DEANS KNIGHT
INCOME CORPORATION

Press Release

For Immediate Release, March 11, 2009

Deans Knight Income Corporation

Releases Annual Financial Statements and Management Report of Fund Performance for the year ended December 31, 2009

Vancouver, B.C. - Deans Knight Income Corporation (the "Company") (TSX: DNC) is pleased to release its annual financial statements and Management Report of Fund Performance for the year ended December 31, 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 proceeds from the sale of investments previously made, 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

ANNUAL MANAGEMENT REPORT

OF FUND PERFORMANCE FOR 2009

This annual management report of fund performance (the "Report") contains financial highlights of the Company. This Report should be read in conjunction with the annual financial statements of the Company for the year ended December 31, 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 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.

This Report also contains certain financial and operational information obtained from public sources in respect of certain companies included in the Company's investment portfolio. While management believes this data to be reliable, such information is subject to variations and cannot be verified due to limits on the availability and reliability of data inputs, the nature of the data gathering process and other limitations and uncertainties inherent in such information. Accordingly, the accuracy, currency and completeness of this information cannot be guaranteed. The Company has not independently verified any of the data from third party sources referred to in this Report or ascertained the underlying assumptions relied upon by such sources.

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 share 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.

When evaluating securities to purchase for the Company, Deans Knight focuses on the following:

- amount of security or collateral within a business to support the value of the securities;
- 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's investment portfolio with attractive valuations in order to maintain its targeted dividend payment.

Risk

The overall risks of the Company are as described in its prospectus dated March 9, 2009 (the "Prospectus").

Prior to the reorganization and change in business as discussed in Note 1 of the Financial Statements, the Company has generated significant tax losses and other tax attributes as a result of its prior businesses and research activities. The Company has recorded, as a tax asset, the full amount of the potential tax benefit of such items to the extent of its projected taxable income. There is uncertainty as to whether the tax authorities will allow the Company to deduct some or all of the tax losses and other attributes. Should the Company be denied the deductions in full, the recorded amount of the tax assets as well as such amounts claimed to date would be recorded as a charge to income. The total tax assets recognized and tax losses and other attributes claimed to date, which are subject to uncertainty, amount to $15,647,415, representing $1.48 per common share at December 31, 2009.

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 December 31, 2009 were $128,681,694, or $12.21 per common share, which consisted of the following components:

	$	**Per common share[1]**	**%**
Investments[2]	113,245,040	10.74	87.9
Cash and short-term deposits	6,042,756	0.57	4.7
Accrued income	1,670,248	0.16	1.3
Prepaid expenses	89,840	0.01	0.1
Future income tax asset[3]	8,200,000	0.78	6.4
Accounts payable and accrued liabilities	(566,190)	(0.05)	(0.4)
	128,681,694	12.21	100.0

(1) Based on 10,537,263 common shares, including 10,191,592 voting common shares and 345,671 non-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 Portfolio below.
(3) Refer to the Taxation note to the Financial Statements for more detail.

On March 17, 2009, the Company raised $100,368,900, at $10 per share, by way of an initial public offering ("IPO"). Since that time the Company has increased the net assets by 22%, to $12.21 per share. The Company was able to accomplish this by investing in a concentrated portfolio of corporate bonds.

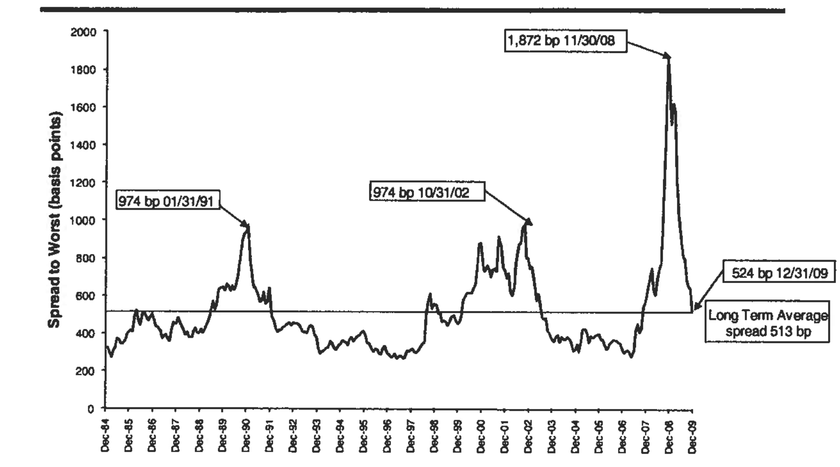
In addition, starting in June 2009, the Company made monthly dividend payments of $0.0583 per share to holders of voting common shares and non-voting common shares (collectively, the "**Shareholders**"), resulting in total dividend payments in 2009 of $0.41 per share. On January 6, 2010, the Company announced it will maintain monthly cash dividends at $0.0583 per share for the three months ended March 31, 2010.

