DEANS KNIGHT
INCOME CORPORATION

Press Release

For Immediate Release, March 17, 2011

Deans Knight Income Corporation

Releases Annual Management Report of Fund Performance and Financial Statements for the year ended December 31, 2010

Vancouver, B.C. - Deans Knight Income Corporation (the "Company") (TSX: DNC) is pleased to release its annual Management Report of Fund Performance and Financial Statements for the year ended December 31, 2010.

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.

For further information contact:

Craig Langdon
Chief Executive Officer and Director
Deans Knight Income Corporation
(604)669-0212

Mark Myles
Chief Financial Officer
Deans Knight Income Corporation
(604)669-0212

DEANS KNIGHT

INCOME CORPORATION

ANNUAL MANAGEMENT REPORT

OF FUND PERFORMANCE FOR 2010

This annual management report of fund performance (the "Report") contains financial highlights of Deans Knight Income Corporation (the "Company"). This Report should be read in conjunction with the annual financial statements of the Company for the year ended December 31, 2010 (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. Readers 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. In particular, this Report contains forward-looking statements in respect of 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. 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. Such forward-looking statements reflect the Company's current beliefs and are based on information currently available to the Company. 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, currency, exchange and interest rates. 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 global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events and the risks outlined under "Risk Factors" in the AIF (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

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 (as defined herein), consisting of dividend income and capital appreciation; and (ii) provide Shareholders with monthly dividends, which to date have been set at $0.0583 per share per month. The Company intends to 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. Examples of investments made during the period are detailed below in the Results from Operations.

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 annual information form of the Company dated March 15, 2011 (the "**AIF**").

Prior to the reorganization and change in business as discussed in Note 1 of the Financial Statements, the Company 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 $20,747,249 (2009 - $15,647,415), representing $1.97 per common share at December 31, 2010 (2009 - $1.48).

There were no significant changes during the year ending December 31, 2010 that affected the overall risk of investing 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 December 31, 2010 were $143,343,361 or $13.60 per common share (2009 - $128,681,694 or $12.21 per common share). The net assets of the Company consisted of the following components:

	December 31, 2010		
	$	**Per common share[1]**	**%**
Investments[2]	128,449,450	12.19	89.6
Cash and short-term deposits	7,137,967	0.68	5.0
Accrued income	1,808,756	0.17	1.2
Prepaid expenses	89,662	0.01	0.1
Future income tax asset[3]	6,550,000	0.62	4.6
Accounts payable and accrued liabilities	(692,474)	(0.07)	(0.5)
	143,343,361	13.60	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.

	December 31, 2009		
	$	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 included in the 2009 Management Report of Fund Performance
(3) Refer to the Taxation note to the Financial Statements for more detail.

During 2010, 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 2010 of $0.70 per share (2009 - $0.41 per share). On January 6, 2011, the Company announced it will maintain monthly cash dividends at $0.0583 per share for each of the first three months of 2011.

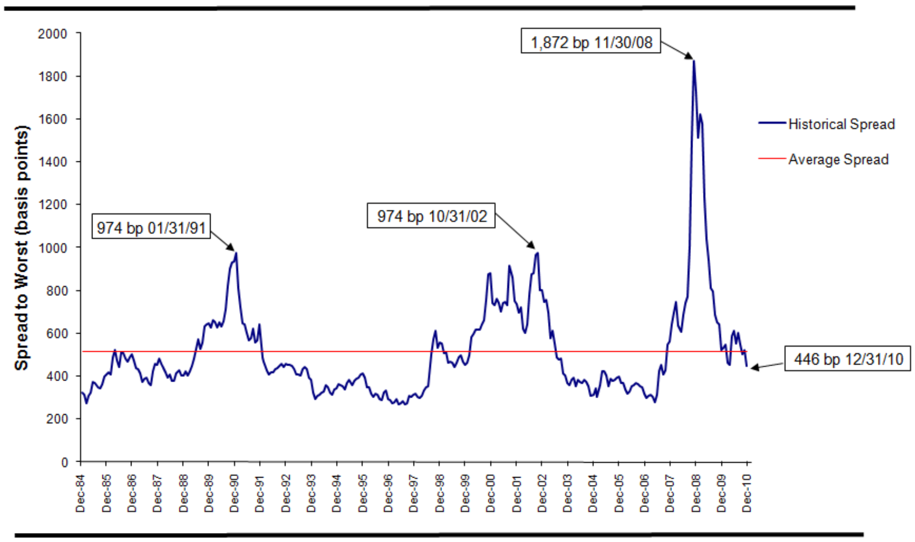
Net investment income during the year ended December 31, 2010 was $7,376,571 (2009 - $4,500,960). The increase in net investment income of $2,875,611 was due predominantly to the Company earning income for the entire year of 2010, whereas in 2009 it only earned income once investments were made, starting in March 2009. Furthermore, the Company did not incur any expenses related to the convertible debenture repaid in March 2009.

