meetings. Directors/Trustees are entitled to \$500 for attending board of directors/Trustees' meetings by telephone. The Trustees are also entitled to be reimbursed for reasonable travel and other expenses properly incurred by them in attending meetings of the Trustees or committees thereof in connection with their services as Trustees. Any Trustee that is not an employee of Arctic shall also be entitled to participate in any option plan adopted by the Fund.

In lieu of a committee, the Trustees will be directly responsible for developing the Fund's approach to governance issues, filling vacancies among the Trustees and periodically reviewing the composition and effectiveness of the Trustees and the contribution of individual Trustees.

The Trustees will also be responsible for adopting and periodically reviewing and updating the Fund's written corporate disclosure policy. This policy will, among other things:

- ! articulate the legal obligations of the Fund, its affiliates and their respective trustees, directors, officers and employees with respect to confidential information;
- ! identify spokespersons of the Fund who are authorized to communicate with third parties such as analysts, the media and investors;
- ! provide guidelines on the disclosure of forward-looking information;
- ! require advance review by senior representatives of any disclosure of financial information to seek to ensure that the information is not material, and to seek to ensure that selective disclosure of material information does not occur, and that if it does occur, a news release is issued promptly; and
- ! establish "black-out" periods immediately prior to and following the disclosure of quarterly and annual financial results and immediately prior to the disclosure of certain material changes during which the Fund, its affiliates, and their respective trustees, directors, officers and certain other persons may not purchase or sell Units of the Fund.

In lieu of an audit committee, the Trustees will directly fulfil their responsibilities of oversight and supervision of:

- ! the accounting for and financial reporting practices and procedures of the Fund;
- ! the adequacy of internal accounting controls and procedures of the Fund; and
- ! the quality and integrity of financial statements of the Fund.

In addition, the Trustees will be responsible for directing the auditors' examination into specific areas.

Amendments to the Declaration of Trust

The Declaration of Trust may be amended or altered from time to time by at least 66²/₃% of the votes cast at a meeting of the Unitholders called for such purpose.

The Trustees may, without the approval of the Unitholders, amend the Declaration of Trust prior to the Effective Date and, in addition, make certain amendments to the Declaration of Trust, including amendments:

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

Unit Option Plan

The Trustees have adopted a unit option plan (the “Unit Option Plan”) to provide long-term incentives to develop the interests of (i) the independent Trustees and employees and advisors of the Fund and any Subsidiary of the Fund, and (ii) personal holding companies or family trusts of any persons referred to in (i), all as selected by the Trustees (collectively referred to as “Eligible Persons”).

Pursuant to the Unit Option Plan, the Trustees may grant options to purchase Units (“Options”) to Eligible Persons in respect of authorized and unissued Units, provided that initially the maximum number of Units issuable upon exercise of such Options may not exceed 10% of the anticipated number of issued and outstanding Units on the Effective Date. The number of Units issuable under the Unit Option Plan may be increased subject to any required regulatory and Unitholder approvals. The number of Options and the exercise price of the Units issuable upon exercise thereof is set by the Trustees at the time of the grant, provided that the exercise price shall not be less than the closing market price of the Units on the day immediately preceding the date of the grant of the Options.

Options granted under the Unit Option Plan may be exercised during a period not exceeding ten years, subject to earlier termination upon an optionee ceasing to be an Eligible Person or upon an optionee retiring, becoming permanently disabled or dying. The Options are non-transferable and non-assignable.

Term of the Fund and Sale of Substantially All Assets

The Fund has been established for a term ending 21 years after the date of death of the last surviving issue of Her Majesty, Queen Elizabeth, alive on January 22, 2002. Pursuant to the Declaration of Trust, termination of the Fund or the sale or transfer of the assets of the Fund as an entirety or substantially as an entirety, except as part of an internal reorganization of the assets of the Fund as approved by the Board of Directors, requires approval by at least $66\frac{2}{3}\%$ of the votes cast at a meeting of the Unitholders.

Exercise of Voting Rights Attached to Common Shares

The Declaration of Trust provides that following the amalgamation of Arctic and AcquisitionCo, the Trustees of the Fund shall not, among other things, authorize:

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

without the authorization of at least $66\frac{2}{3}\%$ of the votes cast at a meeting of the Unitholders called for such purpose.

SHARE AND LOAN CAPITAL OF ARCTIC

Arctic is authorized to issue an unlimited number of Common Shares. The Fund is the sole holder of the issued and outstanding Common Shares. The Fund is also the sole holder of outstanding Subordinated Notes. The following is a description of the rights attaching to the Common Shares.

Common Shares

Each Common Share entitles its holder to receive notice of and to attend all meetings of the shareholders of Arctic and to one vote at such meetings. The holders of Common Shares are, at the discretion of the Board of Directors and subject to applicable legal restrictions, entitled to receive any dividends declared by the Board of Directors on the Common Shares. The holders of Common Shares are entitled to share equally in any distribution of the assets of Arctic upon the liquidation, dissolution, bankruptcy or winding-up of Arctic or other distribution of its assets among its shareholders for the purpose of winding-up its affairs. Such participation is subject to the rights, privileges, restrictions and conditions attaching to any instruments having priority over the Common Shares.

Subordinated Notes

The following is a summary of the material attributes and characteristics of the Subordinated Notes which will be issued under the Note Indenture. This Summary is qualified entirely by reference to the provisions of the Note Indenture, which will be dated on or before the Effective Date, and which contains a complete statement of such attributes and characteristics. This summary does not purport to be complete.

Subordinated Notes Overview

An unlimited number of Subordinated Notes may be issued under the Note Indenture. The Subordinated Notes will mature 10 years from the Effective Date subject to prepayment, under certain circumstances as determined by the Board of Directors and subject to an extension for an additional 10 year term with the consent of the holders of the Subordinated Notes by Extraordinary Resolution. The Subordinated Notes will bear interest at a rate per annum of 12%, payable monthly on the last Business Day of the month for interest earned during the preceding month. The first interest payment was paid on April 30, 2002. The principal and interest on the Subordinated Notes is payable in lawful money of Canada. The Subordinated Notes are issuable only as fully registered Subordinated Notes in minimum denominations of \$100 and integral multiples thereof.

Payment upon Maturity

On maturity and subject to any applicable subordination restrictions, Arctic will repay the indebtedness represented by the Subordinated Notes by paying to the Note Trustee in lawful money of Canada an amount equal to the principal amount of the outstanding Subordinated Notes, together with accrued and unpaid interest thereon.

