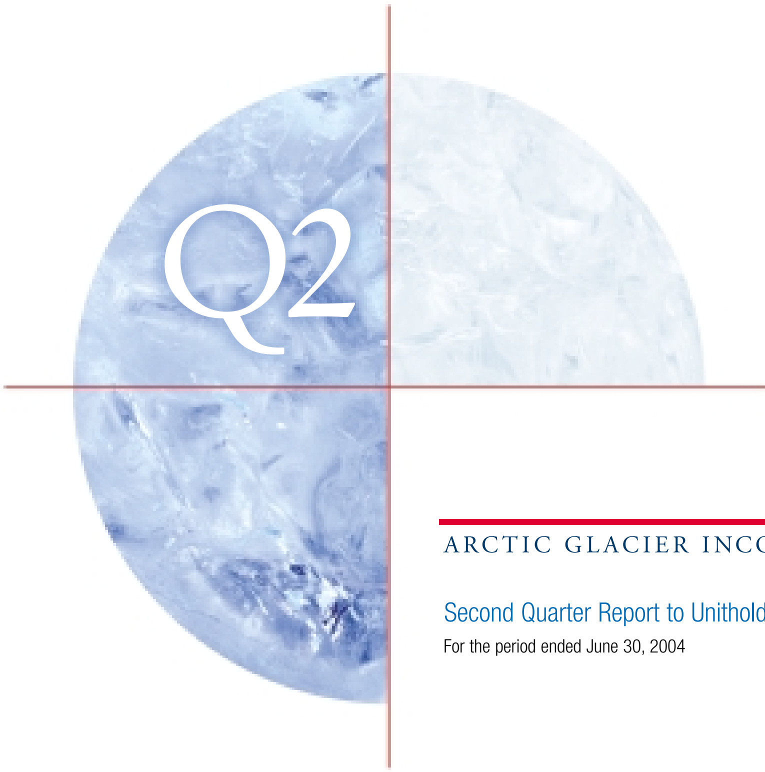
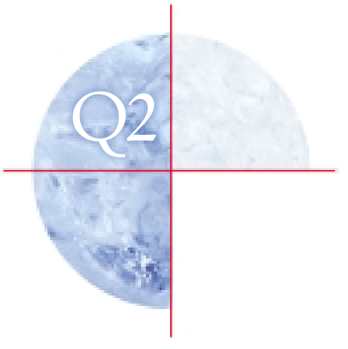


ARCTIC GLACIER INCOME FUND

Second Quarter Report to Unitholders

For the period ended June 30, 2004


Q2

Message to Unitholders

We are pleased to report operating results for the second quarter of 2004. During this period Arctic Glacier focused on modernizing and upgrading operations together with integrating and rationalizing newly acquired facilities. As we did so, we continued to investigate further acquisition opportunities, principally in the northeastern U.S.

Operations in Alberta particularly benefited from production process improvements during the quarter. At Arctic Glacier's Calgary manufacturing plant, we completed a conversion to cost-efficient tube ice technology, installed advanced product drying technology and increased overall production capacity. New product drying equipment was also installed at our facility in Edmonton, resulting in significantly enhanced product quality.

Arctic Glacier also introduced consumer-friendly recloseable packaging in the Alberta market for the peak summer season. This innovation represents a potentially significant competitive advantage, and if this initiative continues to perform as expected, it will be phased in throughout our network.

During the quarter the Fund declared distributions to unitholders totaling $6.2 million or $0.27 per unit. To the end of the second quarter, year-to-date distributions have totaled $12.5 million or $0.54 per unit. On an annualized basis this represents $1.07 per unit. To eliminate the effect of seasonal fluctuations in distributable cash, monthly distributions have been leveled throughout the year.

Arctic Glacier's strong growth in operations over the past year was evident throughout the Fund's income statement, particularly on the top line. Sales in the second quarter totaled $36.1 million, a 41% increase from the same period in 2003 and a new record high for the second quarter. Most of the gain was due to acquisitions made over the past 12 months in the northeastern U.S. In markets serviced prior to these acquisitions, sales for the quarter eased by 1% due to unseasonably cooler temperatures in most of our key markets. While one of the strengths of Arctic Glacier is its broad geographic diversity, these unprecedented summer temperatures have prevailed across much of North America. As a result, Arctic Glacier, like many other businesses that are dependent upon favorable summer weather conditions, has seen lower sales than anticipated. Unfortunately, this colder-than-average weather has continued through July and into August.

For the first six months of 2004, sales were $47.3 million, up 42% over the same period in 2003, reflecting the same influences as in the second quarter.

Earnings for the quarter increased 37% to $5.6 million. On a per-unit basis, a higher number of units issued and outstanding in the second quarter of 2004 reduced earnings to $0.24 per unit from $0.26 for the same period in 2003. For the first half of 2004, earnings totaled $2.5 million or $0.11 per unit, compared to $0.7 million or $0.04 per unit for the same period in 2003.

Distributable cash for the quarter increased 22% to $8.1 million or $0.35 per unit from $6.6 million or $0.42 per unit for the same period in 2003. For the first six months of 2004, distributable cash increased 49% to $2.7 million or $0.12 per unit from $1.8 million or $0.11 per unit in 2003.

For both the quarter and the first six months of the year, earnings and distributable cash per unit were impacted by an increased number of units outstanding as a result of equity offerings during 2003. As a result, earnings and distributable cash only reflect the contribution from acquisitions subsequent to the date of the offerings. These acquisitions are expected to be accretive to earnings and distributable cash on an annualized basis.

Arctic Glacier is well positioned for continued growth by acquisition. During the fourth quarter of 2003 the Fund completed a unit offering that raised $47.2 million net of offering costs. At this time over $21 million of that financing remains available for investment. When combined with debt financing at the Fund's disposal, the total capital available for investment exceeds $40 million. The Fund expects to deploy most of this capital during the fourth quarter of 2004.

The Fund expects to continue expanding its market presence in or adjacent to existing markets. The Fund will continue to examine strategic markets where a significant regional presence can be achieved. Operationally, Arctic Glacier will focus on rationalizing production processes, distribution networks and administrative infrastructures.

