ARCTIC GLACIER INCOME FUND

SECOND QUARTER REPORT TO UNITHOLDERS

FOR THE PERIOD ENDED JUNE 30, 2002

Chairman's Report

We are pleased to report the operating results for the Arctic Glacier Income Fund for the second quarter of 2002 – our first full quarter of operations as a Fund. The Arctic Glacier Income Fund was created by the reorganization of The Arctic Group Inc. into an income trust on March 22, 2002. As a result of Arctic Glacier's strong and reliable cash flows, the income trust structure is ideal for enhancing unitholder value.

The Fund declared distributions to unitholders totaling $4.5 million or $0.29 per unit during the quarter, including an initial distribution of $0.115 per unit for the 40 day period from March 22 to April 30, 2002, and $0.0875 per unit for each of May and June of 2002. Although distributable cash for the quarter totaled $6.8 million or $0.43 per unit, it is important to note that the monthly distributions have been leveled to eliminate the impact of seasonal cash flow fluctuations on unitholders, and, as a result, the distributions declared will not be directly comparable to distributable cash on a quarterly basis. On an annualized basis, the distributions to unitholders for 2002 are expected to be approximately 60% interest income and 40% return of capital, thereby providing our unitholders with significant tax deferral opportunities.

Arctic generated record second quarter earnings from operations and net earnings, in spite of less than favorable weather conditions. Earnings from operations reached $6.1 million for the second quarter, an increase of 33% over $4.6 million for the second quarter last year. This improvement was largely due to the reduced interest costs that have accompanied the significant reduction in the company's long-term debt. Subsequent to the conversion to an income trust and the Fund's IPO, long-term debt stands at $51.3 million compared to $122.2 million at the beginning of the year, a reduction of almost 60%. Net earnings for the quarter reached $4.1 million or $0.26 per unit, an improvement of almost $6.5 million or $0.66 per unit over last year. Excluding the after tax impact of the loss on debt settlement that was incurred last year, and the new accounting rules that eliminate the amortization of goodwill, the improvement over last year is almost $2.0 million.

During the second quarter this year, much of the Company's market area experienced an unseasonably cool spring. Our Canadian markets suffered through one of the coldest spring periods in the last fifty years, combined with wetter than average conditions. Our northern U.S. markets also experienced below normal temperatures during the quarter. We have also disposed of two non-core businesses so far this year, including one in Texas during the second quarter. As a result, sales for the quarter were down 3% from last year – to $27.2 million compared to $27.9 million last year. So far this year, sales total $35.7 million, approximately 1% behind last year's record pace. The quarter ended on a positive note, as temperatures have returned to normal or above normal levels in most of our markets during late June and throughout July.

Earnings before interest, taxes, depreciation, amortization and non-recurring expenses (EBITDA) were $9.1 million for the quarter, off about 7% from last year as a result of the cooler weather and the sale of non-core businesses. The EBITDA margin, as a percent of sales was 33.5%, down from 35.1% last year. We made some strategic changes to the distribution infrastructure in certain key markets during the first six months to improve customer service levels. The effect of these changes was to increase costs during the first and second quarters, which in turn will be more than offset by reduced operating costs during the busy summer season. In addition, margins were negatively impacted because we must recruit and train seasonal staff in the spring to ramp up for the busy summer season; essentially fixed costs that do not decline when spring sales are below target levels.

The majority of Arctic's operations are based in Canada and the northern portion of the central United States, and as a result, the business is affected by seasonal weather patterns. The benefit of our broad geographic market area is that the impact of regional and seasonal weather patterns will tend to average out on an annual basis. Demand for our packaged ice products is very light during the first quarter of the year with losses for the first four months of the year and modest income for May and June. The third quarter of the year is the financial driver for the Company.

The Company is committed to creating unitholder value through superior margin growth, sound management and growing penetration of its Arctic Glacier® Premium Ice products in key target markets. The Company continues to look at ways to be more efficient and provide better service to its customers. The third quarter of our year is key to our success and we structure our operations accordingly to derive the maximum efficiencies during this period. As a result, additional costs may be incurred during the first and second quarters that result in incremental efficiencies during the summer season.

The Arctic Glacier Income Fund has a solid capital structure and the Fund's operating Company, Arctic Glacier Inc. has a firm base of operations across much of Canada and the central United States. In addition to organic growth, opportunities continue to exist for growth through acquisition. The Fund intends to build a solid track record of distributions and, at the appropriate time, will build upon its market position and enhance distributions by making selective, accretive acquisitions where a dominant market position can be acquired or developed. We believe that during this time of market turmoil and uncertainty our investor base will value our cautious approach to growth and our focus on generating distributable cash.

Robert J. Nagy

Chairman of the Board
and Chief Executive Officer

Overview

The Arctic Glacier Income Fund is considered to be a continuation of The Arctic Group Inc. following the continuity of interest method of accounting. As a result, the Management Discussion and Analysis ("MD&A") for the second quarter of 2002 should be read in conjunction with the MD&A in the annual report of The Arctic Group Inc. for the year ended December 31, 2001.

