No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and only by persons permitted to sell these securities.

These securities have not been and will not be registered under the United States Securities Act of 1933, as amended, and, subject to certain exemptions, will not be offered or sold within the United States or to U.S. persons. In the United States, these securities are only being offered to a limited number of purchasers that qualify as both "accredited investors" as defined in Regulation D promulgated under the United States Securities Act of 1933, as amended and "qualified purchasers" as defined for the purposes of Section 3(c)(7) of the United States Investment Company Act of 1940, as amended. See "Plan of Distribution".

PROSPECTUS

Initial Public Offering March 9, 2009

DEANS KNIGHT
INCOME CORPORATION

MINIMUM $75,000,000
(7,500,000 COMMON SHARES)

Deans Knight Income Corporation (the "**Company**") is a closed-end, non-redeemable investment company with a life of approximately five years from Closing (as defined herein). The Company proposes to offer voting common shares ("**Shares**") at a price of $10.00 per Share (the "**Offering**").

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 targeted to payout a minimum of 75% of Net Earnings (as defined herein) annually. The Company will invest in corporate debt securities, which are currently providing historically high yields. The debt securities of many corporate issuers are currently trading at significant discounts to par value, and as a result, the total return on the Portfolio is expected to consist of an income component as well as capital appreciation. The net proceeds of the Offering will be invested by the Company in an actively managed portfolio (the "**Portfolio**") consisting primarily of 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. See "Investment Objectives", "Investment Strategy" and "Overview of What the Company Invests In".

The Portfolio will be actively managed by Deans Knight Capital Management Ltd. (the "**Investment Advisor**"), a respected British Columbia-based investment firm focused on high income and growth mandates. Formed in 1992, the Investment Advisor is also the manager of several other specialized funds and has total assets under management of approximately $1 billion. The Investment Advisor has an experienced management team and a long history of successful investing in corporate debt securities. Principals of the Investment Advisor and certain officers and directors of the Company intend to purchase a minimum of $4,000,000 of Shares offered pursuant to the Offering. See "Organization and Management Details of the Company – The Investment Advisor".

The Investment Advisor believes that the current market and economic conditions have created an opportunistic investment environment for corporate bonds. The tightening of the global credit markets has effectively dropped the prices of corporate bonds, resulting in bond yields exceeding record levels. As of December 31, 2008, yields of corporate bonds rated below investment grade were more than 1700 basis points higher than 10-year government bonds in the U.S. These yields can provide equity-like returns to shareholders in a period of economic uncertainty. Bonds are also typically more resilient in a recessionary environment and usually recover ahead of equities. In addition, bond investments provide investors with additional security, since bonds have seniority over equity in the capital structure of an issuer in the event of default.

The Company intends to declare and pay a monthly cash dividend to Shareholders targeted to pay out a minimum of 75% of Net Earnings annually. The initial monthly dividend amount is expected to be approximately $0.0583 per

(continued from cover)

Share payable on June 30, 2009 to Shareholders of record on June 15, 2009. This represents a 7.0% dividend yield per annum based on the $10.00 per Share issue price. The Company will continue to determine and announce, on a quarterly basis, an indicative dividend amount for the following three months, based upon the prevailing market conditions and the estimate by the Company of cash flow for the period. As credit spreads narrow, the Company intends to pay out a higher percentage of earned income. It is expected that monthly cash dividends payable to Shareholders will be derived primarily from interest received by the Portfolio. As a result of this and other factors, dividends may fluctuate from month to month and there can be no assurance that the Company will pay its targeted dividends or any dividend in any particular month. See "Distribution Policy".

Price: $10.00 per Share
Minimum Purchase: 100 Shares

	Price to the Public	Agents' Fee	Net Proceeds to the Company(1)
Per Share	$10.00	$0.50	$9.50
Minimum Total Offering(2)(3)	$75,000,000	$3,750,000	$71,250,000
Maximum Total Offering(3)	$175,000,000	$8,750,000	$166,250,000

Notes:

(1) Before deducting the expenses of the Offering, estimated to be $1,250,000, which, subject to a maximum of 1.5% of the gross proceeds of the Offering, together with the Agents' fee, will be paid by the Company from the proceeds of the Offering.

(2) There will be no closing unless a minimum of 7,500,000 Shares are sold. If subscriptions for a minimum of 7,500,000 Shares have not been received within 90 days following the date of issuance of a receipt for this prospectus, the Offering may not continue without the consent of the Canadian securities regulators and those who have subscribed for Shares on or before such date.

(3) The Company has granted to the Agents an option (the "**Over-Allotment Option**"), exercisable for a period of 30 days from the Closing Date to purchase an aggregate of up to 15% of the aggregate number of Shares issued on the Closing Date at a price of $10.00 per Share (the "**Option Shares**") solely to cover over-allotments, if any. If the Over-Allotment Option is exercised in full under the maximum Offering, the price to the public, Agents' fee and net proceeds to the Company will be $201,250,000, $10,062,500 and $191,187,500, respectively. This prospectus also qualifies the grant of the Over-Allotment Option and, where the context requires, "Offering" includes the Option Shares. See "Plan of Distribution".

The Toronto Stock Exchange (the "**TSX**") has conditionally approved the listing of the Shares subject to the Company fulfilling all of the requirements of the TSX on or before May 22, 2009, including distribution of the Shares to a minimum number of public securityholders.

The Shares will not be redeemable by the holders thereof. The Shares will be redeemed by the Company for a cash amount equal to 100% of Net Asset Value per Share on April 30, 2014. See "Termination of the Company".

There is currently no market through which the Shares may be sold and purchasers may not be able to resell Shares purchased under this prospectus. This may affect the pricing of the Shares in the secondary market, the transparency and availability of trading prices, the liquidity of the Shares and the extent of issuer regulation. See "Risk Factors". The Offering price was established through negotiation between GMP Securities L.P., on behalf of the Agents, and the Company.

An investment in the Company may be considered to be speculative and is not intended as a complete investment program. There is no guarantee that an investment in the Company will earn any positive return in the short or long term, nor is there any guarantee that the Net Asset Value per Share will be preserved. An investment in the Company is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment. There are certain risk factors associated with an investment in Shares, including that the Company may not be able to meet its Investment Objectives. See "Risk Factors".

(continued from cover)

The Company is not a trust company and accordingly, is not registered under the trust company legislation of any jurisdiction. The Shares are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of that Act or any other legislation.

GMP Securities L.P., RBC Dominion Securities Inc., Canaccord Capital Corporation, TD Securities Inc., Blackmont Capital Inc., Haywood Securities Inc. and FirstEnergy Capital Corp. (collectively, the "**Agents**") conditionally offer the Shares for sale, subject to prior sale, on a best efforts basis, if, as and when issued, sold and delivered by the Company in accordance with the conditions contained in the Agency Agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of the Company by Burnet, Duckworth & Palmer LLP and on behalf of the Agents by Osler, Hoskin & Harcourt LLP.

Subscriptions for Shares will be received subject to rejection or allotment in whole or in part and the Company reserves the right to close the subscription books at any time without notice. The Agents may over-allot or effect transactions as described under "Plan of Distribution". Registrations and transfers of Shares will be effected through CDS Clearing and Depository Services Inc. ("**CDS**"). Closing is expected to occur on or about March 18, 2009 or such later date as the Company and the Agents may agree, but in any event not later than March 31, 2009. Purchasers of Shares will receive a customer confirmation from the registered dealer from or through which the Shares are purchased and will not receive physical certificates evidencing their ownership in the Shares.

(continued from cover)

ELIGIBILITY FOR INVESTMENT

In the opinion of Burnet, Duckworth & Palmer LLP, counsel for the Company, and Osler, Hoskin & Harcourt LLP, counsel for the Agents, provided that the Shares are listed on a designated stock exchange (which includes the TSX), the Shares will, on the date of issue, be qualified investments for trusts governed by registered retirement savings plans, registered education savings plans, registered retirement income funds, registered disability savings plans, deferred profit sharing plans and tax-free savings accounts (provided that the holder of the tax-free savings account deals at arm's length with the Company for the purposes of the Tax Act and does not have a significant interest (within the meaning of the Tax Act) in the Company or a partnership, trust or corporation with which the Company does not deal at arm's length for the purposes of the Tax Act).

INFORMATION REGARDING PUBLIC ISSUERS

Certain information contained in this prospectus relating to publicly traded securities and the issuers of those securities is taken from and based solely upon information published by those issuers. In addition, certain information contained in this prospectus was obtained from public sources. None of the Company, the Investment Advisor or the Agents has independently verified the accuracy or completeness of any such information or assumes any responsibility for the completeness or accuracy of such information.

FORWARD LOOKING STATEMENTS

This prospectus contains certain forward-looking statements. These statements relate to future events or future performance, including the Company's targeted dividend payout, 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 the 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 purchasers should specifically consider various factors, including the risks outlined under "Risk Factors", which may cause actual results to differ materially from any forward-looking statement. Although the forward-looking statements contained in this 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 prospectus and, other than as required by applicable law, the Company assumes no obligation to update or revise them to reflect new events or circumstances.

TABLE OF CONTENTS

Page

Page

PROSPECTUS SUMMARY

The following is a summary of the principal features of the Offering and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus. Certain capitalized terms used, but not defined, in this summary are defined in the "Glossary of Terms". All dollar amounts in this prospectus are in Canadian currency, except as otherwise indicated.

Deans Knight Income Corporation

The Company is a closed-end, non-redeemable investment company with a life of approximately five years from Closing. The Company is a corporation continued under the *Canada Business Corporations Act*.

The Offering

The Offering The Offering consists of voting common shares of the Company ("**Shares**"). See "Description of the Securities Distributed".

Amount Minimum of $75,000,000 (7,500,000 Shares)

Price $10.00 per Share

Minimum Subscription 100 Shares ($1,000)

Investment Objectives 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 with monthly dividends targeted to payout a minimum of 75% of Net Earnings annually.

The Company will invest in corporate debt securities, which are currently providing historically high yields. The debt securities of many corporate issuers are currently trading at significant discounts to par value, and as a result, the total return on the Portfolio is expected to consist of an income component as well as capital appreciation. The Company has certain tax attributes that it expects will offset income or gains from the Portfolio or tax otherwise payable in respect thereof. Management expects the tax attributes will be available to reduce the majority of the Company's taxable income until such time as the Shares are redeemed. As a result, the amount available for the payment of dividends or growth in Net Asset Value may be greater than if the Company did not have such tax attributes. However, there can be no assurance that the tax attributes of the Company will be available in the amount expected or at all to offset income or gains from the Portfolio, or tax otherwise payable in respect thereof. See "Risk Factors – Risks Related to an Investment in the Company – Availability of Tax Attributes". See also Note 18 to the financial statements of the Company contained in this prospectus.

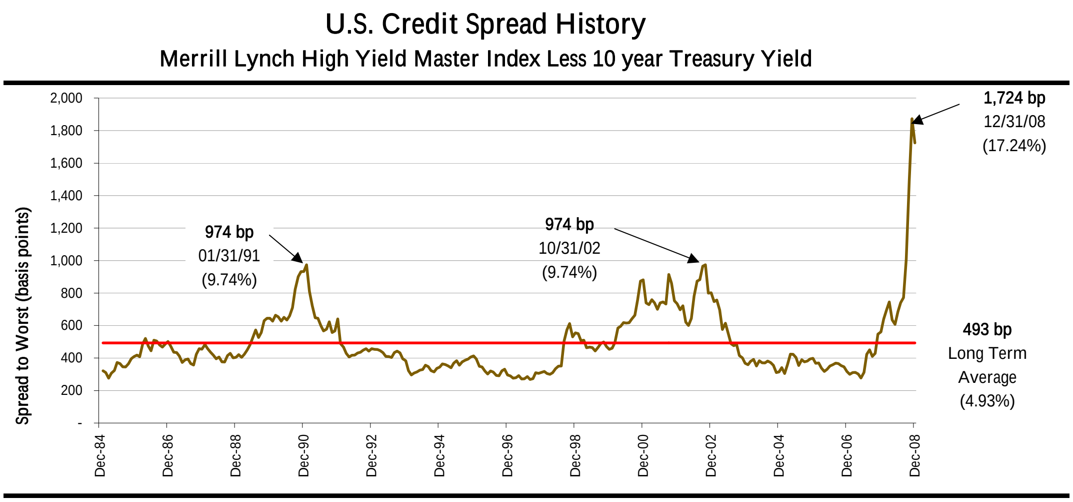
The Offering represents a unique opportunity to participate in the expected appreciation in the value of the corporate debt securities as credit spreads normalize.

See "Investment Objectives" and "Use of Proceeds".

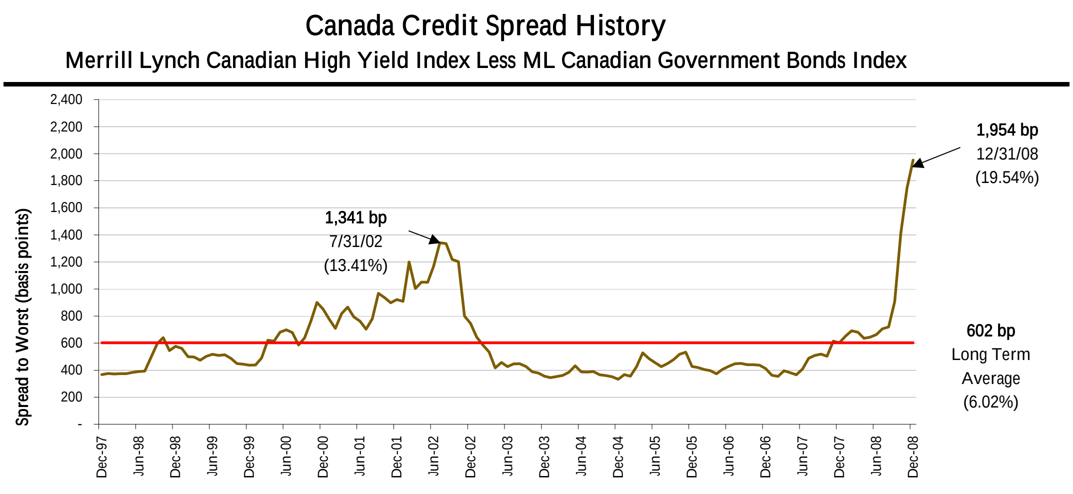
Investment Rationale ***Corporate Credit Spreads are at an All-Time High***

Beginning with the emergence of the subprime loan crisis in 2007, followed by the restructuring of several global financial institutions, corporate credit spreads in the United States and Canada have widened to historically high levels. Investors over the past six months have steadily sold corporate bonds and equity securities to reduce leverage and purchase government bonds or treasury bills. Financial institutions globally have become more reluctant to lend to businesses and individuals, which has resulted in a severe tightening of credit markets.

The following graphs show the extent of the difference between the yield on U.S. and Canadian corporate bonds over U.S. and Canadian government securities, respectively.



Source: Merrill Lynch & Co.



Source: Merrill Lynch & Co.

The Investment Advisor believes that the current market and economic conditions have created an opportunistic investment environment for corporate bonds. The tightening of the global credit markets has effectively dropped the prices of corporate bonds, resulting in bond yields exceeding record levels. As of December 31, 2008, yields of corporate bonds rated below investment grade were more than 1700 basis points (17%) higher than 10-year government bonds in the U.S. The Investment Advisor believes that these yields will provide equity-like returns to Shareholders in the current period of economic uncertainty for two primary reasons: (i) unlike equity investments where returns are determined primarily by economic and market conditions subsequent to the date of purchase of the investment, corporate debt investment returns are determined primarily by the yield to maturity at the purchase date assuming that the debt investment is repaid in full at maturity; and (ii) during the Company's approximately five-year expected life it is likely that corporate credit spreads will return to more normal levels thereby increasing bond prices.

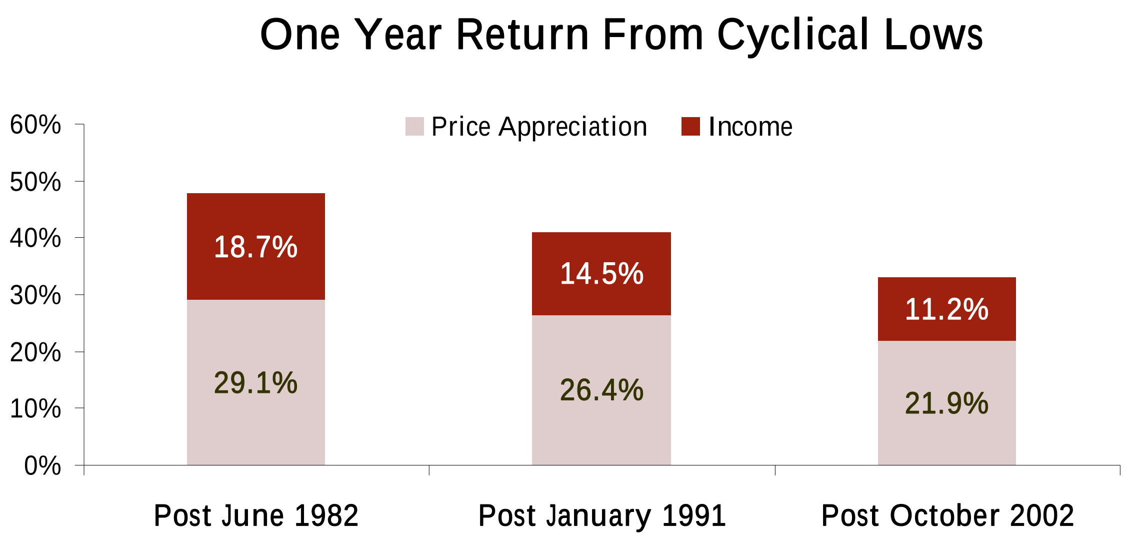
Corporate Bonds Can Provide Superior Returns Throughout Recession

The Investment Advisor believes bonds provide excellent returns during a recession for two primary reasons: (i) issuers are contractually bound to make bond payments, while dividends on equity securities are typically discretionary, thereby ensuring that bond holders typically receive a cash return prior to equity holders; and (ii) bond investments provide investors with additional security, since bonds have seniority over equity in the capital structure of an issuer in the event of default. Additionally, the Investment Advisor believes that bonds will recover from the currently depressed economic environment ahead of equity securities. While the timing of a recovery in the capital markets is uncertain, investors are paid interest while they wait for the eventual economic recovery. The table below outlines bond returns during the past three recessionary periods.

	June 30, 1982*	**January 31, 1991****	**October 31, 2002****	**December 31, 2008****
Average Price	$60.95	$72.03	$77.15	$61.15
Average Coupon	$10.32	$12.77	$8.43	$8.14
Cash on Cash Yield	16.9%	17.7%	10.9%	13.3%
Yield to Maturity	17.4%	18.1%	13.7%	19.6%
1 Year Total Return from the date above	**47.8%**	**41.0%**	**33.1%**	
Annualized 5 Year Total Return from the date above	**19.6%**	**17.8%**	**12.8%**	

*Based on Merrill Lynch High Yield 100 Index (H100)
**Based on Merrill Lynch High Yield Master II Index (H0A0)
Source: Merrill Lynch & Co.

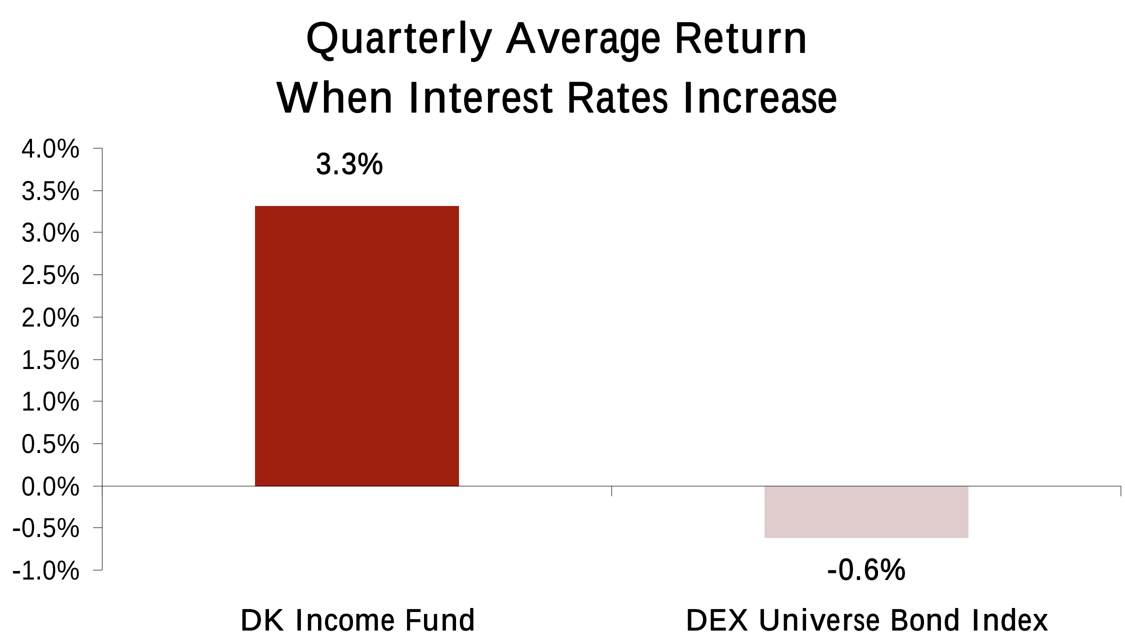
A significant portion of corporate bond returns in an economic recovery are a result of bond prices rising. This in turn causes credit spreads to narrow. Using the one-year returns from the chart above, the graph below shows the contribution of increasing bond prices to total return for each of the three periods.



Source: Merrill Lynch & Co.

The Investment Advisor has Provided Higher Returns in Rising Interest Rate Environments

With government bond yields in the U.S. and Canada at historical lows, the Investment Advisor believes interest rates will rise over the life of the Company. The graph below provides a comparison of the returns of the Investment Advisor's income strategy in the Deans Knight Income Fund to the returns of government bonds during quarters where interest rates have risen.



*Interest increases are defined as a greater than 0.1% rise in average yields on 5 to 10 Year Government of Canada Marketable Bonds during a quarter.
Source: Bank of Canada, Deans Knight Capital Management Ltd. and PC-Bond, a business unit of TSX Inc.

Investment Strategy

The Investment Advisor will actively manage the Portfolio, which will consist primarily of corporate debt securities rated BBB or below by S&P or an equivalent rating from another recognized credit 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 Investment Advisor believes the most attractive investment opportunity today is to own corporate debt of businesses with tangible assets, strong cash flows and reasonable leverage which, because of the current credit environment, are providing equity-like returns.

When evaluating bonds to purchase for the Portfolio, the Investment Advisor will focus on the following:

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

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

Portfolio

The Portfolio will consist primarily of corporate debt rated BBB or below by S&P or an equivalent rating from another recognized credit rating organization. The Investment Advisor expects that, once fully invested, the Portfolio will include securities of approximately 20 to 35 individual issuers with an average maturity of less than five years.

The following table sets forth the various asset classes which may comprise the Portfolio, the expected initial allocation and the permitted ranges of each asset class:

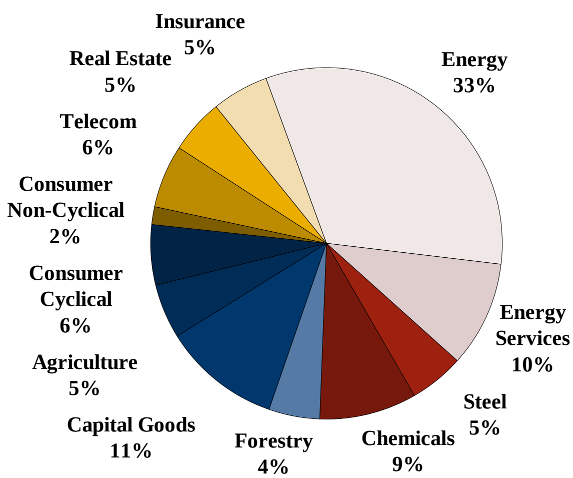
Asset Class	Expected Initial Allocation	Permitted Range at Time of Purchase
Corporate Bonds	90%	60-100%
Convertible Debt Securities	10%	0-30%
Equity Securities (1)	0%	0-15%

Note:

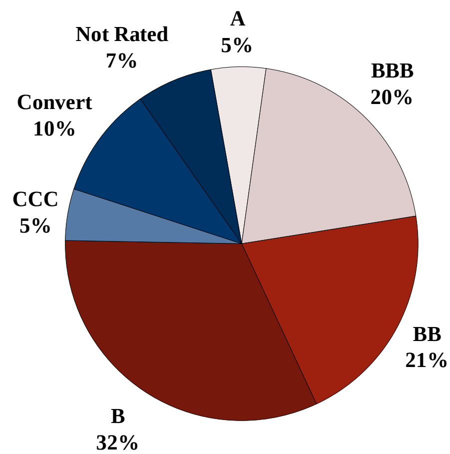
(1) The Company does not intend to purchase equity securities directly unless they are associated with a debt instrument in the form of warrants or received in lieu of cash interest payments, at which time the Investment Advisor will determine if it is in the best interests of Shareholders to continue holding such securities.