In late 2008 and early 2009, the world economy experienced the worst recession since the Great Depression. During this time period, the spread between high yield bonds and government bonds widened to historically high levels (see graph below). Corresponding to these widening spreads was a 33% decline in high yield bond prices[1]. Historical data suggests that periods of dramatic spread widening are typically favourable times to buy corporate bonds. As credit markets improve and spreads return to more normal levels, the high yield bond market has the potential to provide equity like returns.

In 2009, the economy showed signs of improvement, corporate credit spreads returned to their long-term historical average (see graph below) and bond prices rose dramatically, resulting in a 22% increase to the Company's net assets per share.

Credit Spread History

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



Source: Merrill Lynch high yield

Bonds were generally so undervalued in early 2009 that despite recent price increases, Deans Knight still views the high yield corporate bond market as attractive. Although credit spreads may not narrow further and thus generate higher bond prices, with 10-year Government bonds in Canada and the U.S. below 4%, high yield bonds continue to offer an attractive relative return for investors.

What does the future hold? Although we don't have a crystal ball, we believe bond portfolio returns are generally more predictable than stock returns. Over the long run, the rate of return from investing in bonds should be its current yield to maturity. The average yield on bonds invested in the Company's portfolio is 8.7% versus 10-year Government bonds and investment grade bonds yielding 3.8% and 4.6%[2], respectively.

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[1] Source: Merrill Lynch US High Yield Master II Index

[2] Merrill Lynch & Co.

We concentrate on investing in businesses with tangible assets as collateral, strong cash flows and reasonable leverage that generate an attractive income return for our shareholders.

For example, the Company purchased US$5.5 million of the secured notes of Harvest Operations Corp. at US$69 per $100 of par value and $5.5 million of the convertible debentures in Harvest Energy Trust at $66 per $100 of par value. Harvest is an integrated energy company with upstream operations, currently producing 54,000 barrels of oil equivalent per day ("BOE/D") weighted at approximately 70% oil; 30% gas. In addition to its upstream operations, Harvest owns a refinery in Come By Chance Newfoundland operating as a standalone business.

On October 21, 2009, Harvest Energy Trust entered into an agreement with Korea National Oil Corporation to sell all of its issued and outstanding trust units at a price of $10 per unit for total cash consideration of $1.8 billion, plus the assumption of $2.3 billion of debt. This transaction resulted in a significant increase in the value of both the secured notes and convertible debentures, which were valued at US$101 per $100 of par value and $102 per $100 of par value, respectively.

Another large bond position for the Company is Athabasca Oil Sands Corp. debentures, paying a coupon of 13%, which mature on July 31, 2011. On August 28, 2009, Athabasca announced they had entered into a joint venture with PetroChina Company Ltd. on two of its properties. This transaction was approved by shareholders and the respective governments in late 2009. As a result of this transaction, Athabasca will be calling these debentures on March 12, 2010, at a call price of $107. The Company plans to use these proceeds to reinvest in other bond opportunities that are available today.

In August 2009, the Company purchased $7.5 million of convertible debentures issued by Whitecap Resources Inc., a private oil and gas producer. Whitecap has a 50% working interest in a Montney oil and gas asset in Alberta, which is currently producing 900 ("BOE/D") (50% oil). These assets have a reserve life of approximately 15 years with the potential to significantly increase both production and reserves using waterflood development. Whitecap has a proven management team with a history of creating value for its shareholders through exploration, development and acquisitions. The Company believes the assets of Whitecap are able to generate enough cash flow to service all of it's debt obligations.

Calfrac Well Services is a specialized oilfield service provider using fracturing equipment to increase production from oil and gas wells. Despite a difficult year for energy services companies in 2009, Calfrac was able to generate EBITDA of $69 million and increase its capacity by 59% predominantly from acquisitions made during the second half of the year. Given Calfrac's focus on cost reduction and its increase in capacity, Deans Knight believes Calfrac is well positioned to increase cash flows as the sector improves. As of the end of 2009, Calfrac's debt less working capital was less than $150 million. The average cost on the bonds held is roughly US$84 per $100 of par value and these bonds were valued at US$96 per $100 of par value on December 31, 2009, providing a yield of 8.6%.

The Company purchased Teck Cominco Ltd. 6.125% bonds, due October 31, 2035, at US$51 in March, 2009. Prior to the credit crunch, Teck acquired Fording Canadian Coal Trust, their partner in the Elk Valley Coal asset, financed almost entirely with short-term bank debt. With falling commodity prices and a strained balance sheet during the credit crunch, Teck became "at-risk" of default. We didn't know if Teck would default or not, but upon further analysis of the situation, with long term bonds trading at US$51, we felt investors could make money either way.

Firstly, although Teck had roughly $12 billion in debt, the senior notes ranked equal to bank debt. As such, Deans Knight believed buying bonds at US$51 meant we were effectively buying the company at an attractive entry point.