The Arctic Glacier Income Fund, through its wholly-owned operating company, Arctic Glacier Inc., 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.

Due to the seasonal nature of Arctic's operations, the results of operations for this quarter are not necessarily indicative of the results to be expected for the year.

Results of Operations

Sales

Sales for the second quarter ended June 30, 2002 totaled $27.2 million; a decrease of 3% compared to sales of $27.9 million for the second quarter of 2001.

Sales volumes were down this quarter, the result of exceptionally poor weather in certain key markets during most of the spring of 2002 and the disposal of certain non-core business operations in western Canada and in Texas in February and May of 2002 respectively. The business operations disposed of were not in the packaged ice business. These factors were partially offset by higher unit prices made possible by Arctic's investment in brand building and quality initiatives.

Canada experienced one of the coldest springs in recent history, especially in the key eastern sales markets, combined with higher than normal precipitation, which together put a significant damper on outdoor activity. Much of eastern and central Canada experienced record-setting low temperatures during the important Victoria Day long weekend, which marks the traditional start of the peak sales season. Similarly, Arctic's northern U.S. sales markets also experienced unseasonably cold weather this spring, including poor conditions on the important Memorial Day long weekend. The sales shortfalls were partially mitigated by Arctic's southern U.S. markets, which did experience more favorable spring weather conditions. Towards the end of June, virtually all of Arctic's Canadian and U.S. sales regions saw temperatures rise to above average levels although the increased sales volumes were not enough to erase the spring shortfall.

Even with the unseasonably cool spring and the disposition of non-core business operations, sales for the six months ended June 30, 2002 total $35.7 million, only 1% behind last year's record pace of $36.2 million.

EBITDA [1]

Earnings before interest, taxes, depreciation, amortization and non-recurring expenses (EBITDA) for the second quarter of 2002 were $9.1 million, a reduction of 7.2% compared to $9.8 million in the second quarter of 2001. This decrease can primarily be attributed to:

- The sale of non-core business operations in western Canada and in Texas;
- The reduced unit volumes resulting from the unseasonably cold spring;
- Increased fixed costs in our distribution infrastructure that were made to enhance customer service. These improvements are expected to result in reduced operating costs and increased EBITDA margins during the busy summer season;
- Recruiting and training seasonal production and distribution staff, the cost of which is fixed in nature as this process must be completed prior to the start of the peak summer season. These costs do not decline when spring sales are down due to inclement weather; and,
- The planned short-term increase in costs associated with centralizing corporate data and accounting functions and streamlining administrative processes. This initiative will be completed during 2002 and is expected to result in efficiencies in the future.

EBITDA for the six months ended June 30, 2002 totals $5.9 million compared to $7.3 million for the same period in 2001.

(1) Certain earnings measures, such as EBITDA, are not recognized measures 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 Arctic's performance. Arctic's method of calculating EBITDA may differ from other companies and, accordingly, EBITDA may not be comparable to measures used by other companies.

MANAGEMENT'S Discussion and Analysis

Amortization

Amortization expense totaled $2.4 million for the second quarter of 2002, an increase of 4% compared to $2.3 million for the same period in 2001 as a result of capital expenditures made in the past year. For the first six months of 2002, amortization expense totals $4.8 million, comparable with $4.7 million for the same period in 2001.

Interest

Interest expense totaled $0.6 million for the second quarter of 2002, a decrease of 80% compared to $2.9 million for the same period in 2001 as the company substantially reduced long-term debt with the proceeds of the March 2002 initial public offering of income trust units. Long-term debt has decreased to $51.3 million at June 30, 2002 compared to $124.1 million one year before, a reduction of almost 60%. The conversion to an income trust and the improved debt to equity ratio have also resulted in more favorable pricing of the new credit facility. The weighted average cost of debt under the new capital structure is 3.9% at June 30, 2002 compared to 8.7% at the same time last year under the previous capital structure.

Interest expense for the six months ended June 30, 2002 totals $2.8 million, a decrease of 53% compared to $5.9 million for the same period in 2001.

Earnings (Loss) from Operations

Earnings from operations, which is comprised of earnings before taxes, gains or losses on disposal of assets, and non-recurring charges was $6.1 million for the second quarter of 2002, a substantial 33% increase compared to $4.6 million for the second quarter of 2001. This increase is attributable to the substantially reduced interest costs resulting from the new capital structure, which more than offset the effect of weather on EBITDA.

Loss from operations for the six months ended June 30, 2002 totals $1.7 million, a substantial improvement over the loss of $3.2 million for the same period in 2001.

