A copy of this preliminary prospectus has been filed with the securities regulatory authorities in each of the provinces and territories of Canada but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for a final prospectus is obtained from the securities regulatory authorities.

This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. These securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") or any state securities laws and may not be offered or sold in the United States except in compliance with the registration requirements of the U.S. Securities Act and applicable state securities laws or pursuant to an exemption therefrom. See "Plan of Distribution".

AMENDED AND RESTATED PRELIMINARY PROSPECTUS

Initial Public Offering August 1, 2002

KCP INCOME FUND

$ ●

● Units

This prospectus qualifies the distribution of ● units (the "Units") of KCP Income Fund (the "Fund"). The Fund is an unincorporated open-ended trust established under the laws of the Province of Ontario. It has been created to hold, indirectly, debt and an approximate ● % interest in KLP (as defined herein). See "Funding, Acquisition and Related Transactions" and "Use of Proceeds".

The Fund will make cash distributions of its income to the maximum extent possible. The first such payment is expected to be made to holders of Units (the "Unitholders") on or about ● , 2002 in respect of the period from closing of this Offering to ● , 2002. See "Description of the Fund — Cash Distributions". The Fund will be entirely dependent on the operations and assets of KIK Holdco and KOP. As a result, cash distributions are not guaranteed and will fluctuate with the performance of KIK Holdco and KOP. The actual amount distributed in respect of the Units will depend on numerous factors, including profitability, debt covenants and fluctuations in working capital of each of KIK Holdco and KOP.

An investment in the Units is subject to a number of risks that should be considered by a prospective purchaser. Cash distributions to Unitholders depend upon KLP's ability to pay cash distributions, which will depend, in part, on the ability of the business interests held by it to generate income. Such business is susceptible to a number of risks. See "Risk Factors". In connection with the offering, the Underwriters (as defined herein) are permitted to engage in transactions that stabilize the market price of the Units. See "Plan of Distribution". There is currently no market through which the Units may be sold and purchasers may not be able to resell securities purchased under this prospectus.

PRICE $10.00 PER UNIT

	Price to the Public(1)	Underwriters' Fee	Net Proceeds to the Fund(2)
Per Unit	$ ●	$ ●	$ ●
Total Offering(3)	$ ●	$ ●	$ ●

Notes:

(1) The price of the Units has been determined by negotiation between the Fund, the Vendors (as defined herein) and the Underwriters.

(2) Before deducting expenses of this Offering estimated at $ ● million, which together with the Underwriters' fee, will be paid out of the proceeds of this Offering. A portion of the expenses of the Offering will be borne by KLP and certain of its affiliates.

(3) The Fund has agreed to grant to the Underwriters an over-allotment option, exercisable for a period of 30 days from the date of the closing of this Offering, to purchase up to a total of ● additional Units on the same terms as set out above solely to cover over-allotments, if any, and for market stabilization purposes. If the over-allotment option is exercised in full, the total "Underwriters' Fee" and "Net Proceeds to the Fund" will be $ ● and $ ● , respectively. This prospectus qualifies the distribution of the over-allotment option and the issuance and subsequent transfer of the Units issuable on exercise of that option. See "Plan of Distribution".

The underwriters of this Offering are CIBC World Markets Inc., National Bank Financial Inc., BMO Nesbitt Burns Inc. and TD Securities Inc. (collectively, the "Underwriters"). See "Plan of Distribution".

The Underwriters, as principals, conditionally offer the Units, subject to prior sale, if, as and when issued, sold and delivered by the Fund and accepted by the Underwriters in accordance with the conditions contained in the underwriting agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of the Fund by Goodmans LLP and on behalf of the Underwriters by Goodman and Carr LLP. Subscriptions will be received subject to rejection or allotment in whole or in part and the Underwriters reserve the right to close the subscription books at any time without notice. A book entry only certificate representing the Units will be issued in registered form to The Canadian Depository for Securities Limited ("CDS") or its nominee and will be deposited with CDS on the date of the closing which is expected to occur on or about ● , 2002 or such later date as the Fund and the Underwriters may agree, but in any event not later than ● , 2002. A purchaser of Units will receive only a customer confirmation from the registered dealer which is a CDS participant and from or through which the Units are purchased.

Established
relationships with 85 of the top 100 North American retailers

WAL★MART

Kroger

Albertsons

Loblaws

SAFEWAY

Sobeys

Leading

Private Label Manufacturer

Str

75

Private Market

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Distribution Networ
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Growing

Private
Label
Segment

American
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ELIGIBILITY FOR INVESTMENT

Subject to compliance with the prudent investment standards and general investment provisions and restrictions of the statutes referred to below (and, where applicable, the regulations made under those statutes) and, in certain cases, subject to the satisfaction of additional requirements relating to investment or lending policies, standards, procedures or goals and, in certain cases, subject to the filing of such policies, standards, procedures or goals, the purchase of the Units offered under this prospectus will not, at the date of issue, be precluded as investments under the following statutes:

Insurance Companies Act (Canada)
Pension Benefits Standards Act, 1985 (Canada)
Trust and Loan Companies Act (Canada)
Cooperative Credit Associations Act (Canada)
Loan and Trust Corporations Act (Alberta)
Insurance Act (Alberta)
Employment Pension Plans Act (Alberta)
Pension Benefits Standards Act (British Columbia)
Financial Institutions Act (British Columbia)
The Insurance Act (Manitoba)
The Trustee Act (Manitoba)
The Pension Benefits Act (Manitoba)
Pension Benefits Act (Nova Scotia)
Trustee Act (Nova Scotia)
Pension Benefits Act (Ontario)
Trustee Act (Ontario)
Loan and Trust Corporations Act (Ontario)
an act respecting insurance (Quebec) (for an insurer, as defined therein, incorporated under the laws of the province of Quebec, other than a guarantee fund corporation, an insurance fund or a mutual association)
an act respecting trust companies and savings companies (Quebec) (for a trust company, as defined therein, investing its own funds and deposits it receives and a savings company, as defined therein, investing its funds
Supplemental Pension Plan Act (Quebec); and
The Pension Benefits Act, 1992 (Saskatchewan)

In the opinion of Goodmans LLP, counsel to the Fund, and Goodman and Carr LLP, counsel to the Underwriters, provided the Fund is a mutual fund trust under the Tax Act, (i) the Units will be qualified investments under the Tax Act and the regulations thereunder for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans and (ii) based in part on certificates of the Fund and KIK as to factual matters, the Units, if issued on the date hereof, would not constitute "foreign property" within the meaning of the Tax Act.

FORWARD LOOKING STATEMENTS

Certain statements in this prospectus are "forward looking statements" which reflect management's expectations regarding KIK's future growth, results of operations, performance and business prospects and opportunities. 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 fluctuations in commodity prices, dependence on major customers and key products, reliance on manufacturing facilities, vulnerability to economic conditions, competition, dependence on limited sources of supply, environmental regulation and regulatory change, product liability, foreign exchange, interest rates, reliance on key personnel, uninsured and underinsured losses, restrictions on potential growth, dependence on KOT and KLP, leverage and restrictive covenants, cash distributions are not guaranteed and will fluctuate with performance, nature of the Units, absence of prior public market, distribution of securities on redemption or termination of the Fund, potential dilution, undiversified and illiquid holdings, foreign exchange exposure, investment eligibility and foreign property and income tax matters. Although the forward looking statements contained in this prospectus are based upon what management believes to be reasonable assumptions, the Fund cannot assure investors that actual results will be consistent with these forward looking statements. These forward looking statements are made as of the date of this prospectus, and the Fund assumes no obligation to update or revise them to reflect new events or circumstances.

EBITDA

EBITDA is not a recognized measure under Canadian generally accepted accounting principles (GAAP). Management believes that in addition to net income (loss), EBITDA is a useful supplemental measure as it provides investors with an indication of cash available for distribution prior to debt service, capital expenditures and income taxes. Investors should be cautioned, however, that EBITDA should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of KIK's performance or to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. KIK's method of calculating EBITDA may differ from other companies and, accordingly, EBITDA may not be comparable to measures used by other companies. For a reconciliation between EBITDA and net income for the twelve months ended May 25, 2002, the five months ended May 25, 2002 and May 26, 2001, the three months ended March 30, 2002 and March 31, 2001 and the years ended December 31, 2001, December 31, 2000 and December 31, 1999, see "Selected Consolidated Financial Information of KIK".

GROSS PROFIT

Gross Profit is not a recognized measure under Canadian GAAP. Management believes that in addition to net income (loss), Gross Profit is a useful supplemental measure as it provides investors with an indication of the profits generated on products sold to customers before corporate overhead expenses. Investors should be cautioned, however, that Gross Profit should not be construed as an alternative to net earnings as determined in accordance with GAAP as an indicator of KIK's profitability. KIK's method of calculating Gross Profit may differ from other companies and, accordingly, Gross Profit may not be comparable to measures used by other companies. Gross Profit amounts in this prospectus will either include or exclude amortization of property, plant and equipment as noted. For a reconciliation between Gross Profit and net income for the twelve months ended May 25, 2002, the five months ended May 25, 2002 and May 26, 2001, the three months ended March 30, 2002 and March 31, 2001, and the years ended December 31, 2001, December 31, 2000 and December 31, 1999, see "Selected Consolidated Financial Information of KIK".

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PROSPECTUS SUMMARY

The following is a summary of the principal features of the offering under this prospectus (the "Offering") of units (the "Units") of KIK Income Fund (the "Fund") and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus. Reference is made to the "Glossary of Terms" for the meanings of certain defined terms.

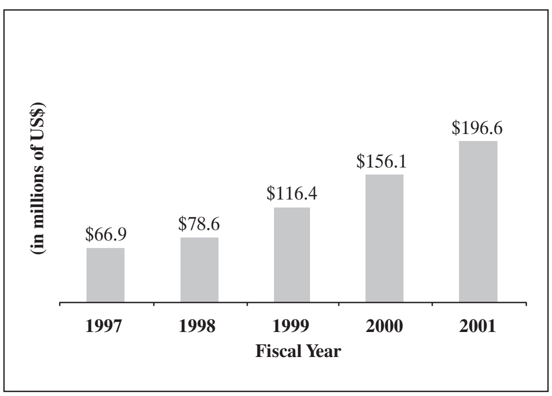
In this prospectus, unless otherwise indicated, all dollar amounts are expressed in Canadian dollars, references to "$" are to Canadian dollars, and references to "US$" are to United States dollars.

KCP Income Fund

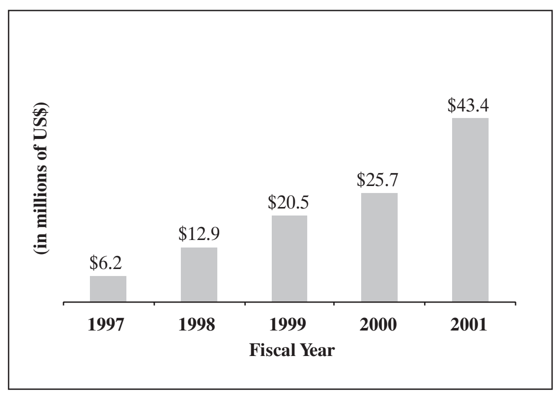
The Fund is an unincorporated open-ended trust established under the laws of the Province of Ontario which has been created to hold, indirectly, interests in KIK Limited Partnership ("KLP") which, in turn, will be formed to acquire, directly or indirectly, the securities and assets of KIK Corporation Holdings Inc. ("KIK"). See "KIK Income Fund", "Funding, Acquisition and Related Transactions" and "Description of the Fund — Activities of the Fund".

KIK is North America's largest producer of private label household bleach and also produces other private label household cleaning and laundry products. KIK's products are sold across North America by grocery stores, mass-merchandisers and drug store retailers such as Wal-Mart, Loblaws, Safeway, Albertsons and Kroger. Since its inception, KIK has completed eight acquisitions, which together with organic growth, have increased KIK's revenue at a compound annual growth rate since 1992 of 54%. For the twelve months ended May 25, 2002 KIK recorded revenue of US$196.0 million and EBITDA of US$31.9 million. (See "EBITDA" and "Selected Consolidated Financial Information".) KIK's revenues and gross profit for the fiscal years 1997 through 2001 are set out in the tables below.

KIK's Revenues



KIK's Gross Profit(1)



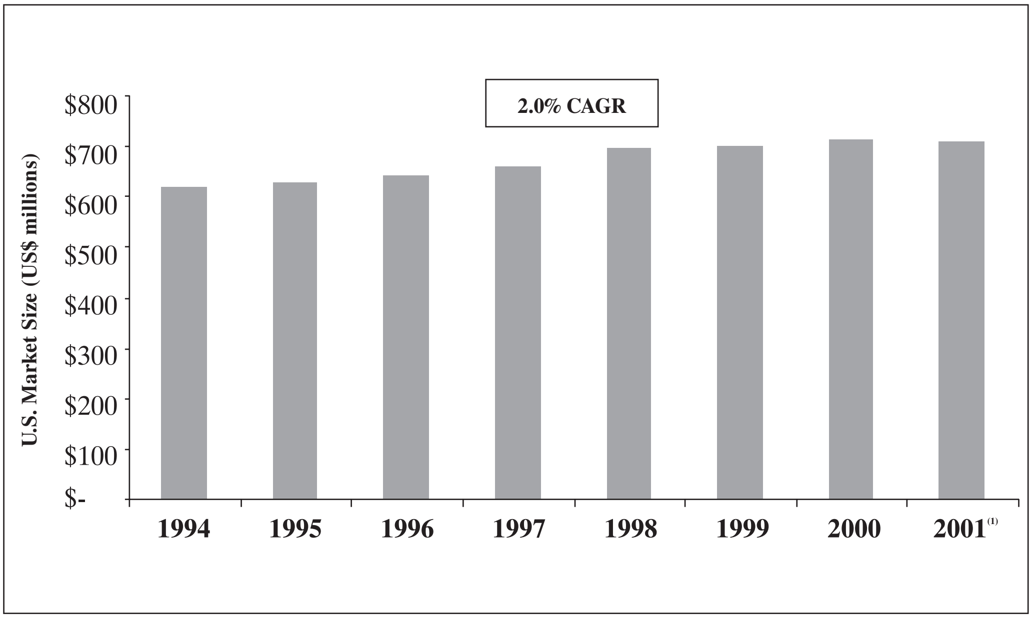
(1) Excluding amortization. See "Gross Profit". By comparison, KIK's net income for the fiscal years 1997 to 2001 was US$293,000, US$841,000, US$7,279,000, US$110,000 and US$2,113,000, respectively. For a reconciliation between KIK's gross profit and net income contained in the financial statements of KIK included in this prospectus, see "Selected Consolidated Financial Information of KIK".

In each of the past five years, KIK was named one of "Canada's Top 50 Fastest Growing Companies," as surveyed by Profit Magazine and Ernst & Young. KIK was also granted the "Quality Assurance Supplier of the Year" award by Loblaw Companies in 2000. In 1997 and 1998, KIK was awarded Kmart USA's "Supplier of the Year Award" for Consumable Private Brand Products over all other private label suppliers from all categories which made up Kmart USA's US$1.0 billion Corporate Brands program. In 2000, KIK was selected as one of the 50 best managed private companies in Canada by a national consulting firm.

KIK's management believes that the North American private label household cleaning and laundry products industry, and specifically KIK's business, is well-suited for an income fund for the following reasons:

- KIK supplies products to a diverse, high-quality customer base, including 85 of the top 100 retailers such as Wal-Mart, Loblaws, Safeway, Albertsons and Kroger, in over 45,000 store locations. In most cases KIK supplies 100% of their private label bleach requirements;
- management believes that stable, consistent demand exists for bleach products, as demonstrated by a 2.0% compound annual rate of industry growth in the U.S. household bleach market since 1994; and

U.S. Household Bleach Market



Based on industry sources.

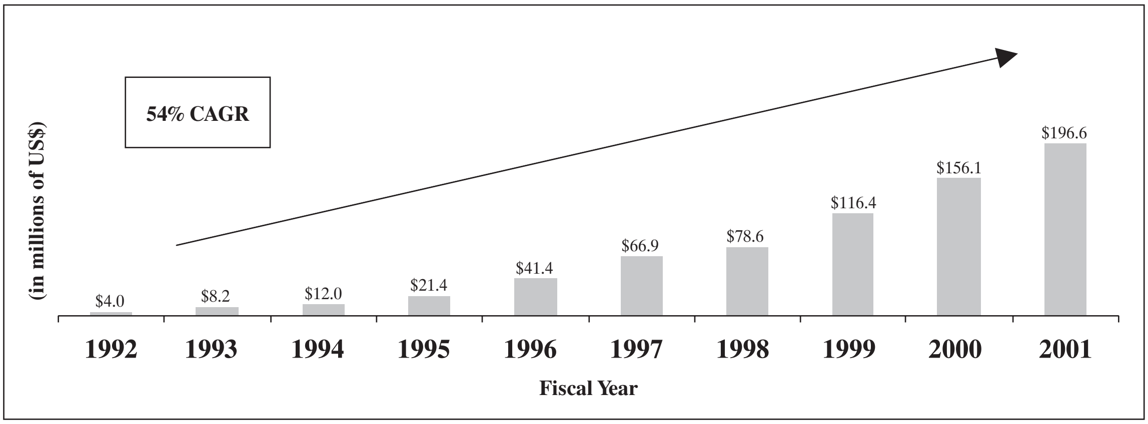
(1) Beginning in 2001 Wal-Mart no longer contributes data to the industry sources that compile the foregoing information. As a result, the 2001 figure has been compiled based on the assumption that Wal-Mart's market share in 2001 was the same as 2000. The foregoing information is based primarily on sales in the mass channels, which include grocery stores, mass merchandisers and drug store retailers.

- management believes that KIK has an approximate 75% market share of the North American private label bleach market based on case sales for 2001.

Management also believes that the North American private label household cleaning and laundry products industry, and specifically KIK's business, have historically displayed growth attributes which are attractive:

- management expects the private label segment to continue to display strong growth, particularly in the United States where penetration is 36% below the Canadian average and 57% below the U.K. average (see "Business of KIK — Growth Strategy");
- KIK's revenue has increased through a combination of organic growth and acquisitions at a compound annual rate of 54% since 1992, as demonstrated in the following chart; and

KIK's Revenue



- KIK has completed and successfully integrated eight acquisitions since its inception. The fragmented nature of the private label household cleaning and laundry products industry leads to acquisition opportunities, particularly in the non-bleach sector, where management believes that KIK can apply its proven integration and rationalization strategies.

KIK Corporation Holdings Inc.

KIK has become the leading producer of private label bleach, one of the highest volume stock keeping units for retailers, in the North American household cleaning and laundry products market. As a result, management believes that KIK is positioned to become a leader in the North American private label household cleaning and laundry products industry. Management believes that KIK is one of very few manufacturers executing high quality private label programs in the fragmented industry and the only private label manufacturer in the industry with an established North American distribution network servicing an extensive customer base. To date, KIK has allocated a significant portion of its capital expenditures to the automation and streamlining of its operations. These initiatives, together with the synergies gained through its selective business acquisitions, have enabled KIK to become a low cost producer of bleach and other household cleaning and laundry products.

Industry Dynamics

Private label products, also known as "no name" or "store" brands, are typically made by independent manufacturers according to specifications set by retailers who then usually market and sell the products under their retail names. In contrast, branded products are typically manufactured and marketed by national companies and then sold by retailers. Private label manufacturers in North America have been able to expand dramatically their product offerings and increase market share over the last ten years. This expansion can be attributed to increased consumer acceptance of private label products resulting primarily from improved quality and packaging and the progressive trend of retailers to leverage the brand value inherent in their own names by introducing profitable store brands in their product offerings. The private label household cleaning and laundry products manufacturing market in North America remains fragmented, being comprised primarily of manufacturers which generally have limited financial resources and product offerings and operate distribution outlets restricted to a small geographic region. KIK estimates that overall private label market penetration in all categories in the United States is approximately 16% in contrast to the 25% penetration in Canada and the 37% penetration in private label's most mature geographic market, the United Kingdom.

Competitive Advantages of KIK

Management believes that KIK possesses certain characteristics which provide it with competitive advantages within the household cleaning and laundry products industry, including the following elements of KIK's business strategy:

- assisting customers in growing their "store brand" businesses by continuing to provide what KIK's management believes is a high level of customer service and expertise in the private label household cleaning and laundry products market;
- manufacturing products that are equivalent or superior to leading North American national and regional brands in terms of performance, quality and packaging; and
- maintaining KIK's cost competitive advantage in the production of private label bleach and other household cleaning and laundry products.

See "Business of KIK — Competitive Advantages".

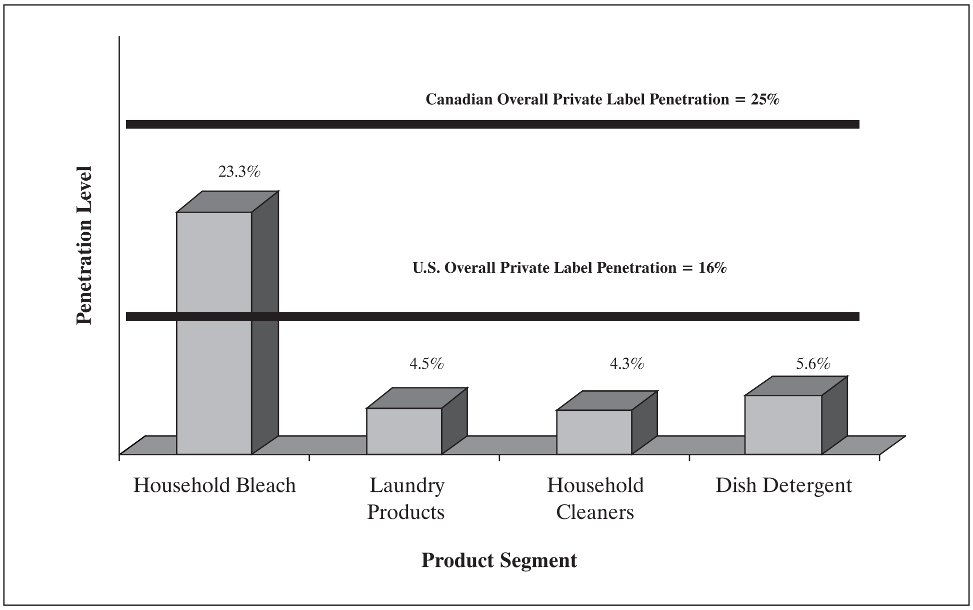
Growth Strategy

KIK's goal is to build upon its position as the leading North American supplier of private label bleach to become the leading North American supplier to retailers of private label household cleaning and laundry products. KIK's strategy to achieve this goal is comprised of the following key elements:

- extend KIK's "One Stop Shopping" model into the United States by leveraging retail bleach as its leading volume product in order to increase sales of other lower volume, higher margin products; and
- continue KIK's disciplined approach of pursuing and completing selected strategic acquisitions of North American manufacturers of products that will be accretive to cash flow and will complement and extend KIK's own private label product lines.

The following tables set out the private label penetration levels for various household cleaning and laundry products in the U.S market. Management believes that the low penetration levels of certain household cleaning and laundry products in the U.S. market, as indicated in the table below, combined with a combination of other factors, including the increasing acceptance by consumers of private label products and the recent significant consolidation within the U.S. supermarket industry, provides an opportunity for KIK to increase its market share in the U.S. in certain segments of the industry.

U.S. Private Label Penetration



Based on industry sources. The foregoing information is based primarily on sales in the mass channels, which include grocery stores, mass merchandisers and drug store retailers.

See "Business of KIK — Growth Strategy".

Retained Interest, Priority Distributions and Exchange Right

The Fund has been structured with the following attributes:

- *Significant Retained Interest:* On completion of this Offering, the Senior Management Vendors, including David Cynamon, the chairman and chief executive officer of KIK, other members of KIK senior management and certain employees (assuming exercise of all of the KIK Options) will own (directly or indirectly) all of the KLP Subordinated Exchangeable Units, representing approximately ● % of the total outstanding interests in the Fund (on a fully diluted basis). Certain other existing KIK shareholders will own all of the KLP Unsubordinated Exchangeable Units, representing approximately ● % of the total outstanding interests in the Fund (on a fully diluted basis). If the over-allotment option is exercised, the proceeds thereof will be used to (indirectly) redeem KLP Exchangeable Units from the holders thereof, reducing the fully diluted ownership interests of the Management Vendors and the Continuing Holders to ● % and ● %, respectively.
- *Contractual Subordination:* The holders of the KLP Subordinated Exchangeable Units will subordinate their entitlement to distributions to Unitholders and to holders of KLP Unsubordinated Exchangeable Units until such time as targeted distribution levels and EBITDA are achieved for one fiscal year (in respect of the Fund's initial fiscal year, on a *pro-forma* basis). These subordination provisions of the KLP Subordinated Exchangeable Units will be in effect until the First Conversion Date (December 31, 2003 at the earliest).
- *Structural Subordination:* A portion of the Fund's indirect interest in KLP will be held by way of interest-bearing debt (through the KLP Debt). Payments required to service this debt obligation will be made by KLP in priority to any distributions on its units (including all KLP Exchangeable Units), such that the holders of KLP Exchangeable Units will be subordinate to distributions to the Fund (and its Unitholders) to the extent of the priority payments to service the Fund's indirect debt interest in KLP. This structural subordination will continue for so long as KLP Exchangeable Units and the KLP Debt are outstanding.

The KLP Unsubordinated Exchangeable Units are not transferable or exchangeable until on or after the 180th day following Closing and the KLP Subordinated Exchangeable Units are not transferable or exchangeable prior to the First Conversion Date, except in certain circumstances. See "Description of KLP — Partnership Units" and "Description of KLP — Retained Interest".

The KLP Exchangeable Units will be exchangeable for Units on a one-for-one basis, provided that the exchange will not jeopardize the Fund's status as a "unit trust" or "mutual fund" under the Tax Act or as a "fixed investment trust" classified as a trust under the U.S. Tax Code. See "Retained Interest — Exchange Agreement". This right of exchange will be adjusted based on customary anti-dilution protections and in certain circumstances where a take-over bid is made for the Units. See "Description of the Fund — Take-over Bids".

SUMMARY OF DISTRIBUTABLE CASH FLOW OF THE FUND

Upon completion of the Offering, management and employees of KIK, including the Senior Management Vendors will own KLP Subordinated Exchangeable Units and will subordinate their entitlement to distributions to Unitholders of the Fund. The KLP Subordinated Exchangeable Units will not be convertible into Units until the First Conversion Date (i.e., until the Fund has earned EBITDA of not less than US$35 million (in respect of fiscal 2002, on a pro-forma basis) and has also met prescribed distributable cash level targets) but in any event no earlier than December 31, 2003.

Management of KIK believes that upon completion of the transactions described under "Funding, Acquisition and Related Transactions", the Fund will incur additional administrative and management costs and interest expenses and will require maintenance capital expenditures that are not reflected in the *pro forma* statements of income of the Fund that are included in this prospectus, which amounts may be greater or less than those reflected in the *pro forma* consolidated statements of income of the Fund that are included in this prospectus. Although management does not have firm commitments for all of those expenses and, accordingly, the complete financial effects of all of those additional expenses and expenditures are not objectively determinable, management has, based on past experience, estimated the following for the purposes of determining distributable cash on a pro forma basis for the 12 month trailing period:

	12 months ended May 25, 2002
	(in thousands of U.S. dollars) (unaudited)
EBITDA(1)	US$ 31,594
Incremental Expenses(2)	US$ 500
Interest Expense(3)	US$ 4,550
Taxes	US$ 2,875
Maintenance Capital Expenditures(4)	US$ 3,500
	US$ 20,169(5)
The foregoing adjustments result in estimated distributable cash of translated at Cdn$1.50 to US$1.00	Cdn$30,254
Distributable Cash Attributable to all unsubordinated units (per unit)(6)	Cdn$ ●
Target Distributions (per unit)(7)	Cdn$ ●
Coverage ratio	●

Notes:

(1) See "EBITDA" and "Selected Consolidated Financial Information of KIK". EBITDA is adjusted to exclude a gain on the disposal of property, plant and equipment of US$355,000 for the twelve month period ended May 25, 2002.

(2) Reflects incremental administrative and management costs that management estimates would have been incurred by the Fund.

(3) Ongoing interest expense on the new credit facility.

(4) See "Business of KIK — Capital Expenditures".

(5) The KLP Subordinated Exchangeable Units are subordinated in their entitlement to cash distributions until, among other things, the Fund has earned EBITDA of at least US$35 million at which time, assuming the same estimates and adjustments, distributable cash would be US$23.6 million (or Cdn$35.4 million).

(6) Includes all Units and KLP Unsubordinated Exchangeable Units.

(7) Includes Units and KLP Exchangeable Units.

The foregoing table demonstrates the effect of the subordination of the KLP Subordinated Exchangeable Units in favour of the Units and the KLP Unsubordinated Exchangeable Units. Based on the foregoing estimation, the actual distributable cash would have to decline by ● % before holders of Units and the KLP Unsubordinated Exchangeable Units would receive less distributable cash.

SELECTED CONSOLIDATED FINANCIAL INFORMATION OF KIK

The selected consolidated financial information set out below for the years ended December 31, 1999, 2000 and 2001, the three month interim periods ended March 30, 2002 and March 31, 2001, the five month interim periods ended May 26, 2001 and May 25, 2002 and the twelve month period ended May 25, 2002, has been derived from KIK's consolidated financial statements and statement of operations appearing elsewhere in this prospectus (and in the case of the information for the twelve month period ended May 25, 2002, a breakdown of the fiscal 2001 financial statements appearing elsewhere in this prospectus between the period pre- and post-May 26, 2001). These financial statements are reported in U.S. dollars and are prepared in accordance with Canadian GAAP. The following information should be read in conjunction with those statements and the related notes and with "Management's Discussion and Analysis", also appearing elsewhere in this prospectus.

	Twelve Months Ended	Five Months Ended		Three Months Ended		Years Ended December 31,		
	May 25, 2002	May 25, 2002	May 26, 2001	March 30, 2002	March 31, 2001	2001	2000	1999
	(unaudited)	(unaudited)	(unaudited)	(unaudited) (US$, in thousands)	(unaudited)	(audited)	(audited)	(audited)
Revenue	$195,976	$74,324	$74,943	$43,204	$46,225	$196,595	$156,069	$116,433
Cost of Sales before depreciation	147,144	53,433	59,486	31,910	37,070	153,197	130,369	95,908
Gross Profit before depreciation(1)	48,832	20,891	15,457	11,294	9,155	43,398	25,700	20,525
Gross Profit before depreciation as a percentage of Revenue	24.7%	28.1%	20.6%	26.1%	19.8%	22.1%	16.5%	17.6%
SG&A Expense	16,883	7,082	6,449	4,250	3,852	16,250	13,221	9,516
EBITDA(2)	31,949	13,809	9,008	7,044	5,303	27,148	12,479	11,009
EBITDA as a percentage of Revenue	16.1%	18.6%	12.0%	16.3%	11.5%	13.8%	8.0%	9.5%
Amortization	7,637	3,028	3,056	1,858	1,848	7,665	6,107	4,201
Interest	8,752	3,253	4,384	2,007	2,794	9,883	7,974	3,888
Income (loss) before Income Taxes	15,560	7,528	1,568	3,179	661	9,600	(1,602)	2,920
Income taxes	3,645	1,726	402	774	176	2,321	(1,712)	807
Net Income	$ 11,915	$ 5,802	$ 1,166	$ 2,405	$ 485	$ 7,279	$ 110	$ 2,113

Note:

(1) See "Gross Profit".

(2) See "EBITDA". EBITDA includes a gain on the disposal of property, plant and equipment of US$355,000 for the five month period ended May 25, 2002 and the twelve month period ended May 25, 2002.

THE OFFERING

Offering:	● Units of the Fund.
Amount:	$ ●
Price:	$10.00 per Unit, payable on closing of this Offering.
Units:	Each Unit represents an equal undivided beneficial interest in the Fund and any distributions from the Fund. Each Unit is transferable, entitles the holder thereof to participate equally in distributions of the Fund, is not subject to future calls or assessments, entitles the holder to rights of redemption and entitles the holder to one vote at all meetings of Unitholders. See "Description of the Fund".
Over-Allotment Option:	KIK has granted *pro rata* to the Underwriters the over-allotment option to purchase up to ● additional Units at the price of $10.00 per Unit payable in cash against delivery of such additional Units. The over-allotment option is exercisable from time to time in whole or in part until 30 days following the Closing for the purpose of covering over-allotments, if any, and for market stabilization purposes. If the over-allotment option is exercised, the Underwriters will receive a fee of $ ● per additional Unit purchased pursuant to such option.
Use of Proceeds:	The net proceeds of approximately $ ● from the issuance of the Units, after deducting expenses of this Offering estimated at $ ● , together with the net increase in debt resulting from the new credit facility arrangements, will be used by the Fund to indirectly acquire all of the securities and assets of KIK, to fund expansion capital expenditures of KIK and to pay costs associated with obtaining a new credit facility. If the over-allotment option is exercised, the net proceeds therefrom will be used by the Fund to indirectly redeem KLP Exchangeable Units from the holders thereof at a price per KLP Exchangeable Unit equal to the offering price per Unit less the Underwriters' fee. A portion of the expenses of the Offering will be borne by KLP and certain of its affiliates. See "Funding, Acquisition and Related Transactions" and "Use of Proceeds".
Distribution Policy of the Fund:	The Declaration of Trust provides that the Fund will, subject to applicable law, distribute all its available cash (specifically, all cash received from its indirect interest and debt in KLP) to holders of Units by way of monthly distributions, less amounts that may be paid by the Fund in connection with any cash redemptions or repurchases of Units. Subject to the contractual and structural subordination described in this summary under "Restrictions and Limitations on Distributions to Holders of KLP Exchangeable Units", distributions of available cash by KLP will effectively be made *pro rata* to holders of KLP Exchangeable Units and to Unitholders (through KLP Ordinary Units and KLP Debt held directly or indirectly by KOT). See "Description of the Fund — Cash Distributions".
Restrictions and Limitations on Distributions to Holders of KLP Exchangeable Units:	Until (i) the Fund has earned EBITDA in a fiscal year (in the case of the Fund's initial fiscal year, on a pro forma basis giving effect to the acquisition of KIK's business at the commencement of KIK's fiscal year) of not less than US$35 million (as supported by the Fund's audited financial statements for such fiscal year or, in the case of the Fund's initial fiscal year, pro forma financial statements for such year accompanied by an auditor's compilation report) and (ii) monthly distributions averaging not less than $ ● per Unit (on a fully diluted basis, including the exchange of the KLP Exchangeable

Units) are made throughout such fiscal year, but in any event not earlier than December 31, 2003, the distributions to the holders of KLP Subordinated Exchangeable Units (but not, for greater certainty, distributions to the holders of KLP Unsubordinated Exchangeable Units) will be subordinate to the distributions to holders of Units and KLP Unsubordinated Exchangeable Units (the later of the date on which such targets are achieved and December 31, 2003, the "First Conversion Date"). The said EBITDA target of US$35 million shall be increased upon each issuance of Units or KLP Exchangeable Units following Closing by an amount proportionate to the increase in the number of fully diluted Units as a result of such issuance.

Until the First Conversion Date, distributions will be made in the following priority (after funding of cash redemptions or Unit repurchases, if any, and subject to the withholding tax adjustments described below): (i) all Unitholders and, subject to the structural subordination described below, all holders of KLP Unsubordinated Exchangeable Units will be entitled to receive *pro rata* monthly cash distributions on their units equal to $ ● per Unit or, if there is insufficient available cash to make distributions in such amount, such lesser amount as is available; (ii) at the end of each fiscal quarter of the Fund, including the fiscal quarter ending on the fiscal year end, available cash shall be distributed (a) first, to the Unitholders and holders of KLP Unsubordinated Exchangeable Units, to the extent only that monthly per unit distributions for such fiscal year-to-date (and not, for greater certainty, in any previous fiscal year) averaged less than $ ● per month, (b) second, to holders of KLP Subordinated Exchangeable Units in a per unit amount of up to $ ● plus, to the extent that distributions to holders of KLP Subordinated Exchangeable Units in any previous fiscal quarter(s) during that fiscal year (and not, for greater certainty, in any previous fiscal year) were not made or were made in amounts less than $ ● per unit, the difference between $ ● and the amount of any distributions made for each such previous fiscal quarter(s), and (iii) the excess will be paid *pro rata* to Unitholders and the holders of KLP Exchangeable Units. Notwithstanding the foregoing, until the First Conversion Date, the directors of KIK GenPar and KLP Holdco shall, if they determine, based on trends or developments in the business or operations of KIK then in effect or reasonably foreseeable, that there is a reasonable likelihood that there will be insufficient available cash in a future month within that fiscal year to make distributions on the Units and the KLP Unsubordinated Exchangeable Units of at least $ ● per unit, suspend distributions to holders of KLP Subordinated Exchangeable Units to the extent determined necessary. Distributions of any excess referred to in (iii) above may be made on a quarterly, rather than on a monthly, basis in the discretion of the directors of KIK GenPar and KLP Holdco.

Notwithstanding the allocations of distributable cash by KLP described above, the KLP partners' entitlements shall be calculated on a basis net of applicable withholding taxes, in the case of distributions to holders of KLP Exchangeable Units, and on a basis grossed up to take into account any applicable withholding taxes, in the case of distributions to holders of KLP Ordinary Units. Consequently, the net amount received by holders of Units shall be equal to that amount which would have been received had no such withholding taxes been applicable.

In addition, because the Fund's indirect interest in KLP will be held as to ● % by way of debt which will rank in preference to the interests of all holders of units in KLP (including holders of KLP Exchangeable Units), the distribution entitlements of holders of KLP Exchangeable Units will, to the extent of the (indirect) debt service obligations to the Fund (and the Unitholders), be subordinated for so long as KLP Exchangeable Units (and the KLP Debt) are outstanding. See "Description of KLP".

Distribution Policy of KOT: The KOT Trust Indenture will require that it distribute, subject to applicable law, all of KOT's available cash to holders of KOT Units by way of monthly cash distributions, after

- satisfaction of its obligations (principal and interest) with respect to the KOT Notes; and
- any cash redemptions or repurchases of KOT Units or KOT Notes.

See "Description of KOT".

Distribution Policy of KLP: The KLP Limited Partnership Agreement will require that it distribute, subject to applicable law and the terms of the KLP Limited Partnership Agreement, all of KLP's available cash by way of monthly distributions on its KLP Ordinary Units and KLP Unsubordinated Exchangeable Units or other securities and quarterly distributions on its KLP Subordinated Exchangeable Units, after

- satisfaction of its debt service obligations (principal and interest) (including the KLP Debt); and
- satisfaction of its other expense obligations (including, without limitation, amounts payable to KIK GenPar under the Administration Agreement).

See "Description of KLP".

Distribution Policy of KOP, KIK International, KIK Holdco and KIK Acquisition: The distribution policy of KOP, KIK Acquisition, KIK International and KIK Holdco will be to distribute, subject to applicable law, all available cash by way of monthly distributions, after

- satisfaction of debt service obligations (principal and interest) (including, in the case of KIK Acquisition, the KIK Debt and in the case of KIK Holdco, the new credit facility described under "Principal Agreements — Credit Facility");
- satisfaction of other expense obligations; and
- retaining reasonable reserves for administrative and other expense obligations and reasonable reserves for working capital and maintenance capital expenditures as may be considered appropriate by the board of directors of KIK GenPar (in its capacity as manager of KOP), KIK International, KIK Holdco and KIK Acquisition, as applicable.

See "Description of KOP".

Risk Factors: Investment in the Units is subject to a number of risk factors. Cash distributions to Unitholders depend upon KOT's and KLP's ability to pay cash distributions, which will depend, in part, on the ability of the business of KIK to generate income. KIK's income will be earned from the operation of its business, which is susceptible to a number of risks. These risks, and other risks associated with an investment in the Units, include risks relating to the following: (i) commodity prices; (ii) environmental regulation and liabilities; (iii) inability to achieve business objectives; (iv) dependence on major customers; (v) dependence on key products; (vi) competition; (vii) dependence on sole or limited sources of supply; (viii) potential undisclosed liabilities associated with the transactions described under "Funding, Acquisition and Related Transactions"; (ix) collective bargaining agreements; (x) reliance on manufacturing facilities; (xi) dependence on key personnel; (xii) rapid expansion; (xiii) ability to integrate acquired businesses; (xiv) control by existing shareholders; (xv) variability of quarterly operating results; (xvi) product liability; and (xvii) need for additional capital in the future. In addition, there are certain risks associated with the structure of the Fund, including (i) the Fund's reliance on distributions from KOT and KLP and, as a result, its susceptibility to fluctuations in KOT's and KLP's performance; (ii) leverage restrictions and restrictive covenants contained in KIK Holdco's proposed credit facility; (iii) the nature of the Units and the absence of a prior public market; (iv) the possibility that Unitholders may receive a distribution of securities on redemption or termination of the Fund or that the Fund may issue additional Units diluting existing Unitholders' interests; (v) restrictions on KIK's potential growth; (vi) foreign exchange exposure; (vii) Unitholder liability; (viii) the Fund's undiversified and illiquid holding in KOT; and (ix) certain tax-related risks. See "Risk Factors".