Secondly, we felt Teck had a number of options to sell some assets, reduce debt and renegotiate terms on their bank facilities, giving them a chance to issue equity at a less dilutive price. This is effectively what happened. In 2009, Teck sold assets for net proceeds of $2.5 billion, including a tax refund. With positive results from selling assets, the banks agreed to renegotiate terms on the bridge facilities. This improved credit quality and allowed Teck to issue US$4.2 billion in senior notes and raise over $1.7 billion in a private equity issue. We participated in the new issue of senior notes using proceeds from the sale of our 6.125% bonds at US$62 and purchased 10.75% bonds due May 15, 2019 at US$98. This allowed us to shorten the maturity and increased our cash on cash yield. Our 10.75% bonds were trading at US$119 on December 31, 2009.

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 (the "Convertible Debenture") and the Company and Forbes agreed to reorganize the business of the Company (the "Reorganization").

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.

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.

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. 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; and Section 3863, Financial Instruments – Presentation of the Canadian Institute of Chartered Accountants ("CICA") Handbook – Accounting. For a detailed explanation of these policies and the 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") and (ii) another for all other purposes, including unit pricing for investor transactions (referred to as "net asset value"). 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 $0.02 per common share at December 31, 2009, as outlined in the notes to the Financial Statements.

International Financial Reporting Standards

The Company is required to adopt international financial reporting standards ("IFRS") for fiscal periods beginning on or after January 1, 2011. This means the Company's first set of financial statements to be reported on under IFRS will be for the semi-annual period ending June 30, 2011. These statements will include corresponding comparative financial information for 2010, including an opening statement of net assets as at January 1, 2010.

The Company has established a transition plan to ensure that it is able to meet its reporting requirements. The plan consists of three main elements, which include:

- Identifying differences between the current accounting policies of the Company, which reflect current Canadian GAAP, and those expected to apply under IFRS and the likely financial statement impact resulting from the adoption of IFRS;
- Analyzing the impact of the adoption of IFRS on business and reporting processes;
- Disclosing the qualitative impact in the December 31, 2009 management report of fund performance and disclosing the quantitative impact, if any, in the December 31, 2010 management report of fund performance.

Based on the Company's analysis of current accounting policies and presentation under GAAP against IFRS the adoption of IFRS is not expected to have a material effect on the Company's net assets or net assets per share. The primary impact will be in the areas of presentation and note disclosure. Further, the Company does not believe that the changeover to IFRS will materially affect the Company's existing business arrangements.

However, it should be noted that there are additional changes to IFRS expected during 2010 and this creates some uncertainty regarding the expected accounting standards that will be in place in 2011. As such, the Company cannot conclusively determine the impact that the adoption of IFRS will have.

Throughout the balance of 2010, the Company will continue to monitor new standards and recommendations as they are issued by both the International Accounting Standards Board, who is responsible for the development and publication of IFRS, and the Canadian Accounting Standards Board, to update its analysis as appropriate. By the fourth quarter of 2010, the Company expects to complete its analysis, determine overall financial statement presentation, and complete its assessment. Any changes required with respect to its business arrangements will then be adopted.

Harmonized Sales Tax

Effective July 1, 2010, British Columbia provincial sales tax (PST) will be replaced with a value-added tax and combined with the federal Goods and Services Tax (GST) to create a Harmonized Sales Tax (HST). The HST will have a combined rate of 12%, of which the provincial portion will be 7% and the federal portion will be 5%. Although management fees and certain other service costs of the Company are currently subject to the 5% GST, but not PST, these services will be subject to the new HST. Since the Company is not able to recover this tax, the 8% difference will represent an additional cost to the Company.

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, for the services outlined above, 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 year ended December 31, 2009, management fees totaled $1,361,226. In calculating the management fee, the net asset value was reduced by the value of the future income tax asset included in the statement of net assets.

A director of the Company is a partner at a law firm that provides legal services to the Corporation. During the year ended December 31, 2009, the Corporation incurred approximately $355,000 in legal services and disbursements received from this related party, which predominantly related to the Company's IPO. At December 31, 2009, accounts payable and accrued liabilities include $550 to the law firm for legal fees and disbursements, which had not been billed.

Financial Highlights

The following tables show selected key financial information about the Company and are intended to help you understand the Company's financial performance since it began operating its new business of investing in corporate debt in March 2009.

The Company's Net Asset Value per Common Share (1)

	$
Net asset value, beginning of period (2)(3)	9.12
Increase (decrease) from operations	
Total revenue	0.62
Total expenses	(0.20)
Realized gains (losses) for the period	1.25
Unrealized gains (losses) for the period	1.23
Recovery of future income taxes	0.62
Total increase (decrease) from operations (3)	3.52
Dividends (3)(4)	
From income	(0.41)
Net asset value at December 31, 2009 (5)	12.23

(1) The information is derived from the Company's audited annual financial statements. Common shares outstanding are 10,537,263, including 10,191,592 voting common shares and 345,671 non-voting common shares.
(2) Net assets, beginning of the period reflect the net assets in the Company at March 17, 2009, after giving effect to the conversion of the Convertible Debenture and interest owing thereon and the issuance of common shares on the IPO less total share issue expenses.
(3) Net assets and dividends are based on the actual number of shares outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of shares outstanding over the period from the date the Company began operating its new business to December 31, 2009.
(4) Dividends were paid in cash.
(5) The net assets per share presented in the financial statements differs from the net asset value per share calculated for fund pricing purposes due to the provisions of CICA Handbook Section 3855. An explanation of the differences can be found in the notes to the financial statements.