As the Company has previously stated, it believes higher yielding shorter term corporate bonds are a more attractive investment than government or high grade corporate bonds. Government and corporate investment grade yields are simply too low to compensate investors for the risk of rising interest rates. By contrast, the shorter maturity schedule and relative strength of the companies within the portfolio provide an attractive income stream where investors are being compensated for the risk.

Even though the current spread in yields between U.S. 10-year treasuries and high yield bonds has narrowed to the long term average (see graph below) the Company is still uncovering attractive opportunities within the high yield universe.

Credit Spread History

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



Source: Merrill Lynch high yield

The Company is focused on investing in debt instruments of businesses with tangible assets as collateral, strong cash flows and reasonable leverage, with covenants which limit the issuance of additional debt that would rank ahead of the Company.

For example, the Company participated in the new issue of Cara Operations Limited ("Cara") 9.125% Senior Secured Notes due December 1, 2015 ("Cara Notes"). Cara is an owner, operator and franchisor of full service and quick service restaurants across Canada. Cara's restaurant portfolio includes Swiss Chalet Rotisserie & Grill, Milestones Grill & Bar, Montana's Cookhouse, Kelsey's Neighbourhood Bar & Grill and Harvey's. Cara has a strong management team and currently has stable free cash flow. As management of Cara expands its brands further into western Canada, which appears will require modest capital expenditures by Cara, the Company believes that leverage will naturally improve the credit quality of the Cara Notes. Deans Knight believes at a yield of 9.125%, the Company is well compensated for the risk.

The Company also attempts to add additional value, by opportunistically investing in private debt financings with equity incentives that provide additional capital appreciation. The Company participated in three private financings over the past 18 months. In August 2009, the Company purchased a portion of structured a $10 million, 8% convertible debenture ("Whitecap Debenture") for Whitecap Resources Inc. ("Whitecap"), a junior Calgary-based oil and gas producer. Deans Knight is very familiar with and has great confidence in the management team of Whitecap, and has invested successfully with the same management team in previous initiatives. Whitecap grew production from 850 barrels of oil equivalent per day ("boepd") to 2,900 boepd, 60% of which is oil. The Whitecap Debenture had an exercise price of $2.88 and on December 8, 2010, the Company converted the Whitecap

Debenture into equity and subsequently sold a portion of its holding at $6.16 per share. The Company still holds shares of Whitecap (5.5% of the Company's net asset value), as the Company believes management can grow production per share and create additional value for shareholders going forward.

In the past three months, Deans Knight, on behalf of its clients, provided a $20 million secured subordinated credit facility (the "Facility") to Sure Energy Inc. ("Sure"), another junior oil and gas producer, where again Deans Knight has invested in other companies previously managed by the principals of Sure. Sure is currently producing 1,250 boepd, 46% of which is oil & liquids. Sure is undergoing a transition to a higher growth oil producer, with a significant position in the emerging Viking light oil resource at Redwater in the Plains area of central Alberta, an extensive inventory of low risk oil development (45 locations) and additional oil inventory (74 locations). The required use of proceeds by Sure under the Facility is for the development of the Viking asset and for infrastructure to increase production.

On December 21, 2010, Sure drew down $10 million of the Facility; of which the Company provided $2.5 million (1.7% of the Company’s net asset value). Additional draws on the Facility may be made at Sure’s discretion in minimum tranches of $2.5 million. The drawn portion of the Facility bears interest at 6.25 percent per annum. The undrawn portion bears a standby fee of 0.25 percent. The Facility matures on January 21, 2014. Further, 625,000 common share purchase warrants of Sure, at a price of $1.80 per share, were issued as additional consideration to the Company in connection with the Facility. These warrants expire on December 21, 2013. As of December 31, 2010, the common shares of Sure closed at $1.75 on the Toronto Stock Exchange.

Finally, on November 15, 2010, the Company participated in a short term debenture ("P1 Debenture") with P1 Energy Corp. (3.5% of the Company's net asset value). The P1 Debentures bore interest at 12 percent per annum and paid a 2.5% set-up fee at maturity. Subsequent to year-end on January 12, 2011, the P1 Debenture was repaid providing a return of 4.4% in 58 days to the Company, which equates to an annualized return of 27.7%.

Recent Developments

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 $0.05 per common share at December 31, 2010 (2009 - $0.02 per common share), as outlined in the notes to the Financial Statements.

International Financial Reporting Standards

The Company is required to adopt international financial reporting standards ("IFRS"). The Canadian Accounting Standards Board (AcSB) previously announced 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 companies.

However, on January 12, 2011, the AcSB issued a decision to defer adoption of IFRS for investment companies until years beginning on or after January 1, 2013. This is a further delay from the previously issued exposure draft of proposed accounting standard to defer IFRS for investment companies currently applying Accounting Guideline 18 - Investment Companies until years beginning on or after January 1, 2012.

Under the above noted decision, the Company's first set of financial statements to be reported on under IFRS will be for the semi-annual period ending June 30, 2013. These statements will include corresponding comparative financial information for 2012, including an opening statement of net assets as at January 1, 2012.

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, 2012 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 2011 and 2012. This potential for change creates some uncertainty regarding the expected accounting standards that will be applicable upon the Company adopting IFRS. As such, the Company cannot conclusively determine the impact that the adoption of IFRS will have.