Tax Considerations: Each Unitholder is required to include in computing income for tax purposes for a particular taxation year the Unitholder's *pro rata* share of the Fund's income that was paid or payable in that year by the Fund to the Unitholder and that was deducted by the Fund in computing its income. Generally, all other amounts received by Unitholders will not be included in the Unitholders' income for income tax purposes, but will reduce the adjusted cost base of the Unitholders' Units. It is anticipated that substantially all of the annual distributions of the Fund will be considered income to Unitholders for Canadian tax purposes.

Prospective purchasers should consult their tax advisors regarding the tax implications of an investment in Units. See "Certain Income Tax Considerations".

Funding, Acquisition and Related Transactions

Prior to or immediately following the closing of this Offering, the Fund will undertake a series of transactions pursuant to which it will indirectly acquire beneficial ownership of all of the securities and assets of KIK. The Vendors' retained interest in KIK will be held through KLP Exchangeable Units, which will be indirectly exchangeable, subject to certain conditions, for Units on a one-for-one basis (subject to customary anti-dilution provisions and as provided under "Description of the Fund — Take-over Bids"). See "Funding, Acquisition and Related Transactions", "Use of Proceeds" and "Retained Interest".

The effect of the transactions described above will be as follows:

- The conduct of the business of KIK will be unaffected. The non-Canadian business will continue to be conducted by KIK International through its subsidiaries, and the Canadian business presently conducted by KIK will post-Closing be conducted through KIK Holdco and KOP. The corporate structure of the ownership of the KIK business will be reorganized, and the operating and holding entities will distribute all net cash generated to their securityholders to support the distribution of Distributable Cash by the Fund, but the business will not change. All of the interests in the business will be (indirectly) held by KLP.

- The proceeds of the Offering will be invested by the Fund, through KOT and other holding entities, in KLP, in which the Fund will hold a majority interest. Cash distributions made by KLP, using cash generated by its interests in the operating business, will fund the cash distributions to be paid by the Fund to Unitholders. Through its interest in KLP, and its control of KLP's general partners, KIK GenPar and KLP Holdco, the Fund will have control over the business assets and operating entities.

- Through a series of transactions the Vendors will sell their interests in KIK for a combination of cash and KLP Exchangeable Units. The Management Vendors will receive a combination of KLP Subordinated Exchangeable Units and cash, the Continuing Holders will receive a combination of KLP Unsubordinated Exchangeable Units and cash, and the other Vendors will receive cash. The KLP Exchangeable Units are interests in KLP, the same vehicle through which the Fund indirectly receives distributions and controls the business; through those interests the Vendors who shall post-Closing continue to hold interests in the business will receive their (minority share of) distributions from KLP (subordinated, in the case of the Management Vendors). The holders of KLP Exchangeable Units will also have certain rights to representation on the board of directors of KIK GenPar so as to have input in the management of the business.

In net effect the Fund will acquire a controlling interest in the KIK business and the right to receive distributions through its interest in KLP, and the Vendors will retain a minority entitlement (subordinated in the case of the Management Vendor's economic interests) in the business through their interest in KLP.

A description of the structure of the Fund on completion of this Offering and the related transactions is set forth under "Funding, Acquisition and Related Transactions".

EXCHANGE RATES

In this prospectus, references to "dollars" and "$" are to Canadian dollars and references to "US$" are to United States dollars. The following table reflects the rate of exchange for the United States dollar in terms of the Canadian dollar as reported by the Bank of Canada for the 12-month periods ended December 31, 2001, 2000 and 1999 respectively.

Year Ended December 31,	High(1)	Low(1)	Average(2)
2001	1.4936	1.6021	1.5484
2000	1.4341	1.5593	1.4852
1999	1.4433	1.5298	1.4858

Notes:

(1) The high and low exchange rates, based on the daily Bank of Canada noon rate setting during the applicable period.

(2) The average of the average monthly exchange rate, as reported by the Bank of Canada, for each month during the applicable period.

On July 10, 2002, the noon rate of exchange was US$1.00 = $1.5199.

KCP INCOME FUND

The Fund

The Fund is an unincorporated open-ended trust established under the laws of the Province of Ontario by the Declaration of Trust. The Fund will be administered by the Trustees and by KIK GenPar pursuant to the Administration Agreement. See "Description of the Fund" and "Principal Agreements".

The Fund has been established to hold, indirectly, investments in entities engaged in the manufacture and sale of household cleaning and laundry products, including the securities or assets of KIK and such other entities as KLP may acquire, provided that the Fund will not make any investments that would jeopardize the Fund's status as a "unit trust" or a "mutual fund trust" under the Tax Act or as a "fixed investment trust" classified as a trust under the U.S. Tax Code. To the maximum extent possible, the Fund will make monthly cash distributions to Unitholders of its available cash. See "Description of the Fund — Cash Distributions".

The principal and head office of the Fund is located at 33 MacIntosh Blvd., Concord, Ontario, L4K 4L5.

KIK Operating Trust

KOT will be established as an unincorporated open-ended trust under the laws of the Province of Ontario. KOT will be a limited purpose trust and its activities will be restricted essentially to the holding of investments (debt and equity) and other direct or indirect interests in KIK, other entities engaged in the business of the manufacture and sale of household cleaning and laundry products and such other entities as KLP may acquire. KOT will be wholly-owned by the Fund and will generally be the indirect holder of the Fund's operating assets and investments.

KIK Limited Partnership

KLP will be established as a limited partnership under the laws of the State of Delaware to hold the shares of KIK Acquisition and the KIK Debt and to carry on (in partnership) the business of the manufacture and sale of household cleaning and laundry products, including the business currently carried on by KIK, and such other investments as the board of directors of KIK GenPar and KLP Holdco may determine, and all activities ancillary and incidental thereto. The general partners of KLP will be (i) KIK GenPar, which on Closing will be owned as to ● % by the Fund and as to ● % by the holders of KLP Exchangeable Units (● % and ● %, respectively, if the over-allotment option is exercised in full), and (ii) KLP Holdco. In the case of a disagreement between the general partners on any matter, such matter shall be voted upon with KIK GenPar to have four votes for each vote of KLP Holdco. KLP will hold all of the issued and outstanding shares of KIK Acquisition, will indirectly hold the shares of KIK Holdco and KIK International, and will directly and indirectly hold all of the partnership interests in KOP (a general partnership to be created to hold assets currently owned by KIK other than its shares of KIK International) following the completion of the transactions described under "Funding, Acquisition and Related Transactions". KLP may acquire additional assets related to the manufacture and sale of household cleaning and laundry products and such other investments as the general partners may determine.

KIK Operating Partnership

KOP will be established as a general partnership under the laws of the Province of Ontario to carry on the business of the manufacture and sale of household cleaning and laundry products, and such other investments as KIK GenPar (in its capacity as manager), may determine, including all activities ancillary and incidental thereto. The partners of KOP shall be KIK Holdco (as to a majority interest), KOPH (as to a nominal interest) and KLP (as to a minority interest). KOP will hold all of the assets currently owned by KIK and its affiliates other than its shares of KIK International. KOP may acquire additional assets related to the manufacture and sale of household cleaning and laundry products, and such other investments as KIK GenPar (in its capacity as manager) may determine.

INDUSTRY

Overview

KIK conducts its business within the North American household cleaning and laundry products market, which is a mature and stable market and has historically grown at a low single digit annual rate. KIK competes within the private label segment of this market, primarily in the household bleach category, which has experienced a higher rate of growth relative to the overall household cleaning and laundry products market. Management expects this growth to continue as private label products gain further acceptance in the United States market.

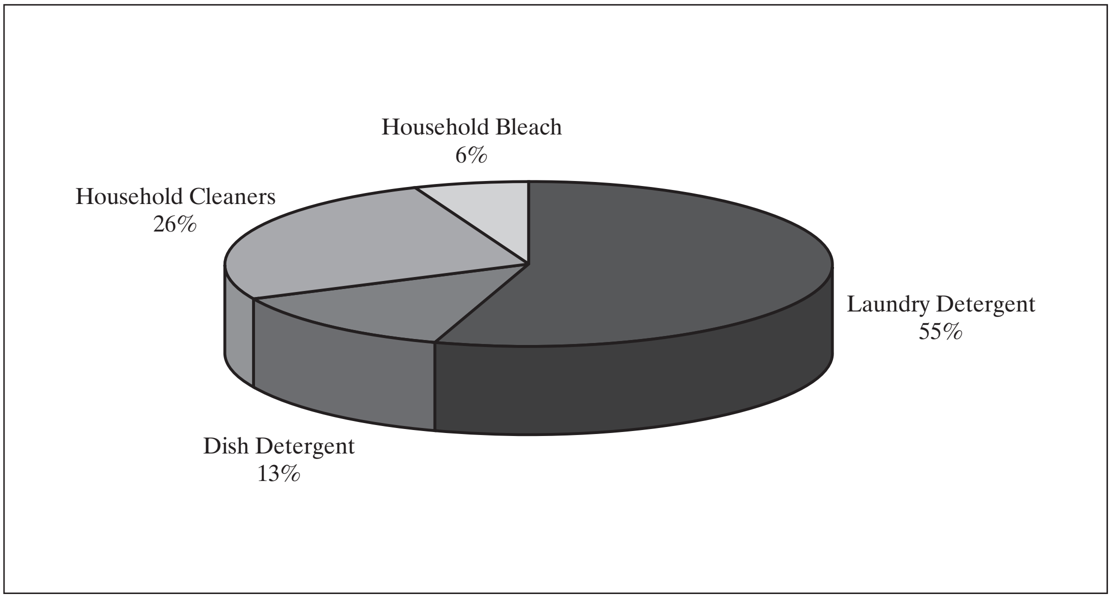
North American Household Cleaning and Laundry Products Industry

In 2001, based on industry sources, U.S. retail sales of household cleaning and laundry products were approximately US$11.4 billion and based on management estimates, Canadian retail sales were approximately US$600 million. Household cleaning and laundry products can be segmented into the following major product categories:

- *Household bleach* — includes chlorine and chlorine free bleach and is used primarily as a laundry additive and also a multi-purpose cleaner and disinfectant and has recently been introduced in the ultra format.
- *Laundry detergent* — includes liquid and powder detergent, fabric softener and fabric softener sheets.
- *Household cleaners* — includes all-purpose, window, bath, lime/rust, oven, glass, tub, tile and toilet cleaners and disinfectants.
- *Dish detergent* — includes liquid dish detergent and liquid/powder detergent for automatic dishwashers.

Each of these product categories is distributed primarily through grocery stores, mass merchandisers and drug store retailers. The following chart sets out the total retail sales in each major category in the United States market for 2001:

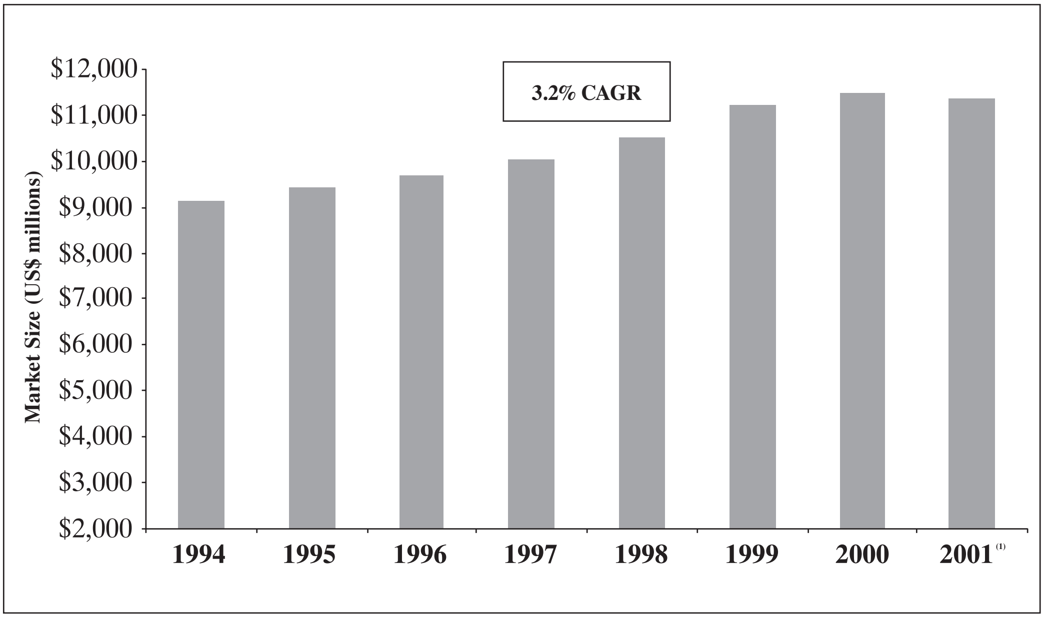
U.S. Market Breakdown (2001)



Based on industry sources. Beginning in 2001 Wal-Mart no longer contributes data to the industry sources that compile the foregoing information. As a result, the figures have been compiled based on the assumption that Wal-Mart's market share in 2001 was the same as 2000. The foregoing information is based primarily on sales in the mass channels, which include grocery stores, mass merchandisers and drug store retailers.

As shown in the table below, the US household cleaning and laundry products market is a stable market which has grown at a steady compound annual rate of 3.2% since 1994. Management believes that this growth rate is representative of the total North American market and expects this rate of growth to continue.

U.S. Household Cleaning & Laundry Products Market



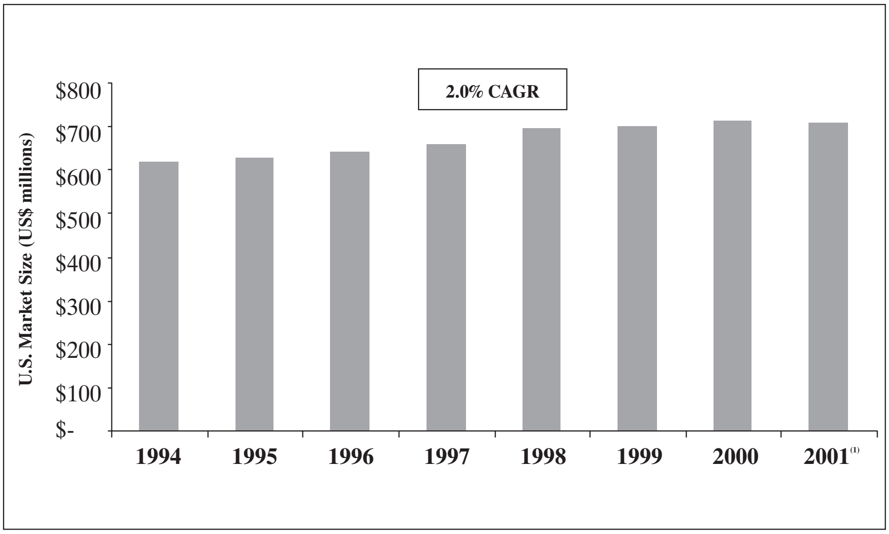
Based on industry sources.

(1) Beginning in 2001 Wal-Mart no longer contributes data to the industry sources that compile the foregoing information. As a result, the 2001 figure has been compiled based on the assumption that Wal-Mart's market share in 2001 was the same as 2000. The foregoing information is based primarily on sales in the mass channels, which include grocery stores, mass merchandisers and drug store retailers.

North American Household Bleach Market

The North American household bleach industry is a mature and stable market, which management estimates achieved approximately US$780 million in annual retail sales in 2001, with the United States accounting for approximately 92% of the total market. According to industry sources, the U.S. market has grown steadily at a compound annual rate of 2.0% since 1994, a trend which management believes is representative of the total North American market and expects to continue in the future.

U.S. Household Bleach Market



Based on industry sources.

(1) Beginning in 2001 Wal-Mart no longer contributes data to the industry sources that compile the foregoing information. As a result, the 2001 figure has been compiled based on the assumption on that Wal-Mart's market share in 2001 was the same as 2000. The foregoing information is based primarily on sales in the mass channels, which include grocery stores, mass merchandisers and drug store retailers.

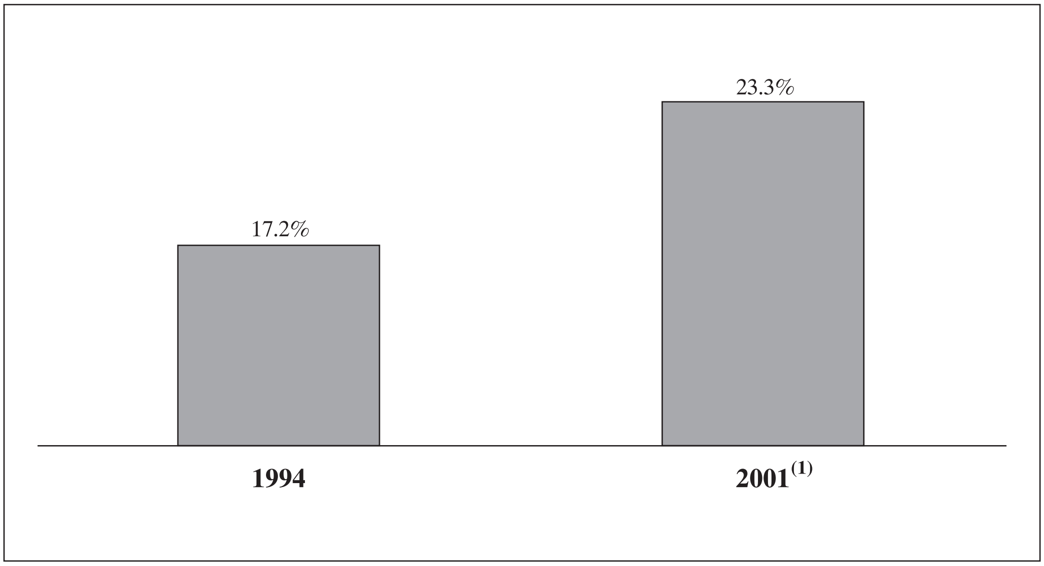
Private Label Industry Analysis

Private label products, also known as "no name" or "store" brands, are typically made by independent manufacturers according to specifications set by retailers, which retailers then usually market and sell the products under their retail names. Examples of private label programs include Loblaws — President's Choice™, Wal-Mart — Great Value™, Wal-Mart — Sam's Choice™, Albertsons' — Albertson's™ and Safeway's — Select™. Recently, the U.S. private label industry has experienced strong growth, mostly at the expense of brand name products, which growth is reflected by the following: (i) 83% of consumers buy store brands regularly; (ii) approximately 90% of consumers are familiar with store brands; and (iii) private label products account for approximately one out of every five items sold daily by U.S. supermarkets, drug store chains and mass merchandisers. National brand loyalty has been declining over the past two decades with fewer consumers categorizing themselves as being exclusively loyal to national brands.

Private label products have grown in popularity due to their attractiveness to both consumers and retailers. Consumers are able to purchase private label products whose quality and packaging is often equal or superior to national brands, for a typical discount of approximately 30% versus the price of national brands. For retailers, private label products offer two main benefits. First, retailers often earn a higher margin on private label products compared with those earned on national brands, despite the fact that private label products are typically sold at a discount. Due to the relatively low marketing expense built into a manufacturer's cost structure for private label products, manufacturers can charge substantially lower prices to retailers, which savings can be passed on to consumers. Second, private label products allow retailers to leverage the brand value inherent in their own names by introducing profitable store brands in their product offerings. The retailer benefits from enhanced consumer loyalty to both the product and the retail establishment due to consumers' favourable experiences with store brands.

Bleach and other household cleaning products are among those products that are most suitable for private label competition because they have high usage rates and price is a major purchase consideration for consumers of these products. Similarly, consumers have been willing to use private label household cleaning products because the difference in quality between private label and branded products is perceived to be minimal or irrelevant. This is demonstrated by the market share growth experienced by private label household bleach in North America from 17.2% in 1994 to 23.3% in 2001, representing a 35% increase.

Private Label Household Bleach Market Share
($ Sales)



Based on industry sources.

(1) Beginning in 2001 Wal-Mart no longer contributes data to the industry sources that compile the foregoing information. As a result, the 2001 figure has been compiled based on the assumption that Wal-Mart's market share in 2001 was the same as 2000. The foregoing information is based primarily on sales in the mass channels, which include grocery stores, mass merchandisers and drug store retailers.

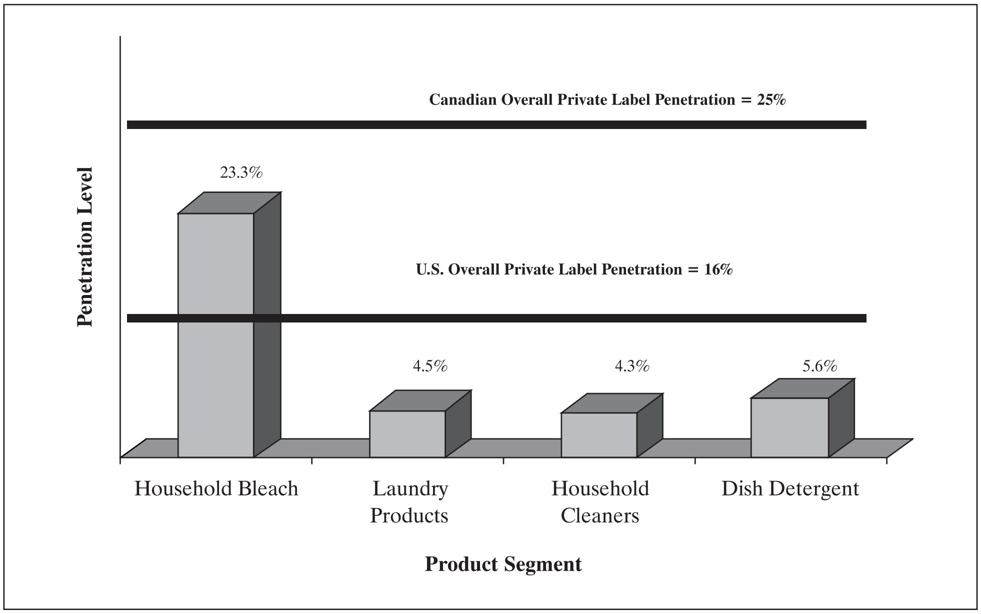
Private Label Industry Growth

KIK anticipates the continued and substantial growth of private label products sales in North America in the household cleaning and laundry products industry due to the following factors:

- ***Low-Penetration of Private Label Products in the United States.*** According to industry sources, the overall private label market penetration in the United States is approximately 16% in contrast to the approximately 25% penetration in Canada and the approximately 37% penetration in private label's most mature geographic market, the United Kingdom. This relationship is particularly true in the non-bleach household cleaning products categories where the U.S. private label penetration remains low.

The following table sets out the penetration level for certain household cleaning and laundry products in the U.S. market.

U.S. Private Label Penetration



Based on industry sources. The foregoing information is based primarily on sales in the mass channels, which include grocery stores, mass merchandisers and drug store retailers.

- ***Increasing Penetration of Store Brand Products in Mass Merchant Sales Channel.*** Historically, mass merchandisers did not aggressively promote private label products, opting to promote brand names with low prices. Many mass merchandisers have recently developed and implemented strong store brand promotion programs, which KIK believes accounts for the recent increase in unit sales of private label household cleaning and laundry products in this channel.

- ***Continued Improvement of Private Label Product Quality.*** The quality, performance and packaging of private label products has improved significantly, enabling such products to compete successfully with branded products. Increasingly, sophisticated private label manufacturers are delivering consistently high-quality products, packaging on demand and other value-added services.

- ***Higher Margins Earned by Retailers on Store Brands.*** Retailers continue to strengthen their store brand programs due to the higher retail margins earned on private label goods as compared to margins earned on national brands.

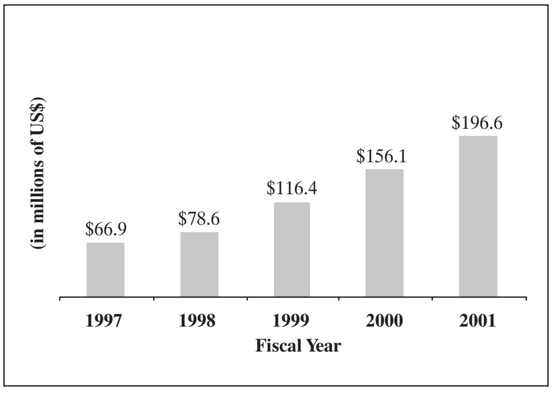
- ***Increasing Consumer Loyalty to Store Brand Products.*** Favourable experiences with store brand products enhance consumer loyalty to both the product and the retail establishment. Although consumers can purchase national brands anywhere, store brands are retailer specific.

BUSINESS OF KIK

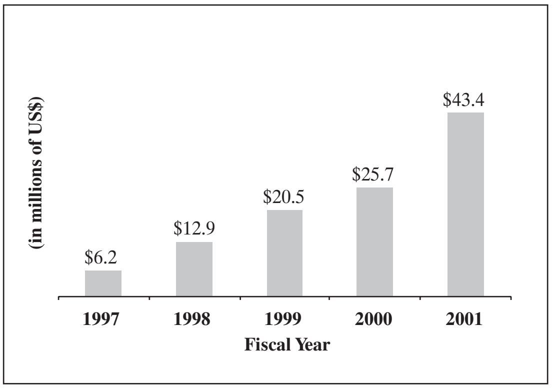
Overview

KIK is North America's largest producer of private label household bleach. KIK is also a producer of other private label household cleaning and laundry products. KIK's products are sold in over 45,000 stores across North America, including approximately 85 of the largest 100 North American grocery, mass-merchant and drug store retailers such as Wal-Mart, Loblaws, Safeway, Albertsons' and Kroger. Management believes that KIK holds a share of approximately 75% of the North American private label retail bleach market based on case sales for 2001. Since its inception, KIK has completed eight acquisitions which, together with organic growth, increased KIK's revenue at a compound annual growth rate since 1992 of 54%. For the twelve months ended May 25, 2002, KIK recorded revenue of US$196.0 million and EBITDA of US$31.9 million. KIK's revenues and gross profit for the fiscal years 1997 through 2001 are set out in the tables below.

KIK's Revenues



KIK's Gross Profit(1)



(1) Excluding amortization. See "Gross Profit". By comparison, KIK's net income for the fiscal years 1997 to 2001 was US$293,000, US$841,000, US$7,279,000, US$110,000 and US$2,113,000, respectively. For a reconciliation between KIK's gross profit and net income contained in the financial statements of KIK included in this prospectus, see "Selected Consolidated Financial Information of KIK".

Founded in December 1991 with one manufacturing facility located in Toronto, Ontario, KIK began operations as a producer and seller of private label household bleach in Canada. By 1995, KIK's business strategy became focused on entering the United States private label household bleach market by supplying all of Wal-Mart's retail needs for private label household bleach. Under the guidance of its current executive team, KIK realized that it could improve margins and product quality by acquiring regional private label bleach manufacturers throughout North America in an effort to create economies of scale in terms of manufacturing capabilities. KIK currently operates two manufacturing facilities in Canada and ten in the United States which produce 16 product lines in categories which include retail bleach, general purpose household cleaners, household laundry and dish detergents, and industrial and institutional bleach.

As a result of its rapid growth and success, in each of the past five years, KIK was named one of "Canada's Top 50 Fastest Growing Companies," as surveyed by Profit Magazine and Ernst & Young. KIK was also granted the "Quality Assurance Supplier of the Year" award by Loblaw Companies in 2000. In 1997 and 1998, KIK was awarded Kmart USA's "Supplier of the Year Award" for Consumable Private Brand Products over all other private label suppliers from all categories which made up Kmart USA's US$1.0 billion Corporate Brands program. In 2000, KIK was selected as one of the 50 best managed private companies in Canada by a national consulting firm.

Competitive Advantages of KIK

Management believes that KIK possesses certain characteristics which provide it with competitive advantages within the household cleaning and laundry products industry including the following elements of KIK's business strategy:

- ***Support KIK's Customers in Growing their "Store Brand" Business.*** KIK believes that a positive experience with one store brand product will encourage retail consumers to purchase other products of the same store brand, thereby increasing store loyalty. KIK intends to continue to assist its customers in growing their store brand businesses by continuing to provide what KIK's management believes is a high level of customer service and expertise in the private label household cleaning and laundry products market. Forging close customer relationships through KIK's commitment to service, product quality, packaging, innovation, and value pricing has led, and management believes will continue to lead, to low customer turnover. KIK's sales team focuses its customers on developing their brand and pursuing quality, value and consumer appeal for their store brand products. Products bearing the store/private label name, such as Loblaws' President's Choice™ brand, promote greater consumer confidence than generic or regional brand products with plain, anonymous labelling. In addition to offering the consumer a low price alternative, store brands can enhance the retailer's image and profitability. KIK provides its customers with comparisons between the profitability of successful private label products and the margins generated by the national brand in order to make the customer aware of the fact that store-branded products often generate more profit per unit for the retailer than the national brand. KIK's sales team also works closely with customers to develop promotional strategies that leverage store-branded products through attractive labelling, effective product presentation and inexpensive advertising. KIK believes that these strategic initiatives will result in increased sales for KIK's customers, which will lead to increased revenue and market share for KIK.

- ***Manufacture Products Equivalent or Superior to National and Regional Brands.*** KIK believes that each of its products compares favourably to the comparable leading North American national or regional brand in terms of performance, quality and packaging. KIK manufactures its own bottles in popular sizes and colours, ensuring that its customers are able to choose bottles which fit with their consumers' needs. KIK has been recognized as a leader in the private label bleach industry in adapting innovative consumer packaging. In order to create high perceived value, KIK intends to continue to produce products that are equal or superior to national brand products in terms of performance, quality and packaging.

  For example, in 2001, the U.S. retail bleach industry completed its one year rollout of its "ultra" bleach program, which has seen the national brand convert 100% of its packaging to the smaller, more concentrated "ultra" format. KIK anticipates that the manufacturer of the leading Canadian national brand of retail bleach will introduce its own ultra bleach program to the Canadian market in 2003. Containing 6% sodium hypochloride as compared to the 5¼% sodium hypochloride in regular bleach, ultra bleach is sold in a 96 ounce container as compared to the 128 ounce container used for regular bleach. In anticipation of its customers' demands to introduce their own store brand ultra bleach format, KIK successfully adapted 11 of its facilities over the course of one year for the production of its private label equivalent of ultra bleach. In March, 2000, KIK introduced the private label version of ultra bleach in the United States market and, in doing so, was able to match the national brand's ultra bleach rollout, satisfying KIK's customers' significant volume demand for a new product on time. Since the introduction of KIK's private label "ultra" format, KIK's sales of "ultra" bleach have risen to 55% of KIK's total bleach sales. Since packaging constitutes roughly two-thirds of the materials cost of bottled bleach, and the retailer sells ultra goods at a higher price, both KIK and its customers have experienced an increase in margins. The ultra format offers significant freight advantages over traditional one-gallon packaged bleach, as in excess of 25% more units can be shipped in a given truckload. Management believes that ultra bleach will ultimately replace regular bleach.

- ***Maintain KIK's Cost Competitive Advantage in the Production of its Products.*** KIK intends to maintain its cost competitive advantage in the production and distribution of private label bleach and other household cleaning and laundry products by:

  - increasing sales volume to spread KIK's fixed costs over a greater number of units;

  - using increased volume to negotiate more favourable raw material costs;
  - using multiple locations and increasing volume in order to decrease freight costs; and
  - automating and streamlining the manufacturing process of its facilities to increase production efficiencies, reduce labour costs, increase effective use of raw materials and improve packaging.

- ***Maintain On-Time Delivery and Low Defect Rate.*** KIK maintains a solid on-time delivery record and has experienced a negligible manufacturing defect rate.

- ***Maintain Fast Emergency Order Response.*** KIK maintains a reputation for meeting difficult customer requests. For example, in critical product shortage situations, KIK relies on its fully-integrated operations to generally ship within 24 hours of purchase order receipt in order to accommodate customers facing stock-outs.

Growth Strategy of KIK

KIK's goal is to build upon its position as the leading North American supplier of private label bleach to become the leading North American supplier to retailers of private label household cleaning and laundry products. KIK's strategy to achieve this goal is comprised of the following key elements:

- ***Extend KIK's "One Stop Shopping" Model into the United States.*** KIK's largest single source of revenue is from the sale of retail liquid bleach. Liquid bleach is one of the few private label products in its category that is delivered in full truckloads, which is extremely important in maintaining low freight costs. Since retailers buy large quantities of bleach, high volume purchases make it cost-effective to have other cleaning products shipped with bleach, thereby allowing KIK to expand into products with higher margins. KIK has successfully introduced its "One Stop Shopping" business model in Canada, evidenced by the fact that bleach sales accounted for approximately 30% of KIK's total dollar revenue in Canada for the five months ended May 25, 2002 contrasted to approximately 50% for the year ended December 31, 1994. KIK's strategy is to introduce its "One Stop Shopping" model in the United States household cleaning and laundry products market by leveraging retail bleach as its leading volume product in order to increase sales of other lower volume, higher margin products. KIK believes that this strategy will result in an increase in KIK's revenues and profit margins.

- ***Continue Disciplined Approach of Pursuing and Completing Selected Strategic Acquisitions.*** In order to expand its product offerings, KIK intends to continue pursuing and completing selective strategic acquisitions of targets located in both the United States and Canada whose product lines will complement and extend those of KIK. KIK has taken a disciplined approach in identifying and completing acquisitions, as potential targets must satisfy various criteria including location, degree of potential synergies and possible product extensions. Management believes other potentially accretive strategic opportunities exist as there are over 30 manufacturers of private label non-bleach cleaning and laundry products located throughout North America. As the only significant consolidator in the private label household cleaning and laundry products market, management believes KIK is the only private label producer with the ability to offer private label products on a national basis through an established national distribution channel.

Acquisitions

KIK follows a disciplined approach in identifying selected acquisition targets whose operations and product offerings complement those of KIK. KIK considers a number of factors that must be satisfied prior to the completion of an acquisition including: (i) whether potential synergies represent a significant component of the post-acquisition EBITDA of the target; (ii) whether acquired facilities expand KIK's product offerings or give

KIK access to a new geographic region; and (iii) whether the acquired business offers additional customers. The following timeline sets out the history of KIK's acquisitions:

	1995	1996	1997	1998	1999	2000	2001
Acquisition(s)		Labbco & Lastec	Excelex & Sacramento *(facility built by KIK)*	TC Products	T-Chem & Hi-Lex	Clo-White & Sewell	
KIK Revenue (US$, millions) . . .	$21.4	$41.4	$66.9	$78.6	$116.4	$156.1	$196.6
Number of Facilities at Year End	2	4	5	6	9	13	12

Labbco and Lastec Acquisition

In June 1996, KIK acquired the assets and business of Labbco, Inc. and Lastec, Inc. ("Labbco") for a net purchase price of approximately US$8 million. Through this acquisition, KIK acquired manufacturing facilities in Houston and Louisiana. At the time of the acquisition, Labbco was a manufacturer of private label bleach and household cleaning products in Texas and the southeastern U.S. generating annual sales of approximately US$23.7 million.

Prior to being acquired by KIK, Labbco was one of the anchors of KIK's national co-packing network. The Labbco acquisition gave KIK, for the first time, a U.S.-based manufacturing presence from which KIK could launch its consolidation strategy.

Excelex Acquisition

KIK acquired the assets of Excelex, Inc. ("Excelex") in 1997 for a net purchase price of US$3 million. At the time of the acquisition Excelex was a Dallas-based manufacturer of private label bleach, ammonia and fabric rinse generating annual sales of approximately US$12.1 million.

After closing Excelex's Dallas facility, KIK successfully integrated Excelex assets and customers into its facilities in Houston and Louisiana. The increased volume and additional equipment provided KIK with the ability to secure better raw material costs and greater production efficiencies within its operations.

TC Products Acquisition

In 1998, KIK completed the acquisition of TC Products Inc. ("TC Products"), a retail bleach packaging operation located in Tacoma, Washington with annual sales of approximately US$6 million. The purchase was comprised of a US$500,000 cash payment at closing, a seven-year operating lease of TC Products' assets for approximately US$300,000 annually and an option to purchase the leased assets exercisable until July 2005.

As part of the acquisition of TC Products, KIK was able to negotiate favourable supply contracts for bleach, chlorine and caustic soda in its California plants from TC Products ex-owner. Additionally, KIK has been able to improve the TC Products operations through purchasing synergies and the upgrading of TC's packaging to that of KIK's.

T-Chem Acquisition

In 1999, KIK acquired T-Chem Holdings, Inc. ("T-Chem") for a net purchase price of approximately US$18.0 million. Through this acquisition, KIK acquired a manufacturing facility in Santa Fe Springs, California, which is located outside of Los Angeles, California. At the time of the acquisition, T-Chem was a manufacturer of private label household cleaning products serving the southwestern U.S. The T-Chem acquisition added approximately US$22 million to KIK's annual revenue.

To achieve the projected synergies, in 1999 KIK installed its information system in T-Chem and also installed new packaging equipment including a new palletizer, stretch wrapper and box conveyer system and new side shift blow molders. This equipment has reduced the amount of raw material and labour consumed which has resulted in cost savings. KIK has also converted T-Chem's packaging to KIK's updated national brand style package.

Hi-Lex Acquisition

In 1999, KIK acquired Hi-Lex Corporation ("Hi-Lex") for a net purchase price of approximately US$8.1 million. The Hi-Lex acquisition included two manufacturing plants located in Denver, Colorado and Eagan, Minnesota. At the time of its acquisition by KIK, Hi-Lex was a manufacturer of private label household cleaning and automotive care products, as well as the regional "Hi-Lex" bleach brand, a leading alternative to the national brand in the North Central and Rocky Mountain areas of the United States. The acquisition added approximately US$14.0 million to KIK's annual revenue. In addition to accelerating KIK's revenue growth, this acquisition also added to KIK's manufacturing capacity.

KIK has successfully integrated Hi-Lex with its previously existing facilities and has achieved substantial synergies. Cost savings were achieved through the elimination of certain administrative positions at Hi-Lex and through raw material price savings. KIK has also fully transferred service of its major Denver customers (previously serviced out of Houston via an outside warehouse) into the Denver facility and transferred that region's Wal-Mart business (previously produced by a co-packer in St. Paul) into the Eagan facility. KIK also converted Hi-Lex's packaging to KIK's updated national brand style package.

Sewell Acquisition

In 2000, KIK acquired The Sewell Group, Inc. ("Sewell") for a net purchase price of approximately US$22.5 million. As part of the transaction, KIK acquired manufacturing plants located in Salem, Virginia, Greenville, Mississippi, Auburndale, Florida and Indianapolis, Indiana. The purchased facilities produce consumer packaged bleach along with ammonia, fabric softener, windshield wash and other cleaners. These products are sold primarily to customers located on the east coast of the United States. The Sewell acquisition added approximately US$26.0 to KIK's annual revenue.

As a direct result of the Sewell acquisition, KIK has realized synergies relating to: (i) freight reduction; (ii) elimination of a co-packer; (iii) savings on raw materials; (iv) the launch of the ultra bleach program; and (v) reduction of administrative overhead expenses. In addition, a portion of the synergies were achieved by the closure of two inefficient plants formerly operated by Sewell (Greenville and Indianapolis) and the divestiture of non-core assets in the food business that were included in the transaction. KIK also converted Sewell's packaging to KIK's updated national brand style package.

Clo-White Acquisition

In 2000, KIK acquired certain assets previously owned by The Clo-White Company ("Clo-White") for a net purchase price of approximately US$3.1 million. The Clo-White acquisition included manufacturing plants located in Hampton, Georgia and Riviera Beach, Florida, which manufactured bleach, fabric softener and ammonia. The acquisition added in excess of US$10.0 million to KIK's annual revenue. In addition, KIK has successfully integrated the Clo-White assets into its operations and has achieved various synergies through more efficient raw material purchases and the closure of a plant in Riviera Beach, Florida. KIK has fully transferred the customer accounts previously serviced by the Riviera Beach facility to various of KIK's other facilities.

Capital Expenditures

KIK has made significant investments over the past three years to expand its production capacity and product offerings and to modernize its operations in order to increase efficiency. KIK incurred capital expenditures totalling approximately US$24.4 million during 1999 through 2001, approximately US$6.7 million of which was maintenance-related capital expenditures and US$10.6 million of which was expansion related capital expenditures. The amount and timing of these expenditures is detailed in the table below.

Expenditures	1999	2000	2001
		(thousands of US$)	
Maintenance	$1,984	$2,266	$2,438
Expansion	3,992	5,563	1,088
Acquisition	2,813	936	3,272
Total	$8,789	$8,765	$6,798

Management currently expects that for the foreseeable future, the level of capital expenditures required to maintain KIK's operations will be approximately US$3.5 million annually (including package design costs), which amounts will be funded from KIK's operating cash flows.

