Press Release

For Immediate Release, August 13, 2009

Deans Knight Income Corporation

Releases Interim Financial Statements and Management Report of Fund Performance for the period ended June 30, 2009

Vancouver, B.C. - Deans Knight Income Corporation (the "Company") (TSX: DNC) is pleased to release its interim financial statements and Management Report of Fund Performance for the six months ended June 30, 2009.

These documents can be found on SEDAR at www.sedar.com or the Company's website: www.dkincomecorp.com.

Forward-Looking Statements

This press release contains forward-looking statements. More particularly, this press release contains forward-looking statements concerning the Company's corporate objectives, the investment of the Company's remaining net proceeds from the Initial Public Offering, availability of tax losses and deductions, the anticipated total return to the Company's shareholders and the Company's intention to pay out earned income in the form of monthly dividends. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, undue reliance should not be placed on them because the Company can give no assurance that they will prove to be correct since forward-looking statements address future events and conditions and by their very nature, involve inherent risks and uncertainties. The forward-looking statements contained in this press release are made as of the date hereof and the Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

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Deans Knight Income Corporation
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INTERIM MANAGEMENT REPORT

OF FUND PERFORMANCE

This interim management report of fund performance (the "Report") contains financial highlights of the Company. This Report should be read in conjunction with the interim financial statements of the Company for the period ending June 30, 2009 (the "Financial Statements"), which, if not included with this Report, can be obtained at your request, at no cost by emailing info@dkincomecorp.com, visiting our website at www.dkincomecorp.com for contact details or on SEDAR at www.sedar.com. Shareholders may also contact us to request a free copy of the Company's proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure.

A NOTE ON FORWARD-LOOKING STATEMENTS

This Report contains certain forward-looking statements. These statements relate to future events or future performance, including the Company's targeted dividend payout, investment strategy, behaviour of financial markets and reflect the Company's expectations regarding the growth, results of operations, performance and business prospects and opportunities of the Company and its investments. Such forward-looking statements reflect the Company's current beliefs and are based on information currently available to the Company. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other comparable terminology. With respect to such forward-looking statements, the Company has made assumptions regarding, among other things, what type of debt securities will be included in its investment portfolio. A number of factors could cause actual events or results to differ materially from the results discussed in the forward-looking statements. In evaluating these statements, prospective investors should specifically consider various factors, including the risks outlined under "Risk Factors" in the Company's Prospectus (as defined herein), which may cause actual results to differ materially from any forward-looking statement. Although the forward-looking statements contained in the Prospectus are based upon what the Company believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. Forward-looking statements are made as of the date of this Report and, other than as required by applicable law, the Company assumes no obligation to update or revise them to reflect new events or circumstances.

Investment Objective and Strategies

Deans Knight Income Corporation (the "**Company**") is a closed-end, non-redeemable investment company focused on investing in corporate debt securities. The Company's assets are actively managed by Deans Knight Capital Management Ltd. ("**Deans Knight**"), a respected British Columbia-based investment firm focused on managing high income and growth mandates for high net worth individuals. Deans Knight, formed in 1992, has an experienced management team and a long history of successful investing in corporate debt securities.

The Company's investment objectives are to: (i) maximize the total return for Shareholders, consisting of dividend income and capital appreciation; and (ii) provide Shareholders (as defined herein) with monthly dividends, which have been initially set at $0.0583 per month. The Company will achieve these objectives by investing primarily in corporate debt securities rated BBB or below by Standard & Poor's Rating Services ("**S&P**") or an equivalent rating by another nationally recognized statistical rating organization. The Company may also invest in investment grade debt securities rated above BBB and non-rated debt securities from time to time.

The Company believes there are attractive investment opportunities today in owning corporate debt of businesses with tangible assets, strong cash flows and reasonable leverage, which, due to bonds trading below par value, are currently providing equity-like returns.

When evaluating bonds to purchase for the Company, Deans Knight intends to focus on the following:

- amount of security or collateral within a business to offset the value of the bonds;
- the position of the debt in the capital structure;
- covenants;
- liquidity;
- the business's ability to reduce or refinance the debt; and
- the overall term of the debt and yield to bondholders.

Deans Knight intends to employ the above credit-based analysis to identify corporate debt for inclusion in the Company with attractive valuations in order to maintain its targeted dividend payment, as well as achieve capital appreciation as bond pricing returns to more reasonable levels.

Risk

The overall risks of the Company are as described in its prospectus dated March 9, 2009. The Company does not believe there have been any changes over the financial period that has affected the overall level of risk associated with an investment in the Company.

Given the type of investments made by the Company, an investment in the Company may be considered to be speculative. An investment in the Company is generally suitable for investors who are looking to receive income yet are willing to tolerate volatility in the value of their investment.

Results of Operations

The net assets of the Company at June 30, 2009 were $119,171,545, or $11.31 per common share, which consisted of the following components:

	$	**Per common share**[1]	**%**
Investments[2]	87,219,244	8.28	73.2
Cash and short-term deposits	19,736,709	1.87	16.6
Accrued income	1,475,270	0.14	1.2
Prepaid expenses	174,153	0.02	0.1
Future income tax asset[3]	11,095,000	1.05	9.3
Accounts payable and accrued liabilities	(498,831)	(0.05)	(0.4)
	119,171,545	11.31	100.0

1. Based on 10,537,263 common shares, being 10,191,592 voting common shares, as outlined in the notes to the Financial Statements.
2. The details of the investments are outlined in the Summary of Investment Portfolios below.
3. Refer to the Taxation note to the Financial Statements for more detail.

