# Q1

## FIRST QUARTER REPORT TO UNITHOLDERS

For the period ended March 31, 2005

ARCTIC GLACIER INCOME FUND

# Q1

# MESSAGE TO UNITHOLDERS

We are pleased to report our operating results for the first quarter of 2005. Results during this period reflect the strategic acquisitions that were made since March 31, 2004. In December of 2004 the Fund expanded its market presence in the northeastern United States with its acquisition of the Losquadro Ice Group in the key New York City market, and established a strong market presence in Michigan, including the densely populated city of Detroit, with its acquisition of the Party Time Ice group of companies. These acquisitions are a continuation of our growth strategy of establishing a strong market presence in all markets in which the Fund operates and making investments that are accretive to distributable cash.

The Fund performed well during the quarter, and results were fully in line with expectations. The packaged ice business is highly seasonal and demand is typically light during winter months. The first quarter therefore normally sees the Fund incur approximately 25% of annual fixed costs but less than 10% of annual total sales.

Sales during the first quarter increased 23% over the same period in 2004, to a record $13.8 million. In addition to $2.9 million being contributed by the Losquadro and Party Time acquisitions, sales in previously serviced markets increased by $0.2 million. These factors more than offset the impact of the stronger Canadian dollar, which reduced reported sales by $0.5 million. Reflecting the increased scale of operations of the Fund and the seasonal nature of the business, EBITDA for the first quarter was negative $5.1 million compared to negative $4.1 million for the same period last year. Net loss for the quarter was $5.7 million, or $0.24 per unit (basic and diluted) compared to a net loss of $3.1 million, or $0.13 per unit in the first quarter of 2004.

During the first quarter of 2005 the Fund paid distributions to unitholders totaling $6.3 million or $0.27 per unit, unchanged from the same period in 2004. The Fund has the capacity to make distributions during winter months because the Trustees of the Fund have eliminated the impact of seasonal fluctuations on unitholders by equalizing monthly distributions. This policy assures regular monthly distributions regardless of season, and prudently apportions the strong and reliable annual cash flows from operations throughout the year.

Late in 2004 the Fund deployed the remaining proceeds from the October 2003 equity offering to complete the Losquadro and Party Time acquisitions. The accretive application of these funds and the expected contribution to results in 2005 from these acquisitions enabled the Trustees to increase monthly distributions in March 2005 by 3% to $0.0917 per unit, or $1.10 per unit on an annualized basis. We are confident the Fund will generate sufficient distributable cash per unit in 2005 to exceed the current distribution level.

During the balance of 2005, the Fund will continue to rationalize acquired operations. Historically, operating margins of acquisitions reach optimum levels approximately 18 to 24 months following acquisition. During the first quarter, the Fund began an expansion of the production capacity at its Twin Oaks, Pennsylvania facility. Less efficient production plants at Hatfield, Pennsylvania and Kiamesha Lake, New York were closed. A distribution center in Newburgh, New York was converted into a modern, efficient production facility with additional capacity that began production late in April.

Arctic Glacier's quality operational assets, reliable cash flow, extensive market coverage, solid financial position and active management well position the Fund for continued profitable growth in the future. We continue to examine accretive acquisition opportunities that are strategic and where a significant regional presence can be achieved or enhanced.

**ROBERT J. NAGY**

President and
Chief Executive Officer

The Management's Discussion and Analysis ("MD&A") analyzes significant changes in the consolidated balance sheets, consolidated statements of operations, cumulative earnings 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 May 6, 2005, 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, 2004.

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.

## 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, non-recurring expenses and acquisition integration charges that are one-time costs unique to each individual acquisition. EBITDA is a performance measure 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 trusts on the basis of ability to generate cash from ongoing operations. Distributable cash is a performance measure used by many investors to summarize the funds available for distribution to unitholders in an income trust.

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 trusts and, accordingly, may not be comparable to measures used by them.

## Distributable Cash

The Fund had a distributable cash deficiency in the first quarter of 2005 of $7.9 million or $0.34 per unit, compared to a deficiency of $5.4 million or $0.23 per unit for the same period of 2004. The increase in the amount of the distributable cash deficiency results from acquisitions made during 2004 and is within management's first quarter expectations. The packaged ice business is very seasonal. The first quarter of the year is characterized by very light winter demand but absorbs approximately 25% of annual fixed costs. The result is lower sales levels and negative EBITDA and cash flows. The Trustees of the Fund have eliminated the impact of seasonal fluctuations on unitholders by equalizing the monthly distributions. The result is that as Arctic Glacier's scale of operations increases, the distributable cash deficiency in the first quarter can be expected to increase as well.