At Closing, KIK anticipates that it will have undertaken or be in the process of undertaking certain "expansion capital projects" which are designed to:

- enable KIK to expand into new lines of business within the household cleaning and laundry products market;
- expand capacity for current product offerings; and
- further automate KIK's manufacturing operations resulting in improved efficiencies and greater labour cost savings.

Approximately US$5.0 million of the proceeds of this Offering will be allocated to fund the completion of these expansion capital projects. KIK expects that these expansion capital projects will be substantially completed by the end of 2003. Management believes that such expansion-related capital expenditures will be sufficient for the foreseeable future.

Products

KIK manufactures approximately 16 product lines, each of which falls into one of the following main product categories: (i) retail liquid bleach; (ii) general-purpose cleaners; (iii) non-bleach liquid laundry products; (iv) institutional and industrial bleach; and (v) other cleaning products. The following table sets out KIK's five major product categories and the principal products manufactured by KIK in each product category.

Product Category	Product
Retail Liquid Bleach	Chlorine Bleach
	Chlorine Free Bleach
General Purpose Cleaners	Dishwasher Liquid
	Window Cleaner
	All-purpose Cleaner
	Pine Cleaner
	Household Ammonia
	Institutional Ammonia
	Shower Cleaner
Non-Bleach Laundry Products	Liquid Detergent
	Fabric Softener
	Soil and Stain Remover
Industrial and Institutional Bleach	Industrial Bleach
	Institutional Bleach
Other	Anti-Freeze
	Windshield Wash Fluid

Retail Liquid Bleach. Retail liquid bleach remains the largest selling item produced by KIK both in terms of units and dollars. It is an extremely important category to both KIK and its customers as it creates significant "foot traffic" that brings customers to retail locations. It is also one of only a few products in the household cleaning and laundry products industry that is delivered in full truckloads, which is critical in minimizing shipping costs. For the financial year ended December 31, 2001, KIK's revenues from sales of retail bleach were US$149.1 million and accounted for 75.8% of KIK's total revenue. KIK's bleach products are priced competitively for retail customers, generally yielding retailers a higher margin than that earned on national brands. KIK has developed a reputation for high-quality private label bleach products and KIK is the leading North American supplier in this category. Bleach products fall into two sub-categories as defined by chemical composition: (i) chlorine bleach (sodium hypochlorite); and (ii) non-chlorine bleach (hydrogen peroxide).

- *Chlorine Bleach (Sodium Hypochloride)* — Chlorine bleach can be diluted with water to produce various strengths. Chlorine bleach is used as a laundry additive that whitens and freshens clothes and as a multi-purpose cleaner that sanitizes, deodorizes and freshens. Disinfectant strength bleach serves as a multi-purpose cleaner and disinfectant.
- *Chlorine-Free All Fabric Bleach (Hydrogen Peroxide)* — KIK manufactures a single grade of chlorine-free bleach which is used by consumers as a laundry additive that brightens coloured clothes.

KIK sells retail liquid bleach under approximately 250 store brands or private labels. The product is available in unscented as well as scented varieties comparable to those of the leading national brands. Household bleach features attractive consumer packaging labelled to customers' specifications that matches the sizes and quality of the leading brands.

General Purpose Cleaners. In 2001, KIK's revenue from general purpose cleaning products was US$33.1 million and accounted for 16.9% of KIK's total revenue. KIK's general purpose cleaning products comprise approximately 250 stock keeping units ("SKUs"). Dishwasher liquid is sold by KIK primarily to retailers, including prominent retail chains. KIK's general purpose cleaners have high quality packaging and compete with branded products in their category. Ammonia-based products include household ammonia products and institutional ammonia cleaner.

Non-Bleach Laundry Products. In 2001, KIK's revenue from liquid laundry products was US$6.7 million and accounted for 3.4% of KIK's total revenue. The liquid laundry category comprises approximately 179 SKUs, including fabric softener, liquid detergent and soil and stain remover and sells under numerous private labels. KIK sells liquid laundry products primarily to retailers. KIK's liquid laundry products have high quality packaging and compete favourably with branded products.

Industrial and Institutional (Bulk) Bleach. In 2001, KIK's revenue from bulk bleach was US$5.2 million and accounted for 2.6% of KIK's total revenue. KIK's institutional bleach product line is comprised of high strength chlorine bleach, which institutional and industrial customers use as a multi-purpose cleaner and disinfectant.

Other. In 2001, KIK's revenue from other products was US$2.5 million and accounted for 1.3% of KIK's total revenue. Products classified under this category include antifreeze and windshield washer fluid.

Customers

KIK has a diverse customer base, many of whom emphasize store brand private label products as a part of their marketing strategy. Since 1995, KIK has been successful in expanding its customer base due to its ability to deliver quality products and service on a national basis. KIK classifies its principal customers as being either retail or institutional and industrial.

The retail category, comprised primarily of chain grocery stores (Loblaws, Safeway, Albertsons, Kroger), chain drug stores (Rite-Aid, Longs), mass merchandisers (Wal-Mart) and discount dollar stores (Family Dollar, Dollar General), is KIK's largest customer category accounting for 91.8% of KIK's revenue for the financial year ended December 31, 2001. Retailers stock household bleach, non-chlorine bleach, ammonia and other household laundry and cleaning products for the everyday consumer. Many retailers offer consumers "store brand" products equivalent in performance and packaging to the leading brand but usually priced approximately

30% less than such brands. Additionally, retailers may offer a tertiary product (other than a store brand), targeting a lower price point. Generally, tertiary products do not match the branded products' specifications.

Institutional and industrial customers represent an additional segment for KIK. These customers include janitorial supply distributors (Ecolab Inc.), food service companies (SYSCO Corporation) and General Motors. The institutional and industrial category accounted for 6.8% of KIK's revenue for the financial year ended December 31, 2001. KIK supplies disinfectant strength bleach and ammonia products to its institutional and industrial customers, some of which distribute high potency products under house brands.

A third but smaller customer segment of KIK is comprised of national brand manufacturers. Through contract purchasing arrangements, KIK manufactures products in the ammonia and starch product segment for these brand manufacturers. KIK believes that these contract purchasing arrangements, together with KIK's strong presence in the private label ammonia segment, make KIK the largest packager of retail ammonia in North America.

For the year ended December 31, 2001, Wal-Mart represented 13.5% of KIK's revenue, in contrast to the year ended December 31, 1995 during which Wal-Mart represented approximately 50% of KIK's total revenue. Wal-Mart is the only customer that accounted for more than 10% of KIK's revenues for the year ended December 31, 2001.

Sales and Marketing

As of December 31, 2001, KIK's internal sales and marketing team consisted of 11 employees located in Canada and the United States. KIK employs a multi-tiered sales and centralized customer service organization trained to promote its production capabilities, generate rapid purchase order turnaround, and provide customer service from order receipt through finished goods delivery. The sales organization is headed by the Senior Vice President, Sales and is divided based on customer accounts. In addition to the internal sales team, KIK sells its products through an external commission broker network and through retailer designated in-house brokers who have relationships with many of the larger retailers.

Manufacturing and Operations

KIK operates two manufacturing facilities in Canada and ten in the United States. These facilities contain, in the aggregate, the capacity KIK believes is needed to address customers' current and anticipated demands even during peak periods. A core strategy implemented by KIK has been the centralization in Toronto of order processing, customer service, procurement, manufacturing planning, payroll and treasury functions. Adopting this strategy, coupled with staffing each facility with a controller who implements and monitors control measures, individual plant managers are able to focus on production activities which are comprised of household laundry and cleaning product production, bottle manufacturing and labelling, packaging and quality control. KIK maintains warehouses for finished goods within each of its facilities and manufactures most of its products generally within 24 hours in advance of pickup. KIK's IT network infrastructure connects all of KIK's facilities and offers a complete array of business applications which permit the facilities to communicate effectively with each other and, ultimately, with customers.

The principal stages in KIK's order flow process are as follows:

- ***Customer Orders.*** Customers submit purchase orders to KIK's centralized customer service department in Toronto, Ontario via fax, electronic data interchange or overnight mail.

- ***Production Planning Department.*** KIK's production and planning department coordinates which facility produces the products to satisfy a particular order, reviews production schedules and oversees timely production of goods.

- ***Raw Materials Handling and Logistics.*** Raw materials comprising KIK's products and packaging materials are delivered to a plant either by rail (chlorine, resin, methanol), tanker trucks (caustic soda, fabric softener base, ammonia), regular trucks (labels, linerboard, caps), and both rail and truck (caustic soda). Except for chlorine, which is stored in rail cars outside of KIK's manufacturing facilities, chemicals are stored inside KIK's plants in holding tanks.

- ***Processing.*** KIK blends chemicals according to prescribed specifications created and generated by KIK's technical service personnel. The mixed batches of product, when completed, are stored in tanks for up to 24 hours prior to being bottled and packaged for shipment to the customer.
- ***High Speed Blow Moulding.*** KIK's high-speed blow moulding operations manufacture nearly all bottles used for KIK's products. Crew members operate blow moulding machines and the system is designed to automatically reject any flawed bottles, which are then reground and recycled. Once trimmed and checked for quality, bottles are either transported by a conveyor system to the product fill lines or are bagged and sent to empty bottle storage.
- ***Labelling, Filling and Packaging.*** While KIK operates both plastic and paper labelling machines in order to accommodate customer specifications, KIK outsources the production of labels to a variety of manufacturers. Prior to filling, bottles pass through a labelling machine that applies either plastic sleeve or pressure sensitive paper labels. KIK also maintains liquid filling lines supplied by large tank farms. The production lines include high speed lines dedicated to retail products and separate lines to handle larger volume, industrial containers. The conveyor system transports bottles to each line. Once packaging and filling are completed, the product is sealed, capped and then boxed into cases, which are marked for tracking purposes. Finished products are conveyed to automatic, computer controlled palletizers that stack cases according to customer specifications.
- ***Quality Control.*** KIK monitors quality control of its products throughout the manufacturing process beginning with the manufacturing planning stage. KIK believes that its quality control efforts have resulted in raw material wastage at levels which are at or below industry averages.
- ***Delivery.*** KIK's products are delivered by truck. Freight is handled either by a customer's fleet or by a common carrier with whom either KIK or the customer makes shipping arrangements.

Suppliers and Raw Materials

KIK's manufacturing operations require several key commodity inputs, the most significant of which are resin (to blow mould bottles), chlorine and caustic soda (mixed with water to manufacture bleach) and linerboard (to manufacture the boxes in which KIK's products are cased). Currently, raw materials comprise approximately 63% of cost of goods sold. At current rates of production, KIK consumes on a per annum basis 45 million pounds of resin, approximately 50,000 tons each of chlorine and caustic soda, and 55 million tons of linerboard.

- ***Resin —*** Historically, KIK has contracted with a number of different resin suppliers. In 2000, KIK entered into a three-year contract, which was subsequently extended for an additional one-year term, with one supplier for the supply of all of KIK's resin requirements for the year 2000 and the supply of at least 85% of KIK's annual requirements through 2003.
- ***Chlorine/Caustic Soda —*** The manufacture of bleach uses chlorine and caustic soda as inputs in almost exactly the same ratio in which they are produced. This allows KIK to purchase chlorine and caustic soda on an electro-chemical unit, or ECU, basis (an ECU is equivalent to 1 ton of chlorine and 1.13 tons of caustic soda). Buying these inputs on an ECU basis allows KIK to reduce price volatility, as chemical producers are not at risk of overproducing one of the two elements. KIK contracts with three suppliers to purchase chlorine and caustic soda for eight of KIK's larger facilities which account for approximately 90% of KIK's bleach product production. For KIK's other four smaller facilities, KIK dilutes concentrated bleach which is purchased locally at market prices. These facilities account for approximately 10% of KIK's bleach product production. KIK does not purchase chlorine or caustic soda for these four facilities.
- ***Linerboard —*** KIK has one major box supplier in each of Canada and the United States. KIK's box prices are tied by a formula to the published market price of linerboard which is reviewed and recalculated quarterly.

If KIK's demand for raw materials cannot be adequately serviced by its current suppliers, KIK has the ability to purchase raw materials from various other suppliers located throughout North America. In the past, an increase in the price of raw materials has generally resulted in a corresponding increase to the price at which KIK sells its products to its customers. However, there can be no assurance that KIK will be able to continue to pass along such price increases.

Competition

KIK's acquisition strategy has made it the leading manufacturer in the private label bleach category and management believes that KIK now has an approximately 75% share of the North American private label bleach segment based on case sales in 2001.

The private label household cleaning and laundry products industry is comprised primarily of manufacturers whose operations are limited to one or two manufacturing facilities. Due to the small scale of their operations and the high cost of freight to deliver their products, these "mom and pop" operators have the capacity to produce only a relatively small number of products that are typically distributed to customers in a limited geographical region. In addition, these manufacturers generally lack the resources necessary to make capital investments in their facilities, and as a result, the quality and packaging of their products are often significantly inferior to those of national brand manufacturers.

KIK also competes against national brands and other private label manufacturers. Javex™, the liquid bleach product manufactured by Colgate Palmolive, is the major national brand in the Canadian liquid bleach market. Clorox™, manufactured by The Clorox Company, is the major national brand in the United States. Over the last six years Clorox's market share in the bleach industry has declined, which management believes is due in part to consumers' acceptance of private label products.

KIK believes that the major Canadian and United States national brand retail bleach manufacturers are unwilling to enter private label production because of: (i) the substantial risk of self-competition and brand equity dissipation which would likely result if consumers learned that store brands and national brands were produced by the same company; and (ii) retailer resistance to consolidating their store brand supplier with the national brand supplier.

In other household cleaning and laundry product categories, KIK generally faces competition from national brand manufacturers and private label manufacturers. With the exception of U.S. based Huish Detergents Inc., a company which packs liquid and powder household cleaning and laundry products for private label national brands and its own tertiary brand categories. KIK's direct competition in the private label household cleaning and laundry products industry consists primarily of small manufacturers which generally have limited financial resources and product offerings and operate distribution outlets restricted to small geographic regions.

Facilities

KIK's corporate headquarters are located in Concord, Ontario, located just north of Toronto, and virtually all of KIK's products are manufactured in facilities owned or leased by KIK. The following table lists, for each of KIK's facilities, its approximate square footage, the major products manufactured and the nature of KIK's property interest:

Location	Approximate Square Footage	Major Products Manufactured	Owned or Leased
Concord, Ontario	75,000	Retail bleach, fabric softener, dish detergent, windshield washer fluid, all purpose cleaner	Owned
Concord, Ontario	140,000	N/A	Warehouse leased pursuant to a 10.5 year lease expiring in October 2012
Nisku, Alberta	44,000	Retail bleach, fabric softener, window cleaner, all purpose cleaner	Leased pursuant to a five year lease expiring in February 2003

Location	Approximate Square Footage	Major Products Manufactured	Owned or Leased
Houston, Texas	280,000	Retail bleach, bulk bleach, fabric softener, ammonia, dish detergent, windshield washer fluid, window cleaner, all purpose cleaners	Leased pursuant to a five year lease expiring in June 2006 with one five year renewal option
Slidell, Louisiana	80,000	Retail bleach, bulk bleach	Leased pursuant to a five year lease expiring in June 2006 with one five year renewal option
Sacramento, California	75,000	Retail bleach	Leased pursuant to a seven year lease expiring in August 2004 with one five year renewal option
Tacoma, Washington	50,000	Retail bleach, fabric softener, ammonia	Leased pursuant to a seven year lease expiring in June 2005
Santa Fe Springs, California	100,000	Retail bleach, bulk bleach, ammonia, windshield washer fluid	Owned
Eagan, Minnesota	66,000	Retail bleach, fabric softener, ammonia, windshield washer fluid	Leased pursuant to a three year lease expiring in August 2004
Denver, Colorado	60,000	Retail bleach, fabric softener, ammonia	Owned
Salem, Virginia	100,000	Retail bleach, fabric softener, ammonia	Owned
Auburndale, Florida	250,000	Retail bleach, starch, fabric softener, ammonia, ammonia, dish detergent, windshield washer fluid, window cleaner, all purpose cleaners	Owned
Hampton, Georgia	100,000	Retail bleach, fabric softener, ammonia	Owned

Employees

As at December 31, 2001, KIK had 789 full-time employees.

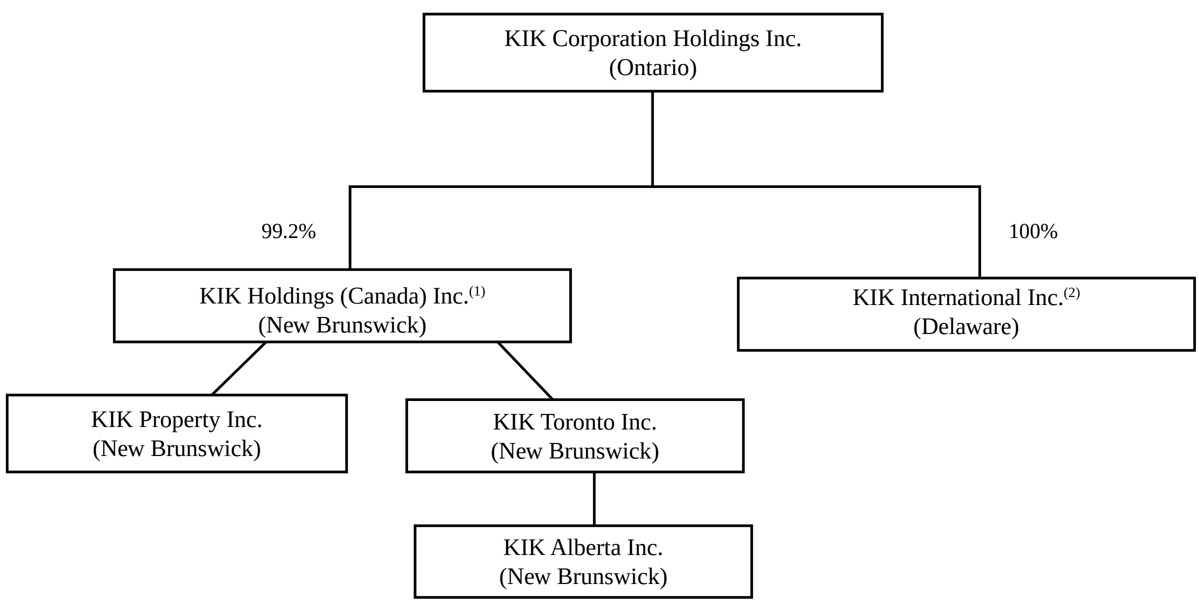
Approximately 246 of KIK's full-time employees belong to one of three trade unions with a total of five bargaining units. The collective agreements with the various bargaining units have staggered expiry dates. Contract negotiations were successfully concluded with two bargaining units during each of 2000 and 2001 and with one additional bargaining unit in 2002. The next expiry date of a collective agreement to which KIK is a party is November 2002. KIK believes that its relations with all of its employees are good.

The following chart indicates, for each of KIK's facilities as at December 31, 2001, the number of full-time employees by function, the total number of full-time employees and the number of those subject to collective bargaining agreements:

	Number of Full-Time Employees				
Location	**Manufacturing**	**Administration and Accounting**	**Sales and Marketing**	**Total**	**Number of Union Employees**
Concord, Ontario	122	63	5	190	114
Nisku, Alberta	22	3	—	25	0
Houston, Texas	107	9	4	120	0
Slidell, Louisiana	47	3	0	50	0
Sacramento, California	33	3	—	36	30
Tacoma, Washington	21	3	—	24	19
Santa Fe Springs, California	67	6	2	75	60
Eagan, Minnesota	26	3	0	29	23
Denver, Colorado	24	2	—	26	0
Salem, Virginia	69	4	—	73	0
Auburndale, Florida	93	5	0	98	0
Hampton, Georgia	40	3	—	43	0
Total:	**671**	**107**	**11**	**789**	**246**

Corporate Structure

The chart below illustrates the current corporate structure, together with the jurisdiction of incorporation or organization of KIK and its principal subsidiaries. Prior to Closing, the structure will be reorganized as described under "Funding, Acquisition and Related Transactions".



Notes:

(1) The minority interest of 0.8% is beneficially owned by individuals unrelated to KIK. The holders of the 0.8% minority interest will exchange their shares for shares of KIK prior Closing and will be included as Vendors selling their shares of KIK.

(2) KIK International Inc. is the sole direct or indirect shareholder of eleven Delaware corporations, one Virginia corporation and one Minnesota corporation. The title or lease of each of KIK's United States manufacturing facilities is held by one of these corporations.

Environmental Matters

Substantially all of KIK's facilities are subject to federal, provincial, state and municipal laws concerning, among other things, emissions to the air, water and sewer discharges, handling and disposal of wastes, recycling, or otherwise relating to protection of the environment. KIK has never been subject to a major or material environmental clean-up or similar remediation order and management is not aware of any spills or accidents that have occurred at KIK's facilities during its ownership that would require material remediation under the applicable environmental laws. Compliance with these laws has not had, and management does not expect it to have, a material effect upon income or competitive position of KIK. Environmental laws and regulations, and their interpretation, however, have changed rapidly in recent years and may continue to do so in the future. KIK properties, as well as areas surrounding such properties, particularly those in areas of long-term industrial use, may have had historic uses (or may have current uses, in the case of surrounding properties), which may affect such properties and require further study or remedial measures. KIK has implemented various safety controls and standards in its facilities and has an excellent safety record.

Environmental audits and/or site investigations have been conducted at various times at each of KIK's facilities. In anticipation of this offering, KIK has commissioned follow-up Phase I environmental reports and investigations for its operations. Although the follow-up is not yet complete, based on the results that are available, management does not expect that any material environmental concerns will be raised.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

The following discussion summarizes the significant factors affecting the results of operations and financial condition of KIK during the three year period ended December 31, 2001, the three month period ended March 30, 2002 and five month period ended May 25, 2002. This discussion should be read in conjunction with the disclosure and consolidated financial statements included elsewhere in this prospectus.

The Fund

The Fund will be entirely dependent on the operations of KLP and the Fund's earnings and cash flows will be affected by certain risks described elsewhere in this prospectus. See "Risk Factors".

KIK

KIK currently operates two manufacturing facilities in Canada and ten in the United States. The distribution network provided by KIK's facilities has enabled it to become a national supplier to major retail customers. Approximately 92% of KIK's consolidated revenue in fiscal 2001 is earned from customers in the United States compared to 88% in 2000 and 84% in 1999. Retail bleach revenue accounted for approximately 76% of total revenue in 2001. Retail bleach has become a larger proportion of total revenue over the last two years as a result of KIK's focus on consolidating the United States private label bleach market.

KIK has experienced significant revenue and profitability growth over the last six years. During this time period KIK has made seven separate acquisitions. These acquisitions have been financed primarily through a combination of term debt with banks and subordinated debt with mezzanine lenders.

There is limited seasonality to the business, however the second and third quarters generally provide the highest revenue and profitability for KIK. During the holiday shopping season in the fourth quarter, promotion-oriented retailers provide reduced or less desirable display space for laundry and household cleaning products, which results in lower revenue during that period.

The table below set out selected financial information prepared by the management of KIK from the financial statements of KIK included elsewhere in this prospectus.

Selected Financial Information of KIK

Summary Statement of Operations Data

	Five Months Ended		Three Months Ended		Years Ended December 31,		
	May 25, 2002	May 26, 2001	March 30, 2002	March 31, 2001	2001	2000	1999
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)	(audited)	(audited)
			(US$, in thousands)				
Revenue	74,324	74,943	43,204	46,225	196,595	156,069	116,433
Cost of Sales before depreciation	53,433	59,486	31,910	37,070	153,197	130,369	95,908
Gross Profit before depreciation	20,891	15,457	11,294	9,155	43,398	25,700	20,525
Gross Profit before depreciation as a percentage of Revenue	28.1%	20.6%	26.1%	19.8%	22.1%	16.5%	17.6%
SG&A	7,082	6,449	4,250	3,852	16,250	13,221	9,516
EBITDA(1)	13,809	9,008	7,044	5,303	27,148	12,479	11,009
EBITDA as a percentage of Revenue	18.6%	12.0%	16.3%	11.5%	13.8%	8.0%	9.5%
Amortization	3,028	3,056	1,858	1,848	7,665	6,107	4,201
Interest	3,253	4,384	2,007	2,794	9,883	7,974	3,888
Income (Loss) Before Income Taxes	7,528	1,568	3,179	661	9,600	(1,602)	2,920
Income Taxes	1,726	402	774	176	2,321	(1,712)	807
Net Income	5,802	1,166	2,405	485	7,279	110	2,113

Note:

(1) See "EBITDA".

Results of Operations

The following is a discussion and comparison of KIK's results of operations and financial position for the three months ended March 30, 2002, and March 31, 2001, the five months ended May 25, 2002 and May 26, 2001 and for the years ended December 31, 2001, 2000 and 1999. The amounts described below are based on the consolidated financial statements of KIK, which are prepared in accordance with Canadian GAAP. The majority of KIK's business is conducted in United States currency and therefore all results are reported in United States dollars as this is considered by KIK to be the functional currency.

Five months ended May 25, 2002 compared to May 26, 2001

Revenue

For the five months ended May 25, 2002 ("five months of 2002"), KIK recorded revenue of US$74.3 million compared to US$74.9 million for the same period of 2001. The mustard and vinegar business that was acquired as part of the Sewell transaction was sold in May 2001. In addition, the hard surface cleaners business that was part of the Clo White acquisition was discontinued. These businesses generated revenue of approximately US$3.0 million in the first five months of 2001. For continuing operations revenue increased by 3% in 2002.

Cost of Sales

Cost of sales (excluding amortization), expressed as a percentage of revenue, decreased to 71.9% in the five months of 2002 from 79.4% in the same period of 2001. This decline is a result of improved plant efficiencies resulting from investment in new plant equipment, synergies arising from acquisitions and lower raw material prices (primarily resin). Improved mix of products (ultra bleach has higher margins than regular bleach) together with the lower cost of goods sold, resulted in a gross profit margin increase to 28.1% in the five months of 2002 from 20.6% in the same period of 2001.

Selling, General and Administration Expenses

Selling, general and administration expenses ("SG&A") for the five months of 2002 were US$7.1 million, an increase of 10.9% over US$6.4 million in the same period of 2001. This increase is primarily due to annual increases in compensation, search fees, and consulting costs. As a percentage of revenue, SG&A costs were 9.5% for 2002, compared to 8.6% for the same period in 2001.

EBITDA

EBITDA for the five months of 2002 was US$13.8 million, an increase of US$4.8 million over the same period of 2001. This improvement can be traced to improved plant efficiencies and lower raw material costs. Expressed as a percentage of revenue EBITDA for the five months of 2002 is 18.6% and compares favorably with 12.0% for the corresponding period of 2001.

Income Before Income Taxes

Income before income taxes ("IBT") for the five months of 2002 was US$7.5 million compared to US$1.6 million for the same period of 2001. This improvement of US$5.9 million in the first five months of 2002 is primarily a result of a significant increase in operating margins and lower interest payments. Interest costs in the five months of 2002 decreased by US$1.1 million. The decrease in interest cost was attributable to lower interest rates and debt balances. No amortization of goodwill was recorded in the five months to May 25, 2002. In the five months to May 26, 2001, goodwill and amortization of US$0.325 million was charged. (See "Financial Condition, Liquidity and Financial Resources".)

Income Taxes

KIK's effective tax rate for the five months of 2002 was 22.9%. This rate was primarily a result of KIK's financing structure in the United States and Canada.

Net Income

Net income for the five months of 2002 was US$5.8 million compared to US$1.2 million for 2001, representing an increase of over 380%.

Three months ended March 30, 2002 compared to March 31, 2001

Revenue

For the three months ended March 30, 2002 ("three months of 2002"), KIK recorded revenue of US$43.2 million compared to US$46.2 million for the same period of 2001. The mustard and vinegar business that was acquired as part of the Sewell transaction was sold in May 2001. In addition, the hard surface cleaners business that was part of the Clo White acquisition was discontinued. These businesses generated revenue of approximately US$2.0 million in the first three months of 2001. For continuing operations revenue decreased by 2% in 2002.

Cost of Sales

Cost of sales (excluding amortization), expressed as a percentage of revenue, decreased to 73.9% in the three months of 2002 from 80.2% in the same period of 2001. This decline is a result of improved plant efficiencies resulting from investment in new plant equipment, synergies arising from acquisitions and lower raw material prices (primarily resin). Improved mix of products (ultra bleach has higher margins than regular bleach) together with the lower cost of goods sold, resulted in a gross profit margin increase to 26.1% in the three months of 2002 from 19.8% in the same period of 2001.

Selling, General and Administration Expenses

SG&A for the three months of 2002 were US$4.3 million, an increase of 10.2% over US$3.9 million in the same period of 2001. This increase is due primarily to annual increases in compensation, search fees, and consulting costs. As a percentage of revenue, SG&A costs were 9.8% for 2002, compared to 8.3% for the same period in 2001.

EBITDA

EBITDA for the three months of 2002 was US$7.0 million, an increase of US$1.7 million over the same period of 2001. This improvement is due primarily to improved plant efficiencies, and lower raw material costs, particularly resin. The 2002 EBITDA percentage of revenue is 16.3% and compares favorably with 11.5% for the corresponding period of 2001.

Income Before Income Taxes

IBT for the three months of 2002 was US$3.2 million compared to US$0.7 million for the same period of 2001. This improvement of US$2.5 million in the first three months of 2002 is primarily a result of a significant increase in operating margins and also to lower interest payments and amortization charges. Interest costs in 2002 decreased by US$0.8 million due to lower interest rates and lower debt balances. No amortization of goodwill was recorded in the three months to March 30, 2002. In the three months to March 31, 2001, goodwill and amortization of US$0.197 million was charged.

Income Taxes

KIK's effective tax rate for the three months of 2002 was 24.3%. This rate was primarily a result of KIK's financing structure in the United States and Canada.

Net Income

Net income for the three months of 2002 was US$2.4 million compared to US$0.5 million for 2001, representing a 380% increase.

December 31, 2001 compared to December 31, 2000 compared to December 31, 1999

Revenue

Revenue during 2001 was US$196.6 million, an increase of US$40.5 million, or 26%, over 2000 revenue of US$156.1 million. 2000 revenue was US$39.7 million, or 34%, higher than 1999 revenue of US$116.4 million. The full year impact of the Sewell and Clo-White acquisitions added $25.4 million to the 2001 revenue. Approximately US$23.3 million of the 2000 increase resulted from the acquisitions of Sewell in August 2000 and Clo-White in late November 2000 and the full year effect of acquisitions made in 1999. Excluding the effect of acquisitions, revenue increased 9.7% in 2001 as compared to 2000 and 14.1% in 2000 as compared to 1999.

KIK not only added new accounts, such as Safeway, but also increased market share of existing accounts, such as Wal-Mart, Albertsons, Winn-Dixie and Dollar Stores. Major accounts that were added to KIK's customer list through acquisitions were Super Valu, Publix, Dial and Food Lion in 2000 and Church and Dwight, Ralphs and Lucky's in 1999. United States revenue accounted for 92% of consolidated revenue in 2001, 88% in 2000, and 84% in 1999.

In 2001, gross profit (before amortization) improved to US$43.4 million and, as a percentage of revenue, the margin increased to 22.1%. Gross profit for 2000 was US$25.7 million or 16.5% of revenue and for 1999 was US$20.5 million or 17.6% of revenue. Acquisitions added gross profit of US$5.1 million in 2001 and US$5.8 million in 2000. Competitive pressures in late 1999 resulted in certain strategic selling price rollbacks and improved margins during 2000. In addition, freight costs increased during late 1999 as KIK expanded its customer base in the southeastern United States. These margin pressures were exacerbated by increases in raw material prices in 2000. Cost increases for resin, caustic soda and chlorine were incurred in early 2000 of which a portion was passed on to customers. The launch of KIK's ultra bleach format in 2000 was a major undertaking in reconfiguring production capabilities. This led to some temporary plant inefficiencies that resulted in higher production costs. As a result of these factors the cost of sales as a percentage of revenue increased to 83.5% in 2000, from 82.4% in 1999. Improved plant efficiencies in 2001 together with lower material costs resulted in a reduction in cost of goods percentage to 77.9%.

Selling, General and Administration Expenses

SG&A increased by US$3.1 million, from US$13.2 million in 2000 to US$16.3 million in 2001. Of this increase, US$2.2 million, or 76%, related to the impact of the acquisitions of Sewell and Clo-White. The remaining US$0.7 million resulted from increased compensation costs, search fees associated with the additional employees and consulting costs.

SG&A increased by US$3.7 million, from US$9.5 million in 1999 to US$13.2 million in 2000. Of this increase, US$2.8 million, or 76%, related to the impact of the acquisitions of T-Chem, Hi-Lex, Sewell and Clo-White. The remaining US$0.9 million resulted from an increase in employees in order to effectively manage business growth, search fees associated with the additional employees, consulting costs and higher selling commissions related to the growth in revenue.

EBITDA

EBITDA for the years ended December 31, in millions of US dollars, was as follows:

	2001	2000	1999
EBITDA	$27.1	$12.5	$11.0
% Revenue	13.8%	8.0%	9.5%

The 2001 EBITDA was US$27.1 million, an increase of US$14.6 million compared to 2000 EBITDA. The full year impact of the Sewell and Clo-White acquisitions added US$3.7 million to the EBITDA. Selling price increases, improved plant efficiencies and lower raw material costs offset by higher SG&A costs account for the remaining US$10.9. Excluding the impact of acquisitions, EBITDA for 2001 would have increased 87% over 2000.

EBITDA for 2000 showed an overall increase of US$1.5 million. However, the acquisitions of Sewell and the Clo-White business, together with the full year impact of the 1999 acquisitions, added incremental EBITDA of approximately US$3.0 million to the 2000 results. Other items impacting 2000 EBITDA include a reduction in gross profit margin, increased freight costs, higher raw material costs and higher production costs associated with KIK's launch of its ultra bleach format and higher SG&A.

Segmented Reporting

KIK reports its results on a geographic basis. Sales are primarily made to Canadian and United States customers and the products sold are of a similar nature. In 2001, Canadian customers generated US$17.7 million of revenue (US$19.6 million in 2000), or 8% of KIK's total revenue (12% in 2000). In 1999, Canadian customers generated US$18.8 million of revenue, or 16% of KIK's total revenue. In 2001, US$12.0 million, or 6.3%, of the United States revenue was generated by products manufactured by KIK in Canada.

Income Before Income Taxes

IBT for 2001 were US$9.6 million compared to 2000 that was negative US$1.6 million and US$2.9 million in 1999. The improvement of US$11.2 million in 2001 compared to 2000, results from higher revenue, improved margins offset by higher interest and amortization charges. The decrease in IBT of US$4.5 million in 2000 was primarily attributable to an increase in interest payments and amortization charges. Interest costs in 2000 increased by US$4.1 million and amortization costs including depreciation were US$1.9 million higher than 1999. The increase in interest cost was attributable to higher debt to finance acquisitions and the amortization charges reflected the increase in deferred costs arising from acquisitions and higher depreciation.

Income Taxes

KIK's effective tax rate for 2001 was 24% compared to the 2000 rate that showed a 106% recovery. This was primarily a result of KIK's financing structure in the United States and Canada, offset to a certain extent by valuation allowances taken against the losses. For 1999, KIK's effective tax rate was 27%. The reduction in KIK's effective tax rate over the three year period is primarily a result of the implementation of KIK's financing structure as referred to above.

Net Income

Net income for 2001 was US$7.3 million compared to US$0.1 million for 2001 and US$2.1 million for 1999.

Financial Condition, Liquidity and Capital Resources

KIK's primary source of cash in 2001 consist of funds from operations of US$18.6 million. These funds were used primarily to repay debt by US$12.4 million and capital expenditures of US$6.8 million.

KIK's primary sources of cash in 2000 consisted of funds provided from operations of US$3.9 million, US$36.0 million from the issuance of subordinated debt (and associated warrants) and US$3.5 million from the issuance of Series B Preferred Shares. KIK's primary use of cash in 2000 consisted of: (i) the acquisition of Sewell and the purchases of the assets of Clo-White for US$28.4 million; (ii) capital expenditures of US$8.8 million; and (iii) repayment of long-term debt US$3.9 million. Cash and cash equivalents were US$3.2 million at May 25, 2002 and US$1.1 million, US$1.1 million and US$0.9 million at December 31, 2001, 2000 and 1999, respectively.

Working capital is defined as current assets, excluding cash and cash equivalents, less current liabilities and was as follows as at the stated dates:

		December 31,	
	May 25, 2002	**2001**	**2000**
	(US$ millions)		
Accounts receivable	$ 15.5	$ 15.4	$ 16.7
Inventories	9.6	9.0	12.4
Prepaid expenses	2.5	2.4	2.1
Accounts payable and accrued liabilities	(19.2)	(19.8)	(22.4)
Net working capital	$ 8.4	$ 7.0	$ 8.8

The majority of the trade receivables are with major retail customers. Provisions are established to provide for potential reductions in the amount of receivables paid. These provisions cover such items as cash discounts, customer deductions, customer rebate programs, damages and reclamations and potential bad debts. KIK has not experienced any significant bad debts in the past three years. Since the beginning of 1999, only one material bad debt has occurred, which was approximately US$125,000.

Inventories consist of raw materials and finished goods. KIK attempts to optimize inventories at the lowest level consistent with customer service requirements. Appropriate provisions are made for obsolete and slow moving inventory.

Capital Expenditures

Capital expenditures totalled US$6.8 million in 2001 compared with US$8.8 million in 2000 and US$8.8 million in 1999. From and including 1999 to and including 2001, capital expenditures characterized by KIK as maintenance capital expenditures have averaged US$2.2 million annually. The major projects in 2001 included bleach making equipment, labelling and blow molding equipment. The acquisition of Sewell in 2000 resulted in higher than anticipated capital spending (approximately US$2.5 million) as funds were set aside from the subordinated debt issuance to invest in plant and equipment to modernize the Sewell facilities. The spending in 1999 included a major investment in blow moulding equipment (approximately US$3.5 million), to provide side shift bottle capacity to meet the requirements of KIK's launch of its ultra bleach format. The balance of these expenditures was made to improve bottle-making capability, modernize filling lines, convert equipment to facilitate the production of ultra bleach and provide additional bleach-making capacity.

KIK expects its aggregate expansion-related capital expenditures in 2002 and 2003 to be approximately US$7.5 million. Of this amount, approximately US$2.5 million was spent by May 25, 2002 and US$5.0 million is to be funded from the net proceeds of this Offering.

Principal Market Risks

In the normal course of business, KIK is exposed to fluctuations in currency values, interest rates, commodity prices and other market risks. The majority of KIK's business is conducted in the currency of the United States and therefore the impact of currency fluctuations are minimized. KIK seeks to enter into supply contracts for a minimum of one year for major raw materials such as HDPE resin, caustic and chlorine. These contracts provide KIK with short term cost stability. KIK has historically assessed the trend of interest rates and fixes rates based on forward LIBOR contracts.

Inflation

Inflation has not had a significant impact on KIK over the past three years and KIK does not expect it to have a significant impact on the results of operations or financial condition in the foreseeable future.

Accounting Policy and Disclosure Changes Subsequent to 2001

In August 2001, the Accounting Standards Board ("AcSB") of the Canadian Institute of Chartered Accountants approved a new accounting standard, Section 3062, "Goodwill and Other Intangible Assets". Under Section 3062, intangible assets with an indefinite life and goodwill will no longer be amortized, but will be tested for impairment on an annual basis. Intangible assets with a definite life will continue to be amortized over their useful life. The amortization provisions of Section 3062 apply to goodwill and intangible assets acquired after June 30, 2001. Goodwill and intangible assets acquired prior to June 30, 2001 continue to be amortized during the transitional period. KIK applied the new accounting rules beginning January 2002, at which time KIK will discontinue amortizing its goodwill.

KIK reported goodwill as at May 25, 2002 of US$29.2 million, net of accumulated amortization. Based on management's assessment of the carrying value of goodwill, no impairment write-downs were considered necessary as at May 25, 2002.

Outlook

Prior to the completion of this Offering, KIK will operate as a privately held, stand-alone operation. The establishment of KIK as a subsidiary of the Fund will result in incremental expenses estimated to be US$500,000 annually in respect of incremental administrative and management costs related to operating as a publicly-traded entity. Future strategic initiatives may be financed with borrowings or the additional issuance of Units.

Foreign Exchange and Hedging

In fiscal 2001, approximately 92% of KIK's consolidated revenue was earned in United States dollars. To a large extent, KIK's cost structure incorporates a natural hedge for changes in the exchange rates between the United States dollar and the Canadian dollar because (i) ten of KIK's facilities are based in the United States; and (ii) a significant portion of KIK's Canadian operations cost base is in United States dollars, including resin and chemicals, offset by its sales to United States based customers in United States dollars.