Redemption

From time to time the Board of Directors will review the status of its assets and those of its subsidiaries and the economic conditions relating to its business and the packaged ice industry in general. If this review, in the opinion of the Board of Directors, indicates that it is unlikely that the indebtedness of Arctic evidenced by the Subordinated Notes could be refinanced on financially equivalent terms and conditions upon maturity of such Subordinated Notes, then Arctic may, subject to the consent of the Fund and the holders of the Subordinated Notes by Extraordinary Resolution and subject to any subordination obligation, commence principal repayments on the Subordinated Notes such that, in the opinion of the Board of Directors, the Subordinated Notes will be fully repaid upon maturity. In that event, the available after-tax cash of Arctic will be utilized to the extent required to fund such repayments in lieu of distributions on the Common Shares. In addition, if Arctic has available cash, but is prohibited from declaring or paying a dividend or reducing its stated capital under applicable laws, the Board of Directors may make principal repayments on the Subordinated Notes to the extent of such available cash.

Ranking

Payment of the principal and interest (other than regularly scheduled interest and principal at maturity, provided no default on Senior Indebtedness (as herein defined) has occurred and payment of such interest or principal is not otherwise required to be suspended in accordance with the terms of subordination agreements which may be entered into with the holders of Senior Indebtedness) on the Subordinated Notes will be subordinated in right of payment, as set forth in the Note Indenture, to the prior payment in full of the principal of and accrued and unpaid interest on, and all other amounts owing in respect of, all Senior Indebtedness. "Senior Indebtedness" is defined as (a) all indebtedness, obligations and liabilities of Arctic in respect of borrowed money (including the deferred purchase price of property), other than (i) indebtedness evidenced by the Note Indenture and (ii) indebtedness which, by the terms of the instrument creating or evidencing the same, is expressed to rank in

right of payment equally with or subordinate to the indebtedness evidenced by the Note Indenture, and (b) from and after the commencement of, and during the continuance of, any creditor proceedings (including bankruptcy, liquidation, winding-up, dissolution, restructuring or arrangement proceedings), all indebtedness, obligations and liabilities of Arctic, other than indebtedness, obligations and liabilities of Arctic represented by the Subordinated Notes. The Note Indenture provides that in the event of any creditor proceedings relative to Arctic, the holders of all Senior Indebtedness, which would include bank debt and suppliers of Arctic, will be entitled to receive payment in full before the holders of the Subordinated Notes are entitled to receive any payment. Any amount of property received contrary to these provisions shall be held in trust for and paid over to the holders of Senior Indebtedness.

In the event of any creditor proceedings, the indebtedness represented by the Subordinated Notes is not to be classified with any Senior Indebtedness for voting or distribution, which means that holders of Senior Indebtedness will vote separately from the holders of Subordinated Notes in respect of any restructuring or arrangement proposal regarding Arctic.

Subordination Agreements

Pursuant to the terms of the Note Indenture, the Note Trustee may enter into subordination agreements with the holders of certain Senior Indebtedness under which the Note Trustee on behalf of the holders of Subordinated Notes may agree directly with a holder of Senior Indebtedness in implementation of and/or in addition to the subordination terms described under "Ranking". The Note Trustee may give a holder of Senior Indebtedness a power of attorney to be exercised in any creditor proceedings to enforce the terms thereof. The Note Trustee may also agree to ensure any transferee of Subordinated Notes (or other securities of Arctic) agrees to be bound by the provisions of the subordination agreements.

SELECTED CONSOLIDATED ANNUAL FINANCIAL INFORMATION

The following table sets forth selected consolidated financial information of Arctic.

	December 31, 2001	December 31, 2000	Periods ended December 31, 1999	December 31, 1998⁽⁴⁾	April 30, 1998
	(audited)	(audited)	(audited)	(audited)	(audited)
Sales	\$91,388,000	\$82,114,000	\$74,257,000	\$41,508,000	\$9,574,000
EBITDA ⁽¹⁾	25,053,000	21,608,000	19,015,000	9,922,000	423,000
Net earnings (loss)	(4,818,000)	(2,885,000)	(949,000)	1,857,000	(1,016,000)
Basic earnings (loss) per share ⁽²⁾	(0.14)	(0.09)	(0.03)	0.08	(0.07)
Diluted earnings (loss) per share ⁽²⁾⁽³⁾	(0.14)	(0.09)	(0.03)	0.05	(0.07)
Total assets	187,097,000	188,312,000	170,674,000	129,443,000	36,157,000
Total long term debt ⁽⁵⁾	123,284,000	120,766,000	104,547,000	63,007,000	15,005,000

Notes:

- (1) EBITDA is not a recognized measure under Canadian generally accepted accounting principles (GAAP). See the definition of EBITDA at page 2 for cautionary note.
- (2) Basic net earnings (loss) per share and diluted earnings (loss) per share were calculated using the weighted average number of Common Shares outstanding.

- (3) Assumes that all dilutive outstanding convertible securities have been converted into Common Shares at the later of the beginning of the fiscal period or the date of issuance.
- (4) Arctic changed its financial year end from April 30 to December 31 effective December 31, 1998.
- (5) Long term debt includes amounts as described in the Consolidated Financial Statements of Arctic for the years ended December 31, 2001, 2000 and 1999.

SELECTED CONSOLIDATED QUARTERLY FINANCIAL INFORMATION

The following table sets forth selected consolidated quarterly financial information of Arctic.

	<u>Quarter ended (Unaudited)</u>							
	<u>December 31</u>	<u>September 30</u>	<u>2001 June 30</u>	<u>March 31</u>	<u>December 31</u>	<u>September 30</u>	<u>2000 June 30</u>	<u>March 31</u>
Sales (\$)	13,236,000	41,987,000	27,933,000	8,232,000	11,637,000	37,081,000	25,265,000	8,131,000
EBITDA (\$) ⁽¹⁾	(246,000)	17,974,000	9,801,000	(2,476,000)	(927,000)	15,842,000	8,308,000	(1,615,000)
Net earnings (loss) (\$)	(3,641,000)	6,858,000	(2,347,000)	(5,688,000)	(5,709,000)	5,544,000	1,158,000	(3,878,000)
Basic earnings (loss) per share ⁽²⁾ (\$)	(0.10)	0.19	(0.07)	(0.16)	(0.14)	0.15	0.03	(0.11)
Diluted earnings (loss) per share ⁽²⁾⁽³⁾ (\$)	(0.10)	0.19	(0.07)	(0.16)	(0.14)	0.15	0.03	(0.11)
Shares outstanding ⁽⁴⁾	36,260,200	36,260,200	36,260,200	36,260,200	36,260,200	36,252,500	36,219,200	36,219,200
Fully diluted shares ⁽⁴⁾	36,260,200	36,260,200	36,260,200	36,260,200	36,260,200	36,717,000	36,219,000	36,219,000

Notes:

- (1) EBITDA is not a recognized measure under Canadian generally accepted accounting principles (GAAP). See the definition of EBITDA at page 2 for cautionary note.
- (2) Basic earnings (loss) per share and diluted earnings (loss) per share were calculated using the weighted average number of Common Shares outstanding.
- (3) Assumes that all dilutive outstanding convertible securities have been converted into Common Shares at the later of the beginning of the fiscal period or the date of issuance.
- (4) Shares outstanding and diluted shares outstanding are as at the end of the respective quarters.
- (5) The data set out above is comparative in all material respects.