At this time, management expects the Fund will generate sufficient cash in 2004 to meet or exceed the current distribution rate of $1.07 per unit on an annualized basis.

Robert J. Nagy

President and
Chief Executive Officer

Management's Discussion and Analysis

of Operating Results and Financial Position for the three and six months ended June 30, 2004

The Management's Discussion and Analysis ("MD&A") analyzes significant changes in the consolidated balance sheets, consolidated statements of operations, cumulative earnings (deficit) and cash flows of Arctic Glacier Income Fund (the "Fund" or "Arctic Glacier"). It has been prepared taking into account material transactions and events up to and including August 9, 2004 and should be read in conjunction with the MD&A in the annual report of the Arctic Glacier Income Fund for the year ended December 31, 2003.

Due to the seasonal nature of Arctic Glacier's business, the results of operations for the interim periods reported are not necessarily indicative of results to be expected for the year. Arctic Glacier usually generates significant sales and profits in the second and third quarters, with lower sales and significant losses in the first and fourth quarters. Cash flows peak in the third and fourth quarters and drop off in the first and second quarters.

Highlights for the Three Months Ended June 30, 2004

- Completed conversion of the manufacturing facility in Calgary, Alberta to tube ice technology, increased production capacity and introduced advanced product drying technology;
- Added product drying equipment to the manufacturing facility in Edmonton, Alberta resulting in significantly enhanced product quality in that market;
- Introduced consumer friendly re-closeable packaging in the Alberta market for the peak summer sales season;
- Sales increased $10.5 million or 41% compared to the second quarter of 2003;
- Earnings increased $1.5 million or 37% compared to the second quarter of 2003;
- Earnings per unit (basic and diluted) of $0.24 per unit compared to $0.26 for the second quarter of 2003;
- Declared distributions totaling $6.2 million ($0.2676 per unit) compared to $4.4 million ($0.2676 per unit) for the second quarter of 2003.

Non-GAAP Financial Measures

EBITDA and distributable cash are not recognized measures under Canadian generally accepted accounting principles (GAAP). EBITDA is defined as earnings before interest, taxes, amortization and non-recurring expenses including acquisition integration charges that are one-time costs unique to each individual acquisition. EBITDA is a performance metric used by many investors to provide an indication of cash available for distribution from ongoing operations prior to debt service, capital expenditures and income taxes and is often used to compare companies and Income Funds on the basis of ability to generate cash from ongoing operations. Distributable cash is a performance metric used by many investors to summarize the funds available for distribution to unitholders in an Income Fund.

Investors should be cautioned that EBITDA and distributable cash should not be construed as alternatives to net income, cash from operations or other financial measures determined in accordance with GAAP as indicators of the Fund's performance. The Fund's method of calculating EBITDA and distributable cash may differ from other companies and Income Funds and, accordingly, may not be comparable to measures used by them.

Distributable Cash

The Fund generated distributable cash of $8.1 million for the second quarter of 2004, an increase of $1.5 million or 22% compared to $6.6 million for the same period of 2003 as a result of acquisitions made in 2003 and the first part of 2004. On a per unit basis, distributable cash was $0.35 per unit compared to $0.42 per unit for the same period of 2003, primarily the result of units issued in the October 2003 equity offering for which the proceeds have not been invested to date.

Distributable cash for the first six months of 2004 totals $2.7 million, an increase of 49% compared to the same period of 2003. On a per unit basis, distributable cash for the first six months of 2004 is $0.12 per unit, an increase over the $0.11 realized for the same period of 2003.

The packaged ice business is very seasonal. The Trustees of the Fund have eliminated the impact of seasonal fluctuations on unitholders by equalizing the monthly distributions. Because of this seasonality, the calculation of distributable cash for any portion of the year is not necessarily indicative of the distributable cash to be expected for the year.

Management is confident that the acquisitions made in 2003 and the first quarter of 2004 will be accretive to distributable cash per unit in 2004 as it will include the full contribution of the peak summer sales period. Management expects that the Fund will generate sufficient cash in 2004 to meet or exceed the current distribution rate of $1.07 on an annualized basis.

Distributable Cash

(thousands, except per unit amounts)	Three Months 2004	Three Months 2003	Six Months 2004	Six Months 2003
Cash from (used in) operating activities	**$ 1,464**	$ 2,739	**$ (4,035)**	$ (612)
Adjustments:				
Changes in working capital items	**8,043**	5,078	**8,778**	4,197
	9,507	7,817	**4,743**	3,585
Less sustaining capital expenditures, net of dispositions	**(1,409)**	(1,184)	**(2,060)**	(1,785)
Distributable cash	**$ 8,098**	$ 6,633	**$ 2,683**	$ 1,800
Weighted average number of units	**23,302**	15,805	**23,293**	15,733
Distributable cash per unit	**$ 0.35**	$ 0.42	**$ 0.12**	$ 0.11
Distributions declared	**$ 6,236**	$ 4,427	**$ 12,468**	$ 8,618
Distributions declared per unit	**$ 0.27**	$ 0.27	**$ 0.54**	$ 0.54
Distributions declared per unit (annualized)	**$ 1.07**	$ 1.07	**$ 1.07**	$ 1.07

The Fund declared cash distributions totaling $6.2 million or $0.27 per unit during the second quarter ended June 30, 2004 and $12.5 million or $0.54 per unit for the first six months of the year. This compares to $4.4 million or $0.27 per unit during the second quarter of 2003 and $8.6 million or $0.54 per unit for the first six months of 2003. This results in an annualized distribution rate of $1.07 per unit, consistent with the annualized distribution rate for the first and second quarters of 2003.