However, there is still a net United States dollars cash in flow to KIK overall that can have an impact on operating income as the Canadian dollar/United States dollar exchange rate fluctuates. Exchange rate sensitivity to other currencies is not material to KIK.

FUNDING, ACQUISITION AND RELATED TRANSACTIONS

Prior to or immediately following the Closing, the following transactions will take place, in sequence:

Pre-Closing

Establishment of the Fund and Related Entities

1. The Fund will be established, with nominal capitalization. The Fund will establish KOT (acquiring both KOT Units and KOT Notes), and KOT will incorporate KIK GenPar and KLP Holdco (subscribing for 100% of the common shares in each case).
2. KLP Holdco and KIK GenPar will establish KLP, with KLP Holdco to own a 99.999% limited partnership interest (represented by KLP Ordinary Units), KIK GenPar to be the controlling general partner and hold a 0.001% interest and KLP Holdco to be a general partner holding no economic interest as such in KLP. KOT will also acquire interest-bearing (at a rate of 15% per annum) promissory notes (defined herein as the "KLP Debt") issued by KLP (see "Description of KLP — KLP Debt"), which will represent 75% of KOT's assets.
3. KLP will incorporate KIK Acquisition as a wholly-owned subsidiary.
4. KIK, KIK Holdings (Canada) Inc., KIK Toronto Inc., KIK Alberta Inc. and KIK Property Inc. will continue into Nova Scotia and amalgamate to form NSCo.
5. NSCo will incorporate NSULC and KOPH as wholly-owned subsidiaries, and NSCo and KOPH will establish KOP. NSCo will transfer all of its assets and liabilities, other than its shares of KIK International, to KOP on a partially tax deferred basis in exchange for partnership units representing a 99.99% interest in KOP and a non-interest bearing demand note. KOPH will have a 0.01% general partnership interest in KOP.
6. All KIK Options will be exchanged for options to acquire KLP Subordinated Exchangeable Units (on equivalent economic terms), with the right of the employee to elect to receive cash respecting a portion of the option value.

Transfer of NSCo Shares (Ownership of KIK Canada)

7. Holders of KIK Warrants will exercise their Warrants to acquire NSCo shares.
8. The Vendors will transfer their shares of NSCo (or shares of their Holdcos holding shares of NSCo) to KIK Acquisition all or partially on a tax deferred basis in exchange for non-voting common shares and non-interest bearing demand promissory notes issued by KIK Acquisition.
9. The Vendors will transfer their KIK Acquisition shares to KLP on a tax-deferred basis in exchange for KLP Exchangeable Units. The Management Vendors will receive KLP Subordinated Exchangeable Units and the Continuing Holders will receive KLP Unsubordinated Exchangeable Units.
10. NSCo will amalgamate with NSULC (and any purchased Holdcos) to form KIK Holdco.

Post-Closing

Application of Proceeds

11. The Fund will use the proceeds of the Offering to capitalize KOT with ● of KOT Units (at a per unit subscription price of $10 representing not more than 30% of its capitalization) and $ ● principal amount of KOT Notes bearing interest at the rate of 7% per annum (representing not less than 70% of its capitalization) in the same ratio as the initial issuance of KOT securities to the Fund.
12. KOT will (a) subscribe for additional shares of KIK GenPar (at a nominal subscription price), (b) subscribe for additional shares in KLP Holdco, and (c) acquire additional KLP Debt (in the same ratio as the issuances described in paragraph 2).

13. KLP Holdco will use the proceeds of its share issuance described in paragraph 12 to acquire additional KLP Ordinary Units.

14. KLP will use the proceeds of the unit and debt issuances described in paragraphs 12 and 13 above to subscribe for partnership units in KOP (representing approximately 1% of the aggregate partnership interest), loan an amount (at an interest rate of 15.01% per annum) to KIK Acquisition (such debt is defined herein as the "KIK Debt") and subscribe for common shares in KIK Acquisition. KLP will also issue KLP Subordinated Exchangeable Units to KIK Acquisition in exchange for additional KIK Acquisition common shares.

15. KOP will use the proceeds of the issuance described in paragraph 14 above to repay the demand note referred to in paragraph 5 above to KIK Holdco (as successor in interest to NSCo).

16. KIK Acquisition will use a portion of the proceeds of the issuances of KIK Debt and shares described in paragraph 14 above to repay the notes issued to the Vendors as described in paragraph 8 above. KIK Acquisition will transfer its remaining cash, together with the KLP Subordinated Exchangeable Units acquired by it as described in paragraph 14 above, to KIK Holdco in exchange for additional common shares in the capital of KIK Holdco.

17. Holders of options to acquire KLP Subordinated Exchangeable Units who choose to exercise those options on or prior to Closing will receive KLP Subordinated Exchangeable Units and/or cash from KIK Holdco (as successor to NSCo, itself successor of KIK). All or a portion of the funds sufficient to satisfy the exercise price of options so exercised will be loaned by KIK Holdco (on a non-interest bearing basis) to the optionholders (see "Indebtedness of Directors and Executive Officers").

18. Those of the Vendors who received KLP Exchangeable Units from KLP on the sale of their KIK Acquisition shares, or on the exercise of options to acquire KLP Subordinated Exchangeable Units as provided in paragraph 17 above, will subscribe for common shares in KIK GenPar for nominal consideration (as a group such persons will hold a minority interest in KIK GenPar).

19. KIK Holdco will enter into the new Credit Facility (see "Principal Agreements — Credit Facility").

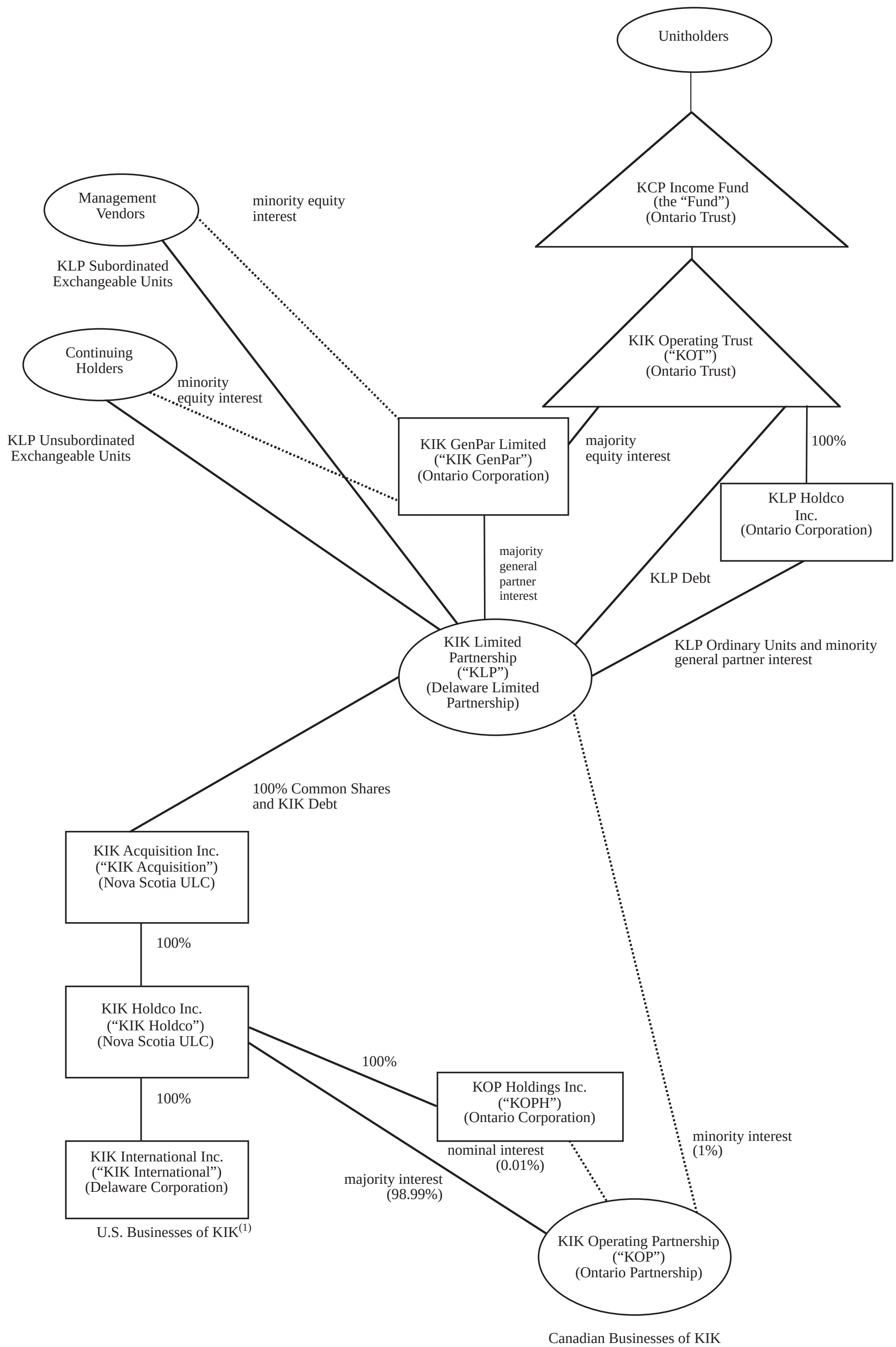
Should the foregoing transactions fail to be completed immediately following Closing, the Fund and the Underwriters will refund the proceeds of this Offering and purchasers will be entitled to the return of the purchase price of their Units.

The effect of the transactions described above will be as follows:

- The conduct of the business of KIK will be unaffected. The non-Canadian business will continue to be conducted by KIK International through its subsidiaries, and the Canadian business presently conducted by KIK will post-Closing be conducted through KIK Holdco and KOP. The corporate structure of the ownership of the KIK business will be reorganized, and the operating and holding entities will distribute all net cash generated to their securityholders to support the distribution of Distributable Cash by the Fund, but the business will not change. All of the interests in the business will be indirectly held by KLP.
- The proceeds of the Offering will be invested by the Fund, through KOT and other holding entities, in KLP, in which the Fund will hold a majority interest. Cash distributions made by KLP, using cash generated by its interests in the operating business, will fund the cash distributions to be paid by the Fund to Unitholders. Through its interest in KLP, and its control of KLP's general partners KIK GenPar and KLP Holdco, the Fund will have control over the business assets and operating entities.
- Through a series of transactions the Vendors will sell their interests in KIK for a combination of cash and KLP Exchangeable Units. The Management Vendors will receive a combination of KLP Subordinated Exchangeable Units and cash, the Continuing Holders will receive a combination of KLP Unsubordinated Exchangeable Units and cash, and the other Vendors will receive cash. The KLP Exchangeable Units are interests in KLP, the same vehicle through which the Fund indirectly receives distributions and controls the business; through those interests the Vendors who shall post-Closing continue to hold interests in the business will receive their (minority share of) distributions from KLP (subordinated, in the case of the Management Vendors). The holders of KLP Exchangeable Units will also have certain rights to representation on the board of directors of KIK GenPar so as to have input in the management of the business.

In net effect the Fund will acquire a controlling interest in the KIK business and the right to receive distributions through its interest in KLP, and the Vendors will retain a minority entitlement (subordinated in the case of the Management Vendor's economic interests) in the business through their interest in KLP.

The structure of the Fund on completion of the Offering and the related transactions will be as set out below.



Note:
(1) KIK International Inc. is the sole direct or indirect shareholder of ten Delaware corporations, one Virginia corporation and one Minnesota corporation. The title or lease of each of KIK's United States manufacturing facilities is held by one of these corporations.

TRUSTEES, DIRECTORS AND MANAGEMENT

Trustees of the Fund

The Trustees of the Fund will initially be David Cynamon, Stephen H. Halperin and Fraser D. Latta. Two additional Trustees will be appointed prior to Closing with the result that on Closing the majority of the Trustees will be "unrelated" (as such term is defined in The Toronto Stock Exchange Company Manual) to each of the Fund, KOT, KLP, KIK Holdco and KOP. The names, municipalities of residence and principal occupations of the Trustees are set out below.

Name and Municipality of Residence	Position with the Fund	Principal Occupation
DAVID CYNAMON Toronto, Ontario	Trustee	Chairman and Chief Executive Officer, KIK
STEPHEN H. HALPERIN Toronto, Ontario	Trustee	Lawyer
FRASER D. LATTA Toronto, Ontario	Trustee	Private Investor

The biographies for each of the Trustees (other than Mr. Cynamon, whose biography is set forth under "— Management of the Business") are set out below.

Stephen H. Halperin. Mr. Halperin, a director of KIK since March 1992, is a partner and member of the Executive Committee of Goodmans LLP. Mr. Halperin is a director of AT&T Canada Inc., Cott Corporation and Headline Media Group Ltd.

Fraser D. Latta. Mr. Latta, a director of KIK since March 1992, has held several senior positions, including Chief Operating Officer and Vice-Chairman of Cott Corporation (until October 2001). He is a graduate of the Ivey Business School and is active on several boards of directors.

Initial compensation for the Trustees of the Fund, other than Trustees who are also officers or employees of KIK GenPar, KIK International or their respective affiliates, will be $10,000 per Trustee per year and $1,000 per Trustee (subject to a maximum of $4,000 annually) for attending meetings of the Trustees or committees of the Trustees. The Fund will also reimburse Trustees for out-of-pocket expenses for attending Trustees meetings, and Trustees will participate in the insurance and indemnification arrangements described below. See "Description of the Fund — Trustees".

Governance

In lieu of a governance committee, the Trustees will be directly responsible for developing the Fund's approach to governance issues, filling vacancies among the Trustees and periodically reviewing the composition and effectiveness of the Trustees and the contribution of individual Trustees.

The Trustees will also be responsible for adopting and periodically reviewing and updating the Fund's written corporate disclosure policy. This policy will, among other things:

- articulate the legal obligations of the Fund, its affiliates and their respective trustees, directors, officers and employees with respect to confidential corporate information;
- identify spokespersons of the Fund who are the only persons authorized to communicate with third parties such as analysts, media and investors;
- provide guidelines on the disclosure of forward-looking information;
- require advance review by the Trustees of any disclosure of financial information to ensure the information is not material, and ensure that selective disclosure of material information is not permitted, and that when it occurs, a news release is issued immediately; and

- establish "black-out" periods immediately prior to and following the disclosure of quarterly and annual financial results and immediately prior to the disclosure of certain material changes during which the Fund, its affiliates and their respective trustees, directors, officers and employees may not purchase or sell units of the Fund.

Insiders of the Fund will be required to file insider reports in compliance with applicable securities laws. Holders of KLP Exchangeable Units who are insiders of the Fund will be required to file insider reports in respect of their ownership of both Units and KLP Exchangeable Units.

Audit Review

In lieu of an audit committee, the Trustees will directly fulfil their responsibilities of oversight and supervision of:

- the accounting and financial reporting practices and procedures;
- the adequacy of internal accounting controls and procedures; and
- the quality and integrity of financial statements.

In addition, the Trustees will be responsible for directing the auditor's examination into specific areas.

Governance of KIK GenPar

Upon the Closing of this Offering, the board of directors of KIK GenPar will be responsible for the management and control of KLP, its respective subsidiaries and, indirectly, the KIK business. Both KIK GenPar and KLP Holdco will be governed in accordance with the limited partnership agreement of KLP (the "KLP Limited Partnership Agreement") and, in the case of KIK GenPar, will be governed in accordance with a securityholders' agreement. These agreements will provide for a board of directors of KIK GenPar initially comprised of five members. Two members of the board will be designated by the Vendors who are holders of KLP Exchangeable Units, and the balance of the board will be designated by the Trustees provided that the Trustees' designees are independent of management. The directors of KIK GenPar on the date of Closing will be the same as the Trustees on the date of Closing (Messrs. Cynamon and Halperin will be the designees of the Vendors who are holders of KLP Exchangeable Units). Commencing on the first annual meeting of the Fund the directors designated by the Trustees will be approved by the Unitholders.

The members of the board of directors of KIK GenPar to be designated by those Vendors who are holders of KLP Exchangeable Units will be designated by the holders of a majority in interest of all partnership interests held by such persons. The Vendors will be entitled to designate two members to the board of directors so long as they hold at least 15% of the Fund's Units (on a fully diluted basis). If the Vendors who are holders of KLP Exchangeable Units fall below that threshold but continue to hold KLP Exchangeable Units representing at least 5% of the Fund's Units (on a fully diluted basis), they will be entitled to designate one member to the board of directors. The size of the board of directors will be reduced to the extent any director designated by the Vendors who are holders of KLP Exchangeable Units is no longer entitled to serve on the board due to a reduction in their aggregate ownership. The party entitled to direct the appointment of a director can require the removal or replacement of members of the board of directors that it designated at any time at its sole discretion.

Trustees and Directors of Other Related Entities

The Trustees will also serve as the KOT Trustees. The directors of KIK Holdco, KIK International and other affiliated entities will be such persons as are designated from time to time by the board of directors of KIK GenPar. Members of management and Trustees who so serve will not receive any additional remuneration for acting in those capacities. Initial compensation for other directors of KIK GenPar will be $10,000 per director per year and $1,000 per director (subject to a maximum of $4,000 annually) for attending meetings of the board of directors and committee meetings of the board of directors. Directors will also participate in the insurance and indemnification arrangements described under "— Insurance Coverage for the Fund and Related Entities and Indemnification". All directors will be reimbursed for out-of-pocket expenses for attending meetings and will participate in the insurance and indemnification arrangements described below.

Management of the Business

The following sets out, for each of the executive officers of KIK, the person's name and position with KIK; each such officer will, at Closing, hold the same office in KIK GenPar.

Name and Municipality of Residence	Age	Office(s) with KIK GenPar and KIK
DAVID CYNAMON Toronto, Ontario	38	Chairman and Chief Executive Officer
HOWARD BRODIE Toronto, Ontario	45	Chief Operating Officer and Corporate Secretary
ROY J. PEARCE Stouffville, Ontario	59	Chief Financial Officer
PAUL ANDERSON Terrace Park, Ohio	45	Senior Vice President, Manufacturing
STRATIS KATSIRIS Toronto, Ontario	36	Senior Vice President, Sales
TONY DI BIASE Woodbridge, Ontario	41	Vice President, Logistics and Customer Service

David Cynamon, Chairman and Chief Executive Officer. Mr. Cynamon became Chairman, Chief Executive Officer, and a major shareholder of KIK in February 1995. From early 1987 until March 1995, Mr. Cynamon was the Chairman, Chief Executive Officer and the founder of NHC Communications Inc., a Canada based technology company which became listed on The Toronto Stock Exchange in 1993. During his tenure at NHC, NHC was placed in the top six in both 1992 and 1993 in the Ernst and Young Profit Magazine Annual Report of Canada's fastest growing companies. Under Mr. Cynamon's direction, NHC completed two acquisitions and developed and sold a networking software product for Cdn.$45.0 million before selling the control block of NHC to a syndicate of investors. Mr. Cynamon also sits on the board of Toronto-based CryptoLogic Inc., a software development and management company that focuses on the processing of Internet based transactions within the fields of electronic commerce and Internet gaming. Throughout most of 1997, Mr. Cynamon was a member of the Executive Committee of Cott Corporation, a body that acted as the replacement CEO for Mr. Gerald Pencer during his illness. Today, Mr. Cynamon is Chairman of the Board of the Gerry & Nancy Pencer Brain Trust, a private family foundation developed as a visionary concept by Mr. Gerald Pencer to make a difference in the quality of life of people suffering from brain tumors.

Howard Brodie, Director and Chief Operating Officer. Mr. Brodie is the Chief Operating Officer and Corporate Secretary, and has been a Director of KIK since November 1996. Mr. Brodie joined KIK in early 1995 and has been responsible for managing KIK's operations, acquisitions and development. Prior to joining KIK, Mr. Brodie was with NHC Communications where he was a Director and Vice President of Corporate Development. From 1986 to 1990, Mr. Brodie was the Director of Marketing and Business Development for National Pagette, a division of BCE Mobile. Mr. Brodie has a BA from McGill University and an M.B.A. from the University of Western Ontario.

Roy J. Pearce, Chief Financial Officer. Mr. Pearce became the Chief Financial Officer of KIK in October 1996. He is responsible for all of KIK's finance, administration and accounting functions. Prior to joining KIK, Mr. Pearce was from 1994 to 1996 the Vice President of Finance and Chief Financial Officer for the Plastics Division of Crown Cork and Seal Company, Inc., located in Philadelphia, Pennsylvania. From 1992 to 1994, Mr. Pearce was the Vice President of Finance and Chief Financial Officer for Crown's Canadian affiliate, Crown Cork and Seal Canada, Inc. ("Crown Canada"). Prior to joining Crown Canada, Mr. Pearce held various senior finance positions with companies including Gilbey Canada Inc., Lever Detergents Limited, Monarch Fine Foods Limited and Lever Brothers Inc. Personal Products Division in New York; served as Corporate Controller of John Labatt Limited; and acted as Manager of Corporate Development for Unilever Canada Limited. Mr. Pearce is a member of the Institute of Chartered Accountants having obtained his C.A. designation with Ernst and Young.

Paul C. Anderson, Senior Vice President, Manufacturing. Mr. Anderson became the Senior Vice President, Manufacturing of KIK in December 2000. He is responsible for all of KIK's day to day operations and quality control in KIK's 12 manufacturing plants. Prior to joining KIK, Mr. Anderson worked for Procter and Gamble for over 22 years. His most recent assignment was as Director, Product Supply, for P&G's global Fabric Conditioners and Perfume operations from 1997 through 2000. In this role he was responsible for all manufacturing, engineering, purchasing, and distribution for this over $1 billion business. Prior to this role he had similar responsibilities as Global Product Supply Director for P&G's Oral Care Business from 1992 to 1997. Earlier in his career he held numerous operations assignments in P&G's Health and Beauty Care Operations at several locations across the U.S. Mr. Anderson attended the University of Idaho where he received a Degree in Chemical Engineering in 1978.

Stratis Katsiris, Senior Vice President, Sales. Mr. Katsiris joined KIK in 1993 as Director of Sales. He was promoted to Vice President, Sales in April 1996, and has since been responsible for growing both KIK's existing Canadian business and developing its United States business.

Tony Di Biase, Vice President, Logistics and Customer Service. Mr. Di Biase joined KIK in 1998. From 1996 to 1997, he was a Logistics Manager with Warner Lambert, Adams Brands Canada. Mr. Di Biase was a Logistics Consultant for M&M Mars, Effem Foods from 1995 to 1996. Between 1988 and 1995, he worked for Weston Foods, Neilson Dairy. Mr. Di Biase has a Bachelor of Business Management from Ryerson Polytechnic University.

Committees of the Board of Directors

The board of directors of KIK GenPar will have an audit committee, compensation committee, corporate governance and nominating committee and an environmental, health and safety committee.

Audit Committee

The Audit Committee oversees the financial reporting process and internal controls and consults with management and independent auditors on matters related to the annual audit, accounting principles and the audit procedures being applied, the adequacy of internal accounting controls and procedures and the quality and integrity of financial statements.

Compensation Committee

The Compensation Committee will be responsible for reviewing the level and form of compensation payable to the senior officers of KIK GenPar and establishing human resource and conduct policies for KIK GenPar.

Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee will be responsible for developing and monitoring KIK GenPar's approach to corporate governance issues, establishing procedures for the identification of new nominees to the board, developing and implementing orientation procedures for new directors and assessing the effectiveness of the board of directors and its committees.

Environmental, Health and Safety Committee

The purpose of the environmental, health and safety committee will be to assist the board in monitoring environmental, health and safety issues. Responsibilities of this committee will include formulating and monitoring policies on employee health and safety issues and environmental responsibility and regulatory compliance by KIK. The committee will commission and review external audits relating to KIK's environmental, health and safety compliance and will review management's activities with respect to these areas on a regular basis.

Employment Contracts

KIK's success is primarily dependent upon the leadership, dedication and experience of its senior management group. Each of David Cynamon, Roy Pearce, Howard Brodie and Stratis Katsiris will, effective the date of Closing, enter into an employment agreement with KIK. Upon expiration of their initial two-year term, the agreements will automatically renew for successive one-year terms. Each employment agreement provides that the employee will be provided with a compensation package (salary, incentives and benefits), subject to increase from time to time at the discretion of the board of directors of KIK GenPar, on the recommendation of the Compensation Committee. In addition to the base salary, each employee is entitled to participate in the management incentive plan for selected management personnel. In the event of termination other than for cause or disability, each employment agreement provides that the employee will be paid a lump sum amount equal to twenty-four months of salary and bonus and the employee will continue to receive benefits for a maximum period of between one and two years following the termination of the employee. Each of the employment agreements includes non-competition and non-solicitation covenants until two years following the date on which the employee ceases to be employed by KIK.

Long Term Incentive Plan

The directors, officers, full-time employees and consultants of KIK and its affiliates (including the Trustees) will be eligible to participate in KIK's long term incentive plan (the "LTIP"). The purpose of the LTIP will be to provide such eligible participants with compensation opportunities that will encourage ownership of Units, enhance KIK's ability to attract, retain and motivate key personnel, and reward directors, officers, employees and consultants for significant performance and cash flow growth of the Fund. Pursuant to the LTIP, the compensation and corporate governance and nominating committees of KIK GenPar will set aside a pool of funds based upon KIK's financial performance benchmarked against certain distributable cash threshold amounts. KIK, or a trust established for such purpose, will then purchase Units in the market with such pool of funds, and will hold such Units until such time as ownership vests to each participant. The compensation and corporate governance and nominating committees of KIK GenPar will have the power to, among other things: (i) determine those directors, officers, employees and consultants who participate in the LTIP; (ii) determine the number of Units allocated to each participant; and (iii) determine the time or times when ownership of the Units will vest for each participant.

Insurance Coverage for the Fund and Related Entities, and Indemnification

The directors and officers of KIK GenPar, the Trustees, the KOT Trustees and the directors of KIK Acquisition will be covered under a directors and officer's insurance policy that will provide an aggregate limit of liability to the insured directors and officers of $20 million.

The by-laws of KIK GenPar and the trust declaration of each of the Fund and KOT will also provide for the indemnification of their respective trustees, directors and officers from and against liability and costs in respect of any action or suit against them in connection with the execution of their duties of office, subject to certain usual limitations.

PRINCIPAL AGREEMENTS

Governance Agreements

Each of the Fund and KOT has or will be created pursuant to a declaration of trust, which are described under "Description of the Fund" and "Description of KOT", respectively. KLP will be established under a limited partnership agreement, described under "Description of KLP", and KOP will be established under a general partnership agreement described under "Description of KOP". The affairs of KOP will be managed by KIK GenPar under the management agreement described under "Description of KOP".

Administration Agreement

On Closing, in accordance with the KLP Limited Partnership Agreement (and in partial consideration of the transactions contemplated thereby), the Fund, KOT, KLP Holdco and KIK GenPar will enter into the

Administration Agreement. Under the terms of the Administration Agreement, KIK GenPar will provide (for no additional consideration, other than payment by KLP of out-of-pocket expenses for provision of such services) all administrative and support services required by the Fund, KOT and KLP Holdco, including (without limitation) those necessary to: (i) ensure compliance by the Fund with continuous disclosure obligations under applicable securities legislation; (ii) provide investor relation services; (iii) provide or cause to be provided to Unitholders all information with respect to income taxes; (iv) call and hold meetings of Unitholders and distribute required materials, including notices of meetings and information circulars, in respect of all such meetings; (v) provide for the calculation of distributions to Unitholders; (vi) attend to all administrative and other matters arising in connection with any redemption of Units, KOT Units and KOT Notes or any exchange of KLP Exchangeable Units; (vii) ensure compliance with the Fund's limitations on non-resident ownership; and (viii) ensure compliance of Unitholders with notice requirements under the Declaration of Trust with respect to the portfolio interest exemption. See "Certain Income Tax Considerations — Certain U.S. Federal Income Tax Considerations". The Administration Agreement will also provide that KLP shall assume and pay for any expenses incurred by the Fund, KOT or KLP Holdco.

The Administration Agreement has an initial term of ten years, and will be renewable for two additional five-year terms at the option of the Fund and KOT. The Administration Agreement may be terminated by any of the parties in the event of the insolvency or receivership of another party, or in the case of default by one of the other parties in the performance of a material obligation of the Administration Agreement (other than as a result of the occurrence of a *force majeure* event) which is not remedied within 30 days after written notice thereof has been delivered. The Administration Agreement may also be terminated upon 30 days' written notice by the Fund and KOT to KIK GenPar.

Asset Purchase Agreement

Pursuant to the terms of the Asset Purchase Agreement, KOP will acquire (prior to completion of the Offering) all of the assets and liabilities of NSCo other than the shares of KIK International for consideration consisting of partnership units of KOP and a demand promissory note.

The completion of the transactions contemplated by the Asset Purchase Agreement is conditional upon certain necessary consents having been obtained.

The Asset Purchase Agreement will contain certain customary representations and warranties from NSCo relating to KIK, including representations and warranties regarding organization, residence, title to assets, contractual obligations, regulatory approvals, financial condition, operations, suppliers and customers, asset and merchandise condition, intellectual property, employee matters, properties, environmental compliance, litigation, taxes and authority to enter into the Asset Purchase Agreement and complete the transactions contemplated thereby.

Acquisition Agreement

Pursuant to the terms of the Acquisition Agreement, prior to Closing KIK Acquisition will offer to acquire and will acquire, directly or indirectly (through the acquisition of the Holdcos), all of the issued and outstanding shares of NSCo from the Vendors for non-voting common shares and non-interest bearing demand promissory notes issued by KIK Acquisition.

The completion of the transactions contemplated by the Acquisition Agreement is conditional upon certain necessary consents having been obtained.

The Acquisition Agreement will contain certain customary representations and warranties from the Vendors regarding ownership, right to transfer and, if applicable, their Holdcos, and in the case of the Senior Management Vendors, representations relating to NSCo, KOP and KIK International (and their respective subsidiaries) including representations and warranties regarding organization, residence, title to assets, contractual obligations, regulatory approvals, financial condition, operations, suppliers and customers, asset and merchandise condition, intellectual property, employee matters, properties, environmental compliance, litigation and taxes, and a representation concerning the absence of misrepresentations in the (final) prospectus relating to the Offering. In the case of one of the Vendors, a U.S. based private investment firm, the Acquisition

Agreement will contain a limited representation as to the (final) prospectus relating to the Offering, with such Vendor's liability relating thereto to be limited to a portion of the proceeds to be received by such Vendor. The liability of each Vendor relating to representations and warranties with respect to its direct or indirect ownership of shares will be limited to the consideration received by such Vendor (i.e. the cash, KLP Exchangeable Units and/or options to acquire KLP Subordinated Exchangeable Units, if any). The liability of the Senior Management Vendors under the Acquisition Agreement with respect to representations and warranties to be given by them (in such capacity), shall be limited, in the case of David Cynamon and Howard Brodie, to the cash proceeds received by such Senior Management Vendor, and the liability of the remaining Senior Management Vendor shall be limited to the cash proceeds received by such Senior Management Vendor (net of tax).

The Acquisition Agreement will provide for the indemnification of KIK Acquisition in respect of certain matters, including in respect of a breach of the representations and warranties contained in the Acquisition Agreement.

Share Purchase Agreement

Immediately following the completion of the transactions contemplated by the Acquisition Agreement, the Vendors who received KIK Acquisition shares under the Acquisition Agreement will sell those shares to KLP pursuant to the Share Purchase Agreement in exchange for KLP Exchangeable Units. Management Vendors shall receive KLP Subordinated Exchangeable Units (● in the aggregate) and the other such Vendors (i.e. the Continuing Holders) shall receive KLP Unsubordinated Exchangeable Units (● in the aggregate). Following completion of the transactions contemplated by the Acquisition Agreement and the Share Purchase Agreement, KLP will indirectly own all of the issued and outstanding shares of KIK Holdco, KOT will directly or indirectly own the KLP Debt and units representing approximately ● % (approximately ● % assuming exercise of the over-allotment option in full) of the issued and outstanding units of KLP and certain of the Vendors will own KLP Exchangeable Units representing approximately ● % (approximately ● % assuming exercise of the over-allotment option in full) of the issued and outstanding limited partnership units of KLP, including KLP Subordinated Exchangeable Units representing an approximate ● % interest in KLP (approximately ● % assuming exercise of the over-allotment option in full).

The completion of the transactions contemplated by the Share Purchase Agreement will be conditional upon the transactions contemplated by the Acquisition Agreement having been completed and certain necessary consents having been obtained.

The Share Purchase Agreement contains certain customary representations and warranties from certain of the Vendors, including representations and warranties regarding organization, residence, title to shares and authority to enter into the agreement and complete the transactions contemplated thereby.

KOT Note Indenture

The KOT Notes will be issued pursuant to a KOT Note Indenture. The KOT Note Indenture will prescribe the terms of the KOT Notes issuable thereunder, including interest, maturity, repayment, prepayment and events of default. See "Description of KOT — KOT Notes".

Credit Facility

KIK Holdco intends to enter into a commitment letter with the Canadian chartered bank affiliates of each of CIBC World Markets Inc. and National Bank Financial Inc. providing for senior secured credit facilities (the "Credit Facility") to be made available to KIK Holdco by a group of financial institutions. The Credit Facility will provide KIK Holdco with a non-revolving term loan in the amount of US$65.0 million or the Canadian dollar equivalent, all of which will be drawn on Closing, and is repayable 30 months following Closing, together with a revolving operating loan in the amount of US$15 million or the Canadian dollar equivalent, which revolving credit facility matures one year following the Closing. The Credit Facility will be secured by all of the assets of KIK Holdco and its subsidiaries, will rank senior to all other indebtedness of KIK Holdco and will be subject to customary terms, conditions, covenants and other provisions. The availability of funds under the Credit Facility will be subject to final documentation and the satisfaction of usual conditions including completion of the Offering. See "Risk Factors — Leverage; Restrictive Covenants".

DESCRIPTION OF THE FUND

Declaration of Trust

The Fund is an unincorporated open-ended trust established under the laws of the Province of Ontario pursuant to the Declaration of Trust. It is intended that the Fund will qualify as a "mutual fund trust" for the purposes of the Tax Act, although the Fund will not be a mutual fund under applicable securities laws. The following is a summary of the material attributes and characteristics of the Units and certain provisions of the Declaration of Trust, which does not purport to be complete. Reference is made to the Declaration of Trust for a complete description of the Units and the full text of its provisions.

Activities of the Fund

The Declaration of Trust provides that the Fund is a limited purpose trust and its activities are restricted to:

(a) acquiring, investing in, holding, transferring, disposing of and otherwise dealing with securities of KOT;

(b) temporarily holding cash and other short-term investments in connection with and for the purposes of the Fund's activities, including paying amounts payable by the Fund in connection with the redemption or repurchase of any Units and making distributions to Unitholders;

(c) issuing Units for the purposes of: (i) obtaining funds to conduct the activities described in paragraph (a) above, including raising funds for further acquisitions; (ii) implementing compensation plans, if any, established by the Fund; and (iii) making non-cash distributions to Unitholders as contemplated by the Declaration of Trust, including pursuant to distribution reinvestment plans, if any, established by the Fund;

(d) repurchasing or redeeming Units or other securities of the Fund; and

(e) undertaking such other activities, or taking such actions, including investing in securities as shall be approved by the Trustees from time to time,

provided that the Fund shall not undertake any activity, take any action, or make any investment which would result in the Fund not being considered a "unit trust" or "mutual fund trust" for purposes of the Tax Act or a "fixed investment trust" classified as a trust under the U.S. Tax Code. Generally, in order to so qualify, the Fund may not acquire any assets other than KOT Units and KOT Notes identical to the KOT Units and KOT Notes acquired by the Fund in connection with the Offering. In addition, in general, the relative proportion of the number of KOT Units and KOT Notes held by the Fund may not vary over time.

Units

An unlimited number of Units will be issuable pursuant to the Declaration of Trust. Each Unit will be transferable and will represent an equal undivided beneficial interest in any distributions from the Fund whether of net income, net realized capital gains or other amounts, and in the net assets of the Fund in the event of termination or winding-up of the Fund. All Units will be of the same class with equal rights and privileges. The

Units issued pursuant to the Offering will not be subject to future calls or assessments, and will entitle the holder thereof to one vote for each whole Unit held at all meetings of Unitholders. Except as set out under "— Redemption at the Option of Unitholders" below, the Units have no conversion, retraction, redemption or pre-emptive rights.

Issuance of Units

The Declaration of Trust provides that the Units may be issued at the times, to the persons, for the consideration and on the terms and conditions that the Trustees determine. Units may be issued in satisfaction of any non-cash distribution of the Fund to Unitholders on a *pro rata* basis. The Declaration of Trust also provides that immediately after any *pro rata* distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will be consolidated such that each Unitholder will hold after the consolidation the same number of Units as the Unitholder held before the non-cash distribution. In this case, each certificate representing a number of Units prior to the non-cash distribution is deemed to represent the same number of Units after the non-cash distribution and the consolidation.

The KLP Exchangeable Units are exchangeable on a one-for-one basis for Units, provided that KLP Subordinated Exchangeable Units may not be exchanged prior to the First Conversion Date and the KLP Unsubordinated Exchangeable Units may not be exchanged until the 180^{th} day following Closing (except as otherwise provided under "Description of the Fund — Take-Over Bids"). See "Retained Interest — Exchange Right".

The right of exchange associated with KLP Exchangeable Units may be varied in certain circumstances where a take-over bid is made for the Units. See "Description of the Fund — Take-Over Bids".

Trustees

The Fund will have a minimum of three and a maximum of ten Trustees. The Trustees are to supervise the activities and manage the affairs of the Fund.

The initial Trustees are David Cynamon, Stephen H. Halperin and Fraser D. Latta. Two additional Trustees will be appointed prior to Closing. See "Trustees, Directors and Management" for a description of the initial Trustees. Trustees will be appointed at each annual meeting of Unitholders to hold office for a term expiring at the close of the next annual meeting.

The Declaration of Trust provides that, subject to its terms and conditions, the Trustees will have full, absolute and exclusive power, control and authority over the trust assets and over the affairs of the Fund to the same extent as if the Trustees were the sole and absolute legal and beneficial owners of the trust assets and will supervise the investments and conduct the affairs of the Fund. The Declaration of Trust prohibits a non-resident of Canada (as that term is defined in the Tax Act) from acting as a Trustee. The Trustees are responsible for, among other things:

- acting for, voting on behalf of and representing the Fund as a unitholder and noteholder of KOT;
- maintaining records and providing reports to Unitholders;
- supervising the activities of the Fund;
- effecting payments of available cash from the Fund to Unitholders; and
- voting in favour of the Trustees to serve as trustees of KOT.

Any one or more of the Trustees may resign upon 30 days' written notice to the Fund and may be removed by a resolution passed by a majority of the Unitholders and the vacancy created by the removal or resignation may be filled at the same meeting, failing which it may be filled by the continuing Trustee or Trustees.

A quorum of Trustees, being the greater of two Trustees or a majority of the Trustees then holding office, may fill a vacancy in the Trustees, except a vacancy resulting from an increase in the number of Trustees (other than as noted below) or from a failure of the Unitholders to elect the required number of Trustees. In the absence of a quorum of Trustees, or if the vacancy has arisen from a failure of the Unitholders to elect the required number of Trustees, the Trustees will promptly call a special meeting of Unitholders to fill the vacancy. If the Trustees fail to call that meeting or if there are not Trustees then in office, any Unitholder may call the meeting. The Trustees may, between annual meetings of Unitholders, appoint one or more additional Trustees to serve until the next annual meeting of Unitholders, but the number of additional Trustees will not exceed one-third of the number of Trustees who held office at the expiration of the immediately preceding annual meeting of Unitholders.

The Declaration of Trust provides that Trustees will act honestly and in good faith with a view to the best interests of the Fund and in connection with that duty will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Declaration of Trust provides that each Trustee will be entitled to indemnification from the Fund in respect of the Trustee's power and the discharge of the Trustee's duties provided that the Trustee acted honestly and in good faith with a view to the best interests of the Fund or, in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, where the Trustee has reasonable grounds for believing that his conduct is lawful.

Cash Distributions

The Fund intends to make monthly cash distributions, based upon cash receipts of the Fund less amounts which may be paid by the Fund in connection with any cash redemptions or repurchases of Units. The Fund may make additional distributions in excess of the monthly distributions during the year, as it sees fit, in its sole discretion.

Any income of the Fund which is applied to any cash redemptions of Units or is otherwise unavailable for cash distribution will be distributed to Unitholders in the form of additional Units. Such additional Units will be issued pursuant to applicable exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing.

Monthly distributions are to be paid to Unitholders of record on the last business day of each month and will be paid within 30 days following each month end. The initial cash distribution for the period from the closing of this Offering (assuming Closing occurs on ● , 2002) to ● , 2002 is estimated to be approximately $ ● per Unit, substantially all of which will be considered income of the Unitholder for Canadian tax purposes, and is expected to be paid on or before ● , 2002. See "Certain Canadian Federal Income Tax Considerations".