Loss (Gain) on Disposal of Capital and Operating Assets and Goodwill

Losses on disposal of capital and operating assets and goodwill totaled $0.6 million for the second quarter of 2002. This results primarily from the sale of a group of assets related to non-core, non-packaged ice operations in Texas and the sale of some redundant equipment in the U.S.

The net gain on disposal of capital and operating assets and goodwill for the six months ended June 30, 2002 totals $0.8 million.

Non-Recurring Expenses

Non-recurring expenses for the second quarter of 2002 totaled $0.01 million representing additional costs related to completing the Plan of Arrangement in March 2002. Non-recurring expenses for the six months ended June 30, 2002 total $1.0 million, including $0.8 million associated with the Plan of Arrangement.

Net Earnings (Loss) and Earnings (Loss) Per Unit

Net earnings for the second quarter of 2002 were $4.1 million or $0.26 per unit (basic), an improvement of $6.5 million or $0.66 per unit (basic) over the loss incurred during the second quarter of 2001.

For the six months ended June 30, 2002 net earnings total $0.4 million or $0.02 per unit (basic), which represents an improvement of $8.4 million or $1.37 per unit over the loss for the same period of 2001.

Distributable Cash

For the second quarter of 2002, Arctic earned distributable cash of $6.8 million or $0.43 per unit. Distributions totaling $4.5 million or $0.29 per unit were declared during this period, including the initial distribution of $1.8 million covering the 40 day period starting on March 22, 2002 and the June 2002 distribution of $1.4 million that was paid on July 15, 2002. Monthly distributions have been leveled to eliminate the impact of seasonal fluctuations on unitholders, and, as a result, distributions declared will not be directly comparable to distributable cash on an interim basis.

On an annualized basis, distributions to unitholders for 2002 are expected to be approximately 60% interest and 40% return of capital.

LIQUIDITY AND CAPITAL RESOURCES

Funds from operations totaled $7.9 million for the second quarter of 2002, an increase of $1.5 million or 23% compared to $6.4 million from operations during the same period of 2001. This increase is primarily the result of significantly reduced interest costs with the new capital structure. For the six months ended June 30, 2002, funds from operations totals $0.6 million, compared to $1.2 million last year, largely the result of non-recurring costs and costs to terminate the interest rate swap agreement as discussed in the first quarter report. On a per unit basis, funds from operations for the second quarter of 2002 were $0.50 (basic) compared to $1.07 (basic) for the second quarter of 2001, with the decrease attributable to the increased number of units outstanding following the March 2002 IPO of the Fund.

At June 30, 2002, Arctic had $0.6 million of net short-term borrowings, an improvement of $3.0 million over the same time last year. Cash balances did decline by $5.9 million during the second quarter of 2002; as costs associated with the IPO, Plan of Arrangement and new credit facility were paid and as the April and May distributions were paid to unitholders.

Working capital at June 30, 2002 was $8.8 million, representing an improvement of $9.2 million compared to a working capital deficit of $0.4 million at June 30, 2001. This increase can be attributed to proceeds from the March 2002 IPO and the resulting increase in cash balances, the strong cash flow generated during the last half of fiscal 2001, and a significant reduction in the current portion of long-term debt resulting from the non-amortizing nature of the new credit facility. Working capital improved by $3.0 million during the quarter as a result of the seasonal nature of our business. These translate to working capital ratios of 1.80 at June 30, 2002 comparing favorably to 0.98 at June 30, 2001 and 1.54 at March 31, 2002. Arctic believes that it has sufficient resources from operating cash flows to meet current and future requirements.

Arctic used $0.7 million of funds for investing activities during the second quarter of 2002, down from $1.8 million during the second quarter of the previous year. Proceeds from disposal of capital assets and goodwill include $0.8 million related to non-core operations in Texas and $0.2 million from redundant equipment in the U.S. Excluding proceeds from the sale of non-core operations, net capital expenditures (net of proceeds from disposal of capital assets) totaled $1.5 million for the second quarter of 2002 compared to $1.4 million the previous year, and total $1.9 million for the six months ended June 30, 2002 compared to $2.2 million in 2001. Expenditures this year are lower because there were no significant plant overhauls.

Arctic used a net total of $2.9 million of cash in financing activities during the second quarter of 2002, including cash distributions in the amount of $3.2 million paid to unitholders. The company drew an additional $0.8 million on the revolving long-term debt facility to maximize operating liquidity during the ramp up to the busy summer season.

Risks and Uncertainties

The factors affecting the business remain substantially unchanged from those identified in the MD&A for the year ended December 31, 2001.

Forward-Looking Statements

This document contains forward-looking statements, which are subject to certain risks, uncertainties and assumptions. A number of factors could cause actual results to differ materially from the results discussed in these forward-looking statements, and there is no assurance that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as at the date of this document, and the Fund assumes no obligation to update or revise them, either publicly or otherwise, to reflect new events, information or circumstances.