Throughout 2011 and 2012, 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 AcSB, to update its analysis as appropriate. By the fourth quarter of the year predating the required adoption, 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

On July 1, 2010, British Columbia and Ontario provincial sales taxes (PST) were 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 has a combined rate of 12% and 13% in British Columbia and Ontario, respectively, of which the provincial portion will be 7% and 8%, respectively, and the federal portion will be 5%. Although management fees and certain other service costs of the Company were subject to the 5% GST, but not PST, these services are subject to the new HST. Since the Company is not able to recover this tax, the 8% difference represents an additional cost to the Company.

Related Party Transactions

The officers, and certain directors, of the Company are also employees of Deans Knight, the Company's investment advisor. 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, 2010, management fees totaled $2,110,657 (2009 - $1,361,226). At December 31, 2010, $599,474 (December 2009 - $476,700) was owed to Deans Knight, which was included in accounts payable and accrued liabilities in the statement of net assets, and is payable immediately. 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, 2010, the Corporation incurred $30,195 (2009 - $355,000) in legal services and disbursements received from this related party. At December 31, 2010, accounts payable and accrued liabilities include $1,355 (2009 - $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 Assets per Common Share (1)

	2010 $	2009 $
Net assets, beginning of period (2)(3)	12.21	9.12
Increase (decrease) from operations		
Total revenue	0.94	0.62
Total expenses	(0.24)	(0.20)
Realized gains (losses) for the period	1.82	1.25
Unrealized gains (losses) for the period	(0.27)	1.21
Recovery of future income taxes	(0.16)	0.62
Total increase (decrease) from operations (3)	2.09	3.50
Dividends (3)(4)		
From income	(0.70)	(0.41)
Net assets at end of period (5)	13.60	12.21

(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 for 2009 reflect the net assets in the Company at March 17, 2009, after giving effect to the conversion of the convertible debenture (as described in Note 2 to the Financial Statements) and interest owing thereon and the issuance of common shares on the Company's initial public offering 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. For 2009, the period is 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 (1)	2010	2009
Net asset value (000's)	$143,880	$128,930
Number of common shares outstanding (000's)	10,537	10,537
Management expense ratio (2) (3)	1.91%	5.51%
Portfolio turnover rate (4)	86.60%	36.69%
Trading expense ratio (5)	0.01%	0.01%
Net asset value per common share	$13.65	$12.23
Closing market price – common share	$12.54	$11.40

(1) This information is provided as at December 31 of the years shown.
(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. For 2009, this ratio is calculated 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 for 2009 includes offering costs for the initial public offering of the Company 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 $13,500 for 2010 (2009 - $13,050), as the purchasing and selling of bonds do not attract a commission from the buying or selling party.

Management Fees

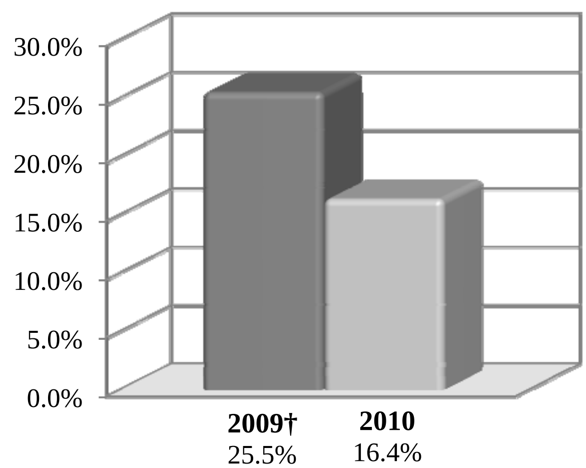
Deans Knight provides investment management services to the Company, as well as administration, financial reporting and other ancillary services required by a publicly listed company. Management fees are computed and paid quarterly, at an annual rate of 1.5% of the net asset value plus applicable taxes, and adjusted for certain non-investment related assets.

Past Performance

This section shows the Company's past performance, since it began operating its business as an investment fund. The past performance information includes changes in net asset value and assumes the reinvestment of all dividends paid to common shareholders. Also note that the performance information does not take into account sales, redemptions, or other optional charges that would have reduced returns on performance. It is important to note that the past performance will not necessarily indicate what performance in the future will be.

Year-by-year Returns

The accompanying bar chart shows the Company's performance for the years shown and illustrates how the Company's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made from when the Company began its operation as an investment fund on March 17, 2009 to December 31, 2009, and how much an investment made for the year ending December 31, 2010.



† March 20, 2009 (Inception) to Dec. 31, 2009

Annual Compound Returns

The table below summarizes the Company’s annual compound total returns for the periods ended December 31 as indicated. As a basis for comparison, we have provided the performance of the Merrill Lynch Canada High Yield Bond Index (“Index”). The Index is a broad based index that tracks the performance of the Canadian high-yield bond market. As the criteria for determining the constituents of the Company and the Index differ, it is not expected that the Company’s performance will mirror that of the Index. Further, the return of the Index is calculated without the deduction of management fees and fund expenses whereas the performance of the Company is calculated after deducting fees and expenses.