Holders of Units who are non-residents of Canada will be required to pay all withholding taxes payable in respect of any distributions of income by the Fund, whether such distributions are in the form of cash or additional Units. Non-residents should consult their own tax advisors regarding the tax consequences of investing in the Units.

Redemption at the Option of Unitholders

Units are redeemable at any time on demand by the holders thereof upon delivery to the Fund of a duly completed and properly executed notice requesting redemption in a form approved by the Trustees, specifying the number of Units to be redeemed. As the Units will be issued in book entry form, a Unitholder who wishes to exercise the redemption right will be required to obtain a redemption notice form from the Unitholder's investment dealer who will be required to deliver the completed redemption notice form to the Fund at its head office and to CDS. Upon receipt of the redemption notice by the Fund, all rights to and under the Units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per Unit (the "Redemption Price") equal to the lesser of: (i) 90% of the weighted average price per Unit at which the Units have traded on the principal exchange on which the Units are listed (or, if the Units are not listed on any stock exchange, on the principal market on which the Units are quoted for trading) during the period of the last 10 trading days during which the Units traded on such exchange or market immediately prior to the date on which the Units were tendered for redemption, and (ii) an amount equal to (a) the closing price of the Units on the date on which the Units were tendered for redemption on the principal stock exchange on which Units are listed (or, if Units are not listed on any stock exchange, on the principal market on which the Units are quoted for trading) if there was a trade on the date on which the Units were tendered for redemption and the stock exchange or market provides a closing price; (b) an amount equal to the average of the highest and lowest prices of Units on the date on which the Units were tendered for redemption on the principal exchange on which the Units are listed (or, if the Units are not listed on any exchange, on the principal market on which the Units are quoted for trading) if there was trading on the date on which the Units were tendered for redemption and the exchange or other market provides only the highest and lowest trading prices of Units traded on a particular day; or (c) the average of the last bid and ask prices on the date on which the Units were tendered for redemption, on the principal exchange on which the Units are listed (or, if the Units are not listed on any exchange, on the principal market on which the Units are quoted for trading) if there was no trading on the date on which the Units were tendered for redemption.

The aggregate Redemption Price payable by the Fund in respect of any Units surrendered for redemption during any month shall be satisfied by way of a cash payment by the Fund within five days after the end of the calendar month in which the Units were tendered for redemption; provided that the entitlement of the Unitholders to receive cash upon the redemption of their Units is subject to the limitations that: (i) the total amount payable in cash by the Fund in respect of such Units and all other Units tendered for redemption in the same calendar month shall not exceed $50,000 (provided that such limitation may be waived at the discretion of the Trustees in respect of all Units to be redeemed in any month); (ii) at the time such Units are tendered for redemption, the outstanding Units shall be listed for trading on The Toronto Stock Exchange or traded or quoted on any other stock exchange or market which the Trustees consider, in their sole opinion, provides representative fair market value prices for the Units; (iii) the normal trading of Units is not suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, on any market on which the Units are quoted for trading) on the date that the Units are tendered for redemption or for more than five trading days during the 10 day trading period prior to the date on which the Units are tendered for redemption; and (iv) the redemption of the Units will not result in the delisting of the Units on the principal stock exchange on which the Units are listed.

If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of the foregoing limitations, then the Redemption Price for such Units shall, subject to any applicable regulatory approvals, be paid and satisfied by way of a distribution *in specie* of assets held by the Fund (KOT Notes and KOT Units, together with a *pro rata* share of undistributed distributable cash). No fractional KOT Units or KOT Notes in integral multiples of less than $100 will be distributed, and all fractional entitlements will be rounded down. Where the Fund makes a distribution *in specie* on the redemption of Units to a Unitholder, the Fund currently intends to designate to that Unitholder any capital gain realized by the Fund as a result of the distribution of those securities to the Unitholder. See “Certain Income Tax Considerations — Canadian Federal Income Tax Considerations”. KOT Notes and KOT Units transferred on a redemption of Units would not be separately transferable, i.e. those securities could only be transferred in tandem.

It is anticipated that this redemption right will not be the primary mechanism for Unitholders to dispose of their Units. Assets of the Fund which may be distributed *in specie* to Unitholders in connection with a redemption will not be listed on any exchange and no market is expected to develop in such assets of the Fund. Fund assets so distributed may be subject to resale restrictions under applicable securities laws. Assets of the Fund so distributed may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans and deferred profit sharing plans. See “Certain Income Tax Considerations — Certain Canadian Federal Income Tax Considerations”.

After any redemption (whether in cash or *in specie*) the relative proportion of the number of KOT Units and KOT Notes held by the Fund will be the same as before the redemption.

Repurchase of Units

The Fund will be allowed, from time to time, to purchase Units for cancellation in accordance with applicable securities legislation and the rules prescribed under applicable stock exchange or regulatory policies. Any such purchases will constitute an “issuer bid” under Canadian provincial securities legislation and must be conducted in accordance with the applicable requirements thereof.

Meetings of Unitholders

The Declaration of Trust provides that there shall be an annual meeting of Unitholders for the purpose of: (a) the election of the Trustees; (b) the appointment of auditors of the Fund for the ensuing year; (c) approving the Trustees' nominees to serve as directors of KIK GenPar; (d) generally, any other matter which requires approval by a resolution of Unitholders; and (e) transacting such other business as the Trustees may determine or as may be properly brought before the meeting.

The Declaration of Trust provides that meetings of Unitholders may be convened at any time and for any purpose by the Trustees and must be convened, except in certain circumstances, if requisitioned in writing by the holders of Units representing not less than 10% of the aggregate votes attached to the Units then outstanding. A requisition will be required to state in reasonable detail the business proposed to be transacted at the meeting.

Unitholders will be entitled to attend and vote at all meetings either in person or by proxy, and a proxyholder will not be required to be a Unitholder. Two persons present in person or by proxy and representing in the aggregate at least 10% of the votes attached to all outstanding Units shall constitute a quorum for the transaction of business at all such meetings. At any meeting at which quorum is not present within one-half hour after the time fixed for the holding of such meeting, the meeting, if convened upon the request of the holders of Units, shall be dissolved, but in any other case, the meeting will stand adjourned to a day not less than seven days later and to a place and time as chosen by the chair of the meeting and if at such adjourned meeting a quorum is not present, the holders of Units present either in person or by proxy shall be deemed to constitute a quorum.

The Declaration of Trust contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Unitholders.

Limitation on Non-Resident Ownership

In order for the Fund to maintain its status as a "mutual fund trust" under the Tax Act, the Fund must not be established or maintained primarily for the benefit of non-residents of Canada within the meaning of the Tax Act. Accordingly, the Declaration of Trust provides that at no time may non-residents of Canada be the beneficial owners of more than 49% of the Units. The Trustees may require declarations as to the jurisdictions in which beneficial owners of Units are resident. If the Trustees become aware that the beneficial owners of at least 49% of the Units then outstanding are, or may be, non-residents or that such a situation is imminent, the transfer agent or registrar shall make a public announcement thereof and shall not accept a subscription for Units from or issue or register a transfer of Units to a person unless the person provides a declaration that he or she is not a non-resident. If, notwithstanding the foregoing, the Trustees determine that 49% or more of the Units are held by non-residents, the Trustees may send a notice to non-resident holders of Units, chosen in inverse order to the order of acquisition or registration or in such manner as the Trustees may consider equitable and practicable, requiring them to sell their Units or a portion thereof within a specified period of not less than 60 days. If the persons receiving such notice have not sold the specified number of Units or provided the Trustees with satisfactory evidence that they are not non-residents within such period, the Trustees may, on behalf of such persons, sell such Units and, in the interim, shall suspend the voting and distribution rights (if any) attached to such Units. Upon such sale, the affected holders shall cease to be holders of the Units and their rights shall be limited to receiving the net proceeds of such sale.

Amendments to the Declaration of Trust

The Declaration of Trust may be amended or altered from time to time by Special Resolution.

The Trustees may, without the approval of the Unitholders, make certain amendments to the Declaration of Trust, including amendments:

(a) for the purpose of ensuring continuing compliance with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the Trustees or over the Fund;

(b) which, in the opinion of counsel to the Trustees, provide additional protection for Unitholders;

(c) to remove any conflicts or inconsistencies in the Declaration of Trust or to make minor corrections which, in the opinion of the Trustees, are necessary or desirable and not prejudicial to the Unitholders; and

(d) which, in the opinion of the Trustees, are necessary or desirable as a result of changes in Canadian or U.S. taxation laws.

Notwithstanding the preceding sentence, the Trustees may not (without approval of the Unitholders) amend the Declaration of Trust in a manner that would result in the Fund failing to qualify as a "fixed investment trust" classified as a trust under the U.S. Tax Code.

Exercise of Certain Voting Rights Attached to the Securities of KOT, KIK GenPar and KLP Holdco

The Declaration of Trust provides that the Fund will not vote securities of KOT held by it, nor will it permit KOT to vote its securities of KIK GenPar and KLP Holdco, to authorize, among other things,

- any sale, lease or other disposition of all or substantially all of the assets of KOT, KLP, KIK Holdco, KLP Holdco, KOPH, KIK Acquisition, KOP or KIK International;
- any amalgamation, arrangement or other merger of KOT, KIK GenPar, KLP, KIK Holdco, KOPH, KIK Acquisition, KOP or KIK International with any other entity;
- any material amendment to the KOT Note Indenture other than in contemplation of a further issuance of KOT Notes identical to the outstanding KOT Notes;
- the winding-up or dissolution KOT, KIK GenPar, KLP, KOPH, KIK Acquisition, KOP, KIK International or KIK Holdco prior to the end of the term of the Fund; or
- any material amendment to the KOT Trust Indenture, the KLP Limited Partnership Agreement, the KOP partnership agreement, the KIK GenPar securityholders' agreement or the articles of KIK GenPar, KOPH, KIK Acquisition or KIK Holdco in a manner which may be prejudicial to the Fund or its Unitholders or which may result in the Fund failing to qualify as a "fixed investment trust" classified as a trust under the U.S. Tax Code,

without the authorization of the Unitholders by Special Resolution.

The Declaration of Trust also provides that the Fund will cause KOT to exercise the voting rights attached to its securities of KIK GenPar to elect as KOT's nominees to the board of directors of KIK GenPar those persons approved by the Unitholders by Ordinary Resolution at the first annual meeting of Unitholders and at every annual meeting thereafter.

Term of the Fund

The Fund has been established for a term to continue until 21 years after the death of the last surviving issue of Her Majesty, Queen Elizabeth II, alive on July 9, 2002. The termination of the Fund may also be required by Special Resolution.

Take-over Bids

The KLP Limited Partnership Agreement will provide that if a non-exempt take-over bid from a person acting at arm's length to holders of the KLP Exchangeable Units (or any affiliate or associate thereof) is made for the Units and a contemporaneous identical offer is not made for the KLP Exchangeable Units (in terms of price, timing, proportion of securities sought to be acquired and conditions, provided that the offer for the KLP Exchangeable Units may be conditional on Units being taken up and paid for under the take-over bid), then all limitations on the exchange of KLP Exchangeable Units shall terminate and, provided that (i) not less than 25% of the Units (other than Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken-up and paid for pursuant to the non-exempt bid from and after the date of first take-up of Units under the said take-over bid in excess of the foregoing threshold, and (ii) the take-over bid is not for any and all Units tendered or is not structured such that holders of KLP Exchangeable Units can exchange into Units conditional on take-up, the KLP Exchangeable Units will be exchangeable at an exchange ratio equal to 110% of the exchange ratio previously in effect, such that, based on the current one-to-one exchange ratio, on exchange the holder of KLP Exchangeable Units will receive 1.1 Units for each Unit that the holder would otherwise have received. Notwithstanding any adjustment on completion of an exclusionary offer as described above, the distribution rights attaching to the KLP Exchangeable Units will also not be adjusted until the exchange right is actually exercised.

The Declaration of Trust and the KLP Limited Partnership Agreement will also contain provisions to the effect that if a take-over bid is made and not less than 90% of the aggregate of the Units and KLP Exchangeable Units (other than Units and KLP Exchangeable Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Units held by Unitholders and the KLP Exchangeable Units held by holders who did not accept the take-over bid, in both cases, on the same terms on which the offeror acquired Units from Unitholders who accepted the take-over bid.

Information and Reports

The Fund will furnish, in accordance with and subject to applicable securities laws, to Unitholders such consolidated financial statements of the Fund (including quarterly and annual consolidated financial statements) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of unitholders' tax returns under the Tax Act and equivalent provincial legislation. Prior to each meeting of Unitholders, the Trustees will provide the Unitholders (along with notice of such meeting) all such information as is required by applicable law and the Declaration of Trust to be provided to such holders. KOT and KLP will undertake to provide the Fund with (i) a report of any material change that occurs in the affairs of KOT and KLP, respectively, in form and content that it would file with applicable regulatory authorities were it a reporting issuer (or equivalent); and (ii) all financial statements that it would be required to file with applicable regulatory authorities if it were a reporting issuer (or equivalent) under applicable securities laws. All such reports and statements will be provided to the Fund in a timely manner so as to permit the Fund to comply with the continuous disclosure requirements relating to reports of material changes in its affairs and the delivery of financial statements as required under applicable securities laws.

DESCRIPTION OF KOT

The KOT Trust Indenture will contain provisions substantially similar to those of the Declaration of Trust. The principal differences between the KOT Trust Indenture and the Declaration of Trust are those described below. The description below is a summary only and is qualified in its entirety by reference to the text of the KOT Trust Indenture and the Declaration of Trust.

General

KOT will be an unincorporated open-ended trust established pursuant to the KOT Trust Indenture and governed by the laws of the Province of Ontario. KOT is a limited purpose trust and its activities are restricted essentially to having direct and indirect investments (debt and equity) in KLP.

Trustees/Governance

The KOT Trust Indenture will provide that KOT will have a minimum of three and a maximum of ten trustees. The KOT Trustees are to supervise the activities and manage the affairs of KOT.

The KOT Trustees will be the same as the Trustees (initially Messrs. Cynamon, Halperin and Latta, with two additional KOT Trustees to be appointed prior to Closing).

The KOT Trust Indenture will provide that, subject to its terms and conditions, the KOT Trustees may, in respect of the trust assets, exercise any and all rights, powers and privileges that could be exercised by a legal and beneficial owner and will supervise the investments and conduct the affairs of KOT. The KOT Trust Indenture will prohibit a non-resident of Canada (as that term is defined in the Tax Act) from acting as a trustee. The KOT Trustees, however, may not act in a manner that would result in the Fund or KOT failing to qualify as a "fixed investment trust" classified as a trust under the U.S. Tax Code. The KOT Trustees are responsible for, among other things:

- acting for, voting on behalf of and representing KOT as shareholder of KIK GenPar and KLP Holdco and debt holder of KLP;
- maintaining records and providing reports to its unitholders;
- supervising the activities of KOT;
- effecting payments of available cash from KOT to its unitholders; and
- voting in favour of the nominees of the Unitholders to serve as directors of KIK GenPar.

Trustees will not receive any compensation for acting as trustees of KOT.

Exercise of Certain Voting Rights

The KOT Trust Indenture will provide that KOT will not vote securities held by it of KIK GenPar and KLP Holdco to authorize, among other things,

- any sale, lease or other disposition of all or substantially all of the assets of KLP, KLP Holdco, KIK GenPar, KIK Acquisition, KIK Holdco, KOPH, KOP or KIK International;
- any amalgamation, arrangement or other merger of KLP, KLP Holdco, KIK GenPar, KIK Acquisition, KIK Holdco, KOPH, KOP or KIK International with any other entity;
- the winding-up or dissolution KLP, KLP Holdco, KIK GenPar, KIK Acquisition, KIK Holdco, KOPH, KOP or KIK International prior to the end of the term of the Fund; or
- any material amendment to the KLP Limited Partnership Agreement, the KOP partnership agreement, the KIK GenPar securityholders' agreement or the articles of KIK GenPar or KOP Holdco in a manner which may be prejudicial to the Fund or its Unitholders or any amendment which may result in KOT failing to qualify as a "fixed investment trust" classified as a trust under the U.S. Tax Code,

without the authorization of the Fund, and will vote its shares of KIK GenPar to elect directors of KIK GenPar as contemplated under "Description of the Fund — Exercise of Certain Voting Rights".

Limitations on Transfer

KOT Notes and KOT Units will be issued in tandem, such that for every $100 in principal amount of KOT Notes issued, ● KOT Units shall be issued and associated therewith. The KOT Notes and KOT Units shall not be transferable or redeemable in any circumstances except where the associated security is being contemporaneously transferred or redeemed, as the case may be.

Distributions

The KOT Trust Indenture will provide that KOT will make monthly cash distributions to holders of record of KOT Units on the last business day of each month. Such distributions will be paid within 30 days following each month-end and are intended to be received by the Fund prior to its related distributions to Unitholders. The KOT Trustees will adopt a policy to distribute all of KOT's available cash, subject to applicable law, to holders of KOT Units by way of monthly cash distributions, after

- satisfaction of its debt service obligations (principal and interest), including the KOT Notes; and
- any cash redemptions or repurchases of KOT Units and KOT Notes.

If the KOT Trustees determine that KOT does not have cash in an amount sufficient to make payment of the full amount of any distribution, the payment may include the issuance of additional KOT Units and KOT Notes having a value equal to the difference between the amount of such distribution and the amount of cash which has been determined by the KOT Trustees to be available for the payment of such distribution. The value of each KOT Unit or KOT Note so issued will be the redemption price or principal amount thereof.

Unit Certificates

As KOT Units are not intended to be issued or held by any person other than the Fund (until such time as a Unitholder redeems Units of the Fund), registration of interests in, and transfer of, the KOT Units will not be made through the book-entry system administered by CDS. Rather, holders of KOT Units will be entitled to receive certificates therefor.

Redemption Price

The KOT Units will be redeemable at the option of KOT, provided that the KOT Notes with which they were issued and to which they are attached are to be contemporaneously redeemed. The redemption price for each KOT Unit called for redemption will be equal to:

$$\frac{(A \times B) - C}{D}$$

where:

A = the cash redemption price per Unit calculated as of the close of business on the date the KOT Trustees approved the redemption;

B = the aggregate number of Units outstanding as of the close of business on the date the KOT Trustees approved the redemption;

C = the aggregate unpaid principal amount and accrued interest thereon of any indebtedness held by or owed to the Fund and the fair market value of any other assets or investments held by the Fund (other than KOT Units) as of the close of business on the date the KOT Trustees approved the redemption; and

D = the aggregate number of KOT Units outstanding held by the Fund as of the close of business on the date the KOT Trustees approved the redemption.

KOT Notes

KOT Notes will be issuable in Canadian currency. KOT Notes will be issuable in denominations of $100.00 and integral multiples of $100.00. No fractional KOT Notes will be distributed and where the number of KOT Notes to be received by a Unitholder includes a fraction, such number shall be rounded to the next lowest whole number. KOT shall not be permitted to incur any indebtedness other than the KOT Notes.

Interest and Maturity

The KOT Notes will be issued at Closing to the Fund and will mature on the 10^{th} anniversary of the date of issuance (subject to automatic renewal for two additional five-year terms if during a specified period prior to the end of the then current term the ratio of KOT's free cash flow to its interest obligations on the KOT Notes is not less than 1.6) and will bear interest at the rate of 7% per annum.

Payment Upon Maturity

On maturity, KOT will repay the KOT Notes by paying to the trustee under the KOT Note Indenture, in cash, an amount equal to the principal amount of the outstanding KOT Notes which have then matured, together with accrued and unpaid interest thereon. The KOT Units attached to the KOT Notes will be contemporaneously redeemed at maturity of such KOT Notes.

Redemption

The KOT Notes will be redeemable (at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, payable in cash) at the option of KOT prior to maturity, provided that the associated KOT Units are contemporaneously redeemed.

Default

The KOT Note Indenture will provide that any of the following shall constitute an event of default:

(i) default in payment of the principal of the KOT Notes when the same become due and payable and the continuation of such default for a period of 10 business days;

(ii) default in payment of any interest due on any KOT Notes and continuation of such default for a period of 10 business days;

(iii) default in the observance or performance of any other covenant or condition of the Note Indenture and continuance of such default for a period of 30 days after written notice has been given by the trustee specifying such default and requiring KOT to rectify same; and

(iv) certain events of dissolution, liquidation, reorganization or other similar proceedings relative to KOT and/or its affiliates.

The provisions governing an event of default under the KOT Note Indenture and remedies available thereunder do not provide protection to the holders of KOT Units which would be comparable to the provisions generally found in debt securities issued to the public.

DESCRIPTION OF KLP

General

KLP will be a limited partnership established under the laws of the State of Delaware to own and make investments in, conduct the business of and operate and lease assets and property in connection with the manufacture and sale of household cleaning and laundry products, including the business currently conducted by KIK, and such other businesses as the directors of KIK GenPar may determine, and all activities ancillary and incidental thereto.

General Partner

The general partners of KLP will be KIK GenPar and KLP Holdco. The directors of KIK GenPar will initially be the persons referred to in, and thereafter be elected in accordance with the procedure described under, “Trustees, Directors and Management — Governance of KIK GenPar”. KLP Holdco will acquire its non-economic minority general partner interest in KLP for no consideration. KIK GenPar will be entitled to four votes for each vote of KLP Holdco on any matter in respect of which they disagree concerning KLP.

Partnership Units

KLP will be entitled to issue various classes of partnership interests. Initially KLP will have outstanding one or more general partnership units and KLP Ordinary Units. The KLP Ordinary Units will be issued solely to KLP Holdco and the general partnership units will be issued to KIK GenPar and KLP Holdco. Holders of KLP Ordinary Units will be entitled to notice of, and to attend and vote at, all meetings of holders of partnership units except as required by law and in certain specified circumstances in which the rights of a holder of another class of units are affected.

As described under “Funding, Acquisition and Related Transactions”, KLP will issue KLP Exchangeable Units to certain of the Vendors in consideration for KLP’s acquisition of all of the common shares of KIK Acquisition. Specifically, David Cynamon and other officers and employees of KIK will receive KLP Subordinated Exchangeable Units, and the Continuing Holders (i.e. the other Vendors) will receive KLP Unsubordinated Exchangeable Units. KLP Exchangeable Units, which will be issuable in series, may also be issued in respect of other acquisitions made by KLP from time to time. Both classes of KLP Exchangeable Units will, except as otherwise noted, have economic and voting rights equivalent in all material respects to the Units. Both classes of KLP Exchangeable Units will have the following attributes: (i) the KLP Exchangeable Units will be exchangeable, directly or indirectly, on a one-for-one basis (subject to customary anti-dilution provisions and as provided under “Description of the Fund — Take-Over Bids”) for Units at the option of the holder, at any time after the First Conversion Date for the KLP Subordinated Exchangeable Units and after the 180th day following Closing for the KLP Unsubordinated Exchangeable Units, unless the exchange would jeopardize the Fund's status as a "unit trust" or "mutual fund trust" under the Tax Act or a "fixed investment trust" under the U.S. Tax Code; (ii) distributions to holders of KLP Exchangeable Units will be subordinate to KLP's debt obligations (including its obligations with respect to the KLP Debt); (iii) each KLP Exchangeable Unit will entitle the holder thereof to receive distributions from KLP, where practicable, *pro rata* with distributions made by the Fund on a Unit (subject to the withholding tax adjustments described below), provided that until the First Conversion Date distributions on the KLP Subordinated Exchangeable Units (but not, for greater certainty, on the KLP Unsubordinated Exchangeable Units) shall be subordinated as described below; and (iv) except as required by law and in certain specified circumstances (specifically, in the circumstances described under "Description of KIK GenPar Limited — Restrictions on Authority of KIK GenPar" and circumstances in which the rights of a holder of KLP Exchangeable Units are affected), holders of the KLP Exchangeable Units will not be entitled to vote at any meeting of the limited partners of KLP.

Until the First Conversion Date, the distributions to the holders of the KLP Subordinated Exchangeable Units will be subordinate to the distribution to holders of KLP Unsubordinated Exchangeable Units and distributions to holders of KLP Ordinary Units. Under such subordination, distributions will be made in the following priority (after funding of cash redemptions and Unit repurchases, if any, and subject to the withholding tax adjustments described below): (i) monthly cash distributions shall be paid (a) to holders of KLP Unsubordinated Exchangeable Units in an amount equal to the aggregate amount of interest paid on the KLP Debt for such month divided by the number of Units of the Fund at the end of such month; and (b) to holders of KLP Unsubordinated Exchangeable Units and to holders of KLP Ordinary Units (on a *pari passu* basis) in aggregate amounts such that each holder of a KLP Unsubordinated Exchangeable Unit (after taking account of the distribution referred to in (i)(a) for such month) and each Unitholder (after taking account of the distribution, through KOT, of the interest paid on the KLP Debt for such month) shall receive a distribution of $ ● per unit for such month or, if there is insufficient available cash to make distributions in such amounts, such lesser amount as is available (on a *pro rata* basis, based on the holdings of KLP Unsubordinated Exchangeable Units and of Units); (ii) at the end of each fiscal quarter of the Fund, including the fiscal quarter ending on the fiscal year end, available cash shall be distributed (a) first, pro rata to holders of Units and to holders of KLP Unsubordinated Exchangeable Units, to the extent only that monthly per unit distributions in respect of such fiscal year-to-date (and not, for greater certainty, in respect of any previous fiscal year) on the Units and KLP Unsubordinated Exchangeable Units averaged less than $ ● per month (specifically distributions will be made on the KLP Ordinary Units and the KLP Unsubordinated Exchangeable Units such that the amount would be shared equally on a per unit basis by holders of Units and holders of KLP Unsubordinated Exchangeable Units), (b) second, to holders of KLP Subordinated Exchangeable Units in a per unit amount equal to up to $ ● plus, to the extent that distributions to holders of KLP Subordinated Exchangeable Units in any previous fiscal quarter(s) during that fiscal year (and not, for greater certainty, in any previous fiscal year) were not made or were made in amounts less than $ ● per unit, the difference between $ ● and the amount of any distributions made for each such previous fiscal quarter(s), and (iii) the excess will be shared *pro rata* by the holders of Units and KLP Exchangeable Units (specifically, distributions of any such excess will be made on each class of KLP Units such that the excess would be shared equally on a per unit basis by holders of Units and holders of KLP Exchangeable Units). Notwithstanding the foregoing, until the First Conversion Date the directors of KIK GenPar shall, if they determine, based on trends or developments in KIK's business or operations then in effect or reasonably foreseeable, that there is a reasonable likelihood that there will be insufficient available cash in a future month within that fiscal year to make distributions on the KLP Ordinary Units and the KLP Unsubordinated Exchangeable Units such that the Unitholders and holders of KLP Unsubordinated Exchangeable Units will receive at least $ ● per unit, suspend distributions to holders of KLP Subordinated Exchangeable Units to the extent determined necessary. Distributions of any excess referred to in (iii) may be made on a quarterly, rather than on a monthly, basis in the discretion of the directors of KIK GenPar and KLP Holdco. Distributions to holders of KLP Units shall in all events be subordinated in priority to KLP's obligation to make payments of interest and principal as required by the terms of the KLP Debt.

Notwithstanding the allocations of distributable cash by KLP described above, the KLP partners' entitlements shall be calculated on a basis net of applicable withholding taxes, in the case of distributions to holders of KLP Exchangeable Units, and on a basis grossed up to take into account any applicable withholding taxes, in the case of distributions to holders of KLP Ordinary Units. Consequently, the net amount ultimately received by holders of Units shall be equal to that amount which would have been received had no such withholding taxes been applicable.

KLP, KOT, the Fund and the holders of KLP Exchangeable Units will enter into certain agreements to give effect to the terms of the KLP Exchangeable Units including an exchange agreement specifying the procedures for the exchange of the KLP Exchangeable Units for Units referred under "Retained Interest".

Distributions

KLP will distribute to KIK GenPar and to limited partners (listed on the record) holding KLP Ordinary Units or KLP Unsubordinated Exchangeable Units on the last day of each month and, except as otherwise described under "Description of KLP — Partnership Units" above, to limited partners (listed on the record) holding KLP Subordinated Exchangeable Units on the last day of each quarter, their *pro rata* portions of distributable cash as set out below. Distributions will be made on the KLP Ordinary Units and KLP Unsubordinated Exchangeable Units within 30 days of the end of each month and on the KLP Subordinated Exchangeable Units within 30 days of the end of each fiscal quarter and are intended to be received by KOT prior to its related distributions to the Fund. KLP may, in addition, make a distribution at any other time.

Distributable cash will represent, in general, all of KLP's cash, after

- satisfaction of its debt service obligations (principal and interest), including the KLP Debt; and
- satisfaction of its other expense obligations (including, without limitation, taxes and amounts payable to KIK GenPar under the Administration Agreement).

KLP Debt

The KLP Debt will be incurred at Closing, will mature on the 10^{th} anniversary of the date of incurrence (subject to renewal for two additional five-year terms at the option of KLP provided that during a specified period prior to the end of the then current term the ratio of KLP's free cash flow to its interest obligations on the KLP Debt is not less than 1.6) and will bear interest at the rate of 15% per annum. The KLP Debt will be held by KOT. The terms of the KLP Debt, including events and consequences of default, subordination, (absence of) security and redemption rights, are substantively similar to the terms of the KOT Notes.

Allocation of Net Income and Losses

The income or loss of KLP for each fiscal year will be allocated to KIK GenPar and to the limited partners as to 0.001% and 99.999%, respectively. The income for tax purposes of KLP for a particular fiscal year will be allocated to each limited partner by multiplying the total income allocated to the limited partners by a fraction, the numerator of which is the total sum of the cash distributions received by that limited partner with respect to that fiscal year (taking into account, without limitation, any non-payment of distributions to holders of KLP Subordinated Exchangeable Units during the year pursuant to the subordination described above under "Description of KLP — Partnership Units") and the denominator of which is the total amount of the cash distributions made by KLP to all limited partners with respect to that fiscal year. The amount of income allocated to a limited partner may exceed or be less than the amount of cash distributed by KLP to that limited partner. KIK GenPar shall receive no fees for the services performed under the Administration Agreement; however, it shall receive from KLP compensation for its out-of-pocket expenses incurred in providing the said services, which compensation shall be an expense of KLP.

Income and loss of KLP for accounting purposes is allocated to each partner in the same proportion as income or loss that is allocated for tax purposes.

If, with respect to a given fiscal year, no cash distribution is made by KLP to its partners, or KLP has a loss for tax purposes, one twelfth of the income or loss, as the case may be, for tax purposes of KLP for that fiscal year will be allocated to KIK GenPar and the limited partners at the end of each month ending in that fiscal year, as to 0.001% and 99.999%, respectively, and to each limited partner in the proportion that the number of partnership units held at each of those dates by that limited partner is of the total number of partnership units issued and outstanding at each of those dates (for such purposes treating all classes of limited partners as one).

Functions and Powers of the General Partners

KIK GenPar and KLP Holdco have joint authority to manage the business and affairs of KLP, to make all decisions regarding the business of KLP and, in the case if KIK GenPar, to bind KLP. KIK GenPar and KLP Holdco are to exercise their powers and discharge their duties honestly, in good faith and in the best interests of KLP and to exercise the care, diligence and skill of a reasonably prudent person in comparable circumstances. KIK GenPar and/or KLP Holdco cannot dissolve KLP, wind up its affairs or effect a sale of all or substantially all of KLP's assets except in accordance with the provisions of the partnership agreement. In the event of a disagreement between KIK GenPar and KLP Holdco concerning KLP, the matter shall be put to a vote, with KIK GenPar having four votes to each single vote of KLP Holdco.

The authority and power vested in KIK GenPar and KLP Holdco to manage the business and affairs of KLP will include all authority necessary or incidental to carry out the objects, purposes and business of KLP, including without limitation the ability to engage agents to assist in the discharge of management obligations and administrative functions.

The partnership agreement provides that all material transactions and agreements involving KLP must be approved by KIK GenPar and KLP Holdco.

Restrictions on Authority

The authority of each of KIK GenPar and KLP Holdco is limited in certain respects under the partnership agreement. See "Description of KIK GenPar Limited — Restrictions on the Authority of KIK GenPar".

Reimbursement of General Partner

KLP will reimburse each of KIK GenPar and KLP Holdco for all direct costs and expenses incurred in the performance of their duties under the partnership agreement on behalf of KLP and for all expenses incurred in the performance of its obligations under the Administration Agreement.

Limited Liability

KLP will operate in a manner as to ensure to the greatest extent possible the limited liability of the limited partners. Limited partners may lose their limited liability in certain circumstances. If limited liability is lost by reason of the negligence of a general partner in performing its duties and obligations under the partnership agreement, the general partners will indemnify the limited partners (each in respect of its own actions and inactions only) against all claims arising from assertions that their respective liabilities are not limited as intended by the partnership agreement. However, since KIK GenPar and KLP Holdco have no significant assets or financial resources, this indemnity may have nominal value.

Transfer of Partnership Units

Partnership units will be fully transferable. However, a partnership unit will not be transferable in part and no transfer of a partnership unit will be accepted by the general partners unless a transfer form, duly completed and signed by the registered holder of the partnership unit and the transferee, has been remitted to the registrar and transfer agent of KLP. A transferee of the partnership unit will become a limited partner and will be subject to the obligations and entitled to the rights of a limited partner under the partnership agreement on the date on which the transfer is recorded. KLP Exchangeable Units will not, except as otherwise described under "Description of the Fund — Take-Over Bids" be transferable (other than to affiliates or associates of the holder or to persons in respect of which the holder is an associate) until on or after the 180th day following Closing, in the case of KLP Unsubordinated Exchangeable Units, and on or after the First Conversion Date in the case of the KLP Subordinated Exchangeable Units.

Options

Options to acquire KLP Exchangeable Units are not transferable and do not entitle the holder thereof to distributions or any other rights of a KLP unitholder. Such options are subject to standard anti-dilution provisions in the event of a consolidation, split or similar reorganization.

DESCRIPTION OF KOP

General

KOP will be a general partnership established under the laws of the Province of Ontario to invest in, conduct the business and ownership, operation and lease of assets and property in connection with the manufacture and sale of household cleaning and laundry products, and such other businesses as the board of directors of KIK GenPar may determine, including all activities ancillary or incidental thereto.

Partnership Units

As described under "Funding, Acquisition and Related Transactions", KOP will issue partnership units (representing a 98.99% interest) to KIK Holdco (successor to NSCo), to KLP (representing a 1% interest) and to KOPH (representing a 0.01% interest).

Distributions

KOP will distribute to partners (listed on the record) on the last day of each month, their *pro rata* portions of distributable cash as set out below. Distributions will be made within 30 days of the end of each month and are intended to be received by KLP prior to its related distributions to its limited partners. KOP may, in addition, make a distribution at any other time.

Distributable cash will represent, in general, all of KOP's cash, after

- satisfaction of its debt service obligations (principal and interest);
- satisfaction of its other expense obligations; and
- retaining reasonable reserves for administrative and other expense obligations and reasonable reserves for working capital and maintenance capital expenditures as may be considered appropriate by the board of directors of KIK GenPar.

Allocation of Net Income and Losses

The income or loss of KOP for each fiscal year will initially be allocated in proportion to the net tax market value of the property contributed by each partner as consideration for their partnership interest. The income for tax purposes of KOP for a particular fiscal year will be allocated to each partner by multiplying the total income allocated to the partners by a fraction, the numerator of which is the total sum of the cash distributions received by that partner with respect to that fiscal year and the denominator of which is the total amount of the cash distributions made by KOP to all partners with respect to that fiscal year. The amount of income allocated to a partner may exceed or be less than the amount of cash distributed by KOP to that partner.

Income and loss of KOP for accounting purposes is allocated to each partner in the same proportion as income or loss that is allocated for tax purposes.

If, with respect to a given fiscal year, no cash distribution is made by KOP to its partners, or KOP has a loss for tax purposes, one twelfth of the income or loss, as the case may be, for tax purposes of KOP for that fiscal year will be allocated to the partners at the end of each month ending in that fiscal year, in an amount proportionate to their respective partnership interests.

Functions and Powers of KIK GenPar, in its capacity as Manager of KOP

KIK GenPar, in its capacity as manager of KOP, pursuant to the KOP partnership agreement, has authority to manage the business and affairs of KOP, to make all decisions regarding the business of KOP and to bind KOP. KIK GenPar is to exercise its powers and discharge its duties honestly, in good faith and in the best interests of KOP and to exercise the care, diligence and skill of a reasonable prudent person in comparable circumstances. KIK GenPar cannot dissolve KOP, wind up its affairs or effect a sale of all or substantially all of KOP's assets except in accordance with the provisions of the partnership agreement.

The authority and power vested in KIK GenPar to manage the business and affairs of KOP includes all authority necessary or incidental to carry out the objects, purposes and business of KOP, including without limitation the ability to engage agents to assist KIK GenPar to carry out its management obligations or substantially administrative functions.

The partnership agreement provides that all material transactions and agreements involving KOP must be approved by the board of directors of KIK GenPar.

Restrictions on the Authority of KIK GenPar

The authority of KIK GenPar is limited in certain respects under the KOP partnership agreement, pursuant to restrictions analogous to those described under "Description of KIK GenPar Limited — Restrictions on Authority of KIK GenPar Limited".

Reimbursement of KIK GenPar

KOP will reimburse KIK GenPar for all direct costs and expenses incurred by KIK GenPar in the performance of its duties under the KOP partnership agreement. KIK GenPar shall receive no compensation for the provision of such services.

DESCRIPTION OF KIK GENPAR LIMITED

General

KIK GenPar Limited will be a corporation established under the laws of the Province of Ontario to invest in, conduct the business and ownership, operation and lease of assets and property in connection with the manufacture and sale of household cleaning and laundry products, and such other businesses as its board of directors may determine, including all activities ancillary or incidental thereto.

Functions and Powers of KIK GenPar

KIK GenPar has authority to manage the business and affairs of KLP (together with KLP Holdco) and KOP, to make all decisions regarding the KIK business and to bind KLP and KOP. KLP Holdco, conversely, cannot bind KLP without KIK GenPar's assent, and in the event that KIK GenPar and KLP Holdco disagree in respect of any matter concerning KLP, the matter shall be voted upon by the two general partners, with KIK GenPar having four votes to each vote of KLP Holdco. KIK GenPar is to exercise its powers and discharge its duties honestly, in good faith and in the best interests of KLP and to exercise the care, diligence and skill of a reasonably prudent person in comparable circumstances. KIK GenPar cannot dissolve KLP or any of its subsidiaries, wind-up its affairs or effect a bulk sale of its assets except in accordance with the provisions of the KLP Limited Partnership Agreement.

The authority and power vested in KIK GenPar includes all authority necessary or incidental to carry out the objects, purposes and business of KLP (and KIK), including without limitation the ability to engage agents to assist KIK GenPar to carry out its management obligations or administrative functions.

The KLP Limited Partnership Agreement provides that all material transactions and agreements involving KLP (or its subsidiaries) must be approved by KIK GenPar's board of directors and, where those agreements involve KOT, they must be approved by a majority of disinterested directors of KIK GenPar's board of directors.

Restrictions on the Authority of KIK GenPar

The authority of KIK GenPar will be limited in certain respects under the KLP Limited Partnership Agreement and the securityholders' agreement. KIK GenPar will be prohibited, without the prior approval of the holders of KLP Exchangeable Units given by ordinary resolution and the prior approval of the Unitholders given by Special Resolution, from selling, exchanging, or otherwise disposing of all or substantially all of the assets of KLP.

Withdrawal or Removal of KIK GenPar

KIK GenPar may not be removed as general partner of KLP unless:

- the shareholders or directors of KIK GenPar pass a resolution in connection with the bankruptcy, dissolution, liquidation or winding-up of KIK GenPar, or KIK GenPar commits certain other acts of bankruptcy or ceases to be a subsisting corporation, provided that certain other conditions are satisfied, including a requirement that a successor general partner agrees to act as general partner under the KLP Limited Partnership Agreement; or
- an extraordinary resolution (i.e., two-thirds approval) has been passed by limited partners and a successor general partner agrees to act as general partner under the KLP Limited Partnership Agreement.

If KIK GenPar withdraws or is removed as the general partner of KLP for any reason, a successor general partner of KLP may be established only if (i) such successor has been approved by a majority of KLP's limited partner interests, and (ii) the successor general partner has the same relative ownership and board composition as KIK GenPar.

Restrictions Respecting Amendment

The KLP Limited Partnership Agreement may not be amended in any way which would or might adversely affect the rights or obligations of any class of partners (including, for greater certainty, amendments which do not deal specifically by their terms with a class of units but nevertheless affect the rights and/or obligations of holders of that class) including, without limitation, amendments that affect voting rights, distribution entitlements, or liability, of that class without the consent of such class of partners given by ordinary resolution at a duly constituted meeting or a written resolution of partners holding a majority of the partnership interests of such class entitled to vote at a duly constituted meeting.

KIK GenPar Securityholders' Agreement

Concurrent with the Closing of this Offering, KOT, the holders of KLP Exchangeable Units and KIK GenPar will enter into a securityholders' agreement in respect of KIK GenPar.