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 2004 will be accretive to distributable cash per unit in 2005, and that the Fund will generate sufficient cash in 2005 to exceed the current distribution rate.

### DISTRIBUTABLE CASH

| (thousands, except per unit amounts) | **2005** | 2004 |
|---|---|---|
| Cash used in operating activities | **$ (9,996)** | $ (5,499) |
| Adjustments: | | |
| Changes in working capital items | **3,176** | 735 |
| | **(6,820)** | (4,764) |
| Less sustaining capital expenditures, net of dispositions | **(1,053)** | (651) |
| Distributable cash deficiency | **$ (7,873)** | $ (5,415) |
| Weighted average number of units | **23,359.7** | 23,283.7 |
| Distributable cash deficiency per unit | **$ (0.34)** | $ (0.23) |
| Distributions declared | **$ 6,310** | $ 6,232 |
| Distributions declared per unit | **$ 0.27** | $ 0.27 |
| Distributions declared per unit (annualized) | **$ 1.08** | $ 1.07 |

The Fund declared cash distributions totaling $6.3 million or $0.27 per unit during the first quarter ended March 31, 2005 compared to $6.2 million or $0.27 per unit during the same period of 2004.

With the deployment in December 2004 of the remaining proceeds of the 2003 equity offerings and the contributions that the related acquisitions will make in 2005, the Trustees of the Fund increased the monthly distributions in March 2005 to $0.0917 per Fund unit, equivalent to $1.10 per unit on an annualized basis. Annual distributions are anticipated to total $1.095 per Fund unit in 2005, compared to $1.07 per Fund unit in 2004.

### DISTRIBUTIONS

(thousands, except per unit amounts)

| Month | Record Date | Payment Date | Distributions Per Unit | Distributions Amount |
|---|---|---|---|---|
| January | January 31, 2005 | February 15, 2005 | $ 0.0892 | $ 2,083 |
| February | February 28, 2005 | March 15, 2005 | 0.0892 | 2,084 |
| March | March 31, 2005 | April 15, 2005 | 0.0917 | 2,143 |
| **Total** | | | **$ 0.2701** | **$ 6,310** |

## Results of Operations

### Sales

Sales for the first quarter ended March 31, 2005 totaled $13.8 million, an increase of $2.6 million or 23% compared to sales of $11.2 million for the first quarter of 2004.

The increase in sales is primarily attributable to the Losquadro and Party Time acquisitions made in December 2004, which contributed $2.9 million to sales during the first quarter. In addition, sales in previously serviced markets (those operating for more than one year) were up by $0.2 million or 2% compared to the strong results posted in the first quarter of 2004.

Sales were impacted negatively by the stronger Canadian dollar during the first quarter of 2005, which decreased the Canadian dollar value of sales generated in U.S. markets by $0.5 million compared to the same period in 2004.

### Cost of sales, selling, general and administration expenses

Cost of sales, selling, general and administration expenses for the first quarter of 2005 totaled $18.9 million, an increase of $3.6 million or 23% compared to $15.3 million for the same period in 2004.

The increase in costs is primarily related to the Losquadro and Party Time acquisitions made in December 2004, which added $4.2 million to operating costs, and $0.2 million of non-cash unit-based compensation costs incurred in the first quarter of 2005.

These increases were partially offset by a reduction in costs in previously serviced markets of $0.1 million as a result of improved fixed cost efficiency with the increased scale of operations, and by the stronger Canadian dollar during the first quarter of 2005, which decreased the Canadian dollar value of costs incurred in U.S. markets by $0.7 million.

### EBITDA

When evaluating results on a quarterly basis, it is important to understand the seasonal nature of Arctic Glacier's business. The first quarter is characterized by very light winter demand, resulting in lower sales, negative EBITDA, and significant losses. Arctic Glacier incurs approximately 25% of its annual fixed costs in the first quarter, but generates less than 10% of its annual sales during this period. As Arctic Glacier's scale of operations continues to increase, the negative EBITDA and losses that are typical of the first quarter can be expected to increase as well.

EBITDA for the first quarter of 2005 totaled negative $5.1 million compared to negative $4.1 million for the same period in 2004. The larger negative EBITDA for the first quarter of 2005 is consistent with the increased scale of operations this year. The Losquadro and Party Time acquisitions contributed an additional negative $1.3 million to EBITDA and non-cash unit-based compensation expense also increased negative EBITDA by $0.2 million. The EBITDA contribution from previously serviced markets improved by $0.3 million during the quarter and the stronger Canadian dollar also contributed to an improvement in EBITDA of $0.2 million by reducing the negative EBITDA generated in U.S. markets.