INTERIM CONSOLIDATED Balance Sheets

(thousands)
As at June 30, 2002 and 2001 (unaudited) and December 31, 2001 (audited)

	June 30, 2002	June 30, 2001	December 31, 2001
ASSETS			
Current assets:			
Cash	**$ -**	$ –	$ 1,946
Accounts receivable	**14,964**	14,939	8,245
Inventories	**3,490**	3,865	2,911
Prepaid expenses	**1,262**	1,983	2,510
	19,716	20,787	15,612
Capital assets	**77,828**	83,706	83,585
Goodwill	**77,105**	80,571	83,849
Other assets	**5,045**	4,374	4,051
	$ 179,694	$ 189,438	$ 187,097
LIABILITIES AND UNITHOLDERS' EQUITY			
Current liabilities:			
Bank indebtedness	**$ 626**	$ 3,593	$ –
Accounts payable and accrued liabilities	**7,960**	11,355	8,247
Distributions payable	**1,370**	-	-
Obligations under capital leases due within the fiscal year	**147**	173	312
Principal due within the fiscal year on long-term debt	**833**	6,057	1,535
	10,936	21,178	10,094
Obligations under capital leases	**801**	1,066	783
Long-term debt (Note 4)	**50,517**	118,077	120,654
Future income taxes	**2,297**	4,409	6,066
Unitholders' equity			
Capital contributions (Note 5)	**129,947**	46,394	46,394
Contributed surplus	**–**	1,692	1,692
Equity portion of convertible debentures (Note 6)	**1,258**	5,106	5,098
Cumulative deficit	**(12,188)**	(10,144)	(7,063)
Cumulative distributions (Note 7)	**(4,540)**	-	-
Cumulative translation adjustment	**666**	1,660	3,379
	115,143	44,708	49,500
	$ 179,694	$ 189,438	$ 187,097

See accompanying notes to interim consolidated financial statements.

On behalf of the Trustees:

Robert Nagy, Trustee

Keith Burrows, Trustee

INTERIM CONSOLIDATED **Statements of Operations**

(thousands, except per unit amounts)
Three and six months ended June 30, 2002 and 2001 (unaudited)

	Three Months		Six Months	
	2002	2001	**2002**	2001
Sales	**$ 27,171**	$ 27,933	**$ 35,705**	$ 36,165
Cost of sales, selling, general and administrative expenses	**18,075**	18,132	**29,803**	28,840
Earnings before the undernoted	**9,096**	9,801	**5,902**	7,325
Amortization	**2,419**	2,318	**4,819**	4,653
Interest	**573**	2,894	**2,752**	5,890
Earnings (loss) from operations	**6,104**	4,589	**(1,669)**	(3,218)
Loss (gain) on settlement of long-term debt (Note 8)	**–**	4,747	**(754)**	4,747
Loss (gain) on disposal of capital and operating assets and goodwill	**594**	(15)	**(845)**	567
Non-recurring expenses	**11**	107	**1,016**	107
Earnings (loss) before income taxes	**5,499**	(250)	**(1,086)**	(8,639)
Income tax expense (reduction)				
Current	**200**	446	**272**	446
Future	**1,152**	1,183	**(1,727)**	(1,983)
	1,352	1,629	**(1,455)**	(1,537)
Earnings (loss) before goodwill charges	**4,147**	(1,879)	**369**	(7,102)
Goodwill charges (net of applicable future income taxes)	**–**	468	**–**	933
Earnings (loss) for the period	**$ 4,147**	$ (2,347)	**$ 369**	$ (8,035)
Earnings (loss) per unit – basic and diluted	**$ 0.26**	$ (0.40)	**$ 0.02**	$ (1.35)

See accompanying notes to interim consolidated financial statements.

INTERIM CONSOLIDATED **Statements of Cumulative Deficit**

(thousands)
Three and six months ended June 30, 2002 and 2001 (unaudited)

	Three Months		Six Months	
	2002	2001	**2002**	2001
Cumulative deficit, beginning of period	**$ (14,310)**	$ (10,331)	**$ (7,063)**	**$ (4,579)**
Restatement due to change in accounting policy regarding goodwill (Note 3)	**(2,010)**	–	**(2,010)**	–
As restated	**(16,320)**	(10,331)	**(9,073)**	(4,579)
Earnings (loss) for the period	**4,147**	(2,347)	**369**	(8,035)
Interest on equity portion of convertible debentures (net of applicable future income taxes)	**(15)**	(65)	**(89)**	(129)
Settlement of equity component of convertible debentures	**–**	2,599	**–**	2,599
Settlement of warrants (Note 7)	**–**	–	**(3,395)**	–
Cumulative deficit, end of period	**$ (12,188)**	$ (10,144)	**$ (12,188)**	$ (10,144)

See accompanying notes to interim consolidated financial statements.