MANAGEMENT DISCUSSION AND ANALYSIS

Certain earnings measures, namely “earnings from operations”, “EBITDA”, “EBITDA margin”, and “Distributable Cash”, are not earnings measures recognized by Canadian generally accepted accounting principles. Management believes that these earnings measures are useful supplemental measures of performance as they provide investors with an indication of the amount of cash available for distribution to unitholders. Investors should be cautioned, however, that earnings from operations, EBITDA, EBITDA margin and Distributable Cash should not be construed as alternatives to using net income as a measure of profitability or the statement of cash flows as a measure of liquidity of cash flows. Further, the Fund’s method of Calculating earnings from operations, EBITDA, EBITDA margin, and Distributable Cash may not be comparable to similarly titled amounts reported by other issuers.

Management's discussion and analysis is a review of the results of operations and the liquidity and capital resources of Arctic Group for the years ended December 31, 2001 and 2000. It should be read in conjunction with the audited consolidated financial statements of Arctic Group for 2001 and 2000, together with the notes thereto filed on www.sedar.com.

Business of Arctic

Arctic is a leading manufacturer and distributor of premium quality packaged ice products. Arctic is the largest producer of packaged ice in Canada and is among the largest producers of packaged ice in the United States, serving more than 35,000 retail, commercial and industrial customer locations throughout six provinces in Canada and eight states in the central United States from 16 production and 33 distribution facilities.

Arctic's primary product is packaged ice, marketed under the brand name "Arctic Glacier®" Premium Ice. Packaged ice for human consumption is sold by Arctic in various package sizes ranging from 2 kilogram to 20 kilograms in Canadian markets and 5 to 40 pounds in United States markets. Packaged ice products are sold to retail customers, such as supermarket grocery stores and convenience stores, and are also supplied to a variety of commercial users including bakeries and meat processors. Arctic also sells ice in bulk containers primarily to poultry processors, the commercial fishing industry, chemical plants and concrete plants.

Arctic markets other ancillary products such as bottled water, dry ice, packaged wood, rock salt and ice-making and dispensing equipment in certain regions. Sales of these ancillary products generally represent less than 5% of total annual sales.

Arctic Group was formed in 1996 for the purpose of creating an entity to acquire or operate packaged ice businesses in Canada and the United States. In March 1997 Arctic Group completed its initial public offering and its securities were listed for trading on the Alberta Stock Exchange on April 9, 1997. On December 31, 1999, Arctic Group began trading on the Toronto Stock Exchange. Since 1996, when it was comprised of three operations based in Western Canada, Arctic Group has followed an aggressive acquisition program, acquiring 41 packaged ice businesses in Canada and the United States. On March 22, 2002, Arctic Group was reorganized into an income trust, called the Arctic Glacier Income Fund (the "Fund"). The Fund owns all of the outstanding shares of Arctic, which was formed on the amalgamation of Arctic Group with Arctic Glacier concurrently with the Reorganization. The Units of the Fund trade on the TSX, under the symbol AG.UN.

The table below details various summary financial and operating data for fiscal 2001 compared to fiscal 2000.

(\$ millions except per share amounts)	2001	2000	Change
Revenue	\$91.4	\$82.1	+11%
EBITDA	\$25.1	\$21.6	+16%
EBITDA margin	27.4%	26.3%	+4%
Earnings from operations	\$3.8	\$1.2	+204%
Funds from operations	\$11.9	\$9.6	+24%
Net loss	(\$4.8)	(\$2.9)	+67%
Basic and diluted loss per share	(\$0.14)	(\$0.09)	+56%

Results of Operation

Sales

Sales in 2001 reached a new high of \$91.4 million; a substantial increase of \$9.3 million, or 11%, over the previous year's sales of \$82.1 million.

This increase in sales is attributable primarily to increased sales in existing markets, as no significant acquisitions were made during the year. Unit sales were up as many of Arctic Group's Canadian and U.S. sales regions enjoyed favorable weather during the key summer sales period, characterized by hot, dry weather. This more than offset the effect of the unseasonably cool weather that was experienced at the beginning of the year in eastern Canada and U.S. sales regions, the flooding that was experienced in the upper Mississippi Valley in the spring, and a slow-down in consumer demand for a two to three week period immediately following the terrorist attacks of September 11 in the United States. Unit sales and prices were impacted positively as Arctic Group continued to take advantage of marketing opportunities that were made available through branding and product quality initiatives. Sales totals were also buoyed by the weaker Canadian dollar in 2001, which increased the Canadian dollar value of the sales that are generated in U.S. dollars.

Cost of sales, selling, general and administration expenses

Cost of sales, selling, general and administration expenses increased \$5.8 million, or 10%, over the previous year's total of \$60.5 million as a result of the higher unit volumes. As a percent of sales, however, costs decreased by almost 2% to 72.6% of sales from 73.9% the previous year.

The decrease in terms of percent of sales can be attributed to the continued focus on improving the efficiency of operations and the benefits that continue to accrue as Arctic Group reached the final stages of rationalizing acquisitions made over the past few years. Arctic Group improved production and distribution efficiencies over the past two years by upgrading and overhauling facilities, investing in equipment and technology, and disposing of redundant assets. Administrative efficiency has been improved by consolidating certain administrative functions and streamlining processes, made possible in 2001 by the prior year's implementation of a computerized handheld billing and routing system. The resulting cost savings more than offset the effect of increasing fuel and other energy costs during the year, and the weaker Canadian dollar, which increased the Canadian dollar value of costs incurred in U.S. dollars.

EBITDA

Earnings before interest, taxes, depreciation, amortization and non-recurring expenses (EBITDA) of \$25.1 million for 2001 was a substantial increase of \$3.4 million or 16% over the previous year. This increase is attributable to the organic growth in sales volumes and price increases made available through branding and quality initiatives, combined with the continued focus on efficiency and rationalization of operations.

EBITDA performance as a percentage of sales (EBITDA margin) continues to increase year over year as Arctic Group executed its business strategies of improving the efficiency of operations to maximize margins and developing its branded product - Arctic Glacier® Premium Ice. EBITDA margin for 2001 reached a new high of 27.4%, compared to 26.3% for 2000 and 25.6% for 1999. This represents a 4% increase compared to the previous year and a 7% increase over two years

Over the past three years significant investments have been made in a new production facility in Mississauga, Ontario, major plant upgrades and overhauls in Chatham, Ontario; Marshall, Minnesota; and Fridley, Minnesota; new water treatment, product drying, and packaging technology; improved brand awareness; and a handheld computerized billing and distribution routing system. A number of redundant production and distribution facilities have been closed and their assets sold to reduce fixed costs. Arctic Group also invested in the development of the automated in-store machine – the Ice Perfection System – to ensure that it could compete against other industry leaders who have similar offerings and ensure customer satisfaction. These investments have created a foundation that has allowed and will continue to allow Arctic Group to drive up corporate EBITDA and resultant EBITDA margins.