Negative EBITDA, excluding non-cash expenses noted above, totaled 35.1% of sales for the first quarter of 2005, an improvement compared to 36.7% for the same period in 2004 as a result of improved fixed cost efficiency with the increased scale of operations.

## Amortization

Amortization expense totaled $4.5 million for the first quarter of 2005, an increase of $1.6 million or 56% compared to the same period of 2004. Amortization of property, plant and equipment increased by $1.1 million due to an increase in depreciable assets from acquisitions and capital expenditures made during 2004. Amortization of customer relationships and non-competition agreements increased by $0.5 million compared to the same period of 2004 as a result of the acquisitions completed in 2004.

## Interest

Interest expense totaled $1.5 million for the first quarter of 2005, an increase of $1.1 million compared to the same period in 2004. The increase is primarily the result of higher debt levels this year as a result of the increased scale of operations along with an increase in the average cost of debt. The average cost of debt was 5.0% during the first quarter of 2005, an increase compared to 2.7% for the same period last year as a result of the issuance of fixed rate senior secured notes in December 2004.

## Acquisition integration charges

Acquisition integration costs reflect the non-operating outlays associated with integrating acquired operations into Arctic Glacier's business model, subsequent to the completion of an acquisition, along with the costs of maintaining an acquisition department. Acquisition integration costs totaled $0.3 million for the first quarter of 2005, an increase compared to $0.1 million for the same period of 2004 as a result of integration activities following the acquisitions made in December 2004.

## Gain on disposal of property, plant and equipment

Gains on disposal of property, plant and equipment totaled less than $0.1 million for the first quarter of 2005.

Gains on disposal of property, plant and equipment totaled $0.1 million for the first quarter of 2004, resulting from the disposition of surplus equipment at the Wilmington, Delaware and Calgary, Alberta manufacturing facilities.

## Non-recurring expenses

No non-recurring expenses were incurred during the first quarter of 2005. Non-recurring costs totaled less than $0.1 million during the first quarter of the previous year and related to costs associated with investigating potential business acquisitions that the Fund elected not to pursue.

## Income tax expense

Income taxes recoverable for the first quarter of 2005 totaled $5.7 million, an increase compared to $4.3 million for the same period of 2004. The increase is primarily attributable to the effect of a larger net tax loss this year with the expanded scale of operations.

## Loss and loss per unit

Net loss for the first quarter of 2005 was $5.7 million, an increase of $2.6 million compared to a net loss of $3.1 million for the same period in 2004. On a per unit basis, the loss for the first quarter of 2005 was $0.24 per unit (basic and diluted), compared to $0.13 for the same period in 2004.

## SUMMARY OF QUARTERLY RESULTS

For the eight most recent quarters

| (thousands, except per unit data) | **2005** | | | 2004 | | | | 2003 |
|---|---|---|---|---|---|---|---|---|
| | **Q1** | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| Sales | **$ 13,809** | $ 16,484 | $ 50,640 | $ 36,088 | $ 11,222 | $ 15,740 | $ 48,219 | $ 25,615 |
| EBITDA | **(5,089)** | 1,423 | 20,197 | 10,553 | (4,123) | (647) | 20,413 | 8,317 |
| Earnings (loss) | **(5,707)** | 215 | 11,566 | 5,574 | (3,054) | (1,288) | 11,351 | 4,059 |
| Earnings (loss) per unit: | | | | | | | | |
| Basic and diluted | **(0.24)** | 0.01 | 0.50 | 0.24 | (0.13) | (0.06) | 0.62 | 0.26 |

### 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 quarter of 2005, sales, EBITDA, net loss and loss per unit were impacted by acquisitions made in 2004 and by the stronger Canadian dollar compared to the first quarter of 2004.

## Liquidity and Capital Resources

### Cash used in operating activities

Funds used in operations, before changes in non-cash working capital items, totaled $6.8 million for the first quarter of 2005, an increase of $2.1 million compared to the same period of the previous year. The increase is directly attributable to larger negative EBITDA and increased interest expense resulting from the growth in the scale of operations this year.

Changes in non-cash working capital items resulted in a net use of cash of $3.2 million for the first quarter of 2005 compared to $0.7 million for the same period of 2004. The change is primarily attributable to the increased scale of operations this year and payment of professional fees and other costs related to the acquisition and financing transactions in December 2004.

