

KCP INCOME FUND

INITIAL ANNUAL INFORMATION FORM

February 6, 2003

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KCP INCOME FUND

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, as amended (the “Declaration of Trust”). The Fund is administered by the Trustees and by KIK GenPar Limited (“KIK GenPar”) pursuant to an administration agreement entered into by the Fund and KIK GenPar, among others, on August 23, 2002 (the “Administration Agreement”). The principal and head office of the Fund is located at 33 MacIntosh Blvd., Concord, Ontario, L4K 4L5.

The Fund holds, indirectly, an approximate 80% interest in KIK Holdings Limited Partnership (“KLP”) which owns, directly or indirectly, the securities and assets of KIK Holdco Company (“KIK Holdco”) and KIK Operating Partnership (“KOP”). The Fund also holds, indirectly, investments in entities engaged in the manufacture and sale of household cleaning and laundry products, including the securities or assets of KIK Holdco and KOP (collectively, “KIK”) and such other entities as KLP may acquire.

KIK Operating Trust

KIK Operating Trust (“KOT”) is an unincorporated open-ended trust established pursuant to a declaration of trust dated August 13, 2002, as amended, and governed by the laws of the Province of Ontario. KOT is a limited purpose trust and its activities are restricted essentially to the holding of investments (debt and equity) and other direct or indirect interests in KLP and such other entities as KLP may acquire, provided that KOT may not make any investments that would jeopardize its status as a “fixed investment trust” classified as a trust under the U.S. Tax Code.

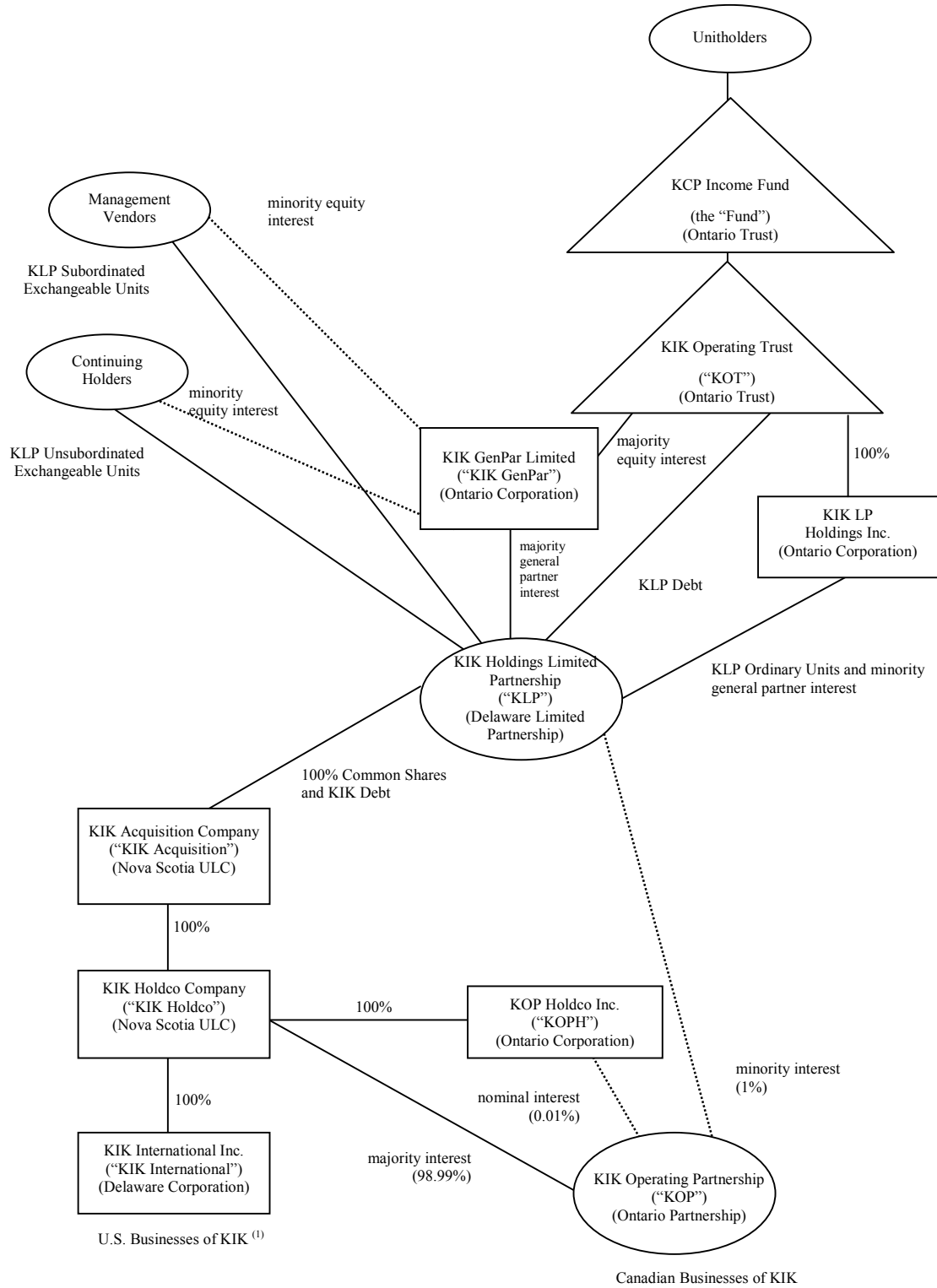
KLP

KLP is a limited partnership established under the laws of the State of Delaware. It holds the shares of KIK Acquisition Company (“KIK Acquisition”) and indebtedness of KIK Acquisition bearing interest at the rate of 14.01% (“KIK Debt”) and carries on (in partnership) the business of the manufacture and sale of household cleaning and laundry products, including the business carried on by KIK, and such other investments as the board of directors of KIK GenPar and KIK LP Holdings Inc. (“KLP Holdco”) may determine, and all activities ancillary and incidental thereto. KLP is owned, directly or indirectly, as to approximately 80% by the Fund and as to approximately 20% by holders of units of KLP which are exchangeable for units (“Units”) of the Fund (the “KLP Exchangeable Units”). The general partners of KLP are KIK GenPar and KLP Holdco. In the case of a disagreement between the general partners on any matter, that matter is required to be voted upon with KIK GenPar to have four votes for each vote of KLP Holdco. KLP holds all of the issued and outstanding shares of KIK Acquisition, indirectly holds the shares of KIK Holdco and KIK International Inc. (“KIK International”), and directly and indirectly holds all of the partnership interests in KOP.