Amortization

Amortization is the expense related to properly matching the cost of capital assets, deferred financing and development costs to the estimated useful life and period of benefit to the corporation of those assets. It is a non-cash expense to Arctic Group. Amortization totaled \$9.5 million in 2001, an increase of \$0.6 million, or 7%, compared to the previous year.

Amortization increased as a result of the full year effect of the capital expenditures and acquisitions made during 2000, the capital expenditures made in 2001, and the commencement of amortization of the costs to develop the in-store packaged ice machine as the machines were put into production. These increases more than offset the reduction in amortization of deferred financing costs that were written-off with the settlement of the liability and equity component of the U.S. \$18.4 million convertible debentures in May 2001.

Interest

Interest expense totaled \$11.8 million in 2001, an increase of \$0.3 million, or 3%, compared to the previous year. The increase results from higher levels of bank indebtedness during 2001, interest costs on the finalization of the contingent consideration related to a U.S. company acquired in 1998, and the weaker Canadian dollar which increased the Canadian dollar value of the interest costs of the long-term debt facilities denominated in U.S. dollars. These increases more than offset the decrease in the weighted average cost of borrowing which dropped to 9.3% in 2001 from 9.9% in 2000.

Earnings from operations

Earnings from operations, which is comprised of earnings before taxes, goodwill charges, gains or losses on disposals of assets, and non-recurring charges, totaled \$3.8 million in 2001, an increase of \$2.5 million or 204% compared to the previous year. This increase is primarily due to the increase in unit sales and prices, and the improved efficiency of operations compared to the previous year.

Loss on settlement of convertible debentures

A loss totaling \$4.7 million was incurred during 2001 representing a non-cash charge resulting from the settlement of convertible debentures in the second quarter of 2001. The terms of the U.S. \$18.4 million debentures were changed, eliminating the conversion privilege that had previously represented significant potential dilution to existing shareholders. These amendments resulted in the settlement of the liability and equity component of the original convertible debentures for accounting purposes.

The settlement of the liability component of the convertible debentures resulted in a loss on settlement of \$4.7 million which is attributable to the difference between the fair value and the carrying value of the liability component at the date of settlement, write-off of the remaining unamortized balance of related deferred financing costs and the fair value of 6.9 million warrants issued. The settlement of the equity component of the convertible debentures resulted in an increase to retained earnings of \$2.6 million.

Loss on disposal of capital assets and goodwill

Losses on disposal of capital assets and goodwill totaled \$0.4 million in 2001 and \$0.9 million in 2000. These losses result as certain redundant assets in the U.S. were sold or otherwise disposed of as Arctic Group reached the final stages of rationalizing acquisitions made over the past few years and transforming production facilities and distribution system infrastructure into more efficient and cost effective operations. These disposals resulted in proceeds totaling \$0.8 million in 2001.

Non-recurring expenses

Non-recurring expenses for 2001 of \$0.7 million represent costs associated with the restructuring of long-term debt during the second quarter of 2001, and the costs of amalgamating and winding-up a number of Canadian regional operating companies into one national operating company to reduce future overhead costs.

Non-recurring expenses for 2000 of \$0.9 million represents severance and other costs associated with rationalizing a number of production, distribution and administrative functions during the year.

Income tax expense (reduction)

Income taxes for 2001 increased by \$0.5 million to an expense of \$0.9 million, compared to an expense of \$0.4 million for the previous year. This \$0.9 million income tax expense was comprised of an income tax on earnings from operations of \$1.7 million and large corporation, capital, and withholding tax expense of \$0.7 million, offset by income tax recoveries of \$0.6 million related to non-recurring loss on settlement of convertible debentures; \$0.5 million related to the loss on disposal of capital assets and goodwill and non-recurring expenses; and \$0.4 million related to the recognition of future income tax rate reductions in Canada to be phased in over the 2001 to 2004 income tax years.

For 2000 Arctic Group reported an income tax expense of \$0.4 million, comprised of an income tax expenses of \$0.8 million on earnings from operations and large corporation and capital tax expense of \$0.5 million, offset by income tax recoveries of \$0.6 million related to the loss on disposal of capital assets and goodwill and non recurring expenses and \$0.2 million related to the recognition of future income tax rate reductions in Canada to be phased in over the 2000 to 2004 income tax years.

The effective income tax rate is determined by the mix of earnings in the countries in which Arctic operates.

Goodwill charges

Goodwill charges for 2001 totaled \$1.8 million, net of applicable future income taxes, comparable to \$1.9 million for 2000.

Net loss and loss per share

The net loss for 2001 was \$4.8 million or \$0.14 per share (basic – including goodwill charges) compared to a loss of \$2.9 million or \$0.09 per share (basic – including goodwill charges) for the previous year. The loss was the result of the non-recurring loss on settlement of convertible debentures, net of tax effect, of \$4.1 million that was incurred in May 2001. If this non-cash loss was excluded from the results, the loss for the year would have been \$0.7 million or less than \$0.02 per share.

Liquidity and Capital Resources

Operating activities

Funds from operations totaled \$11.9 million for 2001, an increase of \$2.3 million, or 24%, compared to the funds from operations of \$9.6 million for the previous year. The increased cash flows were the result of the increased unit sales and prices, along with the reduced costs resulting from improved efficiency of operations and savings from rationalization initiatives.

Funds from operations per share for 2001 were \$0.33 (basic), an increase of 27% compared to \$0.26 per share for 2000.

At December 31, 2001 Arctic Group had \$1.9 million of cash, which represents an increase of \$2.2 million compared to the balance of bank indebtedness at December 31, 2000 of \$0.2 million, which was comprised of \$2.2 million of cash offset by \$2.4 million of borrowings on the operating line of credit. Arctic Group maintained a \$5.0 million floating rate operating line of credit to supplement cash resources. At December 31, 2001, no amount had been drawn on this facility and \$5.0 million was available to Arctic Group. This compares to \$2.6 million not drawn and available at December 31, 2000.

Working capital at December 31, 2001 was \$5.5 million, which represents an increase of \$6.9 million compared to the December 31, 2000 working capital deficit of \$1.3 million. This increase is the result of the improved operating performance and the substantially lower capital expenditure program funded from cash flow in 2001. The working capital ratio at December 31, 2001 was 1.5, representing a significant improvement over a ratio of 0.9 at December 31, 2000.

As a result of entering into a new credit facility with the Toronto Dominion Bank subsequent to the end of the year, in March 2002, and repaying the previous credit facilities, the working capital position reflects the reduced current portion of long-term debt as the new facility does not require scheduled principal repayments. Working capital, excluding the current portion of long-term debt, was \$7.0 million at December 31, 2001, compared to \$6.8 million at December 31, 2000.