## INVESTING ACTIVITIES

| (thousands) | **2005** | 2004 |
|---|---|---|
| Sustaining capital expenditures, net of dispositions | **$ 1,053** | $ 651 |
| Growth capital expenditures | **3,246** | 2,368 |
| Acquisitions | **–** | 9,515 |
| Additions to other assets | **208** | 15 |
| Additions to intangibles and goodwill | **–** | 11 |
| Cash used in investing activities | **$ 4,507** | $ 12,560 |

## Cash used in investing activities

Cash used in investing activities totaled $4.5 million for the first quarter of 2005 compared to $12.6 million for the same period of 2004. Sustaining capital expenditures, which represents the replacement of property, plant and equipment to sustain current business operations, totaled $1.1 million, an increase of $0.4 million compared to the same period of 2004 as a result of the expanded scale of operations and the completion of initiatives that had been deferred during the last half of 2004. Sustaining capital expenditures are expected to average approximately 4% of sales on an annual basis. Growth capital expenditures, representing outlays related to growing the business and enhancing distributable cash, totaled $3.2 million for the first quarter of 2005, and were primarily comprised of the costs of the new production facility in Newburgh, New York. The Fund had contractual obligations totaling $1.2 million at March 31, 2005 related to the completion of the Newburgh project. Growth capital expenditures totaled $2.4 million for the same period of 2004 and were comprised of investments in additional ice-making capacity and product drying equipment in the Alberta facilities and the new head office building.

There were no acquisitions completed during the first quarter of 2005. Cash totaling $9.5 million was used during the same period of 2004 to acquire the ice division assets of A. T. Reynolds & Sons, Inc. of Kiamesha Lake, New York.

Additions to other assets totaled $0.2 million during the first quarter of 2005, comprised of costs related to issuing senior secured notes and amending the revolving term credit facility in December 2004.

## Cash used in financing activities

Cash used in financing activities totaled $3.9 million for the first quarter of 2005 compared to a source of cash of $11.0 million for the same period of 2004.

During the first quarter of 2005, the Fund generated proceeds of $2.5 million from long-term debt and equity issues, including $2.3 million drawn on the revolving term credit facility and $0.2 million raised through the issuance of units under the distribution reinvestment plan. The funds raised were utilized to finance growth capital expenditures. During the same period of 2004, the Fund generated proceeds of $17.4 million, including $17.2 million drawn on the revolving term credit facility and $0.2 million raised through the issuance of units under the distribution reinvestment plan.

During the first quarter of 2005, the Fund used cash of $0.1 million to repay principal on long-term debt and obligations under capital leases, unchanged from the same period of 2004.

During the first quarter of 2005, the Fund used $6.3 million of cash for distributions to unitholders, compared to $6.2 million for the same period of 2004.

The Fund had total long-term debt outstanding at March 31, 2005 of $115.7 million, comprised of senior secured notes of $72.6 million, senior debt under the revolving term credit facility of $40.9 million, deferred acquisition consideration and other loans payable of $2.2 million and obligations under capital leases of less than $0.1 million. This balance includes approximately $13.0 million that is effectively bridge financing within the current credit facilities. The Fund had long-term debt outstanding of $49.3 million at the same time in 2004, comprised of senior debt under the revolving term credit facility of $48.1 million, other loans payable of $0.8 million and obligations under capital leases of $0.4 million.

The Fund's net debt to EBITDA ratio at March 31, 2005 was 3.2:1 (with trailing EBITDA increased by $10.4 million to give effect to the contribution of acquisitions and the gain on foreign currency options), or 2.8:1 excluding temporary bridge financing as the Fund has temporarily funded a portion of the December 2004 acquisitions and growth capital expenditures out of working capital. This is expected to reduce to a level within the Fund's internal guideline of 2.25:1, as the working capital is replenished and as trailing EBITDA increases with an expected return to more normal weather conditions during the summer of 2005.

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

The Fund's financing agreements contain various financial covenants. The Fund is in compliance with all debt covenants at March 31, 2005.

(1) Net debt is defined as total long-term debt, obligations under capital leases and bank indebtedness, net of cash.

## Contractual obligations

There have been no material changes to the Fund's contractual obligations during the first quarter of 2005 that are outside of the ordinary course of business, except that the purchase obligations related to the expansion of the facility in Newburgh, New York and converting it into a manufacturing facility have been reduced to $1.2 million (U.S. $0.9 million payable in U.S. dollars) as payments have been made during the quarter. The project is scheduled to be completed in the second quarter of 2005 and these obligations will be funded through a combination of debt and equity proceeds.