Directors

The securityholders' agreement will provide that the board of directors of KIK GenPar will be initially comprised of five members. Initially, three members of the board of directors will be designated by KOT and two members of the board of directors will be designated by the Vendors who are holders of KLP Exchangeable Units. The members of the board of directors to be designated by the Vendors who are holders of KLP Exchangeable Units will be designated by the holders of a majority in interest of all such persons. The Vendors who are holders of KLP Exchangeable Units will be entitled to designate two members to the board of directors so long as they hold at least 15% of the Fund's Units (on a diluted basis). If the Vendors who are holders of KLP Exchangeable Units fall below that threshold but continue to hold KLP Exchangeable Units representing at least 5% of the Fund's Units (on a diluted basis), they will be entitled to designate one member to the board of directors. The size of the board of directors will be reduced to the extent any director designated by the Vendors who are holders of KLP Exchangeable Units is no longer entitled to serve on the board due to a reduction in the aggregate ownership of the group. The party entitled to direct the appointment of a director can require the removal or replacement of members of the board of directors that it designated at any time at its sole discretion. The directors of KIK GenPar on the date of Closing will be the same as the Trustees on such date (see "Trustees, Directors and Management").

Amendment

The securityholders' agreement will provide that it can only be amended, modified or waived with the approval of KIK GenPar, KOT and the holders of at least 66⅔% of the outstanding partnership interests. Any amendment that would adversely affect the rights and obligations of a particular securityholder in a manner different from all other similarly situated securityholders, or would create or increase liability of a securityholder or further restrict the transferability of KLP Exchangeable Units held by a securityholder, requires the approval of each particularly affected securityholder in order to be effective against that person.

RETAINED INTEREST

Continuing Interest of Certain Vendors

The Senior Management Vendors including David Cynamon, the other members of KIK senior management and certain KIK employees (assuming the exercise of all KIK Options) will, upon completion of this Offering, together beneficially own, directly or indirectly, all of the KLP Subordinated Exchangeable Units, which, assuming exchange of the KLP Exchangeable Units on the date of closing of this Offering for Units of the Fund, represents an approximately ● % ownership interest in the Fund (or approximately ● % if the over-allotment option is exercised in full). Certain other existing shareholders of KIK will, on completion of the Offering, own all of the KLP Unsubordinated Exchangeable Units representing an approximately ● % interest in the Fund (or approximately ● % if the over-allotment option is exercised in full) The KLP Unsubordinated Exchangeable Units will not be transferable until on or after the 180th day following Closing and the KLP Subordinated Exchangeable Units will not be transferable until on or after the First Conversion Date.

Exchange Agreement

On Closing, the Fund, KOT, KLP and holders of KLP Exchangeable Units will enter into an exchange agreement (the "Exchange Agreement").

The Exchange Agreement will grant the holders of KLP Exchangeable Units the right, exercisable in the case of KLP Subordinated Exchangeable Units on or after the First Conversion Date and in the case of KLP Unsubordinated Exchangeable Units on or after the 180th day after Closing, to require KLP, KOT and the Fund to exchange each KLP Exchangeable Unit for Units on a one-for-one basis (subject to customary anti-dilution provisions and as provided under "Description of the Fund — Take-over Bids"), provided that the exchange will not jeopardize the Fund's status as a "unit trust" or "mutual fund trust" under the Tax Act or as a "fixed investment trust" classified as a trust under the U.S. Tax Code. Upon the exercise of an exchange right: (i) KLP will borrow funds on a day light basis; (ii) KLP will use the borrowed funds to redeem the KLP Exchangeable Units held by an exchanging KLP unitholder; (iii) the exchanging KLP unitholder will transfer the funds received by it in step (ii) above and a proportionate share of its shares in the capital of KIK GenPar (such that the ratio of the number of shares of KIK GenPar to shares of KLP Holdco and KLP Debt held by KOT does not vary as a result of the exchange) to KOT in consideration for KOT Units and KOT Notes (in the same proportion as held by the Fund); (iv) the exchanging unitholder will transfer its KOT Units and KOT Notes to the Fund in exchange for Units; (v) KOT will use the funds received by it in step (iii) above to acquire additional shares of KLP Holdco and additional KLP Debt; (vi) KLP Holdco will use the funds received by it in step (v) above to acquire additional KLP Ordinary Units; and (vii) KLP will use the cash received by it in steps (v) and (vi) above to repay the day light loan referred in step (i) above.

The Exchange Agreement may be assigned in whole or in part by the holders of KLP Exchangeable Units.

PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement (the "Underwriting Agreement") dated ● , 2002, among the Fund, KIK, the Vendors, KLP and the Underwriters, the Fund has agreed to issue and sell and the Underwriters have severally agreed to purchase on ● , 2002, or on such later date as may be agreed upon, but in any event not later than ● , 2002, an aggregate of ● Units at a purchase price of $10.00 per Unit, for an aggregate consideration of $ ● payable to the Fund by the Underwriters against delivery of the Units. The Fund has agreed to pay the Underwriters a fee of $ ● per Unit. Subscriptions will be received subject to rejection or allotment in whole or in part and the Underwriters reserve the right to close the subscription books at any time without notice. The Fund has granted the Underwriters an over-allotment option, exercisable for a period of 30 days from the date of the Closing to purchase up to a total of ● additional Units on the same terms as set out above solely to cover over-allotment, if any. If the over-allotment option is exercised in full, the total "Underwriters' Fee" and "Net Proceeds to the Fund" will be $ ● and $ ● , respectively. If the over-allotment is exercised, the net proceeds received therefrom will be used by the Fund to indirectly redeem KLP Exchangeable Units from the holders thereof. This prospectus qualifies the distribution of the over-allotment option and the issuance and subsequent transfer of the Units issuable on exercise of that option.

The obligations of the Underwriters under the Underwriting Agreement may be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated in certain stated circumstances and upon the occurrence of certain stated events. The Underwriters are, however, severally obligated to take up and pay for all of the Units that they have obligated themselves to purchase if any Units are purchased under the Underwriting Agreement.

The Fund has agreed with the Underwriters that the Fund will not, for the period ending 180 days after the closing of this Offering, issue, offer, or sell, contract to sell or otherwise dispose of, directly or indirectly, any Units or any securities convertible into or exchangeable or exercisable for Units, or publicly disclose the intention to make any such issue, offer, sale or disposition, without the prior consent of CIBC World Markets Inc.

Pursuant to policy statements of the Ontario Securities Commission and the Commission des valeurs mobilières du Québec, the Underwriters may not, throughout the period of distribution under this prospectus, bid for or purchase Units. The foregoing restriction is subject to certain exceptions, as long as the bid or purchase is not engaged in for the purpose of creating actual or apparent active trading in or raising the price of such securities. These exceptions include a bid or purchase permitted under the by-laws and rules of The Toronto Stock Exchange relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. Subject to the foregoing and applicable laws, the Underwriters may, in connection with this Offering, over-allot or effect transactions which stabilize or maintain the market price of the Units at levels other than those which otherwise might prevail on the open market. Such transactions, if commenced, may be discontinued at any time.

The Units have not been and will not be registered under the *United States Securities Act of 1933*, as amended (the "U.S. Securities Act"), and, subject to certain exceptions, may not be offered or sold in the United States. Accordingly, the Units will only be offered or sold within the United States pursuant to Rule 144A under the U.S. Securities Act or in private placement transactions to Accredited Investors (as defined in the U.S. Securities Act) and thereafter may only be re-offered or sold in the United States or to a U.S. person pursuant to the registration requirements of the U.S. Securities Act and applicable state securities laws or an exemption therefrom. In addition, until 40 days after the Closing, an offer or sale of the Units within the United States by any dealer (whether or not participating in this Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made other than in accordance with Rule 144A or another exemption under the U.S. Securities Act.

There is currently no market through which the Units may be sold and purchasers may not be able to resell securities purchased under this prospectus. Accordingly, the terms of the distribution, including the offering price of the Units, was determined by negotiation between the Fund, the Vendors and the Underwriters.

USE OF PROCEEDS

The net proceeds of approximately $ ● from the issuance of the Units together with the net increase in debt resulting from the new credit facility arrangements and funds received upon the exercise of the warrants will be used to acquire, indirectly, all of the securities and assets of KIK, to fund expansion capital expenditures of KIK of approximately $5 million and to pay certain fees associated with the retirement of the existing indebtedness of KIK and obtaining a new credit facility. A portion of the expenses of the Offering, estimated at $ ● , will be borne by KLP and its affiliates. See "Funding, Acquisition and Related Transactions".

The aggregate purchase price to be paid to the Vendors in connection with the indirect acquisition of KIK from the Vendors is approximately $ ● million, of which approximately ● % is to be paid in cash and ● % is to be paid through the issuance of KLP Exchangeable Units. If the over-allotment option is exercised in full, the net proceeds received by the Fund will be $ ● . The net proceeds received from the exercise of the over-allotment option will be used by the Fund to indirectly redeem KLP Exchangeable Units from the holders thereof at a price per KLP Exchangeable Unit equal to the offering price per Unit less the Underwriters' fee.

David Cynamon, one of the Vendors, owns, directly or through holding companies, more than 10% of the outstanding shares of KIK and is also its president and chief executive officer. The Vendors also include all of the senior officers of KIK. The purchase price for the securities of KIK was determined by negotiation through the Underwriters and the Vendors.

DETAILS OF THE OFFERING

The offering consists of ● Units. See "Description of the Fund" for a description of the attributes of the Units.

Book Entry Form and Depository Service

Except as otherwise provided below, the Units will be issued in "book entry only" form and must be purchased or transferred through participants ("Participants") in the depository service of The Canadian Depository for Securities Limited or a successor (collectively "CDS"), which include securities brokers and dealers, banks and trust companies. On Closing, the Fund will cause a global certificate or certificates representing the Units to be delivered to, and registered in the name of, CDS or its nominee. Except as described below, no Unitholder will be entitled to a certificate or other instrument from the Fund of CDS evidencing that Unitholder's ownership of Units, and no Unitholders will be shown on the records maintained by CDS except through a book entry account of a Participant acting on behalf of such Unitholder. Each Unitholder will receive a customer confirmation of purchase from the registered dealer from which the Unit is purchased in accordance with the practices and procedures of that registered dealer. The practices of registered dealers may vary, but generally customer confirmations are issued promptly after execution of a customer order. CDS will be responsible for establishing and maintaining book entry accounts for its Participants having interests in the Units.

If (i) the Fund determines that CDS is no longer willing or able to discharge properly its responsibilities as depository with respect to the Units and the Fund is unable to locate a qualified successor, or (ii) the Fund at its option elects, or is required by law, to terminate the book entry system, or (iii) Unitholders determine that the continuation of the book entry system is no longer in the best interests of the Unitholders, then Units will be issued in fully registered form to Unitholders or their nominees.

Transfer of Units

Transfers of ownership in the Units will be effected only through records maintained by CDS or its nominee for such Units with respect to interests of Participants, and on the records of Participants with respect to interests of persons other than Participants. Unitholders who are not Participants, but who desire to purchase, sell or otherwise transfer ownership of or other interest in the Units, may do so only through Participants.

The ability of a Unitholder to pledge a Unit or otherwise take action with respect to such Unitholder's interest in a Unit (other than through a Participant) may be limited due to the lack of a physical certificate.

Payments of Distributions

Payments of distributions on each Unit will be made by the Fund to CDS or its nominee, as the case may be, as the registered holder of the Units and the Fund understands that such payments will be forwarded by CDS or its nominee, as the case may be, to Participants. As long as CDS or its nominee is the registered owner of the Units, CDS or its nominee, as the case may be, will be considered the sole owner of the Units for the purposes of receiving payments on the Units. The responsibility and liability of the Fund in respect of the Units is limited to making payment of any distribution in respect of the Units to CDS or its nominee.

PRINCIPAL UNITHOLDERS

To the knowledge of the Trustees and the directors and senior officers of KIK, the only person or company that will beneficially own, directly or indirectly, or exercise control or direction over, in excess of 10% of the Units on a fully diluted basis after giving effect to this Offering and the related transactions is as follows:

Name	Units owned on a fully diluted basis after giving effect to this Offering and the related transactions(1)	Percentage of Units owned on a fully diluted basis after giving effect to this Offering and the related transactions(1)
David Cynamon	●	●

(1) Mr. Cynamon will own ● Units representing ● % of the Units on a fully diluted basis after giving effect to the Offering and related transactions assuming that the over-allotment option is exercised in full.

To the knowledge of the Trustees and the directors and senior officers of KIK, the number of Units owned collectively by the Trustees, the KOT Trustees and the directors and officers of KIK GenPar and KLP's subsidiaries, on a fully diluted basis after giving effect to this Offering and the related transactions, is ● , representing approximately ● % of the Units on a fully-diluted basis, all of which are subordinated.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

The aggregate indebtedness of all current and former officers, directors and employees of KIK or any of its subsidiaries as at May 25, 2002 to KIK or any of its subsidiaries was $208,636 in respect of indebtedness. The following chart outlines the indebtedness to KIK or any of its subsidiaries of each individual who is, or at any time during the most recently completed financial year of the issuer was, a director or executive officer of KIK, and each associate of such individual:

Table of Indebtedness

Name and Principal Position	Involvement of Corporation or Subsidiary	Largest Amount Outstanding during Fiscal 2001	Amount Outstanding as at May 25, 2002	Security for Indebtedness
Stratis Katsiris . . . . Senior Vice President, Sales	Two loans from KIK	Cdn.$205,205	Cdn.$208,636	Second mortgage on principal residence and future value of stock options.

In addition, KIK intends to provide non-interest bearing three-year term loans to its employees, including certain of its directors and officers (other than David Cynamon) who elect, on or prior to Closing, to exercise their options for KLP Exchangeable Units and/or cash in an amount not exceeding each such person's aggregate exercise price. The aggregate amount of these loans is anticipated to be no more than US$2 million. These loans will be non-recourse and secured by a pledge of the KLP Exchangeable Units received in connection with the exercise of such options. The anticipated amount of each loan and the directors and officers of KIK to whom such loans are to be made are set out in the following table.

Name and Principal Position	Involvement of Corporation or Subsidiary	Amount Anticipated to be Outstanding as at Closing
●		
●		

PROMOTER AND INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

KIK may be considered to be a promoter of the Fund by reason of its initiative in organizing the business and affairs of the Fund. No trustee, director, senior officer or principal shareholder of the Fund, KOT, KIK GenPar, KLP, KOP or KIK, or associate or affiliate of any of the foregoing, has any other material interest, direct or indirect, in any transaction which has materially affected KIK in the past three years (or in any transactions or proposed transaction which may materially affect KIK in the future), except as disclosed herein under "Funding, Acquisition and Related Transactions".

CERTAIN INCOME TAX CONSIDERATIONS

Certain Canadian Federal Income Tax Considerations

In the opinion of Goodmans LLP, counsel to the Fund, and Goodman and Carr LLP, counsel to the Underwriters, (together, "Tax Counsel"), the following summary describes, as of the date of this prospectus, the principal Canadian federal income tax considerations pursuant to the Tax Act and the regulations thereunder generally applicable to a prospective purchaser of Units pursuant to this prospectus who, for the purposes of the Tax Act, is resident in Canada, holds the Units as capital property and deals at arm's length with the Fund and is not affiliated with the Fund. Generally, Units will be considered to be capital property to a Unitholder provided the Unitholder does not hold the Units in the course of carrying on a business and has not acquired them in one or more transactions considered to be an adventure in the nature of trade. Certain Unitholders who might not otherwise be considered to hold their Units as capital property may, in certain circumstances, be entitled to have them treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act.

This summary is not applicable to a Unitholder that is a "financial institution" for purposes of the mark-to-market rules, to a Unitholder an interest in which is a "tax shelter investment" or to a Unitholder that is a "specified financial institution", all within the meaning of the Tax Act.

This summary is based upon the facts set out in the prospectus, the current provisions of the Tax Act and the Regulations thereunder (the "Regulations"), Tax Counsel's understanding of the current published administrative and assessing practices of the CCRA and the specific proposals to amend the Tax Act or the Regulations announced by the Minister of Finance (Canada) prior to the date hereof (the "Proposed Amendments") and certificates of the Fund, KIK and the Underwriters as to certain factual matters. This summary is not exhaustive of all possible Canadian federal income tax consequences and, except for the Proposed Amendments, does not take into account or anticipate any changes in the law or in the administrative or assessing policies of the CCRA, whether by legislative, governmental or judicial action, nor does it take into account provincial, territorial or foreign tax considerations, which may differ significantly from those discussed herein. No assurance can be given that the Proposed Amendments will be enacted as currently proposed or at all.

This summary is not intended to be, nor should it be construed to be, legal or tax advice to any prospective purchaser of Units. Consequently, prospective purchasers of Units should consult their own tax advisors for advice with respect to the tax consequences to them of an investment in Units based on their particular circumstances.

Status of the Fund

Mutual Fund Trust

This summary is based on the assumption that the Fund will qualify as a "mutual fund trust" as defined in the Tax Act on completion of the Offering of Units hereunder, and will thereafter continuously qualify as a mutual fund trust at all relevant times. This summary assumes that the Fund will elect to be deemed to be a "mutual fund trust" from the date it is established. If the Fund were not to qualify as a mutual fund trust, the income tax considerations described below would, in some respects, be materially different.

Qualified Investment

The Units will be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plan, each as defined in the Tax Act (the "Plans"), subject to the specific provisions of any particular Plan. If the Fund ceases to qualify as a mutual fund trust, the Units will cease to be qualified investments for those Plans.

KOT Notes and KOT Units received as a result of a redemption of Units may not be qualified investments for a plan, and this could give rise to adverse consequences to the plan or the annuitant under the plan.

Accordingly, plans that own Units should consult their own tax advisors before deciding to exercise the redemption rights attached to the Units.

Foreign Property

Based in part on certificates of the Fund and KIK as to factual matters and provided the Fund restricts its holdings of foreign property within the limits provided under the Tax Act, Units will not constitute foreign property for Plans (other than registered education savings plans), registered pension plans or other persons subject to tax under Part XI of the Tax Act. Trusts governed by registered education savings plans are not subject to the foreign property rules. If the Fund ceases to qualify as a mutual fund trust, the Units may become foreign property.

Taxation of the Fund

In general, the Fund is treated as an individual for tax purposes and is taxable on its income determined under the Tax Act from sources inside or outside Canada. The Fund is subject to tax in each taxation year (which will be the calendar year) on its taxable income for the year which will include all interest on the KOT Notes, such amount of KOT's income as became payable in the year to the Fund as a distribution on the KOT Units and net realized taxable capital gains, except to the extent such income is paid or payable or deemed to be paid or payable in such year to the Unitholders and is deducted by the Fund in computing its income for tax purposes. The Fund will not be subject to tax on any payments of principal on the KOT Notes nor on any amount received as a distribution of capital (and not income) on the KOT Units to the extent such amount does not exceed the adjusted cost base of the KOT Units immediately prior to the payment.

In computing its income, the Fund will generally be entitled to deduct its expenses incurred to earn such income provided such expenses are reasonable and otherwise deductible. The Fund may deduct in computing its income for a year a portion of the reasonable expenses of the issue of Units paid by the Fund in accordance with the applicable rules in the Tax Act.

Under the Declaration of Trust, all of the income of the Fund for each year determined without reference to paragraph 82(1)(b) and subsection 104(6) of the Tax Act, together with the taxable and non-taxable portion of any net capital gains realized by the Fund in the year (excluding capital gains which may be realized by the Fund upon a distribution in specie of Fund Assets (as defined below) in connection with a redemption of a Unit and designated to the redeeming Unitholders) net of the Fund's deductions and expenses, will be payable in the year to the holders of the Units by way of cash distributions, subject to the exceptions described below. The Declaration of Trust further provides that the Fund will deduct for tax purposes such amount as is paid or payable to Unitholders for the year as is necessary to ensure that the Fund is not liable for income tax payable under Part I of the Tax Act in any year.

Under the Declaration of Trust, income of the Fund may be used to finance cash redemptions of Units and such income will not be payable to holders of the Units by way of cash distributions but rather will be payable in the form of additional Units ("Reinvested Trust Units").

A distribution by the Fund to a Unitholder of Fund Assets upon a redemption of Units will be treated as a disposition of such Fund Assets by the Fund for proceeds equal to their fair market value. This disposition will result in a capital or income gain (or loss) to the Fund to the extent that such proceeds exceed (or are exceeded by) the cost amount to the Fund of the Fund Assets and reasonable costs of disposition.

In addition, the Fund will be required to include in its income any accrued interest on the KOT Notes or other Fund Assets distributed. Capital gains of the Fund attributable to an in specie distribution of Fund Assets and certain income of the Fund will be designated and payable to the redeeming Unitholder, with the result that the taxable portion of such gains and such income should generally be taxable to the redeeming Unitholder and not the Fund. Nevertheless the Declaration of Trust provides that income of the Fund which is required to satisfy any tax liabilities on the part of the Fund will not be payable to the Unitholders.

Taxation of KOT, KLP, KOP and KIK Holdco

KOT will be taxable on its income determined under the Tax Act for each taxation year (which will be the calendar year), which will include interest on the KLP Debt and dividends on the KLP Holdco shares, except to the extent such income is paid or payable or deemed to be paid or payable in such year to its unitholders and is deducted by KOT in computing its income for tax purposes. KOT will generally be entitled to deduct its expenses incurred to earn income from a business or property provided such expenses are reasonable and otherwise deductible, subject to the relevant provisions of the Tax Act. Under the KOT Trust Indenture, all of the income of KOT for each year determined without reference to paragraph 82(1)(b) and subsection 104(6) of the Tax Act, together with the taxable and non-taxable portion of any net capital gains realized by KOT in the year, net of deductions and expenses, will generally be payable in the year to holders of KOT Units. For purposes of the Tax Act, KOT generally intends to deduct in computing its income the full amount available for deduction in each year to the extent of its taxable income for the year otherwise determined. Therefore, as a result of such deduction from income, Tax Counsel has been advised by the Fund that the Fund does not expect KOT to be liable for any material amount of tax under Part I of the Tax Act.

KLP and KOP are not subject to tax under the Tax Act. Each partner of KLP, including KLP Holdco and the Vendors, and each partner of KOP, including KLP and KIK Holdco is required to include in computing the partner's income the partner's share of the income or loss of KLP or KOP for its fiscal year ending in the partner's taxation year end, whether or not any such income is distributed to the partner in the taxation year. For this purpose, the income or loss of each of KLP and KOP will be computed for each fiscal year as if it were a separate person resident in Canada. In computing the income or loss of each of KLP and KOP, deductions will be claimed in respect of its administrative and other expenses and available capital cost allowances. The income or loss of each of KLP and KOP for a fiscal year will be allocated to its partners on the basis of the partner's share of such income or loss subject to the detailed rules in the Tax Act in that regard.

KIK Holdco will be subject to tax on its taxable income under Part I of the Tax Act, including its share of the income or loss of KOP, whether or not any such income is distributed to KIK Holdco.

Taxable Unitholders

A Unitholder is required to include in computing income for a taxation year the Unitholder's portion of the income of the Fund for the year, including net taxable capital gains, determined for purposes of the Tax Act, that is paid or payable to the Unitholder in the year and that the Fund deducts in computing its income, notwithstanding that such amount may be paid in Reinvested Trust Units. Provided that appropriate designations are made by the Fund, such portions of its net taxable capital gains and taxable dividends from taxable Canadian corporations and foreign source income as are paid or payable to a Unitholder will effectively retain their character and be treated as such in the hands of the Unitholder for the purposes of the Tax Act.

Any amount in excess of the income of the Fund that is paid or payable by the Fund to a Unitholder in a year should not generally be included in the Unitholder's income for the year. However, where such an amount is paid or becomes payable to a Unitholder, other than as proceeds of disposition or deemed disposition of Units or any part thereof, the amount will generally reduce the adjusted cost base of the Units held by such Unitholder, except to the extent that the amount represents the Unitholder's share of the non-taxable portion of the net capital gains of the Fund for the year, the taxable portion of which was designated by the Fund in respect of the Unitholder. The adjusted cost base of a Unit to a Unitholder will include all amounts paid or payable by the Unitholder for the Unit, with certain adjustments. Units issued to a Unitholder in lieu of a cash distribution of income (including net capital gains) will have a cost equal to the amount of such income (and the applicable non-taxable portion of the Fund's net capital gains) and this cost will be averaged with the adjusted cost base of all other Units held by the Unitholder as capital property in accordance with the detailed provisions of the Tax Act in that regard.

Upon the disposition or deemed disposition by a Unitholder of a Unit, whether on redemption or otherwise, the Unitholder will generally realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition (excluding any amount payable by the Fund which represents an amount that must otherwise be included in the Unitholder's income as described above) are greater (or less) than the aggregate of the Unitholder's adjusted cost base of the Unit and any reasonable costs of disposition. Where Units are redeemed and any KOT Notes, KOT Units or any other assets of the Fund ("Fund Assets") are distributed in specie to the Unitholder, the proceeds of disposition to the Unitholder of the Units will be equal to the fair market value of the Fund Assets so distributed (excluding any amount that is paid or made payable in a year out of the income or capital gains of the Fund for the year or any amount that is payable by the Fund which must otherwise be included in the Unitholder's income).

One-half of any capital gain realized by a Unitholder on the disposition of a Unit and the amount of any net taxable capital gains designated by the Fund in respect of a Unitholder will be included in the Unitholder's income under the Tax Act in the taxation year in which the disposition occurs or in respect of which a net taxable capital gains designation is made by the Fund. To the extent that the adjusted cost base of a Unit would otherwise be less than zero in any taxation year of a Unitholder, the negative amount will be deemed to be a capital gain realized by the Unitholder in such taxation year from the disposition of the Unit and the amount of such capital gain will be added to the adjusted cost base of the Unit. Subject to certain specific rules in the Tax Act and to certain transitional provisions relating to recent changes in the capital gains inclusion rates, one-half of any capital loss realized on the disposition of a Unit may be deducted against one-half of any capital gains realized by the Unitholder in the year of disposition, in the three preceding taxation years or in any subsequent taxation years.

The cost amount to a Unitholder, immediately after a redemption of Units of the Unitholder, of any Fund Assets distributed to the Unitholder by the Fund upon such redemption or upon the termination of the Fund, will be equal to the fair market value of such Fund Assets at the time of the distribution less, in the case of a KOT Note, any accrued interest thereon. The redeeming Unitholder will be required to include in income interest on any KOT Note acquired (including interest that had accrued prior to the date of the acquisition of the KOT Note by the Unitholder) in accordance with the provisions of the Tax Act. To the extent that the Unitholder is required to include in income any interest that had accrued prior to the date of the acquisition of KOT Notes by the Unitholder, an offsetting deduction may be available. Taxable capital gains realized by a Unitholder who is an individual may give rise to alternative minimum tax depending on the Unitholder's circumstances. **Unitholders are advised to consult their own tax advisors prior to exercising their redemption rights.**

In general terms, net income of the Fund paid or payable to a Unitholder who is an individual that is designated as taxable dividends or as net taxable capital gains and capital gains realized on the disposition of Units may increase the Unitholder's liability for alternative minimum tax.

Certain U.S. Federal Income Tax Considerations

In the opinion of Goodwin Procter LLP, counsel to the Fund, and Kirkland & Ellis, counsel to the Underwriters (together, "KIK's U.S. Tax Counsel"), the following summary describes, as of the date of this prospectus, the principal United States federal income tax considerations applicable to non-U.S. Unitholders of the purchase, ownership and disposition of Units. This summary is directed only to prospective purchasers of Units in the Offering.

This summary is based upon current provisions of the United States Internal Revenue Code (the "Code"), U.S. Treasury Regulations issued thereunder, current administrative rulings, judicial decisions and other applicable authorities. However, there are no cases or United States Internal Revenue Service ("IRS") rulings involving units issued by a trust similar to the Fund, and no ruling from the IRS has been or will be sought on any of the issues discussed below. As a result, there can be no assurance that the IRS will not challenge the conclusions reached in this summary. Furthermore, legislative, judicial or administrative changes may occur, possibly with retroactive effect, which could affect the accuracy of the statements and conclusions set forth below and the United States tax consequences to the Unitholders.

Further, this summary does not deal with all aspects of United States federal income taxation that may be relevant to Unitholders in light of their personal circumstances nor to Unitholders subject to special treatment under United States federal income tax laws, such as financial institutions, broker-dealers, life insurance companies and tax-exempt organizations. Also, except where explicitly stated otherwise, this summary does not address the federal, state, or local tax rules applicable to U.S. Unitholders.

For purposes of this summary, a "non-U.S. Unitholder" means any Unitholder that is not (i) a citizen or individual resident in the United States, (ii) a corporation or other entity taxable as a corporation created or organized under the laws of the United States or a political subdivision thereof, (iii) an estate, the income of which is subject to United States federal income tax regardless of the source, or (iv) a trust, if a court within the United States is able to exercise primary supervision over the trust's administration and one or more United States persons have the authority to control all of its substantial decisions. A "U.S. Unitholder" means any Unitholder that is not a non-U.S. Unitholder.

This summary is not exhaustive of all possible United States federal income tax considerations applicable to an investment in Units. This summary is of a general nature only and is not intended to be legal or tax advice to any prospective purchaser of Units. Investors should consult their own tax advisors regarding the United States federal, state, local and other tax consequences to them of the purchase, ownership, and disposition of Units.

Taxation of the Fund and KOT

The Fund and KOT have each been structured to qualify as an investment trust that is classified as a trust (sometimes called a "fixed investment trust") for U.S. federal income tax purposes. If the Fund and KOT are fixed investment trusts, then they will generally be ignored and the Unitholders will be treated as directly owning their *pro rata* shares of all of the assets held by KOT (i.e., KLP Debt, shares of KLP Holdco and shares of KIK GenPar), and payments by KOT to the Fund will be disregarded, and payments by KLP to KOT will be treated as payments by KLP directly to the Unitholders. The legal authorities and precedents regarding fixed investment trusts are limited, and there is no authoritative guidance with respect to the qualification of a trust as a fixed investment trust whose investments and terms are similar to the investments and terms of KOT and the Fund. Nevertheless, although the matter is not free from doubt, KIK's U.S. Tax Counsel believes that KOT and the Fund should each qualify as a fixed investment trust for U.S. federal income tax purposes.

Taxation of KLP

KLP will be treated as a U.S. corporation for U.S. federal income tax purposes. It is anticipated that KLP's depreciation, amortization, interest and other deductions will substantially reduce but will not eliminate KLP's liability for United States federal income tax. However, as discussed immediately below, potential limitations on KLP's ability to deduct its interest expense may increase KLP's U.S. tax liability and thereby reduce KLP's after-tax income available for distribution to KLP Holdco and hence to the Fund and the Unitholders.

Deductibility of Interest

Debt/Equity Analysis. KLP intends to deduct from its taxable income the amount of any interest paid on the KLP Debt. If, however, the KLP Debt were to be treated under U.S. federal income tax law as equity in KLP rather than debt, then the otherwise deductible interest on the KLP Debt would be treated as non-deductible dividends. KLP's inability to deduct interest on the KLP Debt could materially increase its taxable income and hence its U.S. federal income tax liability, thus reducing KLP's after-tax income available for distribution.

The determination of whether the KLP Debt are classified as debt or equity for U.S. federal income tax purposes is a fact and circumstances inquiry which requires weighing various factors. Principal factors often cited include whether the instrument in question is an unconditional obligation to pay a sum certain and whether the instrument has significant equity-like characteristics (e.g., participation rights, voting power, and subordination to creditors).

A key factor is the issuer's debt to equity ratio. As discussed in this prospectus, the initial ratio (by value) of KLP Debt to KLP Units will be three to one, which, under various legal precedents, supports debt characterization. Further, interest on the KLP Debt will be paid currently at a fixed rate, the KLP Debt will not have voting rights and will not be convertible into KLP Units or other equity of KLP, the obligation to pay the interest and to repay the principal amount of the KLP Debt is unconditional, and KOT will have normal creditor remedies in the case of a default on payment of interest or principal. Further, the Fund or an independent investment bank has considered KLP's creditworthiness and various other factors and has determined that the term, interest rate, and other provisions of the KLP Debt are reasonable and substantially similar to the term, interest rate and other provisions of a loan to which KLP and an unrelated lender could agree bargaining at arm's length. On the other hand, the KLP Units will represent a substantial portion of the total outstanding KLP equity, and the Unitholders (through the Fund) will own all of the KLP Units and all of the KLP Debt. Such ownership overlap is a contrary factor weighing toward an equity characterization of the KLP Debt. Nevertheless, on balance, KIK's U.S. Tax Counsel believes that there is a reasonable position that the KLP Debt are debt and the interest paid thereon is deductible for U.S. federal income tax purposes, and the Fund and KLP intend to take that position. However, there can be no assurance that such a position would be sustained if challenged by the IRS.

Other limitations. Section 163(j) of the Code is another potential limiting factor on KLP's ability to deduct interest paid on the KLP Debt. In general, Section 163(j) will defer a corporate debtor's deductions for interest payments to "related" foreign persons to the extent the corporation's net interest expense exceeds an amount equal to 50% of the corporation's "adjusted taxable income" (generally the corporation's earnings before interest, taxes, depreciation, and amortization). For this purpose, a corporation and a creditor of the corporation will generally be "related" if the creditor owns more than 50% of the corporation, or (if the creditor is an entity rather than an individual) the corporation owns more than 50% of the creditor or the same persons own more than 50% of both the corporation and the creditor. Assuming the Fund and KOT are fixed investment trusts (as discussed above) for U.S. federal income tax purposes, and assuming no Unitholder owns more than 50% of the outstanding Units, Section 163(j) should not apply. If the Fund or KOT fails to qualify as a fixed investment trust, however, then the Fund or KOT would be "related" to KLP, and the application of Section 163(j) could potentially reduce KLP's allowable interest deductions and hence its after-tax income available for distribution.

United States Withholding Taxes

Interest. Assuming both the Fund and KOT are fixed investment trusts for U.S. federal income tax purposes and the KLP Notes are debt for U.S. federal income tax purposes, then interest payments on the KLP Notes will qualify as "portfolio interest" under the Code and will generally not be subject to U.S. federal income tax withholding if:

(i) the non-U.S. Unitholder does not own, directly, indirectly (through the Fund or otherwise) and constructively 10% or more of the total combined voting power of all classes of KLP equity outstanding;

(ii) the non-U.S. Unitholder is not a "controlled foreign corporation" for U.S. federal income tax purposes that is related to KLP through equity ownership;

(iii) the non-U.S. Unitholder is not a bank described in Section 881(c)(3)(A) of the Code; and

(iv) either (A) the non-U.S. Unitholder certifies to KLP or its agent on IRS Form W-8BEN (or a suitable substitute or successor form), under penalties of perjury, that such Unitholder is not a "U.S. person" (as defined in the Code) and provides its name and address, (B) a "qualified intermediary" (as defined in IRS regulations) receives documentation upon which it can rely to treat the non-U.S. Unitholder as not a U.S. person and provides KLP with an IRS Form W-8IMY (or a suitable substitute or successor form), or (C) certain other documentation requirements are met.

If a non-U.S. Unitholder cannot satisfy these requirements, then the portion of any interest paid by KLP allocable to such Unitholder will not qualify as portfolio interest and will be subject to a 30% withholding tax (and any distribution from the Fund to such Unitholder will be reduced by an equal amount), unless such non-U.S. Unitholder satisfies certain requirements (including providing KLP or a "qualified intermediary" through which the non-U.S. Unitholder holds its Units with certain IRS forms or other appropriate documentation) claiming an exemption from, or reduced rate of, withholding under the benefit of a tax treaty or stating that interest is not subject to withholding because it is United States trade or business income to the non-U.S. Unitholder. In general, Canadian residents are entitled under the Canada-U.S. income tax treaty to withholding on interest that does not qualify as portfolio interest at the reduced rate of 10%.

If the Fund or KOT were characterized as a partnership rather than a fixed investment trust for United States federal income tax purposes, the same analysis should apply, although the matter is not free from doubt. In order to qualify for any of the above exemptions in such case, KOT or the Fund, as applicable, would be required to file certain forms with the IRS and the non-U.S. Unitholders would be required to submit the forms described above.

Further, if the KLP Debt do not qualify as debt for U.S. federal income tax purposes, then the interest payments on the KLP Debt would generally be taxed under the Code as dividends, as described below.

Dividends. To the extent of KLP's current and accumulated earnings and profits, dividends paid by KLP will generally be subject to a 30% withholding tax in the same manner, and subject to the same exemptions, as the withholding tax on interest that does not qualify as portfolio interest as discussed above. In general, Canadian residents are entitled under the Canada-U.S. income tax treaty to withholding on such dividends at the reduced rate of 15%. However, dividends paid to a corporation that owns 10% or more of the voting stock of the corporation paying the dividends are subject to a 5% withholding rate. KIK's U.S. tax counsel believes that dividends paid to KLP Holdco should be eligible for the 5% withholding rate, and KLP intends to withhold at that rate.

Reimbursement Payments. Although the matter is not entirely free from doubt, KIK's U.S. tax counsel believes that KLP should not have any U.S. withholding tax obligation with respect to any reimbursement payments it may make to the Fund for the expenses of this Offering or the Underwriters' fee, and KLP does not intend to withhold from those payments.

Disposition of Units. A non-U.S. Unitholder will not be subject to United States federal income tax on any gain realized on the sale, exchange, or other disposition of a Unit unless (i) the non-U.S. Unitholder is an individual who is present in the United States for a period or periods aggregating 183 or more days in the taxable year of the disposition and certain other conditions are met, (ii) the non-U.S. Unitholder is subject to tax pursuant to the provisions of United States tax law applicable to certain United States expatriates, or (iii) such gain or income is effectively connected with a United States trade or business.

Information Reporting and Backup Withholding

Information reporting. KLP will, where required, report to the IRS the amount of any interest and dividends paid in each calendar year and the amount of federal income tax withheld with respect to such payments.

Backup withholding. KLP may be required to collect a backup withholding with respect to a Unitholder if (i) the Unitholder fails to properly furnish or certify its correct taxpayer identification number to KLP, (ii) the IRS notifies KLP that the Unitholder has failed to properly report income, or (iii) under certain circumstances, the Unitholder fails to certify that the Unitholder has not been notified by the IRS that the Unitholder is subject to backup withholding. However, backup withholding will normally not apply to payments allocable to non-U.S. Unitholders if certain documentation requirements are satisfied (generally as described above). Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be returned or credited against the Unitholder's United States federal income tax liability, provided the required information is provided to the IRS.

RISK FACTORS

An investment in the Units offered by this prospectus involves a number of risks. In addition to the other information set forth elsewhere in this prospectus, the following risk factors should be carefully reviewed by prospective investors.

Risks Related to the Business and Industry

Commodity Prices

In its manufacturing process, KIK uses commodities which are vulnerable to significant fluctuations in price. Sudden increases in the price of commodities such as resin, chlorine, caustic soda, natural gas, electricity and pulp and paper could materially adversely affect KIK's business and its financial and operating results as KIK may not be able to pass on the increased costs to its customers. KIK does not use any financial instruments to insulate itself against changes in commodity prices. Some of its current contracts have maximum price levels for raw materials inside a certain prescribed time period but KIK cannot guarantee that these terms will be available in the future.

Inability to Achieve Business Objectives

Some of the factors that may affect KIK's ability to successfully achieve its business objectives are the following:

- KIK may be unable to expand or maintain its operations capacity;
- KIK may be unable to find suitable businesses to acquire or to successfully complete acquisitions on profitable terms or to successfully integrate acquired business;
- KIK may not be able to maintain or reduce its costs of operations; and
- KIK may be unable to retain and expand its customer base and/or maintain and improve the terms of its current customer arrangements.

Environmental Regulation and Liabilities

KIK is subject to various federal, provincial, state and municipal environmental laws and regulations, including those relating to wastewater discharge, air quality and the storage, handling and disposal of a variety of substances. Some of the chemicals used by KIK and stored at its manufacturing facilities are materials regulated by federal, state or provincial environmental protection agencies. While KIK has not had to make significant capital expenditures for environmental compliance, KIK cannot predict with any certainty its future capital expenditure requirements for environmental compliance because of continually changing compliance standards and varying costs and effectiveness of alternative environmental technologies. As well, notwithstanding that environmental audits and/or site investigations have been conducted at each of KIK's facilities, no assurance can be given that all environmental liabilities have been determined, that any prior owner of KIK's properties did not create a material environmental condition not known to KIK, or that a material environmental condition does not otherwise exist at any such property. Consequently, unforeseen expenditures required to comply with such laws and regulations, including unforeseen environmental liabilities, could have a material adverse effect on KIK's business, operations and financial results. KIK maintains US$15.0 million of insurance coverage for environmental liabilities.