KOP

KOP is a general partnership established 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 are KIK Holdco (as to a majority interest), KOP Holdings Inc. (“KOPH”) (as to a nominal interest) and KLP (as to a minority interest). KOP holds all of the assets formerly owned by KIK Corporation Holdings Inc. and its affiliates other than its equity interest in certain of its subsidiaries.

Structure of the Fund



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.

GENERAL DEVELOPMENT OF THE FUND

Development of the Fund

Prior to August 23, 2002, when the Fund completed its initial public offering (the “Closing”), it did not hold any material assets. The proceeds of the Fund’s initial public offering (together with the proceeds from exercise of the over-allotment option granted in connection therewith), net of underwriting and other costs, were used to purchase, indirectly, an approximate 80% interest in KLP.

Set forth below are the transactions that took place, in sequence, prior to or immediately following the completion of the Fund’s initial public offering. The effect of these transactions is as follows:

- The conduct of the business of KIK Corporation Holdings Inc. was unaffected. The non-Canadian business continues to be conducted by KIK International through its subsidiaries, and the Canadian business is now conducted through KIK Holdco and KOP. The corporate structure of the ownership of the KIK business was reorganized, and the operating and holding entities distributed all net cash generated to their securityholders to support the distribution of distributable cash by the Fund, but the business did not change. All of the interests in the business are indirectly held by KLP.
- The proceeds of the initial public offering were invested by the Fund, through KOT and other holding entities, in KLP, in which the Fund holds a majority interest. Cash distributions made by KLP, using cash generated by its interests in the operating businesses, fund the cash distributions 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 has indirect control over the business assets and operating entities.
- The holders of shares, or options to acquire shares, of KIK Corporation Holdings Inc. prior to completion of the Fund’s initial public offering who were employees or members of management of KIK Corporation Holdings Inc. (and certain of their holding companies) (the “Management Vendors”) received a combination of KLP Subordinated Exchangeable Units and cash and the Vendors, other than the Management Vendors, received a combination of KLP Unsubordinated Exchangeable Units and/or 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 continue to hold interests in the business receive their (minority share of) distributions from KLP (subordinated, in the case of the Management Vendors). The holders of KLP Exchangeable Units have certain rights to representation on the board of directors of KIK GenPar so as to have input in the management of the business. See “KIK GenPar Securityholders’ Agreement”.

“Vendors” means the persons who, prior to completion of the Fund’s initial public offering, owned (i) shares, (ii) options to acquire shares, or (iii) warrants to acquire shares, of KIK Corporation Holdings Inc.

Pre-Closing

Establishment of the Fund and Related Entities

1. The Fund was established on July 9, 2002, with nominal capitalization. The Fund established KOT (acquiring both units of KOT (“KOT Units”) and notes (the “KOT Notes”) of KOT issued under a note indenture dated August 23, 2002 (the “KOT Note Indenture”) and KOT incorporated KIK GenPar and KLP Holdco (subscribing for 100% of the common shares in each case).
2. KLP Holdco and KIK GenPar established KLP, with KLP Holdco owning a 99.6% limited partnership interest (represented by KLP ordinary units). KIK GenPar is the controlling general partner and holds a 0.4% interest and KLP Holdco is a general partner holding no economic interest as such in KLP. KOT acquired interest-bearing (at a rate of 14% per annum) promissory notes (“KLP Debt”) issued by KLP, which represents 75% of KOT’s assets.
3. KLP incorporated KIK Acquisition as a wholly-owned subsidiary.

4. KIK Corporation Holdings Inc. (which formerly operated the business currently operated by KIK), KIK Holdings (Canada) Inc., KIK Toronto Inc., KIK Alberta Inc., KIK Property Inc. and 507671 New Brunswick Inc. continued into Nova Scotia. 507671 New Brunswick Inc. incorporated an unlimited liability company under the laws of Nova Scotia and amalgamated with that company.
5. KIK Toronto Inc. incorporated KIK Nova Scotia Inc. (“NSULC”) and KOPH as wholly-owned subsidiaries, and KIK Toronto Inc. and KOPH established KOP. KIK Toronto Inc. acquired all of the assets and liabilities of KIK Corporation Holdings Inc., KIK Holdings (Canada) Inc., KIK Property Inc. and KIK Alberta Inc. other than the shares of affiliated corporations, on a tax deferred basis in exchange for shares of KIK Toronto Inc. KIK Toronto Inc. transferred all of its assets and liabilities, other than its shares of affiliated corporations and its interests in KIK Partners LP, 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 has a 0.01% general partnership interest in KOP.
6. KIK Toronto Inc., KIK Alberta Inc. and KIK Property Inc. amalgamated to form KIK Canada Holdco Inc. (“NSCo”).
7. KIK Corporation Holdings Inc. purchased for cancellation certain shares of its capital owned by selected shareholders in consideration for non-interest bearing demand promissory notes of KIK Corporation Holdings Inc.