## Outstanding Unit Data

As at March 31, outstanding unit data was as follows:

| (thousands) | **2005** | 2004 |
|---|---|---|
| Units outstanding | **23,369.0** | 23,291.8 |
| Unit options outstanding | **1,440.0** | – |

As at May 6, 2005, the Fund had 23,381.4 units and 1,440.0 unit options outstanding.

## 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, 2004.

## Related Party Transactions

The Fund and its subsidiaries have not entered into any significant transactions with related parties during the three months ended March 31, 2005 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, 2004.

## Outlook

The Fund's acquisitions, franchising, product improvements and financing initiatives during 2004 combine to provide a very favorable outlook for the remainder of 2005 and beyond.

Recent acquisitions in the New York and Michigan markets represent key additions to the Fund's operating assets as they enhance operating synergies, raise market profile and enlarge the foundation for future expansion. Rationalization of the acquired operations will take place during 2005 and the first half of 2006. Management has established a pattern of carefully setting out strategic rationalization plans prior to acquisitions and then acting decisively to implement them after the acquisitions are completed. In this manner Arctic Glacier reduces costs and optimizes efficiencies in order to maximize the contribution of each operation to the Fund.

Arctic Glacier will continue to move forward with product improvement initiatives that were launched during 2004. These initiatives include recloseable packaging, product drying and automatic palletization in certain facilities. These changes heighten product attractiveness to consumers and improve operational productivity.

The Fund enters the summer season of 2005 in a strong financial position. The capital raised from the equity offering in October 2003 was fully deployed in December 2004 and will not be dilutive to distributable cash in 2005. Management is confident that the acquisitions made in 2004 will be accretive to distributable cash per unit in 2005, and that the Fund will generate sufficient cash in 2005 to exceed the current distribution rate.

Arctic Glacier's quality operational assets, reliable cash flow, extensive market coverage, solid financial position and active management well position the Fund for continued profitable growth in the future.

## Forward-Looking Statements

This interim 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 weather conditions, the impact of 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.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. These forward-looking statements are made as at the date of this interim 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 March 31, 2005 and 2004 (unaudited) and December 31, 2004 (audited)

| (thousands) | March 31, 2005 | March 31, 2004 | December 31, 2004 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash | $ – | $ 4,132 | $ 14,755 |
| Accounts receivable | **4,983** | 4,441 | 7,845 |
| Inventories | **7,454** | 4,873 | 5,961 |
| Prepaid expenses | **4,538** | 3,671 | 2,180 |
| | **16,975** | 17,117 | 30,741 |
| **Property, plant and equipment** | **122,023** | 92,389 | 120,717 |
| **Other assets** | **3,645** | 3,419 | 3,739 |
| **Intangibles** | **25,249** | 2,699 | 25,695 |
| **Goodwill** | **106,703** | 103,995 | 106,150 |
| | **$ 274,595** | $ 219,619 | $ 287,042 |
| **LIABILITIES AND UNITHOLDERS' EQUITY** | | | |
| **Current liabilities** | | | |
| Bank indebtedness | **$ 3,378** | $ – | $ – |
| Accounts payable and accrued liabilities | **10,266** | 8,264 | 12,325 |
| Distributions payable to unitholders | **2,143** | 2,078 | 2,083 |
| Current obligations under capital leases | **26** | 360 | 38 |
| Principal due within one year on long-term debt | **513** | 206 | 514 |
| | **16,326** | 10,908 | 14,960 |
| **Obligations under capital leases** | **–** | 25 | – |
| **Long-term debt** | **115,121** | 48,684 | 112,252 |
| **Future income taxes** | **4,599** | 1,309 | 10,426 |
| **Unitholders' equity** | | | |
| Capital contributions (Note 3) | **201,938** | 201,076 | 201,721 |
| Contributed surplus | **568** | – | 334 |
| Cumulative earnings | **16,620** | 4,972 | 22,327 |
| Cumulative distributions (Note 4) | **(63,772)** | (38,737) | (57,462) |
| Cumulative translation adjustment | **(16,805)** | (8,618) | (17,516) |
| | **138,549** | 158,693 | 149,404 |
| | **$ 274,595** | $ 219,619 | $ 287,042 |

See accompanying notes to interim consolidated financial statements.