If the Company had been engaged in its proposed business as of the date hereof, the Portfolio would have been diversified by industry and credit ratings as follows:

INDUSTRY ALLOCATION



BOND RATING ALLOCATION



The Investment Advisor

Deans Knight Capital Management Ltd. (the "**Investment Advisor**") will provide investment advisory and portfolio management services to the Company pursuant to the Investment Advisor Agreement.

The Investment Advisor is a respected British Columbia-based investment firm focused on high income and growth mandates. Formed in 1992, the Investment Advisor is also the manager of several other specialized funds and has total assets under management of approximately $1 billion. The Investment Advisor has an experienced management team and a long history of successful investing in corporate debt securities. Principals of the Investment Advisor and certain officers and directors of the Company intend to purchase a minimum of $4,000,000 of Shares offered pursuant to the Offering. See "Organization and Management Details of the Company – The Investment Advisor".

The Investment Advisor has over 16 years of experience investing in income generating products and equity for its clients. The Investment Advisor's two main investment strategies are represented by the Deans Knight Income Fund and the Deans Knight Equity Growth Fund. The Investment Advisor employs the same securities selection process for the equity and debt securities included in each such fund.

The historical compound annual returns for the Deans Knight Income Fund and the Deans Knight Equity Growth Fund are set out below. Included are returns for the one, three, five and 10-year periods and since inception of the two funds, together with their respective benchmarks.

Historical Compound Annual Returns as at December 31, 2008[1][2]

	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception
Deans Knight Income Fund	-19.5%	0.9%	9.3%	7.9%	9.8%
DEX Universe Bond Index[3]	6.4%	4.7%	5.5%	6.0%	7.4%
Merrill Lynch High Yield USD Index	-26.4%	-5.6%	-0.9%	2.0%	4.6%
Deans Knight Equity Growth Fund	-46.7%	-5.1%	8.3%	16.7%	15.8%
S&P/TSX Composite Index	-33.0%	-4.8%	4.2%	5.3%	8.1%

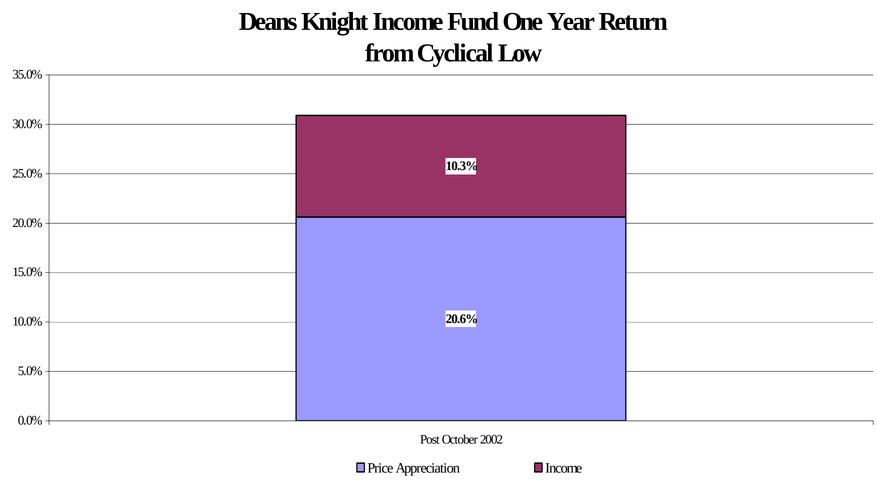
Notes:

(1) There can be no assurance that the performance of the Company will equal or exceed the performance of the Deans Knight Income Fund or the Deans Knight Equity Growth Fund, and the investment objectives, strategies, applicable fees and expenses of each issuer differ. Past performance may not be repeated.

(2) Gross of management fees, net of all other expenses.

(3) Formerly known as the SCM Universe Bond Index.

Due to the tightening of credit markets in the last four months of 2008, corporate bond prices declined significantly, contributing to a negative return for both the Deans Knight Income Fund and the Merrill Lynch High Yield Index. The Deans Knight Income Fund had generated a positive return of 8.1% year-to-date up to August 31, 2008, just prior to the turmoil in the financial markets. This is not the first time the Investment Advisor has experienced a tightening of credit markets. In October 2002, credit spreads widened to 974 basis points above ten-year government bonds (see "Investment Objectives – Investment Rationale"). For the twelve-month period ending October 31, 2002, the Deans Knight Income Fund had a total return of 9.4%. As the economy recovered, spreads narrowed and the one-year and five-year returns on the Deans Knight Income Fund were 30.9% and 21.2%, respectively. The graph below shows the one-year return broken down between income and price appreciation.



Source: Deans Knight Capital Management Ltd.

The foregoing information is not, and should not be construed to be, an indication of the future performance of the amounts which may be distributed by the Company. This information is presented solely for illustrative purposes, and should not be construed as a forecast or projection.

The Deans Knight group of investment funds have received numerous awards since their inception, as set out below.

API Asset Performance Inc. Awards for Outstanding Investment Performance

2004	DK Income Fund* 1 year and 3 year returns ranked 1st
2004	DK Equity Growth Fund 3 year and 5 year returns ranked 1st
2003	DK Income Fund* 1 year return ranked 1st
2003	DK Equity Growth Fund 3 year return ranked 1st and 5 year return ranked 3rd
2002	DK Equity Growth Fund 1 year return ranked 1st and 3 year return ranked 3rd
2001	DK Equity Growth Fund 1 year return ranked 3rd
1999	DK Income Fund* 5 year return ranked 1st and 3 year return ranked 3rd
1997	DK Income Fund* 1 year and 4 year returns ranked 1st
1996	DK Income Fund* 1 year return ranked 1st
1996	DK Equity Growth Fund 1 year return ranked 2nd
1995	DK Equity Growth Fund 1 year return ranked 1st

Canadian Investment Awards in Association with Morningstar and CGI

2004	High Yield Bond Fund of the Year
1996	Fund Manager of the Year Award: Wayne Deans

*Known as DK Bond Fund at the time of the award.

See "Organization and Management Details of the Company - The Investment Advisor".

Use of Proceeds

Substantially all of the net proceeds of the Offering (including the proceeds from the exercise, if any, by the Agents of the Over-Allotment Option) will be invested by the Company to acquire corporate debt securities in accordance with the Investment Objectives, Investment Strategy and Investment Restrictions of the Company.

The portion of the net proceeds of the Offering that is not invested will be held by the Company in cash and cash equivalents or used for general working capital purposes.

See "Use of Proceeds".

Foreign Currency Exposure

The Portfolio will be exposed to securities traded in foreign currencies, primarily the U.S. dollar. The Company expects to hedge substantially all of the value of the Company's non-Canadian dollar securities in the Portfolio back to the Canadian dollar.

See "Investment Strategy - Foreign Currency Exposure".

Distributions

The Company intends to declare and pay a monthly cash dividend to Shareholders targeted to pay out a minimum of 75% of Net Earnings annually. The initial monthly dividend amount is expected to be approximately $0.0583 per Share payable on June 30, 2009 to Shareholders of record on June 15, 2009. This represents a 7.0% dividend yield per annum based on the $10.00 per Share issue price. The Company will continue to determine and announce, on a quarterly basis, an indicative dividend amount for the following three months, based upon the prevailing

	market conditions and the estimate by the Company of cash flow for the period. As credit spreads narrow, the Company intends to pay out a higher percentage of earned income. It is expected that monthly cash dividends payable to Shareholders will be derived primarily from interest received by the Portfolio. As a result of this and other factors, dividends may fluctuate from month to month and there can be no assurance that the Company will pay its targeted dividends or any dividend in any particular month. See "Distribution Policy".
No Redemption by Holders	The Shares will not be redeemable by the holders thereof.
Market Purchases	The Company will use commercially reasonable efforts to minimize any ongoing trading price discount to Net Asset Value per Share in excess of 5% thereof, including, subject to any applicable regulatory approvals and adequate funds being available, implementing from time to time a normal course issuer bid or other issuer bid which is made subject to appropriate advice and under which purchases of Shares are made at no more than their fair market value.
Termination	The Shares will be redeemed by the Company for a cash amount equal to 100% of Net Asset Value per Share on April 30, 2014. The Board of Directors may, in its discretion, redeem the Shares prior to April 30, 2014, with the prior approval of Shareholders if, in its opinion, it is no longer commercially viable to continue the Company and/or it would be in the best interests of the Shareholders. See "Termination of the Company".
Leverage	The Company may borrow to make investments or maintain liquidity and may pledge its assets to secure the borrowings, all in accordance with its Investment Objectives, Investment Strategy and Investment Restrictions. After Closing, the Company may enter into a loan facility, which would permit the Company to borrow up to an amount not exceeding 25% of the Net Asset Value of the Company, as determined immediately prior to the time of borrowing. The interest rate, fees and expenses under the loan facility are expected to be typical of similar credit facilities and prime brokerage accounts of this nature. No assurance can be given that a loan facility will be available on terms acceptable to the Company at the time the Company intends to borrow. Should a conventional loan facility not be available, the Company will be permitted to sell short government bonds in an amount not to exceed 25% of Net Asset Value of the Company. See "Investment Strategy - Leverage".
Taxation of the Company	The Company is not a "mutual fund corporation" under the Tax Act and will generally be subject to tax under the Tax Act on its income and gains in accordance with the general rules in the Tax Act applicable to "taxable Canadian corporations". See "Canadian Federal Income Tax Considerations – Taxation of the Company".
Taxation of Shareholders	Dividends received on the Shares will be subject to the general rules applicable to dividends from taxable Canadian corporations, including those applicable to "eligible dividends" designated by the Company. A disposition of a Share (other than to the Company) which is held as capital property will generally give rise to a capital gain or capital loss computed in accordance with the provisions of the Tax Act. "Specified financial institutions" and "restricted financial institutions" under the Tax Act should consult their own tax advisors with respect to the tax treatment to them of dividends received on the Shares. See "Canadian Federal Income Tax Considerations – Taxation of Shareholders".

Eligibility for Investment

In the opinion of Burnet, Duckworth & Palmer LLP, counsel for the Company, and Osler, Hoskin & Harcourt LLP, counsel for the Agents, provided that the Shares are listed on a designated stock exchange (which includes the TSX), the Shares will, on the date of issue, be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, registered disability savings plans, deferred profit sharing plans, registered education savings plans and tax-free savings accounts (provided that the holder of the tax-free savings account deals at arm's length with the Company for the purposes of the Tax Act and does not have a significant interest (within the meaning of the Tax Act) in the Company or a partnership, trust or corporation with which the Company does not deal at arm's length for the purposes of the Tax Act).

Risk Factors

An investment in the Shares involves a number of risk factors that should be considered by a prospective purchaser, including:

Risk Factors Related to an Investment in the Company

- No Assurances of Meeting Investment Objectives
- Availability of Tax Attributes
- Reliance on the Investment Advisor
- Reliance on Key Personnel
- Lack of a Redemption Feature
- Trading Price of the Shares Relative to Net Asset Value
- No Guaranteed Return
- Loss of Investment
- Absence of Prior Public Market
- Status of the Company for Securities Law Purposes
- Inability to Obtain or Maintain Required Registrations
- Leverage
- Performance of the Company
- Conflicts of Interest
- Changes in Legislation and Administrative Policy
- Short Sale Positions
- Lack of Operating History as an Investment Company
- Liabilities from Prior Operations

Risk Factors Related to the Portfolio

- Risks Associated with Corporate Debt Securities
- Interest Rate Fluctuations
- Fluctuations in the Canadian – U.S. Dollar Exchange Rates
- General Economic, Political and Market Conditions
- Potential for Limited Liquidity in Some Portfolio Investments
- Investments in Private Issuers
- Concentration Risk
- Regulatory Risk
- Stock Exchange Risk
- Counterparty Risk
- Use of a Custodian to Hold Assets
- Options and Futures Transactions

See "Risk Factors".

Organization and Management of the Company

Management

The Company is governed by the Board of Directors, which will be chaired by Wayne Deans. The Board of Directors will appoint Craig Langdon as Chief Executive Officer, Dillon Cameron as Chief Investment Officer and Mark Myles as Chief Financial Officer. The officers of the Company will be responsible for the day-to-day management of the Company.

See "Organization and Management Details of the Company – Directors and Officers of the Company".

Investment Advisor

Deans Knight Capital Management Ltd. will provide investment advisory services to the Company. The address of the Investment Advisor is 730 - 999 West Hastings Street, Vancouver, British Columbia V6C 2W2.

See "Organization and Management Details of the Company - The Investment Advisor".

Promoter

The Investment Advisor took the initiative in reorganizing the Company as an investment company and, accordingly, is a promoter as defined in the securities legislation of certain provinces in Canada. The Promoter is located in Vancouver, British Columbia.

See "Organization and Management Details of the Company - Promoter".

Custodian

RBC Dexia Investor Services Trust will act as custodian of the assets of the Company pursuant to a custodian agreement. The Custodian is located in Vancouver, British Columbia.

See "Organization and Management Details of the Company - Custodian".

Registrar and Transfer Agent

Computershare Trust Company of Canada, at its principal offices in Vancouver, British Columbia and Toronto, Ontario, will be appointed the registrar and transfer agent for the Shares pursuant to a registrar and transfer agency agreement to be entered into as of the Closing Date. The Registrar and Transfer Agent is located in Vancouver, British Columbia.

See "Organization and Management Details of the Company - Registrar and Transfer Agent".

Auditors

The auditors of the Company will be PricewaterhouseCoopers LLP, Chartered Accountants, Vancouver, British Columbia.

See "Organization and Management Details of the Company - Auditors".

Agents

GMP Securities L.P., RBC Dominion Securities Inc., Canaccord Capital Corporation, TD Securities Inc., Blackmont Capital Inc., Haywood Securities Inc. and FirstEnergy Capital Corp. (collectively, the "**Agents"**) conditionally offer the Shares on a best efforts basis, subject to prior sale, if, as and when issued by the Company and accepted by the Agents in accordance with the conditions contained in the Agency Agreement referred to under "Plan of Distribution" and subject to the approval of certain matters on behalf of the Company by Burnet, Duckworth & Palmer LLP and on behalf of the Agents by Osler, Hoskin & Harcourt LLP.

The Company has granted the Agents the Over-Allotment Option exercisable until 30 days after the Closing Date to purchase up to 15% of the aggregate number of Shares issued at Closing on the same terms set forth above. This prospectus qualifies the distribution of the Over-Allotment Option. If the Over-Allotment Option is exercised in full, the total price to the public under the maximum Offering of Shares will be $201,250,000, the Agents' fee will be $10,062,500 and the net proceeds to the Company will be $191,187,500.

See "Plan of Distribution".

Summary of Fees and Expenses Payable by the Company

The following table lists the fees and expenses that you may have to pay if you invest in the Company. You may have to pay some of these fees and expenses directly. The Company may have to pay some of these fees and expenses, which will therefore reduce the value of your investment in the Company. For further particulars, see "Fees and Expenses Payable by the Company".

Type of Fee	Amount and Description
Agents' Fee	$0.50 per Share (5.0%). The Agents' fee will be paid by the Company out of the proceeds of the Offering. The Agents' fee payable by the Company upon the exercise of the Over-Allotment Option will be $0.50 per Option Share. See "Plan of Distribution".
Expenses of the Offering	The expenses of the Offering (including the costs of reorganizing the Company into an investment company, the costs of printing and preparing a prospectus, legal expenses of the Company and the Agents and marketing expenses) will be paid from the gross proceeds of the Offering, subject to a maximum of 1.5% of the gross proceeds of the

Type of Fee	Amount and Description
	Offering. The expenses of the Offering are estimated to be $1,250,000. The Investment Advisor has agreed to pay all expenses incurred in connection with the Offering that exceed 1.5% of the gross proceeds of the Offering.
Fee Payable to the Investment Advisor	Pursuant to the terms of the Investment Advisor Agreement, the Investment Advisor will be entitled to a fee at an annual rate of 1.5% of Net Asset Value plus applicable taxes (the "**Investment Advisory Fee**"). Fees payable to the Investment Advisor will be calculated and payable quarterly, in arrears, based on the Net Asset Value of the Shares calculated at quarter end.
Operating Expenses of the Company	In addition to the Investment Advisory Fee and any debt servicing costs, the Company will pay all of its own expenses and the Investment Advisor's expenses incurred in connection with its duties as the Investment Advisor. See "Fees and Expenses".

OVERVIEW OF THE STRUCTURE OF THE COMPANY

Overview of the Legal Structure of the Company

The Company is a closed-end, non-redeemable investment company with a life of approximately five years from Closing. The Company is a corporation continued under the *Canada Business Corporations Act*. The head and registered office of the Company is currently 750 West Pender Street, Suite 200, Vancouver, British Columbia V6C 2T8. On Closing, the head and registered office of the Company will be 730 – 999 West Hastings Street, Vancouver, British Columbia V6C 2W2. The fiscal year-end of the Company is December 31.

Prior Business

The Company was incorporated on September 17, 1985 under the *Companies Act* (British Columbia) as "Amber Resources Ltd." On October 1, 1985, the Company changed its name to "Forbes Resources Ltd." In 1992 the Company changed its business from mining exploration to pharmaceutical research and accordingly, on July 8, 1992, it changed its name to "Forbes Medi-Tech Inc." On April 11, 2001, the Company was continued under the *Canada Business Corporations Act.*

On February 27, 2008, the Company reorganized its corporate structure pursuant to a plan of arrangement under the *Canada Business Corporations Act* (the "**Arrangement**"). Pursuant to the Arrangement, the Company changed its name from "Forbes Medi-Tech Inc." to "Forbes Medi-Tech Operations Inc." and all of the Company's then outstanding common shares, options and warrants were exchanged for common shares, options and warrants of Forbes, a newly formed entity. As a result of the exchange of shares, the Company became a wholly-owned subsidiary of Forbes and the common shares of Forbes began to trade on the TSX and NASDAQ in substitution for the common shares of the Company. On March 19, 2008, Matco, Forbes and the Company entered into an investment agreement pursuant to which Matco agreed to purchase the Convertible Debenture 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."

On May 9, 2008, the Company completed the Reorganization pursuant to which it transferred all of its assets and operations to, and their related liabilities were assumed by Forbes. The Company currently holds no material assets other than certain tax attributes. As part of the Reorganization, Matco subscribed for the Convertible Debenture. The Convertible Debenture is convertible into (after giving effect to the Consolidation and accrued and unpaid interest thereon) up to a maximum of 54,146 Shares (35% of the issued and outstanding Shares prior to giving effect to the Offering) and 345,671 Non-Voting Shares (100% of the outstanding Non-Voting Shares), representing a maximum of 79.9% of the issued and outstanding Common Shares prior to giving effect to the Offering, being approximately $5.0 million of Common Shares based on the $10.00 per Share offering price. Matco has agreed with the Company that it will convert the Convertible Debenture in full immediately prior to the Closing. See "Principal Shareholders".

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. See "Risk Factors – Liabilities from Prior Operations".

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, prior to Closing, the Company will amend the Articles to, among other things, consolidate the issued and outstanding voting common shares on the basis of one Share for 382 voting common shares, provide for the Investment Objectives and Investment Restrictions of the Company and amend the terms of the Shares to provide for the redemption of the Shares as set forth under "Termination of the Company". The Non-Voting Shares issuable on conversion of the Convertible Debenture will also be consolidated on the basis of one Non-Voting Share for 382 non-voting common shares.

Status of the Company

The Company is not considered to be a mutual fund under the securities legislation of the provinces of Canada. Consequently, the Company is not subject to the various policies and regulations that apply to mutual funds, including NI 81-102.

The Shares are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of that Act or any other legislation.

INVESTMENT OBJECTIVES

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 with monthly dividends targeted to payout a minimum of 75% of Net Earnings annually.

The Company will invest in corporate debt securities, which are currently trading at historically high yields. The debt securities of many corporate issuers are currently trading at significant discounts to par value, and as a result, the total return on the Portfolio is expected to consist of an income component as well as capital appreciation. The Company has certain tax attributes that it expects will offset income or gains from the Portfolio or tax otherwise payable in respect thereof. Management expects the tax attributes will be available to reduce the majority of the Company's taxable income until such time as the Shares are redeemed. As a result, the amount available for the payment of dividends or growth in Net Asset Value may be greater than if the Company did not have such tax attributes. However, there can be no assurance that the tax attributes of the Company will be available in the amount expected or at all to offset income or gains from the Portfolio, or tax otherwise payable in respect thereof. See "Risk Factors – Risks Related to an Investment in the Company – Availability of Tax Attributes". See also Note 18 to the financial statements of the Company contained in this prospectus.

The Offering represents a unique opportunity to participate in the expected appreciation in the value of the corporate debt securities as credit spreads normalize.

Investment Rationale

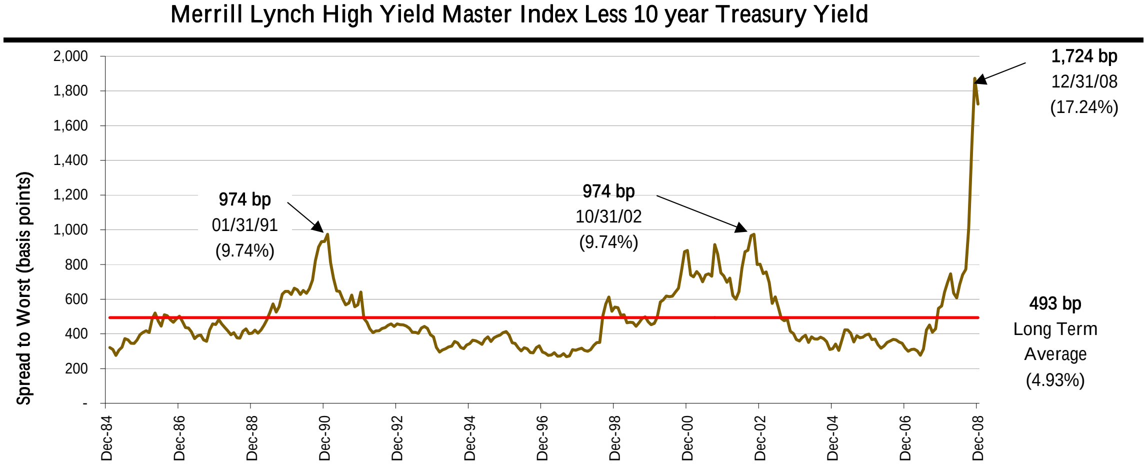
Corporate Credit Spreads are at an All-Time High

Beginning with the emergence of the subprime loan crisis in 2007, followed by the restructuring of several global financial institutions, corporate credit spreads in the United States and Canada have widened to historically high levels. Investors over the past six months have steadily sold corporate bonds and equity securities to reduce leverage and purchase government bonds or treasury bills. Financial institutions globally have become more reluctant to lend to businesses and individuals, which has resulted in a severe tightening of credit markets.