Ratios and Supplemental Data

Net asset value (000's) (1)	$128,930
Number of common shares outstanding (000's) (1)	10,537
Management expense ratio before share offering costs (2)	1.71%
Management expense ratio (2) (3)	5.51%
Portfolio turnover rate (4)	36.69%
Trading expense ratio (5)	0.01%
Net asset value per common share	$12.23
Closing market price – common share	$11.40

(1) This information is provided as at December 31, 2009
(2) Management expense ratio is based on total expenses for the period and is expressed as an percentage of weekly average net asset values over the period from the date the Company began operating its business as an investment fund on March 17, 2009, to December 31, 2009.
(3) The Management expense ratio includes offering costs for the IPO of $6,268,800 less the offsetting related future tax benefit of $1,692,500.
(4) The Company's portfolio turnover rate indicates how actively the Company manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Company buying and selling all of the securities in its portfolio once in the course of the year. The higher a portfolio turnover-rate in a year, the greater the trading costs payable by the Company in the year. There is not necessarily a relationship between a high turnover rate and the performance of the investment portfolio.
(5) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. This expense is $10,050, as the purchasing and selling of bonds do not attract a commission from the buying or selling party.

Management Fees

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.

Summary of Investment Portfolio

The following is a summary of the Company's investment portfolio as at December 31, 2009. This is a summary only and will change due to ongoing portfolio transactions of the Company. A quarterly update is available at www.dkincomecorp.com.

Top 25 investments	% of Net asset value
Athabasca Oil Sands Corp. 13.0% 07-31-2011	6.5
Paramount Resources 8.5% 01-31-2013	6.3
Whitecap Resources 8.0% 09-30-2012	5.8
Calfrac Holdings LP 7.75% 02-15-2015	5.6
Trinidad Drilling 7.75% 07-31-2012	5.4
Teck Resources Ltd. 10.75% 05-15-2019	5.4
Harvest Operations 7.88% 10-15-2011	4.6
Bombardier Inc. 8.00% 11-15-2014	4.5
CCS Inc. 11.0% 11-15-2011	4.4
Harvest Energy 7.25% 09-20-2013	4.3
Chesapeake Energy Co 7.5% 09-15-2013	3.7
MetroPCS Wireless (AJ9) 9.25% 11-01-2014	3.2
Methanex Corp. 8.75% 08-15-2012	3.2
Cott Beverages Inc. 8.38% 11-15-2017	2.8
Sherritt International Corp. 7.75% 10-15-2015	2.7
Western Areas NL 8.0% 07-02-2012	2.4
Provident Energy 6.5% 04-30-2011	2.4
CGA Mining Limited 12.0% 11-22-2012	2.2
Pacific Rubiales Energy 8.75% 11-10-2016	2.2
Gibson Energy ULC 11.75% 05-27-2014	1.8
FMG FIN PTY LTD 10.63% 09-01-2016	1.6
Peak Energy Service 7.5 - 18% 01-31-2010	1.4
Opti Canada Inc. 7.88% 12-15-2014	1.3
MetroPCS Wireless (AC4) 9.25% 11-01-2014	1.2
Sherritt International Corp. 7.88% 11-26-2012	1.0

Portfolio composition	% of Net asset value
Fixed Income	
Canadian denominated in CAD	11.5
Canadian denominated in USD	37.4
United States denominated in USD	17.0
Other Foreign denominated in USD	1.6
Other Foreign denominated in AUD	2.4
	69.9
Convertible Debentures	
Canadian denominated in CAD	18.0
Investment Portfolio	87.9
Cash & short-term deposits	4.7
Other assets less liabilities	7.4
	100.0
Sector Breakdown	
Energy	56.2
Materials and metals	16.9
Industrial/Manufacturing	4.5
Technology	4.4
Consumer goods	2.8
Precious metals	2.3
Forestry	0.8
Investment Portfolio	87.9
Cash and short-term deposits	4.7
Other net assets	7.4
	100.0

Deans Knight Income Corporation

Financial Statements
December 31, 2009

PricewaterhouseCoopers LLP
Chartered Accountants
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Facsimile +1 604 806 7806

March 4, 2010

Auditors' Report

To the Shareholders of
Deans Knight Income Corporation

We have audited the statements of net assets and investments of **Deans Knight Income Corporation** as at December 31, 2009 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and the results of its operations, changes in net assets and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Deans Knight Income Corporation

Statement of Net Assets

As at December 31, 2009

	$
Assets	
Current assets	
Investments - at fair value (cost - $100,510,397)	113,245,040
Cash and short-term deposits	6,042,756
Accrued interest receivable	1,670,248
Prepaid expenses	89,840
Future income tax benefits (note 8)	2,210,000
	123,257,884
Non-current	
Future income tax benefits (note 8)	5,990,000
	129,247,884
Liabilities	
Accounts payable and accrued liabilities (note 6)	566,190
Net assets	128,681,694
Shareholders' Equity	
Common shares (note 4)	99,366,429
Contributed surplus (note 4)	9,904,504
Retained earnings (note 5)	19,410,761
	128,681,694
Number of common shares outstanding (note 4)	10,537,263
Net assets per common share (notes 8 and 12)	12.21