Distributions

(thousands, except per unit amounts)

Month	Record Date	Payment Date	Distributions Per Unit	Distributions Amount
January	January 30, 2004	February 13, 2004	$ 0.0892	$ 2,077
February	February 27, 2004	March 15, 2004	0.0892	2,077
March	March 31, 2004	April 15, 2004	0.0892	2,078
April	April 30, 2004	May 14, 2004	0.0892	2,078
May	May 31, 2004	June 15, 2004	0.0892	2,079
June	June 30, 2004	July 15, 2004	0.0892	2,079
Total			**$ 0.5352**	**$ 12,468**

Management's Discussion and Analysis

of Operating Results and Financial Position for the three and six months ended June 30, 2004

Acquisitions

Arctic Glacier did not complete any acquisitions in the second quarter of 2004. One acquisition had been completed during the first quarter, on March 3, 2004, when a subsidiary of Arctic Glacier acquired the assets of the ice products division of A. T. Reynolds & Sons, Inc. of Kiamesha Lake, New York, which operates under the trade name of Leisure Time Ice, for aggregate cash consideration of $8.8 million (U.S. $6.6 million). In addition, acquisition and restructuring costs of $0.9 million were incurred. The division, with annual sales of more than $5 million, is the market leader in its area servicing central New York State, parts of New York City, northern and central New Jersey and northeastern Pennsylvania. Leisure Time Ice leases a manufacturing facility in Kiamesha Lake, New York and distribution facilities in Newburgh, New York and Raritan, New Jersey. The acquisition was funded from proceeds of the October 2003 offering of trust units that had been temporarily applied against indebtedness.

The acquisitions in 2003 and to date in 2004 are key steps in building a strong market presence in the densely populated northeastern U.S. market and are expected to be accretive to distributable cash on a per unit basis.

Results of Operations

Sales

Sales for the second quarter ended June 30, 2004 totaled $36.1 million, an increase of $10.5 million or 41% compared to sales of $25.6 million for the second quarter of 2003.

The increase in sales is primarily attributable to acquisitions made over the past 12 months in the Pennsylvania and New York markets, which contributed $10.9 million to sales during the second quarter. This offset a slight decrease in sales in previously serviced markets, which were down $0.2 million or 1% compared to the second quarter of 2003. Most market areas experienced unfavorable weather conditions in May and June, including some of the coolest and wettest conditions in recent history in eastern Canada, the Prairies and the north-central United States. This more than offset favorable weather conditions in most markets in April, and warm dry weather in both British Columbia and the south-central United States markets through most of the spring.

Sales were impacted negatively by the stronger Canadian dollar during the second quarter of 2004, which decreased the Canadian dollar value of sales generated in U.S. markets by $0.2 million compared to the same period in 2003.

Sales for the six months ended June 30, 2004 totaled $47.3 million, an increase of $14.1 million or 42% compared to the same period of 2003. Acquisitions have contributed $14.6 million during this period and sales in previously serviced markets are up by $0.3 million or 1%. The stronger Canadian dollar has reduced reported sales by $0.8 million during this period.

EBITDA

EBITDA for the second quarter of 2004 totaled $10.6 million, an increase of $2.2 million or 27% compared to $8.3 million for the same period in 2003.

The increase in EBITDA is primarily the result of acquisitions made over the past 12 months, which contributed $3.4 million during the second quarter. Offsetting this was a decrease in EBITDA of previously operated regions. This resulted from the weather-related reduction in sales, combined with higher fuel and distribution costs. Also contributing to the decrease were higher corporate costs related to increased staffing levels to support the expanded scope of operations, the financial statement certification process and non-cash unit-based compensation costs. The stronger Canadian dollar has reduced reported EBITDA by $0.1 million compared to the same period of 2003.

EBITDA for the six months ended June 30, 2004 totaled $6.4 million, an increase of $1.7 million or 37% compared to $4.7 million for the same period in 2003. Acquisitions have contributed $2.9 million to EBITDA during this period, offset by the same factors as noted above.

Amortization

Amortization expense totaled $3.0 million for the second quarter of 2004, an increase of $0.7 million or 27% compared to the same period of 2003. Amortization of property, plant and equipment increased by $0.6 million due to an increase in depreciable assets from acquisitions made in 2003 and early 2004. Amortization of non-competition agreements and regional trade names increased by $0.2 million compared to the same period of 2003 as a result of acquisitions. These increases were offset by the impact of the stronger Canadian dollar which has reduced the Canadian dollar value of amortization for U.S. assets.

Amortization expense for the six months ended June 30, 2004 totaled $5.9 million, an increase of $1.1 million or 22% compared to the same period of 2003.

Interest

Interest expense totaled $0.4 million for the second quarter of 2004, a slight decrease compared to the same period in 2003. Lower interest rates and a stronger Canadian dollar during 2004 more than offset the higher debt levels this year resulting from financing acquisitions. The weighted average cost of debt at June 30, 2004 is 2.8% compared to 3.2% at the same time last year.

Interest expense for the six months ended June 30, 2004 totaled $0.7 million, a decrease of 10% compared to the same period of 2003.

Acquisition Integration Charges

Acquisition integration costs reflect the non-recurring expenses associated with integrating acquired operations into Arctic Glacier's business model, subsequent to the completion of the acquisition, along with the costs of maintaining an acquisition department. Acquisition integration costs totaled $0.1 million for the second quarter of 2004.

Acquisition integration charges for the six months ended June 30, 2004 totaled $0.2 million.

Gain on Disposal of Property, Plant and Equipment

Gains on disposal of property, plant and equipment were minimal for the second quarter of 2004, resulting from the disposal of production and merchandising equipment in the U.S. During the same period of the previous year, losses on disposal of property, plant and equipment totaled less than $0.1 million from the disposition of redundant production and packaging equipment in the U.S.

For the six months ended June 30, 2004, gains on disposal of property, plant and equipment totaled $0.1 million compared to losses of $0.1 million for the same period of 2003.

Gain on Foreign Exchange Options

Gain on foreign exchange options totaled $0.5 million for the second quarter of 2004 resulting from the Fund's exchange management program. This amount is comprised of $0.1 million realized gains and $0.4 million non-cash, period end fair-value adjustment of the asset associated with outstanding foreign currency option contracts.

Non-Recurring Expenses

Non-recurring expenses for the second quarter of 2004 totaled $0.1 million related to resolving issues for acquisitions made in previous years. During the same period of 2003, non-recurring expenses of $0.1 million were primarily comprised of costs associated with investigating potential business acquisitions that the Fund elected not to pursue.