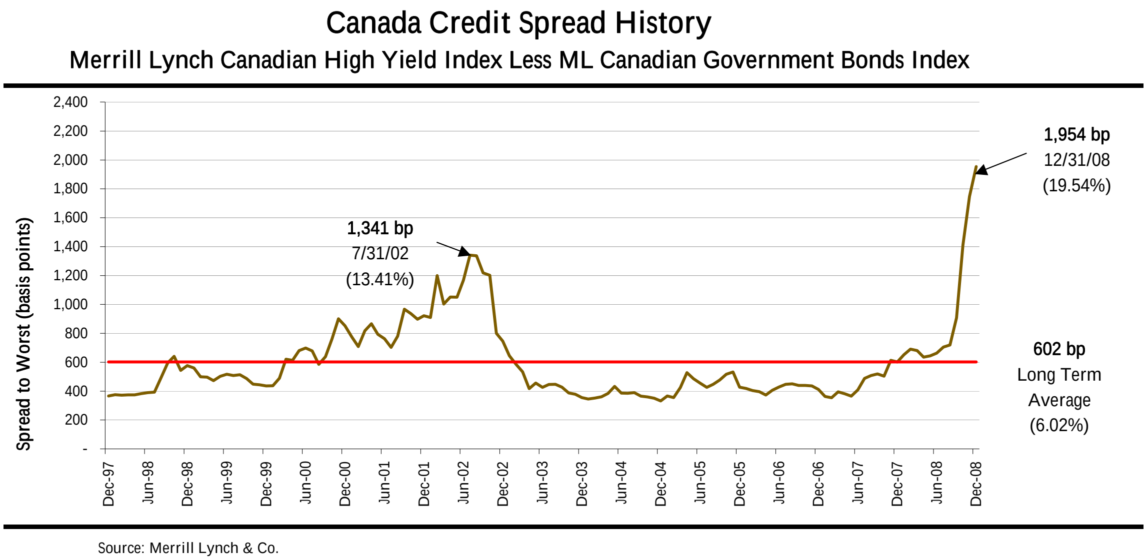
The following graphs show the extent of the difference between the yield on U.S. and Canadian corporate bonds over U.S. and Canadian government securities, respectively.

U.S. Credit Spread History

Merrill Lynch High Yield Master Index Less 10 year Treasury Yield



Source: Merrill Lynch & Co.



The Investment Advisor believes that the current market and economic conditions have created an opportunistic investment environment for corporate bonds. The tightening of the global credit markets has effectively dropped the prices of corporate bonds, resulting in bond yields exceeding record levels. As of December 31, 2008, yields of corporate bonds rated below investment grade were more than 1700 basis points (17%) higher than 10-year government bonds in the U.S. The Investment Advisor believes that these yields will provide equity-like returns to Shareholders in the current period of economic uncertainty for two primary reasons: (i) unlike equity investments where returns are determined primarily by economic and market conditions subsequent to the date of purchase of the investment, corporate debt investment returns are determined primarily by the yield to maturity at the purchase date assuming that the debt investment is repaid in full at maturity; and (ii) during the Company's approximately five-year expected life it is likely that corporate credit spreads will return to more normal levels thereby increasing bond prices.

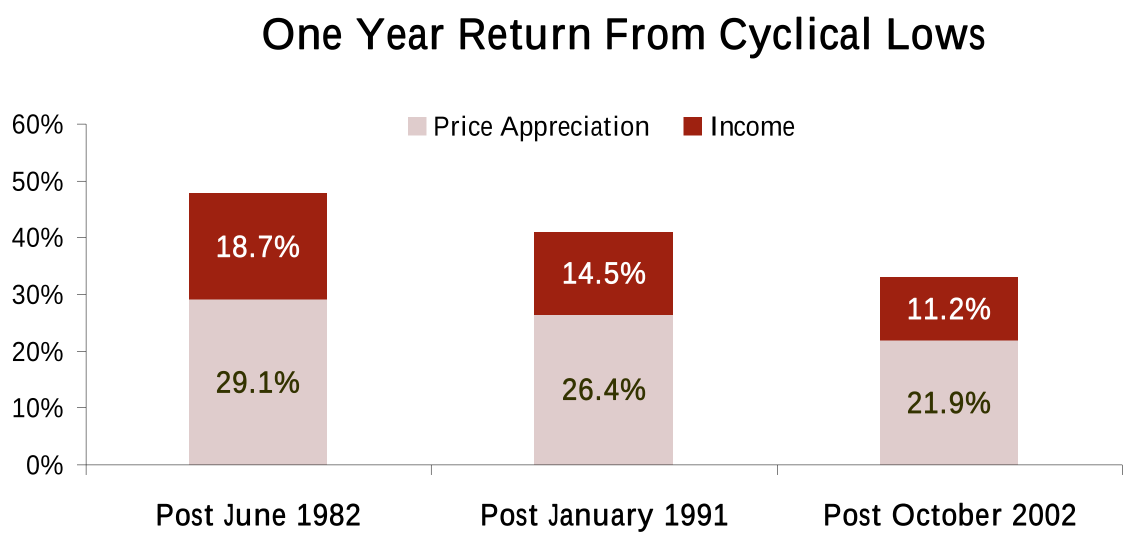
Corporate Bonds Can Provide Superior Returns Throughout Recession

The Investment Advisor believes bonds provide excellent returns during a recession for two primary reasons: (i) issuers are contractually bound to make bond payments, while dividends on equity securities are typically discretionary, thereby ensuring that bond holders typically receive a cash return prior to equity holders; and (ii) bond investments provide investors with additional security, since bonds have seniority over equity in the capital structure of an issuer in the event of default. Additionally, the Investment Advisor believes that bonds will recover from the currently depressed economic environment ahead of equity securities. While the timing of a recovery in the capital markets is uncertain, investors are paid interest while they wait for the eventual economic recovery. The table below outlines bond returns during the past three recessionary periods.

	June 30, 1982*	**January 31, 1991****	**October 31, 2002****	**December 31, 2008****
Average Price	$60.95	$72.03	$77.15	$61.15
Average Coupon	$10.32	$12.77	$8.43	$8.14
Cash on Cash Yield	16.9%	17.7%	10.9%	13.3%
Yield to Maturity	17.4%	18.1%	13.7%	19.6%
1 Year Total Return from the date above	**47.8%**	**41.0%**	**33.1%**	
Annualized 5 Year Total Return from the date above	**19.6%**	**17.8%**	**12.8%**	

*Based on Merrill Lynch High Yield 100 Index (H100)
**Based on Merrill Lynch High Yield Master II Index (H0A0)
Source: Merrill Lynch & Co.

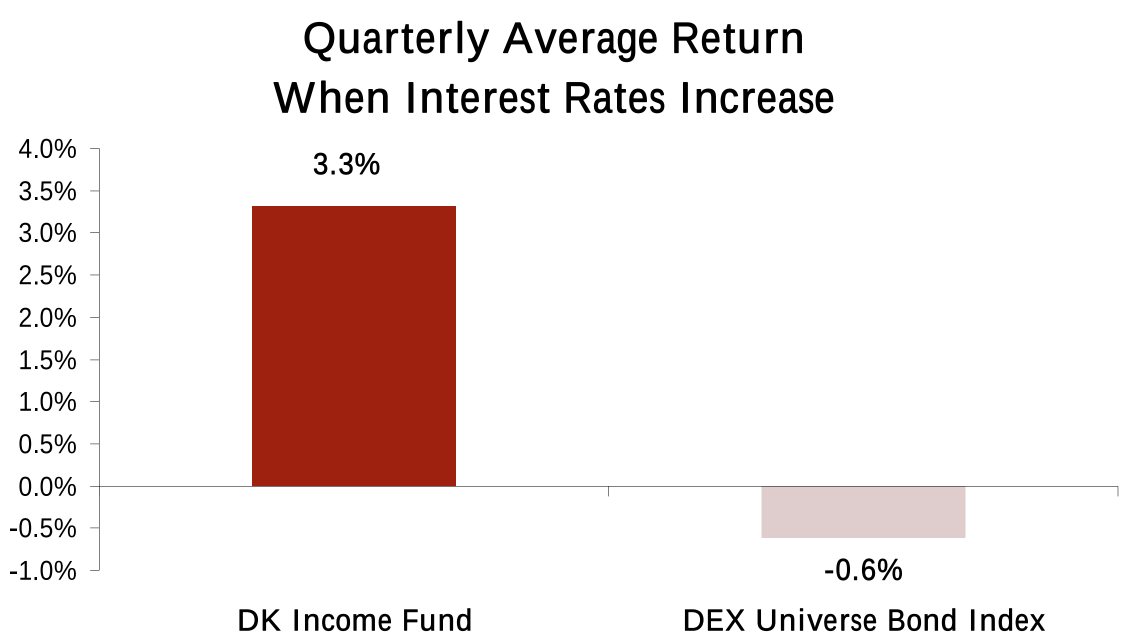
A significant portion of corporate bond returns in an economic recovery are a result of bond prices rising. This in turn causes credit spreads to narrow. Using the one-year returns from the chart above, the graph below shows the contribution of increasing bond prices to total return for each of the three periods.



Source: Merrill Lynch & Co.

The Investment Advisor has Provided Higher Returns in Rising Interest Rate Environments

With government bond yields in the U.S. and Canada at historical lows, the Investment Advisor believes interest rates will rise over the life of the Company. The graph below provides a comparison of the returns of the Investment Advisor's income strategy in the Deans Knight Income Fund to the returns of government bonds during quarters where interest rates have risen.



*Interest increases are defined as a greater than 0.1% rise in average yields on 5 to 10 Year Government of Canada Marketable Bonds during a quarter.
Source: Bank of Canada, Deans Knight Capital Management Ltd. and PC-Bond, a business unit of TSX Inc.

INVESTMENT STRATEGY

The Investment Advisor will actively manage the Portfolio, which will consist primarily of corporate debt securities rated BBB or below by S&P or an equivalent rating from another recognized credit 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 Investment Advisor believes the most attractive investment opportunity today is to own corporate debt of businesses with tangible assets, strong cash flows and reasonable leverage which, because of the current credit environment, are providing equity-like returns.

When evaluating bonds to purchase for the Portfolio, the Investment Advisor will focus on the following:

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

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

Portfolio

The Portfolio will consist primarily of corporate debt securities rated BBB and below by S&P or an equivalent rating from another recognized credit rating organization. The Investment Advisor expects that, once fully invested, the Portfolio will include securities of approximately 20 to 35 individual issuers with an average maturity of less than five years.

The following table sets forth the various asset classes, which may comprise the Portfolio, the expected initial allocation and the permitted ranges of each asset class at the time of purchase:

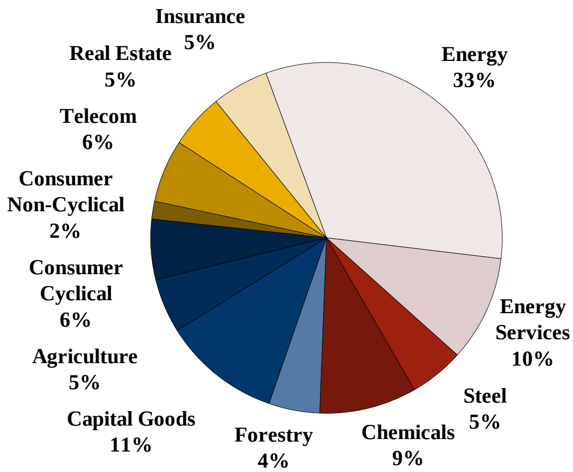
Asset Class	Expected Initial Allocation	Permitted Range at Time of Purchase
Corporate Bonds	90%	60-100%
Convertible Debt Securities	10%	0-30%
Equity Securities [(1)]	0%	0-15%

Note:

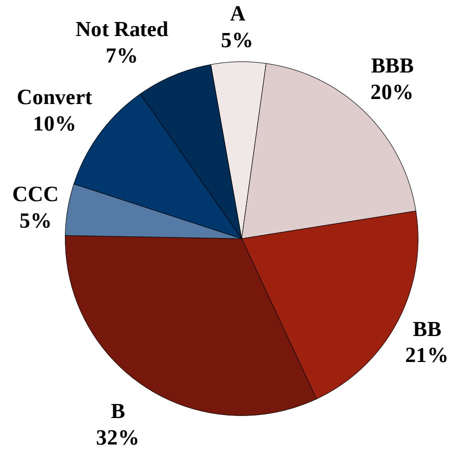
(1) The Company does not intend to purchase equity securities directly unless they are associated with a debt instrument in the form of warrants or received in lieu of cash interest payments, at which time the Investment Advisor will determine if it is in the best interests of Shareholders to continue holding such securities.

If the Company had been engaged in its proposed business as of the date hereof, the Portfolio would have been diversified by industry and credit ratings as follows:

INDUSTRY ALLOCATION



BOND RATING ALLOCATION



Foreign Currency Exposure

The Portfolio will be exposed to securities traded in foreign currencies, primarily the U.S. dollar. The Company expects to hedge substantially all of the value of the Company's non-Canadian dollar securities in the Portfolio back to the Canadian dollar.

Leverage

The Company may borrow to make investments or maintain liquidity and may pledge its assets to secure the borrowings, all in accordance with its Investment Objectives, Investment Strategy and Investment Restrictions. After the Closing, the Company may enter into a loan facility, which would permit the Company to borrow up to an amount not exceeding 25% of the Net Asset Value of the Company, as determined immediately prior to the time of the borrowing. If leverage exceeds this threshold due to market movement, the Company will take measures to reduce the amount of indebtedness so that it does not exceed the threshold as soon as reasonably practicable.

The interest rate, fees and expenses under the loan facility are expected to be typical of similar credit facilities and prime brokerage accounts of this nature. No assurance can be given that a loan facility will be available on terms acceptable to the Company at the time the Company intends to borrow. Should a conventional loan facility not be available, the Company will be permitted to sell short government bonds in an amount not to exceed 25% of Net Asset Value of the Company.

Securities Lending

The Company does not anticipate that it will lend securities. However, in order to assist in achieving its Investment Objectives, the Company may, consistent with the Investment Strategy and subject to the Investment Restrictions, lend securities to borrowers acceptable to the Company pursuant to the terms of a securities lending agreement between the Company and such borrower (a "**Securities Lending Agreement**"). Under a Securities Lending Agreement: (i) the borrower will pay to the Company a negotiated securities lending fee and will make compensation payments to the Company equal to any distributions received by the borrower on the securities borrowed; (ii) the securities loans must qualify as "securities lending arrangements" for the purposes of the Tax Act; and (iii) the Company will receive collateral security consisting of cash in Canadian dollars, Canadian or U.S. dollar debt obligations of, or guaranteed by, the Government of Canada, a province of Canada, the U.S. or one of the states of the U.S., or such other collateral as shall be agreed upon and which is prescribed by NI 81-102.

Use of Derivative Instruments

The Investment Advisor may choose to use derivatives such as forward contracts and other permitted derivatives as long as the use of these derivatives is consistent with the Company's Investment Objectives and is permitted by applicable law. It may use derivatives: (i) to hedge against losses from movements in stock markets, currency exchange rates or interest rates; or (ii) to gain indirect exposure to individual securities or markets instead of buying the securities directly; or (iii) to seek to generate additional income; or (iv) to profit from declines in financial markets. It is not anticipated that if and when used, derivatives will comprise a material portion of the Portfolio.

OVERVIEW OF WHAT THE COMPANY INVESTS IN

The Portfolio will consist primarily of corporate debt securities rated BBB and below by S&P or an equivalent rating from another recognized credit rating organization. The Company may also invest in investment grade debt securities rated above BBB and non-rated debt securities from time to time. Pursuant to S&P's rating definitions, an obligor rated BBB has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments. Obligors rated BB, B, CCC, and CC are regarded as having significant speculative characteristics. BB indicates the least degree of speculation and CC the highest. While such obligors will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

See "Investment Strategy – Investment Rationale" for a description of the corporate bond market and current trends.

INVESTMENT RESTRICTIONS

The Company is subject to certain investment restrictions that, among other things, limit the securities that the Company may acquire for the Portfolio. Following a period of up to 90 days after the Closing Date and prior to a period of 90 days before the termination of the Company, the investment activities of the Company are to be conducted in accordance with, in addition to the permitted ranges set out under "Investment Strategy", the following investment restrictions:

(a) **Concentration.** The Company will not purchase securities of any issuer if after such purchase more than 7% of the Total Assets of the Company would consist of securities issued by such issuer (other than short-term debt securities issued or guaranteed by the Government of Canada or any Canadian province or municipality).

(b) **Debt Securities.** At least 60% of the Total Assets of the Company will at all times be invested in debt securities of corporate issuers ("**Debt Securities**").

(c) **Convertible Securities.** Not more than 30% of the Total Assets of the Company will at any time be invested in Debt Securities that are convertible into common shares of the issuer thereof.

(d) **Leverage.** The Company will not borrow money or use other forms of leverage except that the Company may borrow an aggregate amount of up to 25% of the Net Asset Value of the Company at the time the borrowing or other transaction is entered into. See "Investment Strategy - Leverage".

(e) **Jurisdiction.** Not more than 15% of the Total Assets of the Company will at any time be invested in Debt Securities of issuers outside of North America.

(f) **No Guarantee.** The Company will not make loans or guarantee securities or obligations of another person or company, except that the Company may purchase and hold debt obligations in accordance with the Investment Strategy.

(g) **Illiquid Securities.** Not more than 15% of the value of the Portfolio (determined at the time of purchase) will be invested in "illiquid securities". The term "illiquid securities" for this purpose means securities that cannot be disposed of within 30 days in the ordinary course of business at approximately the amount at which the securities are valued for the Portfolio.

(h) **Equity Securities.** Not more than 15% of the Total Assets of the Company will at any time be invested in equity securities.

(i) **Mutual Funds**. The Company will not purchase securities of any mutual fund or investment fund.

(j) **Tax Matters**. The Company will not:

(i) acquire any interest in a non-resident trust that is not an "exempt foreign trust", or invest in the securities of any non-resident corporation or trust or other non-resident entity if the Company would be required to mark its investment in such securities to market in accordance with proposed section 94.2 of the Tax Act or to include any significant amounts in income pursuant to proposed sections 94.1 or 94.3 of the Tax Act, as set forth in the proposed amendments to the Tax Act dealing with foreign investment entities and non-resident trusts contained in Bill C-10, which received second reading in the Senate on December 4, 2007 (or amendments to such proposals, provisions as enacted into law or successor provisions thereto);

(ii) invest in securities that would be a tax shelter investment within the meaning of the Tax Act; and

(iii) invest in any securities of an entity that would be a controlled foreign affiliate of the Company for purposes of the Tax Act.

(k) **Margin Accounts.** The Company will not deposit assets in the Portfolio as margin for portfolio transactions that, when aggregated with the amount of margin already held, exceed 10% of the Net Asset Value of the Company.

If a percentage restriction on investment or use of assets or borrowing set forth above as an Investment Restriction is adhered to at the time of the transaction, later changes to the market value of the investment or total assets of the Company will not be considered a violation of the Investment Restrictions. If the Company receives from an issuer subscription rights to purchase securities of that issuer, and if the Company exercises those subscription rights at a time when the Company's holdings of securities of that issuer would otherwise exceed the limits set forth above, the exercise of those rights will not constitute a violation of the Investment Restrictions if, prior to the receipt of securities of that issuer on exercise of these rights, the Company has sold at least as many securities of the same class and value as would result in adherence to the restriction.

The foregoing Investment Restrictions may not be changed without the approval of the Shareholders, by a resolution passed by two-thirds of the votes cast at a meeting of Shareholders called for such purpose with holders of Shares and Non-Voting Shares voting together as a single class, unless such changes are necessary to ensure compliance with all applicable laws, regulations or other requirements imposed by applicable regulatory authorities from time to time. See "Shareholder Matters — Meetings of Shareholders".

FEES AND EXPENSES PAYABLE BY THE COMPANY

Agents' Fee

The Agents will be paid a fee of $0.50 per Share (5.0%) sold in the Offering, including on the exercise of the Over-Allotment Option. The Agents' fee will be paid by the Company out of the proceeds of the Offering. See "Plan of Distribution".

Expenses of the Offering

The expenses of the Offering (including the costs of reorganizing the Company into an investment company, the costs of printing and preparing a prospectus, legal expenses of the Company and the Agents, and marketing expenses) are estimated to be $1,250,000 and will be paid from the gross proceeds of the Offering, subject to a maximum of 1.5% of the gross proceeds of the Offering. The Investment Advisor has agreed to pay all expenses incurred in connection with the Offering that exceed 1.5% of the gross proceeds of the Offering.

Fee Payable to the Investment Advisor

Pursuant to the terms of the Investment Advisor Agreement, the Investment Advisor will be entitled to a fee at an annual rate of 1.5% of Net Asset Value plus applicable taxes (the "**Investment Advisory Fee**"). Fees payable to the Investment Advisor will be calculated and payable quarterly, in arrears, based on the Net Asset Value calculated at quarter end.

Operating Expenses of the Company

In addition to the Investment Advisory Fee and any debt servicing costs, the Company will pay all of its own expenses and the Investment Advisor's expenses incurred in connection with its duties as the Investment Advisor. Such fees and expenses to be borne by the Company will include, without limitation:

(a) fees and expenses payable to the external directors of the Company;

(b) fees and expenses payable to the Independent Review Committee;

(c) brokerage and trading commissions and other expenses associated with the execution of transactions in respect of the Portfolio;

(d) the Investment Advisor's expenses incurred in connection with its duties as the Investment Advisor (including due diligence costs and research expenses);

(e) fees payable to the Registrar and Transfer Agent of the Shares or other securities of the Company;

(f) fees payable to any custodians and/or sub-custodians of the portfolio securities and other assets of the Company as well as the fees of the fund valuation agent and other service providers;

(g) legal, audit, and valuation fees and expenses;

(h) costs and expenses relating to the offering and issue of securities of the Company (including the costs of printing and preparing offering documents, legal expenses, auditing expenses, and other reasonable out-of-pocket expenses);

(i) fees payable for listings, the maintenance of listings and filings or other requirements of stock exchanges on which any of the securities of the Company are listed or quoted;

(j) securities regulatory authorities' participation fees;

(k) expenses and costs incurred in connection with the Company's continuous disclosure public filing requirements and investor relations; the preparation and supervision costs relating to the calculation and publication of the Net Asset Value;

(l) the provision of office supplies and clerical services;

(m) costs and expenses of preparing, printing, and mailing financial and other reports to holders of Shares, material for shareholders' meetings and securities regulatory filings;

(n) costs and expenses of communication;

(o) costs and expenses arising as a result of complying with all applicable securities legislation and other applicable laws, regulations and policies; and

(p) all taxes (including income, capital, federal goods and services tax, and provincial/territorial sales taxes); the provision of such other managerial and administrative services as may be reasonably required for the ongoing business and administration of the Company.

RISK FACTORS

An investment in the Shares involves a number of risk factors that should be considered by a prospective purchaser, including the risk factors set out below.

Risk Factors Related to an Investment in the Company

No Assurances of Meeting Investment Objectives

The Net Asset Value of the Company and the funds available for monthly dividends to Shareholders will vary, among other things, according to the value of the assets of the Company, including the interest income paid on the corporate debt securities held by the Company from time to time. There can be no assurance that the Company will be successful in meeting its monthly dividend objectives or that the Company will earn a positive return in the short or long term. The Net Asset Value of the Company will vary with factors beyond the control of the Company or the Investment Advisor, including the ability of the issuers of the corporate debt securities in the Portfolio from time to time to pay the interest on or repay the principal of such securities. An investment in the Shares is therefore appropriate only for investors who have the capacity to absorb a loss of some or all of their investment and who can withstand the effect of some or all of the targeted dividends not being paid in any given month.

Availability of Tax Attributes

There can be no assurance that the tax attributes of the Company will be available in the amount expected or at all to offset income or gains from the Portfolio, or tax otherwise payable in respect thereof. While the Company is confident that such tax attributes will be available, there is a possibility that the CRA could successfully challenge the amount of such tax attributes or their availability to the Company or that legislation could be enacted or amended with a similar effect, thereby adversely affecting the ability of the Company to fund dividends or other distributions to Shareholders in the expected manner or amount.

Reliance on the Investment Advisor

The Company relies on the ability of the Investment Advisor to actively manage the Company's assets pursuant to the Investment Advisor Agreement. The Investment Advisor will make the investment decisions in respect of the Portfolio upon which the success of the Company will depend significantly. No assurance can be given that the approach utilized by the Investment Advisor in respect of the Portfolio will prove successful.

The portfolio managers of the Investment Advisor who will be primarily responsible for the management of the Portfolio have extensive experience in managing investment portfolios. However, there is no certainty that the Investment Advisor will continue to be engaged to provide investment advisory services to the Company for the entire life of the Company, and there is no certainty that portfolio managers of the Investment Advisor responsible for providing such services will continue to be employees of the Investment Advisor throughout the entire life of the Company.

