

**INTERIM CONSOLIDATED STATEMENT  
OF OPERATIONS AND DEFICIT**

Three months ended March 31, 1999 and April 30, 1998

(unaudited)

(in \$ thousands)

|   | March 31<br>1999 | April 30<br>1998 |
|---|------------------|------------------|
| Sales   | \$ 7,673         | \$ 2,927         |
| Cost of sales, selling, general<br>and administrative expenses  | 9,021            | 3,845            |
| Earnings (loss) before the<br>undermoted  | (1,348)          | (918)            |
| Amortization  | 1,637            | 660              |
| Interest expense  | 1,577            | 372              |
| Non-recurring expenses  | 67               | -                |
| Earnings (loss) before<br>income taxes  | (4,629)          | (1,950)          |
| Deferred income tax recovery  | 1,759            | 671              |
| Net earnings  | (2,870)          | (1,279)          |
| Deficit, beginning of period  | (225)            | (463)            |
| Interest on equity portion of<br>convertible debentures<br>(net of applicable deferred<br>income taxes of \$45,774) | (64)             | -                |
| Other items   | -                | (168)            |
| Deficit, end of period  | \$ (3,159)       | \$ (1,910)       |
| Weighted Average Number of<br>Common Shares   | 35,218,315       | 18,368,262       |
| Loss per common share<br>Basic & Fully diluted  | \$ (0.081)       | \$ (0.070)       |

**INTERIM CONSOLIDATED CASH FLOW  
STATEMENT**

Three months ended March 31, 1999 and April 30, 1998

(unaudited)

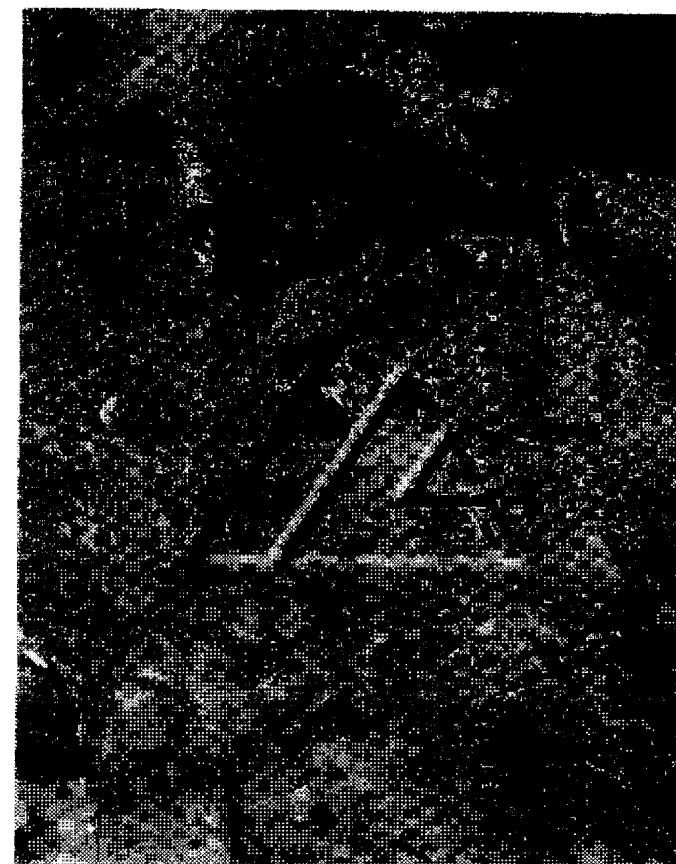
(in \$ thousands)

|   | March 31<br>1999 | April 30<br>1998 |
|---|------------------|------------------|
| <b>Cash flows from operating activities</b>               |                  |                  |
| Net earnings (loss)                                       | \$ (2,870)       | \$ (1,279)       |
| Items not involving cash                                  |                  |                  |
| Amortization on capital assets                            | 1,244            | 544              |
| Amortization on goodwill<br>and other assets              | 393              | 116              |
| Deferred income tax recovery                              | (1,759)          | (512)            |
| Funds from operations                                     | (2,992)          | (1,131)          |
| Changes in non-cash<br>working capital                    | (981)            | 823              |
|   | (3,973)          | (308)            |
| <b>Cash flows from investing activities</b>               |                  |                  |
| Additions to capital assets                               | (1,818)          | (2,163)          |
| Acquisition of subsidiaries                               | (14,100)         | (6,818)          |
| Other   | -                | (248)            |
|   | (15,918)         | (9,229)          |
| <b>Cash flows from financing activities</b>               |                  |                  |
| Payable to vendors  | (819)            | -                |
| Proceeds from long-term debt                              | 14,490           | 208              |
| Increase in bank indebtedness                             | 435              | -                |
| Principal payments on<br>long-term debt                   | (391)            | (3,063)          |
| Equity portion of convertible<br>debentures               | (25)             | 5,708            |
| Interest on equity portion of<br>convertible debentures   | (109)            | (151)            |
| Issuance of common shares                                 | 1,930            | 6,845            |
| Principal payments under capital<br>lease obligations     | (61)             | (89)             |
| Capital leases  | -                | 374              |
| Notes to affiliates                                       | -                | 194              |
|   | 15,450           | 10,026           |
| Foreign exchange loss on cash<br>held in foreign currency | (15)             | -                |
| Increase (decrease) in cash                               | (4,441)          | 489              |
| Cash, beginning of period                                 | 4,438            | 3,628            |
| Cash or bank indebtedness,<br>end of period               | (18)             | 4,117            |
| Cash flows used in operations,<br>per common share        |                  |                  |
| Basic & Fully diluted                                     | \$ (0.085)       | \$ (0.062)       |