Non-recurring expenses for the six months ended June 30, 2004 totaled $0.1 million, consistent with the same period of 2003.

Income Taxes

Income tax expense for the second quarter of 2004 totaled $1.8 million, an increase compared to $1.4 million for the same period of 2003 as a result of increased pre-tax earnings.

Income taxes recoverable for the six months ended June 30, 2004 totaled $2.4 million compared to $1.8 million for the same period of 2003.

Earnings and Earnings Per Unit

Earnings for the second quarter of 2004 totaled $5.6 million, an increase of $1.5 million or 37% compared to $4.1 million for the same period in 2003. On a per unit basis, earnings were $0.24 per unit (basic and diluted), down compared to $0.26 for the same period in 2003 as a result of the increased number of units outstanding.

For the six months ended June 30, 2004, earnings totaled $2.5 million, an increase of $1.8 million compared to the same period of 2003. Earnings per unit for the six months ended June 30, 2004 totaled $0.11 per unit compared to $0.04 per unit for the same period of 2003.

Management's Discussion and Analysis

of Operating Results and Financial Position for the three and six months ended June 30, 2004

Summary of Quarterly Results

For the eight most recent quarters

(thousands, except per unit amounts)

	2004		2003				2002	
	Q2	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3
Sales	**$ 36,088**	**$ 11,222**	$ 15,740	$ 48,219	$ 25,615	$ 7,596	$ 11,416	$ 44,598
EBITDA	**10,553**	**(4,123)**	(647)	20,413	8,317	(3,621)	(471)	19,573
Earnings (loss)	**5,574**	**(3,054)**	(1,288)	11,351	4,059	(3,358)	(2,183)	11,041
Earnings (loss) per unit:								
Basic and diluted	**0.24**	**(0.13)**	(0.06)	0.62	0.26	(0.21)	(0.14)	0.70

Quarterly Results

The majority of Arctic Glacier's operations are in Canada and the north central and northeastern United States. As a result, the business is affected by seasonal weather patterns. Demand for packaged ice is very light during the first four months of the year, which are characterized by negative EBITDA and significant losses. Demand picks up in spring but is very dependent upon temperature and precipitation. As a result, May and June enjoy positive EBITDA and modest earnings. The third quarter of the year includes the peak summer sales period and is the financial driver for the business. Demand tapers off after the summer season ends and, as a result, the last quarter of the year is characterized by slightly negative EBITDA and losses.

For the first and second quarters of 2004, sales, EBITDA, earnings (loss) and earnings (loss) per unit were impacted by acquisitions made in 2003 and the first quarter of 2004 and by the stronger Canadian dollar compared to the first and second quarters of 2003.

Liquidity and Capital Resources

Cash from Operating Activities

Funds from operations, before changes in non-cash working capital items, totaled $9.5 million for the second quarter of 2004, an increase of $1.7 million or 21% compared to the same period of the previous year. The increase is directly attributable to the growth in the scope of operations that has occurred as a result of the acquisitions made in 2003 and early 2004. For the six months ended June 30, 2004, funds from operations, before changes in non-cash working capital items, totaled $4.7 million compared to $3.6 million for the same period of 2003.

Changes in non-cash working capital items resulted in a net use of cash of $8.0 million for the second quarter of 2004 compared $5.1 million for the same period of 2003. The change is primarily attributable to the increased scope of operations this year and to the non-recurring increase in payables experienced in the second quarter of 2003 as a result of costs related to acquisitions, financing and the equity offering. For the six months ended June 30, 2004, changes in non-cash working capital items resulted in a net use of cash of $8.8 million compared to $4.2 million for the same period of 2003 as a result of the increased scope of operations.

Investing Activities

	Three Months		Six Months	
(thousands)	**2004**	2003	**2004**	2003
Sustaining capital expenditures, net of dispositions	**$ 1,409**	$ 1,184	**$ 2,060**	$ 1,785
Growth capital expenditures	**2,260**	777	**4,628**	1,183
Acquisitions	**199**	5,457	**9,714**	6,692
Additions to other assets	**224**	15	**239**	43
Additions to intangibles and goodwill	**40**	1	**51**	3
Cash used in investing activities	**$ 4,132**	$ 7,434	**$ 16,692**	$ 9,706

Cash used in Investing Activities

Cash used in investing activities totaled $4.1 million for the second quarter of 2004 compared to $7.4 million for the same period of 2003. Sustaining capital expenditures, which represents the replacement of property, plant and equipment to sustain current business operations, totaled $1.4 million, an increase of 19% compared to the same period of 2003 as a result of the expanded scope of operations. For the six months ended June 30, 2004, sustaining capital expenditures totaled $2.1 million, an increase of 15% compared to the same period of 2003. Sustaining capital expenditures are expected to average approximately 4% of sales on an annual basis.

Growth capital expenditures, representing capital required to meet the demands of acquired operations or organic growth totaled $2.3 million during the second quarter of 2004, an increase of $1.5 million compared to the same period of 2003 as a result of the refurbishment and upgrading of facilities in Calgary and Edmonton, Alberta, and the construction of a larger head office building in Winnipeg to accommodate the expanded scope of operations. Growth capital expenditures for the six months ended June 30, 2004 totaled $4.6 million compared to $1.2 million for the same period of 2003.

Cash used for acquisitions during the second quarter of 2004 of $0.2 million relates to an increase in the estimate of acquisition and restructuring costs for the Reynolds acquisition in March 2004. For the six months ended June 30, 2004, the Fund has used $9.7 million of cash related to this acquisition and related acquisition and restructuring costs.

Additions to other assets totaled $0.2 million during the second quarter of 2004 as a result of fees to extend the maturity of the credit facility to March 2006 and costs to amend the agreement to permit recent acquisitions. Additions to goodwill of less than $0.1 million during the second quarter of 2004 are related to a number of smaller local acquisitions of merchandisers and customer lists.

Cash from (used in) Financing Activities

Cash used in financing activities totaled $1.0 million for the second quarter of 2004 compared to cash generated of $5.9 million for the same period of 2003.