Transfer of NSCo Shares (Ownership of KIK Canada)

8. The holders of KIK Corporation Holdings Inc. convertible preferred shares converted such shares into common shares of KIK.
9. All options for the purchase of shares of KIK Corporation Holdings Inc. were exchanged for options to acquire KLP Subordinated Exchangeable Units (on equivalent economic terms), with the right of the holder of the option to elect to receive cash respecting all or a portion of the option value.
10. The Vendors transferred their shares of KIK Corporation Holdings Inc. to KIK Acquisition all or partially on a tax deferred basis in exchange for non-voting common shares and/or non-interest bearing demand promissory notes issued by KIK Acquisition.
11. The Vendors transferred their KIK Acquisition shares to KLP on a tax-deferred basis in exchange, or exercised options, for KLP Exchangeable Units. Each of the Management Vendors, including David Cynamon, Howard Brodie and Roy Pearce (and their respective holding companies) received KLP Subordinated Exchangeable Units and the Vendors who received KLP Exchangeable Units other than the Management Vendors (the “Continuing Holders”) received KLP Unsubordinated Exchangeable Units.
12. Holders of share purchase warrants of KIK Corporation Holdings Inc. sold their warrants to KIK Acquisition (which KIK Acquisition exercised for common shares of KIK Corporation Holdings Inc.) in exchange for non-interest bearing demand promissory notes issued by KIK Acquisition.
13. NSCo amalgamated with NSULC, KIK and KIK Holdings (Canada) Inc. to form KIK Holdco.

Post-Closing

Application of Proceeds

14. The Fund used the proceeds of the Offering to capitalize KOT with KOT Units and 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.
15. KOT (a) subscribed for additional shares of KIK GenPar (at a nominal subscription price), (b) subscribed for additional shares in KLP Holdco, and (c) acquired additional KLP Debt (in the same ratio as the issuances described in paragraph 2).

16. KLP Holdco used the proceeds of its share issuance described in paragraph 15 to acquire additional KLP ordinary units.
17. KLP used the proceeds of the unit and debt issuances described in paragraphs 15 and 16 above to subscribe for partnership units in KOP (representing approximately 1% of the aggregate partnership interest), loaned an amount (at an interest rate of 14.01% per annum) to KIK Acquisition (such debt is defined herein as the “KIK Debt”) and subscribed for common shares in KIK Acquisition. KLP issued KLP Subordinated Exchangeable Units to KIK Acquisition in exchange for additional KIK Acquisition common shares.
18. KOP used the proceeds of the issuance described in paragraph 17 above to repay the demand note referred to in paragraph 5 above to KIK Holdco (as successor in interest to KIK Corporation Holdings Inc.).
19. KIK Acquisition used a portion of the proceeds of the issuances of KIK Debt and shares described in paragraph 17 above to repay the notes issued to the Vendors as described in paragraph 10 above. KIK Acquisition transferred its remaining cash, together with the KLP Subordinated Exchangeable Units acquired by it as described in paragraph 17 above, to KIK Holdco in exchange for additional common shares in the capital of KIK Holdco.
20. KIK Holdco entered into a new credit facility, providing KIK Holdco with a revolving term loan in the amount of US\$65.0 million (all of which was drawn down on Closing) which is repayable within 30 months following Closing, together with a revolving operating loan of US\$15.0 million, which revolving credit facility matures one year following Closing. The credit facility is secured by all of the assets of KIK Holdco and its subsidiaries, ranks senior to all other indebtedness of KIK Holdco and is subject to customary terms, conditions, covenants and other provisions.
21. A portion of the cash received by KIK Holdco in step 19 above was used to repay the promissory notes issued to certain of the Vendors in paragraph 7.
22. Holders of options to acquire KLP Subordinated Exchangeable Units exercised those options and received KLP Subordinated Exchangeable Units and/or cash from KIK Holdco (as successor to NSCo, itself successor of KIK Corporation Holdings Inc.). All or a portion of the funds sufficient to satisfy the exercise price of options so exercised was loaned by KIK Holdco (on a non-interest bearing basis) to the optionholders.
23. Those 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 22 above, subscribed for common shares in KIK GenPar for nominal consideration (as a group such persons hold a minority interest in KIK GenPar).

BUSINESS OF KIK⁽¹⁾

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.

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.

¹ For the purposes of this section “Business of KIK” and the section entitled “Industry”, KIK means KIK Holdco and KOP and their predecessors, including KIK Corporation Holdings Inc., and subsidiaries.

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. KIK’s revenues from sales of retail bleach were US\$156.0 million for the financial year ended December 31, 2002 and accounted for 78.9% 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 Hypochlorite)* — 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 multipurpose cleaner that sanitizes, deodorizes and freshens. Disinfectant strength bleach serves as a multipurpose 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 2002, KIK’s revenue from general purpose cleaning products was US\$23.7 million and accounted for 12.0% 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. KIK’s revenue from liquid laundry products was US\$6.6 million for fiscal 2002 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. KIK’s revenue from bulk bleach was US\$5.7 million for fiscal 2002 and accounted for 2.9% 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. KIK's revenue from other products was US\$5.7 million for fiscal 2002 and accounted for 2.9% 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 year ended December 31, 2002. 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 7.1% of KIK's revenue for the year ended December 31, 2002. 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, 2002, Wal-Mart represented 17.9% 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, 2002.

Sales and Marketing

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 generally manufactures products 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. Crewmembers 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 that 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 which 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 5.5 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 one 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 that 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.

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 access to a new geographic region; and (iii) whether the acquired business offers additional customers.

The following are acquisitions made by KIK in the past three years:

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 assets from 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\$24.1 million during 2000 through 2002, approximately US\$7.4 million of which was maintenance-related capital expenditures and US\$12.5 million of which was expansion related capital expenditures. The amount and timing of these expenditures is detailed in the table below.

<u>Expenditures</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
		<i>(thousands of US\$)</i>	
Maintenance	\$2,266	\$2,438	\$2,690
Expansion	5,563	1,088	5,866
Acquisition	936	3,272	0
Total	<u>\$8,765</u>	<u>\$6,798</u>	<u>\$8,556</u>

Capital expenditures for the year ended December 31, 2002 were US\$8.6 million. 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.

KIK is 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.

KIK expects that these expansion capital projects will be substantially completed by the end of 2003 which will be financed by approximately US\$5.0 million received through proceeds of the Fund's initial public offering. Management believes that such expansion-related capital expenditures will be sufficient for the foreseeable future.