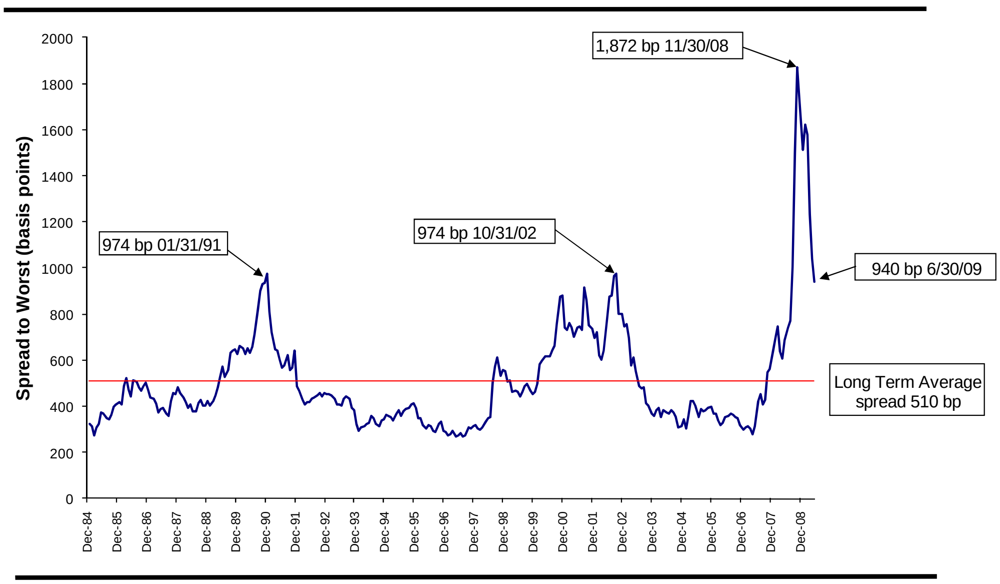
In order to generate a positive return on capital for shareholders, the Company needs to invest its available cash appropriately. Having a large cash balance in a rising price environment has a negative impact on this return. Thus, following the initial public offering ("**IPO**") on March 17, 2009, the Company has made an effort to deploy the capital as quickly and prudently as possible. At March 31, 2009, the Company had a cash balance of $62.9 million, or 59.1% of net assets. During the quarter, the Company made several investments, bringing the cash balance down to $19.7 million, or 16.5% of net assets. As of August 12, 2009, the Company's cash balance is approximately $12 million (10% of net assets). Despite having high cash balances, the Company has grown shareholders' net assets by approximately 13.1% from the IPO price of $10 per share.

In addition, the Company made its first monthly dividend payment to holders of voting common shares and non-voting common shares (collectively, the "**Shareholders**") on June 30, 2009 in the amount of $0.0583 per share, or $614,322. On July 10, 2009 the Company announced it will maintain monthly cash dividends at $0.0583 per share for the next three months, July 31, 2009, August 31, 2009, and September 30, 2009.

In the most recent quarter, high yield bond prices rose dramatically. Moreover, credit spreads between high yield bonds and government bonds have narrowed significantly from the record spread levels of late 2008 (see graph below).

Credit Spread History

Merrill Lynch US High Yield Master Index Less 10 year Treasury Yield



Source: Merrill Lynch high yield

Despite the narrowing of spreads, corporate bonds currently offer attractive yield to maturity and cash on cash yields of 10%[1], providing the Company with attractive investing opportunities.

One of the most common terms associated with high yield bonds is default risk. This is the risk that a company is not able to repay its interest or principle obligations. Many investors assume all high yield bonds are likely to default, and all default situations result in debt holders losing all of their capital. Both of these assumptions can be incorrect. To demonstrate, let's look at the Company's investment in the senior secured notes of Harvest Energy Trust (Harvest Operations 7.88% 10-15-2011). These bonds were purchased for the Company during April and May 2009, at an average cost of US$688 per US$1,000 note. This provided the Company with a yield to maturity, at time of purchase, of approximately 17.8%, and these bonds are considered to be high yield (i.e. below investment grade). Harvest Energy had total debt of $2.3 billion at December 31, 2008[2] and generated $656 million in cash flow for the year in 2008[2]. Although cash flow has declined thus far in 2009[3], Harvest has ample cash flow to service its debt.

In addition, Deans Knight estimates that the asset value of Harvest's oil production and refinery business is in excess of the total debt outstanding. Therefore, even if the company was to default, and assuming Deans Knight's assumptions are correct, bondholders would be repaid in full.

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[1] As defined by the Merrill Lynch US High Yield Master II Index, using the July index at June 30, 2009. It is calculated by dividing the par weighted coupon by the par weighted price.

[2] 2008 Annual Report for Harvest Energy Trust

[3] Q2 2009 Quarterly Report for Harvest Energy Trust

Not all high yield debt issuers are as fortunate as Harvest Energy to have sufficient cash flows and asset value to support their debt. Thus, a number of high yield issuers may default in the coming months. However, Deans Knight's experience should enable the Company to invest in bonds that are unlikely to default, and in the case of a default the bonds will likely be supported by underlying asset value.

In addition to default risk, certain market participants suggest that it is likely interest rates will rise with an improving economy, and thus bond prices will go down.These assumptions are not necessarily true. A rising interest rate environment can actually be positive for high yield bonds. High yield bond prices are generally determined by credit quality. Interest rates likely will not rise until the economy shows signs of recovery, which generally correlates to an improved business environment for most companies, thus credit quality also improves. Historically, this has resulted in positive pricing movement for high yield bonds. In addition, the average term on high yield bonds is lower than investment grade bonds, 6.6 years versus 9.9 years[4], as investors are willing to lend money to higher rated credits for longer periods (Note: the average term on our bonds is 4.1years). As interest rates rise the average price of investment grade bonds should fall by almost 40% more than high yield bonds, all else being equal.[5]

With high yield bond spreads still at high levels, Deans Knight's proven track record of investing in corporate bonds and $19.7 million of cash and short-term deposits at June 30th, the Company is well positioned to take advantage of attractive investment opportunities.

Recent Developments

Reorganization into the business of investing

On February 27, 2008, the Company reorganized its corporate structure pursuant to a plan of arrangement under the Canada Business Corporations Act (the "Arrangement"). Pursuant to the Arrangement, all of the Company's then outstanding common shares, options and warrants were exchanged for common shares, options and warrants of Forbes, a newly formed entity. As a result of the exchange of shares, the Company became a wholly-owned subsidiary of Forbes and the common shares of Forbes began to trade on the TSX and NASDAQ in substitution for the common shares of the Company.

On March 19, 2008, a third party, Forbes and the Company entered into an investment agreement pursuant to which the third party agreed to purchase a convertible debenture for $2,960,000 and the Company and Forbes agreed to reorganize the business of the Company (the "Reorganization").

[4] Bloomberg: US High Yield Master II Index vs US Corporate Master Index as of June 30, 2009

[5] Calculated using duration of the ML US Corporate Index (6.0) and the ML US High Yield Index (4.2). Duration can be defined as the percentage change in a bond's price function with respect to interest rates.