INTERIM CONSOLIDATED **Statements of Cash Flows**

(thousands, except per unit amounts)
Three and six months ended June 30, 2002 and 2001 (unaudited)

	Three Months		Six Months	
	2002	2001	**2002**	2001
Cash from (used in):				
Operating activities				
Earnings (loss) for the period	**$ 4,147**	$ (2,347)	**$ 369**	$ (8,035)
Adjustments for				
Amortization of capital assets	**2,059**	1,989	**4,157**	3,889
Amortization of deferred financing costs	**274**	329	**514**	764
Amortization of deferred development costs and other assets	**86**	–	**148**	–
Goodwill charges	**–**	468	**–**	933
Non-cash portion of gain on settlement of long-term debt	**–**	–	**(1,609)**	–
Loss on settlement of convertible debentures	**–**	4,747	**–**	4,747
Accretion of subordinated convertible debenture principal	**–**	91	**–**	279
Non-cash portion of loss (gain) on disposal of capital and operating assets and goodwill	**185**	(15)	**(1,254)**	567
Future income taxes (reduction)	**1,152**	1,183	**(1,727)**	(1,983)
Funds from operations	**7,903**	6,445	**598**	1,161
Changes in working capital items	**(9,719)**	(3,863)	**(6,337)**	(2,062)
	(1,816)	2,582	**(5,739)**	(901)
Investing activities				
Additions to capital assets	**(1,706)**	(1,595)	**(2,161)**	(2,873)
Proceeds from disposal of capital assets and other assets	**1,029**	153	**3,355**	664
Additions to other assets	**(40)**	(310)	**(1,963)**	(452)
	(717)	(1,752)	**(769)**	(2,661)
Financing activities				
Proceeds from long-term debt	**808**	152	**52,420**	1,564
Principal repayments on long-term debt	**(389)**	(384)	**(117,236)**	(760)
Principal payments under capital lease obligations	**(74)**	(160)	**(147)**	(260)
Interest on equity portion of convertible debentures	**(27)**	(108)	**(150)**	(215)
Shares issued on exercise of options	**–**	–	**600**	–
Units issued, net of issue costs	**(8)**	–	**79,113**	–
Cancellation of warrants	**–**	–	**(7,049)**	–
Cash distributions paid	**(3,170)**	–	**(3,170)**	–
	(2,860)	(500)	**4,381**	329
Foreign exchange loss on cash held in foreign currency	**(446)**	(327)	**(445)**	(152)
Increase (decrease) in cash	**(5,839)**	3	**(2,572)**	(3,385)
Cash position, beginning of period	**5,213**	(3,596)	**1,946**	(208)
Cash position, end of period	**$ (626)**	$ (3,593)	**$ (626)**	$ (3,593)
Supplementary cash flow information				
Interest paid	**$ 464**	$ 2,875	**$ 3,829**	$ 5,759
Income taxes paid	**200**	446	**272**	446
Funds from operations per unit				
Basic	**$ 0.50**	$ 1.07	**$ 0.05**	$ 0.19
Diluted	**0.50**	0.89	**0.05**	0.18

See accompanying notes to interim consolidated financial statements.

Notes TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(amounts in thousands, except per unit amounts)
Three and six months ended June 30, 2002 and 2001 (unaudited)

1. ORGANIZATION

Arctic Glacier Income Fund (the "Fund") is an unincorporated, open-ended limited purpose mutual fund trust established under the laws of the Province of Alberta on January 22, 2002. The Fund was created to invest in the packaged ice manufacturing and distribution business in Canada and the United States, initially through the acquisition of The Arctic Group Inc. by the Fund's wholly-owned subsidiary, Arctic Glacier Inc., which was completed on March 22, 2002. Arctic Glacier Inc. subsequently amalgamated with The Arctic Group Inc., with the amalgamated corporation retaining the name Arctic Glacier Inc. (the "Company").

The Company operates in the packaged ice industry in Canada and the United States and is active in acquiring ice manufacturing and distribution companies. In addition, the Company licenses its trade names and proprietary technology to independently owned companies in Canada and the United States under franchise and license agreements.

2. BASIS OF PRESENTATION

These unaudited consolidated financial statements of the Fund have been prepared in accordance with Canadian accounting principles generally accepted for interim financial statements and contain the financial position, results of operations and cash flows of the Fund and its subsidiaries.

The Fund is considered to be a continuation of The Arctic Group Inc. following the continuity of interest method of accounting, and as a result these financial statements and related notes are consistent with the policies outlined in the audited consolidated financial statements of The Arctic Group Inc. for the year ended December 31, 2001 except where stated below. Under the continuity of interest method of accounting, the Fund's acquisition of The Arctic Group Inc. is recorded at the net book value of The Arctic Group Inc.'s assets and liabilities on March 22, 2002, and the cumulative deficit of the Fund represents the retained deficit of The Arctic Group Inc. at that date.

The interim consolidated financial statements and related notes do not include all the information required for complete financial statements, and should be read in conjunction with the audited consolidated financial statements of The Arctic Group Inc. for the year ended December 31, 2001. When necessary, the financial statements include amounts based on informed estimates and best judgments of management.