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	Non-bleach laundry products	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 three year lease expiring in February 2006 with one five year renewal option
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, dish detergent, windshield washer fluid, window cleaner, all purpose cleaner	Owned

Location	Approximate Square Footage	Major Products Manufactured	Owned or Leased
Hampton, Georgia	100,000	Retail bleach, fabric softener, ammonia	Owned

Environmental Matters

KIK's facilities are subject to federal, provincial, state and municipal laws concerning, among other things, emissions to the air, wastewater discharges, the storage, handling and disposal of wastes, recycling, or otherwise relating to protection of the environment. Compliance with or liability under these laws has not had, and management does not expect it to have, a material effect upon income or competitive position of KIK. KIK has implemented various safety controls and standards in its facilities and has dedicated resources to maintain a good safety record. Environmental laws and regulations, and their interpretation, however, have changed rapidly in recent years and may continue to do so in the future. KIK's 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. In addition, contaminants may be found at other sites where KIK or its predecessors have sent wastes, for which KIK could have some responsibility.

Environmental audits and/or site investigations conducted at various times at each of KIK's facilities (including recently completed Phase I assessments) have not raised any material environmental concerns or disclosed matters that would require material remediation under applicable environmental laws. KIK does not anticipate that it will incur material costs for environmental upgrades or controls in this or the succeeding fiscal year.

Employees

As at December 31, 2002, KIK had 770 full-time employees.

Approximately 236 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 three bargaining units during the period from 2000 through 2002. KIK is currently in negotiations with two bargaining units in respect of collective agreements which recently expired. The next expiry date of a collective agreement to which KIK is a party is December, 2003. 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, 2002, 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:

Location	Manufacturing	Administration and Accounting	Sales and Marketing	Total	Number of Union Employees
Concord, Ontario	140	68	7	215	125
Nisku, Alberta	24	2	0	26	0
Houston, Texas	119	5	3	127	0
Slidell, Louisiana	39	3	0	42	0
Sacramento, California	22	2	0	24	20
Tacoma, Washington	17	3	0	20	15
Santa Fe Springs, California.....	69	3	1	73	61
Eagan, Minnesota.....	18	2	0	20	15
Denver, Colorado.....	27	1	0	28	0
Salem, Virginia	73	4	0	77	0
Auburndale, Florida	81	4	0	85	0
Hampton, Georgia	31	2	0	33	0
Total	660	99	11	770	236

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

North American retail sales of 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.

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 Loblaw's - 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.

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.

Private Label Industry Growth

KIK anticipates continued growth of private label product 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 15% in contrast to the approximately 30% penetration in Canada and the approximately 35% 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.
- ***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.

INFORMATION CONCERNING THE FUND

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 for Trustees of the Fund in their capacity as trustees; 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", "mutual fund trust" or "registered investment" for purposes of the *Income Tax Act* (Canada) (the "Tax Act") or a "fixed investment trust" classified as a trust under the United States Internal Revenue Code of 1986, as amended and the Treasury Regulations promulgated thereunder (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 Fund's initial public 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

The beneficial interests in the Fund are divided into interests designated as “Units” which are entitled to the rights and subject to limitations, restrictions and conditions set out in the Declaration of Trust. As at December 31, 2002, there were 25,875,000 Units outstanding. An unlimited number of Units are issuable pursuant to the Declaration of Trust. Each Unit is transferable and represents 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 are of the same class with equal rights and privileges. The Units are not subject to future calls or assessments, and 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 provided that the Fund may not have multiple classes of ownership interest under U.S. Treasury Regulations section 301.7701-4(c). 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. Consideration paid for Units may only be in the form of money, or KOT securities identical in type and number per Unit as the KOT securities held by the Fund prior to such payment.

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 (as defined herein) and the KLP Unsubordinated Exchangeable Units may not be exchanged until the 180th day following August 23, 2002 (except as otherwise provided under “-Take-Over Bids” below).

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.

Trustees

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

The Declaration of Trust provides that, subject to its terms and conditions, the Trustees 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 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 is 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.

Except as expressly prohibited by law, the Trustees may grant or delegate certain of the Trustees' authority to effect the actual administration of the duties of the Trustees under the Declaration of Trust. The Trustees may grant broad discretion to a third party to administer and manage the day-to-day operations of the Fund, and to make executive decisions which conform to the general policies and general principles set forth in the Declaration of Trust or otherwise established by the Trustees. Pursuant to the Administration Agreement between, amongst others, the Fund and KIK GenPar, the Trustees have granted to KIK GenPar certain operational responsibilities and decision making powers.

Cash Distributions

The Fund makes 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.

Any income of the Fund which is applied to any cash redemptions of Units or is otherwise unavailable for cash distribution is to be distributed to Unitholders in the form of additional Units. Any 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 paid to Unitholders of record on the last business day of each month and before the end of the following month.

Holders of Units who are non-residents of Canada are 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

General

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 are issued in book entry form, a Unitholder who wishes to exercise the redemption right is required to obtain a redemption notice form from the Unitholder's investment dealer who is required to deliver the completed redemption notice form to the Fund at its head office and to The Canadian

Depository for Securities Limited. 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 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, of 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 \$1.00 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 a Unitholder. 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.

This redemption right is not 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 are not and will not be listed on any exchange and no public market is expected to develop in such assets. 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. 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.

KOT Units

KOT Units are not, and 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), and, as such, registration of interests in, and transfer of, the KOT Units will not be made through the book-entry system administered by The Canadian Depository for Securities Limited. Rather, holders of KOT Units will be entitled to receive certificates therefor.

KOT's declaration of trust provides that KOT may make monthly cash distributions to holders of record of KOT Units on the last business day of each month. Such distributions are to 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 trustees of KOT have adopted 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 KOT's 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.

The KOT Units are 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 an amount determined with reference to a formula prescribed by the KOT Note Indenture.

