

The Arctic Group Inc.

3rd Quarter Report

For the period ending September 30, 2000

Chairman's Report To Shareholders

The third quarter of the year is the financial driver for The Arctic Group . The third quarter includes the summer months when demands for the Company's products are at their peak. The third quarter of fiscal 2000 was the strongest in the history of The Arctic Group. Sales, EBITDA, EBITDA margin and earnings before taxes all reached record levels during the third quarter.

Revenues during the third quarter were \$37.1 million, an increase of 6% over the same period revenues of \$34.9 million last year. EBITDA (earnings before interest, taxes, depreciation, amortization and non-recurring expenses) for the quarter increased by 17.4% to \$15.8 million compared to \$13.5 million last year. EBITDA margins for the quarter rose to 42.7% from 38.7%; a 10.3% increase over the same period last year. For the nine months ended September 30 revenues increased 8.5% to \$70.5 million compared to \$64.9 million in the previous year. EBITDA for the first nine months was \$22.5 million compared to \$19.4 million in 1999, an increase of 16.1%. EBITDA margins for the first nine months grew from 29.9% in 1999 to 32.0% in 2000, an increase of 7%. Net income for the third quarter was \$5.0 million compared to \$4.6 million for the same period last year.

This record performance was in spite of unseasonably cool temperatures in a number of key markets. Our ability to increase margins in spite of lighter than expected demand verifies the effectiveness of our strategy of rationalizing operations and targeting operational synergies. Additionally, the benefit of being geographically diverse is clearly evident. The broad range of operations across Canada and throughout the United States Mid West helps protect overall Company revenues from regional weather impact.

During the third quarter we continued to advance our branding and licensing initiatives. Arctic Glacier Premium Ice has been introduced in all major markets Company wide. Our marketing department has developed a range of marketing programs to enhance the sales of our branded product. In September, we announced our second licensing agreement with a major U.S. ice producer; one of the largest independent manufacturers and distributors of packaged ice in the United States, servicing markets in the U.S. mid west. Under our licensing program Arctic will license qualified ice manufacturers that meet our quality standards to package their ice products under our brand name, Arctic Glacier Premium Ice. Arctic plans to continue to aggressively pursue additional licensing opportunities during the rest of the current year as well as during the upcoming year.

Another tenant of our business plan announced earlier this year is Arctic's in-store ice production system. The Arctic Group has developed an automated in-store ice production and packaging machine, which filters the water, produces the ice, packages and merchandises the product at the point of sale. Placements of this in-store machine are scheduled to begin during the fourth quarter of this year. The Company is currently in on-going discussions with interested parties for licensing opportunities outside the Company's traditional markets.

As the Company approaches the end of another year, we are pleased with the progress we have made toward our goal of becoming an internationally recognized ice company and a leader in the industry. We are committed to creating sustainable value for our shareholders.

Robert J. Nagy
Chairman of the Board
and Chief Executive Officer

THE ARCTIC GROUP INC
Interim Consolidated Statement of Cash Flows

(unaudited)

(in thousands, except per share data)

Nine months ended September 30, 2000 and 1999

	September 30 2000	September 30 1999 (restated)
Operating activities:		
Net earnings	\$ 2,824	\$ 3,248
Adjustments for:		
Amortization of capital assets	5,185	4,324
Amortization of deferred financing costs	1,133	1,102
Goodwill charges	1,228	1,066
Accretion of convertible debenture principal	493	0
Loss on disposal of capital assets	234	0
Future income taxes	2,940	2,950
Funds from operations	14,037	12,690
Change in the following:		
Cash held in trust	530	(547)
Accounts receivable	(7,379)	(6,636)
Inventories	(862)	(148)
Prepaid expenses and deferred charges	(772)	(180)
Accounts payable and accrued liabilities	1,582	947
Cash flow from operating activities	7,136	6,126
Investing activities:		
Additions to capital assets	(9,705)	(8,876)
Additions to goodwill and other assets	(5,262)	(4,510)
Acquisition of subsidiaries and operating assets, net of cash acquired of \$nil (1999 - \$75)	(9,568)	(34,228)
Proceeds on disposal of capital assets	709	0
Cash flow used in investing activities	(23,826)	(47,614)
Financing activities:		
Change in payable to vendors	(808)	0
Proceeds from long-term debt	19,029	133,478
Proceeds from obligations under capital leases	95	0
Principal payments on long-term debt	(3,820)	(91,522)
Equity portion of convertible debentures	0	2,581
Interest on equity portion of convertible debentures	(344)	(357)
Issuance of common shares	1	2,031
Principal payments under capital lease obligations	(245)	(155)
Cash flow from financing activities	13,908	46,056
Foreign exchange gain on cash held in foreign currency	53	56
(Decrease) increase in cash and cash equivalents	(2,729)	4,624
Cash and cash equivalents, beginning of period	4,882	4,438
Cash and cash equivalents, end of period	\$ 2,153	\$ 9,062
Funds from operations per share:		
Basic	\$ 0.39	\$ 0.35
Fully Diluted	0.29	0.31