Period	**Company**	**Index**
1 Year	16.4	13.5
Since Inception	24.5	36.9

Summary of Investment Portfolio

The following is a summary of the Company's investment portfolio as at December 31, 2010. 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
Paramount Resources 8.3% 12-13-2017	6.6
North America Energy Partners Inc. 9.1% 04-07- 2017	6.4
Stone Energy Corp 8.6% 02-01-2017	6.2
Whitecap Resources Inc.- common shares	5.5
CCS Inc. 11.0% 11-15-2011	4.9
Calfrac Holdings LP 7.5% 12-01-2020	4.2
Harvest Energy 7.3% 09-30-2013	3.9
Trinidad Drilling 7.9% 01-15-2019	3.7
P1 Energy Corp. 12.0% 03-31-2011	3.5
Cott Beverages Inc. 8.4% 11-15-2017	3.3
National Money Mart 10.4% 12-15-2016	3.0
Methanex Corp. 8.8% 08-15-2012	2.7
Tembec Industries 11.3% 12-15-2018	2.7
Cara Operations Ltd. 9.1% 12-01-2015	2.7
Sherritt International Corp. 7.8% 10-15-2015	2.6
Trinidad Drilling 7.8% 07-31-2012	2.6
NewAlta Corp. 7.6% 11-23-2017	2.3
Beazer Homes USA, Inc. 9.1% 06-15-2018	2.2
Pacific Rubiales Energy Corp. 8.8% 11-10-2016	1.9
Garda World Security 9.8% 03-15-2017	1.8
Harvest Operations 6.9% 10-01-2017	1.8
Sure Energy Inc. 6.3% 01-21-2014	1.7
Gateway Casinos 8.9% 11-15-2017	1.6
Gibson Energy ULC 11.8% 05-27-2014	1.5
McMoran Exploration 11.9% 11-15-2014	1.5

Portfolio composition	% of Net asset value
Equity	5.8
Fixed Income	
Canadian denominated in CAD	31.2
Canadian denominated in USD	24.1
United States denominated in USD	19.0
	74.3
Convertible Debentures	
Canadian denominated in CAD	6.5
Other Foreign denominated in AUD	2.5
	9.0
Investment Portfolio	89.1
Cash and cash equivalents	4.9
Other Net Assets	6.0
	100.0
Sector Breakdown	
Energy	57.2
Consumer goods	9.4
Materials and metals	6.0
Forestry	4.3
Services	3.6
Chemicals	3.4
Financial Services	3.0
Industrial/manufacturing	2.2
Investment Portfolio	89.1
Cash and cash equivalents	4.9
Other net assets	6.0
	100.0

Deans Knight Income Corporation

Financial Statements
December 31, 2010

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place
250 Howe Street, Suite 700
Vancouver, British Columbia
Canada V6C 3S7
Telephone +1 604 806 7000
Facsimile +1 604 806 7806
www.pwc.com/ca

March 15, 2011

Independent Auditor's Report
To the Shareholders of Deans Knight Income Corporation (the "Corporation")

We have audited the accompanying financial statements of the Corporation, which comprise the statements of net assets as at December 31, 2010 and 2009, the statement of investment portfolio as at December 31, 2010, the statements of operations, changes in net assets, and cash flows for the years ended December 31, 2010 and 2009, and the related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with Canadian auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2010 and 2009 and the results of its operations, cash flows and changes in net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants

Deans Knight Income Corporation

Statement of Net Assets
December 31, 2010

	2010 $	2009 $
Assets		
Current		
Investments - at fair value (cost – December 31, 2010 - $118,563,957; December 31, 2009 - $ 100,510,397)	128,449,450	113,245,040
Cash and cash equivalents	7,137,967	6,042,756
Accrued interest receivable	1,808,756	1,670,248
Prepaid expenses	89,662	89,840
Future income tax benefits (note 8)	2,150,000	2,210,000
	139,635,835	123,257,884
Non-current		
Future income tax benefits (note 8)	4,400,000	5,990,000
	144,035,835	129,247,884
Liabilities		
Accounts payable and accrued liabilities (note 6)	692,474	566,190
Net assets	143,343,361	128,681,694
Shareholders' equity		
Common shares (note 4)	99,366,429	99,366,429
Contributed surplus (note 4)	9,904,504	9,904,504
Retained earnings (note 5)	34,072,428	19,410,761
	143,343,361	128,681,694
Number of common shares outstanding (note 4)	10,537,263	10,537,263
Net assets per common share (notes 8 and 12)	13.60	12.21

Contingencies (notes 2 and 8)
Commitment (note 11)
Subsequent events (note 13)