During the second quarter of 2004, a total of $5.4 million was drawn on the credit facility for working capital purposes. The Fund also generated $0.2 million of proceeds from units issued under the Distribution Reinvestment Plan. The Fund used $6.2 million of cash to pay distributions to unitholders during the second quarter of 2004, $0.1 million to retire loans and notes payable, and $0.3 million to reduce capital lease obligations, primarily to exercise an equipment purchase option.

During the second quarter of 2003, cash totaling $5.9 million was generated from financing activities. The issuance of trust units generated $23.7 million of cash, of which $5.5 million was used to fund the acquisition of Rosenberger Ice and $18.2 million used to temporarily reduce indebtedness. The Fund also used $4.2 million of cash to pay distributions.

Management's Discussion and Analysis

of Operating Results and Financial Position for the three and six months ended June 30, 2004

The Fund had total debt outstanding at June 30, 2004 of $55.0 million, comprised of senior debt of $54.1 million, other loans payable of $0.8 million and obligations under capital leases of $0.1 million. This compares to $34.1 million outstanding at the same time last year, with the increase the result of financing acquisitions.

The Fund's net debt (1) to trailing 12 month EBITDA ratio at June 30, 2004 was 2.1:1. This was well within the Fund's stated intention to maintain a net debt to EBITDA ratio of less than 2.25:1, excluding any bridge financing of future acquisitions.

Cash flow from operations, together with cash balances on hand and unutilized credit available on existing credit facilities are expected to be sufficient to meet operating requirements, capital expenditures and anticipated distributions.

(1) Net debt is defined as total long-term debt and obligations under capital leases reduced by cash.

Contractual Obligations

There have been no material changes to the Fund's contractual obligations during the second quarter of 2004 that are outside of the ordinary course of business.

Financial Instruments

Foreign Exchange

The Fund and its subsidiaries generate significant cash flows in U.S. dollars and are therefore subject to fluctuations in the value of the Canadian dollar relative to the U.S. dollar in the normal course of business. In order to reduce this risk, the Fund has an exchange management program that uses derivative financial instruments, which are not held or issued for speculative purposes.

During the second quarter of 2004, the Fund and its subsidiaries entered into a series of foreign exchange option contracts providing a floor exchange rate of $1.3660 Canadian dollars per U.S. dollar on U.S. $14.0 million. This represents approximately 85% of the Fund's estimated 2004 net distributable cash generated in the United States. These contracts have settlement dates of less than one year, and contain knock-in provisions that call for the balance of any options to be exercised at $1.3660 if the spot exchange rate exceeds $1.4910 at any point prior to maturity.

During the second quarter of 2004 the Fund realized a gain of $0.1 million on the exercise of foreign exchange options contracts. The mark-to-market value of the contracts outstanding at June 30, 2004 results in an unrealized gain of $0.4 million which has been included in earnings. At June 30, 2004, the notional amount of foreign exchange option contracts outstanding was U.S. $11.7 million.

Accounting Policies and Estimates

The critical accounting policies and estimates and discussion of new accounting policies are substantially unchanged from those identified in the MD&A for the year ended December 31, 2003 except as noted below.

New Accounting Policies Adopted in 2004

The Fund uses foreign exchange options to mitigate its exposure to fluctuations in foreign exchange rates. Effective January 1, 2004, the Fund adopted the new Canadian accounting guideline for hedging relationships. This guideline addresses the identification, designation, documentation and effectiveness of hedging relationships for purposes of applying hedge accounting. Under the new guideline, any hedging transactions that do not qualify for hedge accounting must be marked to market at each period end with any resulting gains or losses recorded in earnings.

The Fund's foreign exchange options were marked to market at June 30, 2004. Consequently, the Fund has recorded an asset of $447 on the consolidated balance sheet included in prepaid expenses and an unrealized gain of $447 for the second quarter of 2004.

Related Party Transactions

The Fund and its subsidiaries have not entered into any significant transactions with related parties during the three and six months ended June 30, 2004 and do not have any amounts that are due from or due to related parties.

Business Risks

The factors affecting the business remain substantially unchanged from those identified in the MD&A for the year ended December 31, 2003.

Outlook

The Fund is well positioned to continue profitable growth, while paying unitholder distributions, meeting debt obligations and preserving its robust financial position.

Arctic Glacier will be evaluating the results of the introduction of consumer friendly re-closeable packaging in the Alberta market over the course of the peak summer sales season. Favorable results are expected to lead to expansion of this offering into more market areas over the next few years.

Arctic Glacier has more than $21 million available for investment from the October 2003 equity offering. When combined with debt financing available, the total capital available for investment exceeds $40 million. Arctic Glacier is actively pursuing accretive acquisition opportunities in markets where a significant regional presence can be achieved or enhanced, including the densely populated northeastern U.S., and expects to deploy the majority of the capital before the end of the current year.

Forward-Looking Statements

This quarterly report contains forward-looking statements, which reflect management's expectations regarding the future growth, results of operations, performance and business prospects and opportunities of the Fund and its subsidiaries. Forward-looking statements typically contain words such as "anticipates", "believes", "continue", "could", "expects", "indicates", "plans" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management.

Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including risks associated with the impact of adverse or favorable weather conditions, seasonality on labor and distribution, competition, compliance with government regulations, currency risk, dependence on key personnel, product liability, environmental risk, risks associated with acquisitions, expansion into the United States, effects of price changes in raw materials, restrictions on potential growth and debt refinancing. Although the forward-looking statements contained in this report are based upon what management believes to be reasonable assumptions, the Fund cannot assure readers that actual results will be consistent with these forward-looking statements.