THE ARCTIC GROUP INC**Interim Consolidated Statement Of Earnings and Retained Earnings**

(unaudited)

(in thousands except per share data)

Nine months ended September 30, 2000 and 1999

	September 30 2000	September 30 1999 (restated)
Sales	\$ 70,478	\$ 64,927
Cost of sales, selling, general and administrative expenses	47,943	45,527
Earnings before the undernoted	22,535	19,400
Amortization	6,318	5,425
Interest	8,574	6,251
Loss on disposal of capital assets	234	0
Reorganization costs	204	0
Non-recurring expenses	0	358
Earnings before income taxes	7,205	7,366
Income tax expense:		
Current income taxes	213	102
Future income taxes	2,940	2,950
Earnings before goodwill charges	4,052	4,314
Goodwill charges (net of applicable future income taxes of \$305 (1999 - \$250))	(1,228)	(1,066)
Net earnings	2,824	3,248
Deficit, beginning of period	(1,431)	(225)
Interest on equity portion of convertible debentures (net of applicable future income taxes of \$138 (1999 - \$142))	(206)	(215)
Retained earnings, end of period	\$ 1,187	\$ 2,808
Earnings (loss) per share:		
Basic:		
Excluding goodwill charges	\$ 0.11	\$ 0.12
Including goodwill charges	0.08	0.09
Fully diluted:		
Excluding goodwill charges	0.11	0.11
Including goodwill charges	0.08	0.09

THE ARCTIC GROUP INC
Interim Consolidated Balance Sheet

 (unaudited)
 (in thousands)

As at September 30, 2000 and 1999

	September 30 2000	September 30 1999 (restated)
ASSETS		
Current assets:		
Cash	\$ 2,153	\$ 9,062
Cash held in trust	50	982
Accounts receivable	13,505	11,446
Inventories	3,207	2,320
Prepaid expenses and deferred charges	2,086	593
	21,001	24,403
Capital assets:		
Land, buildings and equipment	106,379	88,919
Accumulated depreciation	(18,039)	(10,824)
	88,340	78,095
Goodwill, net of accumulated amortization	81,161	66,585
Other assets	6,585	12,189
	\$ 197,087	\$ 181,272
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 6,771	\$ 10,037
Principal due within the fiscal year	1,157	288
	7,928	10,325
Obligations under capital leases	1,595	388
Long-term debt	119,252	103,039
Future income taxes	9,781	9,777
Shareholders' equity:		
Capital stock	46,383	46,319
Equity portion of convertible debentures	9,308	8,318
Retained earnings	1,187	2,808
Cumulative translation adjustment	1,653	298
	58,531	57,743
	\$ 197,087	\$ 181,272

Common shares outstanding:

	Number of shares		Amount	
	2000	1999	2000	1999
	(unaudited)		(unaudited)	
Common shares issued, beginning of period	36,215.2	34,580.7	\$ 46,327	\$ 44,288
Acquisitions of subsidiaries	0	96.2	0	185
Exercise of common share purchase warrants		1,366.4	0	1,708
Exercise of Agent common share purchase warrants		149.9	0	113
Conversion of convertible debentures	36.6	16.7	55	25
Issued from treasury	0.8	0.0	1	0
Common shares issued, end of period	36,252.6	36,209.9	\$ 46,383	\$ 46,319

THE ARCTIC GROUP INC**Interim Consolidated Statement of Cash Flows**

(unaudited)

(in thousands, except for per share data)