Approved by the Board of Directors

(signed) Craig Langdon Director (signed) Wayne Deans Director

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

Deans Knight Income Corporation

Statement of Operations

Year ended December 31

	2010 $	2009 $
Investment income		
Interest and other	9,928,769	6,563,633
Expenses		
Management fees (note 6)	2,110,657	1,361,226
Directors' fees and expenses	136,347	133,345
Audit, accounting and tax fees	142,515	66,195
Public company reporting costs	127,949	62,681
Foreign exchange (gain) loss	(56,760)	42,714
Custodial fees	35,795	40,439
Legal fees	30,195	15,080
Transaction costs	13,500	10,050
Independent Review Committee fees	12,000	12,000
Accretion on convertible debenture (note 4)	-	103,730
Interest on convertible debenture (note 4)	-	215,213
	2,552,198	2,062,673
Net investment income	7,376,571	4,500,960
Realized and unrealized gains (losses) on investments		
Net realized gain on investments sold (note 7)	15,928,417	5,590,551
Net realized gain on settlement of foreign currency contracts (note 7)	3,227,698	7,536,754
Change in unrealized (depreciation) appreciation on investments	(3,674,974)	12,642,202
Unrealized appreciation on foreign currency contracts	825,824	92,441
Net gain on investments	16,306,965	25,861,948
Increase in net assets from operations before tax	23,683,536	30,362,908
(Provision for) recovery of future income tax (note 8)	(1,650,000)	6,507,500
Increase in net assets from operations	22,033,536	36,870,408
Increase in net assets from operations per weighted average common share (note 3)	2.09	4.42

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

Deans Knight Income Corporation

Statement of Changes in Net Assets

Year ended December 31

	2010 $	2009 $
Increase in net assets from operations	22,033,536	36,870,408
Dividends to common shareholders (note 11)	(7,371,869)	(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	-	95,792,600
	-	98,967,813
Increase in net assets during the year	14,661,667	131,537,964
Net assets (liabilities) – Beginning of year	128,681,694	(2,856,270)
Net assets – End of year	143,343,361	128,681,694

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

Deans Knight Income Corporation

Statement of Cash Flows

Year ended December 31

	2010 $	2009 $
Cash flows from operating activities		
Increase in net assets from operations	22,033,536	36,870,408
Items not affecting cash		
Net realized gain on investments sold	(15,928,417)	(5,590,551)
Net realized gain on settlement of foreign currency contracts	(3,227,698)	(7,536,754)
Change in unrealized depreciation (appreciation) on investments	3,674,974	(12,642,202)
Unrealized appreciation on foreign exchange contacts	(825,824)	(92,441)
Accretion on convertible debenture	-	103,730
Interest on convertible debenture	-	215,213
Future income tax provision (recovery)	1,650,000	(6,507,500)
	7,376,571	4,819,903
Cost of investments purchased (note 7)	(106,283,479)	(125,360,814)
Proceeds from investments sold (note 7)	107,386,034	37,977,722
Net change in non-cash balances related to operations		
Accrued interest receivable	(138,508)	(1,670,248)
Prepaid expenses	178	(89,840)
Accounts payable and accrued liabilities	126,284	566,190
	8,467,080	(83,757,087)
Cash flows from financing activities		
Dividends paid to common shareholders (note 5)	(7,371,869)	(4,300,257)
Issuance of common shares on initial public offering, net of offering costs (note 4)	-	94,100,100
	(7,371,869)	89,799,843
Net increase in cash during the year	1,095,211	6,042,756
Cash and cash equivalents – Beginning of year	6,042,756	-
Cash and cash equivalents – End of year	7,137,967	6,042,756
Cash and cash equivalents comprise		
Cash	5,340,955	5,942,803
Short-term deposits	1,797,012	99,953
	7,137,967	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

As at December 31, 2010

	Par value [1]	Average cost [2]	Fair value [2]	Percentage of total fair value [3]
	$	**$**	**$**	**%**
Fixed income - Canadian				
Denominated in Canadian dollars				
Air Canada 10.13% 08-01-2015	1,500,000	1,485,690	1,563,750	1.2
Cara Operations Ltd. 9.13% 12-01-2015	3,750,000	3,750,000	3,881,250	3.0
Garda World Security 9.75% 03-15-2017	2,500,000	2,472,105	2,643,750	2.1
Gateway Casinos 8.88% 11-15-2017	2,250,000	2,293,125	2,317,500	1.8
Newalta Corp. 7.63% 11-23-2017	3,250,000	3,250,000	3,339,375	2.6
North American Energy Partners Inc. [4] 9.13% 04-07-2017	8,750,000	8,793,125	9,143,750	7.1
P1 Energy Corp. 12.00% 03-31-2011	5,000,000	5,000,000	5,000,000	3.9
Paramount Resources 8.25% 12-13-2017	9,250,000	9,250,000	9,388,750	7.3
Sherritt International Corp. 7.75% 10-15-2015	3,500,000	2,718,438	3,753,750	2.9
Sherritt International Corp. 7.88% 11-26-2012	1,200,000	903,000	1,273,560	1.0
Sure Energy 6.25% 01-21-2014	2,500,000	2,500,000	2,500,000	1.9
		42,415,483	44,805,435	34.8
Denominated in United States dollars				
CCS Inc. 11.00% 11-15-2015	7,750,000	3,879,423	6,975,876	5.4
CHC Helicopter 9.25% 10-15-2020	250,000	253,623	256,731	0.2
Gibson Energy ULC 11.75% 05-27-2014	2,000,000	2,220,493	2,198,066	1.7
Harvest Operations Corp. 6.88% 10-01-2017	2,500,000	2,547,532	2,548,663	2.0
Methanex Corp. 6.0% 08-15-2015	1,000,000	879,586	974,708	0.8
Methanex Corp. 8.75% 08-15-2012	3,750,000	4,098,591	3,939,548	3.1
National Money Mart 10.38% 12-15-2016	4,000,000	4,363,855	4,276,780	3.3
Opti Canada Inc. 7.88% 12-15-2014	2,000,000	1,257,971	1,392,440	1.1
Pacific Rubiales Energy Corp. 8.75% 11-10-2016	2,500,000	2,655,612	2,800,664	2.2
Tembec Industries 11.25% 12-15-2018	3,750,000	4,015,216	3,934,886	3.1
Trinidad Drilling 7.88% 01-15-2019	5,250,000	5,261,477	5,234,704	4.1
		31,433,379	34,533,066	27.0
Total Canadian fixed income		73,848,862	79,338,501	61.8