On May 9, 2008, the Company completed the Reorganization pursuant to which it entered into an asset purchase and sale agreement with Forbes whereby the Company transferred all of its assets and operations to, and its related liabilities were assumed by Forbes.

Prior to the Reorganization, the Company was a life sciences company involved in the research, development and commercialization of innovative products for the prevention and treatment of life-threatening diseases. The Company's infrastructure supported a portfolio of discovery and development stage pharmaceutical compounds and nutraceutical products. Forbes continues to carry on the prior business of the Company and in accordance with the asset purchase agreement between the Company and Forbes providing for the Reorganization, Forbes provided an indemnity to the Company with respect to liabilities relating to the Company's assets transferred to Forbes and the Company's prior business. In addition, Forbes obtained, on behalf of the Company, product liability insurance for certain claims that may arise in the future in connection with the Company's prior business.

On February 6, 2009, the Company filed articles of amendment to change its name to "Deans Knight Income Corporation". In connection with the reorganization of the Company into an investment company, the Company amended its Articles to, among other things, consolidate the issued and outstanding voting and non-voting common shares on the basis of one voting and non-voting common share for every 382 voting and non-voting common shares held, respectively. Further, the amendments provided for investment objectives and investment restrictions of the Company and redemption feature on the Company's voting and non-voting common shares, as more particularly described in the Prospectus.

In March 2009, the Company completed its IPO, whereby it raised gross proceeds of $100,368,900 and began operating its new business of investing in corporate debt.

Due to the change in the nature of the Company's business resulting from the corporate reorganization and its subsequent IPO, the comparative statements of net assets, operations, changes in net assets and cash flows for the prior period would not be meaningful and have therefore not been presented in the Financial Statements. Should you wish to review prior year's financial statements, the comparative financial statements can be found in our Prospectus. You can obtain a free copy of the Prospectus by emailing info@dkincomecorp.com, visiting our website at www.dkincomecorp.com for contact details or on SEDAR at www.sedar.com.

New accounting policies

With the new business of investing in corporate debt, the Company has many new accounting policies it has adopted. Most significant are the policies associated with Section 3855 – Financial Instruments – Recognition and Measurement; Section 3862, Financial Instruments – Disclosures, Section 3863; and, Financial Instruments – Presentation of the Canadian Institute of Chartered Accountants ("CICA") Handbook – Accounting. For a detailed explanation of these policies and the anticipated impact on the Company please refer to our Financial Statements.

Comparison of net asset value and net assets

National Instrument 81-106 ("NI 81-106") permits investment companies to have two different net asset values: (i) one for financial statements, which will be prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") including Section 3855 (and referred to as "net assets", previously disclosed as "GAAP Net Assets"); and (ii) another for all other purposes, including unit pricing for investor transactions (referred to as "net asset value", previously referred to as "Pricing NAV"). The main difference in calculating net assets and net asset value is that GAAP requires bid price to be used in valuing securities traded in an active market where quoted prices are readily and regularly available, rather than the use of a price between the bid and the ask price currently used for determining net asset value. This difference results in an insignificant difference of approximately $0.03 per common share at June 30, 2009, as outlined in the notes to the Financial Statements.

Future accounting standards

The Canadian Accounting Standards Board confirmed January 1, 2011 as the date international financial reporting standards (IFRS) will replace current Canadian standards and interpretations as GAAP for publicly accountable enterprises, which include investment funds. Management has commenced activities to identify key issues and the likely impacts resulting from the adoption of IFRS. The impact on the Company's financial statements is not certain at this time.

Related Party Transactions

The officers, and certain directors, of the Company are also employees of the Investment Advisor, Deans Knight Capital Management Ltd. These officers, and directors, are not paid by the Company. Deans Knight provides investment management services to the Company, as well as administration, financial reporting and other ancillary services required by a publicly listed company. Management fees are computed and paid quarterly, at an annual rate of 1.5% of the Net Asset Value plus applicable taxes, and adjusted for certain non-investment related assets.

For the period ended June 30, 2009, management fees totaled $424,864. In calculating the amount, the net asset value was reduced by the value of the future income tax asset included in the statement of net assets. The Portfolio Manager did not charge a management fee for the period ended March 31, 2009.

A director of the Company is a partner at a law firm that provides legal services to the Corporation. During the period ended June 30, 2009, the Corporation incurred approximately $330,000 in legal services and disbursements received from this related party, which predominantly related to the Company's IPO. At June 30, 2009, accounts payable and accrued liabilities include $10,000 to the law firm for legal fees and disbursements, which have not been billed.

Summary of Investment Portfolio

Top investments	% of Net asset value
Pacific Rubiales Energy 8.0% 08-29-2013	6.3
Cott Beverages USA 8.0% 12-15-2011	6.2
Athabasca Oil Sands Corp. 13.0% 07-31-2011	6.1
Teck Resources Ltd. 10.75% 05-15-2019	5.8
Paramount Resources 8.5% 01-31-2013	5.6
CCS Inc. 11.0% 11-22-2012	4.8
Harvest Operations 7.88% 10-15-2011	4.5
Chesapeake Energy CO 7.5% 09-15-2013	4.2
Dollarama Group LP 8.88% 08-15-2012	3.8
Bombardier Inc. 8.0% 11-15-2014	3.5
Methanex Corp. 8.75% 08-15-2012	3.5
Trinidad Drilling 7.75% 07-31-2012	3.5
Sherritt International Corp. 7.75% 10-15-2015	2.6
Provident Energy 6.5% 04-30-2011	2.4
Calfrac Holdings LP 7.75% 02-15-2015	2.3
Gibson Energy ULC 11.75% 05-27-2014	1.9
Harvest Energy 7.25% 09-20-2013	1.9
FMG FIN PTY LTD 10.63% 09-01-2013	1.6
Opti Canada Inc. 7.88% 12-15-2014	1.3
CGA Mining Limited 12.0% 11-22.2012	0.9
Sherritt International Corp. 7.88% 11-26-2012	0.9
West Fraser Timber 5.2% 10-15-2014	0.9
Methanex Corp. 6.0% 08-15-2015	0.7

Portfolio composition	% of Net asset value
Fixed Income	
Canadian denominated in CAD	9.6
Canadian denominated in USD	37.4
United States denominated in USD	12.7
Other Foreign denominated in USD	1.6
	61.3
Convertible Debentures	
Canadian denominated in CAD	14.0
Investment Portfolio	75.3
Cash & short-term deposits	16.5
Other assets less liabilities	8.2
	100.0
Sector Breakdown	
Energy	44.8
Materials and metals	15.2
Consumer goods	6.2
Retail	3.8
Industrial/Manufacturing	3.5
Precious metals	0.9
Forestry	0.9
Investment Portfolio	75.3
Cash and short-term deposits	16.5
Other net assets	8.2
	100.0

Deans Knight Income Corporation

(formerly 3887685 Canada Inc.)