KOT Notes and KOT Units are issued in tandem, such that for every \$85.00 in principal amount of KOT Notes issued, 15 KOT Units are issued and associated therewith. The KOT Notes and KOT Units are not be transferable or redeemable in any circumstances except where the associated security is being contemporaneously transferred or redeemed, as the case may be.

KOT Notes

KOT Notes are issuable in Canadian currency in denominations of \$1.00 and integral multiples of \$1.00. 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.

The KOT Notes were issued at Closing to the Fund and will mature on the 10th anniversary of the date of issuance (subject to renewal for two additional five-year terms at the option of KOT provided that 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 bear interest at the rate of 7% per annum.

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.

The KOT Notes are 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.

The KOT Note Indenture provides that any of the following constitutes 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 KOT 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.

Repurchase of Units

The Fund is 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 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 of Unitholders, requiring two-thirds of votes cast.

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 either the Fund or KOT failing to qualify as a “unit trust”, “mutual fund trust” or “registered investment” under the Tax Act or a “fixed investment trust” classified as a trust under the U.S. Tax Code,

without the authorization of the Unitholders by special resolution requiring two-thirds of votes cast.

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 of the Unitholders, requiring two-thirds of votes cast.

Take-over Bids

The KLP Limited Partnership Agreement provides 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 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 have agreed 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 are to 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.

Under the terms of the Administration Agreement, KIK GenPar has undertaken to the Fund that it will:

- (a) issue a press release and deliver to the Fund for filing via SEDAR (under the Fund's SEDAR profile) with the securities commissions in each of the provinces and territories of Canada, a material change report in accordance with applicable securities legislation with respect to any material change in KIK GenPar, KLP, KOP or KIK Holdco in the event that it is not also a material change to the Fund, and such change in the affairs of KIK GenPar, KLP, KOP or KIK Holdco would have required the issuance of a press release and the filing of a material change report by such entity if it were a reporting issuer in such province or territory;
- (b) if the financial statements of KIK, or any of its successor entities, are not consolidated with those of the Fund, deliver to the Fund audited annual and unaudited interim financial statements prepared in accordance with applicable securities legislation in respect of the Fund and its subsidiaries (including KIK) on a consolidated basis;
- (c) implement a disclosure policy requiring that certain trades are reported in accordance with the insider trading provisions of the securities legislation in each of the provinces and territories of Canada, including trades by a Trustee, a director or senior officer of KIK GenPar, KLP or KLP's subsidiaries, or a securityholder of the Fund or KLP who holds more than 10% of the Units of the Fund (on a fully diluted basis, including assuming exchange of the KLP Exchangeable Units) and that such individuals or entities must comply with insider trading liability provisions of the securities legislation in each of the provinces and territories of Canada.

These covenants of KIK GenPar in favour of the Fund may only be amended or waived by the Fund upon receipt of regulatory approval.

KLP EXCHANGEABLE UNITS

KLP issued 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 received KLP Subordinated Exchangeable Units, and the Continuing Holders (i.e. the other Vendors, except those Vendors who received only cash) received KLP Unsubordinated Exchangeable Units. KLP Exchangeable Units may also be issued in respect of other acquisitions made by KLP from time to time. Both classes of KLP Exchangeable Units, except as otherwise noted, have economic and voting rights equivalent in all material respects to the Units. Both classes of KLP Exchangeable Units have the following attributes: (i) the KLP Exchangeable Units are exchangeable, directly or indirectly, on a one-for-one basis (subject to customary anti-dilution provisions and as provided under "Information Concerning 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 August 23, 2002 for the KLP Unsubordinated Exchangeable Units, unless the exchange would jeopardize the Fund's status as a "unit trust", "mutual fund trust" or "registered investment" under the Tax Act or a "fixed investment trust" under the U.S. Tax Code; (ii) distributions to holders of KLP Exchangeable Units are subordinate to KLP's debt obligations (including its obligations with respect to the KLP Debt); (iii) each KLP Exchangeable Unit entitles 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) are subordinated as described below; and (iv) except as required by law and in certain specified circumstances (specifically, the requirement that KIK GenPar obtain prior approval of the holders of KLP Exchangeable Units given by ordinary resolution and prior approval of Unitholders given by special resolution, from selling, exchanging, or otherwise disposing of all or substantially all of the assets of KLP), holders of the KLP Exchangeable Units are not 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 are subordinate to the distribution to holders of KLP Unsubordinated Exchangeable Units and distributions to holders of KLP ordinary units. Under such subordination, distributions are to 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 are to be paid (a) to holders of KLP Unsubordinated Exchangeable Units for each such KLP Unsubordinated Exchangeable Unit 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 \$0.0916 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 \$0.0916 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 \$.2748 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 \$.2748 per unit, the difference between \$.2748 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 Subordinated Exchangeable Units will receive at least \$0.0916 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.

In this annual information form, "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 \$0.0916 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.

KLP Exchangeable Units will not, except as otherwise described under "Information Concerning 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 after the 180th day following August 23, 2002, in the case of KLP Unsubordinated Exchangeable Units, and the First Conversion Date in the case of the KLP Subordinated Exchangeable Units.

Exchange Agreement

On completion of the Fund's initial public offering, the Fund, KOT, KLP and holders of KLP Exchangeable Units entered into an exchange agreement (the "Exchange Agreement").

The Exchange Agreement granted 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 August 23, 2002, 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 "Information Concerning the Fund - Take-over Bids"), provided that the exchange will not jeopardize the Fund's status as a "unit trust", "mutual fund trust" or "registered investment" 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 to in step (i) above.

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

RISK FACTORS

Risks Related to the Business and Industry of KIK

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, disposal and clean-up 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 44.3% of revenue for the year ended December 31, 2002, including Wal-Mart which accounted for 17.9% of KIK's revenue for that time. Three other customers of KIK accounted for more than 5% of KIK's revenue during the twelve months ended December 31, 2002. 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 78.9% of KIK's revenue for the year ended December 31, 2002 and 75.8% of KIK's revenue for 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 affect 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.