The Arctic Group Inc.

**FIRST QUARTER REPORT  
TO SHAREHOLDERS**

 For the three months ended  
March 31, 1999


## CHAIRMAN'S REPORT TO SHAREHOLDERS

The first three months of 1999 signify the change in the Company's reporting cycle to coincide with the calendar year. The results of operations for this period include the benefit of a significant number of acquisitions concluded over the past year. The operations have performed strongly over the quarter, delivering results well ahead of the business plan.

Revenues increased 260% to \$7.7 million for the first quarter 1999, up from \$2.9 million during 1998.

From an operating perspective, the first quarter is the season with relatively light demand for our products, and historically, the Company reports negative EBITDA during these months. In 1999, the EBITDA was negative \$1.3 million or (\$0.038) per share, versus negative \$918,000 or (\$0.050) per share for the related period in the prior year. This reflects the increase in the number of operating units now under the Arctic banner, along with the associated fixed costs necessary to support the public corporation.

We are particularly pleased with the market penetration in many of our key cities. The investments in consolidating fragmented markets in major metropolitan areas have shown excellent performance over the quarter. As well, in March, the Company

concluded a transaction to acquire Valley Ice of Omaha, Nebraska. This acquisition of another significant regional producer along the Mississippi Valley provides an excellent fit with our existing markets.

As demonstrated last year, Arctic will continue to maintain its growth profile while delivering profitable results for the shareholders. With the recent transactions, the majority of the Company's revenue stream is derived from U.S. operations and this component is expected to increase. We believe the ongoing strategy to add quality properties contiguous to our markets will enable the Arctic Group to continue to expand and maximize value from these investments.

We look forward to the balance of the year with optimism, as we are well positioned to serve our customers, and will be launching new market and product initiatives over the coming months.



**Robert J. Nagy**

*Chairman of the Board and  
Chief Executive Officer*

## INTERIM CONSOLIDATED BALANCE SHEET

Three months ended March 31, 1999 and April 30, 1998  
(unaudited)  
(in \$ thousands)

|   | March 31<br>1999  | April 30<br>1998 |
|---|-------------------|------------------|
| <b>ASSETS</b>                               |                   |                  |
| Current assets:                             |                   |                  |
| Cash  | \$ -              | \$ 4,177         |
| Cash held in trust                          | 436               | -                |
| Accounts receivable                         | 4,978             | 1,508            |
| Inventories                                 | 2,146             | 923              |
| Prepaid expenses and<br>deferred charges    | 746               | 434              |
|   | <u>8,306</u>      | <u>7,042</u>     |
| Capital assets:                             |                   |                  |
| Land, buildings and equipment               | 74,791            | 18,464           |
| Accumulated depreciation                    | (8,560)           | (5,066)          |
|   | <u>66,231</u>     | <u>13,398</u>    |
| Goodwill - net                              | 64,568            | 14,721           |
| Deferred income taxes                       | -                 | 996              |
| Other assets                                | 2,752             | -                |
|   | <u>\$ 141,857</u> | <u>\$ 36,157</u> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                   |                  |
| Current liabilities:                        |                   |                  |
| Bank indebtedness                           | \$ 454            | \$ 60            |
| Accounts payable and accrued<br>liabilities | 8,754             | 2,361            |
| Income taxes payable                        | 170               | -                |
| Payable to vendors                          | 1,600             | -                |
| Principal due within one year               | 1,302             | 458              |
|   | <u>12,280</u>     | <u>2,879</u>     |
| Obligations under capital leases            | 541               | 370              |
| Long term debt                              | 74,514            | 14,177           |
| Deferred income taxes                       | 4,797             | -                |
| Shareholders' equity                        |                   |                  |
| Capital stock                               | 46,219            | 14,832           |
| Equity portion of<br>convertible debt       | 5,172             | 5,708            |
| Deficit                                     | (3,159)           | (1,910)          |
| Cumulative translation<br>adjustment        | 1,493             | 101              |
|   | <u>49,725</u>     | <u>18,731</u>    |
|   | <u>\$ 141,857</u> | <u>\$ 36,157</u> |