Reliance on Key Personnel

The Company and Investment Advisor depend, to a great extent, on the services of a limited number of individuals in connection with the services provided to the Company. The loss of such services or the loss of some key individuals could impair the ability of the Company and Investment Advisor to perform its management and advisory activities.

The Lack of a Redemption Feature

The Shares may trade at a discount to Net Asset Value per Share because the Shares do not have a redemption feature in favour of the holders thereof.

Trading Price of the Shares Relative to Net Asset Value

Securities of certain exchange listed investment funds in Canada have traded at a discount from their net asset values. This risk associated with securities of a listed corporation is a risk separate and distinct from the risk that the

Company's Net Asset Value may decrease. The Company cannot predict whether the Shares will trade at a discount from, a premium to, or at the Company's Net Asset Value.

The market price of the Shares will likely be affected by macroeconomic developments around the world and market perceptions of the attractiveness of various economies, industries or companies.

The market price of the Shares at any given point in time may not accurately reflect the Company's long-term value. The market price of the Shares will be determined by, among other things, the relative demand and supply of the Shares in the market, the Company's investment performance and investor perception of the Company's overall attractiveness as an investment as compared with other investment alternatives.

No Guaranteed Return

There is no guarantee that an investment in the Shares will earn any positive return in the short term or long term.

Loss of Investment

An investment in the Company is appropriate only for investors who have the capacity to absorb a loss of all of their investment and who can withstand the effect of the targeted monthly dividends not being met for any given period.

Absence of Prior Public Market

Prior to the Offering, there has been no public market for the Shares. The issue price for the Shares has been determined by negotiation between the Company and the Lead Agent, on behalf of the Agents based on several factors, and may bear no relationship to the price at which the Shares will trade in a public market, if any, subsequent to the Offering.

Status of the Company for Securities Law Purposes

The Company is not a "mutual fund" for securities law purposes. As a result, some of the protections provided to investors in mutual funds under such laws will not be available to investors in the Shares and restrictions imposed on mutual funds under Canadian securities laws, including NI 81-102, do not apply to the Shares.

Inability to Obtain or Maintain Required Registrations

The Company may be required to be registered to trade in foreign securities in certain jurisdictions. An inability to obtain or maintain such registrations may adversely affect the Portfolio if the Investment Advisor is unable to sell securities already in the Portfolio or purchase securities in certain jurisdictions.

Leverage

The Company may borrow additional capital to invest in securities comprising the Portfolio for the purpose of enhancing the potential returns of the Company. The risk to Shareholders may increase if securities purchased with borrowed money decline in value. While the use of leverage can increase the rate of return, it can also increase the magnitude of loss in unprofitable positions beyond the loss which would have occurred if there had been no borrowings. The interest expense and other costs incurred in connection with such borrowing may not be recovered by appreciation in the securities purchased or carried. Leveraging will thus tend to magnify the losses or gains from investment activities. No assurance can be given that a loan facility will be available on terms acceptable to the Company or at all at the time the Company intends to borrow.

If at any time leverage exceeds 25% of Net Asset Value of the Company or an amount owed is called by a lender, the Company may be required to liquidate securities in the Portfolio to comply with the restriction or to repay the indebtedness. Such sales may occur at a time when the market for the securities in the Portfolio is depressed, affecting the value of the Portfolio and the return to the Company. In addition, the Company may not be able to renew loan facilities on acceptable terms or at all.

There can be no assurance that the borrowing strategy employed by the Company will enhance returns, and it may in fact reduce returns.

Performance of the Company

There can be no assurance that the performance of the Company will be the same as other funds managed by the Investment Advisor, or that the performance of the Company will be similar to the results obtained by the Investment Advisor in the past, as past performance is not a guarantee of future performance.

Conflicts of Interest

The Company, the Investment Advisor and their respective directors and officers and their respective affiliates and associates may engage in the promotion, management or investment management of one or more funds or trusts which invest in securities similar to the Portfolio of the Company. Certain directors and officers of the Company are directors, officers and/or employees of the Investment Advisor.

The Investment Advisor is engaged in a variety of investment management, investment advisory and other business activities. The services of the Investment Advisor under the Investment Advisor Agreement are not exclusive and nothing in the Investment Advisor Agreement prevents the Investment Advisor or any of its affiliates from providing similar services to other investment funds and other clients (whether or not their investment objectives, strategies and policies are similar to those of the Company) or from engaging in other activities. The Investment Advisor's investment decisions in respect of the Company will be made independently of those made for its other clients and independently of its own investments.

Although none of the directors or officers of the Company or the Investment Advisor will devote his or her full time to the business and affairs of the Company, each will devote as much time as is necessary to supervise the management of (in the case of the directors) or to manage the business and affairs of (in the case of officers) the Company.

Changes in Legislation and Administrative Policy

There can be no assurance that certain laws applicable to the Company, including Canadian and foreign income tax laws and securities laws, will not be changed in a manner which could adversely affect the Net Asset Value of the Company. In addition, there can be no assurance that the administrative policies and assessing practices of the CRA will not be changed in a manner which adversely affects the Shareholders. The Company may also be affected by changes in regulatory requirements, customs, duties or other taxes in Canada or foreign jurisdictions. Such changes could, depending on their nature, benefit or adversely affect the Company.

Short Sale Positions

The Company may engage in short selling securities. A short sale of a security may expose the Company to losses if the price of the security sold short increases because the Company may be required to purchase such securities in order to cover its short position at a higher price than the price at which such securities were sold short. The potential loss on the short sale of securities is unlimited, since there is no limit on how much the price of a security will appreciate before the short position is closed out. In addition, a short sale entails the borrowing of the security in order that the short sale may be transacted. There is no assurance that the lender of the security will not require the security to be repaid before the Company wishes to do so, thereby requiring the Company to borrow the security elsewhere or purchase the security in the market at an unattractive price. If numerous lenders of the security in the market simultaneously recall the same security, a "short-squeeze" may occur, whereby the market price of the borrowed security may increase significantly. In addition, the borrowing of securities entails the payment of a borrowing fee. There is no assurance that a borrowing fee will not increase during the borrowing period, adding to the expense of the short sale strategy. In addition, there is no assurance that the security sold short can be purchased due to supply and demand constraints in the marketplace.

Lack of Operating History as an Investment Company

The Company is newly reorganized with no previous operating history as an investment company. There is currently no public market for the Shares and there can be no assurance that an active public market will develop or be sustained after completion of the Offering.

Liabilities from Prior Operations

From time to time, there may be legal proceedings pending or threatened against the Company relating to the prior business of the Company. There can be no assurance that any such litigation will be resolved without a material adverse effect on the Company.

Pursuant to the Reorganization, all of the assets of the Company were transferred to, and their related liabilities were assumed by, Forbes. 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. Such insurance policy, effective May 9, 2008 with an initial three-year term, is applicable to cholesterol-reducing pharmaceutical and neutraceutical products sold up to and including May 8, 2008. The insurance policy provides coverage of $10 million per occurrence and in the aggregate with respect to claims relating to such products including claims relating to bodily injury and property damage arising from a variety of events associated with the former operations of the Company. Prior to Closing, the insurance policy will be extended another three years in order to be in effect for the expected term of the Company.

Despite the indemnity provided to the Company, it is possible that the Company may be found to be responsible for claims or losses relating to the assets and liabilities transferred from the Company to Forbes. In addition, it is possible that claims or losses may not be within the scope of the indemnity or the insurance, or if within the scope of the indemnity or the insurance, they may not be recoverable by the Company. Such circumstances will include claims or losses that exceed the limits of the insurance policy or the lack of sufficient financial resources on the part of the indemnifying party to satisfy its obligations pursuant to the indemnity.

Risk Factors Relating to the Portfolio

Risks Associated with Corporate Debt Securities

The assets of the Company will primarily consist of corporate bonds or other debt instruments of issuers with ratings from BBB or below by S&P or another equivalent credit rating organization. Such issuers may default or otherwise be unable to honour a financial obligation, including in respect of the securities held in the Portfolio. The ratings assigned to these debt securities by the rating organizations may be downgraded to lower ratings categories. Certain of the bonds or other debt instruments may be regarded as predominantly speculative with respect to an issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations. They may be more susceptible to real or perceived adverse economic and competitive industry conditions than higher rated securities. During periods of thin trading in these markets, this spread between bid and ask prices is likely to increase significantly and the Company may have difficulty selling such securities. Global financial markets have experienced a significant repricing in recent months that has contributed to a reduction in liquidity and the availability of credit, enhancing the likelihood of default by some issuers due to diminishing profitability or an inability to refinance existing debt.

The corporate debt securities held in the Portfolio may experience greater volatility in market value than higher rated debt instruments, and the market's perception of the issuers of these securities including perceptions of creditworthiness may significantly affect the value of their securities. Some securities may be structured in ways that make their reaction to interest rate changes and other market factors difficult to predict, causing their prices to be highly volatile.

Interest Rate Fluctuations

It is anticipated that the market price of the Shares will, at any time, be affected by the level of interest rates prevailing at such time. A rise in interest rates may have a negative effect on the market price of the Shares.

Interest rate fluctuations could also have an adverse effect on the value of the corporate debt securities held by the Company.

Fluctuations in the Canadian - U.S. Dollar Exchange Rates

As the assets of the Company will include a significant amount of U.S. dollar-denominated debt, and as the value of the Company is referable to the value of those assets, the Net Asset Value of the Company will be affected by changes in the value of the U.S. dollar relative to the Canadian dollar. While the Company intends to enter into forward currency contracts or other derivative contracts to hedge substantially all of its exposure to the U.S. dollar, it will be exposed to this risk to the extent its currency arrangements leave it partially unhedged in this regard. The Company may also use various other derivative instruments in its hedging activities other than forward purchase and sale agreements. Derivatives are subject to certain risks including liquidity risk, interest rate risk, market risk, credit risk, leveraging risk, counterparty risk and management risk. They also involve the risk of mispricing or improper valuation and the risk that changes in the value of a derivative may not correlate perfectly with the underlying exchange rate. Hedging with derivatives may not always work and it could restrict the Company's ability to increase in value and consequently adds to the risk of investing in Shares. There is also no guarantee that the Company will be able to obtain or close out a derivative contract when it needs to, which could prevent the Company from making a profit or limiting a loss.

General Economic, Political and Market Conditions

The success of the Company's activities may be affected by general economic, political and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, and national and international political circumstances. These factors may affect the level and volatility of securities prices and the liquidity of the Company's assets. Unexpected volatility or illiquidity could impair the Company's profitability. Recent market conditions may adversely affect global companies and the pricing of their securities.

Potential for Limited Liquidity in Some Portfolio Investments

Some of the securities in which the Company intends to invest may be thinly traded and some may have no market at all. These may include, but are not limited to, the Company's private investments. It is possible that the Company may not be able to sell portions of such positions without facing substantially adverse prices. If the Company is required to transact in such securities or other assets before their intended investment horizon, the performance of the Company could suffer.

Investments in Private Issuers

Issuers whose securities are not publicly traded are not subject to the disclosure and other investor protection requirements that would be applicable if their securities were publicly traded. The Portfolio may include securities issued by privately held issuers. There is generally little or no publicly available information about such issuers and the Company must rely on the diligence of the Investment Advisor to obtain the information necessary for its decision to invest in them. There can be no assurance that the diligence efforts of the Investment Advisor will uncover all material information about the privately held business necessary for the Company to make a fully informed investment decision.

Concentration Risk

The Company may concentrate its investments in securities of a small number of issuers, subject to the limitations noted in the Investment Restrictions of the Company. The result is that the securities in which the Company invests may not be diversified across many sectors or they may be concentrated in specific regions or countries. The Company may also have a significant portion of its Portfolio invested in the securities of a single issuer. A relatively high concentration of assets in a single or small number of investments may reduce the diversification of the Company.

Regulatory Risk

Some industries, such as financial services, health care and telecommunications, are heavily regulated and may receive government funding. Investments in these sectors may be substantially affected by changes in government policy, such as increased regulation, ownership restrictions, deregulation or reduced government funding.

Stock Exchange Risk

Stock exchanges have, in the past, experienced problems such as temporary exchange closures, broker defaults, settlement delays and broker strikes that, if they occur again in the future, could affect the market price and liquidity of the securities in which the Company invests. In addition, the governing bodies of the various stock exchanges have, from time to time, imposed restrictions on trading in certain securities, limitations on price movements and margin requirements. Disputes have also occurred from time to time among listed issuers, the stock exchanges and other regulatory bodies, and in some cases, those disputes have had a negative effect on overall market sentiment. In addition, there have been delays and errors in share allotments relating to initial public offerings, which in turn could affect overall market sentiment and lead to fluctuations in the market prices of the securities of those issuers and others in which the Company may invest.

Counterparty Risk

Due to the nature of some of the investments that the Company may undertake, the Company relies on the ability of the counterparty to the transaction to perform its obligations. In the event that a counterparty fails to complete its obligations, the Company bears the risk of loss of the amount expected to be received under options, forward contracts or securities lending agreements or other transactions in the event of the default or bankruptcy of a counterparty.

Use of a Custodian to Hold Assets

Some or all of the Company's assets may be held in one or more margin accounts due to the fact that the Company may use leverage and engage in short selling. The prime broker may also lend, pledge or hypothecate the Company's assets in such accounts, which may result in a potential loss of such assets. As a result, the Company's assets could be frozen and inaccessible for withdrawal or subsequent trading for an extended period of time if the prime broker experiences financial difficulty. In such case, the Company may experience losses due to insufficient assets at the prime broker to satisfy the claims of its creditors, and adverse market movements while its positions cannot be traded. In addition, the prime broker is unlikely to be able to provide leverage to the Company, which would affect adversely the Company's returns.

Options and Futures Transactions

The Company may utilize derivatives. The use of derivative instruments involves risks different from and possibly greater than, the risks associated with investing directly in securities and other traditional investments. Risks associated with the use of derivatives include the following: (i) hedging to reduce risk does not guarantee that there will not be a loss or that there will be a gain; (ii) there is no guarantee that a market will exist when the Company wants to settle the derivative contract, which could prevent the Company from reducing a loss or making a profit; (iii) securities exchanges may impose trading limits on options and futures contracts, and these limits may prevent the Company from settling the derivative contract; (iv) the Company could experience a loss if the other party to the derivative contract is unable to fulfill its obligations; and (v) if the Company has an open position in an option, a futures contract or a forward contract with a dealer who goes bankrupt, the Company could experience a loss and, for an open futures or forward contract, a loss of margin deposits with that dealer. In circumstances where there is an interest rate hedge employed, total return on the Portfolio may be higher with the hedge than without it when interest rates rise significantly, but total return may be lower than it otherwise would be in a stable to falling interest rate environment.

DISTRIBUTION POLICY

The holders of the Shares are entitled to receive dividends, in the amounts and if and when declared by the directors out of monies of the Company lawfully available for the payment of dividends, in such amounts as determined in the absolute discretion of the directors from time to time.

The Company intends to declare and pay a monthly cash dividend to Shareholders, targeted to pay out a minimum of 75% of Net Earnings annually. The initial monthly dividend amount is expected to be approximately $0.0583 per Share payable on June 30, 2009 to Shareholders of record on June 15, 2009. This represents a 7.0% dividend yield per annum based on the $10.00 per Share issue price. The Company will continue to determine and announce, on a quarterly basis, an indicative dividend amount for the following three months, based upon the prevailing market conditions and the estimate by the Company of cash flow for the period. As credit spreads narrow, the Company intends to pay out a higher percentage of earned income. It is expected that monthly cash dividends payable to Shareholders will be derived primarily from interest received by the Portfolio. As a result of this and other factors, dividends may fluctuate from month to month and there can be no assurance that the Company will pay its targeted dividends or any dividend in any particular month.

Shareholders will be entitled to receive declared dividends if they were Shareholders of record as of the close of business on the relevant Record Date. Any declared dividends will be made on each Dividend Date, and calculated as of the close of business on the immediately preceding Record Date.

CONSOLIDATED CAPITALIZATION

The following table sets out the capitalization of the Company as at December 31, 2008, both before and after giving effect to the Offering.

Designation	Authorized	Outstanding as at December 31, 2008	To be Outstanding as at December 31, 2008 After Giving Effect to the Offering (1)(2)(3)
		(audited)	(unaudited)
Voting Common Shares	Unlimited	$1.00 (100,555 Shares) (4)	$176,547,010 (17,654,701 Shares) (4)
Non-Voting Common Shares	Unlimited	$nil (nil Non-Voting Shares)	$3,456,710 (345,671 Non-Voting Shares) (4)
Convertible Debenture	$2,960,000	$2,960,000	nil

Notes:

(1) Assumes the maximum amount of the Offering.
(2) Assumes the maximum conversion of the Convertible Debenture in full. See "Overview of the Structure of the Company – Prior Business".
(3) Prior to giving effect to any exercise of the Over-Allotment Option.
(4) After giving effect to the Consolidation.

PRIOR SALES

The Company has issued the following securities that are convertible into Shares in the 12-month period prior to the date of this prospectus.

Date of Issuance	Number of Shares (1)	Issue Price Per Share (2)
May 9, 2008	20,683,685(3)	$0.02

Notes:

(1) Maximum issuable on conversion of the Convertible Debenture.
(2) Conversion price pursuant to the terms of the Convertible Debenture.
(3) Prior to giving effect to the Consolidation.

See "Overview of the Structure of the Company – Prior Business".

PURCHASE OF SECURITIES

Prospective purchasers may purchase Shares with cash payments. The purchase price per Share is fixed during the Offering.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Burnet, Duckworth & Palmer LLP, counsel to the Company, and Osler, Hoskin & Harcourt LLP, counsel to the Agents, the following is a summary of the principal Canadian federal income tax considerations generally applicable to a purchaser who acquires Shares under the Offering who, within the meaning of the Tax Act, is resident at all relevant times in Canada or deemed to be a resident of Canada, deals at arm's length with the Company, is not affiliated with the Company and holds the Shares as capital property.

Generally, the Shares will be capital property to a purchaser provided the purchaser does not hold such shares in the course of carrying on a business of trading or dealing in securities and does not acquire them as part of an adventure in the nature of a trade. Certain purchasers who might not otherwise be considered to hold Shares as capital property may, in certain circumstances, be entitled to have them and all other "Canadian securities", as defined in the Tax Act, treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act.

This summary is not applicable to a purchaser who is a "financial institution" for the purposes of the "mark to market rules", to a purchaser an interest in which would be a "tax shelter investment" or to a purchaser who has elected to determine its Canadian tax results in a "functional currency" (which does not include Canadian currency), each as defined in the Tax Act. Such purchasers should consult their own tax advisors. Furthermore, this summary is not applicable to a purchaser that is a "specified financial institution", as defined in the Tax Act, that receives or is deemed to receive, alone or together with persons with whom it does not deal at arm's length, in the aggregate dividends in respect of more than 10% of the Shares (5% of the Shares in the case of a purchaser which is a "restricted financial institution" as defined in the Tax Act) outstanding at the time the dividend is received. This summary also assumes that all issued and outstanding Shares are listed on a designated stock exchange (which includes the TSX) in Canada (as defined in the Tax Act) at such times as dividends (including deemed dividends) are paid or received on such shares.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular purchaser. Accordingly, prospective purchasers are urged to consult their own tax advisors with respect to their particular circumstances.

This summary is based upon the current provisions of the Tax Act, the regulations thereunder, all specific proposals to amend the Tax Act and the regulations publicly announced by the Minister of Finance prior to the date hereof (the "**Proposals**"), counsel's understanding of the current administrative practices and assessing policies published in writing by the Canada Revenue Agency (the "**CRA**") and representations from the Company as to certain factual matters. This summary does not otherwise take into account any changes in law or in administrative practices or assessing policies, whether by legislative, administrative or judicial decision or action, nor does it take into account or consider any provincial, territorial or foreign income tax considerations, which may be different from those discussed herein. No assurance can be given that the Proposals will be enacted as proposed or at all.

Taxation of the Company

The Company will not be a "mutual fund corporation" and will therefore be subject to tax under the Tax Act in respect of its income and gains under the rules generally applicable to "taxable Canadian corporations" under the Tax Act.

Taxation of Shareholders

Dividends

Dividends (including deemed dividends) received on the Shares by an individual (other than certain trusts) will be included in the individual's income and will be subject to the gross-up and dividend tax credit rules applicable to taxable dividends received by individuals from taxable Canadian corporations, including the enhanced dividend tax credit rules applicable to any dividends designated by the Company as "eligible dividends" in accordance with the Tax Act.

Dividends (including deemed dividends) on the Shares received by a corporation will be included in computing income and will generally be deductible in computing the taxable income of the corporation.

Based in part upon representations from the Company as to certain factual matters, the Shares will not be "taxable preferred shares" or "short-term preferred shares" as defined in the Tax Act.

A private corporation, as defined in the Tax Act, or any other corporation controlled, whether by reason of a beneficial interest in one or more trusts or otherwise, by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts), will generally be liable to pay a 33⅓% refundable tax under Part IV of the Tax Act on dividends received (or deemed to be received) on the Shares to the extent such dividends are deductible in computing its taxable income.

Dispositions

A holder who disposes of or is deemed to dispose of the Shares (either on redemption of the shares or other acquisition by the Company) will generally realize a capital gain (or sustain a capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such shares to the holder thereof. The amount of any deemed dividend arising on the redemption or acquisition by the Company of Shares will generally not be included in computing the proceeds of disposition of a holder for purposes of computing the capital gain or capital loss arising on the disposition of such shares. See "Redemption" below. If the shareholder is a corporation, any such capital loss may in certain circumstances be reduced by the amount of any dividends, including deemed dividends, which have been received on such shares to the extent and under circumstances prescribed by the Tax Act. Analogous rules apply to a partnership or trust of which a corporation, trust or partnership is a member or beneficiary.

Generally, one-half of any such capital gain will be included in computing the holder's income as a taxable capital gain and one-half of any such capital loss may be deducted from the holder's taxable capital gains in accordance with the rules contained in the Tax Act. Any such capital gain realized by an individual may give rise to a liability for minimum tax. Taxable capital gains of a Canadian controlled private corporation (as defined in the Tax Act) may be subject to an additional refundable tax at a rate of 6⅔%.

Redemption

If the Company redeems for cash or otherwise acquires the Shares, other than by a purchase in the manner in which shares are normally purchased by a member of the public in the open market, the holder will be deemed to have received a dividend equal to the amount, if any, paid by the Company in excess of the paid-up capital of such shares at such time as computed for purposes of the Tax Act. See "Dividends" above. The difference between the amount paid and the amount of the deemed dividend will be treated as proceeds of disposition for the purposes of computing the capital gain or capital loss arising on the disposition of such shares. See "Dispositions" above. In the case of a corporate shareholder, it is possible that in certain circumstances all or part of the amount so deemed to be a dividend may be treated as proceeds of disposition and not as a dividend.

ORGANIZATION AND MANAGEMENT DETAILS OF THE COMPANY

Directors and Officers of the Company

The Board of Directors is currently composed of four directors. On Closing, the Board of Directors will be reconstituted to be composed of six directors, four of whom will be "independent" within the meaning of applicable securities legislation. Directors are appointed to serve on the Board of Directors by the holders of Shares until the next annual meeting of shareholders or until the time that they retire or are removed and successors are appointed. The Company is governed by the Board of Directors and the Board of Directors will, on Closing, appoint a Chief Executive Officer, Chief Investment Officer and Chief Financial Officer to be responsible for the day-to-day management of the Company.

The name, municipality of residence, office and principal occupation within the past five years of each of the current and proposed directors and officers of the Company are set out below.