Financial Statements

June 30, 2009

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF
INTERIM FINANCIAL STATEMENTS

Section 4.3(3)(a) of National Instrument 51-102, Continuous Disclosure Obligations, provides that if an auditor has not performed a review of the interim financial statements, the interim financial statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The Company's external auditors, PricewaterhouseCoopers LLP, have not performed a review of these interim financial statements of Deans Knight Income Corporation.

signed "Craig Langdon"	signed "Mark Myles"
Craig Langdon Chief Executive Officer	Mark Myles Chief Financial Officer

Deans Knight Income Corporation

(formerly 3887685 Canada Inc.)
Statement of Net Assets
As at June 30, 2009
(Unaudited)

	2009 **$**
Assets	
Current assets	
Investments – at fair value (cost - $78,746,455)	87,219,244
Cash and short-term deposits	19,736,709
Accrued interest receivable	1,475,270
Prepaid expenses	174,153
Future income tax benefits (note 8)	2,000,000
	110,605,376
Future income tax benefits (note 8)	9,065,000
	119,670,376
Liabilities	
Accounts payable and accrued liabilities (note 6)	498,831
Net assets	119,171,545
Shareholders' equity	
Common shares (note 4)	97,735,007
Contributed surplus (note 4)	9,904,504
Retained earnings (note 5)	11,532,034
	119,171,545
Number of common shares outstanding (note 4)	10,537,263
Net assets per common share	11.31

Contingency (note 2)

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

Deans Knight Income Corporation

(formerly 3887685 Canada Inc.)
Statement of Operations
For the six month period ended June 30, 2009
(Unaudited)

	2009 $
Investment income	
Interest and other	1,725,068
Expenses	
Management fees (note 6)	424,864
Public company reporting costs	69,468
Directors’ fees and expenses	53,260
Custodial fees	12,891
Foreign exchange gain	(32,249)
Accretion on convertible debenture (note 2 and 4)	103,730
Interest on convertible debenture (note 2 and 4)	215,213
	847,177
Net investment income	877,891
Realized and unrealized gains (losses) on investments	
Net realized gain on investments sold (note 7)	4,890,066
Change in unrealized appreciation on investments	10,943,081
Unrealized depreciation on foreign currency contracts	(2,470,292)
Net gain on investments	13,362,855
Increase in net assets from operations before tax	14,240,746
Recovery of future income tax	11,065,000
Increase in net assets from operations	25,305,746
Increase in net assets from operations per weighted average common share (note 3)	4.15

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

Deans Knight Income Corporation

(formerly 3887685 Canada Inc.)
Statement of Changes in Net Assets
For the six month period ended June 30, 2009
(Unaudited)

	2009 $
Increase in net assets from operations	25,305,746
Dividends to common shareholders from:	
Net investment income	(614,322)
Shareholder transactions (note 4)	
Issuance of common shares on conversion of debenture	3,358,615
Conversion of equity component of convertible debenture	(398,615)
Issuance of common shares for payment of interest on convertible debenture	215,213
Issuance of common shares on initial public offering, net of issuance costs	94,161,178
	97,336,391
Increase in net assets during the period	122,027,815
Net liabilities - beginning of period	(2,856,270)
Net assets - end of period	119,171,545

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

Deans Knight Income Corporation

(formerly 3887685 Canada Inc.)
Statement of Cash Flows
For the six month period ended June 30, 2009
(Unaudited)

	2009 **$**
Operating activities	
Increase in net assets from operations	25,305,746
Items not affecting cash	
Net realized gain on investments sold	(4,890,066)
Change in unrealized appreciation in value of investments	(10,943,081)
Unrealized depreciation in foreign exchange contracts	2,470,292
Accretion on convertible debenture	103,730
Interest on convertible debenture	215,213
Future income tax recovery	(11,065,000)
	1,196,834
Cost of investments purchased	(85,827,511)
Proceeds from investments sold	11,971,122
Net change in non-cash balances related to operations	
Accrued interest receivable	(1,475,270)
Prepaid expenses	(174,153)
Accounts payable and accrued liabilities	498,831
Net cash flow used in operating activities	(73,810,147)
Financing activities	
Dividends paid to common shareholders (note 5)	(614,322)
Issuance of common shares on initial public offering, net of issuance costs (note 4)	94,161,178
Net cash flow provided by financing activities	93,546,856
Net increase in cash during the period	19,736,709
Cash and short-term deposits – beginning of period	-
	19,736,709
Cash and short-term deposits – end of period	
Cash and short-term deposits are comprised of:	
Cash	2,642,930
Short-term deposits	17,093,779
	19,736,709

Supplemental cash flow information (note 10)

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

Deans Knight Income Corporation

(formerly 3887685 Canada Inc.)
Statement of Investments
As at June 30, 2009
(Unaudited)