[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

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

Deans Knight Income Corporation

Statement of Investments...*continued*

As at December 31, 2010

	Par value [1] $	Average cost [2] $	Fair value [2] $	Percentage of total fair value [3] %
Fixed income – United States				
Denominated in United States dollars				
ABI Escrow Corp. 10.25% 10-15-2018	2,000,000	2,062,000	2,168,228	1.7
Beazer Homes USA, Inc. 9.13% 06-15-2018	3,250,000	3,327,056	3,167,801	2.4
Calfrac Holdings LP 7.5% 12-01-2020	6,000,000	6,130,329	6,072,033	4.7
Cott Beverages Inc. 8.38% 11-15-2017	4,350,000	4,622,109	4,672,631	3.6
McMoRan Exploration Co. 11.88% 11-15-2014	2,000,000	2,114,471	2,193,093	1.7
Stone Energy Corp. 8.63% 2-01-2017	8,750,000	8,821,638	8,833,291	6.9
Total United States fixed income		27,077,603	27,107,077	21.0
Total fixed income		100,926,465	106,445,578	82.8
Convertible debentures - Canadian				
Denominated in Canadian dollars				
Harvest Energy 7.25% 09-30-2013	5,500,000	3,635,076	5,643,000	4.4
Trinidad Drilling 7.75% 07-31-2012	3,691,000	3,074,609	3,691,369	2.9
Convertible debentures - Australian				
Denominated Australian dollars				
Western Areas NL 6.38% 07-02-2014	1,872,000	1,879,862	2,010,509	1.6
Western Areas NL 8.0% 07-02-2012	1,500,000	1,322,276	1,607,168	1.3
		9,911,823	12,952,046	10.2
Equity				
Sure Energy Inc.- purchase warrants	625,000	-	400,000	0.3
Whitecap Resources Inc.- common shares	1,254,167	7,725,669	7,826,002	6.1
		7,725,669	8,226,002	6.4
Investments subtotal		118,563,957	127,623,626	99.4
Hedges				
Denominated in United States and Australian dollars				
Foreign currency exchange contracts (note 9)	66,700,000	-	825,824	0.6
		118,563,957	128,449,450	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

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

1 Nature of operations and basis of presentation

Deans Knight Income Corporation (the "Company") 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.

The common shares of the Company will be redeemed on, or around, April 30, 2014, for a cash amount equal to 100% of the net asset value per share.

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

In 2008, the Company reorganized its corporate structure and business, and issued a convertible debenture for $2,960,000. 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 and interest accrued thereon (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. Forbes Medi-Tech Inc ("Forbes"), who now carries on the prior business of the Company, has 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.

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:

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 certain 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, and the difference could be significant.

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 settlement of foreign currency contracts (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.

Public company equities

Publicly traded equities are recorded at bid prices as quoted on recognized stock exchanges.

The amounts at which the Fund's publicly-traded investments could be disposed of currently may differ from carrying value based on market quotes, as the value at which significant ownership positions are sold is often different than the quoted market price due to a variety of factors such as premiums paid for large blocks or discounts due to illiquidity.

Warrants

Warrants are recorded at their estimated fair value, using appropriate and accepted industry valuation techniques.

The impact of changes in fair value on net income of the Company arising from changes in estimated fair value for investments is recorded in the statement of operations.

Cash and cash equivalents

Cash and cash equivalents are accounted for at amortized cost. They consist of cash and deposits with maturities, at the time of purchase, of three months or less and are held with a Canadian chartered bank.

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 cost. 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.

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 it is likely that a payment will be required to be made.

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), and the change could be significant.

Use of estimates

The preparation of financial statements in conformity with 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 investments and future income tax assets.

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 balance sheet 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 period.

The weighted average number of shares outstanding during the year ended December 31, 2010 was 10,537,263 (December 31, 2009 – 8,335,545). This weighted average includes both the voting common shares and non-voting common shares of the Company.