Approved on behalf of the Trustees by:

**ROBERT J. NAGY**
Trustee

**GARY A. FILMON**
Trustee

INTERIM CONSOLIDATED

# STATEMENTS OF OPERATIONS

Three months ended March 31, 2005 and 2004 (unaudited)

| (thousands, except per unit amounts) | 2005 | 2004 |
|---|---|---|
| **Sales** | **$ 13,809** | $ 11,222 |
| Cost of sales, selling, general and administration expenses | **18,898** | 15,345 |
| Loss before the undernoted | **(5,089)** | (4,123) |
| Amortization | **4,453** | 2,863 |
| Interest | **1,462** | 313 |
| Acquisition integration charges | **292** | 103 |
| Gain on disposal of property, plant and equipment | **(20)** | (102) |
| Loss on foreign exchange options | **130** | – |
| Non-recurring expenses | **–** | 7 |
| **Loss before income taxes** | **(11,406)** | (7,307) |
| **Income tax expense** | | |
| Current | **211** | 218 |
| Future (reduction) | **(5,910)** | (4,471) |
| | **(5,699)** | (4,253) |
| **Loss for the period** | **$ (5,707)** | $ (3,054) |
| **Loss per unit – basic and diluted (Note 5)** | **$ (0.24)** | $ (0.13) |

See accompanying notes to interim consolidated financial statements.

INTERIM CONSOLIDATED

# STATEMENTS OF CUMULATIVE EARNINGS

Three months ended March 31, 2005 and 2004 (unaudited)

| (thousands) | 2005 | 2004 |
|---|---|---|
| **Cumulative earnings, beginning of period** | **$ 22,327** | $ 8,026 |
| Loss for the period | **(5,707)** | (3,054) |
| **Cumulative earnings, end of period** | **$ 16,620** | $ 4,972 |

See accompanying notes to interim consolidated financial statements.

INTERIM CONSOLIDATED

# STATEMENTS OF CASH FLOWS

Three months ended March 31, 2005 and 2004 (unaudited)

| (thousands) | 2005 | 2004 |
|---|---|---|
| **Cash from (used in):** | | |
| **Operating activities** | | |
| Loss for the period | **$ (5,707)** | $ (3,054) |
| Adjustments for: | | |
| Amortization | **4,453** | 2,863 |
| Gain on disposal of property, plant and equipment | **(20)** | (102) |
| Unit-based compensation expense | **234** | – |
| Unrealized loss on foreign exchange options | **130** | – |
| Future income tax reduction | **(5,910)** | (4,471) |
| Funds used in operations | **(6,820)** | (4,764) |
| Changes in working capital items (Note 6) | **(3,176)** | (735) |
| | **(9,996)** | (5,499) |
| **Investing activities** | | |
| Additions to property, plant and equipment | **(4,411)** | (3,251) |
| Proceeds from disposal of property, plant and equipment | **112** | 232 |
| Additions to other assets | **(208)** | (15) |
| Additions to goodwill | **–** | (11) |
| Acquisition of business operations | **–** | (9,515) |
| | **(4,507)** | (12,560) |
| **Financing activities** | | |
| Proceeds from long-term debt | **2,318** | 17,243 |
| Principal repayments on long-term debt | **(134)** | (56) |
| Principal payments under capital lease obligations | **(12)** | (79) |
| Units issued | **217** | 171 |
| Cash distributions paid | **(6,250)** | (6,230) |
| | **(3,861)** | 11,049 |
| **Foreign exchange gain on cash held in foreign currency** | **231** | 110 |
| **Decrease in cash** | **(18,133)** | (6,900) |
| **Cash, beginning of period** | **14,755** | 11,032 |
| **Cash (bank indebtedness), end of period** | **$ (3,378)** | $ 4,132 |
| Supplementary cash flow information | | |
| Interest paid | **$ 875** | $ 294 |
| Income taxes paid | **211** | 218 |

See accompanying notes to interim consolidated financial statements.

### 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 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, 2004. The interim consolidated financial statements are prepared in accordance with the same accounting policies and methods of their application as the most recent annual consolidated financial statements. 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.

(amounts in thousands, except per unit amounts)

## 3. 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, 2003 | 23,275.1 | $ 200,905 |
| Units issued for cash consideration under Distribution Reinvestment and Optional Cash Purchase Plan | 74.9 | 816 |
| Balance at December 31, 2004 | 23,350.0 | 201,721 |
| Units issued for cash consideration under Distribution Reinvestment and Optional Cash Purchase Plan | 19.0 | 217 |
| Balance at March 31, 2005 | 23,369.0 | $ 201,938 |

### (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 | 0.0 | $ – |
| Granted | 840.0 | 11.50 |
| Unit options outstanding at December 31, 2004 | 840.0 | 11.50 |
| Granted | 600.0 | 11.92 |
| Unit options outstanding at March 31, 2005 | 1,440.0 | $ 11.68 |
| Options exercisable, end of period | 720.0 | $ 11.68 |

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.