	Par value[1] $	Average cost[2] $	Fair value[2] $	Percentage of total fair value[3] %
Fixed Income				
Canadian				
Denominated in Canadian dollars				
Athabasca Oil Sands Corp. 13.0% 07-31-2011	7,600,000	6,213,000	7,258,000	8.3
Sherritt International Corp. 7.75% 10-15-2015	3,500,000	2,718,438	3,080,000	3.5
Sherritt International Corp. 7.88% 11-26-2012	1,200,000	903,000	1,104,000	1.3
		9,834,438	11,442,000	13.1
Denominated in United States dollars				
Bombardier Inc. 8.00% 11-15-2014	3,828,000	3,483,772	4,183,047	4.8
CCS Inc. 11.0% 11-15-2015	7,750,000	3,879,423	5,675,906	6.5
CGA Mining Limited 12.0% 11-22-2012	1,000,000	1,028,565	1,104,375	1.3
Dollarama Group LP 8.88% 08-15-2012	4,100,000	4,520,510	4,587,516	5.3
Gibson Energy ULC 11.75% 05-27-2014	2,000,000	2,220,493	2,295,938	2.6
Harvest Operations 7.88% 10-15-2011	5,500,000	4,708,549	5,306,813	6.1
Methanex Corp. 6.0% 08-15-2015	1,000,000	879,586	892,219	1.0
Methanex Corp. 8.75% 08-15-2012	3,750,000	4,098,591	4,174,102	4.8
Opti Canada Inc. 7.88% 12-15-2014	2,000,000	1,257,971	1,499,625	1.7
Paramount Resources 8.5% 01-31-2013	6,250,000	6,653,783	6,738,867	7.7
Teck Resources Ltd. 10.75% 05-15-2019	5,500,000	6,297,137	6,873,281	7.9
West Fraser Timber 5.2% 10-15-2014	1,250,000	974,216	1,082,578	1.2
		40,002,596	44,414,267	50.9
Total Canadian Fixed Income		49,837,034	55,856,267	64.0

1 Par values are presented in their source currency.

2 All amounts are shown in Canadian dollars.

3 Percentages are shown as a percentage of total investments.

Deans Knight Income Corporation

(formerly 3887685 Canada Inc.)

Statement of Investments . . . *continued*

As at June 30, 2009

(Unaudited)

	Par value[1] $	Average cost[2] $	Fair value[2] $	Percentage of total fair value[3] %
Fixed Income				
United States				
Denominated in United States dollars				
Calfrac Holdings LP 7.75% 02-15-2015	2,750,000	2,152,126	2,749,313	3.2
Chesapeake Energy CO 7.5% 09-15-2013	4,500,000	4,987,710	4,995,844	5.7
Cott Beverages USA 8.0% 12-15-2011	6,837,000	5,754,777	7,391,652	8.5
Total United States fixed income		12,894,613	15,136,809	17.4
Foreign				
Denominated in United States dollars				
FMG FIN PTY LTD 10.63% 09-01-2016	1,750,000	1,834,705	1,953,000	2.2
Total fixed income		64,566,352	72,946,076	83.6
Convertible Debentures				
Denominated in Canadian dollars				
Harvest Energy 7.25% 09-20-2013	3,500,000	2,032,576	2,275,000	2.6
Pacific Rubiales Energy 8.0% 08-29-2013	7,250,000	6,395,313	7,467,500	8.5
Provident Energy 6.5% 04-30-2011	3,000,000	2,283,750	2,842,500	3.3
Trinidad Drilling 7.75% 07-31-2012	4,620,000	3,468,464	4,158,460	4.8
		14,180,103	16,743,460	19.2
Investments subtotal		78,746,455	89,689,536	102.8
Hedges				
Denominated in United States dollars				
Foreign currency exchange contracts (note 9)	54,000,000	-	(2,470,292)	-2.8
Portfolio Total			87,219,244	100.0

1 Par values are presented in their source currency.

2 All amounts are shown in Canadian dollars.

3 Percentages are shown as a percentage of total investments.

1 Nature of operations and basis of presentation

Deans Knight Income Corporation (the "Company"), formerly 3887685 Canada Inc., Forbes Medi-Tech Operations Inc. and Forbes Medi-Tech Inc., is a corporation continued under the laws of Canada on April 11, 2001. The Company is a closed-end, non-redeemable investment company. It invests primarily, in corporate debt rated BBB or below by recognized credit rating organizations.

Prior to the Company completing its reorganization in May 2008, it was in the business of pharmaceutical research. In May 2008, the Company was reorganized and the pharmaceutical research operations and all assets and liabilities were transferred out of the Company (note 2). In March 2009, the Company completed an initial public offering, whereby it raised gross proceeds of $100,368,900 (note 4) and began operating its new business of investing in corporate debt.

Due to the change in the nature of the Company's business resulting from the corporate reorganization, as explained in note 2 and its subsequent initial public offering, the comparative statements of net assets, operations, changes in net assets and cash flows for the prior period would not be meaningful and have therefore not been presented. The Company had no significant activities, income or expenses during the period January 1, 2009 to March 17, 2009, other than in respect of the initial public offering.

The accompanying unaudited interim financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts are presented in Canadian dollars, unless otherwise noted.

2 Reorganization

On February 27, 2008, the Company reorganized its corporate structure pursuant to a plan of arrangement under the Canada Business Corporations Act (the "Arrangement"). Pursuant to the Arrangement, the Company changed its name from "Forbes Medi-Tech Inc." to "Forbes Medi-Tech Operations Inc." and all of the Company's then outstanding common shares, options and warrants were exchanged for common shares, options and warrants of Forbes, a newly formed entity. As a result of the exchange of shares, the Company became a wholly-owned subsidiary of Forbes and the common shares of Forbes began to trade on the TSX and NASDAQ in substitution for the common shares of the Company. On March 19, 2008, a third party, Forbes and the Company entered into an investment agreement pursuant to which the third party agreed to purchase a convertible debenture for $2,960,000 and the Company and Forbes agreed to reorganize the business of the Company (the "Reorganization"). On May 9, 2008 the Company changed its name to "3887685 Canada Inc." and the Company completed the reorganization pursuant to which it transferred all of its assets and operations, and their related liabilities to Forbes.

The Convertible Debenture was convertible into 20,683,685 voting common shares and 123,818,901 non-voting common shares at the option of the third party. On March 17, 2009, the third party opted to convert the full amount of the convertible debenture (note 4).

Prior to the Reorganization, the Company was a life sciences company involved in the research, development and commercialization of innovative products for the prevention and treatment of life-threatening diseases. The Company's infrastructure supported a portfolio of discovery and development stage pharmaceutical compounds and nutraceutical products. Forbes continues to carry on the prior business of the Company and in accordance with the asset purchase agreement between the Company and Forbes providing for the Reorganization, Forbes provided an indemnity to the Company with respect to liabilities relating to the Company's assets transferred to Forbes and the Company's prior business. In addition, Forbes obtained, on behalf of the Company, product liability insurance for certain claims that may arise in the future in connection with the Company's prior business. To date, no such claims or potential claims have arisen. There can be no assurance that the above noted guarantee will be sufficient to cover any future claims.