Due to the seasonal nature of the operations of the Company, the results of operations for the interim periods reported are not necessarily indicative of results to be expected for the year.

Notes TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(amounts in thousands, except per unit amounts)
Three and six months ended June 30, 2002 and 2001 (unaudited)

3. CHANGE IN ACCOUNTING POLICIES

(a) Goodwill

Effective January 1, 2002, the Fund adopted the new Canadian Institute of Chartered Accountants accounting standard for goodwill and other intangible assets, which no longer permits the amortization of goodwill and intangible assets with indefinite lives. The new standard requires a fair value impairment test be performed periodically to ensure that the fair value of goodwill and intangible assets with indefinite lives remains greater than, or equal to, the carrying value. Any excess of the carrying value over fair value will be charged to income in the period in which the impairment is determined.

Under the new standard, the Fund is required to complete a transitional impairment test to identify whether there is any potential impairment to goodwill as at January 1, 2002. The Fund has completed the impairment tests for the carrying value of goodwill and intangible assets with indefinite lives and has determined that an impairment loss in the amount of $2,010 exists related to one if its reporting units in the United States. The impairment tests completed for the Fund's other reporting units have determined that no other impairment losses have occurred. The impairment loss has been recorded during the three months ended June 30, 2002 and has been reflected as the cumulative effect of a change in accounting policy as at the date of adoption. Accordingly, the impairment loss of $2,010 has been recorded as a reduction in the opening balance of goodwill and an increase in the opening balance of the retained deficit at January 1, 2002.

As a result of the application of the new standard, the Fund segregated from goodwill the unamortized trademark costs for the name Arctic Glacier that was obtained in a previous acquisition. The unamortized value of this trademark at January 1, 2002 was $1,336, which has been reclassified to other assets. Under the new standard, no amortization is required on the value of the trademark, effective January 1, 2002, because the asset has an indefinite life.

The Fund anticipates that the adoption of this new standard will result in a reduction of goodwill charges of approximately $1,829, net of applicable future income taxes, on an annual basis. As required by the new standard, the results of the prior years' quarter have not been restated. A reconciliation of reported earnings (loss) to adjusted earnings (loss) excluding the impact of amortization of goodwill and intangible assets with indefinite lives is as follows:

	Three Months		Six Months	
	2002	2001	**2002**	2001
Earnings (loss) for the period, as reported	**$ 4,147**	$ (2,347)	**$ 369**	$ (8,035)
Goodwill charges, net of applicable future income taxes	**–**	468	**–**	933
Earnings (loss) for the period, adjusted	**$ 4,147**	$ (1,879)	**$ 369**	$ (7,102)
Adjusted earnings (loss) per unit – basic and diluted	**$ 0.26**	$ (0.32)	**$ 0.02**	$ (1.20)

(b) Unit-based compensation plan

Effective January 1, 2002, the Fund adopted the new Canadian Institute of Chartered Accountants accounting standard for its unit-based compensation plan. The new standard applies only to unit awards granted on or after the date of adoption. No units or shares were awarded in the six months ended June 30, 2002

4. LONG-TERM DEBT

During the first quarter of 2002, the Fund and its subsidiaries entered into a new credit facility with a new lender. The new credit facility is multi-currency, revolving to a maximum of approximately $60,400, and includes a $5,000 line of credit. The new credit facility bears interest at a floating rate, matures March 22, 2004 and does not require scheduled principal repayments prior to maturity. It is secured by debentures issued by the Fund and its subsidiaries together with other security agreements providing both a fixed and floating charge over all the assets and undertaking of the Fund and its subsidiaries. The Company has drawn a total of $51,146 on the new credit facility as at June 30, 2002, and has incurred financing costs of approximately $1,858 related to the new credit facility.

(amounts in thousands, except per unit amounts)

5. UNITHOLDERS' CAPITAL

On March 11, 2002, the shareholders of The Arctic Group Inc. approved a Plan of Arrangement (the "Arrangement") reorganizing The Arctic Group Inc. into an income trust. Pursuant to the Arrangement, on March 22, 2002, the Company, a wholly owned subsidiary of the Fund, acquired from The Arctic Group Inc. shareholders all of the common shares in return for subordinated notes. The Fund then acquired these subordinated notes from the holders in exchange for units in the Fund. As a result, the shareholders of The Arctic Group Inc. indirectly received one unit of the Fund in exchange for six common shares of The Arctic Group Inc. Subsequently, the Fund owned all of the subordinated notes of Arctic Glacier Inc., which in turn owned all of the common shares of The Arctic Group Inc. Arctic Glacier Inc. subsequently amalgamated with The Arctic Group Inc., with the amalgamated corporation retaining the name Arctic Glacier Inc.