Name and Municipality of Residence	Position with the Company	Principal Occupation
John A. Brussa Calgary, Alberta	Director(3)	Partner of Burnet, Duckworth & Palmer LLP (a law firm)
Philip Hampson(2) Calgary, Alberta	Director(3)	President of NGPI Canada Inc., a Toronto based merchant banking firm
Denyse Chicoyne(2) Montreal, Québec	Director(3)	Corporate Director
Wayne Deans (1) Vancouver, British Columbia	Director(3)	Chief Executive Officer and a director of the Investment Advisor
D. Alan Ross(2) Calgary, Alberta	Director	Managing Director of Matco (a private investment company) since 2006; prior thereto, partner of Bennett Jones LLP (a law firm)
Craig Langdon Vancouver, British Columbia	Chief Executive Officer and Director(4)	Portfolio Manager at the Investment Advisor
Dillon Cameron Vancouver, British Columbia	Chief Investment Officer(4)	Portfolio Manager at the Investment Advisor
Mark Myles Vancouver, British Columbia	Chief Financial Officer and Corporate Secretary(4)	Chief Operating Officer of the Investment Advisor since November 2005; prior thereto, senior manager with PricewaterhouseCoopers LLP
Charles A. Butt	President, Chief Executive Officer and Director(3)(4)	President and Chief Executive Officer of Forbes
David G. Goold	Chief Financial Officer, Corporate Secretary and Director(3)(4)	Chief Financial Officer of Forbes

Notes:

(1) Proposed Chairman of the Board of Directors.
(2) Proposed member of the Audit Committee and Independent Review Committee.
(3) It is anticipated that Messrs. Brussa, Hampson and Deans and Ms. Chicoyne will replace Messrs. Butt and Goold as directors of the Company on Closing.
(4) It is anticipated that Messrs. Langdon, Cameron and Myles will be appointed officers of the Company and Messrs. Butt and Goold will resign as officers of the Company on Closing.

The following are brief biographies of the proposed independent directors if the Company completes the Offering. See "– The Investment Advisor" for biographies of the other proposed officers and directors if the Company completes the Offering.

John Brussa is a partner at the law firm of Burnet, Duckworth & Palmer LLP. He is also Chairman of Crew Energy Inc. and Penn West Petroleum Ltd., and sits on numerous other public company boards. He is recognized by his peers as one of the 500 Top Lawyers in Canada and one of the 100 Most Creative Lawyers in Canada. He has extensive experience in the energy business and was instrumental in the development of the energy trust model in 1986.

Mr. Hampson is President of NGPI Canada Inc., a Toronto based merchant banking firm. Previously, Mr. Hampson was a director and officer of a number of Newshore Capital Group affiliates which carried out private debt and equity investments and participated in structured finance transactions. Mr. Hampson has also served as a Senior Director in the merchant banking practice of CIT. Prior to working at CIT, Mr. Hampson worked for approximately 10 years at Bankers Trust Company, and its successor, Deutsche Bank, in the Capital Markets Division with responsibilities for fixed income, foreign exchange and commodities derivatives structuring and sales, and subsequently in the investment banking division where he was a Managing Director with responsibilities that included high yield debt, leveraged finance, mergers and acquisitions and restructuring advisory. In addition, Mr. Hampson serves as a director on the board of Madison Telecommunications Holdings Inc.

Denyse Chicoyne has been a Corporate Director of the TSX Group since May 2008. She serves on the board of directors of Richelieu Hardware Ltd., Canada Post Corporation and Holt Renfrew & Co. Limited. Ms. Chicoyne has worked in the securities industry as a top-ranked analyst for brokerage firms such as BMO Nesbitt Burns, Nesbitt Thomson, McNeil Mantha and was also senior analyst and portfolio manager for the Caisse de depôt et placement du Québec. Ms. Chicoyne is also a member of the CFA Institute.

Alan Ross is a managing director of Matco and is also senior tax counsel at the law firm of Bennett Jones LLP. As managing director of Matco, Mr. Ross has been instrumental in the formation, capitalization and restructuring of numerous corporations and business trusts, primarily in the oilfield service and oil and gas exploration and production industries. As counsel, Mr. Ross is recognized as one of Canada's leading lawyers in the field of income tax law, focusing on the income tax aspects of corporate reorganizations, corporate finance, mergers and acquisitions. Prior to joining Matco in 2006, Mr. Ross was head of the tax department at Bennett Jones LLP.

Cease Trade Orders and Bankruptcies

Mr. Brussa was a director of Imperial Metals Limited, a corporation engaged in oil and natural gas and mining operations, in the year prior to that corporation implementing a plan of arrangement under the Company Act (British Columbia) and under the Companies' Creditors' Arrangement Act (Canada) which resulted in the separation of its two businesses. The reorganization resulted in the creation of two public corporations, Imperial Metals Corporation and IEI Energy Inc. (subsequently renamed Rider Resources Ltd.). The plan of arrangement was completed in April 2002.

Mr. Ross was a director of Piper Resources Ltd. ("Piper") from November 27, 2006 to November 29, 2007. On February 15, 2008, Piper was granted creditor protection under the Companies' Creditors' Arrangement Act (Canada). On August 18, 2008, Piper became "bankrupt" within the meaning assigned by the Bankruptcy and Insolvency Act (Canada).

Remuneration of the Board of Directors

Each independent member of the Board of Directors will be paid such remuneration for their services as the Board of Directors may, from time to time, determine. Until otherwise determined, such compensation will be $40,000 per year for each independent director. The Company will also reimburse all members of the Board of Directors for out-of-pocket expenses for attending meetings of the Board of Directors and committees of the Board of Directors.

Management of the Company

The officers of the Company will manage and administer the day-to-day business and affairs of the Company. The Company may from time to time employ or retain any other person or entity to manage on behalf of the Company or to assist the Company in managing or providing administrative and investment advisory services to all or any portion of the Company's assets. The Company has delegated certain of its duties and powers to the Investment Advisor and certain other service providers to the Company.

The officers' duties will include, without limitation, authorizing the payment of operating expenses incurred on behalf of the Company; preparing financial statements and financial and accounting information as required by the Company; ensuring that Shareholders are provided with financial statements and other reports as are required by applicable law from time to time; ensuring that the Company complies with regulatory requirements and applicable stock exchange listing requirements; preparing the Company reports to Shareholders and the Canadian securities regulatory authorities; preparing income tax returns; making recommendations to the Board of Directors with respect to the amount of dividends (if any) to be made by the Company; and negotiating contractual agreements with third party providers of services, including registrars, transfer agents, custodians, auditors and printers.

The Investment Advisor

Deans Knight Capital Management Ltd., a company incorporated on September 28, 1992 pursuant to the *Canada Business Corporations Act*, will be retained by the Company to provide investment advisory and portfolio management services to the Company pursuant to the Investment Advisor Agreement. The principal office of the Investment Advisor is 730 – 999 West Hastings Street, Vancouver, British Columbia V6C 2W2.

The Investment Advisor is a respected British Columbia-based investment firm focused on high income and growth mandates. Formed in 1992, the Investment Advisor is also the manager of several other specialized funds and has total assets under management of approximately $1 billion. The Investment Advisor has an experienced management team and a long history of successful investing in corporate debt securities. Principals of the Investment Advisor and certain officers and directors of the Company intend to purchase a minimum of $4,000,000 of Shares offered pursuant to the Offering. Affiliated Managers Group, an asset management holding company based in Boston, Massachusetts, which had in excess of US$173.6 billion of assets under management as at December 31, 2008 in affiliated firms, owns a minority stake in the Investment Advisor.

The Investment Advisor has focused exclusively on two investment strategies since it was established in 1992: managing specialized portfolios that maximize income and specialized portfolios that maximize growth. The Investment Advisor has considerable experience generating a high level of income through investing in corporate bonds and income trusts and other debt-like securities. It is also recognized for generating capital growth through investing in the equity of undervalued companies. The table below sets out information in respect of the Investment Advisor's assets under management.

FUNDS MANAGED BY DEANS KNIGHT

Assets Under Management ($MM)	**Total**
Income Mandates (1)	$225.9
Equity Mandates (2)	$681.5
Private Energy Funds	$63.8
	$971.2

*Source: Deans Knight Capital Management Ltd.

Notes:

(1) Includes Deans Knight Income Fund and segregated income mandates.
(2) Includes Deans Knight Equity Growth Fund and segregated equity mandates.

Historical Performance of the Investment Advisor

The Investment Advisor has over 16 years of experience investing in income generating products and equity for its clients. The Investment Advisor's two main investment strategies are represented by the Deans Knight Income Fund and the Deans Knight Equity Growth Fund. The Investment Advisor employs the same securities selection process for the equity and debt securities included in each such fund.

The historical compound annual returns for the Investment Advisor's two main investment strategies, represented by the Dean's Knight Income Fund and the Dean's Knight Equity Growth Fund, are set out below. Included are returns for the one, three, five and 10-year periods and since inception of the two funds together with their respective benchmarks.

Historical Compound Annual Returns as at December 31, 2008(1)(2)

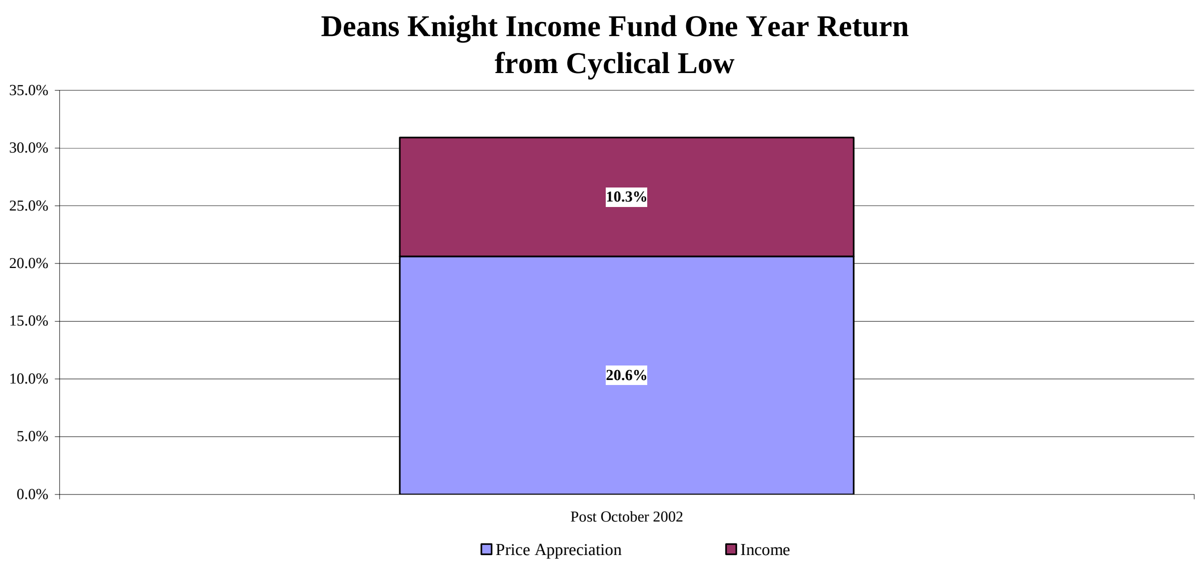
	1 Yr	**3 Yrs**	**5 Yrs**	**10 Yrs**	**Since Inception**
Deans Knight Income Fund	-19.5%	0.9%	9.3%	7.9%	9.8%
DEX Universe Bond Index(3)	6.4%	4.7%	5.5%	6.0%	7.4%
Merrill Lynch High Yield USD Index	-26.4%	-5.6%	-0.9%	2.0%	4.6%

Deans Knight Equity Growth Fund	-46.7%	-5.1%	8.3%	16.7%	15.8%
S&P/TSX Composite Index	-33.0%	-4.8%	4.2%	5.3%	8.1%

Notes:

(1) There can be no assurance that the performance of the Company will equal or exceed the performance of the Deans Knight Income Fund or the Deans Knight Equity Growth Fund, and the investment objectives, strategies, applicable fees and expenses of each issuer differ. Past performance may not be repeated.
(2) Gross of management fees, net of all other expenses.
(3) Formerly known as the SCM Universe Bond Index.

Due to the tightening of credit markets in the last four months of 2008, corporate bond prices declined significantly, contributing to a negative return for both the Deans Knight Income Fund and the Merrill Lynch High Yield Index. The Deans Knight Income Fund had generated a positive return of 8.1% year-to-date up to August 31, 2008, just prior to the turmoil in the financial markets. This is not the first time the Investment Advisor has experienced a tightening of credit markets. In October 2002, credit spreads widened to 974 basis points above ten-year government bonds (see "Investment Objectives – Investment Rationale"). For the twelve-month period ending October 31, 2002, the Deans Knight Income Fund had a total return of 9.4%. As the economy recovered, spreads narrowed and the one-year and five-year returns on the Deans Knight Income Fund were 30.9% and 21.2%, respectively. The graph below shows the one-year return broken down between income and price appreciation.



Source: Deans Knight Capital Management Ltd.

The foregoing information is not, and should not be construed to be, an indication of the future performance of the amounts which may be distributed by the Company. This information is presented solely for illustrative purposes, and should not be construed as a forecast or projection.

The Deans Knight group of investment funds have received numerous awards since their inception, as set out below.

API Asset Performance Inc. Awards for Outstanding Investment Performance

2004	DK Income Fund* 1 year and 3 year returns ranked 1st
2004	DK Equity Growth Fund 3 year and 5 year returns ranked 1st
2003	DK Income Fund* 1 year return ranked 1st
2003	DK Equity Growth Fund 3 year return ranked 1st and 5 year return ranked 3rd

2002	DK Equity Growth Fund 1 year return ranked 1st and 3 year return ranked 3rd
2001	DK Equity Growth Fund 1 year return ranked 3rd
1999	DK Income Fund* 5 year return ranked 1st and 3 year return ranked 3rd
1997	DK Income Fund* 1 year and 4 year returns ranked 1st
1996	DK Income Fund* 1 year return ranked 1st
1996	DK Equity Growth Fund 1 year return ranked 2nd
1995	DK Equity Growth Fund 1 year return ranked 1st

Canadian Investment Awards in Association with Morningstar and CGI

2004	High Yield Bond Fund of the Year
1996	Fund Manager of the Year Award: Wayne Deans

*Known as DK Bond Fund at the time of the award.

Portfolio Management Team

The portfolio managers who will be responsible for the management of the Portfolio are Wayne Deans, Craig Langdon and Dillon Cameron, with assistance from Michael Schaab. The allocation of securities in the Portfolio will be made jointly by the portfolio managers. A description of the experience and background relevant to the business of the Company for each of the relevant members of the Investment Advisor's team follows:

Wayne Deans co-founded the Investment Advisor in 1992 and leads the investment process for all equity portfolios. Wayne was formerly President and Equity Portfolio Manager at MK Wong & Associates of Vancouver. Prior to MK Wong & Associates, Wayne was a Vice-President and Director with Wood Gundy after spending 10 years with the Bank of Canada. Wayne earned a Bachelor of Commerce degree at Sir George Williams University in 1968 and an MBA from McMaster University in 1970. In 1996, he was named Canadian Mutual Fund Manager of the Year at the Analysts Choice Awards.

Craig Langdon, CA, CFA joined the Investment Advisor in January 2000. Prior to joining Deans Knight, Craig was a Manager with PricewaterhouseCoopers LLP. Craig graduated from Wilfrid Laurier University in 1996 with a Bachelor of Business Administration degree and received his Chartered Accountant designation in 1998 and his Chartered Financial Analyst designation in 2001.

Dillon Cameron, CFA joined the Investment Advisor in September 2000. Prior to joining Deans Knight, Dillon worked on the trading floor at Scotia Capital Inc. in Toronto. Dillon graduated from Bishop's University in 1999 with a Bachelor of Business Administration degree majoring in Finance and received his Chartered Financial Analyst designation in 2002.

Michael Schaab, CA, CFA joined the Investment Advisor in May 2003. Prior to joining the Investment Advisor, Mike was a Manager with PricewaterhouseCoopers LLP. Mike graduated from University of Western Ontario in 1995 with an Honours Bachelor of Arts degree with Distinction in Psychology and received his Chartered Accountant designation in 1998 and his Chartered Financial Analyst designation in 2006.

Doug Knight, CFA co-founded the Investment Advisor in 1992 and retired in 2008. While at the Investment Advisor, Doug was involved in the management of all income portfolios. Currently, Doug still consults to the Investment Advisor with respect to its investments and will continue to do so for the Company. Doug Knight is one of Canada's leading corporate bond experts and was a founding partner of MK Wong & Associates in 1980. Doug started his career in Toronto at a Canadian trust company in 1972. Doug graduated from the University of Western Ontario in 1970 with a Bachelor of Arts degree majoring in Economics, continued his graduate studies at the University of Windsor and received his Chartered Financial Analyst designation in 1979. Doug was also a long-time mentor for the University of British Columbia's Portfolio Management Foundation.

Mark Myles, CA, CPA (in Illinois) joined the Investment Advisor in November 2005. Prior to joining the Investment Advisor, Mark was a Senior Manager with PricewaterhouseCoopers LLP. Mark graduated from

Dalhousie University in 1995 with a Bachelors of Commerce degree, received his Chartered Accountant designation in 1997 and his Certified Public Accountant designation in Illinois in 2001.

The Investment Advisor Agreement

Pursuant to the Investment Advisor Agreement, the Investment Advisor will manage the assets held by the Company in accordance with the Investment Objectives, Investment Strategy and Investment Restrictions of the Company. In consideration for the services provided by the Investment Advisor pursuant to the Investment Advisor Agreement, the Investment Advisor will receive from the Company the Investment Advisory Fee and will be entitled to be reimbursed for its expenses. See "Fees and Expenses Payable by the Company – Fee Payable to the Investment Advisor".

The Company can terminate the Investment Advisor Agreement immediately on written notice (i) upon the occurrence of events of insolvency or liquidation of the Investment Advisor or if the Investment Advisor becomes bankrupt or passes a resolution approving its winding-up or dissolution or in the case of its deemed dissolution or if it makes a general assignment for the benefit of its creditors; or (ii) if the Investment Advisor loses its registration as an investment counsel/portfolio manager with the Ontario Securities Commission, unless the Investment Advisor or the Company have made satisfactory arrangements such that the Investment Advisor can continue to fulfil its requirements under the Investment Advisor Agreement in accordance with all applicable legislation and policies. The Company may also terminate the Investment Advisor if the Investment Advisor is in default in any material respect in the performance of any duties or obligations under the Investment Advisor Agreement which default is not cured within 30 days' written notice of such default by the Company. The Company or the Investment Advisor may each terminate the Investment Advisor Agreement on 90 days' prior written notice to the other party. In the event that the Investment Advisor Agreement is terminated, the Company will appoint a successor Investment Advisor to carry out the activities of the Investment Advisor.

Under the Investment Advisor Agreement, the Investment Advisor will be required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Company and its Shareholders and must exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Investment Advisor will not be liable in carrying out its duties under the Investment Advisor Agreement, including for any loss or diminution in value of the Company's assets or any loss or damage caused to the Company or any Shareholder relating to permitted loans or indebtedness of the Company or for any insufficiency of income from or any depreciation in the value of any investments in or upon which any of the moneys of or belonging to the Company shall be invested or by virtue of the acquisition or disposition of any such investments or for any other loss or damage to the Company's assets which may occur during or in the course of the performance by the Investment Advisor of its rights, duties, powers, discretions, authorities, obligations and responsibilities under the Investment Advisor Agreement, except to the extent that the loss or damage results from the wilful misconduct, bad faith, negligence or reckless disregard by the Investment Advisor of its duties, obligations and responsibilities, or the Investment Advisor has failed to meet its standard of care.

The Investment Advisor and each of its directors, officers, employees and agents will be indemnified and saved harmless by the Company for all liabilities, costs and expenses incurred in connection with any claim, action, suit or proceeding that is proposed or commenced or any other claim that is made against the Investment Advisor or any of its officers, directors, employees or agents in the exercise of its duties as Investment Advisor if they do not result from the Investment Advisor's wilful misconduct, bad faith, negligence or reckless disregard of its duties, breach of its obligations under the Investment Advisor Agreement or failure to meet its standard of care.

The services of the Investment Advisor under the Investment Advisor Agreement are not exclusive to the Company and nothing in the Investment Advisor Agreement prevents the Investment Advisor from providing similar portfolio advisory services to other investment funds and other clients (whether or not their investment objectives and policies are similar to those of the Company) or from engaging in other activities. Certain directors and officers of the Company are also directors, officers and/or employees of the Investment Advisor. In addition, Mr. Brussa provides certain advisory services to the Investment Advisor for which he receive fees. Mr. Hampson also served as an advisor to Deans Knight Capital Management Ltd. from 2003 to 2005, and in such capacity, received advisory fees. No such advisory fees have been paid to Mr. Hampson since 2005. See "– Conflicts of Interest".

Code of Ethics and Standards of Professional Responsibility

The Investment Advisor has a Code of Ethics and Standards of Professional Conduct (the "**Code of Ethics**") which applies to all of its employees. The Code of Ethics is in place to protect the interest of all of the Investment Advisor's clients. The Code of Ethics provides policies governing the conduct of business including conflicts of interest, privacy issues and confidentiality.

Policies and Practices

The Investment Advisor has policies and practices in place in order to comply with applicable securities laws, regulations and rules, including risk management policies and procedures outlined below and described elsewhere in this prospectus.

The Company may use derivatives from time to time as described in this prospectus. Any use of derivatives by the Company is governed by the Investment Advisor's policies and procedures relating to derivatives trading. These policies and procedures are prepared and reviewed at least annually by senior management of the Investment Advisor. The decision as to the use of derivatives is made by senior portfolio managers of the Investment Advisor in accordance with the compliance procedures and risk control measures of the Investment Advisor.

Conflicts of Interest

The Investment Advisor is engaged in a variety of investment management, investment advisory and other business activities. The services of the Investment Advisor under the Investment Advisor Agreement are not exclusive and nothing in the Investment Advisor Agreement prevents the Investment Advisor or any of its affiliates from providing similar services to other investment funds and other clients (whether or not their investment objectives, strategies and policies are similar to those of the Company) or from engaging in other activities. The Investment Advisor's investment decisions in respect of the Company will be made independently of those made for its other clients and independently of its own investments. See "Risk Factors – Risk Factors Relating to an Investment in the Company – Conflicts of Interest".

Voting Rights in the Portfolio Securities

Shareholders will not have any voting rights in respect of the securities held in the Portfolio. The Company will delegate to the Investment Advisor the responsibility for voting on matters for which the Company receives, in its capacity as a security holder, proxy materials for a meeting of security holders of an issuer included in the Portfolio. In addition, the Investment Advisor has implemented proxy voting conflict guidelines to address conflicts of interests that may arise in connection with the Investment Advisor's exercise of voting rights on behalf of others.

The Investment Advisor will maintain and make available to the Company, on a timely basis, a complete and accurate proxy voting record of all action taken on behalf of the Company.

See "Proxy Voting Disclosure".

Allocation of Brokerage Commissions

The primary consideration in portfolio transactions is generally the prompt execution of orders in an efficient manner at the most favourable price.

In selecting and monitoring dealers and negotiating commissions, the Company considers the dealer's reliability, the quality of its execution services on a continuing basis and its financial condition. When more than one dealer is believed to meet these criteria, preference may be given to dealers who provide research or statistical material or other services to the Company or to the Investment Advisor or its affiliates. Such services include advice, both directly and in writing, as to the value of the securities; the availability of securities, or purchasers or sellers of securities; as well as analysis and reports concerning issues, industries, securities, economic factors and trends. This allows the Company to supplement their own investment research activities and obtain the views and information of others prior to making investment decisions. The Company is of the opinion that, because this material may be analyzed and reviewed by its staff, its receipt and use does not tend to reduce expenses but may benefit the Company by supplementing the Company's research. Brokerage transactions may also be allocated to dealers affiliated with the Investment Advisor, on terms, including fees and commissions, not less favourable than would be offered to other similar clients of such affiliated dealers.

Independent Review Committee

Pursuant to NI 81-107, the Company will establish an independent review committee (the "**Independent Review Committee**") to review conflicts of interest.

The Independent Review Committee functions in accordance with applicable securities law, including NI 81-107. The mandate of the Independent Review Committee is to review and provide its decisions to the Company on conflict of interest matters that the Company has referred to the Independent Review Committee for review. The Company is required to identify conflict of interest matters inherent in its management of the Company and request input from the Independent Review Committee in respect of how it manages those conflicts of interest, as well as its written policies and procedures outlining its management of those conflicts of interest. The Independent Review Committee will adopt a written charter which it will follow when performing its functions and will be subject to requirements to conduct regular assessments. In performing their duties, members of the Independent Review Committee are required to act honestly, in good faith and in the best interests of the Company and to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Independent Review Committee will report annually to Shareholders of the Company which report will be available free of charge upon request to the Company and will also be posted on the Company's website at www.deansknight.com.