Comparative figures

Certain of the comparative figures have been reclassified to conform with the current period presentation.

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 and December 31, 2010	10,191,592	96,273,343	345,671	3,093,086
Total common shares outstanding at December 31, 2009 and December 31, 2010			10,537,263	99,366,429

On February 6, 2009, the Company cancelled its stock option plan 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 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 share capital relating to voting common shares was $95,792,600.

Contributed surplus

The contributed surplus balance did not change during the year, and consists of:

	December 31, 2010 $	December 31, 2009 $
Surplus related to stock compensation, warrants and options associated with common shares	8,030,295	8,030,295
Surplus relating to warrants associated with previously issued preferred shares	1,874,209	1,874,209
	9,904,504	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
Increase in net assets from operations	22,033,536
Dividends paid from net investment income	(7,371,869)
Retained earnings – December 31, 2010	34,072,428

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, 2010, management fees totalled $2,110,657 (December 31, 2009 - $1,361,226). At December 31, 2010, $599,474 (December 31, 2009 - $476,700) was owed to the Investment Advisor, which was included in accounts payable and accrued liabilities in the statement of net assets at December 31, 2010, 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, 2010, the Company incurred $30,195 (December 31, 2009 - $ 355,000) in legal services and disbursements received from this related party. At December 31, 2010, accounts payable and accrued liabilities include $1,355 (December 31, 2009 - $550) due to the law firm for legal fees and disbursements.

7 Net realized gains on investments sold and foreign currency contracts

The net realized gain (loss) on sale of investments for the year ended December 31 was as follows:

	2010 **$**	**2009** **$**
Proceeds from sale of investments	107,386,034	37,977,722
Investments at cost – Beginning of year	100,510,397	-
Add: Cost of investments purchased	106,283,479	125,360,814
	206,793,876	125,360,814
Less: Investments at cost – End of year	(118,563,957)	(100,510,397)
Cost of investments sold	88,229,919	24,850,417
Net realized gains on investments sold	19,156,115	13,127,305

Net realized gains on investments sold consist of:

	2010 **$**	**2009** **$**
Realized gains on securities sold	15,928,417	5,590,551
Realized gains on settlement of foreign currency contracts	3,227,698	7,536,754
	19,156,115	13,127,305

8 Taxation

Uncertainty of deductibility of tax losses

Prior to the reorganization and change in business as discussed in notes 1 and 2, the Company had 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 no guarantee that 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, 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 $20,747,249 (December 31, 2009 - $15,647,415), representing $1.97 per common share at December 31, 2010 (December 31, 2009 - $1.48 per common share).

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 $6,550,000 (December 31, 2009 - $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 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:

	December 31, 2010 $	December 31, 2009 $
Future tax assets		
Non-capital loss carry-forwards	-	5,150,041
Research and development expenditures	8,467,000	8,599,750
Investment tax credits	6,032,450	5,677,600
Share issuance costs	959,100	1,316,448
Property, plant and equipment and intangible assets	-	490,500
Total gross future tax assets	15,558,550	21,234,339
Valuation allowance	(8,908,550)	(13,034,339)
Net future tax asset	6,550,000	8,200,000
Less: current portion	(2,150,000)	(2,210,000)
	4,400,000	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 prior to April 30, 2014 will be redeemed for par value, that reinvested funds will achieve an 8% yield, and that investments maturing after April 30, 2014 will be sold at their current value.

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, significant estimates are required to compute income tax balances. As at December 31, 2010, the Company has accumulated scientific research and experimental development expenditures in the amount of $33,460,000 available for carry-forward indefinitely. The Company also has accumulated approximately $7,097,000 of unclaimed federal investment tax credits, which expire as follows:

	Investment tax credits $
Year of expiry	
2018	265,000
2019	990,000
2020	1,872,000
2021	2,483,000
2022	298,000
2023	187,000
2024	496,000
2025	506,000
	7,097,000

Reconciliation of income tax expense

The reconciliation of income tax computed at the statutory tax rate to income tax expense, using a 28.5% statutory tax rate (2009 – 30%), is:

	December 31, 2010 $	December 31, 2009 $
Increase in net assets from operations before taxes	23,683,536	30,362,908
Statutory tax rate	28.5%	30%
Income tax expense at statutory rates	6,749,808	9,108,872
Use of prior year losses	(6,124,935)	(8,763,863)
Use of scientific research and experimental development expenditures	(267,551)	-
Changes in valuation allowance	1,650,000	(8,200,000)
Future tax benefit related to initial public offering costs	-	1,692,500
Current tax deductions for offering costs	(357,322)	(345,009)
Income tax provision (recovery)	1,650,000	(6,507,500)

9 Financial instruments

The following tables illustrate the classification of the Company's financial instruments within the fair value hierarchy:

	Financial assets at fair value – December 31, 2010			
	Level 1 $	Level 2 $	Level 3 $	Total $
Corporate debt	-	91,969,703	14,475,875	106,445,578
Convertible debentures	-	9,334,369	3,617,677	12,952,046
Equity	7,826,002	-	400,000	8,226,002
Foreign currency forward contracts	-	825,824	-	825,824
	7,826,002	102,129,896	18,493,552	128,449,450