On February 6, 2009, the Company filed articles of amendment to change its name to "Deans Knight Income Corporation". In connection with the reorganization of the Company into an investment company, the Company amended its Articles to, among other things, consolidate the issued and outstanding voting and non-voting common shares on the basis of one voting and non-voting common share for every 382 voting and non-voting common shares held, respectively (note 4). Further, the amendments provided for the Investment Objectives and Investment Restrictions of the Company and for the redemption of the voting and non-voting common shares by the Company for a cash amount equal to 100% of Net Asset Value per Share on April 30, 2014.

3 Summary of significant accounting policies

These financial statements include estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses during the period. Actual results could differ from these estimates. The following is a summary of significant accounting policies followed by the Company.

Investments

Investments are recorded at fair values and are determined as follows:

Short-term deposits

Short-term deposits are valued at cost plus accrued interest, which approximates market value.

Fixed income investments

Fixed income investments traded on a public securities exchange or traded on an over-the-counter market are valued at the closing bid price. Where no closing bid price is available, the last sale or close price is used, where, in management's opinion, this provides the best estimate of fair value.

Unlisted or non-exchange traded investments, or investments where a last bid, sale or close price is unavailable or investments for which market quotations are, in the Company's opinion, inaccurate, unreliable, or not reflective of all available material information, are valued at their fair value as determined by the Company using appropriate and accepted industry valuation techniques including valuation models. The fair value determined using valuation models requires the use of inputs and assumptions based on observable market data including volatility and other applicable rates or prices. In limited circumstances, the fair value may be determined using valuation techniques that are not supported by observable market data.

The resulting values for investments not traded in an active market may differ from values that would be determined had a ready market existed.

Forward currency contracts

Forward currency contracts are recorded at fair value. The proceeds (payments) on contracts settled during the period are included in the net realized gain on investments sold (note 7). The Company's policy is to hedge 95% - 106% of the fair value of foreign denominated investments with foreign exchange forward sell contracts.

The impact of changes in fair value on net income of the Company arising from changes in estimated fair value for private and public company investments is detailed in the statement of operations.

The net change in the fair value from the total cost of the investments is reflected in the statement of operations as changes in unrealized appreciation/depreciation in value of investments.

Investment transactions

Investment transactions are recorded on the trade date. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. These costs are expensed and are included in the statements of operations.

Cash and short-term deposits

Cash and short-term deposits consists of cash and deposits with maturities at time of purchase of three months or less and are held with a Canadian chartered bank.

Income recognition

Income from investments is recognized on an accrual basis. Interest income is accrued based on the number of days the investment is held during the period. Gain or loss on the sale of investments, including foreign exchange gain or loss on such investments, are calculated on an average cost basis.

Forward foreign currency contracts

Forward foreign currency contracts (note 9) entered into by the Company are valued at an amount that is equal to the gain or loss that would be realized if the position were to be closed out, which is equivalent to the difference between the deliverable asset and the value of the asset to be received. Changes in the value of a forward contract or the assets deliverable under such a contract are included as unrealized appreciation/depreciation of foreign currency contracts in the statement of operations.

Foreign exchange

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate applicable on the valuation date. Purchases and sales of investments, investment income and expenses are calculated at the exchange rates prevailing on the dates of the transactions.

Accretion in carrying value of convertible debenture

The carrying value of the liability component of the redeemable convertible debenture is accreted to the estimated redemption value using the effective yield method through charges to income over the period up to the redemption date.

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are measured using rates expected to apply to the taxable income in the years in which the temporary differences are expected to be settled.

A valuation allowance is recognized to the extent it is more likely than not that future income tax assets will not be realized. Management has estimated the income tax provision and future income tax balances taking into account its expectation of future income and an interpretation of the various income tax laws and regulations. It is possible, due to the complexity inherent in estimating income taxes, that the tax provision and future tax balances could change.

Future accounting standards

The Canadian Accounting Standards Board confirmed January 1, 2011 as the date international financial reporting standards (IFRS) will replace current Canadian standards and interpretations as GAAP for publicly accountable enterprises. Management has commenced activities to identify key issues and the likely impacts resulting from the adoption of IFRS.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. Actual results could differ from those reported and such differences could be material. Significant areas involving the use of estimates include determining the estimated fair value of private investments and future income tax assets. In calculating estimated fair value, the Portfolio Manager makes maximum use of publicly available market-based inputs.

Net assets per common share

The net assets per common share is computed by dividing the net assets of the Company by the total number of common shares outstanding on the valuation date.

Increase in net assets from operation per weighted average common share

The increase in net assets from operations per common share represents the increase in net assets from operations divided by the weighted average number of common shares outstanding during the period.

The weighted-average number of shares outstanding during the period ended June 30, 2009 was 6,097,337. This weighted average includes both the voting common shares and non-voting common shares of the company, and has been calculated assuming the consolidation of both voting common shares and non-voting common shares occurred at the beginning of the period.

4 Share capital

The company is authorized to issue an unlimited number of voting common shares without par value, an unlimited number of non-voting common shares with par value.

	Voting common shares		Non-voting common shares	
	Number of shares	**Amount $**	**Number of shares**	**Amount $**
Balance – December 31, 2008	38,412,100	1	-	-
Shares issued on conversion of debenture	20,683,685	480,742	123,818,901	2,877,873
Shares issued for payment of interest owed on convertible debenture	-	-	8,227,260	215,213
Share consolidation	(58,941,083)	-	(131,700,490)	-
	154,702	480,743	345,671	3,093,086
Shares issued in initial public offering	10,036,890	100,368,900	-	-
Less: Offering costs		(6,207,722)	-	-
Balance – June 30, 2009	10,191,592	94,641,921	345,671	3,093,086
Common shares outstanding at June 30, 2009			10,537,263	97,735,007

On February 6, 2009, the Company cancelled its stock option plan (no options were outstanding at December 31, 2008) and cancelled the authorized, but unissued, preferred shares.

Initial Public Offering

On March 17, 2009, the Company completed an initial public offering.