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 under "General Development of the Fund", 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 235 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

Dependence on KOT and KLP

The Fund is a limited purpose trust which is 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 are 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 is subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of those subsidiaries (including KIK Holdco's credit facility).

Leverage; Restrictive Covenants

KIK Holdco obtained a new credit facility on completion of the initial public offering. 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 credit facility contains restrictive covenants of a customary nature, including covenants that limit the discretion of management with respect to certain business matters. These covenants 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 credit facility contains a number of financial covenants that require KIK Holdco (or its affiliates) to meet certain financial ratios and financial condition tests. A failure to comply with the obligations in the 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 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 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 do 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 is its interests in KOT. The market price per Unit will be a function of anticipated distributable income.

Absence of Prior Public Market

Prior to August 23, 2002, there was no public market for the Units. There can be no assurance that the Units will continue to trade at a price similar to the current trading price and there may be significant volatility in the trading price of the Units.

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 “Information Concerning the Fund — Units”. Any such issuance may dilute the interests of Unitholders.

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 is undiversified, and such securities are illiquid, as they are not (and 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 are in Canadian dollars. KIK has entered into agreements to protect against losses which may occur as a result of a fluctuation in the U.S./Canadian dollar exchange rate. However, there can be no assurance that such arrangements will be sufficient to offset all potential foreign exchange fluctuations and 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 Canada Customs and Revenue Agency or the United States Internal Revenue Service and/or the treatment of mutual fund trusts or registered investments 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” or a “registered investment” under the Tax Act, the income tax treatment afforded to the Units 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 transferred their shares of NSCo and KIK Acquisition provided 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 Corporation Holdings Inc. transferred its Canadian business operations to KOP provided that, if requested by KIK Corporation Holdings Inc., 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 U.S. Internal Revenue Service in a manner which adversely affects the holders of units. If the Fund or KOT fails to qualify as a “fixed investment trust” classified as a trust under the U.S. Tax Code, the U.S. federal income tax consequences would be materially and adversely different from the intended consequences.

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 interest 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 materially adverse to the interests of Unitholders.

SELECTED CONSOLIDATED FINANCIAL INFORMATION OF THE FUND

The Fund did not hold any material assets until August 23, 2002 when it acquired an indirect approximately 70% interest in KLP. On September 10, 2002, this ownership percentage was increased to approximately 80% when the underwriters exercised their over-allotment option.

KLP did not hold any material assets until August 23, 2002, when it acquired the securities and assets of KIK from the Vendors.

The following table includes consolidated financial information of the Fund and its operating entities (in thousands of Canadian dollars, except per Unit amounts):

	For the Period from August 23 to December 31, 2002
Revenue.....	US\$68,999
Net Income	US\$6,901
Net Income per Unit (Basic and fully diluted)	Cdn\$0.3360/0.3357
Long-Term Debt.....	US\$ 65,860
Unitholders' Equity	US\$195,095
Total Assets	US\$292,266

More detailed financial information is set out in the audited annual financial statements, and the related notes thereto, as at and for the period ended December 31, 2002.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Reference is made to Management's Discussion and Analysis of Financial Conditions and Results from Operations for the period ended December 31, 2002, which is incorporated herein by reference.

SELECTED CONSOLIDATED FINANCIAL INFORMATION OF KIK

The following table sets out selected consolidated financial information for the KIK Corporation Holdings Inc. (or its successors) business for the periods indicated. The following information should be read in conjunction with the consolidated financial statements and statement of operations and the notes appearing at pages F-14 to F-28, and management's discussion and analysis relating thereto appearing at pages 34-40 of the Fund's prospectus dated August 13, 2002.

	Years Ended December 31,	
	2001	2000
Revenue	\$196,595	\$156,069
Cost of Sales before depreciation.....	153,197	130,369
Gross Profit before depreciation ⁽¹⁾	43,398	25,700
Gross Profit before depreciation as a percentage of Revenue	22.1%	16.5%
SG&A Expense	16,250	13,221
EBITDA ⁽²⁾	27,148	12,479
EBITDA as a percentage of Revenue	13.8%	8.0%
Amortization.....	7,665	6,107
Interest.....	9,883	7,974
Income (loss) before Income Taxes	9,600	(1,602)
Income taxes.....	2,321	(1,712)
Net Income	\$ 7,279	\$ 110

Note:

- (1) Gross Profit is not a recognized measure under Canadian GAAP. 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.
- (2) Earnings before interest, income taxes, depreciation and amortization ("EBITDA") is not a recognized measure under Canadian generally accepted accounting principles (GAAP). 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.

DISTRIBUTION

The following table sets for the date of payment per Unit and the total amount of the distributions paid by the Fund on the Units from inception:

<u>Date</u>	<u>Per Unit</u>	<u>Total Unit</u> ⁽¹⁾⁽²⁾
October 31, 2002	\$0.1135	\$2,936,812.50
November 27, 2002	0.09166	2,371,702.50
December 24, 2002	0.09166	2,371,702.50
January 29, 2003	0.09166	2,371,702.50

Note:

- (1) On October 31, 2002, KLP also made a distribution to holders of KLP Exchangeable Units in the aggregate amount of \$708,890, or \$0.1135 per KLP Exchangeable Unit.
- (2) On January 29, 2003, KLP also made a distribution to holders of KLP Exchangeable Units of 0.27498 per KLP Exchangeable Unit

The Fund has announced distribution of 0.09166 per Unit payable on February 26, 2003 to Unitholders of record January 31, 2003. See "Information Concerning the Fund – Cash Distributions".