These forward-looking statements are made as at the date of this report, 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

As at June 30, 2004 and 2003 (unaudited) and December 31, 2003 (audited)

(thousands)	June 30, 2004	June 30, 2003	December 31, 2003
Assets			
Current assets			
Cash	**$ 475**	$ 3,352	$ 11,032
Accounts receivable	**14,876**	12,925	6,417
Inventories	**6,002**	4,520	3,515
Prepaid expenses	**3,773**	2,149	2,213
	25,126	22,946	23,177
Property, plant and equipment	**94,522**	72,384	89,061
Other assets	**4,594**	2,755	3,703
Intangibles	**1,376**	1,373	1,375
Goodwill	**105,640**	73,024	97,341
	$ 231,258	$ 172,482	$ 214,657
Liabilities and Unitholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	**$ 11,441**	$ 9,468	$ 8,366
Distributions payable to unitholders	**2,079**	1,633	2,076
Current obligations under capital leases	**56**	166	427
Principal due within one year on long-term debt	**205**	102	203
	13,781	11,369	11,072
Obligations under capital leases	**13**	486	38
Long-term debt	**54,742**	33,316	31,377
Future income taxes	**2,420**	2,391	5,701
Unitholders' equity			
Capital contributions (Note 5)	**201,285**	153,609	200,905
Contributed surplus	**236**	–	–
Cumulative earnings (deficit)	**10,546**	(2,037)	8,026
Cumulative distributions (Note 6)	**(44,973)**	(21,379)	(32,505)
Cumulative translation adjustment	**(6,792)**	(5,273)	(9,957)
	160,302	124,920	166,469
	$ 231,258	$ 172,482	$ 214,657

See accompanying notes to interim consolidated financial statements.

Interim Consolidated Statements of Operations

Three and six months ended June 30, 2004 and 2003 (unaudited)

	Three Months		Six Months	
(thousands, except per unit amounts)	**2004**	2003	**2004**	2003
Sales	**$ 36,088**	$ 25,615	**$ 47,310**	$ 33,211
Cost of sales, selling, general and administration expenses	**25,535**	17,298	**40,880**	28,515
Earnings before the undernoted	**10,553**	8,317	**6,430**	4,696
Amortization	**3,037**	2,385	**5,900**	4,825
Interest	**403**	418	**716**	796
Acquisition integration charges	**129**	–	**232**	–
Loss (gain) on disposal of property, plant and equipment	**(3)**	68	**(105)**	59
Gain on foreign exchange options (Note 3)	**(521)**	–	**(521)**	–
Non-recurring expenses	**102**	21	**109**	97
Earnings (loss) before income taxes	**7,406**	5,425	**99**	(1,081)
Income taxes				
Current	**721**	61	**939**	218
Future (reduction)	**1,111**	1,305	**(3,360)**	(2,000)
	1,832	1,366	**(2,421)**	(1,782)
Earnings for the period	**$ 5,574**	$ 4,059	**$ 2,520**	$ 701
Earnings per unit – basic and diluted (Note 7)	**$ 0.24**	$ 0.26	**$ 0.11**	$ 0.04

See accompanying notes to interim consolidated financial statements.

Interim Consolidated Statements of Cumulative Earnings (Deficit)

Three and six months ended June 30, 2004 and 2003 (unaudited)

	Three Months		Six Months	
(thousands)	**2004**	2003	**2004**	2003
Cumulative earnings (deficit), beginning of period	**$ 4,972**	**$ (6,096)**	**$ 8,026**	**$ (2,738)**
Earnings for the period	**5,574**	**4,059**	**2,520**	**701**
Cumulative earnings (deficit), end of period	**$ 10,546**	**$ (2,037)**	**$ 10,546**	**$ (2,037)**

See accompanying notes to interim consolidated financial statements.

Interim Consolidated Statements of Cash Flows

Three and six months ended June 30, 2004 and 2003 (unaudited)

	Three Months		Six Months	
(thousands)	**2004**	2003	**2004**	2003
Cash from (used in):				
Operating activities				
Earnings for the period	**$ 5,574**	$ 4,059	**$ 2,520**	$ 701
Adjustments for:				
Amortization	**3,037**	2,385	**5,900**	4,825
Gain (loss) on disposal of property, plant and equipment	**(3)**	68	**(105)**	59
Unit-based compensation expense	**235**	–	**235**	–
Unrealized gain on foreign exchange options	**(447)**	–	**(447)**	–
Future income taxes	**1,111**	1,305	**(3,360)**	(2,000)
Funds from operations	**9,507**	7,817	**4,743**	3,585
Changes in working capital items (Note 8)	**(8,043)**	(5,078)	**(8,778)**	(4,197)
	1,464	2,739	**(4,035)**	(612)
Investing activities				
Additions to property, plant and equipment	**(3,896)**	(1,983)	**(7,147)**	(2,998)
Proceeds from disposal of property, plant and equipment	**227**	22	**459**	30
Additions to other assets	**(224)**	(15)	**(239)**	(43)
Additions to intangibles	**–**	(1)	**–**	(3)
Additions to goodwill	**(40)**	–	**(51)**	–
Acquisition of business operations (Note 4)	**(199)**	(5,457)	**(9,714)**	(6,692)
	(4,132)	(7,434)	**(16,692)**	(9,706)
Financing activities				
Proceeds from long-term debt	**5,424**	–	**22,666**	1,107
Principal repayments on long-term debt	**(52)**	(13,476)	**(108)**	(13,603)
Principal payments under capital lease obligations	**(317)**	(74)	**(396)**	(151)
Units issued	**209**	23,658	**380**	23,658
Cash distributions paid	**(6,235)**	(4,191)	**(12,465)**	(8,356)
	(971)	5,917	**10,077**	2,655
Foreign exchange gain (loss) on cash held in foreign currency	**(18)**	(492)	**93**	(904)
Increase (decrease) in cash	**(3,657)**	730	**(10,557)**	(8,567)
Cash, beginning of period	**4,132**	2,622	**11,032**	11,919
Cash, end of period	**$ 475**	$ 3,352	**$ 475**	$ 3,352
Supplementary cash flow information				
Interest paid	**$ 435**	$ 512	**$ 729**	$ 1,025
Income taxes paid	**722**	112	**940**	269

See accompanying notes to interim consolidated financial statements.

Notes to Interim Consolidated Financial Statements

Three and six months ended June 30, 2004 and 2003 (unaudited)
(amounts in thousands, except per unit amounts)

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 interim consolidated financial statements reflect a continuation of The Arctic Group Inc.