Immediately prior to the initial public offering, the $2,960,000 convertible debenture was converted at the holder’s option, resulting in the issuance of 20,683,685 voting common shares and 123,818,901 non-voting common shares. The value ascribed to these shares was the value of the convertible debenture, being $2,960,000, and the value of the equity component of the convertible debenture, being $398,615. The Company also issued 8,227,260 non-voting common shares in satisfaction of the $215,213 of interest owed on the convertible debenture.

Immediately after the issuance of shares related to the Convertible Debenture and the related interest owed, the 59,095,785 voting common shares and the 132,046,161 non-voting common shares outstanding were consolidated on a 382 to 1 basis, into 154,702 voting common shares and the 345,671 non-voting common shares.

The Company then issued 10,036,890 voting common shares at a price of $10.00 per share, for gross proceeds of $100,368,900 ($94,161,178 net of issue costs). The proceeds of these funds were used to invest in a portfolio of debt securities.

Contributed surplus

The contributed surplus balance at June 30, 2009 of $9,904,504 did not change during the period, and consists of:

	2009 **$**
Surplus related to stock compensation, warrants and options associated with common shares	8,030,295
Surplus relating to warrants associated with previously issued preferred shares	1,874,209
	9,904,504

5 Retained earnings

The changes in retained earnings for the period were as follows:

	2009 **$**
Deficit – December 31, 2008	(13,159,390)
Increase in net assets from operations	25,305,746
Dividends paid from net investment income	(614,322)
Retained earnings – June 30, 2009	11,532,034

6 Related party transactions and balances

Management fees are paid quarterly to Deans Knight Capital Management Ltd. (the Investment Advisor), a corporation with certain common directors and officers as the Company, for services received in connection with the management of the investment portfolio and financial accounts, among other services provided. Management fees are computed quarterly at an annual rate of 1.5% of Net Asset Value, adjusted for certain non-investment related assets. For the period ended June 30, 2009, management fees totalled $424,864. This amount was included in accounts payable and accrued liabilities in the statement of net assets at June 30, 2009.

A director of the Company is a partner at a law firm that provides legal services to the Corporation. During the period ended June 30, 2009, the Corporation incurred approximately $330,000 in legal services and disbursements received from this related party, which predominantly related to the Company's IPO. At June 30, 2009, accounts payable and accrued liabilities include $10,000 to the law firm for legal fees and disbursements, which have not been billed.

7 Net realized gains on investments sold

The following summarizes the net realized gains on investments sold during the period:

	2009 **$**
Proceeds from sale of investments	11,971,122
Investments at cost – beginning of period	-
Add: Cost of investments purchased	85,827,511
	85,827,511
Less: Investments at cost – end of period	(78,746,455)
Cost of investments sold	7,081,056
Net realized gains on investments sold	4,890,066

Net realized gains on investments sold consists of:

Realzed gains on securities sold	953,429
Realized gains on settlement of foreign currency contracts	3,936,637
	4,890,066

8 Taxation

Canadian GAAP requires a valuation allowance to be recognized against any future tax asset to the extent that it is more likely than not that the future income tax asset will not be realized. This is also the Company's stated accounting policy.

Prior to commencing operations as an investment corporation in March 2009, the Company had determined that it had not met this test. As such, the Company recorded a full valuation allowance against the potential value of all of its tax losses and deductions available to be taken against future years' taxable income.

As the Company's investments in debt securities are now generating interest income, and are expected to continue to generate income during the period of operations through to April 30, 2014, the Company concluded that the valuation allowance be reduced accordingly. The difference between the total value of these tax benefits less the valuation allowance, being $11,065,000, is the amount of the future income tax asset that has been recorded by the Company in the statement of net assets. This amount is recorded as a benefit in the statement of operations. The valuation allowance is reviewed periodically based on updated projections of taxable income and adjusted accordingly by a credit or change to the statement of operations in that period.

The tax effects of temporary differences that give rise to significant components of the future income tax assets at the statutory enacted rates are as follows:

	2009 **$**
Future tax assets:	
Non-capital loss carry-forwards	13,413,000
Research and development expenditures	8,943,000
Share issuance costs	1,649,000
Property plant and equipment and intangible assets	510,000
Total gross future tax assets	24,515,000
Valuation allowance	(13,450,000)
Net future tax asset	11,065,000
Less: current portion	(2,000,000)
	9,065,000

The tax balances and income tax expense recognized by the Company are based on management's interpretation of the tax laws. Due to the complexity inherent in tax interpretations, regulations and legislation, there are significant estimates required to compute income tax balances. It is possible that some or all of the Company's non-capital losses may not be deductible for tax purposes and, accordingly, the amount of future income taxes and provision for (recovery of) income taxes recorded in the financial statements could change by a material amount.

The operations of the Company and related tax interpretations, regulations and legislation are continually changing. As a result, there are significant estimates required to compute income tax balances. As at June 30, 2009, the Company has accumulated scientific research and experimental development expenditures in the amount of $34,398,700 available for carry-forward indefinitely. The Company also has accumulated approximately $7,096,900 of unclaimed federal investment tax credits. The Company also has accumulated non-capital losses in the amount of $48,423,600. The investment tax credits and Canadian non-capital losses for income tax purposes expire as follows:

Year of expiry	**Investment tax credits $**	**Non-capital losses $**
2009	-	1,687,000
2010	-	3,106,000
2014	-	4,475,800
2015	-	11,005,100
2016	264,800	-
2017	989,800	-
2018	1,872,300	-
2019	2,483,000	-
2020	297,500	-
2021	186,800	-
2022	496,200	-
2023	506,500	-
2024	-	-
2025	-	-
2026	-	15,884,700
2027	-	9,822,900
2028	-	2,478,000
	7,096,900	48,423,600

The reconciliation of income tax computed at the statutory tax rate to income tax expense, using a 30% statutory tax rate is:

	2009 $
Income before income taxes	14,240,746
Statutory tax rate	30%
Income tax expense at statutory rates	4,272,224
Use of prior years losses	(1,019,221
Changes in valuation allowance	(11,065,000)
Effect of unrealized appreciation on investments	(2,540,937)
Permanent differences	(702,391)
Effect of foreign exchange gain	(9,675)
Income tax recovery	(11,065,000)

9 Financial instruments

Fair values

The carrying value of cash and short-term deposits, accrued interest receivable and accounts payable and accrued liabilities approximates fair value due to the immediate or short-term maturity of these financial instruments. The fair value of the Company's publicly traded investments is determined by quoted bid prices at the balance sheet date. Unlisted or non-exchange traded investments, or investments where a last bid, sale or close price is unavailable or investments for which market quotations are, in the Company's opinion, inaccurate, unreliable, or not reflective of all available material information, are valued at their fair value as determined by the Company using appropriate and accepted industry valuation techniques.