PRINCIPAL UNITHOLDERS

To the knowledge of the Trustees and the directors and senior officers of KIK, the only person or company that beneficially owns, directly or indirectly, or exercises control or direction over, in excess of 10% of the Units on a fully diluted basis is as follows:

<u>Name</u>	<u>Units owned on a fully diluted basis</u> ⁽¹⁾	<u>Percentage of Units owned on a fully diluted basis</u> ⁽¹⁾
David Cynamon.....	4,773,832	15%

Note:

- (1) These 4,773,832 KLP Subordinated Exchangeable Units represent 15% of the Units on a fully diluted basis and include KLP Subordinated Exchangeable Units owned by DSHC KIK Holdings Inc.

To the knowledge of the Trustees and the directors and senior officers of KIK GenPar, 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 is 5,530,264, representing approximately 20% of the Units on a fully-diluted basis, all of which are subordinated.

MARKET FOR SECURITIES

The outstanding Units of the Fund are listed for trading in The Toronto Stock Exchange under the symbol KCP.UN.

TRUSTEES, DIRECTORS AND MANAGEMENT

Trustees and Directors

The names, municipalities of residence, principal occupations and current holdings of Units of the persons who are Trustees and directors of KIK GenPar are set out below.

Name and Municipality of Residence	Position with the Fund and KIK GenPar	Principal Occupation	Number of Units
E. JAMES ARNETT, Q.C. Toronto, Ontario	Chairman and Trustee, Fund; Chairman and Director, KIK GenPar	Counsel, Fraser, Milner Casgrain LLP	—
ARNOLD CADER Toronto, Ontario	Trustee, Fund; Director, KIK GenPar	President, The Delphi Corporation	—
DAVID CYNAMON Toronto, Ontario	Trustee, Fund; Director, KIK GenPar	Chief Executive Officer, KIK	4,773,832 ⁽¹⁾
STEPHEN H. HALPERIN Toronto, Ontario	Trustee, Fund; Director, KIK GenPar	Partner, Goodmans LLP	30,487 ⁽²⁾
EARL ROTMAN Toronto, Ontario	Trustee, Fund; Director, KIK GenPar	Vice-Chairman CIBC World Markets Inc.	10,000

(1) These Units, including 4,773,832 KLP Subordinated Exchangeable Units represent 15% of the Units on a fully diluted basis and include KLP Subordinated Exchangeable Units owned by DSHC KIK Holdings Inc.

(2) Includes 30,487 KLP Unsubordinated Exchangeable Units which are exchangeable for Units of the Fund.

The Trustees also serve as the KOT Trustees and directors of KIK GenPar and KIK Holdco Company. Compensation for the Trustees is \$15,000 per Trustee per year and \$1,000 per meeting per Trustee for attending meetings of the board of Trustees. Compensation for the directors of KIK GenPar, other than directors who also serve as management of KIK GenPar, is \$15,000 per director per year and \$1,000 per meeting per director for attending meetings of the board of directors and committee meetings of the board of directors. The directors of KIK International and other affiliated entities are 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 do not receive any additional remuneration for acting in those capacities. Directors also participate in the insurance and indemnification arrangements described under “- Insurance Coverage for the Fund and Related Entities and Indemnification”. All Trustees and directors are reimbursed for out-of-pocket expenses for attending meetings and participate in the insurance and indemnification arrangements described below. In addition, on completion of the Fund’s initial public offering, each “unrelated” Trustee received an award of 9,000 Units, to be issued in equal amounts on each of the first three anniversaries from such date and is paid additional fees equal to the distributions that would have been paid in respect of the unissued Units.

Governance

The board of trustees of the Fund is responsible for supervising the activities and managing the investments and affairs of the Fund. The board reviews, discusses and approves various matters related to the Fund’s investments and affairs, strategic direction and organizational structure to ensure that the best interests of the Fund are being served.

The Trustees are directly responsible for adopting and periodically reviewing and updating the Fund’s written corporate disclosure policy. This policy, among other things:

- articulates the legal obligations of the Fund, its affiliates and their respective trustees, directors, officers and employees with respect to confidential corporate information;
- identifies spokespersons of the Fund who are the only persons authorized to communicate with third parties such as analysts, media and investors;

- provides guidelines on the disclosure of forward-looking information;
- requires advance review by the Trustees of any disclosure of financial information to ensure the information is not material, and ensures that selective disclosure of material information is not permitted, and that when it occurs, a news release is issued immediately; and
- establishes “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 are required to file insider reports in compliance with applicable securities laws. Holders of KLP Exchangeable Units who are insiders of the Fund are required to file insider reports in respect of their ownership of both Units and KLP Exchangeable Units.

Corporate Governance and Nominating Committee of the Fund

Messrs. Cader, Arnett and Halperin comprise the Corporate Governance and Nominating Committee of the Fund. The Corporate Governance and Nominating Committee is responsible for developing and monitoring the Fund’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.

Audit Committee of the Fund

Messrs. Arnett, Cader and Rotman comprise the Audit Committee of the Fund. The Fund's Audit Committee oversees the accounting and 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.

Governance of KIK GenPar

The board of directors of KIK GenPar is responsible for the management and control of KLP, its respective subsidiaries and, indirectly, the KIK business. Both KIK GenPar and KLP Holdco are required to act in a manner that is consistent with the limited partnership agreement of KLP (the “KLP Limited Partnership Agreement”) and, in the case of KIK GenPar, is required to act in a manner that is consistent with the Securityholders’ Agreement. These agreements provide for a board of directors of KIK GenPar initially comprised of five members. Two members of the board are designated by the Vendors who are holders of KLP Exchangeable Units (currently Messrs. Cynamon and Halperin), and the balance of the board is designated by the Trustees provided that the Trustees’ designees are independent of management. See "KIK GenPar Securityholders' Agreement-Directors".

Management of the Business

The following sets out, for each of the executive officers of KIK GenPar, the person’s name, position with KIK GenPar and the current holdings of Units.