Arctic believes that it has sufficient resources from operating cash flows to meet its current and future requirements.

Financing activities

Arctic Group used \$6.0 million of cash for financing activities in 2001. This compares to \$11.9 million of cash generated by financing activities in the previous year.

In 2001 proceeds from long-term debt totaled \$2.5 million, comprised of \$1.3 million of financing drawn on the multi-currency non-revolving facility to complete investments made prior to 2001, an additional \$0.3 million

vendor payable representing the finalization of the contingent component of the purchase price of a U.S. acquisition made in 1998, and \$0.8 million of deferred interest recorded on the 12.5% subordinated debentures. Also during 2001, principal payments totaling \$7.6 million were made on long-term debt, including U.S. \$4.0 million applied against the multi-currency non-revolving facility.

During the second quarter of 2001 Arctic Group entered into an agreement with Citicorp North America Inc. and RoyNat Capital Inc., the holders of the U.S. \$18.4 million convertible debentures to amend the terms of the debentures. The amended debentures have an interest rate of 12.5% per annum, with 8.25% payable quarterly and 4.25% accrued and paid on maturity or earlier if Arctic Group repurchases the debentures. Arctic Group issued to the holders of the debentures a total of 6.9 million warrants, each exchangeable into one common share at \$0.75 per share and expiring upon the maturity of the amended debentures in August 2004. In exchange, the holders of the debentures agreed to cancel their conversion rights that had previously represented significant potential dilution to existing shareholders.

In 2000 an additional \$17.1 million of financing was drawn on the multi-currency non-revolving facility and from real estate and vendor loans to complete the significant investments made in acquisitions and capital expenditures during the year. Also during 2000, principal repayments totaling \$4.3 million were made on long-term, including U.S. \$1.0 million applied against the multi-currency non-revolving facility.

Long-term debt at December 31, 2001 was \$122.2 million, compared to \$119.3 million at December 31, 2000. The increase of \$2.9 million during 2001 reflects the addition of \$2.5 million proceeds from long-term debt noted above, along with \$3.5 million related to the non-cash accounting adjustment made to the liability component of the subordinated debentures in May 2001 and \$4.5 million related to the impact of the weaker Canadian dollar during the year that increased the Canadian dollar value of debt denominated in U.S. dollars. These increases were partially offset by principal repayments of \$7.6 million during the year.

Arctic Group did not issue new equity in 2001, as no significant acquisitions were completed during the year. Arctic Group had 36,260,200 common shares issued and outstanding at December 31, 2001, unchanged from December 31, 2000.

Subsequent to the end of the year, during the first quarter of 2002, the shareholders of Arctic Group approved a reorganization of Arctic Group into an income trust, called the Arctic Glacier Income Fund (the "Fund"). Shareholders received one unit of the Fund in exchange for six common shares of Arctic Group. At the same time, the Fund completed an initial public offering of 9,052,632 units at \$9.50 per unit for net proceeds of approximately \$79.1 million after issue costs of approximately \$6.9 million. These proceeds, along with funds drawn on the new Toronto Dominion Bank credit facility, were used to repay long-term debt including the balance of \$84.9 million on the multi-currency non-revolving credit facility, the \$30.1 million balance of the 12.5% subordinated debentures and accrued interest and related fees, and \$3.0 million of loans payable. Arctic Group also cancelled the 6.9 million warrants that had been issued to the subordinated debenture holders.

Arctic Group incurred costs of \$0.8 million related to the reorganization, \$1.9 million to establish the new credit facility, and \$3.8 million related to the cancellation of the warrants and the prepayment of the 12.5% subordinated debentures.

As a result of these transactions, the Fund currently has 15.660 million units outstanding, determined as follows:

	<i>(000's)</i>
Common shares outstanding at December 31, 2001	36,260.2
Common shares issued on exercise of stock options	806.0
Common shares issued on conversion of debentures	<u>2,523.7</u>
Common shares outstanding at March 22, 2002	39,589.9
Exchanged for units of the Fund (6 shares for 1 unit)	6,598.4
Initial public offering of Fund units	9,052.6
Fund units issued on conversion of debentures	<u>8.9</u>
Fund units outstanding at December 18, 2002	<u><u>15,659.9</u></u>

The common shares of Arctic Group are no longer traded and have been delisted. The units of the Arctic Glacier Income Fund are traded on the Toronto Stock Exchange under the symbol AG.UN.

Investing activities

Cash used in investing activities totaled \$5.8 million for 2001, a decrease of \$18.8 million or 77% compared to \$24.6 million used in investing activities for the previous year.

During 2001 Arctic Group used \$5.8 million in investing activities, consisting primarily of net capital expenditures of \$3.5 million (net of proceeds from disposal of capital assets), or 3.9% of sales. There were minimal capital projects in 2001, including a plant overhaul in Fridley, Minnesota, upgrading work in Lubbock, Texas, and investments in product quality and information technology. Additions to other assets of \$2.2 million reflects the finalization of costs associated with certain recent acquisitions, finalization of the contingent consideration portion of the purchase price of a U.S. acquisition made in 1998, costs associated with amending the terms of the convertible debentures, and the completion of development of the in-store packaged ice machine.

During 2000 the Company used \$24.6 million in investing activities, consisting primarily of \$9.8 million for a number of small to mid-size acquisitions in the northern U.S. and Canada and \$9.8 million for capital expenditures including major plant overhauls in Marshall, Minnesota and Mississauga, Ontario and the implementation of the new hand-held computerized billing and routing system.

Risks and Uncertainties

Arctic is subject to certain risks inherent in the operation of its business, including significant risks such as the effect of weather and seasonality on operating results, competition, interest rates and currency exchange rates.

Risk and risk exposures to these and other risks are managed through a combination of insurance, system of internal controls and sound operating practices.

Weather and seasonality

Weather can have a significant effect on Arctic's operating results. Rain and cool weather can have an adverse effect on sales and earnings in any given market area, particularly if it occurs in the busy summer months.

The packaged ice industry is very seasonal. Arctic usually generates significant sales and profits in the second and third quarters, with lower sales and significant losses incurred in the first and fourth quarters.

Arctic believes that its diverse geographic area of operations, and its liquidity and access to cash resources minimizes the impact of these risks on financial performance.

Competition

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

Arctic is well equipped to deal with local competition through a strong relationship with customers, and in particular national chain accounts, size and efficiency of operation and a branded market leadership position. These factors, combined with a broad geographic base, significantly limit the ability of local competitors to have a significant effect on Arctic Group's financial results. In addition, Arctic Group's recapitalization as an income trust in the first quarter of 2002 provides it with the access to capital for future growth and expansion through acquisitions.