Fees and expenses of the Independent Review Committee will be paid by the Company. Compensation for each member of the Independent Review Committee, in their capacity as a member of such committee, will initially be $10,000 per member per annum, with an additional $5,000 for the chair.

The Company has appointed the following members to the Independent Review Committee: Philip Hampson, Denyse Chicoyne and Alan Ross.

Audit Committee

The audit committee's mandate includes reviewing the semi-annual and annual reports that are sent to Shareholders, providing the independent auditors of the Company with a means to raise any unresolved issues with management and with the vehicle to maintain their independence. Fees and expenses of the Audit Committee will be paid by the Company. Compensation for each member of the Audit Committee, in their capacity as a member of such committee, will initially be $10,000 per member per annum, with an additional $5,000 for the chair.

Auditors

The auditors of the Company will be PricewaterhouseCoopers LLP, Chartered Accountants, Vancouver, British Columbia.

Custodian

RBC Dexia Investor Services Trust will act as the custodian of the Company's assets on or prior to the Closing Date pursuant to the Custodian Agreement. The address of the Custodian is 1055 West Georgia Street, Vancouver, British Columbia V6E 3S5. The Custodian may employ sub-custodians as considered appropriate by the Company in the circumstances.

Registrar and Transfer Agent

Computershare Trust Company of Canada will be appointed the registrar, transfer agent and distribution agent for the Shares on or prior to the Closing Date. The register and transfer ledger will be kept by the registrar at its principal stock and bond transfer offices located in Vancouver, British Columbia and in Toronto, Ontario.

Promoter

The Investment Advisor took the initiative in reorganizing the Company as an investment company and, accordingly, is a promoter as defined in the securities legislation of certain provinces of Canada. Except as otherwise described herein, the Investment Advisor will not receive any benefits, directly or indirectly, from the issuance of Shares offered hereunder.

CALCULATION OF NET ASSET VALUE

For reporting purposes other than financial statements, the Net Asset Value of the Company on a particular date will be equal to: (i) the total assets of the Company; less (ii) the aggregate value of the liabilities of the Company. The Net Asset Value per Share (the "**Net Asset Value per Share**") is equal to Net Asset Value of the Company divided by the sum of the number of Shares and Non-Voting Shares then outstanding.

Valuation Policies and Procedures

Unless otherwise required by law, for the purpose of calculating Net Asset Value on a Valuation Date, the value of the Company's assets on such Valuation Date will be determined as follows:

(a) the value of any cash on hand or on deposit, bills and demand notes and accounts receivable, prepaid expenses, distributions, dividends or other amounts received (or declared to holders of record of securities owned by the Company on a date before the Valuation Date as of which the Net Asset Value is being determined, and to be received) and interest accrued and not yet received shall be deemed to be the full amount thereof provided that if the Valuation Agent has determined that any such deposit, bill, demand note, accounts receivable, prepaid expense, distribution, dividend or other amount received (or declared to holders of record of securities owned by the Company on a date before the Valuation Date as of which the Net Asset Value is being determined, and to be received) or interest accrued and not yet received is not otherwise worth the full amount thereof, the value thereof shall be deemed to be such value as the Valuation Agent determines to be the fair market value thereof;

(b) the value of any security, index future or index option which is listed or traded upon a stock exchange (or if more than one, on the principal stock exchange for the security, as determined by the Valuation Agent) shall be determined by taking the latest available sale price of recent date, or lacking any recent sales or any record thereof, the simple average of the latest available offer price and the latest available bid price (unless in the opinion of the Valuation Agent such value does not reflect the value thereof and in which case the latest offer price or bid price shall be used), as at the Valuation Date on which the Net Asset Value is being determined, all as reported by any means in common use;

(c) the value of any security which is traded over-the-counter will be priced by the Valuation Agent and will be within the range of the latest available offer price and the latest available bid price quoted by a third party pricing provider (which may be the counterparty) in such securities or as the Valuation Agent determines to be the fair market value;

(d) the value of any purchased or written clearing corporation options, options on futures or over-the-counter options, debt like securities and listed warrants shall be the current market value thereof;

(e) the value of any security or other asset for which a market quotation is not readily available will be its fair market value on the Valuation Date on which the Net Asset Value is being determined as determined by the Valuation Agent (generally the Valuation Agent will value such asset at cost until there is a clear indication of an increase or decrease in value);

(f) any market price reported in currency other than Canadian dollars shall be converted into Canadian funds by applying the rate of exchange obtained from the best available sources to the Valuation Agent, including, but not limited to, the Valuation Agent or any of its affiliates; and

(g) listed securities subject to a hold period will be valued as described above with an appropriate discount as determined by the Valuation Agent and investments in private companies and other assets for which no published market exists will be valued at the lesser of cost and the most recent value at which such securities have been exchanged in an arm's length transaction which approximates a trade effected in a published market, unless a different fair market value is determined to be appropriate by the Valuation Agent.

The value of any security or property to which, in the opinion of the Valuation Agent, in consultation with the Company, the above principles should not be applied or are inappropriate (whether because no price or yield equivalent quotations are available as above provided, or for any other reason) shall be the fair market value thereof determined in good faith in such manner as the Valuation Agent, in consultation with the Company, from time to time adopts.

The Net Asset Value per Share will be calculated in accordance with the rules and policies of the Canadian Securities Administrators or in accordance with any exemption therefrom that the Company may rely upon (which rules and policies may differ from Canadian generally accepted accounting principles). The Net Asset Value per Share will be calculated in Canadian dollars.

Reporting of Net Asset Value

The Valuation Agent will calculate the Net Asset Value per Share as at the close of business on each Valuation Date. The Company will make the Net Asset Value per Share available, together with an explanation of the calculation at www.deansknight.com.

The Company may suspend the calculation of Net Asset Value for (i) the whole or any part of a period during which normal trading is suspended on one or more stock exchanges, options exchanges or futures exchanges on which more than 50% of the Total Assets are listed and traded; or (ii) any period during which the Board of Directors determines that conditions exist which render impractical the sale of assets of the Company or which impair the ability of the Company to determine the value of the assets of the Company. The suspension of the calculation of Net Asset Value shall terminate in any event on the first Business Day on which the condition giving rise to the suspension has ceased to exist, provided that no other condition under which a suspension is authorized then exists. To the extent not inconsistent with official rules and regulations promulgated by any government body having jurisdiction over the Company, any declaration of suspension made by the Board of Directors shall be conclusive.

DESCRIPTION OF THE SECURITIES DISTRIBUTED

The Shares

The Company is authorized to issue an unlimited number of Shares. The holders of Shares are entitled to one vote for each Share held and are entitled to receive dividends, in the amounts and if and when declared by the directors out of monies of the Company lawfully available for the payment of dividends, in such amounts as determined in the absolute discretion of the directors from time to time. All dividends on the Shares and the Non-Voting Shares must be declared and paid in an equal amount per share and at the same time on the Shares and the Non-Voting Shares without preference or distinction. The Company's distribution policy is described under "Distribution Policy".

In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs, the holders of Shares and the holders of Non-Voting Shares shall rank equally and shall be entitled to share and receive the remaining property of the Company.

The Shares will not be redeemable by the holders thereof. The Company will redeem the Shares as described under "Termination of the Company". In addition, should the Company, in its discretion, conclude that the number or type of its U.S. resident shareholders might compel it to effect registration as an investment company under the *United States Investment Company Act of 1940*, as amended (the "**U.S. Investment Company Act**"), then the Company shall have the right to require U.S. resident shareholders that are not "qualified purchasers" as defined for the purposes of Section 3(c)(7) of the U.S. Investment Company Act to sell some or all of their Shares over the Canadian stock exchange on which the Shares are then listed or, if such sale cannot be effected on commercially reasonable terms, the Company shall have the right to redeem Shares of such number of U.S. resident shareholders who are not "qualified purchasers" as it deems appropriate for a cash amount equal to 100% of the then Net Asset Value per Share.

In connection with the reorganization of the Company into an investment company, prior to Closing the Company will amend the Articles to, among other things, consolidate the issued and outstanding voting common shares on a one Share for 382 voting common shares basis, provide for the Investment Objectives and Investment Restrictions of the Company and amend the terms of the Shares to provide for the redemption of the Shares as set forth above.

Except for Shares sold in the United States pursuant to the exemptions provided by Rule 506 of Regulation D under the *United States Securities Act of 1933*, as amended (the "**U.S. Securities Act**"), registration of interests in, and transfers of, the Shares will be made only through the book-entry only or the book-based system of CDS. On the date of closing of the Offering, the Company will deliver to CDS certificates evidencing the aggregate number of Shares subscribed for under the Offering. Shares must be purchased, transferred and surrendered for retraction only through a CDS Participant. All rights of an owner of Shares must be exercised through, and all payments or other property to which such owner is entitled will be made or delivered by, CDS or the CDS Participant through which the owner holds such Shares. Upon purchase of any Shares, the owner will receive only the customary confirmation. Shares sold in the United States shall be delivered in certificated form and shall trade subject to all rights and restrictions legended thereon.

References in this prospectus to a Shareholder means, in the case of Shares, unless the context otherwise requires, the owner of the beneficial interest in such Shares.

The Company and the Agents will not have any liability for: (i) records maintained by CDS relating to the beneficial interests in the Shares or the book entry accounts maintained by CDS; (ii) maintaining, supervising or reviewing any records relating to such beneficial ownership interests; or (iii) any advice or representation made or given by CDS and made or given with respect to the rules and regulations of CDS or any action taken by CDS or at the direction of the CDS Participants.

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

The Company has the option to terminate registration of the Shares through the book-entry only or the book-based system in which case certificates for Shares in fully registered form will be issued to beneficial owners of such Shares or to their nominees.

SHAREHOLDER MATTERS

Meetings of Shareholders

Shareholders (other than holders of Non-Voting Shares) are entitled to one vote for each Share held. The quorum for any meeting of shareholders is two or more shareholders or proxyholders holding not less than 5% of the issued and outstanding Shares. If no quorum is present at such meeting when called, the meeting, if convened upon the requisition of the shareholders, shall be dissolved, but in any other case shall stand adjourned until the same day in the next week, at the same time and place but may not transact any other business. If at the adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting, the person or persons present and being, or represented by proxy, at the meeting shall be a quorum. At any such meetings, each holder will be entitled to one vote for each Share held.

Prior to Closing, the Company's Articles will be amended to provide for, among other things, the Investment Objectives and Investment Restrictions of the Company. In addition to any other matters requiring approval of the holders of Shares in accordance with the *Canada Business Corporations Act*, any: (i) change in the Investment Objectives or Investment Restrictions; (ii) change in the basis of calculating fees or other expenses that are charged to the Company which could result in an increase in charges to the Company other than a fee or expense charged by a person or company that is at arm's length to the Company; or (iii) issuance of additional Shares, other than for net proceeds equal to or greater than 100% of the most recently calculated Net Asset Value per Share calculated prior to the pricing of such issuance or by way of a Share distribution will require the approval of Shareholders by a resolution passed by at least 66⅔% of the votes cast at a meeting called and held for such purpose with holders of Shares and Non-Voting Shares voting together as a single class.

Reporting to Shareholders

The Company will make available to Shareholders and the Board of Directors such financial statements and other continuous disclosure documents as are required by applicable law, including unaudited interim and audited annual financial statements, prepared in accordance with Canadian generally accepted accounting principles. The Company shall make available to each Shareholder annually within the time periods prescribed by applicable law information necessary to enable such Shareholder to complete an income tax return with respect to the amounts payable by the Company.

Prior to any meeting of shareholders, the Company will provide the shareholders (along with notice of such meeting) all such information as is required by applicable law to be provided to such shareholders.

Market Purchases of Shares

The market price of the Shares will be determined by, among other things, the relative demand and supply of the Shares in the market, the Company's investment performance and investor perception of the Company's overall attractiveness as an investment as compared with other investment alternatives. The Shares may trade at a premium or a discount to the Net Asset Value per Share. See "Risk Factors - Risks Factors Related to an Investment in the Company - Trading Price of the Shares Relative to Net Asset Value". The Company will use commercially reasonable efforts to minimize any ongoing trading price discount to Net Asset Value per Share in excess of 5% thereof, including, subject to any applicable regulatory approvals and adequate funds being available, implementing from time to time a normal course issuer bid or other issuer bid which is made subject to appropriate advice and under which purchases of Shares are made at no more than their fair market value.

TERMINATION OF THE COMPANY

The Shares will be redeemed by the Company for a cash amount equal to 100% of Net Asset Value per Share on April 30, 2014.

In addition, the Board of Directors may, in its discretion, redeem the Shares prior to April 30, 2014, with the prior approval of Shareholders given at a meeting of Shareholders, if, in its opinion, it is no longer commercially viable to continue the Company or it would be in the best interests of the Shareholders.

Upon redemption, the Company will distribute to Shareholders their pro rata portions of the remaining assets of the Company after all liabilities of the Company have been satisfied or appropriately provided for, which will include cash and, to the extent liquidation of certain assets is not practicable or the Company considers such liquidation not to be appropriate prior to the redemption date, such unliquidated assets in specie rather than in cash, subject to compliance with any securities or other laws applicable to such distributions. Following such distribution, the Company will be dissolved.

After fixing a date for redemption, including redemption on April 30, 2014, the Company may, in its discretion and upon not less than 30 days' notice to the Shareholders, extend the redemption date by a period of up to 180 days if the Portfolio will be unable to be converted to cash prior to the original redemption date and the Board of Directors determines that it would be in the best interests of all of the Shareholders to do so.

USE OF PROCEEDS

The net proceeds from the sale of the Shares will be as follows:

	Maximum Offering	Minimum Offering
Gross proceeds to the Company	$175,000,000	$75,000,000
Agents' fee	$8,750,000	$3,750,000
Estimated expenses of the Offering	$1,250,000	$1,125,000
Net proceeds to the Company	$165,000,000	$70,125,000

Substantially all of the net proceeds of the Offering (including the proceeds from the exercise, if any, by the Agents of the Over-Allotment Option) will be invested by the Company to acquire securities in accordance with the Investment Objectives, Investment Strategy and Investment Restrictions of the Company.

The portion of the net proceeds of the Offering that is not invested will be held by the Company in cash and cash equivalents or used for general working capital purposes.

DESCRIPTION OF SHARE CAPITAL

The Company is authorized to issue an unlimited number of Shares and Non-Voting Shares. Before giving effect to the Offering (and before giving effect to the conversion of the Convertible Debenture), there are issued and outstanding 100,555 Shares (after giving effect to the Consolidation) and no Non-Voting Shares. See "Consolidated Capitalization".

Voting Common Shares

See "Description of the Securities Distributed" for a description of the Shares.

Non-Voting Common Shares

Subject to the provisions of the *Canada Business Corporations Act*, the holders of Non-Voting Shares are not entitled to receive notice of or to attend any meetings of the shareholders of the Company and do not have any voting rights for any purpose. The holders of Non-Voting Shares are entitled to receive dividends, in the amounts and if and when declared by the Board of Directors out of monies of the Company lawfully available for the payment of dividends, in such amounts as determined in the absolute discretion of the Board of Directors from time to time. All dividends on the Shares and the Non-Voting Shares must be declared and paid in an equal amount per share and at the same time on the Shares and the Non-Voting Shares without preference or distinction.

In the event of the liquidation, dissolution or winding-up of the Company whether voluntary or involuntary, or any other distribution of the assets of the Company among its Shareholders for the purpose of winding up its affairs, the holders of Shares and the holders of Non-Voting Shares shall rank equally and shall be entitled to share and receive the remaining property of the Company.

The Non-Voting Shares may be redeemed by the Company as described under "Termination of the Company".

PLAN OF DISTRIBUTION

Pursuant to the Agency Agreement, the Agents have agreed to act as, and have been appointed as, the sole and exclusive agents of the Company to offer the Shares for sale to the public, on a best efforts basis, if, as and when issued by the Company. The Shares will be issued at a price of $10.00 per Share. In consideration for their services in connection with the Offering, the Agents will be paid a fee of $0.50 per Share sold under the Offering and will be reimbursed for reasonable out of pocket expenses incurred by them. The Agents' fee and expenses will be paid by the Company out of the proceeds of the Offering. The Agents may form a sub-agency group including other qualified investment dealers and limited market dealers and determine the fee payable to the members of such group, which fee will be paid by the Agents out of their fee. While the Agents have agreed to use their best efforts to sell the Shares offered hereby, the Agents will not be obligated to purchase any Shares which are not sold. The obligations of the Company and the Agents under the Agency Agreement are conditional on the gross proceeds of the Offering being at least $75,000,000.

The Company has granted to the Agents the Over-Allotment Option, exercisable for a period of 30 days from the Closing Date to purchase an aggregate of up to 15% of the aggregate number of Shares issued on the Closing Date at a price of $10.00 per Option Share solely to cover over-allotments, if any. The Agents' fee payable by the Company upon an exercise of the Over-Allotment Option will be $0.50 per Option Share. If the Over-Allotment Option is exercised in full under the maximum Offering, the price to the public, Agents' fee and net proceeds to the Company will be $201,250,000, $10,062,500 and $191,187,500, respectively. This prospectus also qualifies the grant of the Over-Allotment Option and the distribution of the Option Shares.

If subscriptions for the minimum amount of the Offering have not been received within 90 days after a receipt for this prospectus is received, the Offering may not continue without the consent of the securities regulatory authorities and those who have subscribed for Shares on or before such date. In the event such consents are not obtained or if the Closing does not occur for any reason, subscription proceeds received from prospective purchasers in respect of the Offering will be returned to such purchasers promptly without interest or deduction. The maximum number of Shares which will be sold pursuant to the Offering is 17,500,000 Shares.

Under the terms of the Agency Agreement, the Agents, at their discretion on the basis of their assessment of the state of the financial markets and upon the occurrence of certain stated events, may terminate the Agency Agreement and withdraw all subscriptions for Shares on behalf of subscribers. Subscriptions for Shares will be received subject to rejection or allotment in whole or in part. The right is reserved to close the subscription books at any time without notice. The Closing will take place on or about March 18, 2009 or such later date as the Company and the Agents may agree, but in any event not later than March 31, 2009.

There is currently no market through which the Shares can be sold. Accordingly, the offering price per Share was determined by negotiation between the Lead Agent, on behalf of the Agents, and the Company.

The TSX has conditionally approved the listing of the Shares subject to the Company fulfilling all of the requirements of the TSX on or before May 22, 2009, including distribution of the Shares to a minimum number of public securityholders.

Pursuant to policy statements of the Ontario Securities Commission, the Agents may not, throughout the period of distribution under this prospectus, bid for or purchase the Shares. The foregoing restriction is subject to exceptions, on the condition that the bid or purchase is not engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Shares. These exceptions include a bid or purchase permitted under the by-laws and rules of the TSX relating to market stabilization and passive market-making activities and a bid or purchase made for or on behalf of a customer where the order was not solicited during the period of distribution. Subject to the foregoing and applicable laws, an Agent may, in connection with this Offering, over-allot or effect transactions in connection with its over-allotted position. Such transactions, if commenced, may be discontinued at any time.

Pursuant to the Agency Agreement, each of the Company and the Investment Advisor has agreed to indemnify the Agents and their controlling persons, directors, officers and employees against certain liabilities.

The Company has agreed with the Agents that it will neither issue nor announce any intention to directly or indirectly sell or issue, or negotiate or enter into an agreement to sell or issue, any Shares or securities convertible, exchangeable or exercisable into Shares if as a result thereof the Company's currently available tax attributes would no longer be available to the Company or for a period of 180 days subsequent to the closing of the Offering, other than pursuant to and in connection with any exercise of the Over-Allotment Option, without the prior written consent of the Lead Agent, which consent shall not be unreasonably withheld or delayed.

The Shareholders set forth under "Principal Shareholders" and Shareholders who are also directors and officers of the Company and of the Investment Advisor have agreed to enter into a lock-up agreement with the Lead Agent, on behalf of the Agents (the "**Lock-Up Agreement**") with respect to Shares that will be held by them on Closing.

Pursuant to the Lock-Up Agreement, for a period of 180 days after the Closing Date, such persons will not sell, offer, assign, transfer, encumber, contract to sell, or grant an option to purchase, or enter in any derivative instrument with respect to any Shares (or any rights or benefits related thereto) held or beneficially owned by them or announce any intention to take any of the foregoing actions, except as provided pursuant to the terms of the Lock-Up Agreement. Notwithstanding the foregoing, subject to certain exceptions, Forbes will be permitted to sell Shares to, or grant a security interest in any Shares in favour of, Matco during the term of the Lock-Up Agreement.

The Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws and the Company has not been registered under the U.S. Investment Company Act. The Shares may not be offered or sold within the United States unless registered under the U.S. Securities Act and applicable U.S. state securities laws or offered or sold in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws. The Offering is being made in the United States pursuant to the exemptions provided by Rule 506 of Regulation D under the U.S. Securities Act, similar exemptions under applicable state securities laws, and by the exemption provided by Section 3(c)(7) of the U.S. Investment Company Act, to purchasers who qualify both as "accredited investors" as defined in Rule 501(a) of Regulation D, as promulgated under the U.S. Securities Act and as "qualified purchasers" as such term is defined in Section 2(a)(51)(A) of the U.S. Investment Company Act. Shares may be subsequently transferred in the United States only to "qualified purchasers" until such time as the Board of Directors determines that such restriction on the transfer of the Shares is no longer necessary. In addition, until 40 days after the commencement of the Offering, an offer or sale of the Shares within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the 1933 Act if such offer or sale is made other than in accordance with an exemption from such registration requirements.

PRINCIPAL SHAREHOLDERS

To the best of the knowledge of the directors and officers of the Company, the following table sets forth the shareholdings of those persons who are the direct or indirect beneficial owners of or exercise control or direction over 10% or more of any class of voting shares of the Company as at the date hereof and after giving effect to the Offering.

Shareholder	Designation of Class	Type of Ownership	Number of Shares (1)	% of Class	Number of Shares After Giving Effect to the Offering (1) (2) (3)	% of Class After Giving Effect to the Offering(1) (2)(3)(4)
Matco Capital Ltd.	Voting Common(5)	Beneficial	54,146(6)	35%(6)	54,146(6)	0.31%(6)
Forbes Medi-Tech Inc.	Voting Common	Beneficial	100,555	65%	100,555	0.57%

Notes:
(1) After giving effect to the Consolidation.
(2) Assumes the named entity does not acquire additional Shares pursuant to the Offering.
(3) Assumes the maximum amount of the Offering.
(4) Prior to giving effect to the Over-Allotment Option.
(5) Up to a maximum of 345,671 Non-Voting Shares are also issuable to Matco on conversion of the Convertible Debenture (representing 2.2% of the Common Shares assuming the maximum amount of the Offering). See "Overview of the Structure of the Company – Prior Business".
(6) Assumes the maximum conversion of the Convertible Debenture in full. See "Overview of the Structure of the Company – Prior Business".

Forbes and an affiliate of Matco are currently the only Shareholders. In the event that the Convertible Debenture is converted in full by Matco and after giving effect to the Consolidation, there will be up to 154,702 Shares outstanding prior to Closing. Assuming the maximum conversion of the Convertible Debenture and after giving effect to the Consolidation, the current Shareholders, immediately following Closing, will hold collectively, 154,702 Shares and 345,671 Non-Voting Shares, representing 6.7% of the Shares (including the Non-Voting Shares held by Matco) in the event of the Minimum Offering and 2.9% of the Shares (including the Non-Voting Shares held by Matco) in the event of the Maximum Offering. Given that the Company has no assets or operations, purchasers of Shares will suffer immediate dilution as a result of the outstanding Shares in addition to the dilution suffered by such purchasers as a result of the deduction of the expenses of the Offering.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The Investment Advisor will receive the fees described under "Fees and Expenses Payable by the Company" for its services to the Company and will be reimbursed by the Company for certain expenses incurred in connection with the operation and administration of the Company. See "Risk Factors – Risks Relating to an Investment in the Company – Conflicts of Interest".