Contingencies (notes 2 and 8)

Commitment (note 11)

Approved by the Board of Directors

____________________ Director ____________________ Director

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

Deans Knight Income Corporation

Statement of Operations

For the year ended December 31, 2009

	$
Investment income	
Interest and other	6,563,633
Expenses	
Management fees (note 6)	1,361,226
Directors' fees and expenses	133,345
Audit fees	66,195
Public company reporting costs	62,681
Foreign exchange loss	42,714
Custodial fees	40,439
Legal fees	15,080
Independent Review Committee fees	12,000
Transaction costs	10,050
Accretion on convertible debenture (note 4)	103,730
Interest on convertible debenture (note 4)	215,213
	2,062,673
Net investment income	4,500,960
Realized and unrealized gains on investments	
Net realized gain on investments sold (note 7)	5,590,551
Net realized gain on settlement of foreign currency contracts (note 7)	7,536,754
Change in unrealized appreciation on investments	12,642,202
Unrealized appreciation on foreign currency contracts	92,441
Net gain on investments	25,861,948
Increase in net assets from operations before tax	30,362,908
Recovery of future income tax (note 8)	6,507,500
Increase in net assets from operations	36,870,408
Increase in net assets from operations per weighted average common share (note 3)	4.66

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

Deans Knight Income Corporation
Statement of Changes in Net Assets
For the year ended December 31, 2009

	$
Increase in net assets from operations	36,870,408
Dividends to common shareholders from net investment income	(4,300,257)
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 offering costs (note 4)	95,792,600
	98,967,813
Increase in net assets during the year	131,537,964
Net liabilities - Beginning of year (note 2)	(2,856,270)
Net assets - End of year	128,681,694

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

Deans Knight Income Corporation

Statement of Cash Flows

For the year ended December 31, 2009

	$
Cash flows from operating activities	
Increase in net assets from operations	36,870,408
Items not affecting cash	
Net realized gain on investments sold	(5,590,551)
Net realized gain on settlement of foreign currency contracts	(7,536,754)
Change in unrealized appreciation in value of investments	(12,642,202)
Unrealized appreciation on foreign exchange contracts	(92,441)
Accretion on convertible debenture	103,730
Interest on convertible debenture	215,213
Future income tax recovery	(6,507,500)
	4,819,903
Cost of investments purchased	(125,360,814)
Proceeds from investments sold	37,977,722
Net change in non-cash balances related to operations	
Accrued interest receivable	(1,670,248)
Prepaid expenses	(89,840)
Accounts payable and accrued liabilities	566,190
	(83,757,087)
Cash flows from financing activities	
Dividends paid to common shareholders (note 5)	(4,300,257)
Issuance of common shares on initial public offering, net of offering costs (note 4)	94,100,100
	89,799,843
Net increase in cash during the year	6,042,756
Cash and short-term deposits - Beginning of year	-
Cash and short-term deposits - End of year	6,042,756
Cash and short-term deposits comprise	
Cash	5,942,803
Short-term deposits	99,953
	6,042,756

Supplemental cash flow information (note 10)

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

Deans Knight Income Corporation

Statement of Investments

For the year ended December 31, 2009

	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	7,850,000	6,466,688	8,321,000	7.4
Peak Energy Services Trust 7.5% - 18.0% 03-31-2010	1,850,000	1,850,000	1,850,000	1.5
Sherritt International Corp. 7.75% 10-15-2015	3,500,000	2,718,438	3,570,000	3.2
Sherritt International Corp. 7.88% 11-26-2012	1,200,000	903,000	1,224,000	1.1
		11,938,126	14,965,000	13.2
Denominated in United States dollars				
Bombardier Inc. 8.00% 11-15-2014	5,268,000	5,029,913	5,730,451	5.1
CCS Inc. 11.0% 11-15-2015	7,750,000	3,879,423	5,701,675	5.0
CGA Mining Limited 12.0% 11-22-2012	2,900,000	2,967,677	2,895,505	2.6
Gibson Energy ULC 11.75% 05-27-2014	2,000,000	2,220,493	2,275,415	2.0
Harvest Operations Corp.7.88% 10-15-2011[(4)]	5,500,000	4,708,549	5,845,531	5.2
Methanex Corporation 6.0% 08-15-2015	1,000,000	879,586	896,503	0.8
Methanex Corporation 8.75% 08-15-2012	3,750,000	4,098,591	4,098,900	3.6
Opti Canada Inc. 7.88% 12-15-2014	2,000,000	1,257,971	1,713,130	1.5
Paramount Resources Ltd. 8.5% 01-31-2013	7,750,000	8,242,841	8,124,887	7.2
Teck Resources Limited 10.75% 05-15-2019	5,500,000	6,297,137	6,864,344	6.1
West Fraser Timber Co. Ltd. 5.2% 10-15-2014	1,250,000	974,216	1,169,238	1.0
		40,556,397	45,315,579	40.1
Total Canadian fixed income		52,494,523	60,280,579	53.3
Fixed income - United States				
Denominated in United States dollars				
Calfrac Holdings LP 7.75% 02-15-2015[(4)]	7,140,000	6,670,487	7,241,495	6.4
Calfrac Holdings LP 7.75% 02-15-2015 144A[(4)]	500,000	500,141	507,108	0.4
Chesapeake Energy Corp. 7.5% 09-15-2013	4,500,000	4,987,710	4,824,090	4.3
Cott Beverages Inc. 8.38% 11-15-2017	3,350,000	3,546,981	3,600,069	3.2
Metropcs Wireless Inc. 9.25% 11-01-2014	3,900,000	4,160,097	4,119,395	3.6
Metropcs Wireless Inc. 9.25% 11-01-2014	1,500,000	1,594,520	1,596,206	1.4
Total United States fixed income		21,459,936	21,888,363	19.3
Foreign				
Denominated in United States dollars				
FMG Finance Pty Ltd. 10.63% 09-01-2016	1,750,000	1,834,705	2,013,976	1.8
Denominated Australian dollars				
Western Areas NL 8.0% 07-02-2012	3,250,000	2,864,931	3,061,008	2.7
Total foreign fixed income		26,159,572	26,963,347	23.8
Total fixed income		78,654,095	87,243,926	77.1