Interest rates

Arctic and its Subsidiaries have certain floating rate debt and may be negatively impacted by increases in interest rates, the effect of which would increase interest expense. To the contrary, if interest rates decline interest expense would be reduced.

At December 31, 2001, approximately \$61.3 million of long-term debt was subject to floating rates. Arctic had fixed the rates of interest on the balance of its long-term debt, including \$30.1 million of fixed rate subordinated debentures, \$22 million through an interest rate swap agreement, and the balance through fixed rate loans and mortgages. As a result, a one-percentage point increase in average interest rates would increase annual interest expense by approximately \$0.6 million. Subsequent to the end of the year, Arctic has repaid virtually all of its floating and fixed rate debt, and replaced it with a new floating rate facility. The current impact of a one-percentage point increase in average interest rates would increase annual interest expense to the Fund by approximately \$0.5 million based on approximately \$54 million of long-term debt outstanding subsequent to the reorganization into an income trust.

Arctic will continue to monitor interest rates and take the appropriate action necessary to manage exposure in this area.

Currency risk

A substantial portion of Arctic's revenues are now, and are expected to continue to be, realized in currencies other than Canadian dollars, primarily the United States dollar. Future growth is expected to be concentrated in the United States. Fluctuations in the exchange rate between the Canadian dollar and such other currencies may have a material adverse effect on financial results.

Arctic has hedged its debt service capability by establishing its debt on a multi-currency basis and funding U.S. acquisitions with debt denominated in U.S. dollars, thereby allowing it to service and repay this debt directly from its U.S. cash flows.

Outlook

Arctic is in a position to achieve continued organic growth in existing markets, in terms of both unit sales and pricing, as the company continues to expand and diversify its customer base, and as a result of increasing consumer awareness of the Arctic Glacier® Premium Ice brand, acceptance of packaged ice as a consumable food product, and the focus on health and safety qualities of the products they consume. Sales growth will also result as Arctic aggressively pursues opportunities to franchise suitable independent ice producers in selected markets. These factors, combined with continuing efforts to improve efficiencies in production, distribution and administration, are expected to result in increasing margins.

The reorganization of Arctic Group into an income trust in March of 2002 is a key step in unlocking the value of Arctic's significant cash flows, strengthening its financial position, and providing an enhanced platform for growth. The Fund's monthly distributions to unitholders in 2002 are expected to total approximately \$1.05 per unit on an annualized basis. With a new revolving credit facility and a leverage ratio of less than 2.5x annual EBITDA, the Fund is now able to borrow at lower rates of interest than previously possible, and is also able to level the monthly distributions to eliminate the impact of seasonal fluctuations on unitholders. The strengthened balance sheet and flexible capital structure provides a solid platform for making and integrating future acquisitions, which are expected to lead to higher distributions and, as a result, increase the value of unitholders' investments.

MARKET FOR SECURITIES

The Units of the Fund are listed and posted for trading on the TSX under the trading symbol AG.UN.

MANAGEMENT

Trustees of the Fund

The following table outlines the names and municipalities of residence of the current Trustees together with their principal occupations:

<u>Name and Municipality of Residence</u>	<u>Current Office</u>	<u>Principal Occupation</u>
Robert J. Nagy ⁽⁴⁾ St. Clements, Manitoba	Chairman, Chief Executive Officer and Trustee	Chief Executive Officer, Chairman of the Board and director of Arctic
James E. Clark ⁽¹⁾⁽²⁾⁽⁴⁾ Vancouver, BC	Vice-Chairman and Trustee	President and director of Jecco Properties Ltd.
Keith F. Burrows ⁽²⁾⁽³⁾⁽⁴⁾ Winnipeg, Manitoba	Trustee	President and CEO of Acetek Composites Inc.
Gary A. Filmon ⁽¹⁾⁽³⁾⁽⁴⁾ Winnipeg, Manitoba	Trustee	Vice-Chairman of Wellington West Capital Inc.
Peter S. Hyndman ⁽¹⁾⁽³⁾⁽⁴⁾ Vancouver, BC	Trustee	Associate Counsel at Fasken Martineau DuMoulin LLP, Barristers & Solicitors
David R. Swaine ⁽²⁾⁽⁴⁾ Toronto, Ontario	Trustee	Executive Vice President and Chief Operating Officer of RoyNat Inc.

- Notes:
- (1) Member of the Audit Committee.
 - (2) Member of the Compensation Committee.
 - (3) Member of the Corporate Governance Committee.
 - (4) Elected to serve until the 2003 annual meeting of unitholders.

Directors of Arctic

The following table outlines the names and municipalities of residence of the current Directors of Arctic together with their principal occupations:

<u>Name and Municipality of Residence</u>	<u>Current Office</u>	<u>Principal Occupation</u>
Robert J. Nagy St. Clements, Manitoba	Chairman, Chief Executive Officer and Director	Chief Executive Officer, Chairman of the Board and director of Arctic
James E. Clark Vancouver, BC	Vice-Chairman and Director	President and director of Jecco Properties Ltd.
Keith F. Burrows Winnipeg, Manitoba	Director	President and CEO of Acetek Composites Inc.
Gary A. Filmon Winnipeg, Manitoba	Director	Vice-Chair of Wellington West Capital Inc.
Peter S. Hyndman Vancouver, BC	Director	Associate Counsel at Fasken Martineau DuMoulin LLP, Barristers & Solicitors
Richard L. Johnson Lubbock, Texas	Director	Director of Arctic
David R. Swaine Toronto, Ontario	Director	Executive Vice President and Chief Operating Officer of RoyNat Inc.

Executive Officers of Arctic

The following table outlines the names and municipalities of residence of the executive officers of Arctic who are not directors:

<u>Name and Municipality of Residence</u>	<u>Current Office</u>	<u>Principal Occupation</u>
Keith W. McMahon Winnipeg, Manitoba	Chief Financial Officer	Chief Financial Officer of Arctic
Hugh A. Adams Winnipeg, Manitoba	Secretary	Partner, Tupper & Adams, Barristers and Solicitors

As of December 18, 2002, 2,101,044 units were beneficially owned or controlled directly or indirectly by the trustees, directors and officers of the Fund as a group, which represented approximately 13.42% of the issued and outstanding units of the Fund.

Biographies

Set out below are brief profiles of each of the Trustees of the Fund and the directors and executive officers of Arctic. Other than as set out below, each Trustee of the Fund and director and executive officer of Arctic has held the same or similar principal occupation with the organization indicated or a predecessor thereof for the last five years:

Robert J. Nagy, Chairman, Chief Executive Officer and Trustee. Mr. Nagy has been the Chief Executive Officer, Chairman of the Board and a Director of Arctic Group, now Arctic, since March 1, 1996. Mr. Nagy was President of Arctic Group from March 1, 1996 until October 2, 2000. Mr. Nagy resumed his position as President of Arctic in August 2002. Mr. Nagy is also president and director of various subsidiaries of Arctic.