The interim consolidated financial statements and related notes do not include all of the information required for complete financial statements, and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2003. 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. The Company usually generates significant sales and profits in the second and third quarters, with lower sales and significant losses in the first and fourth quarters. Cash flows peak in the third and fourth quarters and drop off in the first and second quarters.

3. CHANGE IN ACCOUNTING POLICY

The Fund uses foreign exchange options to mitigate its exposure to fluctuations in foreign exchange rates. Effective January 1, 2004, the Fund adopted the new Canadian accounting guideline for hedging relationships. This guideline addresses the identification, designation, documentation and effectiveness of hedging relationships for purposes of applying hedge accounting. Under the new guideline, any hedging transactions that do not qualify for hedge accounting must be marked to market at each period end with any resulting gains or losses recorded in earnings.

The Fund's foreign exchange options were marked to market at June 30, 2004. Consequently, the Fund has recorded an asset of $447 on the interm consolidated balance sheet included in prepaid expenses and an unrealized gain of $447 and a realized gain of $74 for the second quarter of 2004.

4. BUSINESS ACQUISITIONS

In March 2004, a subsidiary of the Fund acquired certain assets and operations of A. T. Reynolds & Sons, Inc., which operated an ice manufacturing and distribution business in New York, for aggregate consideration of $8,804 (U.S. $6,627). In addition, the Fund has incurred acquisition and restructuring costs of $910 related to professional fees and other costs associated with the purchase of these assets and operations.

In March 2003, a subsidiary of the Fund acquired certain assets and operations of Ice Castles, Inc., which operated an ice manufacturing and distribution business in western Nebraska, for aggregate cash consideration of $1,094 (U.S. $741). In addition, the Fund has incurred acquisition and restructuring costs of $141 related to professional fees, employee severance and reorganization costs associated with the purchase of these assets and operations.

Notes to Interim Consolidated Financial Statements

Three and six months ended June 30, 2004 and 2003 (unaudited)
(amounts in thousands, except per unit amounts)

In June 2003, a subsidiary of the Fund acquired certain assets and operations of the ice division of Rosenberger Companies, Ltd. (operating as Rosenberger Ice), which operated an ice manufacturing and distribution business in eastern Pennsylvania, western New Jersey, northern Delaware and northeastern Maryland, for aggregate consideration of $4,858 (U.S. $3,593). In addition, the Fund has incurred acquisition costs of $599 related to professional fees and other costs associated with the purchase of these assets and operations.

These transactions have been accounted for by the purchase method and the results of operations are included in the Fund's accounts from the dates of acquisition. Details of the acquisitions are as follows:

	2004	2003
Net assets acquired, at fair value:		
Current assets	**$ 252**	$ 739
Property, plant and equipment	**2,029**	3,054
Other assets	**1,461**	502
Goodwill	**6,020**	2,397
	9,762	6,692
Less current liabilities	**48**	–
	$ 9,714	$ 6,692
Purchase consideration:		
Cash	**$ 8,804**	$ 5,952
Acquisition and restructuring costs	**910**	740
	$ 9,714	$ 6,692

5. CAPITAL CONTRIBUTIONS

(a) Issued

Fund units are included in unitholders' capital contributions on the interim consolidated balance sheet as follows:

	Number of Units	Amount
Balance at December 31, 2002	15,659.9	$ 129,951
Units issued for cash consideration on June 25, 2003, at $9.50 per unit, net of issue costs of $1,594	2,650.0	23,581
Units issued for cash consideration on October 8, 2003, at $10.10 per unit, net of issue costs of $2,765	4,950.0	47,230
Units issued for cash consideration under Distribution Reinvestment and Optional Cash Purchase Plan	15.2	143
Balance at December 31, 2003	23,275.1	200,905
Units issued for cash consideration under Distribution Reinvestment and Optional Cash Purchase Plan	35.7	380
Balance at June 30, 2004	23,310.8	$ 201,285

(amounts in thousands, except per unit amounts)

(b) Options

Changes in the number of options, with their weighted average exercise prices, are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Unit options outstanding at December 31, 2003 and March 31, 2004	0.0	–
Granted	840.0	$ 11.50
Unit options outstanding at June 30, 2004	840.0	$ 11.50
Options exercisable, end of period	420.0	$ 11.50

In April 2004, the Trustees of the Fund granted 840 unit options under the Unit Option Plan to certain executives, trustees and employees. The options vest 50% at the grant date and 50% after one year.

The compensation expense related to the unit options issued under the Unit Option Plan during the three months and six months ended June 30, 2004 totaled $235 (2003 – nil). The fair value of the unit options was determined at the date of the grant using the Black-Scholes option price model using weighted average assumptions of a five year expected option life, a 3.70% risk free interest rate, at an 18% volatility factor and 9.3% expected distributions. The fair value of the options was calculated at $399 or $0.47 per option and is being expensed over the vesting period of the options.

6. CUMULATIVE DISTRIBUTIONS

Cumulative distributions for the three and six months ended June 30 are as follows:

	Three Months		Six Months	
	2004	2003	**2004**	2003
Balance, beginning of period	**$ 38,737**	$ 16,952	**$ 32,505**	$ 12,761
Distributions	**6,236**	4,427	**12,468**	8,618
Balance, end of period	**$ 44,973**	$ 21,379	**$ 44,973**	$ 21,379

Distributions are made monthly to unitholders of record on the last business day of each month.
Distributions for the three and six months ended June 30, 2004 were as follows:

			Distributions	
Month	Record Date	Payment Date	Per Unit	Amount
January 2004	January 30, 2004	February 13, 2004	$ 0.0892	$ 2,077
February 2004	February 27, 2004	March 15, 2004	0.0892	2,077
March 2004	March 31, 2004	April 15, 2004	0.0892	2,078
			0.2676	6,232
April 2004	April 30, 2004	May 14, 2004	0.0892	2,078
May 2004	May 31, 2004	June 15, 2004	0.0892	2,079
June 2004	June 30, 2004	July 15, 2004	0.0892	2,079
			0.2676	6,236
Total			**$ 0.5352**	**$ 12,468**