PROXY VOTING DISCLOSURE

The proxies associated with securities held by the Company will be voted in accordance with the best interests of Shareholders determined at the time the vote is cast. The Company has delegated to the Investment Advisor the responsibility for voting on matters for which the Company receives, in its capacity as a security holder, proxy materials for a meeting of security holders of an issuer included in the Portfolio. The Investment Advisor maintains policies and procedures that are designed to be guidelines for the voting of proxies; however, each vote is ultimately cast on a case-by-case basis, taking into consideration the relevant facts and circumstances at the time of the vote.

The Investment Advisor's proxy voting policies and procedures set out various considerations that the Investment Advisor will address when voting, or refraining from voting, proxies, including that:

(a) it will generally vote with management on routine matters such as electing corporate directors, appointing external auditors and adopting or amending management compensation plans unless it is determined that supporting management's position would not be in the best interests of Shareholders;

(b) it will address on a case-by-case basis, non-routine matters, including those business issues specific to the issuer or those raised by shareholders of the issuer with a focus on the potential impact of the vote on the Company's Net Asset Value; and

(c) it has the discretion whether or not to vote on routine or non-routine matters. In cases where it determines that it is not in the best interests of Shareholders to vote, or in cases where no value is added by voting, it will not be required to vote.

The Company will post the proxy voting record on www.deansknight.com no later than August 31 of each year. The Company will send the most recent copy of the proxy voting policies and procedures and proxy voting record, without charge, to any Shareholder upon a request made by the Shareholder after August 31.

MATERIAL CONTRACTS

The only material contracts entered into by the Company during the past two years, other than during the ordinary course of business, are as follows:

(a) the Investment Advisor Agreement referred to under "Organization and Management Details of the Company - The Investment Advisor";

(b) the Custodian Agreement to be entered into on or prior to the Closing Date referred to under "Organization and Management Details of the Company - Custodian";

(c) the Agency Agreement referred to under "Plan of Distribution";

(d) the plan of arrangement of Forbes referred to under "Overview of the Structure of the Company – Prior Business";

(e) the asset purchase agreement between the Company and Forbes dated May 9, 2008 referred to under "Overview of the Structure of the Company – Prior Business";

(f) the investment agreement among Matco, the Company and Forbes dated March 19, 2008 referred to under "Overview of the Structure of the Company – Prior Business"; and

(g) the Convertible Debenture referred to under "Overview of the Structure of the Company – Prior Business".

Copies of the foregoing documents (in draft form prior to execution) may be examined during normal business hours at the principal office of the Company during the period of distribution to the public of the Shares offered under the Offering and for a period of 30 days thereafter.

EXPERTS

Certain legal matters in connection with the issuance and sale of the Shares offered by this prospectus will be passed upon on behalf of the Company by Burnet, Duckworth & Palmer LLP and on behalf of the Agents by Osler, Hoskin & Harcourt LLP.

The auditors of the Company will be PricewaterhouseCoopers LLP, Chartered Accountants, Vancouver, British Columbia.

The former auditors of the Company are KPMG LLP, Chartered Accountants, Vancouver, British Columbia.

EXEMPTIONS AND APPROVALS

The Company has been granted relief in each of the provinces of Canada from Section 14.2(3)(b) of NI 81-106, which requires the net asset value of an investment fund that uses or holds specified derivatives to be calculated on a daily basis, provided that the Net Asset Value is calculated weekly, available to the public upon request and the public has access to a website established for such purpose.

PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

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

GLOSSARY OF TERMS

In this prospectus, the following terms have the meanings set forth below, unless otherwise indicated.

"**Agency Agreement"** means the agency agreement dated as of March 9, 2009 among the Company, the Investment Advisor and the Agents.

"**Agents"** means GMP Securities L.P., RBC Dominion Securities Inc., Canaccord Capital Corporation, TD Securities Inc., Blackmont Capital Inc., Haywood Securities Inc. and FirstEnergy Capital Corp.

"**Arrangement**" has the meaning attributed to it under "Overview of the Structure of the Company – Prior Business".

"**Articles**" means the articles of continuance of the Company, including any amendments thereto.

"**Board of Directors**" means the board of directors of the Company.

"**Business Day**" means any day on which the TSX is open for trading.

"**cash equivalents**" means:

(a) cash on deposit with the Custodian or a broker; or

(b) an evidence of indebtedness that has a remaining term to maturity of 365 days or less and that is issued, or fully and unconditionally guaranteed as to principal and interest, by:

(i) any of the federal or provincial governments of Canada; or

(ii) the Government of the United States; or

(iii) a Canadian financial institution,

provided that, in the case of (ii) or (iii), such evidence of indebtedness has a rating of at least R-l (mid) by Dominion Bond Rating Service or the equivalent rating from another approved rating organization; or

(c) other cash cover as defined in NI 81-102.

"**CDS**" means CDS Clearing and Depository Services Inc. or any successor.

"**CDS Participant**" means a participant in CDS.

"**Closing**" means the closing of the Offering on the Closing Date.

"**Closing Date**" means the date of the Closing, which is expected to be on or about March 18, 2009, or such later date as the Company and the Agents may agree, but in any event, not later than March 31, 2009.

"**Code of Ethics**" has the meaning attributed to it under "Organization and Management Details of the Company – The Investment Advisor – Code of Ethics and Standards of Professional Responsibility".

"**Common Shares**" means, collectively, the Shares and the Non-Voting Shares.

"**Company**" means Deans Knight Income Corporation, a company continued under the *Canada Business Corporations Act*.

"**Consolidation**" means the consolidation of 382 voting common shares of the Company into one Share and 382 non-voting common shares of the Company into one Non-Voting Share.

"**Convertible Debenture**" means the secured convertible debenture of the Company due May 9, 2009 in the principal amount of $2,960,000 issued to Matco.

"**CRA**" means the Canada Revenue Agency.

"**Custodian**" means RBC Dexia Investor Services Trust in its capacity as custodian under the Custodian Agreement or, if applicable, its successor.

"**Custodian Agreement**" means the custodian agreement to be entered into on or prior to the Closing Date between the Company, and the Custodian, as it may be amended from time to time.

"**Debt Securities**" has the meaning attributed to it under "Investment Restrictions".

"**Dividend Date**" means the date on which cash dividends are paid by the Company, such date to be the date that is approximately the 15th day after the Record Date.

"**Forbes**" means Forbes Medi-Tech Inc., a company incorporated pursuant to the *Business Corporations Act* (British Columbia).

"**Independent Review Committee**" has the meaning attributed to it under "Organization and Management Details of the Company - Independent Review Committee".

"**Investment Advisor**" means Deans Knight Capital Management Ltd. or, if applicable, its successor.

"**Investment Advisor Agreement**" means the advisory agreement to be dated on or before the Closing Date between the Investment Advisor and the Company, as it may be amended from time to time.

"**Investment Advisory Fee**" has the meaning attributed to it under "Fees and Expenses Payable by the Company".

"**Investment Objectives**" means the investment objectives of the Company relating to the Portfolio as described under "Investment Objectives".

"**Investment Restrictions**" means the investment restrictions of the Company as described under "Investment Restrictions".

"**Investment Strategy**" means the investment strategy of the Company as described under "Investment Strategy".

"**Lead Agent**" means GMP Securities L.P.

"**Lender**" means a Canadian chartered bank or other lending institution.

"**Lock-Up Agreement**" has the meaning attributed to it under "Plan of Distribution".

"**Matco**" means Matco Capital Ltd.

"**Net Asset Value**" on a particular date will be equal to (i) the Total Assets of the Company, less (ii) the aggregate value of the liabilities of the Company, as more fully described under "Calculation of Net Asset Value".

"**Net Asset Value per Share**" has the meaning attributed to it under "Calculation of Net Asset Value".

"**Net Earnings**" where used herein in reference to the Company's dividend payments to Shareholders excludes any realized capital gains and losses from debt securities in the Portfolio and any income or loss not derived from debt securities in the Portfolio.

"**NI 81-102**" means National Instrument 81-102 *Mutual Funds* of the Canadian Securities Administrators, as it may be amended from time to time.

"**NI 81-107**" means National Instrument 81-107 *Independent Review Committee for Investment Funds* of the Canadian Securities Administrators, as it may be amended from time to time.

"**Non-Voting Shares**" means the non-voting common shares of the Company.

"**Offering**" means the offering of Shares pursuant to this prospectus and, where the context requires, includes the Option Shares.

"**Option Shares**" means the Shares issuable pursuant to the Over-Allotment Option.

"**Over-Allotment Option**" means the option granted by the Company to the Agents, exercisable for a period of 30 days from Closing, to purchase an aggregate of up to 15% of the aggregate number of Shares issued on the Closing Date solely to cover over-allotments, if any.

"**Portfolio**" means the Company's portfolio, consisting primarily of corporate debt securities.

"**Record Date**" means the 15^{th} day of each month, provided that if the 15^{th} day shall not be a Business Day, the Business Day immediately following the 15^{th} day, or such additional dates as the Board of Directors may determine from time to time, commencing with June 15, 2009.

"**Reorganization**" has the meaning attributed to it under "Overview of the Structure of the Company – Prior Business".

"**Shareholders**" means, collectively, unless the context requires otherwise, the owners of the beneficial interest in the Shares and the holders of Non-Voting Shares.

"**Shares**" means the voting common shares of the Company.

"**S&P**" means Standard & Poor's Rating Services, a division of The McGraw Hill Companies Inc.

"**Tax Act**" means the *Income Tax Act* (Canada), as now or hereafter amended, or successor statutes, and shall include regulations promulgated thereunder.

"**Tax Proposals**" means all specific proposals to amend the Tax Act announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof.

"**Total Assets**" means the aggregate value of the assets of the Company.

"**TSX**" means the Toronto Stock Exchange.

"**U.S.**" means United States of America.

"**U.S. Investment Company Act**" has the meaning attributed to it under "Description of the Securities Distributed".

"**U.S. Securities Act**" has the meaning attributed to it under "Description of the Securities Distributed".

"**Valuation Agent**" means such person as may from time to time be appointed by the Company to calculate the Net Asset Value per Share and the Net Asset Value of the Company. The initial Valuation Agent will be the Company.

"**Valuation Date**" means the last Business Day of each week.

"**yield to maturity**" means the rate of return anticipated on a bond if it is held until its maturity date.

AUDITORS' CONSENT

We have read the prospectus of Deans Knight Income Corporation (the "**Company**") dated March 9, 2009 relating to the initial public offering of voting common shares of the Company. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned prospectus of our report to the board of directors of the Company on the consolidated balance sheets of the Company as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for each of the years in the three-year period ended December 31, 2008.

March 9, 2009

(Signed) "KPMG LLP"
Chartered Accountants

Consolidated Financial Statements
(Expressed in Canadian dollars)

3887685 Canada Inc. (formerly Forbes Medi-Tech Operations Inc. and formerly Forbes Medi-Tech Inc.)

Years ended December 31, 2008, 2007 and 2006

AUDITORS' REPORT TO THE DIRECTORS

We have audited the consolidated balance sheets of 3887685 Canada Inc. (“the Company”) as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for each of the years in the three-year period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2008 in accordance with Canadian generally accepted accounting principles.

(Signed) KPMG LLP
Chartered Accountants
Vancouver, Canada
January 16, 2009, except for note 21, which is as of March 9, 2009

3887685 CANADA INC.

Consolidated Balance Sheets
(Expressed in Canadian dollars)

December 31, 2008 and 2007

	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	$ —	$ 5,234,043
Accounts receivable	—	1,276,885
Inventories (note 8)	—	5,316,785
Prepaid expenses and deposits	—	224,204
		12,051,917
Capital Assets (note 9)	—	386,979
Intangible and other assets (note 11)	—	511,946
	$ —	$ 12,950,842
Liabilities and Shareholders' Equity (Deficiency)		
Current liabilities:		
Convertible debenture (note 6)	$ 2,856,270	$ —
Accounts payable and accrued liabilities (note 12)	—	2,294,199
Income tax liability	—	30,678
Current portion tenure allowance payable	—	54,167
	2,856,270	2,379,044
Long-term liabilities:		
Tenure allowance	—	939,729
	2,856,270	3,318,773
Shareholders' equity (deficiency):		
Share capital (note 13(c))	1	101,026,525
Equity component of convertible debenture (note 6)	398,615	—
Contributed surplus (note 13(b))	9,904,504	9,875,356
Deficit	(13,159,390)	(101,269,812)
	(2,856,270)	9,632,069
	$ —	$ 12,950,842

Basis of presentation (note 1)
Going concern (note 2)
Commitments and obligations (note 16)
Related party transactions (notes 3(a), 3(b) and (17))
Subsequent events (note 21)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"Charles A. Butt" *"David Goold"*

Charles A. Butt Director David Goold Director

3887685 CANADA INC.

Consolidated Statements of Operations, Comprehensive Loss and Deficit
(Expressed in Canadian dollars)

Years ended December 31, 2008, 2007 and 2006

	2008	2007	2006
Revenue:			
Sales	**$ 3,202,398**	$ 8,847,117	$ 5,963,919
Licensing	**—**	57,324	151,605
Phytosterol revenues	**3,202,398**	8,904,441	6,115,524
Interest and other	**78,505**	456,924	1,126,413
	3,280,903	9,361,365	7,241,937
Expenses:			
Cost of sales	**2,536,809**	9,154,915	5,857,363
General and administrative	**2,246,131**	5,067,487	5,201,173
Research and development	**1,113,655**	3,468,500	9,633,927
Marketing, sales and product development	**485,879**	1,605,985	2,761,565
Foreign exchange (gain) / loss	**(158,104)**	1,267,006	1,311,286
Depreciation and amortization	**44,946**	213,007	149,565
Impairment charge for goodwill, intellectual property and capital assets	**—**	759,047	—
	6,269,316	21,535,947	24,914,879
Loss from operations for the year before taxes	**(2,988,413)**	(12,174,582)	(17,672,942)
Current income tax (expense) / recovery (note 18(a))	**(7,362)**	491,454	(158,103)
Net loss from operations for the year	**(2,995,775)**	(11,683,128)	(17,831,045)
Discontinued operations			
Income from discontinued operations	**—**	—	29,248
Gain from disposal of discontinued operations	**—**	—	6,958,309
Net loss and comprehensive loss for the year	**(2,995,775)**	(11,683,128)	(10,843,488)
Deficit, beginning of year	**(101,269,812)**	(89,586,684)	(78,743,196)
Distribution of net assets (note 3(b))	**(9,920,327)**	**—**	**—**
Reductions of deficit and stated share capital (note 7)	**101,026,524**	—	—
Deficit, end of year	**$ (13,159,390)**	$ (101,269,812)	$ (89,586,684)
Weighted average number of common shares outstanding	**38,412,100**	38,407,388	37,400,378
Basic and diluted loss per share from continuing operations	**$ (0.08)**	$ (0.30)	$ (0.48)
Basic and diluted income per share from discontinued operations	**—**	—	$ 0.00
Basic and diluted gain per share from disposal of discontinued operations	**—**	—	$ 0.19
Basic and diluted loss per share	**$ (0.08)**	$ (0.30)	$ (0.29)

See accompanying notes to consolidated financial statements.

3887685 CANADA INC.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended December 31, 2008, 2007 and 2006

	2008	2007	2006
Cash provided by (used in):			
Operations:			
Net loss for the year	**$ (2,995,775)**	$ (11,683,128)	$ (10,843,488)
Adjustment for:			
Depreciation and amortization	**44,946**	213,007	149,565
Stock-based compensation	**29,148**	958,324	1,818,646
Accretion of interest	**294,885**	—	116,725
Amortization of deferred license revenues	**—**	(57,324)	(114,636)
Impairment charge for goodwill, intellectual property and capital assets	**—**	759,047	—
Amortization of capitalized financing fees	**—**	—	25,962
(Gain) / Loss on disposal of fixed assets	**(846)**	—	1,193
Income from discontinued operations, net of taxes	**—**	—	(29,248)
Gain on disposal of discontinued operations, net of taxes	**—**	—	(6,958,310)
	(2,627,642)	(9,810,074)	(15,833,591)
Net change in non-cash operating items (note 20)	**(543,572)**	(290,871)	(2,012,610)
Net cash used in continuing operations	**(3,171,214)**	(10,100,945)	(17,846,201)
Net cash (used in) discontinued operations	**—**	—	(5,214,278)
	(3,171,214)	(10,100,945)	(23,060,479)
Investments:			
Acquisition of property, plant and equipment	**(7,313)**	(98,695)	(174,452)
Proceeds on disposal of fixed assets	**2,589**	—	300
Proceeds from long-term note receivable	**—**	140,075	131,285
Proceeds on disposal of Phyto-Source manufacturing joint venture	**—**	—	28,935,000
Acquisition of intangible/other assets	**—**	—	(435,873)
	(4,724)	41,380	28,456,260
Financing:			
Convertible debenture	**2,960,000**	—	—
Issuance of common shares	**—**	6,600	922,638
Decrease in long-term liabilities from discontinued operations	**—**	—	(329,771)
	2,960,000	6,600	592,867
(Decrease) / increase in cash and cash equivalents	**(215,938)**	(10,052,965)	5,988,648
Transfer of cash to Forbes Medi-Tech Inc. (note 3(b))	**(5,018,105)**	—	—
Cash and cash equivalents, beginning of year	**5,234,043**	15,287,008	9,298,360
Cash and cash equivalents, end of year	$ **—**	$ 5,234,043	$ 15,287,008

Supplementary information (note 19)
See accompanying notes to consolidated financial statements.

1. Basis of presentation:

The accompanying financial statements for 3887685 Canada Inc. (the “Company”), formerly Forbes Medi-Tech Operations Inc. and Forbes Medi-Tech Inc. have been prepared in accordance with Canadian generally accepted accounting principles.

These financial statements include the assets, liabilities and operating results of the Company and the consolidation of its then wholly-owned subsidiaries, Forbes Research and Manufacturing Inc., Forbes Medi-Tech (Research) Inc., Forbes Medi-Tech (USA) Inc., and its 51% venture interest in Forbes-Fayrefield Ltd. (“Forbes-Fayrefield”). The 2008 consolidated operating results are for the period from January 1, 2008 through May 9, 2008, at which time all operations were transferred to the parent company *(note 3(b))*. The operating results for 2007 and 2006 are from January 1 to December 31 respectively.

The Company accounted for its interest in Forbes-Fayrefield using the proportionate consolidation method.

2. Going Concern:

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operations. Management is seeking business opportunities and believes that it will obtain financing to complete such opportunities. There is no assurance however that the Company will be able to raise such funding to complete such opportunities or that the Company will be able to achieve operating profitability or generate positive cash flow. These statements have been prepared on the basis that the Company will be able to raise capital and discharge its obligations in the ordinary course of business and do not reflect adjustments and disclosures that might otherwise be necessary if the going-concern assumption was not valid.

3. Plan of Arrangement and Reorganization:

(a) Plan of arrangement:

On February 14, 2008 at a Special General Meeting of the securityholders of the Company, the securityholders, being the shareholders, optionholders and warrantholders, approved three resolutions in respect of a corporate reorganization. The resolutions passed at the Special General Meeting included a 'Reduction in Stated Capital', a 'Name Change' and the 'Plan of Arrangement' (the "Arrangement"). The Arrangement was approved by the Supreme Court of British Columbia on February 15, 2008.

3. Plan of Arrangement and Reorganization (continued):

(a) Plan of arrangement (continued):

On February 27, 2008, the Arrangement closed, pursuant to which, the former shareholders of the Company (“Old Forbes”) exchanged eight of their existing common shares for one common share of 0813361 BC Ltd. ("New Forbes"), a company incorporated under the British Columbia Business Corporations Act; and holders of options and warrants of Old Forbes became entitled to receive, on exercise of the options or warrants, one common share of New Forbes for each eight common shares of Old Forbes. The exercise price for each common share of New Forbes became eight times the exercise price for one existing common share of Old Forbes. As a result of the exchange of shares referred to above, Old Forbes became a wholly owned subsidiary of New Forbes; shareholders, optionholders and warrantholders became shareholders, optionholders and warrantholders of New Forbes; Old Forbes changed its name from "Forbes Medi-Tech Inc." to "Forbes Medi-Tech Operations Inc." and New Forbes changed its name from "0813361 B.C. Ltd." to "Forbes Medi-Tech Inc.". Subsequent to the Arrangement, Old Forbes changed its name from "Forbes Medi-Tech Operations Inc." to "3887685 Canada Inc."

(b) Plan of reorganization:

On May 12, 2008, the Company’s parent company, New Forbes, completed a Plan of Reorganization (the “Plan”) for spinning out Old Forbes. Under the Plan, the Company’s business, transferable assets and liabilities and contractual arrangements, including all cash and cash equivalents, all intellectual property, products, technology and partnership arrangements were transferred to New Forbes. As the Company and New Forbes remained under common control immediately following the Plan, the assets and liabilities were transferred at their carrying values using the continuity-of-interests method of accounting. For reporting purposes, New Forbes will be considered to have continued the Company’s business and will include the historical operating results of the Company. The Company’s former management team and employees are now employed by New Forbes where they have assumed the same positions they occupied in the Company prior to completion of the Plan.

Effective May 12, 2008, as a result of the Plan, the Company exited the biopharmaceutical and nutraceutical business and has no substantive operations remaining. The Old Forbes shareholders have approved a change in business of the Company and it will be pursuing business opportunities but the Company has made no commitments in connection with those activities *(Note 21)*.

Concurrent with and as part of the Plan, the Company issued a convertible debenture to a private investor (the “Investor”) for $2,960,000 in cash (*Note 6*).

As a condition of the Plan, with effect as of April 30, 2008, all assets, liabilities and operations of a wholly owned subsidiary, Forbes Research and Manufacturing Inc., were wound up into the Company and Forbes Research and Manufacturing Inc. was dissolved under section 210 of the Canada Business Corporations Act.

(Expressed in Canadian dollars)

3. Plan of Arrangement and Reorganization (continued):

(b) Plan of reorganization (continued):

Additionally, subject to certain conditions, the Investor has agreed that the Company will receive a minimum of $800,000 from these other opportunities within one year of closing of the transaction.

The following is a summary of the assets and liabilities transferred to New Forbes under the Plan:

Cash and cash equivalents	$	5,018,105
Accounts receivable		1,472,900
Inventories		4,878,271
Prepaid expenses and deposits		386,220
Capital assets		355,836
Intangible and other assets		491,180
Accounts payable and other liabilities		(2,682,185)
Net assets transferred	$	9,920,327

4. Changes in accounting standards:

(a) Current year adoption of new accounting standards:

Effective on January 1, 2008, the Company adopted the recommendations of CICA Handbook Section 1535, *Capital Disclosures* (Section 1535), Section 3031, *Inventories* (Section 3031), Section 3862, *Financial Instruments – Disclosures* (Section 3862), and Handbook Section 3863, *Financial Instruments – Presentation* (Section 3863).

i) Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the Company has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. Disclosure requirements pertaining to Section 1535 are contained in note 14.

ii) Section 3031 replaces Handbook Section 3030, Inventories, providing more guidance on the measurement and disclosure requirements for inventories. The measurement changes include the allocation of overhead based on normal capacity, the requirement for an entity to use a consistent cost formula for inventory of a similar nature and use, and the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. This accounting standard was applied retrospectively; however, there was no material impact on prior period financial statements requiring restatement by adopting the new standard. The additional disclosure requirements are contained in note 8.

4. Changes in accounting standards (continued):

(a) Current year adoption of new accounting standards (continued):

iii) Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Company manages these risks. Disclosure requirements pertaining to Section 3862 are contained in note 15. Adoption of Section 3863 had no impact on the Company's financial instrument related presentation disclosure.

(b) Future changes in accounting standards:

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for the publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company's first year end under IFRS will be December 31, 2011. The transition date for the Company will be January 1, 2011 and may require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

5. Significant accounting policies:

(a) Cash and cash equivalents:

Cash and cash equivalents include cash and term deposits with initial maturities of three months or less when acquired.

(b) Inventories:

Raw materials inventory is valued at the lower of cost and replacement cost. Finished goods and work-in-process inventories are valued at the lower of cost and net realizable value. Cost is determined using weighted average cost.