Dependence on Major Customers

KIK's six largest customers in the aggregate accounted for 37% of revenue during each of 2000 and 2001, including Wal-Mart which accounted for 16% of KIK's revenue in 2000 and 14% of KIK's revenue in 2001. One other customer of KIK accounted for more than 5% of KIK's revenue during 2000 and two customers each accounted for over 5% of KIK's revenues in 2001. As is customary in the industry, KIK does not have long-term contracts with its customers. A significant reduction of purchases by any of KIK's largest customers could have a material adverse effect on KIK's business, results of operations and financial condition.

Dependence on Key Products

Liquid bleach, KIK's highest revenue generating product, accounted for 70.1% and 75.8% of KIK's revenue for 2000 and 2001, respectively. In addition, KIK has made substantial investments in manufacturing equipment and processes for this product. KIK's financial results and condition are substantially dependent on the continued success and growth of sales of this product and the profitability of such sales. Competitive efforts by other manufacturers of similar products, shifts in consumer preferences or the introduction and acceptance of alternative product offerings could materially adversely effect KIK's business, operations and financial condition.

Competition

KIK experiences substantial competition from both national brands and other private label producers. National brands are represented by companies with national presence, which sell products with widely recognized names. These products are generally priced at a premium and are perceived to be of a higher quality than private label products. The private label industry generally produces the same quality of products as national brands but their products do not enjoy the same level of recognition. If the leading national brand bleach competition in either the United States or Canada entered the private label market, KIK's business, financial condition and operating results could be materially adversely affected.

The laundry and household cleaning products industry is characterized by substantial price competition which is effected through changes in price, product size and promotions. As a private label supplier, KIK believes it typically is not affected by price changes initiated by larger premium-priced or mid-priced national brand suppliers whose pricing is generally higher than KIK's pricing. Some suppliers of value brands or store brands compete directly with KIK as low-price suppliers. Competitors may attempt to gain market share by offering products at prices at or below those typically offered by KIK. Competitive pricing has in certain cases necessitated and may continue to necessitate price reductions by KIK and has and may continue to result in lost orders. Although KIK has not suffered significantly as a result of competitive pricing, there can be no assurance that future price or product changes by one or more of KIK's competitors will not have a material adverse effect on KIK's business, results of operation and financial results, or that KIK will be able to react with price or product changes of its own to maintain its current market position. See "Business of KIK — Competition".

Dependence on Sole or Limited Sources of Supply

Certain chemicals and raw materials used in connection with the manufacture of KIK's products and packaging materials are obtained from a sole or a limited group of suppliers. KIK's reliance on a sole supplier or limited groups of suppliers involves several risks, including increased risk of inability to obtain adequate supplies, and reduced control over pricing and timely delivery. Although the timeliness, quality and pricing of deliveries from KIK's suppliers have been acceptable to date and KIK believes that additional sources of supplies will be available on an acceptable basis there are no assurances that this dependence on a limited group of suppliers will not have an adverse effect on KIK's business, operation results or financial condition.

Potential Undisclosed Liabilities Associated with Acquisitions

In connection with the transactions described in this prospectus under "Funding, Acquisition and Related Transactions", including the acquisition of KIK by the Fund, and prior business acquisitions by KIK there may be liabilities that the Fund or KIK failed or was unable to discover in its due diligence prior to the consummation of the relevant acquisition and the Fund or KIK may not be indemnified for some or all of these liabilities. In particular, to the extent that prior owners of businesses failed to comply with or otherwise violated applicable laws, including environmental, health and safety laws, the Fund, as successor owner, may be legally and financially responsible for these violations. The discovery of any material liabilities could have a material adverse effect on the Fund's business, financial condition or future prospects.

Collective Bargaining Agreements

Approximately 246 of KIK's employees employed at five of KIK's facilities are subject to collective bargaining agreements. While KIK has recently negotiated collective agreements and is generally on good terms with its employees, there are no assurances that a strike or other disruption by its unionized employees will not occur. Although KIK, through its various facilities, is somewhat insulated from work disruption at a single facility, it would likely suffer material adverse effects to its operations, business and financial results due to a protracted disruption at a single facility and/or disruptions at multiple facilities.

Reliance on Manufacturing Facilities

KIK manufactures substantially all of its liquid products and packaging materials at its facilities. KIK expects to continue to expand its manufacturing capabilities by adding production lines and additional acquisitions, either of which could result in disruptions of KIK's manufacturing operations. KIK's manufacturing operations use certain custom designed equipment which, if damaged or otherwise rendered inoperable or unavailable, could result in the disruption of KIK's manufacturing operations. Any extended interruption of operations at any of KIK's manufacturing facilities or at any facility at which KIK outsources production could have a material adverse effect on the operations, business and financial results of KIK. Additionally, because KIK leases many of its facilities, its inability to renew one or more of its leases could have a material adverse effect on its operations.

Dependence on Key Personnel

KIK believes that its Chairman and Chief Executive Officer, David Cynamon, plays a significant role in KIK's success and that the loss of the services of Mr. Cynamon could have an adverse effect on KIK's business, financial and operating results. There can be no assurance that KIK would be able to find a suitable replacement for Mr. Cynamon. KIK has an employment agreement with Mr. Cynamon which expires two years after Closing. KIK does not maintain key man life insurance on Mr. Cynamon.

Rapid Expansion

Since the current management of KIK began to implement its business strategy of consolidating the private label bleach manufacturing industry in 1995, KIK has experienced rapid growth both in revenue and product offerings. The growth of KIK has been, and will continue to be, dependent upon a number of factors, including the ability of KIK to successfully introduce new products and to increase sales to existing customers. If products introduced by KIK are discontinued or encounter production or formulation problems, KIK's business, operations and financial results could be materially adversely affected. There can be no assurance that KIK will be able to maintain its present rate of growth.

Ability to Integrate Acquired Businesses

KIK intends to pursue strategic acquisitions as a means of increasing revenues, earnings and the markets it serves. There can be no assurance that KIK will be able to successfully identify, acquire or manage additional companies or operations. KIK intends to consider future strategic acquisitions, some of which could be material to KIK. In addition, over the past 36 months, KIK has completed several acquisitions. KIK's ability to manage its future growth will depend upon its ability to effectively integrate such acquisitions into its existing operations. Moreover, the failed integration of an acquired business could have a material adverse effect on the operations of KIK, its business and its financial condition.

Variability of Quarterly Operating Results

KIK has experienced, and may experience in the future, quarter-to-quarter fluctuations in its operating results. KIK's growth has historically been somewhat slower in the fourth quarter than in other fiscal quarters, primarily as a result of promotion-oriented retailers providing reduced or less desirable display space for laundry and household cleaning products during the holiday shopping season. The timing and introduction of new products, the mix of products sold in a given quarter, KIK's ability to control internal costs, changes in pricing policies by KIK or competitors, changes in accounting policies and a variety of other factors may also cause quarterly fluctuations in KIK's results of operations.

Product Liability

KIK, like other producers and distributors of household cleaning and laundry products, is subject to potential liabilities connected with its business operations, including potential liabilities and expenses associated with product sales and defects. A major product liability claim could materially adversely affect KIK's operations, business and financial and operating results because of the costs of defending against these types of lawsuits, diversion of key employees' time and attention from the business and potential damage to KIK's reputation. KIK maintains product liability and other insurance coverage which it believes to be generally in accordance with industry practices. Nevertheless, such insurance coverage may not be adequate to protect KIK fully against substantial damage claims which may arise from product defects.

Need for Additional Capital in the Future

Management believes that KIK's operating income will be sufficient to fund operations and planned capital expenditures in the near term. However, KIK may be required to raise additional capital in the future if it decides to make additional acquisitions. The availability of future borrowings and access to capital markets for financing depends on prevailing market conditions and the acceptability of financing terms offered to KIK. There can be no assurance that future borrowings or equity financing will be available to KIK, or available on acceptable terms, in an amount sufficient to fund KIK's needs.

Risks Related to the Structure of the Fund and this Offering

Dependence on KOT and KLP

The Fund is a limited purpose trust which will be entirely dependent on the operations and assets currently owned by KIK through its ownership of KOT and, indirectly KLP. Accordingly, the cash distributions to the Unitholders will be dependent on the ability of KOT and KLP to pay distributions in respect of the KOT Units and interest on the KOT Notes and to pay distributions in respect of the KLP Ordinary Units and interest on the KLP Debt, respectively. The ability of the subsidiaries of KLP to pay distributions or make other payments or advances to KLP will be subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of those subsidiaries (including the proposed Credit Facility).

Leverage; Restrictive Covenants

At Closing, KIK Holdco (or its affiliates) will obtain a new Credit Facility. See "Principal Agreements — Credit Facility". The degree to which KIK Holdco (or its affiliates) is leveraged could have important consequences to the holders of the Units, including: (i) the ability of KIK Holdco (and its affiliates) to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; (ii) a material portion of KIK Holdco's (or its affiliates') cash flow from operations may need to be dedicated to payment of the principal of and interest on indebtedness, thereby reducing funds available for future operations and to pay distributions; (iii) certain of the borrowings will be at variable rates of interest, which exposes KIK Holdco (or its affiliates) to the risk of increased interest rates; and (iv) KIK Holdco (or its affiliates) may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures. KIK Holdco's (or its affiliates') ability to make scheduled payments of principal and interest on, or to refinance, its indebtedness will depend on its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

The proposed new Credit Facility will contain restrictive covenants of a customary nature, including covenants that limit the discretion of management with respect to certain business matters. These covenants will place restrictions on, among other things, the ability of KIK Holdco (or its affiliates) to incur additional indebtedness, to pay distributions or make certain other payments and to sell or otherwise dispose of assets. In addition, the proposed new Credit Facility will contain a number of financial covenants that will require KIK Holdco (or its affiliates) to meet certain financial ratios and financial condition tests. A failure to comply with the obligations in the proposed new Credit Facility could result in an event of default which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the indebtedness under the new Credit Facility were to be accelerated, there can be no assurance that the assets of KIK Holdco (or its affiliates) would be sufficient to repay in full that indebtedness. There can also be no assurance that the new Credit Facility or any other credit facility will be able to be refinanced.

Cash Distributions Are Not Guaranteed and Will Fluctuate with KIK's Performance

Although the Fund intends to distribute the interest and other income earned by the Fund less amounts, if any, paid by the Fund in connection with the redemption and/or repurchase of Units, there can be no assurance regarding the amounts of income to be generated by KIK and ultimately paid to the Fund. The actual amount distributed in respect of the Units will depend upon numerous factors, including profitability, fluctuations in working capital, the sustainability of margins and capital expenditures.

Nature of Units

Securities such as the Units are hybrids in that they share certain attributes common to both equity securities and debt instruments. The Units do not represent a direct investment in the business of KIK and should not be viewed by investors as shares or debt of KIK. As holders of Units, Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The Units represent a fractional interest in the Fund. The Fund's primary asset will be its interests in KOT. The market price per Unit will be a function of anticipated distributable income.

Absence of Prior Public Market

Prior to this Offering there has been no public market for the Units. The initial public offering price has been determined by negotiation between the Fund, the Vendors and the Underwriters based on several factors and may bear no relationship to the price at which the Units will trade in the public market subsequent to this Offering. See "Plan of Distribution".

Distribution of Securities on Redemption or Termination of the Fund

Upon a redemption of Units or termination of the Fund, the Trustees may distribute KOT Notes and KOT Units directly to the Unitholders, subject to obtaining all required regulatory approvals. There is currently no market for the KOT Notes or KOT Units. In addition, neither the KOT Notes nor KOT Units are freely tradable and are not currently listed on any stock exchange. Securities so distributed may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, depending upon the circumstances at the time.

Potential Dilution

The Declaration of Trust authorizes the Fund to issue an unlimited number of Units for such consideration and on such terms and conditions as shall be established by the Trustees without the approval of Unitholders. See "Description of the Fund — Units".

Restrictions on Potential Growth

The payout by KIK of substantially all of its operating cash flow will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of such funds could limit the future growth of KIK and the related cash flow to the Fund.

Unitholder Liability

The Declaration of Trust provides that no Unitholder will be subject to any liability whatsoever to any person in connection with a holding of Units. However, there remains a risk, which is considered by the Fund to be remote in the circumstances, that a Unitholder could be personally liable despite such statement in the Declaration of Trust for the obligations of the Fund to the extent that claims are not satisfied out of the assets of the Fund. It is intended that the affairs of the Fund will be conducted to seek to minimize such risk wherever possible.

Undiversified and Illiquid Holdings in KOT

The Fund's holding of KOT Units and KOT Notes will be undiversified, and such securities will be illiquid, as they are not expected to be listed or quoted on any stock exchange or other market.

Foreign Exchange Exposure

The vast majority of KIK's sales are in the United States, although cash distributions payable by the Fund and KLP will be in Canadian dollars. KIK has not entered into any agreement to protect against any losses which may occur as a result of a fluctuation in the U.S./Canadian dollar exchange rate. As a result, fluctuations may have a material impact of KIK's financial results and the amount of cash available for distribution to Unitholders.

Investment Eligibility and Foreign Property

There can be no assurance that the Units will continue to be qualified investments for registered retirement savings plans, deferred profit sharing plans, registered retirement income funds and registered education savings plans or that the Units will not be foreign property under the Tax Act. The Tax Act imposes penalties for the acquisition or holding of non-qualified investments and on excess holdings of foreign property.

The Tax Act provides for a special tax under Part XII.2 on the designated income of certain trusts that have designated beneficiaries (including non-resident persons and certain tax-exempt persons). The payment of this special tax by the Fund or KOT may have adverse tax consequences for certain Unitholders, including non-resident persons. This special tax does not apply to a trust in a taxation year if it is a mutual fund trust throughout the year or if the sole beneficiary of the trust throughout the year is a mutual fund trust. Provided the Fund qualifies as a mutual fund trust throughout a taxation year, the Fund and KOT will not be subject to this special tax for the year.

Income Tax Matters

There can be no assurance that Canadian or United States federal income tax laws or the judicial interpretation thereof or the administrative and/or assessing practices of either or both of the CCRA or the United States Internal Revenue Service and/or the treatment of mutual fund trusts will not be changed in a manner which adversely affects the holders of Units. If the Fund ceases to qualify as a "mutual fund trust" under the Tax Act, the income tax considerations described above under the heading "Certain Canadian Federal Income Tax Considerations" would be materially and adversely different in certain respects.

Further, interest on the KOT Notes accrues at the Fund level for income tax purposes whether or not actually paid. The Declaration of Trust provides that an amount equal to the taxable income of the Fund will be distributed each year to Unitholders in order to reduce the Fund's taxable income to zero. Where interest payments on the KOT Notes are due but not paid in whole or in part, the Declaration of Trust provides that additional Units must be distributed to Unitholders in lieu of cash distributions. Unitholders will generally be required to include an amount equal to the fair market value of those Units in their taxable income, in circumstances where they do not directly receive a cash distribution.

In addition, the agreements under which the Vendors will transfer their shares of NSCo and KIK Acquisition described above under "Principal Agreements — Acquisition Agreement" and "Principal Agreements — Share Purchase Agreement", respectively, will provide that, if requested by the Vendors, the Vendors and the transferee will make elections under the Tax Act to transfer the transferred shares on a tax-deferred basis. The adjusted cost base of the transferee under those agreements (KIK Acquisition and KLP, respectively) for the shares so transferred where such elections are made will be less than fair market value, such that the transferee may realize a gain on the future disposition of those assets. Similarly, the agreement under which KIK will transfer its Canadian business operations to KOP described above under "Principal Agreements — Asset Purchase Agreement" will provide that, if requested by KIK, KOP will make elections under the Tax Act to transfer such assets on a tax-deferred basis. The adjusted cost base to KOP of the assets that are the subject of those elections will be less than fair market value, such that KOP may realize a gain on the future disposition of those assets.

There can be no assurance that United States federal income tax laws respecting the treatment of investment trusts will not be changed or interpreted by the IRS in a manner which adversely affects the holders of units. If the Fund or KOT ceases to qualify as a "fixed investment trust" classified as a trust under the U.S. Tax Code, the income tax considerations described under "Certain Income Tax Considerations — Certain U.S. Federal Income Tax Considerations" would be materially and adversely different in certain respects. See "Description of the Fund" and "Certain Income Tax Considerations".

Investors in the Fund must satisfy certain documentation requirements to support their eligibility for an exemption from withholding obligations under applicable U.S. tax legislation (including, for example, providing KLP with certain U.S. Internal Revenue Service forms or providing any "qualified intermediary" through which such investor holds its units with documentation upon which such intermediary can rely to treat such investor as not a U.S. person). Notwithstanding that exemption, a portion of certain Fund distributions to any person that owns, directly or indirectly, and after application of certain constructive ownership rules, 10% or more of the units of the Fund outstanding from time to time (a "Substantial Holder") may be subject to U.S. withholding tax. To ensure that the Fund and KLP comply with this U.S. withholding tax obligation, the Declaration of Trust provides that a Unitholder of the Fund must give notice to the Fund's trustees if Units that holder acquires beneficial ownership of, or the power to exercise control or direction over, or that are otherwise deemed owned by the holder under certain constructive ownership rules, together with Units and securities convertible into units actually owned by that holder, represent in the aggregate 10% or more of the total number of Units then outstanding. However, in the absence of such a notice from a Substantial Holder, KLP and the Fund may make distributions from which the required amounts are not withheld. Notwithstanding this failure to withhold, KLP would remain obliged to remit the required amount to the U.S. Internal Revenue Service. The Declaration of Trust contains provisions that may allow KLP or the Fund to recover from a Substantial Holder amounts that have been distributed without the required withholding. However, there can be no assurance that KLP or the Fund could recover these amounts in full or at all, which could result in a reduction in cash available for distribution to other Unitholders.

The trustees of the Fund may refuse to allow the issue or register the transfer of any Units of the Fund, where such issuance or transfer would, in their opinion, adversely affect the treatment of the Fund or the companies in which it invests under applicable Canadian and/or U.S. tax legislation.

The amount and characterization for tax purposes of distributions by the Fund to Unitholders is dependent on the receipt by KOT of interest and dividends on account of its investment in KLP and KLP Holdco respectively. If a taxation authority were to challenge the characterization of amounts received in respect of the notes issued by KLP, the amounts available for distribution by the Fund, and the tax treatment of those amounts in the hands of KLP, KOT or the Fund, may be determined in a manner adverse to the interests of Unitholders. See "Certain Income Tax Considerations — Certain U.S. Federal Income Tax Considerations".

MATERIAL CONTRACTS

The only material contracts entered into by any of the Fund or KIK during the past two years or to which any of them will become a party on or prior to the closing of this Offering, other than in the ordinary course of business, are as follows:

(a) the Declaration of Trust referred to under "Description of the Fund";

(b) the Acquisition Agreement referred to under "Principal Agreements";

(c) the Share Purchase Agreement referred to under "Principal Agreements";

(d) the Asset Purchase Agreement referred to under "Principal Agreements";

(e) the KOT Note Indenture referred to under "Principal Agreements";

(f) the KOT Trust Indenture referred to under "Description of KOT";

(g) the KLP Limited Partnership Agreement referred to under "Trustees, Directors and Management — Governance of KIK GenPar" and "Description of KLP";

(h) the Administration Agreement referred to under "Principal Agreements";

(i) the Underwriting Agreement referred to under "Plan of Distribution".

Copies of the foregoing documents may be examined during normal business hours at the office of the Fund, during the period of distribution of the Units.

LEGAL PROCEEDINGS

None of the Fund, KOT, KLP, KIK GenPar, KOP or KIK is involved in any legal proceeding which would have a material effect on KIK or the Fund on a consolidated basis. To the knowledge of management, no legal proceedings of a material nature involving the Fund, KOT, KIK GenPar, KLP, KOP or KIK or any of their subsidiaries are contemplated by any individuals, entities or governmental authorities.

LEGAL MATTERS AND EXPERTS

Certain legal matters relating to the issue and sale of the Units will be passed upon on behalf of the Fund by Goodmans LLP and on behalf of the Underwriters by Goodman and Carr, LLP.

As of July 9, 2002, the partners and associates of Goodmans LLP beneficially owned, directly or indirectly, less than 1% of the outstanding common shares of KIK. As of July 9, 2002, the partners and associates of Goodman and Carr LLP did not beneficially own, directly or indirectly, any of the outstanding common shares of KIK.

AUDITOR, TRANSFER AGENT AND REGISTRAR

The Fund's and KIK's auditor is PricewaterhouseCoopers LLP, Suite 3000, Royal Trust Tower, TD Centre, Toronto, Ontario. The transfer agent and registrar of the Units is ● .

PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces and territories of Canada provides purchaser with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal adviser.

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AUDITORS' REPORT

To the Trustees of KCP Income Fund

We have audited the balance sheet of **KCP Income Fund** (the Fund) as at July 9, 2002. This balance sheet is the responsibility of the Fund's management. Our responsibility is to express an opinion on this balance sheet based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the balance sheet is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall balance sheet presentation.

In our opinion, this balance sheet presents fairly, in all material respects, the financial position of the Fund as at July 9, 2002 in accordance with Canadian generally accepted accounting principles.

●
Chartered Accountants

Toronto, Canada
July 9, 2002
(except for note 2, which is as of ● , 2002)

KCP INCOME FUND

BALANCE SHEET

As at July 9, 2002

Assets	
Cash	$20
Unitholders' Equity	$20

Approved on behalf of KCP Income Fund
by its attorney KIK Corporation Holdings Inc.

By: (Signed) DAVID CYNAMON
Director

By: (Signed) HOWARD BRODIE
Director

The accompanying notes are an integral part of this pro forma consolidated balance sheet.

KCP INCOME FUND

NOTES TO BALANCE SHEET

As at July 9, 2002

1. THE FUND

KCP Income Fund ("the Fund") is an unincorporated open-ended trust established under the laws of the Province of Ontario by declaration of trust made as of July 9, 2002. The purpose of the Fund is to invest in KIK Operating Trust ("KOT"), which will acquire, through other corporations, partnerships and trusts, KIK Holdco Inc. ("KIK Holdco"), the successor to KIK Corporation Holdings Inc. ("KIK").

2. SUBSEQUENT EVENTS

On August ● , 2002, the Fund filed a prospectus for the sale to the public of ● units at a price of $ ● per unit, payable on closing for aggregate net proceeds of $ ● (after deducting underwriters' fees and other offering costs).

Concurrent with the closing of the initial public offering, the Fund will use the net proceeds from the units to invest in units of KOT for $ ● and $ ● principal amount of ● % KOT notes (the "Acquisition").

KOT will invest in KIK Limited Partnership ("KLP") in the amount of $ ● . With the net proceeds KLP will, through a series of investments in corporations and limited partnerships, acquire 100% of KIK Holdco, the successor to KIK for $ ● . After completing the Acquisition, the Fund will own ● ordinary units of KLP representing ● % of the issued and outstanding units of KLP. The remaining ● % of the units of KLP will be held by the holders of the exchangeable units of KLP.

COMPILATION REPORT

To the Trustees of
KPC Income Fund and
the Directors of KIK Corporation Holdings Inc.

We have reviewed, as to compilation only, the pro forma consolidated balance sheet of **KCP Income Fund** (the "Fund") as at May 25, 2002 and the pro forma consolidated statements of income of the Fund for the three months ended March 30, 2002, for the five months ended May 25, 2002 and for the year ended December 31, 2001. The pro forma consolidated balance sheet and pro forma consolidated statements of income have been prepared for inclusion in the prospectus relating to the proposed initial public offering of Units of the Fund. In our opinion, the pro forma consolidated balance sheet and the pro forma consolidated statements of income have been properly compiled to give effect to the proposed transactions and the assumptions described in the notes thereto.

Toronto, Canada
● , 2002

●
Chartered Accountants

KCP INCOME FUND

PRO FORMA CONSOLIDATED BALANCE SHEET

(Unaudited — See Compilation Report)
As at May 25, 2002
(in thousands of U.S. dollars)

	KCP Income Fund $	KIK Corporation Holdings Inc. $	Pro forma adjustments (note 3) $	KCP Income Fund Pro forma consolidated $
Assets				
Current assets				
Cash	—	3,204	●	●
			●	
			●	
			●	
			●	
			●	
			●	
Accounts receivable	—	15,530	●	●
Other receivable	—	—	●	●
Inventories	—	9,616	●	●
Prepaid expenses and sundry assets	—	2,458	●	●
	—	30,808	●	●
Property, plant and equipment	—	60,234	●	●
Other assets	—	7,178	●	●
			●	
			●	
Goodwill	—	29,248	●	●
			●	
	—	127,468	●	●
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	—	19,233	—	●
Current portion of long-term debt	—	7,858	●	●
	—	27,091	●	●
Long-term debt	—	62,522	●	●
			●	
			●	
Future income taxes	—	3,303	●	●
Minority interest	—	—	●	●
	—	92,916	●	●
Unitholder's Equity				
Trust units	—	—	●	●
Capital stock	—	25,699	●	—
			●	
			●	
Retained earnings	—	9,629	●	—
			●	
			●	
Foreign currency translation adjustment	—	(776)	●	—
	—	34,552	●	●
	—	127,468	●	●

The accompanying notes are an integral part of this pro forma consolidated balance sheet.

KCP INCOME FUND

PRO FORMA CONSOLIDATED STATEMENT OF INCOME

(Unaudited — See Compilation Report)
For the three months ended March 30, 2002
(in thousands of U.S. dollars)

	KCP Income Fund $	KIK Corporation Holdings Inc. $	Pro forma adjustments (note 4) $	KCP Income Fund Pro forma consolidated $
Sales	—	43,204	—	●
Cost of sales	—	33,334	●	●
Gross profit	—	9,870	●	●
Selling, general and administrative expenses	—	4,250	—	●
Interest				
Long-term	—	1,950	●	●
			●	
Short-term	—	57	●	●
			●	
Amortization	—	434	●	●
			●	
	—	6,691	●	●
Income before income taxes	—	3,179	●	●
Income taxes				
Current	—	102	—	●
Future	—	672	●	●
	—	774	●	●
Income before minority interest	—	2,405	●	●
Minority interest	—	—	●	●
Net income for the period	—	2,405	●	●

The accompanying notes are an integral part of this pro forma consolidated statement of income.

KCP INCOME FUND

PRO FORMA CONSOLIDATED STATEMENT OF INCOME

(Unaudited — See Compilation Report)
For the five months ended May 25, 2002
(in thousands of U.S. dollars)

	KCP Income Fund $	KIK Corporation Holdings Inc. $	Pro forma adjustments (note 4) $	KCP Income Fund Pro forma consolidated $
Sales	—	74,324	—	●
Cost of sales	—	55,747	●	●
Gross profit	—	18,577	●	●
Selling, general and administrative expenses	—	7,082	●	●
Interest				
Long-term	—	3,165	●	●
			●	
Short-term	—	88	●	●
			●	
Amortization	—	714	●	●
			●	
	—	11,049	●	●
Income before income taxes	—	7,528	●	●
Income taxes				
Current	—	186	—	●
Future	—	1,540	●	●
	—	1,726	●	●
Income before minority interest	—	5,802	●	●
Minority interest	—	—	●	●
Net income for the period	—	5,802	●	●

The accompanying notes are an integral part of this pro forma consolidated statement of income.

KCP INCOME FUND

PRO FORMA CONSOLIDATED STATEMENT OF INCOME

(Unaudited — See Compilation Report)
For the year ended December 31, 2001
(in thousands of U.S. dollars)

	KCP Income Fund $	KIK Corporation Holdings Inc. $	Pro forma adjustments (note 4) $	KCP Income Fund Pro forma consolidated $
Sales	—	196,595	—	●
Cost of sales	—	158,352	●	●
Gross profit	—	38,243	●	●
Selling, general and administrative expenses	—	16,250	—	●
Interest				
Long-term	—	9,191	●	●
			●	
Short-term	—	692	●	●
			●	
Amortization	—	2,510	●	●
			●	
			●	
	—	28,643	●	●
Income before income taxes	—	9,600	●	●
Income taxes				
Current	—	252	—	●
Future	—	2,069	●	●
	—	2,321	●	●
Income before minority interest	—	7,279	●	●
Minority interest	—	—	●	●
Net income for the period	—	7,279	●	●

The accompanying notes are an integral part of this pro forma consolidated statement of income.

KCP INCOME FUND

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

(Unaudited — see Compilation Report)
For the three months ended March 30, 2002,
for the five months ended May 25, 2002 and for the year ended December 31, 2001
(in thousands of U.S. dollars)
(except per unit amounts)

1. THE FUND

KCP Income Fund (“the Fund”) is an unincorporated open-ended trust established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated July 9, 2002. The Fund has been established to invest in units and KIK Operating Trust notes bearing interest at the rate of 7% (“the KOT Notes”) (the “Acquisition”) of KIK Operating Trust (“KOT”). KOT will invest in units of KIK Limited Partnership (“KLP”) in the amount of $ ● million. With the net proceeds, KLP will, through a series of investments in corporations and KIK Operating Partnership (“KOP”), acquire 100% of KIK Holdco Inc., the successor to KIK Corporation Holdings Inc. (“KIK”) for $ ● million. After completing the Acquisition, the Fund will own units representing ● % of the issued and outstanding units of KLP. The remaining ● % of the units of KLP will be held by KLP Exchangeable unitholders. Income tax obligations related to the distributions of the Fund are the obligations of the unitholders.

2. BASIS OF PRESENTATION

The accompanying pro forma consolidated balance sheet as at May 25, 2002 and the pro forma consolidated statements of income of the Fund for the three months ended March 30, 2002, for the five months ended May 25, 2002 and for the year ended December 31, 2001 have been prepared by management of KIK (management) on behalf of the Fund in accordance with Canadian generally accepted accounting principles. The unaudited pro forma consolidated balance sheet and consolidated statements of income include all adjustments necessary for the fair presentation of the proposed transactions in accordance with Canadian generally accepted accounting principles.

The pro forma consolidated financial information may not be indicative of the financial position and results of operations that would have occurred if the initial public offering (“Offering”) and the Acquisition had been in effect on the dates indicated or of the consolidated financial position or consolidated operating results which may be obtained in the future.

The pro forma consolidated financial statements should be read in conjunction with the description of the transactions in the prospectus and the historical consolidated financial statements of KIK located elsewhere in the prospectus.

Upon completion of the Offering and the Acquisition, the Fund will own, indirectly, ● % of the partnership units of KLP, which in turn will be formed to acquire, directly or indirectly, all of the securities and assets of KIK.

The pro forma consolidated balance sheet has been prepared from information derived from the balance sheet of the Fund as at July 9, 2002 and the unaudited consolidated balance sheet of KIK as at May 25, 2002 and the adjustments and assumptions outlined below. The pro forma consolidated statements of income for the three months ended March 30, 2002, for the five months ended May 25, 2002 and for the year ended December 31, 2001 have been derived from the unaudited statements of income of KIK for the three months ended March 30, 2002 and for the five months ended May 25, 2002, and from the audited consolidated statement of income for the year ended December 31, 2001, respectively, and the adjustments and assumptions outlined below.

3. PRO FORMA CONSOLIDATED BALANCE SHEET OF THE FUND AS AT MAY 25, 2002

The pro forma consolidated balance sheet of the Fund as at May 25, 2002 is based on the initial balance sheet of the Fund as at July 9, 2002 and has been prepared assuming that the Fund was formed on May 25, 2002 and as if the following proposed transactions had been completed as at May 25, 2002:

a) The Fund will issue ● units pursuant to the Offering for net proceeds of $ ● million on closing of the offering after deducting estimated expenses of the offering and the underwriters’ fees in the amount of $ ● , of which $ ● has been paid to date.

b) The Fund will use the net proceeds from the units to invest in units of KOT and 7% KOT notes. The investment in units of KOT and the KOT Notes are eliminated upon consolidation.

c) Immediately prior to the closing of the Offering, through a series of transactions, a reorganization of KIK will be completed, such that KIK will be owned by KLP, which in turn will be ● % owned by KOT, a wholly owned subsidiary of the Fund.

d) KLP will enter into arrangements that provide KLP with a secured revolving credit facility with its bankers totalling up to $80 million of which $65 million is anticipated to be drawn shortly after Closing. The current facility will be repaid in full. The deferred financing charges of $2,469 associated with the existing facility are eliminated. A fee of $1,320 will be incurred to effect this new refinancing.

(in thousands of U.S. dollars)

3. PRO FORMA CONSOLIDATED BALANCE SHEET OF THE FUND AS AT MAY 25, 2002 (Continued)

The revolving term loan facility will bear interest based on LIBOR plus ● %.

e) Immediately following the closing of the Offering, the senior subordinated debentures of $37,619 will be repaid including an early payment penalty of $2,300. Also, the associated debenture discount of $771 will be written off.

f) Options of KIK Corporation Holdings Inc. will be exchanged for options to acquire units of KLP. KLP will advance $2,000 under 3 year non-interest bearing notes to optionholders who will exercise all outstanding options of KLP for exchangeable units.

g) All outstanding warrants to purchase common shares of KIK Corporation Holdings Inc. will be exercised. Immediately following the closing of the Offering, these and other common shares of KIK Corporations Holdings Inc. will be repurchased for $136,700.

h) Immediately following the closing of the Offering, the Fund will acquire through its wholly owned subsidiary KOT, for cash of $ ● million, a ● % interest in KLP, which in turn will acquire directly or indirectly all of the securities and assets of KIK through a series of transactions with corporations and limited partnerships. This investment will be consolidated with the Fund.

The Acquisition of KIK by the Fund has been accounted for using the purchase method. The purchase price of $ ● million has been allocated to the assets and liabilities of KIK at May 25, 2002 as follows:

	Book value $	Fair value $
Net working capital assets	2,907	●
Property, plant and equipment	60,234	●
Other assets	7,178	●
	70,319	●
Long-term debt	62,522	●
Future income taxes	3,303	●
	4,494	●
Minority interest (●%)		●
Identifiable net assets acquired		●
Cash consideration paid		●
Excess consideration (attributed to intangible assets and goodwill)		●

The preliminary excess consideration has been allocated to intangible assets and goodwill. Such allocation will be dependent on the completion of management's analyses of the intangibles acquired and other relevant market factors. No amortization of intangible assets and goodwill is expected.

The actual calculation and allocation of the purchase price will be based on the assets and liabilities purchased at the effective date of the Acquisition and other information available at that date. Accordingly, the actual amounts of each asset and liability will vary from the pro forma amounts and the variations may be material.

4. PRO FORMA CONSOLIDATED STATEMENTS OF INCOME OF THE FUND FOR THE THREE MONTHS ENDED MARCH 30, 2002, FOR THE FIVE MONTHS ENDED MAY 25, 2002 AND FOR THE YEAR ENDED DECEMBER 31, 2001

The pro forma consolidated statements of income of the Fund for the three months ended March 30, 2002, for the five months ended May 25, 2002 and for the year ended December 31, 2001 are based on the initial statements of income of the Fund for the respective periods and have been prepared assuming that the Fund was in operation during the three months ended March 30, 2002 and the five months ended May 25, 2002 and for the year ended December 31, 2001, respectively, and as if the proposed transactions described in note 3 had been completed at the beginning of the respective periods noted above.

(Unaudited — see Compilation Report)
For the three months ended March 30, 2002,
for the five months ended May 25, 2002 and for the year ended December 31, 2001
(in thousands of U.S. dollars)
(except per unit amounts)

4. PRO FORMA CONSOLIDATED STATEMENTS OF INCOME OF THE FUND FOR THE THREE MONTHS ENDED MARCH 30, 2002, FOR THE FIVE MONTHS ENDED MAY 25, 2002 AND FOR THE YEAR ENDED DECEMBER 31, 2001 (Continued)

The pro forma consolidated statements of income of the Fund reflect the following adjustments:

a) Reversal of interest expense of $1,919 for the three months ended March 30, 2002, $3,087 for the five months ended May 25, 2002 and $9,746 for the year ended December 31, 2001 reflected in KIK's consolidated statement of income relating to the repayment of the existing term bank loans and senior subordinated debentures of $70,930 for the three months ended March 30, 2002, $68,622 for the five months ended May 25, 2002 and $73,846 for the year ended December 31, 2001.

b) Reversal of deferred financing charge amortization associated with the existing banking facility of $134 for the three months ended March 30, 2002, $218 for the five months ended May 25, 2002, and $550 for the year ended December 31, 2001.

c) Provision of interest expense associated with KIK's new revolving bank credit facility of $65 million of $898 for the three months ended March 30, 2002 and $1,462 for the five months ended May 25, 2002 and $5,490 for the year ended December 31, 2001 assuming an effective interest rate based on LIBOR plus 3% as noted in 3(d). The facility will bear interest at a rate ranging from 4.85% to 4.88% for the three months ended March 30, 2002 and 4.84% to 4.88% for the five months ended May 25, 2002 and 4.87% to 8.57% for the year ended December 31, 2001.

   In addition, the financing fee of $1,320 will be amortized in the amounts of $132, $220 and $528 for the three months ended March 30, 2002, for the five months ended May 25, 2002 and for the year ended December 31, 2001, respectively.

d) Reversal of amortization of goodwill of $1,428 for the year ended December 31, 2001 relating to the adoption of the new CICA accounting standard section 1581, Business Combinations. Goodwill amortization has not been recorded for the periods ended March 30, 2002 and May 25, 2002.

e) Interest expense paid by KOT to the Fund on the KOT Notes will be eliminated on consolidation of KIK's statement of income with the statement of income of the fund.

f) KIK will transfer its Canadian business operations to KOP on a tax deferred basis.

g) Amortization of the fair value increment of property, plant and equipment is $33, $56 and $134 for the three months ended March 30, 2002, for the five months ended May 25, 2002 and for the year ended December 31, 2001, respectively.

h) Accounting for the minority interest's share of ● %.

The pro forma consolidated statements of income exclude any additional selling, general and administrative costs that may be incurred as a result of becoming a public entity. In addition, the actual amounts of amortization expenses may vary from the pro forma amounts and the variations may be material.

5. PRO FORMA DISTRIBUTABLE CASH

The Declaration of Trust provides that the Fund will, subject to applicable law, distribute all of its available cash to holders of units by way of monthly distributions, less amounts that may be paid by the Fund in connection with any cash redemptions or repurchases of units. Distributions of available cash by KLP will be made pro rata to holders of the units of KLP, but will be subordinated for the holders of certain KLP exchangeable units until such time as targeted distribution levels and EBITDA are achieved for one fiscal year.

(in thousands of U.S. dollars)

5. PRO FORMA DISTRIBUTABLE CASH (Continued)

Pro forma distributable cash is as follows:

	Three months ended March 30, 2002 $	Five months ended May 25, 2002 $	Year ended December 31, 2001 $
KIK's net income for the period	2,405	5,802	7,279
Add			
Income taxes	774	1,726	2,321
Amortization	1,858	3,028	7,665
Interest	2,007	3,253	9,883
Earnings before interest, depreciation and amortization and income taxes	7,044	13,809	27,148
Less			
Interest paid relating to the new credit facility and other interest expenses	986	1,628	5,627
Income and other taxes relating to foreign jurisdictions	134	178	266
Maintenance capital expenditures	486	885	2,438
Distributable cash of KLP	5,438	11,118	18,817
Distributable cash of the Fund — ●% of the distributable cash of KLP	●	●	●
Distributable cash per unit (in U.S. dollars)	●	●	●

AUDITORS' REPORT

To the Directors of
KIK Corporation Holdings Inc.

We have audited the consolidated balance sheets of **KIK Corporation Holdings Inc.** as at December 31, 2001 and 2000 and the consolidated statements of income and retained earnings (deficit) and cash flows for each of the years in the three-year period ended December 31, 2001. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2001 in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
January 18, 2002
(except for note 16, which is as of July ● , 2002) Chartered Accountants

KIK CORPORATION HOLDINGS INC.

CONSOLIDATED BALANCE SHEETS

(expressed in thousands of U.S. dollars)

	May 25, 2002 $ (unaudited)	December 31, 2001 $	December 31, 2000 $
Assets			
Current assets			
Cash	3,204	1,089	1,121
Accounts receivable (note 2)	15,530	15,437	16,715
Inventories (note 3)	9,616	9,021	12,441
Prepaid expenses	2,458	2,447	2,057
	30,808	27,994	32,334
Property, plant and equipment (note 4)	60,234	60,504	60,401
Other assets (note 5)	7,178	7,761	9,255
Goodwill — net of accumulated amortization of $2,882 (December 31, 2001 — $2,872; December 31, 2000 — $2,586)	29,248	29,169	30,581
	127,468	125,428	132,571
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	19,233	19,780	22,408
Current portion of long-term debt (note 6)	7,858	10,301	6,770
	27,091	30,081	29,178
Future income taxes (note 12)	3,303	1,886	327
Long-term debt (note 6)	62,522	65,535	81,456
	92,916	97,502	110,961
Shareholders' Equity (note 7)	34,552	27,926	21,610
	127,468	125,428	132,571

Approved by the Board of Directors

(Signed) DAVID CYNAMON	(Signed) HOWARD BRODIE
Director	Director

The accompanying notes are an integral part of these consolidated financial statements.