Concurrent with the Arrangement, the Fund entered into an Underwriting Agreement whereby the Fund filed a prospectus (the "Offering") for the issuance of 9,052.6 units at $9.50 per unit for net proceeds of $79,113 after issue costs of approximately $6,887.

Immediately prior to the Arrangement, 806.0 stock options of The Arctic Group Inc. were exercised for cash consideration of $600 under The Arctic Group Inc.'s Stock Option Plan and the remaining 1,845.8 stock options outstanding were cancelled. The Fund has adopted a new Unit Option Plan. No unit options have been awarded during the six months ended June 30, 2002.

Fund units are included in unitholder's capital contributions on the balance sheet as follows:

	Shares	Amount
Balance of common shares at December 31, 2001	36,260.2	$ 46,394
Shares issued on exercise of stock options	806.0	600
Shares issued on conversion of debentures	2,523.7	3,785
Balance of common shares at March 22, 2002	39,589.9	$ 50,779

	Units	Amount
Units issued on March 22, 2002 in exchange for The Arctic Group Inc. common shares (1 unit for 6 common shares)	6,598.4	$ 50,779
Units issued on March 22, 2002, at $9.50 per unit, net of share issue costs of $6,887	9,052.6	79,113
Units issued on conversion of debentures	6.1	55
Total unitholder's capital contributions at June 30, 2002	15,657.1	$ 129,947

The Declaration of Trust authorizes the Fund to issue an unlimited number of units in one class. Each unit represents an equal undivided interest in the Fund.

6. EQUITY PORTION OF CONVERTIBLE DEBENTURES

During the three months ended March 31, 2002, $3,785 of the 8.5% convertible debentures were converted to common shares of The Arctic Group Inc. During the three months ended June 30, 2002, $55 of the 8.5% convertible debentures were converted to units of the Arctic Glacier Income Fund.

Notes TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(amounts in thousands, except per unit amounts)
Three and six months ended June 30, 2002 and 2001 (unaudited)

7. DISTRIBUTIONS

(a) Distributable cash:

Period ended June 30, 2002	Three Months	Six Months
Net earnings for the period	$ 4,147	$ 369
Net earnings adjustments:		
Amortization	2,419	4,819
Gain on settlement of long-term debt	–	(754)
Loss (gain) on disposal of capital and operating assets and goodwill	594	(845)
Future income taxes (reduction)	1,152	(1,727)
	8,312	1,862
Sustaining capital expenditures, net of dispositions	(1,497)	(1,876)
Distributable cash generated for the period	$ 6,815	$ (14)
Distributions declared for the period	$ 4,540	$ 4,540
Distributable cash per unit	$ 0.43	$ 0.01
Distributions declared per unit	$ 0.29	$ 0.29

(b) Cumulative distributions:

Period ended June 30, 2002	Three Months	Six Months
Cumulative distributions, beginning of period	$ –	$ –
Distributions declared for the period	4,540	4,540
Cumulative distributions, end of period	$ 4,540	$ 4,540

8. SETTLEMENT OF DEBT

During the first quarter of 2002, the Fund and its subsidiaries used the proceeds of the initial public offering of units of the Fund, along with amounts drawn on the new credit facility to repay long-term debt including the balance of $84,897 on the multi-currency non-revolving credit facility, the 12.5% subordinated debentures including accrued interest, and $2,983 of loans payable. The Fund also terminated the interest rate swap contract. The settlement of debt resulted in a net gain of $754, comprised of a gain of $3,294 related to the excess of carrying value of the 12.5% subordinated debentures over the fair value on the date of settlement, less write-off of deferred financing costs of $1,631, fees and other costs of $54, and costs of terminating the interest rate swap contract of $855.

The Fund and its subsidiaries also cancelled 6,865.0 warrants previously issued to the holders of the 12.5% subordinated debentures. The settlement of these warrants resulted in a decrease to retained earnings of $3,395, net of applicable future income taxes of $1,962, representing the excess of fair value of the warrants over the carrying costs.

9. INCOME TAX

The Fund is a mutual fund trust as defined under the Income Tax Act (Canada) and accordingly is not taxable on its income to the extent that its income is distributed to its unitholders. This exemption does not apply to the Fund's subsidiaries that are subject to income tax.