James E. Clark, Vice-Chairman and Trustee. Mr. Clark has been a director of Arctic Group since August 23, 1996. Vice-Chairman of Arctic Group and now Arctic since June 22, 1998. Mr. Clark was also the Vice-President, Finance and Acquisitions and Chief Financial Officer of Arctic Group from August 23, 1996 to June 22, 1998. Mr. Clark is the President and director of Jecco Properties Ltd. (a real estate development and investment company) since 1991, and is also President and director and sole shareholder of Moray Channel Enterprises Ltd. (a marina development and management company) since 1991.

Keith F. Burrows, Trustee. Mr. Burrows has been a Director of Arctic Group and now Arctic since August 23, 1996. Mr. Burrows is President and Chief Executive Officer of Acetek Composites Inc. since November 2001 and is also the Chairman of eZedia Inc., a digital media software company. Mr. Burrows was the President of Bristol Aerospace Limited from June of 1992 until July of 1997. Mr. Burrows also previously served as a Director of Rolls-Royce Industries Canada Inc., and as a member of the International Trade Advisory Committee (ITAC).

Gary A. Filmon, Trustee. Mr. Filmon is Vice-Chairman of Wellington West Capital Inc. since June 2001. Mr. Filmon is a corporate director and business consultant since May 2000. Mr. Filmon was Premier of the Province of Manitoba from 1988 to 1999.

Peter S. Hyndman, Trustee. Mr. Hyndman has been a Director of Arctic Group and now Arctic since August 23, 1996. Mr. Hyndman is Associate Counsel at Faskin, Martineau, DuMoulin LLP, Barristers & Solicitors, Vancouver, British Columbia since October 1997. Mr. Hyndman was the Corporate Secretary of The Loewen Group Inc. from January 1990 to March 1998 and was a Director of the Loewen Group Inc. from June 1986 to March 1998. Mr. Hyndman was an elected member of the British Columbia Legislature from 1979 to 1983 and served as a Minister of Consumer and Corporate Affairs during two years of that term. He is a Governor of the Business Council of British Columbia and a Trustee of Pacific Salmon Foundation and the Steelhead Habitat Restoration Corporation.

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

David R. Swaine, Trustee. Mr. Swain is a Director of Arctic Group and now Arctic since December 29, 1999. Mr. Swain is also Executive Vice President and Chief Operating Officer of RoyNat Inc. since July, 1994.

Keith W. McMahon, Chief Financial Officer. Mr. McMahon is the Chief Financial Officer of Arctic Group and now Arctic since April 17, 2001. Prior thereto, Mr. McMahon held various positions with the Canadian Wheat Board including Corporate Controller since 1996 and Vice-President, Accounting since 1999.

Hugh A. Adams, Secretary. Mr. Adams has been the Secretary of Arctic Group and now Arctic from August 23, 1996. Mr. Adams is also a Partner, Tupper & Adams, Barristers and Solicitors, 1982 to present. Mr. Adams is a Past Chairman, National Constitution Committee and Past Chairman, National Legislation and Law Reform Committee (Canadian Bar Association).

Conflict of Interest Restrictions and Provisions

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

RISK FACTORS

An investment in the Units involves a number of risks. In addition to the other information contained in this Initial Annual Information Form, Unitholders should give careful consideration to the following factors:

Risks Relating to the Fund

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

Redemption Right

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

Cash Distributions are Not Guaranteed and will Fluctuate with Arctic’s Performance

Although the Fund intends to distribute the interest and dividend income earned by the Fund and any returns of capital on the Common Shares, less expenses and amounts, if any, paid by the Fund in connection with the

redemption of Units, there can be no assurance regarding the amounts of income to be generated by Arctic and therefore funds available to the Fund. The actual amount distributed in respect of the Units will depend upon numerous factors, including profitability, fluctuations in working capital, the sustainability of margins and capital expenditures.

Dependence Upon Arctic

The Fund is an unincorporated open-ended, mutual fund trust which will be entirely dependent upon the operations and assets of Arctic through the Fund's ownership of the Subordinated Notes and Common Shares of Arctic. Accordingly, the Fund's ability to make cash distributions to the Unitholders will be dependent upon the ability of Arctic to pay its interest obligations under the Subordinated Notes and to declare any dividends or other return of capital in respect of the Common Shares which ability is, in turn, dependent upon the operations and assets of Arctic and its direct and indirect subsidiaries.

Income Tax Matters

The Fund will endeavour to ensure that the Units continue to be qualified investments for registered retirement savings plans, deferred profit sharing plans, registered education savings plans and registered retirement income funds. If the Fund ceases to qualify as a "mutual fund trust" under the Tax Act, the income tax considerations described above under the heading "Certain Canadian Federal Income Tax Considerations" would be materially and adversely different in certain respects. In particular, the Units will cease to be qualified investments for registered retirement savings plans, deferred profit sharing plans, registered education savings plans and registered retirement income funds. The Tax Act imposes penalties for the acquisition or holding of non-qualified investments and there is no assurance that the conditions prescribed for such qualified investments will be adhered to at any particular time. There can be no assurance that Canadian federal income tax laws respecting the treatment of mutual fund trusts will not be changed in a manner which adversely affects the holders of the Units. See "Certain Canadian Federal Income Tax Considerations".

Further, interest on the Subordinated Notes accrues at the Fund level for income tax purposes whether or not actually paid. The Declaration of Trust provides that an amount equal to the taxable income of the Fund will be distributed each year to Unitholders in order to eliminate the Fund's taxable income. Where interest on the Subordinated Notes has accrued but has not been paid in whole or in part and the Fund is unable to make a cash distribution, the Declaration of Trust provides that additional Units must be distributed to Unitholders in lieu of cash distributions. Unitholders will generally be required to include an amount equal to the fair market value of those Units in their taxable income, in circumstances when they do not directly receive a cash distribution.

Nature of Units

Securities such as the Units are hybrids in that they share certain attributes common to both equity securities and debt instruments. The Units will not represent a direct investment in Arctic's business and should not be viewed by investors as shares in Arctic. As holders of Units, Unitholders will not have the statutory rights normally associated with ownership of shares of a company including, for example, the right to bring "oppression" or "derivative" actions. The Units represent a fractional interest in the Fund. The Fund's primary assets will be the Subordinated Notes and the Common Shares. **The Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporations Act (Canada)* and are not insured under the provisions of that Act or any other legislation. Furthermore, the Fund is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.**

Distribution of Securities on Redemption or Termination of the Fund

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

Unitholder Limited Liability

The Declaration of Trust provides that no Unitholder will be subject to any liability in connection with the Fund or its assets or obligations and that in the event that a court determines that Unitholders are subject to any such liabilities, the liabilities will be enforceable only against, and will be satisfied only out of, the Unitholder's share of the Fund's assets. The Declaration of Trust further provides that the Trustees and the Fund shall make all reasonable efforts to include as a specific term of any obligations or liabilities being incurred by the Fund, or the Trustees on behalf of the Fund, a contractual provision to the effect that neither the Unitholders nor the Trustees have any personal liability or obligations in respect thereof.

