

REPORT TO SHAREHOLDERS

We are pleased to provide interim financial statements for the three months ended July 31, 1997.

During this first quarter of the company's 1998 fiscal year we have aggressively pursued the identification of suitable acquisition candidates. During this first quarter the company has signed Letters of Intent with two companies; Crystal Ice of Regina, Saskatchewan and Host Ice, a Texas based ice production and distribution company with centres in five cities in Texas and New Mexico.

It is the company's intention to strategically expand and add geographic diversity to its operations as the company proceeds with its acquisition strategy. Upon closure of the two current acquisitions in process, the existing sales revenue and the acquired sales revenue will accrete to annualized sales revenue of approximately \$15,000,000. The company continues to have discussions with other interested acquisition candidates and anticipates further expansion of our sales revenue base.

Net earnings for the three months ended July 31, 1997 amounted to \$553,287 resulting in earnings per share of \$0.044 (1996 - \$574,620, earnings per share \$0.062). Per share amounts are based on a weighted average number of common shares issued and outstanding during the year. The weighted average number of common shares outstanding for the periods ended July 31, 1997 and July 31, 1996 was 12,666,667 and 9,335,707 respectively.

Earnings before income taxes increased by \$80,367 to \$847,987 for the three months ended July 31, 1997 compared to \$767,620 for the comparative period ending July 31, 1996.

Operating cash flow amounted to \$719,383 resulting in operating cash flow per share of \$ 0.057 (1996 - \$763,596, operating cash flow per share \$0.082). Again, these per share figures are based on a weighted average number of common shares issued and outstanding during the year.

Looking ahead, we believe that our rate of profitable growth will accelerate. As the company grows its revenue base the operational costs of operating an aggressive acquisition focused company will be absorbed over the larger revenue base. Over the longer term our outlook for growth is very positive; which will have positive impact on our earnings per share as well as our cash flow per share. We are dedicated to making The Arctic Group Inc. stock a superior investment over time.

THE ARCTIC GROUP INC.

Interim Consolidated Balance Sheet

July 31, 1997 and 1996

	1997	1996
	(Unaudited)	(Unaudited)
Assets		
Current assets:		
Cash and term deposits	\$ 930,031	\$ 107,696
Cash held in trust	66,228	-
Accounts receivable	932,108	811,597
Inventories	223,442	288,327
Prepaid expenses and deferred charges	83,979	163,584
	<u>2,235,788</u>	<u>1,371,204</u>
Receivable from affiliated companies	10,859	-
Capital assets:		
Land, building and equipment	7,505,237	7,234,897
Accumulated amortization	4,174,438	3,737,905
	<u>3,330,799</u>	<u>3,496,992</u>
Other assets	146,126	153,827
	<u>\$ 5,723,572</u>	<u>\$ 5,022,023</u>

	1997	1996
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness	\$ —	\$ 120,859
Accounts payable and accrued liabilities	629,048	515,343
Payable to affiliated companies	—	41,273
Dividends payable	25,359	300,853
Income taxes payable	294,244	192,468
Current obligations under capital leases	71,057	55,166
Principal due within one year on notes payable	5,000	18,000
Principal due within one year on long-term debt	230,500	161,750
	<u>1,255,208</u>	<u>1,405,712</u>
Obligations under capital leases	161,400	259,090
Payable to shareholders	—	44,055
Notes payable	2,545	10,545
Long-term debt	1,333,100	1,772,596
Deferred income taxes	2,155	168,835
Preferred shares of subsidiaries	92,780	420,490
Shareholders' equity:		
Capital stock	3,033,941	1,350,737
Deficit	(157,557)	(410,037)
	<u>2,876,384</u>	<u>940,700</u>
	<u>\$ 5,723,572</u>	<u>\$ 5,022,023</u>

THE ARCTIC GROUP INC.

Interim Consolidated Statement of Earnings and Deficit

Three months ended July 31, 1997 and 1996

	1997 (Unaudited)	1996 (Unaudited)
Sales	\$ 2,617,376	\$ 2,378,915
Cost of sales	1,282,325	1,168,772
	1,335,051	1,210,143
Selling, general and administrative expenses	343,559	268,777
Earnings before the undernoted	991,492	941,366
Amortization expense	115,096	111,976
Interest expense	32,718	45,424
Other (income) expense	(4,309)	16,346
	143,505	173,746
Earnings before income taxes	847,987	767,620
Income tax expense (recovery):		
Current	296,700	215,000
Benefit realized on application of prior years' losses	(53,000)	(99,000)
Deferred	51,000	77,000
	294,700	193,000
Net earnings	553,287	574,620
Deficit, beginning of period	(710,844)	(565,382)
Deficit on acquisition of Alberta Ice Co. Ltd.	—	(419,275)
Deficit, end of period	\$ (157,557)	\$ (410,037)
Earnings per share for the three month period	\$.044	\$.062

THE ARCTIC GROUP INC.

Interim Consolidated Statement of Changes in Financial Position

Three months ended July 31, 1997 and 1996

	1997 (Unaudited)	1996 (Unaudited)
Cash provided by (used in):		
Operations:		
Net earnings	\$ 553,287	\$ 574,620
Items not involving cash:		
Amortization on capital assets	106,504	106,060
Amortization on other assets	8,592	5,916
Deferred income taxes	51,000	77,000
Operating cash flow	719,383	763,596
Change in non-cash operating working capital	(257,203)	(536,811)
	462,180	226,785
Financing:		
Change in the following:		
Affiliated companies accounts	(130,660)	(231,887)
Obligations under capital leases	(18,865)	156,913
Dividends payable	—	(55,300)
Notes payable to shareholders	—	(317,777)
Notes payable	(3,000)	(12,000)
Long-term debt	(93,493)	9,250
Issuance of commons shares	—	664,293
Redemption of preferred shares of subsidiaries	(38,710)	(243,950)
	(284,728)	(30,458)
Investments:		
Additions to capital and other assets	(129,728)	(331,504)
Proceeds from sale of capital assets	—	14,500
Acquisition of Alberta Ice Co. Ltd., net of \$46,905 cash acquired	—	46,905
	(129,728)	(270,099)
Increase (decrease) in cash	47,724	(73,772)
Cash and term deposits, beginning of period	882,307	60,609
Cash and term deposits (bank indebtedness), end of period	\$ 930,031	\$ (13,163)
Operating cash flow per share for the three month period	\$.057	\$.082