Deans Knight Income Corporation

Statement of Investments ...*continued*

For the year ended December 31, 2009

	Par value[1] $	Average cost[2] $	Fair value[2] $	Percentage of total fair value[3] %
Convertible debentures				
Denominated in Canadian dollars				
Harvest Energy Trust 7.25% 09-30-2013[(4)]	5,500,000	3,635,076	5,596,250	5.0
Pacific Rubiales Energy Corporation 8.75% 11-10-2016[(5)]	2,500,000	2,655,612	2,772,013	2.4
Provident Energy Trust 6.5% 04-30-2011	3,000,000	2,283,750	3,030,000	2.7
Trinidad Drilling Ltd. 7.75% 07-31-2012	6,941,000	5,781,864	7,010,410	6.2
Whitecap Resources Inc. 8.0% 09-30-2012	7,500,000	7,500,000	7,500,000	6.6
		21,856,302	25,908,673	22.9
Investments subtotal		100,510,397	113,152,599	100.0
Hedges				
Denominated in United States and Australian dollars				
Foreign currency exchange contracts (note 9)	72,300,000	-	92,441	
		100,510,397	113,245,040	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
4 These investments share a common director with the Company
5 Pacific Rubiales Energy Corporation is denominated in United States dollars

1 Nature of operations and basis of presentation

Deans Knight Income Corporation (the "Company"), 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 from January 1, 2009 to March 17, 2009, other than in respect of the initial public offering.

The accompanying 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 a newly formed entity ("Forbes"). 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

The following is a summary of significant accounting policies followed by the Company.

Financial Instruments

Investments

Investments are held for trading and are recorded at fair values 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 year 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 investments is detailed in the statement of operations.

Accrued interest receivable

Accrued interest is designated as loans and receivables and is accounted for at amortized cost. Due to the immediate and short-term nature carrying value approximates fair value.

Financial liabilities

Financial liabilities, consisting of accounts payable and accrued liabilities, are designated as other financial liabilities and are accounted for at amortized costs. Due to the immediate and short-term nature, carrying value approximates fair value.

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 statement of operations.

Cash and short-term deposits

Cash and short-term deposits consists of cash and deposits with maturities at the 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 year. Gains or losses 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 year 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. The Company accounts for uncertain tax positions using the contingent liability model, whereby a provision is established only where the probability that a payment will be required to be made is considered to be greater than 75%.

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 (note 8).

Changes in accounting standards

Financial Instruments - Disclosures

Effective January 1, 2009, the Company adopted the new provisions of Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862, *Financial Instruments - Disclosures*, which requires additional disclosure over the inputs to fair value measurement, including their classification within a prioritized three-level hierarchy based on the relative reliability of the inputs used to estimate the fair values. Level 1 fair values are quoted prices in active markets (unadjusted) for identical assets or liabilities; Level 2 fair values are based on quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability either directly or indirectly and; Level 3 fair values are based on unobservable market data inputs for the asset or liability. The Company has included these disclosures in note 9.

Financial Instruments - Recognition and Measurement

Effective January 1, 2009, the Company adopted the new provisions of Handbook Section 3855, *Financial Instruments - Recognition and Measurement* relating to the accounting for debt instruments held as investments. This section requires the reversal of impairment losses relating to available-for-sale debt instruments when, in a subsequent year, the fair value of the instrument increases and the increase can be objectively related to an event occurring after the loss was recognized. The adoption of this standard did not materially impact the Company's financial statements.