The operations of the Fund will be conducted, upon the advice of counsel, in such a way and in such jurisdictions as to avoid, as far as possible, any material risk of liability on the Unitholders for claims against the Fund. Despite the foregoing, there are risks that ownership of Units could expand beyond Fund assets and that liability could attach to Unitholders.

Leverage and Restrictive Covenants

Arctic and other restricted parties under the New Credit Facility will have significant debt service obligations under the New Credit Facility. See "Principal Agreements". The degree to which Arctic is leveraged could have important consequences to the holders of the Units, including:

- ! Arctic's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited;
- ! a substantial portion of Arctic's cash flow from operations will be dedicated to servicing its indebtedness, thereby reducing funds available for future operations;
- ! certain of Arctic's borrowings will be at variable rates of interest, which will expose Arctic Glacier to future fluctuations of interest rates; and
- ! Arctic may be more vulnerable to economic downturns and may be limited in its ability to withstand competitive pressure.

Arctic's ability to make scheduled payments of the principal of or interest on, or to refinance, its indebtedness will depend on its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

The New Credit Facility contains restrictive covenants that limit the discretion of Arctic's management with respect to certain business matters. These covenants may place significant restrictions on, among other things, the ability of Arctic and other restricted parties under the New Credit Facility to incur additional indebtedness, to

create liens or other encumbrances, to pay dividends, redeem any equity or debt, or make certain other payments, investments, capital expenditures, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the New Credit Facility contains a number of financial covenants that require Arctic and other restricted parties under the New Credit Facility to meet certain financial ratios and financial condition tests. A failure to comply with the obligations in the New Credit Facility could result in an event of default which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the indebtedness under the New Credit Facility were to be accelerated, there can be no assurance that the assets of Arctic and the other restricted parties under the New Credit Facility would be sufficient to repay that indebtedness in full.

Capital Investment

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

The Fund May Issue Additional Units Diluting Existing Unitholders' Interests

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

Restrictions on Potential Growth

The payout by Arctic of substantially all of its operating cash flow will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of those funds could limit the future growth of Arctic and its cash flow.

Risks Relating to Arctic

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

Fluctuations in Operating Results and Seasonality

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

Competition

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

Interest Rates

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

Currency Risk

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

Risk of Product Liability

Arctic is subject to the inherent business risk of product liability claims and adverse publicity if any of its products are alleged to have resulted in adverse effects to a user of such products. Arctic currently carries product liability insurance that management believes is adequate under Arctic's current circumstances, although there can be no assurance that such circumstances will not change and that such insurance will remain available at reasonable costs, if at all. In the event of an inadequately insured product liability claim, Arctic's business and financial condition could be materially adversely affected.

Dependence on Key Personnel

The success of Arctic is dependent on the services of a number of members of its senior management. The experience and talents of these individuals will be a significant factor in Arctic's continued success and growth. The loss of one or more of these individuals could have a material adverse effect on Arctic's operations and business prospects.

Potential Undisclosed Liabilities Associated with Acquisitions

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

Acquisitions/Need for Future Financing

Arctic intends to grow primarily through acquisitions. There can be no assurance that Arctic will find suitable companies for acquisition or that Arctic will have sufficient capital resources available to implement its acquisition strategy. While management has set out an acquisitions strategy, there is no assurance that it will continue to be successful and that Arctic will continue to identify suitable acquisitions. The payout by Arctic of substantially all of its operating cash flow will make additional capital expenditures and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of these funds could limit the future growth of Arctic and its cash flow.

Expansion into the United States

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

Integration of Acquisitions

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

Effects of Price Changes in Raw Materials

Arctic uses large quantities of water and energy in the manufacture and storage of its packaged ice products. Arctic also uses large quantities of plastic bags. If the prices of such resources should increase from recent levels, Arctic could experience sudden and significant increases in the cost of plastic bags, fuel, or utilities such as water and electricity. Arctic may be unable to pass these increases along to its customers. Historically, market prices for plastic bags have fluctuated in response to a number of factors, including changes in polyethylene prices. Arctic historically has not attempted to pass through changes in the price of plastic bags, therefore, a large, abrupt change in the price of plastic bags, water, electricity, fuel or other commodity prices could have a material adverse effect on Arctic's business, results of operations and debt service capabilities.

Compliance with Government Regulations

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

Management and Operation of Arctic

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

Debt Refinancing

Arctic is subject to the risks associated with debt financing including the risk that the indebtedness of Arctic and its Subsidiaries under the New Credit Facility may not be able to be refinanced at the maturity of the New Credit Facility or that the terms of such refinancing may not be as favourable as the terms of the New Credit Facility.

Environmental Risk

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

Impact of Seasonality on Labour and Distribution

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

Short Operating History

While Arctic's Subsidiaries have been in operation for a substantial period of time, Arctic itself has had only a relatively short operating history. Arctic has not commissioned any independent market studies on the packaged ice distribution market nor has it received any third party assessment of its marketing strategies. Investors will have to rely on the expertise, ability, judgement, discretion, integrity and good faith of the management in carrying on the business of Arctic. There are many competitors to Arctic in the manufacture and distribution of packaged ice products in all markets in which Arctic sells such products. To remain competitive Arctic will be required to at least maintain its current market share for its products and to further develop additional markets for its products.

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

ADDITIONAL INFORMATION

Additional information, including trustees', directors' and officers' remuneration and indebtedness, principal holders of the Fund's securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Fund's Prospectus in respect of its Offering and in the consolidated financial statements for Arctic Group's most recently completed financial year.

The Fund will provide to any person or company, upon request to the Corporate Secretary of the Fund:

1. When the securities of the Fund are in the course of a distribution pursuant to a short form prospectus or when a preliminary short form prospectus has been filed in respect of a distribution of the Fund's securities:
 - (a) one copy of the annual information form of the Fund together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the annual information form;
 - (b) one copy of the Fund's comparative consolidated financial statements for the most recently completed financial year, together with the report of the auditors thereon, and one copy of any

- of the Fund's interim financial statements subsequent to such audited financial statements;
- (c) one copy of the Fund's information circular in respect of the most recent annual meeting of Unitholders of the Fund that involved the election of Trustees; and
 - (d) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or short form prospectus.
2. At any other time, one copy of each of the documents referred to in 1(a), (b) or (c) provided that the Fund may require the payment of a reasonable charge if the inquiry is made by a person who is not a Unitholder of the Fund.

Any request for any documents referred to above should be made to the Corporate Secretary of the Fund, 625 Henry Avenue, Winnipeg, Manitoba, R3A 0V1 and facsimile 204-783-9857.