Notes to Interim Consolidated Financial Statements

Three and six months ended June 30, 2004 and 2003 (unaudited)
(amounts in thousands, except per unit amounts)

7. EARNINGS PER UNIT

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

	Three Months		Six Months	
	2004	2003	**2004**	2003
Earnings and diluted earnings available to unitholders	**$ 5,574**	$ 4,059	**$ 2,520**	$ 701
Basic and diluted weighted average number of units	**23,302**	15,805	**23,293**	15,733
Basic and diluted earnings per unit	**$ 0.24**	$ 0.26	**$ 0.11**	$ 0.04

8. CHANGES IN WORKING CAPITAL ITEMS

The changes in working capital items are as follows:

	Three Months		Six Months	
	2004	2003	**2004**	2003
Accounts receivable	**$ (10,435)**	$ (7,943)	**$ (8,449)**	$ (5,837)
Inventories	**(1,129)**	(1,586)	**(2,369)**	(1,784)
Prepaid expenses	**345**	298	**(988)**	(930)
Accounts payable and accrued liabilities	**3,176**	4,153	**3,028**	4,354
	$ (8,043)	$ (5,078)	**$ (8,778)**	$ (4,197)

9. SEGMENTED INFORMATION

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

The following presents key information by geographic segment:

Three Months Ended June 30	2004			2003		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Sales	**$ 10,332**	**$ 25,756**	**$ 36,088**	$ 10,476	$ 15,139	$ 25,615
Cost of sales, selling, general and administration expenses	**8,240**	**17,295**	**25,535**	7,748	9,550	17,298
	$ 2,092	**$ 8,461**	**$ 10,553**	$ 2,728	$ 5,589	$ 8,317
Earnings for the period	**$ 4,587**	**$ 987**	**$ 5,574**	$ 2,672	$ 1,387	$ 4,059

Six Months Ended June 30	2004			2003		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Sales	**$ 13,492**	**$ 33,818**	**$ 47,310**	$ 13,240	$ 19,971	$ 33,211
Cost of sales, selling, general and administration expenses	**13,654**	**27,226**	**40,880**	12,383	16,132	28,515
	$ (162)	**$ 6,592**	**$ 6,430**	$ 857	$ 3,839	$ 4,696
Earnings (loss) for the period	**$ 5,746**	**$ (3,226)**	**$ 2,520**	$ 2,575	$ (1,874)	$ 701
Total assets	**$ 66,130**	**$ 165,128**	**$ 231,258**	$ 65,266	$ 107,216	$ 172,482

Quarterly Financial Information

(In thousands of dollars, except per unit data)

	2004		2003				2002		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Operating Results									
Sales	**36,088**	11,222	15,740	48,219	25,615	7,596	11,416	44,598	27,171
EBITDA	**10,553**	(4,123)	(647)	20,413	8,317	(3,621)	(471)	19,573	9,096
Earnings (loss)	**5,574**	(3,054)	(1,288)	11,351	4,059	(3,358)	(2,183)	11,041	4,147
Basic earnings (loss) per unit	**0.24**	(0.13)	(0.06)	0.62	0.26	(0.21)	(0.14)	0.70	0.26
Diluted earnings (loss) per unit	**0.24**	(0.13)	(0.06)	0.62	0.26	(0.21)	(0.14)	0.70	0.26
Cash Flow									
Funds from (used in) operations	**9,507**	(4,764)	(1,357)	18,734	7,817	(4,232)	786	15,865	7,903
Distributions to unitholders	**6,236**	6,232	6,227	4,899	4,427	4,191	4,111	4,110	4,540[5]
Distributions to unitholders per unit	**0.27**	0.27	0.27	0.27	0.27	0.27	0.26	0.26	0.29[5]
Financial Position									
Net cash[1]	**475**	4,132	11,032	13,055	3,352	2,622	11,919	12,730	(626)
Current assets	**25,126**	17,117	23,177	34,044	22,946	12,260	22,223	32,494	19,716
Working capital	**11,345**	6,209	12,105	22,652	11,577	5,144	15,122	19,220	8,780
Total assets	**231,258**	219,619	214,657	214,123	172,482	165,522	182,938	195,727	179,694
Long-term debt[2]	**55,016**	49,275	32,045	62,557	34,070	51,573	54,322	53,078	52,298
Net debt[3]	**54,541**	45,143	21,013	49,502	30,718	48,951	42,403	40,348	52,924
Unitholders' equity	**160,302**	158,693	166,469	131,590	124,920	106,157	117,618	125,489	115,143
Unit Data[4]									
Trading price range, per unit:									
High	**$ 12.29**	$ 12.20	$ 10.68	$ 10.65	$ 9.98	$ 9.59	$ 9.07	$ 9.15	$ 9.54
Low	**$ 10.50**	$ 10.40	$ 9.55	$ 9.50	$ 9.33	$ 8.50	$ 8.51	$ 8.00	$ 8.20
Close	**$ 11.74**	$ 12.15	$ 10.50	$ 9.95	$ 9.59	$ 9.50	$ 8.70	$ 8.80	$ 9.02
Trading volumes (000's)	**1,430**	2,087	2,894	1,606	1,875	960	1,270	1,337	2,785
Cumulative trading volume (000's)	**3,517**	2,087	7,335	4,441	2,835	960	8,669	7,399	6,062
Units outstanding (000's):									
End of period	**23,311**	23,292	23,275	18,310	18,310	15,660	15,660	15,660	15,657
Weighted average (basic)	**23,302**	23,284	22,837	18,310	15,805	15,660	15,660	15,658	15,654

(1) Cash and cash equivalents, net of bank indebtedness.

(2) Includes obligations under capital leases.

(3) Long-term debt and bank indebtedness, net of cash and cash equivalents.

(4) Historical figures adjusted to reflect exchange of six common shares for one fund unit on March 22, 2002.

(5) Includes initial distribution for 40 day period from March 22, 2002 to April 30, 2002.

Corporate Information

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Keith W. McMahon, CA
Executive Vice President & Chief Financial Officer

Hugh A. Adams
Corporate Secretary

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Senior Vice President, Operations

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Vice President, Production

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Printed in Canada