(amounts in thousands, except per unit amounts)

10. PER UNIT AMOUNTS

(a) Earnings (loss) per unit

The computation for basic and diluted earnings (loss) per unit is as follows:

	Three Months		Six Months	
	2002	2001	**2002**	2001
Earnings (loss) for the period	**$ 4,147**	$ (2,347)	**$ 369**	$ (8,035)
Adjustments for equity component of convertible debentures charged directly to retained earnings, net of applicable future income taxes	**(15)**	(65)	**(89)**	(129)
Earnings (loss) available to unitholders	**4,132**	(2,412)	**280**	(8,164)
Dilutive effect of convertible debentures	**15**	–	**–**	–
Diluted earnings (loss) available to unitholders	**$ 4,147**	$ (2,412)	**$ 280**	$ (8,164)
Basic weighted average number of units issued	**15,654**	6,043	**11,371**	6,043
Dilutive effect of:				
Convertible debentures	**143**	–	**–**	–
Options and warrants	**–**	–	**263**	–
Diluted weighted average number of units issued and outstanding	**15,797**	6,043	**11,634**	6,043
Earnings (loss) per unit:				
Basic	**$ 0.26**	$ (0.40)	**$ 0.02**	$ (1.35)
Diluted	**0.26**	(0.40)	**0.02**	(1.35)

(b) Funds from operations per unit

The computation of basic and diluted funds from operations per unit is as follows:

	Three Months		Six Months	
	2002	2001	**2002**	2001
Funds from operations	**$ 7,903**	$ 6,445	**$ 598**	$ 1,161
Dilutive effect of convertible debentures	**-**	400	**-**	-
Diluted funds from operations	**$ 7,903**	$ 6,845	**$ 598**	$ 1,161
Basic weighted average number of units issued	**15,654**	6,043	**11,371**	6,043
Dilutive effect of:				
Convertible debentures	**143**	1,649	**323**	566
Options and warrants	**-**	-	**263**	-
Diluted weighted average number of units issued and outstanding	**15,797**	7,692	**11,957**	6,609
Funds from operations per unit:				
Basic	**$ 0.50**	$ 1.07	**$ 0.05**	$ 0.19
Diluted	**0.50**	0.89	**0.05**	0.18

Notes TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(amounts in thousands, except per unit amounts)
Three and six months ended June 30, 2002 and 2001 (unaudited)

11. SEGMENTED INFORMATION

The Company has determined that it operates in one business segment, the manufacturing and distribution of packaged ice and other products. The Company and its subsidiaries operate in Canada and the United States.

The following presents key information by geographic segment:

Three Months	**2002**			2001		
Ended June 30, 2002	**Canada**	**U.S.**	**Total**	Canada	U.S.	Total
Total sales	**$ 9,938**	**$ 17,233**	**$ 27,171**	$ 10,784	$ 17,149	$ 27,933
Cost of sales, selling, general and administration expenses	**(7,281)**	**(10,794)**	**(18,075)**	(7,517)	(10,615)	(18,132)
	$ 2,657	**$ 6,439**	**$ 9,096**	$ 3,267	$ 6,534	$ 9,801
Earnings (loss) for the period	**$ 2,797**	**$ 1,350**	**$ 4,147**	$ (5,847)	$ 3,500	$ (2,347)

Six Months	**2002**			2001		
Ended June 30, 2002	**Canada**	**U.S.**	**Total**	Canada	U.S.	Total
Total sales	**$ 13,010**	**$ 22,695**	**$ 35,705**	$ 13,724	$ 22,441	$ 36,165
Cost of sales, selling, general and administration expenses	**(11,975)**	**(17,828)**	**(29,803)**	(11,809)	(17,031)	(28,840)
	$ 1,035	**$ 4,867**	**$ 5,902**	$ 1,915	$ 5,410	$ 7,325
Earnings (loss) for the period	**$ 2,244**	**$ (1,875)**	**$ 369**	$ (8,819)	$ 784	$ (8,035)
Total assets	**$ 66,365**	**$ 113,329**	**$ 179,694**	$ 65,707	$ 123,731	$ 189,438

12. COMPARATIVE FIGURES

Per unit amounts for previous periods have been adjusted to reflect the exchange of six common shares of The Arctic Group Inc. for one unit of the Arctic Glacier Income Fund on March 22, 2002.

Arctic Glacier Income Fund

Arctic Glacier Inc.

Officers

Robert J. Nagy
Chairman & Chief Executive Officer

Keith W. McMahon, CA
Chief Financial Officer

Hugh A. Adams
Corporate Secretary

Investor Relations

Arctic Glacier Investor Relations
Toll free: 888.573.9237
Email: info@arcticglacierinc.com

Legal Counsel

Canada

Tupper & Adams
Winnipeg, Manitoba

Shea Nerland Calnan
Calgary, Alberta

United States

Jones, Day, Reavis & Pogue
Dallas, Texas

Auditors

KPMG LLP
Winnipeg, Manitoba

Bankers

Toronto Dominion Bank
RoyNat Inc.

Transfer Agent

Computershare Trust Company of Canada
Winnipeg, Manitoba

Stock Exchange Listing

Toronto Stock Exchange - Arctic Glacier Income Fund **AG.UN**

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ARCTIC GLACIER INCOME FUND

ARCTIC GLACIER INC.

CORPORATE OFFICE

625 Henry Avenue, Winnipeg, Manitoba, Canada R3A 0V1
Phone: 204.772.2473 • Fax: 204.783.9857 • Toll free: 888.573.9237

www.arcticglacierinc.com

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