In January 2005, the Trustees of the Fund granted 600 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 ended March 31, 2005 totaled $234 (2004 – nil).

The fair value of the unit options issued April 2004 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.

The fair value of the unit options issued January 2005 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 3.63% risk free interest rate, at an 18% volatility factor and 9.0% expected distributions. The fair value of the options was calculated at $318 or $0.53 per option and is being expensed over the vesting period of the options.

(amounts in thousands, except per unit amounts)

## 4. CUMULATIVE DISTRIBUTIONS

Cumulative distributions for the three months ended March 31 are as follows:

| | 2005 | 2004 |
|---|---|---|
| Balance, beginning of period | **$ 57,462** | $ 32,505 |
| Distributions | **6,310** | 6,232 |
| Balance, end of period | **$ 63,772** | $ 38,737 |

Distributions are made monthly to unitholders of record on the last business day of each month. Distributions for the three months ended March 31, 2005 were as follows:

| | | | Distributions | |
|---|---|---|---|---|
| Month | Record Date | Payment Date | Per Unit | Amount |
| January 2005 | January 31, 2005 | February 15, 2005 | $ 0.0892 | $ 2,083 |
| February 2005 | February 28, 2005 | March 15, 2005 | 0.0892 | 2,084 |
| March 2005 | March 31, 2005 | April 15, 2005 | 0.0917 | 2,143 |
| **Total** | | | **$ 0.2701** | **$ 6,310** |

## 5. LOSS PER UNIT

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

| | 2005 | 2004 |
|---|---|---|
| Loss and diluted loss available to unitholders | **$ (5,707)** | $ (3,054) |
| Basic and diluted weighted average number of units | **23,359.7** | 23,283.7 |
| Basic and diluted loss per unit | **$ (0.24)** | $ (0.13) |

## 6. CHANGES IN WORKING CAPITAL ITEMS

The changes in working capital items are as follows:

| | 2005 | 2004 |
|---|---|---|
| Accounts receivable | **$ 2,862** | $ 1,986 |
| Inventories | **(1,492)** | (1,240) |
| Prepaid expenses | **(2,487)** | (1,333) |
| Accounts payable and accrued liabilities | **(2,059)** | (148) |
| | **$ (3,176)** | $ (735) |

(amounts in thousands, except per unit amounts)

## 7. 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 for the three months ended March 31:

| | | | **2005** |
|---|---|---|---|
| | **Canada** | **U.S.** | **Total** |
| Sales | **$ 3,095** | **$ 10,714** | **$ 13,809** |
| Cost of sales, selling, general and administration expenses | **5,519** | **13,379** | **18,898** |
| | **$ (2,424)** | **$ (2,665)** | **$ (5,089)** |
| Earnings (loss) for the period | **$ 746** | **$ (6,453)** | **$ (5,707)** |
| Total assets | **$ 64,047** | **$ 210,548** | **$ 274,595** |

| | | | 2004 |
|---|---|---|---|
| | Canada | U.S. | Total |
| Sales | $ 3,160 | $ 8,062 | $ 11,222 |
| Cost of sales, selling, general and administration expenses | 5,411 | 9,934 | 15,345 |
| | $ (2,251) | $ (1,872) | $ (4,123) |
| Earnings (loss) for the period | $ 1,160 | $ (4,214) | $ (3,054) |
| Total assets | $ 61,352 | $ 158,267 | $ 219,619 |

# QUARTERLY

## FINANCIAL INFORMATION

(in thousands of dollars, except per unit data)