	Financial assets at fair value – December 31, 2009			
	Level 1 $	**Level 2** $	**Level 3** $	**Total** $
Corporate debt	-	75,338,513	11,616,418	86,954,931
Convertible debentures	-	15,636,660	10,561,008	26,197,668
Foreign currency forward contracts	-	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:

	Fair value measurements of Level 3 inputs			
	Corporate debt $	**Convertible debentures** $	**Equity** $	**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
Purchases	7,500,000	1,879,862	-	9,379,862
Sales	(6,061,608)	(17,921,531)	-	(23,983,139)
Unrealized appreciation included in net gain on investments	1,421,065	9,098,338	400,000	10,919,403
Balance – December 31, 2010	14,475,875	3,617,677	400,000	18,493,552

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 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.

The Company's credit risk exposure by credit ratings on its investments is listed as follows:

	As a % of net assets	
	December 31, 2010	**December 31, 2009**
Credit rating		
BB	10.7	18.3
B	36.0	25.1
CCC	21.3	10.3
CC	1.0	-
Not rated*	20.0	34.2
	89.0	87.9

* Unrated debt securities consist primarily of equity securities, convertible debentures and promissory notes in publicly traded companies

Credit ratings are obtained from various credit rating agencies and sources. Where one or more rating is obtained for a security, the lowest rating has been used.

The Company's credit risk exposure by sector on its investments is as follows:

	As a % of net assets	
	December 31, 2010	**December 31, 2009**
Sector		
Energy	57.1	56.2
Materials and metals	6.0	16.9
Consumer goods	9.4	2.8
Services	3.6	-
Chemicals	3.4	-
Financial services	3.0	-
Industrial/manufacturing	2.2	4.5
Forestry	4.3	0.8
Telecommunications	-	4.4
Precious metals	-	2.3
	89.0	**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 primarily 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
	December 31, 2010 $	**December 31, 2009 $**
Maturity		
Less than 1 year	5,825,824	1,942,441
1 – 3 years	16,154,645	42,986,354
3 – 5 years	27,443,442	35,149,061
Greater than 5 years	70,799,537	33,167,184
	120,223,448	113,245,040

As at December 31, 2010, 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 $4,900,000, or approximately 3.4% of net assets (December 31, 2009 - $3,500,000, or approximately 2.8% of 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 tables below indicate the foreign currency to which the Company had significant exposure in Canadian dollar terms. The tables also illustrate 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, assuming the forward currency contracts in place did not offset the foreign currency risk.

				As at December 31, 2010	
	Investments $	**Cash and cash equivalents $**	**Foreign exchange contracts $**	**Total $**	**Impact on net assets $**
Currency					
United States dollars	61,640,143	5,024,395	916,045	67,580,583	3,379,029
As a % of net assets	43.1	3.5	0.6	47.3	2.4
Australian dollars	3,617,677	-	(90,221)	3,527,456	176,373
As a % of net assets	2.5	0.0	-0.1	2.5	0.1

				As at December 31, 2009	
	Investments $	**Cash and cash equivalents $**	**Foreign exchange contracts $**	**Total $**	**Impact on net assets $**
Currency					
United States dollars	71,989,931	1,259,819	18,727	73,268,477	3,663,424
As a % of net assets	55.9	1.0	0.0	56.9	2.8
Australian dollars	3,061,008	-	73,714	3,134,722	156,736
As a % of net assets	2.4	-	0.1	2.5	0.1

At December 31, 2010, the Company had outstanding foreign exchange contracts to sell US$63,000,000 and AUS$3,700,000 against future commitments at exchange rates ranging between 1.00675 and 1.01055 for US dollar foreign exchange contracts and 0.99315 for the AUS dollar foreign exchange contract. Those contracts have maturities ranging up to January 26, 2011 and are with AAA rated Canadian bank and counterparties.

10 Supplemental cash flow information

	Year ended December 31,	
	2010	**2009**
	$	**$**
Non-cash operating transactions		
Proceeds from investments on conversion of debenture	17,921,531	-
Cost of investments on conversion of debenture	(17,921,531)	-
Non-cash financing transactions		
Non-voting common shares issued on conversion of debenture (note 4)	-	2,877,873
Voting common shares issued on conversion of debenture (note 4)	-	480,742
Non-voting common shares issued for payment of interest on debenture (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 into 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 exclude 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. During the year ended December 31, 2010, the Company made dividend payments of $7,371,869 (December 31, 2009 - $4,300,257).

The Company intends to continue paying a monthly dividend of $0.0583 per voting and non-voting common share for the three months ending March 31, 2011, 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.

	December 31, 2010 $	December 31, 2009 $
Net asset value per share	13.65	12.23
Canadian GAAP adjustments	(0.05)	(0.02)
Net assets per share	13.60	12.21

13 Subsequent events

On January 6, 2011, the Company announced a monthly dividend of $614,322, or $0.0583 per common share, payable on each of January 31, 2011, February 28, 2011 and March 31, 2011.