<u>Name and Municipality of Residence</u>	<u>Age</u>	<u>Office(s) with KIK GenPar and KIK</u>	<u>Number of Units</u>
DAVID CYNAMON..... Toronto, Ontario	39	Chief Executive Officer	4,773,832 ⁽¹⁾
HOWARD BRODIE..... Toronto, Ontario	45	Chief Operating Officer and Corporate Secretary	417,821 ⁽²⁾
ROY J. PEARCE..... Stouffville, Ontario	60	Chief Financial Officer	141,291 ⁽²⁾
PAUL ANDERSON..... Terrace Park, Ohio	47	Senior Vice President, Manufacturing	—

<u>Name and Municipality of Residence</u>	<u>Age</u>	<u>Office(s) with KIK GenPar and KIK</u>	<u>Number of Units</u>
STRATIS KATSIRIS Toronto, Ontario	37	Senior Vice President, Sales	100,673 ⁽²⁾
TONY DI BIASE Woodbridge, Ontario	41	Vice President, Logistics and Customer Service	19,145 ⁽²⁾

(1) These Units, including 4,773,832 KLP Subordinated Exchangeable Units represent 15% of the Units on a fully diluted basis and include KLP Subordinated Exchangeable Units owned by DSHC KIK Holdings Inc.

(2) Msrs. Brodie, Pearce, Katsiris and Di Biase hold only KLP Subordinated Units which are exchangeable for Units of the Fund.

Committees of the Board of Directors

The board of directors of KIK GenPar has 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 is 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 is 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 is to assist the board in monitoring environmental, health and safety issues. Responsibilities of this committee 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.

Long Term Incentive Plan

The directors, officers, full-time employees and consultants of KIK and its affiliates (including the Trustees of the Fund) are eligible to participate in KIK's long-term incentive plan ("LTIP"). The purpose of the LTIP is to provide eligible participants with financial incentives to improve performance and cash flow growth of the Fund. Pursuant to the LTIP, a pool of funds is set aside that is used to fund the LTIP awards based upon KIK's financial performance benchmarked against certain distributable cash threshold amounts. KIK then uses a portion of those funds to purchase Units in the market, and holds the Units until such time as they vest to each participant and a portion to pay cash awards to participants.

The compensation committee of KIK GenPar administers the LTIP and has the power to determine, among other things:

- the participants in the LTIP;
- the number of Units or percentage of the incentive pool allocated to each participant;

- the time or times when ownership of the LTIP awards will vest for each participant.

For the 2003 fiscal year, the participants eligible to receive awards under the LTIP are KIK's Chief Operating Officer, Chief Financial Officer, Senior Vice President of Operations and Senior Vice President of Sales. Participants are entitled to receive a pro rata share (based upon their respective base salaries) equal to 20% of distributable cash in excess of \$26,000,000 (which is equal, on a per Unit basis, to 110% of the target distributions of \$23.6 million per annum required to pay distributions on the KLP Subordinated Exchangeable Units) for the period from January 1, 2003 to December 31, 2003. 50% of such amount will be paid to such participants in the form of cash and 50% will be used to purchase Units on behalf of the participants. Units purchased on behalf of participants will vest in equal amounts on each of the first three anniversaries from the date of the award, and participants will receive an amount equal to the distribution that would have been paid in respect of such Units. These figures are subject to adjustment by KIK's board of directors from time to time.

Insurance Coverage for the Fund and Related Entities, and Indemnification

The directors and officers of KIK GenPar and KIK Holdco Company, the Trustees, the KOT Trustees and the directors of KIK Acquisition are covered under a directors and officer's insurance policy that provides an aggregate limit of liability to the insured directors and officers of \$30 million.

The by-laws of KIK GenPar and the trust declaration of each of the Fund and KOT 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.

ADMINISTRATION AGREEMENT

The Fund, KOT, KLP Holdco and KIK GenPar entered into the Administration Agreement on August 23, 2002. Under the terms of the Administration Agreement, KIK GenPar agreed to provide (for no 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. The Administration Agreement also provides that KLP shall assume and pay for any expenses incurred by the Fund, KOT or KLP Holdco.

The Administration Agreement has term equal to the term of the Fund. 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.

KIK GENPAR SECURITYHOLDERS' AGREEMENT

Concurrent with the completion of the Fund's initial public offering, KOT, the holders of KLP Exchangeable Units and KIK GenPar entered into a securityholders' agreement in respect of KIK GenPar.

Directors

The securityholders' agreement provides that the board of directors of KIK GenPar is initially comprised of five members. Three members of the board of directors have been designated by KOT and two members of the board of directors have been 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.

Amendment

The securityholders' agreement provides that it can only be amended, modified or waived with the approval of KIK GenPar, KOT and the holders of at least 66% 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.

ADDITIONAL INFORMATION

The Fund will provide to any person, upon request to the Director of Investor Relations of KIK GenPar at the address listed below, the following additional information:

- (a) when the Fund is in the course of a distribution of its securities pursuant to a short form prospectus or when a preliminary short form prospectus has been filed in respect of a distribution of its securities:
 - (i) one copy of this annual information form together with one copy of any document, or the pertinent pages of any document, incorporated by reference in this annual information form;
 - (ii) one copy of the financial statements of the Fund for its most recently completed financial year together with the accompanying report of the auditor and one copy of any interim financial statements of the Fund subsequent to the most recently completed financial year;
 - (iii) one copy of the information circular of the Fund in respect of its most recent annual meeting of Unitholders that involved the election of Trustees; and
 - (iv) one copy of any other document that is incorporated by reference into the short form prospectus or the preliminary short form prospectus and that is not required to be provided under (i), (ii) or (iii) above;
- (b) at any other time, one copy of any other document referred to in (a), (i), (ii) or (iii) above, provided that the Fund may require the payment of a reasonable charge if the request is made by a person who is not a security holder of the Fund.

For additional copies of this Initial Annual Information Form and the materials listed in the preceding paragraph, please contact:

KCP Income Fund
33 MacIntosh Blvd.
Concord, Ontario L4K 4L5

Attention: Director of Investor Relations, KIK GenPar
Telephone: (905) 660-0444
Fax: (905) 660-7333