Three months ended September 30, 2000 and 1999

	September 30 2000	September 30 1999 (restated)
Operating activities:		
Net earnings	\$ 5,059	\$ 4,592
Adjustments for:		
Amortization of capital assets	1,804	2,364
Amortization of deferred financing costs	381	367
Goodwill charges	473	372
Accretion of convertible debenture principal	169	0
Gain on disposal of capital assets	(42)	0
Future income taxes	4,425	3,049
Funds from operations	12,269	10,744
Change in the following:		
Cash held in trust	8	(540)
Accounts receivable	(653)	(110)
Inventories	757	314
Prepaid expenses and deferred charges	2,227	451
Accounts payable and accrued liabilities	(3,807)	(1,984)
Cash flow from operating activities	10,801	8,875
Investing activities:		
Additions to capital assets	(3,127)	(2,633)
Additions to goodwill and other assets	(4,093)	(4,319)
Acquisition of subsidiaries and operating assets, net of cash acquired of \$nil (1999 - \$75)	0	(4,853)
Proceeds on disposal of capital assets	180	0
Cash flow used in investing activities	(7,040)	(11,805)
Financing activities:		
Proceeds from long-term debt	3,434	93,137
Principal payments on long-term debt	(1,005)	(88,415)
Equity portion of convertible debentures	0	2,606
Interest on equity portion of convertible debentures	(126)	(111)
Issuance of common shares	0	100
Principal payments under capital lease obligations	(62)	(46)
Cash flow from financing activities	2,241	7,271
Foreign exchange (loss) gain on cash held in foreign currency	(35)	149
Increase in cash and cash equivalents	5,967	4,490
Cash and cash equivalents, beginning of period	(3,814)	4,571
Cash and cash equivalents, end of period	2,153	\$ 9,062
Funds from operations per share:		
Basic	\$ 0.34	\$ 0.30
Fully Diluted	0.21	0.21

THE ARCTIC GROUP INC**Interim Consolidated Statement Of Earnings and Retained Earnings**

(unaudited)

(in thousands, except per share data)

Three months ended September 30, 2000 and 1999

	September 30 2000	September 30 1999 (restated)
Sales	\$ 37,081	\$ 34,861
Cost of sales, selling, general and administrative expenses	21,239	21,366
Earnings before the undernoted	15,842	13,495
Amortization	2,185	2,731
Interest	3,610	2,542
Gain on disposal of capital assets	(42)	0
Reorganization costs	137	0
Non-recurring expenses	0	92
Earnings before income taxes	9,952	8,130
Income tax expense:		
Current income taxes	(5)	117
Future income taxes	4,425	3,049
	4,420	3,166
Earnings before goodwill charges	5,532	4,964
Goodwill charges (net of applicable future income taxes of \$109 (1999 - \$78))	(473)	(372)
Net earnings	5,059	4,592
Deficit, beginning of period	(3,797)	(1,717)
Interest on equity portion of convertible debentures (net of applicable future income taxes of \$51 (1999 - \$43))	(75)	(67)
Retained earnings, end of period	1,187	\$ 2,808
Earnings per share:		
Basic:		
Excluding goodwill charges	\$ 0.15	\$ 0.14
Including goodwill charges	0.14	0.13
Fully diluted:		
Excluding goodwill charges	0.10	0.10
Including goodwill charges	0.09	0.10

THE ARCTIC GROUP INC.

Notes to Consolidated Financial Statements
(unaudited)
(in thousands)

Nine months ended September 30, 2000 and 1999

1. Adjustment to future income tax provision

The future income tax provision for the nine months ended September 30, 1999 has been revised to properly reflect the Company's temporary differences at September 30, 1999. As a result, future income taxes expense and future income taxes liability have been increased by \$2,121 from the balance previously recorded.

2. Adjustment to interest on long-term debt

Interest on long-term debt for each of the three months ended March 31, 2000 and June 30, 2000 was under accrued by approximately \$250 and \$235, respectively. As a result, for the six months ended June 30, 2000 there was an aggregate under accrual of interest on long-term debt of \$485. The Company has increased interest on long-term debt in the interim consolidated statement of earnings during the three months ended September 30, 2000 by \$485 to properly reflect interest on long-term debt for the nine months ended September 30, 2000.