Financial Instruments - Credit Risk and Fair Value

Effective January 1, 2009, the Company adopted Emerging Issues Committee ("EIC") Abstract EIC-173, *Credit Risk and the Fair Value of Financial Assets and Liabilities*, which was issued by the Accounting Standards Board ("AcSB"). The abstract clarifies how the credit risk of a counterparty or an entity's own credit risk should be taken into account in the measurement, presentation and disclosure of the fair value of financial assets and liabilities. The adoption of this standard was considered in the valuation of the investment portfolio.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. 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 operations 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 year.

The weighted-average number of shares outstanding during the year ended December 31, 2009 was 8,335,545. 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 year.

4 Capital stock

The Company is authorized to issue an unlimited number of voting common shares without par value, and an unlimited number of non-voting common shares without 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 - net of tax	-	(4,576,300)	-	-
Balance - December 31, 2009	10,191,592	96,273,343	345,671	3,093,086
Total common shares outstanding at December 31, 2009			10,537,263	99,366,429

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. The net cash proceeds of $94,100,100 were used to invest in a portfolio of debt instruments. As a result of the income tax benefit of $1,692,500 related to offering costs of $6,268,800, the total increase in voting common shares was $95,792,600.

Contributed surplus

The contributed surplus balance at December 31, 2009 of $9,904,504 did not change during the year, and consists of:

	$
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 year were as follows:

	$
Deficit - December 31, 2008	(13,159,390)
Increase in net assets from operations	36,870,408
Dividends paid from net investment income	(4,300,257)
Retained earnings - December 31, 2009	19,410,761

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 of 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 year ended December 31, 2009, management fees totalled $1,361,226. Of this amount, $476,700 was included in accounts payable and accrued liabilities in the statement of net assets at December 31, 2009, and is payable immediately.

A director of the Company is a partner at a law firm that provides legal services to the Company. During the year ended December 31, 2009, the Company incurred approximately $355,000 in legal services and disbursements received from this related party, which predominantly related to the Company's IPO. At December 31, 2009, accounts payable and accrued liabilities include $550 to the law firm for legal fees and disbursements.

7 Net realized gains on investments sold and foreign currency contracts

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

	$
Proceeds from sale of investments	37,977,722
Investments at cost - Beginning of year	-
Add: Cost of investments purchased	125,360,814
Less: Investments at cost - End of year	(100,510,397)
Cost of investments sold	24,850,417
Net realized gains on investments sold	13,127,305

Net realized gains on investments sold consists of:

Realized gains on securities sold	5,590,551
Realized gains on settlement of foreign currency contracts	7,536,754
	13,127,305

8 Taxation

Uncertainty of deductibility of tax losses

Prior to the reorganization and change in business as discussed in note 1, the Company has generated significant tax losses and other tax attributes as a result of its prior businesses and research activities. The Company has recorded, as a tax asset, the full amount of the potential tax benefit of such items to the extent of its projected taxable income. There is uncertainty as to whether the tax authorities will allow the Company to deduct some, or all, of the tax losses and other attributes. Should the Company be denied the deductions in full, the recognized amount of the tax assets as well as such amounts claimed to date would be recorded as a charge to income. The total tax assets recognized and tax losses and other attributes claimed to date, which are subject to uncertainty, amount to $15,647,415, representing $1.48 per common share at December 31, 2009.

Future tax asset

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 years of operations through to April 30, 2014, the Company concluded that the valuation allowance should be reduced accordingly. The difference between the total value of these tax benefits less the valuation allowance, being $8,200,000, is the amount of the future income tax asset that has been recorded by the Company in the statement of net assets. The valuation allowance is reviewed periodically, based on updated projections of taxable income, and adjusted accordingly by a credit or charge to the statement of operations in that year.

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:

	$
Future tax assets	
Non-capital loss carry-forwards	5,150,041
Research and development expenditures	8,599,750
Investment tax credits	5,677,600
Share issuance costs	1,316,448
Property, plant and equipment and intangible assets	490,500
Total gross future tax assets	21,234,339
Valuation allowance	(13,034,339)
Net future tax asset	8,200,000
Less: current portion	(2,210,000)
	5,990,000

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 significant components of the future income tax assets 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.

In determining the amount of future income tax assets recognized management assessed the projected taxable income of the Company. Inherent in all forward looking information is uncertainty and actual amounts could differ from these estimates and the difference could be material. In developing the projection, management has assumed full payment of all contractual interest, that investments maturing during the life of the Company will be redeemed for par value and reinvested funds will achieve an 8% yield.