Management of financial risks

In the normal course of business, the Company is exposed to various financial risks, including credit risk, liquidity risk and market risk (consisting of interest rate risk, currency risk and other price risk). The Company's overall risk management program seeks to minimize potentially adverse effects of these risks on the Company's financial performance by employing a professional, experienced portfolio adviser, by monitoring daily the Company's positions and market events, by diversifying the investment portfolio within the constraints of the investment guidelines and periodically may use derivatives to hedge certain risk exposures. Further, the Company monitors the portfolio to ensure compliance with its investment strategy, investment guidelines and securities regulations.

Fair value risk

The Company's investments are exposed to market price risk and this risk affects the fair value of the investments. All investments in fixed income investments have an inherent risk of loss of capital. The maximum risk resulting from investments is determined by their fair value. The Company seeks to manage valuation risks by careful selection of fixed income investments prior to making an investment and by regular ongoing monitoring of the investment performance of the individual investee companies.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company.

All transactions executed by the Company in listed securities are settled/paid for upon delivery using approved brokers. The risk of this settlement not occurring is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation. Since the Company invests in high-yield debt instruments and derivatives, this represents the main concentration of credit risk. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. The maximum credit exposure of these assets is represented by their carrying amounts.

As at June 30, 2009, the Company’s credit risk exposure by credit ratings is listed as follows:

Credit rating	**As a % of net assets**
BB	22.1
B	9.7
CCC	22.3
Not rated*	21.2
	75.3

*Unrated debt securities consist primarily of convertible debentures and a promissory note in publicly traded companies

Credit ratings are obtained from Standard & Poor’s and/or Moody’s. Where one or more rating is obtained for a security, the lowest rating has been used.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments.

The Company invests in interest-bearing financial instruments. As such, the Company is exposed to the risk that the value of such financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. The table below summarizes the Company’s exposure to interest rate risk by remaining term to maturity.

Bonds	**Fair value $**
Less than 1 year	-
1 -3 years	31,370,464
3 -5 years	30,330,103
Greater than 5 years	27,988,969

As at June 30, 2009, if the prevailing interest rates had been raised or lowered by 1%, assuming a parallel shift in the yield curve, with all other factors remaining constant, net assets could possibly have decreased or increased, respectively by approximately $2,581,261 (approximately 2.4% of total net assets).

Liquidity risk

As the Company is a publicly traded, closed-end investment company with a fixed number of common shares outstanding, unlike an open-ended mutual fund, it is not exposed to the liquidity risk associated with daily cash redemptions of securities.

Investments in fixed income investments may not be able to be liquidated quickly at an amount close to their fair value to respond to specific events such as deterioration in the creditworthiness of any particular issuer. Fixed income investments purchased by the Company may be subject to resale restrictions such as hold periods. The resulting values for fixed income investments may differ from values that would be realized had a ready market existed.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company invests a portion of its assets is securities that are denominated in a currency other than the Canadian dollar, which represents the functional currency of the Company. Consequently, the Company is exposed to currency risk as the value of the portfolio securities denominated in currencies other than the Canadian dollar will vary due to changes in foreign currency exchange rates.

The Company enters into foreign currency contracts with financial institutions to hedge the value of foreign currency denominated investments. The fair value of these contracts is reflected in investments. Gains or losses arising from these contracts offset the gains or losses from the underlying investments. The unrealized gains or losses are reflected in unrealized appreciation/depreciation on foreign exchange contracts on the Statement of Operations.

The table below indicates the foreign currency to which the Company has significant exposure at June 30, 2009 in Canadian dollar terms. The table also illustrates the potential impact to the Company's net assets, all other variables held constant, as a result of a 5% change in this currency relative to the Canadian dollar.

Currency	**Investments** $	**Cash and term deposits** $	**Foreign exchange contracts** $	**Total** $	**Impact on net assets** $
United States Dollars	61,741,843	642,057	(62,775,000)	(391,000)	(16,822)
As a % of net assets	(57.6%)	(0.6%)	(58.5%)	(0.3%)	(0.2%)

At June 30, 2009, the Company had outstanding foreign exchange contracts to sell US$54,000,000 against future commitments at exchange rates ranging between 1.0834 and 1.1277 with maturities ranging up to July 16, 2009.

10 Supplemental cash flow information

Non-cash financing transactions

Non-voting common shares issued on conversion of debenture	2,877,873
Voting common shares issued on conversion of debenture	480,742
Non-voting common shares issued for payment of interest on debenture	215,213

11 Capital management

The capital of the Company is divided in voting and non-voting common shares, each having an unlimited authorized amount. The number of voting and non-voting shares outstanding, and changes thereto, are outlined in note 4.

The Company manages its capital in accordance with the Company's investment objectives. The Company's investment objectives are to: (i) maximize the total return for common shareholders, consisting of dividend income and capital appreciation; and (ii) provide Shareholders with monthly dividends targeted to payout a minimum of 75% of net earnings annually. Net earnings in reference to the Company's dividend payments to Shareholders excludes any realized and unrealized capital gains and losses from debt securities in the Portfolio and any income or loss not derived from debt securities in the Portfolio. The Company commenced its dividend payments on June 30, 2009, with a payment of $0.0583 per voting and non-voting common share, or $614,322.

12 Comparison of net asset value per share and net assets per share

In accordance with Section 3.6(1) of National Instrument 81-106, the Company's net asset value per share, the net assets per share calculated in accordance with Canadian GAAP for financial reporting purposes, and an explanation of the differences between such amounts, are required disclosures in the notes to the financial statements. For investments that are traded in an active market, Canadian GAAP requires that bid prices be used in the fair value of instruments, rather than the use of the last traded price, as currently used for the purpose of determining net asset value. This change accounts for the difference between net asset value and net assets.

	June 30 2009 $
Net asset value per share	11.34
Canadian GAAP adjustments	(0.03)
Net assets per share	11.31