| | 2005 | | | | 2004 | | | | 2003 |
|---|---|---|---|---|---|---|---|---|---|
| | **Q1** | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| **Operating Results** | | | | | | | | | |
| Sales | **13,809** | 16,484 | 50,640 | 36,088 | 11,222 | 15,740 | 48,219 | 25,615 | 7,596 |
| EBITDA | **(5,089)** | 1,423 | 20,197 | 10,553 | (4,123) | (647) | 20,413 | 8,317 | (3,621) |
| Earnings (loss) | **(5,707)** | 215 | 11,566 | 5,574 | (3,054) | (1,288) | 11,351 | 4,059 | (3,358) |
| Basic earnings (loss) per unit | **(0.24)** | 0.01 | 0.50 | 0.24 | (0.13) | (0.06) | 0.62 | 0.26 | (0.21) |
| Diluted earnings (loss) per unit | **(0.24)** | 0.01 | 0.50 | 0.24 | (0.13) | (0.06) | 0.62 | 0.26 | (0.21) |
| **Cash Flow** | | | | | | | | | |
| Funds from (used in) operations | **(6,820)** | 954 | 19,815 | 9,507 | (4,764) | (1,357) | 18,734 | 7,817 | (4,232) |
| Distributions to unitholders | **6,310** | 6,248 | 6,241 | 6,236 | 6,232 | 6,227 | 4,899 | 4,427 | 4,191 |
| Distributions to unitholders per unit | **0.27** | 0.27 | 0.27 | 0.27 | 0.27 | 0.27 | 0.27 | 0.27 | 0.27 |
| **Financial Position** | | | | | | | | | |
| Net cash (1) | **(3,378)** | 14,755 | 11,900 | 475 | 4,132 | 11,032 | 13,055 | 3,352 | 2,622 |
| Current assets | **16,975** | 30,741 | 32,025 | 25,126 | 17,117 | 23,177 | 34,044 | 22,946 | 12,260 |
| Working capital | **649** | 15,781 | 22,055 | 11,345 | 6,209 | 12,105 | 22,652 | 11,577 | 5,144 |
| Total assets | **274,595** | 287,042 | 233,571 | 231,258 | 219,619 | 214,657 | 214,123 | 172,482 | 165,522 |
| Long-term debt (2) | **115,660** | 112,804 | 55,962 | 55,016 | 49,275 | 32,045 | 62,557 | 34,070 | 51,573 |
| Net debt (3) | **119,038** | 98,049 | 44,062 | 54,541 | 45,143 | 21,013 | 49,502 | 30,718 | 48,951 |
| Unitholders' equity | **138,549** | 149,404 | 160,312 | 160,302 | 158,693 | 166,469 | 131,590 | 124,920 | 106,157 |
| **Unit Data** | | | | | | | | | |
| Trading price range, per unit: | | | | | | | | | |
| High | **$ 12.25** | $ 12.06 | $ 12.42 | $ 12.29 | $ 12.20 | $ 10.68 | $ 10.65 | $ 9.98 | $ 9.59 |
| Low | **$ 11.50** | $ 10.61 | $ 11.26 | $ 10.50 | $ 10.40 | $ 9.55 | $ 9.50 | $ 9.33 | $ 8.50 |
| Close | **$ 11.65** | $ 12.00 | $ 11.95 | $ 11.74 | $ 12.15 | $ 10.50 | $ 9.95 | $ 9.59 | $ 9.50 |
| Trading volumes (000s) | **2,619** | 2,704 | 1,703 | 1,430 | 2,087 | 2,894 | 1,606 | 1,875 | 960 |
| Cumulative Trading Volume (000s) | **2,619** | 7,924 | 5,220 | 3,517 | 2,087 | 7,335 | 4,441 | 2,835 | 960 |
| Units outstanding (000s): | | | | | | | | | |
| End of period | **23,369** | 23,350 | 23,331 | 23,311 | 23,292 | 23,275 | 18,310 | 18,310 | 15,660 |
| Weighted average (basic) | **23,360** | 23,341 | 23,321 | 23,302 | 23,284 | 22,837 | 18,310 | 15,805 | 15,660 |

(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.

# CORPORATE INFORMATION

## OFFICERS

**Robert J. Nagy**
President & Chief Executive Officer

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

**Hugh A. Adams**
Corporate Secretary

## SENIOR MANAGEMENT

**Robert J. Nagy**
President & Chief Executive Officer

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

**Frank G. Larson**
Senior Vice President, Operations

**Serge Beaudet, CA**
Vice President, Canadian Operating Division

**Keith F. Burrows**
Vice President, Acquisitions and Integration

**Keith E. Corbin**
Vice President, Sales & Marketing

**Richard A. Thibault**
Vice President, Production

**Neil R. Winther**
Vice President, Human Resources & Administration

**Douglas A. Bailey, CA**
Corporate Controller

**Gary D. Cooley**
Director, Sales

**Marc G. Fontaine**
Director, Information Systems

**Charles J. Knowlton**
Director, Franchise Operations

**Robin J. Myers-Keller, CA.CIA**
Director, Internal Audit

**Garth D. Waddell, CA**
Director, Finance

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Winnipeg, Manitoba

## BANKERS

**The Toronto-Dominion Bank**
**Roynat Inc.**

## TRANSFER AGENT

**Computershare Trust Company of Canada**
Calgary, Alberta

## STOCK EXCHANGE LISTING

**Toronto Stock Exchange**
Arctic Glacier Income Fund AG

# Q1

ARCTIC GLACIER INCOME FUND

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