Tax pools available to offset future tax expense and payable

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 December 31, 2009, the Company has accumulated scientific research and experimental development expenditures in the amount of $34,399,000 available for carry-forward indefinitely. The Company also has accumulated approximately $7,097,000 of unclaimed federal investment tax credits and accumulated non-capital losses in the amount of $19,351,000. The investment tax credits and non-capital losses for income tax purposes expire as follows:

	Investment tax credits $	Non-capital losses $
Year of expiry		
2016	265,000	-
2017	990,000	-
2018	1,872,000	-
2019	2,483,000	-
2020	298,000	-
2021	187,000	-
2022	496,000	-
2023	506,000	-
2024	-	-
2025	-	-
2026	-	7,050,000
2027	-	9,823,000
2018	-	2,478,000
	7,097,000	19,351,000

Reconciliation of income tax expense

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

	$
Income before income taxes	30,362,908
Statutory tax rate	30%
Income tax expense at statutory rates	9,108,872
Use of prior year losses	(8,763,863)
Changes in valuation allowance	(8,200,000)
Income tax benefit related to offering cost	1,692,500
Share issuance costs	(345,009)
Income tax recovery	(6,507,500)

9 Financial instruments

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy as at December 31, 2009:

	Financial assets at fair value			
	Level 1 **$**	**Level 2** **$**	**Level 3** **$**	**Total** **$**
Bonds	-	75,338,513	11,616,418	86,954,931
Convertible debentures	-	15,636,660	10,561,008	26,197,668
Foreign currency forward contract	-	92,441	-	92,441
	-	91,067,614	22,177,426	113,245,040

All investments remained at their respective levels within the fair value hierarchy during the year.

The following table reconciles the Company's Level 3 fair value measurements from March 18, 2009 (the commencement of operations as an investment company) to December 31, 2009:

	Fair value measurements of Level 3 inputs		
	Bonds **$**	**Convertible debentures** **$**	**Total** **$**
Balance - December 31, 2008	-	-	-
Purchases	9,671,316	10,364,931	20,036,247
Unrealized appreciation included in net gain on investments	1,945,102	196,077	2,141,179
Balance - December 31, 2009	11,616,418	10,561,008	22,177,426

Level 3 fair value measurements have predominantly been valued by considering data inputs such as the last price the security was traded at, most recent bid/ask information, prices of similar securities with available prices, and comparison of yields of comparable investments.

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, monitoring daily the Company's positions and market events, diversifying the investment portfolio within the constraints of the investment guidelines and periodically using 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 creditworthiness of the debt issuer. The maximum credit exposure of these assets is represented by their carrying amounts. This maximum exposure may be offset to varying degrees in each investment, based on the collateral held, if any. Collateral may include such things as a general security agreement over all assets, or specific security over specific assets. It may also entitle the debt holder to take over the overall business, through restructuring of the investment.

As at December 31, 2009, the Company's credit risk exposure by credit ratings on its investments is listed as follows:

Credit rating	As a % of net assets
BB	18.3
B	25.1
CCC	10.3
Not rated*	34.2
	87.9

* Unrated debt securities consist primarily of convertible debentures and promissory notes 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.

As at December 31, 2009, the Company's credit risk exposure by sector on its investments is as follows:

Sector	As a % of net assets
Energy	56.2
Materials and metals	16.9
Industrial/manufacturing	4.5
Technology	4.4
Consumer goods	2.8
Precious metals	2.3
Forestry	0.8
	87.9

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 term to maturity:

	Fair value $
Maturity	
Less than 1 year	1,942,441
1 - 3 years	42,986,354
3. 5 years	35,149,061
Greater than 5 years	33,167,184
	113,245,040

As at December 31, 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 $3,590,949 (approximately 2.8% 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.

The Company actively reviews its investment portfolio, and the fixed income market, to assess liquidity risk on its holdings.

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 currency contracts on the statement of operations.

The table below indicates the foreign currency to which the Company has significant exposure at December 31, 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.

	Investments $	Cash and term deposits $	Foreign exchange contracts $	Total $	Impact on net assets $
Currency					
United States dollars	71,989,931	1,259,819	18,727	73,268,477	3,373,783
As a % of net assets	55.9	1.0	0.0	56.9	2.6
Australian dollars	3,061,008	-	73,714	3,134,722	359,776
As a % of net assets	2.4	0.0	0.1	2.5	0.3

At December 31, 2009, the Company had outstanding foreign exchange contracts to sell US$69,000,000 and AUS$3,300,000 against future commitments at exchange rates ranging between 1.0411 and 1.05815 for US dollar foreign exchange contracts and 0.96645 for the AUS foreign exchange contract. Those contracts have maturities ranging up to January 28, 2010 and subsequent to their expiry, the Company entered into further foreign currency contracts in accordance with its policy to hedge its foreign currency denominated investments.

10 Supplemental cash flow information

	$
Non-cash financing transactions	
Non-voting common shares issued on conversion of debentures (note 4)	2,877,873
Voting common shares issued on conversion of debentures (note 4)	480,742
Non-voting common shares issued for payment of interest on debentures (note 4)	215,213
Future income tax benefit from offering costs (note 4)	1,692,500

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, making monthly payments of $0.0583 per voting and non-voting common share, or $614,322. This amount has been paid monthly from this date resulting in total dividend payments of $4,300,257 during the year ended December 31, 2009.

The Company is committed to pay a monthly dividend of $0.0583 per voting and non-voting common share for the three months ending March 31, 2010, totalling $1,842,966.

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 the net asset value and the net assets.

	$
Net asset value per share	12.23
Canadian GAAP adjustments	(0.02)
Net assets per share	12.21