

**THE ARCTIC GROUP INC.****Interim Consolidated Statement of Earnings and Retained Earnings**

Three months ended July 31, 1998 and 1997

	31-July-98 (Unaudited)	31-July-97 (Unaudited)
Sales	\$ 19,863,000	\$ 2,617,000
Cost of sales, selling, general and administration expenses	12,767,000 7,096,000	1,626,000 991,000
Amortization expense	788,000	115,000
Interest expense	257,000	33,000
Other (income) expense	-	(4,000)
	1,045,000	144,000
Earnings before income taxes	6,051,000	847,000
Current tax provision	(1,252,000)	(297,000)
Deferred tax provision	(1,200,000)	2,000
	(2,452,000)	(295,000)
Net earnings	3,599,000	552,000
Deficit beginning of period	(1,910,000)	(711,000)
Retained Earnings (Deficit) end of period	1,689,000	(159,000)
Weighted Average Number of Common Shares	20,860,042	12,666,667
Earnings per share for the three month period		
Basic	0.173	0.044
Fully Diluted	0.091	0.038

**THE ARCTIC GROUP INC.****Interim Consolidated Statement of Changes in Financial Position**

Three months ended July 31, 1998 and 1997

	31-July-98 (Unaudited)	31-July-97 (Unaudited)
<b>Cash provided by (used in):</b>		
<b>Operations</b>		
Net earnings	\$ 3,599,000	\$ 553,000
Amortization on capital assets	587,000	106,000
Amortization on other assets	201,000	9,000
Deferred income taxes	1,200,000	51,000
	5,587,000	719,000
Changes in non-cash working capital	(2,024,000)	(387,000)
	3,563,000	332,000
<b>Financing</b>		
Change in the following		
Obligations under capital leases	-	(19,000)
Notes payable	-	(3,000)
Long term debt	13,244,000	(93,000)
Issuance of common shares	6,174,000	-
Issuance of warrants	21,492,000	-
Redemption of preferred shares	-	(39,000)
	40,910,000	(154,000)
<b>Investments</b>		
Additions to capital assets	(1,164,000)	(130,000)
Additions to other assets	(469,000)	-
Acquisition of subsidiaries	(43,007,000)	-
	(44,640,000)	(130,000)
Increase (decrease) in cash	(167,000)	48,000
Cash and term deposits, beginning of period	\$ 4,118,000	\$ 882,000
Cash and term deposits, end of period	\$ 3,951,000	\$ 930,000



The Arctic Group Inc.

QUARTERLY REPORT  
July 31, 1998

## CHAIRMAN'S REPORT TO SHAREHOLDERS – First Quarter Fiscal Year 1999

During this first quarter of the 1999 fiscal year, we have seen the impact of the company's strategy for growth and profitability.

Revenue for the quarter was \$19.9 million, an increase of \$17.2 million over the prior year.

Net earnings of \$3.6 million, or \$0.17 per share increased by \$3.0 million compared to the \$553,000 (\$0.04 per share) reported last year.

Significantly, operating cash flow for the quarter reached \$5.6 million or \$0.27 per share, a 470% increase over last year.

The enhanced performance this year reflects the inclusion of a number of key acquisitions which have solidified the company's presence in Canada and moved the business into key target markets in the United States. The companies recently acquired by the Arctic Group include businesses in the Quebec, Ontario, Alberta and Iowa markets. This year, consistent with historic trends, the company's first quarter reflects the higher level of activity associated with the summer season.

In addition to the significant improvements in revenue and profitability, the company was able to strengthen the balance sheet through the expansion of its capital base. This was accomplished in May with a special warrants offering of \$21.0 million and a term debt issue of \$30.0 million. The term debt is allocated to the acquisition program, though at present, it is not fully drawn. The business units are also supported with a substantial operating line of credit, which is currently unutilized.

The company intends to continue to move forward with its aggressive expansion program in the United States. Concurrently, performance within acquired businesses is expected to improve as operating synergies materialize. We will continue to manage and fund this expansion responsibly, providing steady returns over the long term.



Robert J. Nagy  
Chairman & CEO

## THE ARCTIC GROUP INC.

### Interim Consolidated Balance Sheet

July 31, 1998 and 1997

	31-July-98 (Unaudited)	31-July-97 (Unaudited)
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and term deposits	\$ 4,808,000	\$ 996,000
Accounts receivable	7,368,000	944,000
Inventories	1,493,000	223,000
Prepaid expenses and deferred charges	592,000	84,000
	<u>14,261,000</u>	<u>2,247,000</u>
<b>Capital assets:</b>		
Land, building and equipment	47,508,000	7,505,000
Accumulated depreciation	(5,713,000)	(4,174,000)
	<u>41,795,000</u>	<u>3,331,000</u>
Goodwill-net	33,681,000	-
Deferred income taxes	358,000	(2,000)
Other assets	1,495,000	146,000
	<u>\$ 91,590,000</u>	<u>\$ 5,722,000</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Bank indebtedness	\$ 857,000	\$ -
Accounts payable and accrued liabilities	6,992,000	630,000
Income taxes payable	1,311,000	294,000
Dividends payable	-	25,000
Principal payments due within one year	862,000	307,000
	<u>10,022,000</u>	<u>1,256,000</u>
Obligations under Capital Lease	629,000	-
Long term debt	28,921,000	1,497,000
Preferred shares of a subsidiary	-	93,000
Shareholders' equity	-	-
Capital stock	17,232,000	3,034,000
Warrants	26,952,000	-
Interest on equity portion of convertible debt	(67,000)	-
Equity portion of convertible debt	5,121,000	-
Retained Earnings	1,689,000	(158,000)
	<u>50,927,000</u>	<u>2,876,000</u>
Cumulative translation adjustment	1,091,000	-
	<u>\$ 91,590,000</u>	<u>\$ 5,722,000</u>