KIK CORPORATION HOLDINGS INC.
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS (DEFICIT)
(expressed in thousands of U.S. dollars)

	Three-month period ended		Five-month period ended		Years ended December 31,		
	March 30, 2002 $	March 31, 2001 $	May 25, 2002 $	May 26, 2001 $	2001 $	2000 $	1999 $
	(unaudited)	(unaudited)	(unaudited)	(unaudited)			
Revenues (note 10(a))	43,204	46,225	74,324	74,943	196,595	156,069	116,433
Cost of sales (note 10(b))	33,334	38,308	55,747	61,540	158,352	134,398	98,423
Gross margin	9,870	7,917	18,577	13,403	38,243	21,671	18,010
Operating expenses							
Selling, general and administration	4,250	3,852	7,082	6,449	16,250	13,221	9,516
Interest							
Long-term debt	1,950	2,511	3,165	3,905	9,191	7,097	3,540
Short-term debt	57	283	88	479	692	877	348
Amortization	434	610	714	1,002	2,510	2,078	1,686
	6,691	7,256	11,049	11,835	28,643	23,273	15,090
Income (loss) before income taxes	3,179	661	7,528	1,568	9,600	(1,602)	2,920
Income taxes (note 12)							
Current	102	19	186	43	252	140	21
Future	672	157	1,540	359	2,069	(1,852)	786
	774	176	1,726	402	2,321	(1,712)	807
Net income for the period	2,405	485	5,802	1,166	7,279	110	2,113
Retained earnings (deficit) — beginning of period	3,827	(3,452)	3,827	(3,452)	(3,452)	(3,562)	(5,675)
Retained earnings (deficit) — end of period	6,232	(2,967)	9,629	(2,286)	3,827	(3,452)	(3,562)

The accompanying notes are an integral part of these consolidated financial statements.

KIK CORPORATION HOLDINGS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(expressed in thousands of U.S. dollars)

	Three-month period ended		Five-month period ended		Years ended December 31,		
	March 30, 2002 $	March 31, 2001 $	May 25, 2002 $	May 26, 2001 $	2001 $	2000 $	1999 $
	(unaudited)	(unaudited)	(unaudited)	(unaudited)			
Cash provided by (used in)							
Operating activities							
Net income for the period	2,405	485	5,802	1,166	7,279	110	2,113
Adjusted for non-cash items							
Amortization	1,858	1,848	3,028	3,056	7,665	6,107	4,201
Debenture discount amortization	31	31	51	51	123	51	—
Gain on disposal of property, plant and equipment (note 10(b))	—	—	(355)	—	—	—	—
Future income taxes	672	157	1,540	359	2,069	(1,852)	786
	4,966	2,521	10,066	4,632	17,136	4,416	7,100
Net change in non-cash working capital items							
Accounts receivable	1,151	28	(14)	(974)	1,123	(134)	(1,925)
Deposits	—	(72)	31	(42)	(19)	(17)	2
Inventories	(478)	(3,020)	(529)	(1,161)	3,312	(1,751)	(751)
Prepaid expenses	121	(10)	11	(412)	(402)	(639)	(299)
Accounts payable and accrued liabilities	(1,671)	1,633	(376)	(300)	(2,573)	2,004	1,876
	4,089	1,080	9,189	1,743	18,577	3,879	6,003
Financing activities							
Repayments of long-term debt	(3,077)	302	(5,456)	644	(12,388)	(3,852)	30,289
Debentures issued, net of discount (note 6)	—	—	—	—	—	35,000	—
Deferred financing costs	—	—	—	—	—	(1,879)	(900)
Preferred shares issued	—	—	—	—	—	3,500	—
Warrants issued	—	—	—	—	—	1,000	—
	(3,077)	302	(5,456)	644	(12,388)	33,769	29,389
Investing activities							
Purchase of property, plant and equipment	(1,354)	(1,738)	(2,469)	(2,759)	(6,798)	(8,765)	(8,789)
Proceeds on property, plant and equipment disposals	—	—	1,140	—	—	—	—
Package design costs	(220)	(116)	(289)	(210)	(853)	(716)	(300)
Business acquisitions (note 13)	—	—	—	—	—	(28,397)	(26,714)
Trademarks	—	—	—	—	—	(1)	(1)
Purchase price adjustments	—	—	—	—	1,430	471	(9)
	(1,574)	(1,854)	(1,618)	(2,969)	(6,221)	(37,408)	(35,813)
Increase (decrease) in cash during the period	(562)	(472)	2,115	(582)	(32)	240	(421)
Cash — Beginning of period	1,089	1,121	1,089	1,121	1,121	881	1,302
Cash — End of period	527	649	3,204	539	1,089	1,121	881
Supplementary information							
Income taxes paid (refunded)	134	(2)	178	28	266	140	21
Interest paid	2,823	3,363	3,114	4,031	8,748	6,444	3,402

The accompanying notes are an integral part of these consolidated financial statements.

(expressed in thousands of U.S. dollars, except per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the company and its subsidiaries, the acquisitions of which have been accounted for using the purchase method:

KIK Holdings (Canada) Inc.	KIK (SG) Holdings Inc.	KIK International Inc.
KIK Toronto Inc.	KIK (Houston) Inc.	KIK (Louisiana) Inc.
KIK Property Inc.	KIK Alberta Inc.	KIK-NoCal Inc.
KIK Nova Scotia ULC	507671 N.B. Inc.	KIK-SoCal Inc.
KIK Partners LP	KIK Finance LLC	KIK (Tacoma) Inc.
KIK (Denver) Inc.	KIK (Florida) Inc.	KIK (Indianapolis) Inc.
KIK (Mississippi) Inc.	KIK (Virginia) Inc.	KIK (Georgia) Inc.
Hi-lex Corporation operating as KIK (Minnesota) Inc.		

Use of significant estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and short-term investments

Cash and short-term investments with original maturities of three months or less are considered cash and cash equivalents.

Goodwill

Goodwill represents the excess, at the dates of acquisition, of the cost of investments over the fair value of the net identifiable assets acquired and is amortized on a straight-line basis, over its estimated useful life, which approximates forty years. The carrying value of goodwill is re-evaluated for potential permanent impairment on an ongoing basis. In order to determine whether permanent impairment exists, management considers the company's financial condition, as well as expected pre-tax income, undiscounted cash flows or market related values. Any permanent impairment in the value of goodwill is written off against income in the year the impairment is recognized.

Effective January 1, 2002, Section 3062 of the CICA Handbook, "Goodwill and Other Intangible Assets" was adopted. In the three-month period ended March 30, 2002 and the five-month period ended May 25, 2002, no amortization was charged against goodwill. In the corresponding three-month period ended March 31, 2001 and the corresponding five-month period ended May 26, 2001, $197 and $325 respectively was charged in respect of goodwill amortization in arriving at net income. If no amortization had been recorded in respect of goodwill in these periods, adjusted net income would have been $605 and $1,364.

Inventories

Inventories are carried at the lower of cost, determined on a standard cost basis approximating first-in, first-out cost, and market, which is defined as net realizable value.

(expressed in thousands of U.S. dollars, except per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment are recorded at cost and are amortized on a straight-line basis over their expected useful lives as follows:

Buildings	5.0%
Machinery and equipment	8.5% - 10%
Computer equipment	20%
Vehicles	20%
Office equipment	10%
Leasehold improvements	term of the lease

Maintenance and repairs are charged to expense as incurred. Renewals and betterments, which materially prolong the useful lives of the assets, are capitalized. The cost and related accumulated amortization of property retired or sold are removed from the accounts, and gains or losses are recognized in the consolidated statements of income.

The company reviews the carrying value of property, plant and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the net recoverable amount.

Income taxes

Income taxes are accounted for using the asset and liability method of income tax allocation. Under this method, assets and liabilities are recorded for the future income tax consequences attributable to differences between the financial statement carrying values of assets and liabilities and their respective income tax bases. The future income tax assets and liabilities are recorded using substantially enacted income tax rates. The effect of a change in income tax rates on these future income tax assets and liabilities is included in income in the period in which the change occurs.

Other assets

Package design costs are deferred, and are amortized over their estimated useful lives of three years on a straight-line basis.

Costs in respect of the raising of long-term debt are deferred and are amortized over the term of the related financing.

Certain lease costs are deferred and are amortized over seven years, the term of the agreement.

Discount on debt issue is deferred and is amortized over the term of the related financing.

Trademark costs are amortized on a straight-line basis over seven years.

Reporting currency and foreign currency translation

The consolidated financial statements have been prepared in U.S. dollars because it is the currency of the primary economic environment in which the company conducts its operations. Assets and liabilities of the Canadian subsidiaries are translated at the exchange rate in effect at the balance sheet date. Revenues and expenses are translated at average exchange rates prevailing during the year. The resulting gains or losses are included in the foreign currency translation adjustment (CTA) in shareholders' equity.

Transactions denominated in foreign currencies are translated at the exchange rate in effect at the transaction date. Gains and losses arising on foreign currency transactions due to currency exchange fluctuations are included in determining net earnings in the year in which they arise (three-month period ended March 30, 2002 — $48 loss; March 31, 2001 — $100 gain — unaudited; five-month period ended May 26, 2002 — $193 loss; May 25, 2001 — $34 gain — unaudited); (year ended December 31, 2001 — $16 gain; 2000 — $36 gain; 1999 — $179 gain).

(expressed in thousands of U.S. dollars, except per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-based compensation plan

Details of the company's stock options are described in note 9. No compensation expense is recognized for this plan when stock or stock options are issued to employees. Any consideration paid on exercise of stock options or purchase of stock is credited to share capital.

Financial instruments

The company's financial instruments recognized in the consolidated balance sheets include long-term liabilities and working capital items, which consist of cash, accounts receivable, prepaid expenses and accounts payable and accrued liabilities. The fair value of these instruments approximates their carrying value unless otherwise stated in the notes to the consolidated financial statements.

2. ACCOUNTS RECEIVABLE

Accounts receivable are net of an allowance for doubtful accounts in the amount of $522 as at May 25, 2002 (unaudited), (December 31, 2001 — $643; 2000 — $1,383).

3. INVENTORIES

	May 25, 2002 $	December 31, 2001 $	December 31, 2000 $
	(unaudited)		
Raw materials	6,256	6,022	8,119
Work-in-process	518	417	704
Finished goods	2,842	2,582	3,618
	9,616	9,021	12,441

4. PROPERTY, PLANT AND EQUIPMENT

	May 25, 2002		
	Cost $	Accumulated amortization $	Net $
		(unaudited)	
Land	4,499	—	4,499
Buildings	14,034	2,292	11,742
Machinery and equipment	54,038	12,941	41,097
Computer equipment	1,622	873	749
Vehicles	155	143	12
Office equipment	307	175	132
Leasehold improvements	2,874	871	2,003
	77,529	17,295	60,234

	December 31, 2001		
	Cost $	Accumulated amortization $	Net $
Land	5,113	—	5,113
Buildings	14,122	1,992	12,130
Machinery and equipment	51,227	11,037	40,190
Computer equipment	1,566	733	833
Vehicles	160	146	14
Office equipment	303	155	148
Leasehold improvements	2,835	759	2,076
	75,326	14,822	60,504

(expressed in thousands of U.S. dollars, except per share amounts)

4. PROPERTY, PLANT AND EQUIPMENT (Continued)

	December 31, 2000		
	Cost $	Accumulated amortization $	Net $
Land	5,161	—	5,161
Buildings	15,020	1,354	13,666
Machinery and equipment	47,516	8,313	39,203
Computer equipment	1,174	531	643
Vehicles	160	118	42
Office equipment	295	127	168
Leasehold improvements	2,095	577	1,518
	71,421	11,020	60,401

5. OTHER ASSETS

	May 25, 2002 $ (unaudited)	December 31, 2001 $	December 31, 2000 $
Deferred package design costs, net of accumulated amortization (May 25, 2002 — $994 (unaudited)) (December 31, 2001 — $778; December 31, 2000 — $619)	1,165	1,125	822
Deferred acquisition costs	500	500	500
Future income taxes (note 12)	423	516	1,081
Deferred financing costs, net of accumulated amortization (May 25, 2002 — $1,449 (unaudited)) (December 31, 2001 — $1,230; December 31, 2000 — $695)	2,469	2,685	3,226
Deferred lease costs, net of accumulated amortization (May 25, 2002 — $2,238 (unaudited)) (December 31, 2001 — $2,005; December 31, 2000 — $1,429)	1,794	2,027	2,603
Discount on debt issue, net of accumulated amortization (May 25, 2002 — $226 (unaudited)) (December 31, 2001 — $174; December 31, 2000 — $51)	771	820	948
Trademarks, net of accumulated amortization (May 25, 2002 — $35 (unaudited)) (December 31, 2000 — $33; December 31, 2000 — $29)	1	2	7
Deposits	55	86	68
	7,178	7,761	9,255

On July 15, 1998, the company entered into an agreement with TC Products. Under the terms of this agreement, the company leases equipment, customers and premises in TC Products' Tacoma, WA facility and agrees to purchase bleach from TC Products for the term of the agreement. Part of the purchase price will be paid by a premium included in the agreed price of the bleach. This premium is included above as a deferred lease and will be amortized over the seven-year term of the agreement. This is offset by a long-term liability. The total liability (May 25, 2002 — $1,709 (unaudited)) (December 31, 2001 — $1,900; 2000 — $2,447) will be drawn down at approximately the same rate as the lease. In addition, the company paid $500 for an option to purchase TC Products outright at the end of year seven. This option is included above as deferred acquisition costs.

(expressed in thousands of U.S. dollars, except per share amounts)

6. LONG-TERM DEBT

	May 25, 2002 $	December 31, 2001 $	December 31, 2000 $
	(unaudited)		
Term bank loans at LIBOR plus 2½% to 3½% (4.340% to 10.125%) due September 30, 2005	31,003	34,897	41,117
Senior subordinated notes (d)	37,620	37,064	36,000
Revolving bank loans at prime rate plus 2% (approximately 6.75% as at May 25, 2002)	—	1,885	8,404
Capital leases bearing interest at an average rate of 9.53% (c)	48	74	131
Balance of acquisition purchase price, non-interest bearing, repayable in equal monthly instalments until 2002	—	16	117
Deferred lease payments — Tacoma (note 5)	1,709	1,900	2,447
Other loan	—	—	10
	70,380	75,836	88,226
Less: Current portion	7,858	10,301	6,770
	62,522	65,535	81,456

(a) At May 25, 2002, the company had unused credit facilities aggregating $14,000 (December 31, 2001 — $12,115; December 31, 2000 — $5,596) subject to margin calculations.

A general security agreement, an assignment of substantially all the assets of the company including receivables and inventories, have been pledged as collateral for the bank loans and credit facilities.

(b) Repayments of long-term debt, including capital leases (c), required within the next five years and thereafter are as follows:

	$
2002	10,301
2003	8,199
2004	9,306
2005	9,082
2006	—
Thereafter	38,948
	75,836

(c) The company is obligated under capital leases for certain production equipment. The leases expire from 2002 to 2003. The following are the future minimum lease payments required under the capital leases together with their present value as of December 31, 2001:

	$
2002	77
2003	27
Total minimum lease payments	104
Less	
Interest implicit in lease	(5)
Maintenance payments included	(25)
Present value of minimum lease payments	74
Less: Current portion	(58)
Present value of minimum lease payments, excluding current portion	16

(expressed in thousands of U.S. dollars, except per share amounts)

6. LONG-TERM DEBT (Continued)

(d) During 2000, the company issued $36,000 of senior subordinated notes due 2008. These notes were sold at a discount to par of 2.78% and bear interest at 15% per annum. A portion of the interest equal to 12% per annum shall be payable in cash in February and August of each year commencing in 2001. The balance of the interest, equal to 3% per annum, may be satisfied by capitalizing such interest payment on the due date and by adding such capitalized interest to the principal amount of the notes. The discount arising on this transaction is amortized over the life of the notes using the interest method.

	$
Senior subordinated notes	
Original principal	36,000
Capitalized interest	1,064
	37,064

Management has determined that it is not practical to determine the fair value of this debt for financial statement disclosure purposes.

(e) The term loan is partially protected by interest rate cap contracts as set out below. At May 25, 2002 the fair value of these contracts approximated the carrying value.

Expiry date	Capped LIBOR Rate	Principal amount $
September 30, 2002	8.17%	3,900

7. SHAREHOLDERS' EQUITY

Authorized capital

Unlimited common shares without nominal or par value.

15,000 Series A, participating, convertible, preferred shares, without nominal or par value, redeemable at their paid-up value.

The rights, privileges, conditions and restrictions attached to the Series A, preferred shares are as follows:

(a) Conversion into common shares is optional upon certain triggering events, and mandatory at the earlier of 30 days prior to a qualifying public offering and the tenth anniversary of the issuance. The shares were issued on July 2, 1997.

(b) The holders are entitled to receive cash and non-cash dividends equivalent to the common shareholders, as if the shares were converted into the minimum common shares issuable.

(c) Voting privileges are equivalent to the common shareholders with the number of votes equal to the minimum common shares issuable.

The maximum and minimum common shares issuable are 19,298,430 and 11,189,846, respectively, and are determined based upon future performance of the company as set out in the preferred shareholders' agreement.

3,500,000 Series B, participating, convertible, preferred shares, without nominal or par value, redeemable at $1.

The rights, privileges, conditions and restrictions attached to the Series B, preferred shares are as follows:

(a) Conversion into common shares is optional at $1 per share and will be redeemable at the same price.

(b) The holders are entitled to receive cash and non-cash dividends equivalent to the common shareholders, as if the shares were converted into common shares.

(c) Voting privileges are equivalent to the common shareholders with the number of votes equal to the minimum common shares issuable.

(expressed in thousands of U.S. dollars, except per share amounts)

7. SHAREHOLDERS' EQUITY (Continued)

Issued capital

	Number of shares	Amount $	Retained earnings (deficit) $	CTA $	Total $
Common shares					
Balance at January 1, 2000	23,088,008	7,436	(3,562)	(335)	3,539
Net income for the year	—	—	110	—	110
Movement on CTA	—	—	—	(302)	(302)
Balance at December 31, 2000	23,088,008	7,436	(3,452)	(637)	3,347
Net income for the year	—	—	7,279	—	7,279
Movement on CTA	—	—	—	(963)	(963)
Balance at December 31, 2001	23,088,008	7,436	3,827	(1,600)	9,663
Net income for the period	—	—	5,802	—	5,802
Movement on CTA	—	—	—	824	824
Balance at May 25, 2002	23,088,008	7,436	9,629	(776)	16,289
Warrants					
Balance at December 31, 2000 December 31, 2001 and May 25, 2002	3,550,000	1,000	—	—	1,000
Preferred shares					
Balance at December 31, 2000; December 31, 2001 and May 25, 2002	3,515,000	17,263	—	—	17,263
Total shareholders' equity					
Balance May 25, 2002 (unaudited)	—	25,699	9,629	(776)	34,552
Balance December 31, 2001	—	25,699	3,827	(1,600)	27,926
Balance December 31, 2000	—	25,699	(3,452)	(637)	21,610

8. WARRANTS

Warrants to purchase 3,550,000 common shares have been issued in connection with various financing arrangements. The warrants may be exercised, at any time, from time to time, with various expiry dates between July 2, 2002 and August 10, 2012.

	Number of warrants	Weighted average exercise price $
Balance — December 31, 1999	1,331,633	1.06
Granted during 2000	2,218,367	0.01
Balance — December 31, 2000, December 31, 2001 and May 25, 2002	3,550,000	0.41

At May 25, 2002, warrants are exercisable at a weighted average price of $0.41.

The following summarizes information about warrants outstanding at May 25, 2002:

Exercise Price Per Share Range	Number of warrants outstanding at May 25, 2002	Weighted average remaining contractual life	Weighted average exercise price
$0.00 — $1.00	2,468,048	126 months	$0.01
$1.01 — $1.50	1,081,952	30 months	$1.31

(expressed in thousands of U.S. dollars, except per share amounts)

8. WARRANTS (Continued)

During 2000, 1,918,367 warrants without nominal value were issued for proceeds of $1,000.

9. STOCK OPTIONS

Options to purchase 3,565,000 common shares have been granted to directors, officers and key employees. The options are exercisable beginning one year from the date of grant and terminate at various times from the date of grant. The average vesting period of the options is five years in equal portions. The exercise price of the options has been assessed to be equal to or in excess of the fair value of the company's stock at the date of grant.

	Number of shares	Weighted average exercise price $
Balance — December 31, 1999	2,195,000	0.91
Granted during the year	1,285,000	1.07
Cancelled during the year	(175,000)	1.34
Balance — December 31, 2000	3,305,000	0.95
Granted during the year	375,000	1.47
Cancelled during the year	(115,000)	1.34
Balance — December 31, 2001 and May 25, 2002	3,565,000	0.99

At May 25, 2002, options are exercisable at a weighted average price of $0.99.

The following summarizes information about share purchase options outstanding at May 25, 2002:

Exercise Price Per Share Range	Number of warrants outstanding at May 25, 2002	Weighted average remaining contractual life	Weighted average exercise price
$0.00 — $0.65	475,000	1 month	$0.65
$0.66 — $0.78	1,045,000	31 months	$0.78
$0.79 — $1.00	1,070,000	43 months	$1.00
$1.01 — $1.50	975,000	63 months	$1.39

10. REVENUES AND COST OF SALES

(a) Revenues

	Three-month period ended		Five-month period ended		Years ended December 31,		
	March 30, 2002 $	March 31, 2001 $	May 25, 2002 $	May 26, 2001 $	2001 $	2000 $	1999 $
	(unaudited)	(unaudited)	(unaudited)	(unaudited)			
Gross revenues	45,615	48,521	78,395	78,761	205,946	163,525	122,366
Discounts and allowances	2,411	2,296	4,071	3,818	9,351	7,456	5,933
Net revenues	43,204	46,225	74,324	74,943	196,595	156,069	116,433

(b) Cost of sales

Included in cost of sales is amortization of $1,424 for the three-month period ended March 30, 2002 (March 31, 2001 — $1,238 (unaudited)); $2,314 for the five-month period ended May 25, 2002 (May 26, 2001 — $2,054 (unaudited)) and $5,155 for the year

(expressed in thousands of U.S. dollars, except per share amounts)

10. REVENUES AND COST OF SALES (Continued)

ended December 31, 2001 (2000 — $4,029; 1999 — $2,515). Also included in cost of sales is a gain on the disposal of property, plant and equipment for $355 for the five-month period ended May 25, 2002.

11. CONTINGENCIES, COMMITMENTS AND MAJOR CUSTOMERS

The total minimum annual operating lease payments for the next five years, and in aggregate, are as follows:

	$
2002	2,053
2003	1,999
2004	1,588
2005	335
2006	193
	6,168

The company's six largest customers accounted for 41% of its total sales for the three-month period ended March 30, 2002 (March 31, 2001 — 37% (unaudited)); 44% of its total sales for the five-month period ended May 25, 2002 (May 26, 2001 — 44% (unaudited)) and 37% for the year ended December 31, 2001 (2000 — 37%; 1999 — 47%). Sales to individual customers representing 10% or more of total sales accounted for 19% of total sales for the three-month period ended March 30, 2002 (2001 — 14% (unaudited)); 19% of total sales for the five-month period ended May 25, 2002 (2001 — 16% (unaudited)) and 14% for the year ended December 31, 2001 (2000 — 16%; 1999 — 19%).

In the normal conduct of operations, there are pending claims by and against the company. It is the opinion of management, based on the advice and information provided by its legal counsel, that although final resolution of such litigation is unknown at the present time, it is not expected to materially affect the company's consolidated financial position or results of operations.

12. INCOME TAXES

As of May 25, 2002 the company and its subsidiaries have accumulated net operating losses for income tax purposes in the amount of $14,460 (December 31, 2001 — $18,483; 2000 — $12,890), which are available to reduce future taxable income. The benefit of these losses has been recorded as a future tax asset in these consolidated financial statements as of May 25, 2002 and a valuation provision of $3,335 has been recorded as of May 25, 2002 (December 31, 2001 — $3,259; 2000 — $2,712). Losses totalling $3,082 have been used during the period to reduce the current year's tax liabilities of the company's subsidiaries.

(expressed in thousands of U.S. dollars, except per share amounts)

12. INCOME TAXES (Continued)

The tax effects of temporary differences that give rise to future tax assets and future tax liabilities has been determined as follows:

	May 25, 2002 $	December 31, 2001 $	December 31, 2000 $
	(unaudited)		
Future income tax assets			
Accounts receivable and inventories	423	516	1,081
	423	516	1,081
Future income tax liabilities			
Property, plant and equipment amortization	4,937	4,470	2,996
Valuation allowance	3,335	3,259	2,712
Deferred financing costs	143	116	52
Restructuring/organizational costs	428	417	215
Goodwill/trademark amortization	218	257	175
Share issuance costs	—	—	(97)
Tax benefits of loss carry-forwards	(5,758)	(6,633)	(5,726)
	3,303	1,886	327

The benefits of these future tax loss carry-forwards expire between 2002 and 2021.

In addition, future tax liabilities totalling $899 arose on the acquisitions made during 2000 (see note 13).

The provision for income taxes reflects an effective tax rate, which differs from the combined Canadian and provincial corporate tax rates as follows:

	Three-month period ended		Five-month period ended		Years ended December 31,		
	March 30, 2002	March 31, 2001	May 25, 2002	May 26, 2001	2001	2000	1999
	(unaudited)	(unaudited)	(unaudited)	(unaudited)			
Canadian statutory rate	38.6%	42.1%	38.6%	42.1%	42.1%	44.6%	44.6%
Provision for income taxes based on the above rate	1,227	278	2,907	660	4,044	(714)	1,302
Difference between Canadian and foreign statutory rates	10	(5)	16	(15)	(117)	154	(90)
Valuation allowance	32	40	76	92	547	971	1,127
Effect of financing	(557)	(239)	(1,361)	(579)	(3,580)	(2,900)	(1,346)
Effect of substantively enacted rates	—	82	—	191	1,123	368	—
Permanent and other	62	20	88	53	304	409	(186)
	774	176	1,726	402	2,321	(1,712)	807

13. BUSINESS ACQUISITIONS

On November 22, 2000, the company completed the acquisition of certain assets of Clo-White Inc. in Hampton, GA and Riviera Beach, FL, for a total cash consideration of $3,500. KIK (Georgia) Inc. was formed during 2000 to conduct the business from the Hampton location. The customers previously serviced by the Riviera Beach location have been moved into other KIK facilities.

On August 9, 2000, the company completed the acquisition of 100% of the issued share capital of Sewell Products, Sewell Products of Mississippi, Sewell Products of Florida and Erbrich-Sewell for a total cash consideration of $24,897. The Sewell companies were wound

(expressed in thousands of U.S. dollars, except per share amounts)

13. BUSINESS ACQUISITIONS (Continued)

up into KIK (Virginia) Inc., KIK (Mississippi) Inc., KIK (Florida) Inc. and KIK (Indianapolis) Inc., respectively. The production capability and customer base of KIK (Mississippi) Inc. has been moved into other KIK facilities. The company is listed for sale and will be dissolved once the facility has been sold to another party.

These acquisitions were accounted for under the purchase method and the purchase prices were allocated as follows:

	Sewell $	Clo-white $	Total $
Working capital	1,508	—	1,508
Property, plant and equipment	13,924	3,108	17,032
Future income taxes	(899)	—	(899)
Goodwill	8,934	392	9,326
	23,467	3,500	26,967

During 2001, the Sewell purchase price allocation was finalized resulting in a working capital recovery of approximately $1,430, which reduced the total purchase price and carrying value of goodwill. In addition, an amount of $1,040 was reallocated from property, plant and equipment to goodwill, an amount of $125 was transferred from working capital to goodwill and an amount of $31 was allocated from future income taxes to goodwill.

(expressed in thousands of U.S. dollars, except per share amounts)

14. SEGMENTED INFORMATION

The company operates in two geographic areas, Canada and the United States. The products produced and sold in the two areas are essentially the same.

	March 30, 2002	March 31, 2001	May 25, 2002	May 26, 2001	December 31, 2001	December 31, 2000	December 31, 1999
	(unaudited)	(unaudited)	(unaudited)	(unaudited)			
Revenues							
Canada							
Domestic	3,384	4,017	5,730	3,870	14,442	19,125	18,828
External	4,897	1,041	8,296	5,136	15,269	8,510	6,633
Intersegment transfers	623	420	1,003	613	1,644	475	—
	8,904	5,478	15,029	9,619	31,355	28,110	25,461
United States							
Domestic	37,334	43,463	64,369	69,755	176,235	135,890	96,905
Intersegment transfers	36	118	48	163	258	388	6
	37,370	43,581	64,417	69,918	176,493	136,278	96,911
	46,274	49,059	79,446	79,537	207,848	164,388	122,372
Elimination of intersegment transfers	(659)	(538)	(1,051)	(776)	(1,902)	(863)	(6)
Discounts and allowances	(2,411)	(2,296)	(4,071)	(3,818)	(9,351)	(7,456)	(5,933)
	43,204	46,225	74,324	74,943	196,595	156,069	116,433
Goodwill							
Canada	2,446	2,533	2,540	2,522	2,451	2,601	3,132
United States	29,590	30,042	29,590	30,042	29,590	30,566	22,838
	32,036	32,575	32,130	32,564	32,041	33,167	25,970
Less: Accumulated amortization	2,871	2,258	2,882	2,371	2,872	2,586	1,877
	29,165	30,317	29,248	30,193	29,169	30,581	24,093
Property, plant and equipment							
Canada	14,335	12,061	15,316	13,209	13,766	12,276	10,663
United States	62,327	59,800	62,213	59,539	61,560	59,145	33,451
	76,662	71,861	77,529	72,748	75,326	71,421	44,114
Less: Accumulated amortization	16,245	11,390	17,295	11,907	14,822	11,020	6,726
	60,417	60,471	60,234	60,841	60,504	60,401	37,388

15. COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform to the current financial statement presentation.

16. SUBSEQUENT EVENT

In July 2002, the company will re-organize its business with the result that the Canadian portion of the business, excluding the debt, will be transferred to KIK Operating Partnership. Immediately thereafter, the company and KIK Operating Partnership will be indirectly acquired by KCP Income Fund.

GLOSSARY OF TERMS

In this prospectus, the following terms shall have the meanings set forth below, unless otherwise indicated or the context otherwise requires:

"Acquisition Agreement" means the acquisition agreement to be dated as of the date before Closing between the Vendors and KIK Acquisition described under "Principal Agreements — Acquisition Agreement".

"affiliate" means an affiliate within the meaning of the *Securities Act* (Ontario).

"Asset Purchase Agreement" means the asset purchase agreement to be dated on or before the date of Closing between KOP and NSCo described under "Principal Agreements — Asset Purchase Agreement".

"Business Day" means a day, other than a Saturday, Sunday or statutory holiday, when banks are generally open in the City of Toronto, in the Province of Ontario, for the transaction of banking business.

"CCRA" means Canada Customs and Revenue Agency.

"CDS" means The Canadian Depository for Securities Limited.

"Closing" means the closing of the Offering, which is expected to occur on or about ● but which may occur on such other date, not later than ●, as may be agreed upon between the Fund and the Underwriters.

"Continuing Holders" means those of the Vendors, other than Management Vendors, who will receive KLP Unsubordinated Exchangeable Units under the Share Purchase Agreement.

"Declaration of Trust" means the declaration of trust dated July 9, 2002 pursuant to which the Fund was created, as the same may be amended, supplemented or restated from time to time.

"EBITDA" means earnings before interest, income taxes, depreciation and amortization. See "EBITDA".

"First Conversion Date" means the later of December 31, 2003 and the date the Trustees have approved the audited financial statements in respect of a fiscal year of the Fund (including, without limitation, the initial fiscal year of the Fund, notwithstanding that it shall be a period of less than a calendar year) in which (i) average monthly distributions have been paid or are payable on each of the Units in an amount which is not less than $ ● per Unit (on a fully diluted basis, including the exchange of the KLP Exchangeable Units and the exercise of any options to acquire KLP Exchangeable Units), and (ii) the Fund earned EBITDA in such fiscal year (on a pro forma basis, in the case of the Fund's initial fiscal year, as reflected in pro forma financial statements for such year accompanied by an auditor's compilation report) of not less than $35 million, such EBITDA amount to be increased upon each issuance of Units or KLP Exchangeable Units following Closing by an amount proportionate to the increase in the number of fully diluted Units as a result of such issuance.

"Fund" means KCP Income Fund, an unincorporated open-ended trust established under the laws of the Province of Ontario and, unless the context otherwise requires, includes KOT and other entities owned directly or indirectly by KOT.

"Holdcos" means holding corporations through which certain of the Vendors hold their shares in KIK.

"KIK" means, prior to completion of the transactions contemplated by the Share Purchase Agreement, KIK Corporation Holdings Inc., a corporation incorporated under the laws of the Province of Ontario and, following completion of the transactions contemplated by the Share Purchase Agreement, KIK Holdco and KOP and the entities controlled by them.

"KIK Acquisition" means KIK Acquisition Inc., an unlimited liability company to be established by KLP under the laws of the Province of Nova Scotia.

"KIK Debt" means the indebtedness to be incurred by KIK Acquisition in favour of KLP as described under "Funding, Acquisition and Related Transactions", which debt shall bear interest at a rate of 15.01% per annum and will in all other respects have terms similar to the KLP Debt.

"KIK GenPar" means KIK GenPar Limited, a corporation to be incorporated under the laws of the Province of Ontario to be a general partner of KLP.

"KIK Holdco" means KIK Holdco Inc., the unlimited liability company to result from the amalgamation of NSCo, NSULC and any Holdcos purchased by KIK Acquisition.

"KIK International" means KIK International Inc., a corporation incorporated under the laws of the State of Delaware.

"KIK Options" means the outstanding options (not including the KIK Warrants) to acquire common shares in the capital of KIK.

"KIK Warrants" means the outstanding share purchase warrants to acquire common shares in the capital of KIK.

"KLP" means KIK Limited Partnership, a limited partnership to be established under the laws of the State of Delaware, the limited partners of which will be KLP Holdco and certain of the Vendors (i.e., the holders of KLP Exchangeable Units) and the general partners of which will be KIK GenPar and KLP Holdco.

"KLP Debt" means the indebtedness to be incurred by KLP in favour of KOT as described under "Funding, Acquisition and Related Transactions".

"KLP Exchangeable Units" means the KLP Subordinated Exchangeable Units and the KLP Unsubordinated Exchangeable Units and any additional KLP units issued from time to time which are exchangeable for Units.

"KLP Holdco" means KLP Holdco Inc., a corporation to be incorporated under the laws of the Province of Ontario.

"**KLP Limited Partnership Agreement"** means the limited partnership agreement to govern the business and affairs of KLP.

"KLP Ordinary Units" means the ordinary units of KLP, all of which will be held by KLP Holdco.

"KLP Subordinated Exchangeable Units" means the KLP Subordinated Exchangeable Units that will be held initially by the Management Vendors.

"KLP Unsubordinated Exchangeable Units" means the KLP Unsubordinated Exchangeable Units that will be held initially by the Continuing Holders.

"KOP" means KIK Operating Partnership, a general partnership established under the laws of the Province of Ontario, the partners of which will be KIK Holdco, KLP and KOPH.

"KOPH" means KOP Holdings Inc., a corporation to be incorporated under the laws of the Province of Ontario.

"KOT" means KIK Operating Trust, an unincorporated open-ended trust established under the laws of the Province of Ontario, all of the beneficial interest of which will be held by the Fund.

"KOT Note Indenture" means the indenture to be dated the date of Closing pursuant to which the KOT Notes will be issued.

"KOT Notes" means the notes of KOT issued to the Fund on Closing in accordance with the KOT Note Indenture.

"KOT Trustees" means the trustees of KOT elected by the holder of KOT Units.

"KOT Trust Indenture" means the declaration of trust to be dated on or before the date of Closing pursuant to which KOT will be created as the same may be amended, supplemented or restated from time to time.

"KOT Units" means the units of KOT, each of which represents an equal undivided beneficial interest in the distributions and assets of KOT, and includes a fraction of a unit of KOT.

"Management Vendors" means those of the beneficial owners of shares of KIK who are employees of KIK or are members of KIK management, including the Senior Management Vendors, and those persons who shall acquire options to acquire KLP Subordinated Exchangeable Units on or prior to Closing of KIK Options and shall be deemed to include any of their Holdcos.

"NSCo" means KIK Canada Holdco Inc., the Nova Scotia corporation resulting from the amalgamation of KIK, KIK Holdings (Canada) Inc., KIK Toronto Inc., KIK Alberta Inc. and KIK Property Inc.

"North America" means Canada and the United States.

"NSULC" means KIK Nova Scotia Inc., the unlimited liability company to be established by NSCo under the laws of the Province of Nova Scotia as a wholly-owned subsidiary of NSCo.

"Offering" means the initial public offering of Units.

"Ordinary Resolution" means a resolution passed by more than 50% of the votes cast, either in person or by proxy, at a meeting of holders of Units at which a quorum was present called for the purpose of approving such resolution or approved in writing by holders of more than 50% of votes represented by Units entitled to vote on such resolution.

"Senior Management Vendors" means David Cynamon, Howard Brodie, Roy Pearce and shall be deemed to include, in each case, any entities beneficially owned or controlled by any of them, including any of their Holdcos (and includes, in the case of David Cynamon, DSHC KIK Holdings Inc.).

"Share Purchase Agreement" means the share purchase agreement to be dated as of the date before Closing and entered into between the Vendors and KLP described under "Principal Agreements — Share Purchase Agreement".

"SKU" means stock keeping unit.

"Special Resolution" means a resolution passed by more than 66⅔% of the votes cast, either in person or by proxy, at a meeting of holders of Units at which quorum was present called for the purpose of approving such resolution, or approved in writing by holders of more than 66⅔% of votes represented by the Units entitled to be voted on such resolution.

"Tax Act" means the *Income Tax Act* (Canada).

"Trustees" means the trustees of the Fund.

"Underwriters" means CIBC World Markets Inc., National Bank Financial Inc., BMO Nesbitt Burns Inc. and TD Securities Inc.

"Unitholders" means the holders of Units from time to time.

"Units" means the units of the Fund, each of which represents an equal undivided interest in the distributions and assets of the Fund, and includes a fraction of such a unit of the Fund.

"Vendors" means the persons who (i) currently, directly or indirectly, beneficially own or who will prior to Closing acquire (on the exercise of KIK Warrants) shares of KIK (or its successors), and (ii) own KIK Options, which KIK Options will on Closing be exchanged for options to acquire KLP Exchangeable Units and cash.

CERTIFICATE OF THE FUND

DATED: August 1, 2002

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta), by Part XI of the *Securities Act, 1988* (Saskatchewan), by Part VII of the *Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by the *Securities Act* (Nova Scotia), by Section 13 of the *Security Frauds Prevention Act* (New Brunswick), by Part II of the *Securities Act* (Prince Edward Island), by Part XIV of the *Securities Act* (Newfoundland), by Part 3 of the *Securities Act* (Yukon), by the *Securities Act* (Northwest Territories) and by the *Securities Act* (Nunavut) and the respective regulations thereunder. This preliminary prospectus does not contain any misrepresentation likely to affect the value of the market price of the securities to be distributed for the purposes of the *Securities Act* (Quebec) and the regulations thereunder.

KCP INCOME FUND
by its attorney
KIK CORPORATION HOLDINGS INC.

(Signed) DAVID CYNAMON
Chairman and Chief Executive Officer

(Signed) ROY J. PEARCE
Chief Financial Officer

On behalf of the Board of Directors
of KIK Corporation Holdings Inc.

(Signed) HOWARD BRODIE
Director

(Signed) FRASER LATTA
Director

On behalf of the Promoter
KIK CORPORATION HOLDINGS INC.

(Signed) DAVID CYNAMON
Chairman and Chief Executive Officer

(Signed) ROY J. PEARCE
Chief Financial Officer

CERTIFICATE OF THE UNDERWRITERS

DATED: August 1, 2002

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta), by Part XI of the *Securities Act, 1988* (Saskatchewan), by Part VII of the *Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by the *Securities Act* (Nova Scotia), by Section 13 of the *Security Frauds Prevention Act* (New Brunswick), by Part II of the *Securities Act* (Prince Edward Island), by Part XIV of the *Securities Act* (Newfoundland), by Part 3 of the *Securities Act* (Yukon), by the *Securities Act* (Northwest Territories) and by the *Securities Act* (Nunavut) and the respective regulations thereunder. To our knowledge, this preliminary prospectus does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed for the purposes of the *Securities Act* (Quebec) and the regulations thereunder.

CIBC WORLD MARKETS INC.

By: (Signed) ANDREW FEDERER

NATIONAL BANK FINANCIAL INC.

By: (Signed) PETER JELLEY

BMO NESBITT BURNS INC.

By: (Signed) HAROLD WOLKIN

TD SECURITIES INC.

By: (Signed) DARIN E. DESCHAMPS

KCP Income Fund