(c) Capital and intangible assets:

Capital assets are recorded at cost and amortized over their estimated useful lives using the following methods and annual rates:

Asset	Basis	Rate
Office and laboratory equipment	Declining-balance	20%
Computer equipment	Declining-balance	30%
Computer software	Declining-balance	100%
Leasehold improvements	Straight-line	Lease term

(d) Stock-based compensation plan:

The Company has a stock-based compensation plan for employees, officers, directors and consultants of the Company and of affiliates of the Company. Stock-based compensation expense is recorded for stock options issued to employees and non-employees using the fair value method with a corresponding increase in contributed surplus. Any consideration received on exercise of stock options or the purchase of stock is credited to share capital.

Under the fair value based method, options granted to non-employees are measured at their fair value and are recognized as the options are earned and the services are provided. The fair value of employee stock options are valued at the grant date and amortized over the vesting period.

(e) Research and development:

All research costs are expensed as incurred. Development costs are expensed in the period incurred unless the Company believes a development project meets certain criteria for deferral and amortization. No development costs have been deferred to date.

5. Significant accounting policies (continued):

(f) Revenue recognition:

The Company recognizes revenue from product sales at the time the product is shipped or upon delivery, which is when title passes to the customer, and when all significant contractual obligations have been satisfied and collection is reasonably assured.

License fees and royalty advances are deferred and amortized over the life of the relevant agreements.

(g) Cost of sales, marketing and product development:

Cost of sales, marketing and product development include all costs pertaining to the sales of marketable nutraceutical-products, all costs related to identifying and developing a market for the Company's products, costs related to the manufacturing, development and upscaling of the Company's product lines until a market has been established and the products are sold, and any revaluation of inventory.

(h) Government assistance:

Government assistance is accounted for using the cost-reduction method, whereby the benefit is recognized as a reduction in the cost of the related asset or expenditure when there is reasonable assurance the government assistance will be received. During the year ended December 31, 2008, the Company received $nil (2007 – $20,000) of government assistance which has been offset against research and development expense.

(i) Income taxes:

Income taxes are reported using the asset and liability method, whereby future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carry forwards. Income taxes are recorded based on enacted or substantively enacted income tax rates. A valuation allowance is recorded for the portion of the future income tax assets for which the realization of value is not considered to be more likely than not.

(j) Foreign currency translation:

The Company's functional and reporting currency is the Canadian dollar. The Company's foreign subsidiaries are integrated foreign operations for which monetary assets and liabilities denominated in US dollars or Pound Sterling are translated into Canadian dollars at the rates of exchange in effect at the balance sheet date; non-monetary assets and liabilities at the rate in effect on the transaction date; and revenues and expenses at the average rate for the period. Gains and losses on translation are included in results from operations.

(k) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, particularly the recoverability of accounts receivable, property, plant and equipment and intangible and other assets, and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

5. Significant accounting policies (continued):

(l) Fair value of financial instruments:

Carrying values of the Company's financial instruments, including cash and cash equivalents, short-term investments, accounts receivable, and accounts payable and accrued liabilities, approximate their fair values due to their short terms to maturity. The carrying value of the tenure allowance is equal to its fair value being the present value of future payments discounted at the current market rate of interest. At December 31, 2008, the carrying amount of the convertible debenture is stated at amortized cost and amounts to $2,856,270. The fair value of the convertible debenture, determined as the present value of the debenture's issue price discounted at the Company's estimated incremental borrowing rate of 25% for the expected life of the debenture, amounted to $2,792,915.

(m) Loss per share:

Basic loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the reporting period.

Diluted loss per share is computed similar to basic loss per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period. As the Company has incurred a loss for each period presented, all stock options and warrants are anti-dilutive and have been excluded from the weighted average shares outstanding.

(n) Accretion in carrying value in preferred shares:

The carrying value of the liability component of the redeemable Convertible Preferred Shares are accreted to the estimated redemption value using the effective yield method through charges to income over the period up to the redemption date.

6. Convertible Debenture:

The convertible debenture was issued May 9, 2008, and is convertible or callable for one year to May 9, 2009. The convertible debenture is convertible into 35% of the voting common shares and all of the non-voting common shares of the Company, representing 79% of the issued and outstanding common shares of the Company.

For accounting purposes, this convertible debenture is considered to have both a debt and equity component. The equity component of $398,615 is recorded as equity component of convertible debenture and relates to the fair value of the call option and to the embedded conversion feature at the date of issuance of the debenture. The fair value of the liability component was calculated as the present value of the debenture's issue price discounted at the Company's estimated incremental borrowing rate of 15% for the period from May 9, 2008 for the expected remaining life of the debenture. The fair value of the equity component was calculated as the issue price of the debenture less the fair value of the liability component. The carrying value of the liability portion is being accreted to its redemption value of $2,960,000, over a period from the date of issuance to its estimated conversion date of date of March 31, 2009, or until conversion of the convertible debenture into common shares of the Company. Interest accretion of $294,885 is charged to the statement of operations as interest expense for the year ended December 31, 2008. The transactions costs associated with the convertible debenture have been expensed as incurred.

7. Reduction of Deficit and Stated Share Capital:

As a condition of implementing the Arrangement *(Note 3(a)),* the Company reduced its stated Share Capital and Deficit by the amount of $98,460,000 so that, on the date of the Special General Meeting held on February 14, 2008, the realizable value of the assets of the Company was greater than the aggregate of its liabilities and stated Share Capital (as amended). After the initial reduction of the stated capital, the stated capital was $2,566,525.

As a condition of the Reorganization Plan *(Note 3(b)),* with effect as of May 9, 2008, the Company further reduced its stated Share Capital and Accumulated Deficit by the amount of $2,566,524 so that the stated Share Capital was $1.

(Expressed in Canadian dollars)

8. Inventories:

	2008	2007
Raw materials, supplies and work in progress	**$ —**	$ 1,498,667
Finished goods	**—**	3,818,118
	$ —	$ 5,316,785

During the year ended December 31, 2008, changes in raw materials and finished goods recognized as cost of sales amounted to $2,609,809 (2007 - $8,663,915, 2006 - $5,507,363). During the year ended December 31, 2008, valuation allowances to write down inventories to net realizable value amounted to $193,000 (December 31, 2008 (2007 - $100,000, 2006 - $350,000). During the year ended December 31, 2008 the reversal of valuation allowances on inventories amounted to $266,000 (2007 - $391,000 allowance, 2006 - $nil). Write-downs and reversals are included in cost of sales.

9. Capital assets:

In May 2008 all capital assets were transferred to Forbes Medi-Tech Inc. as indicated in Note 3(b).

2007	**Cost**	**Accumulated amortization**	**Net book value**
Leasehold improvements	$ 208,522	$ (208,522)	$ —
Laboratory equipment	241,327	(71,250)	170,077
Office equipment	190,910	(106,785)	84,125
Computer equipment and software	325,960	(193,183)	132,777
	$ 966,719	$ (579,740)	$ 386,979

Amortization expense amounted to $44,946 in the year ended December 31, 2008 (2007 - $213,007, 2006 - $149,565).

3887685 CANADA INC.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2008, 2007 and 2006

10. Joint venture:

In May 2008 all assets, liabilities and operations of Forbes-Fayrefield were transferred to Forbes Medi-Tech Inc. as indicated in Note 3(b).

Condensed balance sheets and statement of operations reflecting the Company's then proportionate interests in the venture operations:

	December 31 2008	December 31 2007
Assets		
Current assets	$ —	$ 260,888
Office equipment		5,954
	$ —	$ 266,842
Liabilities		
Accounts payable, overdraft and accrued liabilities	$ —	$ 150,301
Equity	$ —	$ 116,541

	2008	2007
Earnings		
Revenue	$ 363,169	$ 1,129,693
Cost of goods sold	333,533	995,278
Expenses	6,875	69,892
Net earnings	$ 22,761	$ 64,523

	2008	2007
Cash Flow		
Operating activities	$ 3,512	$ 37,299
Financing activities	—	—
Investing activities	—	(5,471)
Transfer of funds under reorganization plan	(43,561)	—
Decrease / increase in cash flow	$ (40,049)	$ 31,828

(Expressed in Canadian dollars)

11. Intangible and other assets:

In May 2008 all intangible and other assets were transferred to Forbes Medi-Tech Inc. as indicated in Note 3(b).

2007	Cost	Accumulated amortization	Net book value
Intellectual property	$ 338,580	$ (338,580)	$ —
Other	46,100	(37,868)	8,232
	384,680	(376,448)	8,232
Note receivable, long-term portion			98,559
Life insurance cash surrender value			389,391
Restricted cash funds in trust account			15,764
			$ 511,946

Amortization expense amounted to $8,232 in the year ended December 31, 2008 (2007 - $42,316, 2006 - $7,178).

12. Accounts payable and accrued liabilities:

	2008	2007
Trade payables	**$** —	$ 1,367,771
Other payables	—	535,428
Provision for loss on inventory purchase commitment	—	391,000
	$ —	$ 2,294,199

In the year ended December 31, 2008, $266,000 (2007 - $391,000 charged, 2006 - $nil) was reversed from cost of sales as a result of reversing the provision for loss on purchase commitments for inventory.

(Expressed in Canadian dollars)

13. Share capital:

(a) Authorized:

Authorized share capital of the Company consists of an unlimited number of Voting Common Shares without par value, an unlimited number of Non-Voting Common Shares without par value and 50,000,000 preferred shares without par value. Subsequent to the year end, the authorized share capital was amended to cancel the preferred shares *(note 21)*.

Of the preferred shares, 10,000,000 have been designated the Series A Convertible Preferred Shares and 6,000 have been designated the Series B Convertible Preferred Shares. Of the 10,000,000 designated Series A Convertible Preferred Shares, 5,375,000 were issued and converted into common shares in 2005, leaving 4,625,000 available to be issued. Of the 6,000 Series B Convertible Preferred Shares, all 6,000 have been issued and converted into common shares in 2006.

(b) Contributed surplus relating to:

	2008	2007
Surplus relating to stock compensation, warrants and options associated with common shares	**$ 8,030,295**	$ 8,001,147
Surplus relating to warrants associated with the Series B Convertible Preferred Shares	**1,874,209**	1,874,209
	$ 9,904,504	$ 9,875,356

3887685 CANADA INC.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2008, 2007 and 2006

13. Share capital (continued):

(c) Voting Common Shares issued and allotted:

	Share Capital		Contributed Surplus
	Number of Voting Common Shares	**Amount**	**Amount**
Balance, December 31, 2005	**34,122,595**	**$ 94,790,369**	**$ 5,680,214**
Issued during the year upon:			
Exercise of stock options for cash proceeds	313,500	509,923	—
Exercise of warrants for cash proceeds	200,669	412,445	—
Exercise of warrants on a cashless basis	34,301	—	—
Employee stock based compensation expense	—	—	1,588,734
Non-employee stock based compensation expense	—	—	229,912
Transfer from contributed surplus for options exercised:			
Employee stock-options	—	353,852	(353,852)
Non-employee stock-options	—	75,909	(75,909)
Conversion of Series B Preferred Shares	3,636,363	4,938,184	—
Amortization of capitalized financing fees on conversion of Series B Convertible Preferred Shares	—	(357,129)	—
Issuance of shares pursuant to purchase agreement	94,672	270,096	—
Balance, December 31, 2006	**38,402,100**	**100,993,649**	**7,069,099**
Issued during the year upon:			
Exercise of stock options for cash proceeds	10,000	6,600	—
Employee stock based compensation expense	—	—	839,851
Non-employee stock based compensation expense	—	—	118,473
Transfer from contributed surplus for options exercised:			
Non-employee stock-options	—	26,276	(26,276)
Balance, December 31, 2007	**38,412,100**	**$101,026,525**	**$8,001,147**
Employee stock based compensation expense	—	—	29,560
Non-employee stock based compensation expense	—	—	(412)
Reductions of stated share capital (Note 7)	—	**(101,026,524)**	
Balance, December 31, 2008	**38,412,100**	**$1**	**$ 8,030,295**

(Expressed in Canadian dollars)

13. Share capital (continued):

(d) Series B Convertible Preferred Shares issued and allotted:

	Number of Preferred Shares	Liability Component	Equity Component	Contributed Surplus
Balance, December 31, 2007	—	—	—	1,874,209
Balance, December 31, 2008	—	—	—	**$ 1,874,209**

In the year ended December 31, 2006, all 6,000 Series B Convertible Preferred Shares were converted into 3,636,363 common shares.

(e) Option Plan:

On June 29, 2007, the Company implemented a new “rolling” stock option plan entitled the “2007 Stock Option Plan” (the “New Plan”). The New Plan was initially approved by the Company’s Board of Directors on April 12, 2007 and was also approved by the Company’s shareholders at the Annual General and Special Meeting held May 17, 2007. The New Plan replaced the Amended and Restated 2000 Stock Option Plan (the “Old Plan”), which was a “fixed number” plan. The persons to whom options may be granted under the New Plan remain the same as under the Old Plan, being directors, officers, employees and consultants of the Company or an affiliate.

Under the New Plan, the Company may grant options to its employees, officers, directors, and consultants (optionees) for up to 10 % of the outstanding common shares of the Company. At December 31, 2008, the Company could grant options for up to 3,841,210 common shares. Subsequent to the year end, the stock option plan was cancelled *(note 21)*.

3887685 CANADA INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2008, 2007 and 2006

13. Share capital (continued):

(f) Outstanding Options:

The aggregate intrinsic values of all vested stock options outstanding at December 31, 2008, 2007 and 2006 were $nil, $nil and $7,600, respectively. The total fair value of stock options that vested during the year ended December 31, 2008, 2007 and 2006 were $49,869, $362,719 and $2,237,154, respectively. The weighted average grant-date "fair values" of stock options granted during the years ended December 31, 2008, 2007 and 2006 were $nil, $0.33 and $1.06 per option, respectively. The total intrinsic values of the stock options exercised during the years ended December 31, 2008, 2007 and 2006 were $nil, $1,100 and $340,086 respectively.

Company's Stock Option Plan as at and changes for the years ended December 31, 2008, 2007 and 2006:

	Number of Optioned Shares	Weighted Average Exercise Price
Balance, December 31, 2005	**4,892,708**	**$ 2.42**
Options granted	965,000	2.53
Options exercised	(313,500)	1.63
Options forfeited	(972,583)	2.75
Balance, December 31, 2006	**4,571,625**	**2.42**
Options granted	711,500	1.00
Options exercised	—	—
Options forfeited	(601,250)	1.93
Balance, April 12, 2007	**4,681,875**	**2.27**
Options cancelled due to adoption of New Plan	(3,801,625)	2.51
Options issued on adoption of New Plan	2,171,500	1.00
Options granted	72,700	0.78
Options exercised	(10,000)	0.66
Options forfeited	(172,950)	2.24
Balance, December 31, 2007	**2,941,500**	**0.99**
Options granted	—	—
Options exercised	—	—
Options forfeited	(35,120)	0.71
Options cancelled on transfer (note 3 (b))	(2,906,380)	0.99
Balance, December 31, 2008	**—**	**$ —**

3887685 CANADA INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2008, 2007 and 2006

13. Share capital (continued):

(f) Outstanding Options (continued):

A summary of the non-vested stock options as at and changes for the year ended December 31, 2008 are as follows:

	Options outstanding				Non-vested options	
	Shares	Weighted average exercise price	Weighted average years to expiration	Aggregate intrinsic value	Shares	Weighted average Grant date fair value
Outstanding, beginning of year	2,941,500	$ 0.99	3.82		402,805	$ 0.41
Granted	—	—	—		—	—
Exercised	—	—	—		—	—
Forfeited	(35,120)	0.71	0.55		(2,780)	0.40
Vested	—	—	—-		(117,085)	0.43
	2,906,380	0.99	3.86		282,940	0.40
Options cancelled on Transfer (note 3(b))	(2,906,380)	0.99	3.86		(282,940)	0.40
Outstanding at December 31,2008	—	—	—		—	—

(Expressed in Canadian dollars)

13. Share capital (continued):

(g) Stock Based Compensation:

Stock-based compensation recorded for the year ended December 31, 2008, 2007 and 2006 is summarized below:

	2008	2007	2006
Employee stock-based compensation expense	**$ 29,560**	$ 839,851	$ 1,588,734
Non-employee stock-based compensation expense	**(412)**	118,473	229,912
	$ 29,148	$ 958,324	$ 1,818,646

At December 31, 2008 there is a no unamortized stock based compensation expense balance.

The fair value of each employee stock option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2008	2007	2006
Expected dividend yield	**n/a**	0%	0%
Expected volatility	**n/a**	81%	60%
Risk-free interest rate	**n/a**	4.5%	4.3%
Expected lives	**n/a**	2 years	2 years

(Expressed in Canadian dollars)

13. Share capital (continued):

(g) Stock Based Compensation (continued):

There is no dividend yield because the Company does not pay, and does not plan to pay, cash dividends on common shares. The expected stock price volatility was based on the historical volatility of the Company's average daily stock closing prices over a period equal to the expected life of each option grant. The risk-free interest rate is based on yields from Canadian Government Bond yields with a term equal to the expected term of the options being valued. The expected life of options represents the period of time that the options are expected to be outstanding based on historical data of option holder exercise and termination behavior. The effect of actual forfeitures is recognized as it occurs.

The fair value of each non-employee stock option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2008	2007	2006
Expected dividend yield	**n/a**	0%	0%
Expected volatility	**n/a**	92%	89%
Risk-free interest rate	**n/a**	4.5%	4.1%
Expected lives	**n/a**	4 years	4 years

14. Capital Risk Management:

The Company's objectives when managing capital is to secure sufficient capital to pursue business opportunities, however the Company has made no commitments in connection with those activities. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of debt, equity and warrants or by securing strategic partners.

15. Financial Risk Management:

The Company is exposed to limited financial risks by virtue of its reduced activities: market risk (including currency risk, credit risk and interest rate risk) and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects. Risk management is carried out by the finance department under policies approved by the Board of Directors. This department identifies and evaluates financial risks in close cooperation with management. The finance department is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies.

(Expressed in Canadian dollars)

Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities.

The Company has a convertible debenture balance at December 31, 2008 of the amount of $2,960,000 that may be payable on demand on or before May 9, 2009 (refer to note 6).

16. Commitments and contingencies:

Legal claims:

The Company is subject to a legal claim arising from a disagreement with a former employee. The Company analyzed the legal proceeding and allegations of this claim. The outcome of this proceeding is not expected to be material.

Under the terms of the Reorganization Plan (*Note 3(b)*), any liability associated with this claim, and all costs associated with this claim have been assumed by Forbes Medi-Tech Inc.

17. Related party transactions:

During the years ended December 31, 2008, 2007 and 2006, the Company paid or accrued for legal services to Cawkell Brodie Glaister LLP, a law firm of which the Company's Corporate Secretary is a partner, amounts of $38,613, $203,585 and $229,350 respectively.

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties. These expenditures are included in general and administrative expenses and in intangible and other assets.

18. Income taxes:

(a) The reconciliation of income tax attributable to continuing operations computed at the statutory tax rates to income tax expense using a 31.00%, (2007 – 34.12%, 2006 – 34.12%), statutory rate is:

	2008	2007	2006
Income tax recovery at statutory rates	**$ (926,408)**	$ (4,153,968)	$ (6,026,542)
Change in valuation allowance	**(2,136,230)**	(5,929,088)	5,031,796
Impact of substantially enacted income tax rate on the valuation allowance	**852,862**	8,357,000	—
Permanent differences and other	**2,217,138**	1,234,602	1,152,849
Income tax expense (recovery)	**$ 7,362**	**$** (491,454)	$ 158,103

(Expressed in Canadian dollars)

18. Income taxes (continued):

(b) The tax effects of temporary differences that give rise to significant components of the future income tax assets were incurred in the past and are presented below:

	2008	2007
Future tax assets:		
Non-capital loss carry-forwards	**$ 12,616,137**	$ 13,471,761
Research and development expenditures	**8,943,658**	9,276,367
Property, plant and equipment and intangible assets	**572,998**	1,267,643
Share issue costs	**41,629**	131,664
Other	**—**	163,217
Total gross future tax assets	**22,174,422**	24,310,652
Valuation allowance	**(22,174,422)**	(24,310,652)
Total future tax assets	**$ —**	$ —

Realization of the future income tax assets is dependent on generating sufficient taxable income prior to the expiration of any loss carry forward balance for tax purposes. Due to the Company's state of development and operations, the Company has not met the test that it is more likely than not that the future income tax assets will be realized. Accordingly, a valuation allowance has been provided, equal to the net future income tax asset. The valuation allowance is reviewed periodically and when the more likely than not criterion is met, the valuation allowance will be adjusted accordingly by a credit or charge to earnings in that period.

The Company is subject to assessments by various taxation authorities which may interpret tax legislations and tax filing positions differently from the Company. The Company provides for such differences when it is likely that a taxation authority will not sustain the Company’s filing position and the amount of the tax exposure can be reasonably estimated. As at December 31, 2008, no provisions have been made in the financial statements for any estimated tax liability.

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, 2008, the Company has accumulated scientific research and experimental development expenditures in the amount of $34,398,700 (2007 – $34,398,700) available for carry-forward indefinitely. The Company also has accumulated approximately $7,096,900 (2007 – $7,096,900) of unclaimed federal investment tax credits. The Company also has accumulated non-capital losses in the amount of $48,523,600 (2007 – $49,110,200). The investment tax credits and Canadian non-capital losses for income tax purposes expire as follows:

3887685 CANADA INC.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2008, 2007 and 2006

18. Income taxes (continued):

	Investment tax credits	Non-capital losses
Year of expiry		
2009	—	1,687,001
2010	—	3,105,948
2014	—	4,475,822
2015	—	11,005,080
2017	264,842	—
2018	989,788	—
2019	1,872,325	—
2020	2,145,331	—
2021	337,685	—
2022	297,503	—
2023	186,787	—
2024	496,231	—
2025	506,442	—
2026	—	15,884,672
2027	—	9,822,897
2028	—	2,542,186
	$ 7,096,934	$ 48,523,606

19. Supplementary cash flow information:

	2008	2007	2006
Supplementary cash flow information:			
Interest paid	**$ 1**	$ 2,598	$ 1,075
Interest paid- discontinued operations	**—**	—	18,179
Income taxes paid	**—**	30,678	8,327,000
Non-cash financing and investing activities:			
Fair value assigned to equity component of Convertible debenture	**398,615**	—	—
Conversion of preferred shares to common shares	**—**	—	4,581,054
Issuance of shares pursuant to purchase agreement	**—**	—	270,096
Transfer from contributed surplus for options exercised	**—**	26,276	439,761

(Expressed in Canadian dollars)

20. Net change in non-cash operating items:

	2008	2007	2006
Accounts receivable	**$ (196,015)**	$ 268,738	$ (376,758)
Inventories	**438,514**	776,054	(4,827,908)
Prepaid expenses and deposits	**(113,269)**	374,050	2,152,245
Accounts payable and accrued liabilities	**(669,005)**	(1,191,820)	1,576,021
Deferred revenues	**—**	—	171,960
Current income tax liability	**7,150**	(508,411)	(647,506)
Increase (decrease) in tenure allowance	**(9,661)**	6,282	(60,664)
Other	**(1,286)**	(15,764)	—
	$ (543,572)	$ (290,871)	$ (2,012,610)

21. Subsequent Events:

Subsequent to December 31, 2008, the Company retained GMP Securities L.P. and a syndicate of agents in connection with an offering of Voting Common Shares to the public (the "Offering").

On February 6, 2009, the board of directors passed resolution which 1) changed the name of the Company to Deans Knight Income Corporation, 2) cancelled the stock option plan and 3) cancelled the authorized, but unissued preferred shares.

On March 9, 2009, the Company filed a final prospectus relating to the Offering of these securities. The Offering is for a minimum of 7,500,000 Voting Common Shares at a price of $10.00 per share for gross proceeds of $75,000,000. The estimated net proceeds from the Offering, estimated to be a minimum of $71,250,000, will be invested by the Company in an actively managed portfolio consisting primarily of corporate debt securities rated BBB or below by Standard & Poor's Rating Services or an equivalent rating by another nationally recognized statistical rating organization. The Company intends to retain Deans Knight Capital Management Ltd. to act as its investment advisor.

CERTIFICATE OF THE COMPANY AND THE PROMOTER

Dated: March 9, 2009

This prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, Nova Scotia, New Brunswick, Newfoundland and Labrador, Prince Edward Island, Northwest Territories, Yukon Territory and Nunavut.

DEANS KNIGHT INCOME CORPORATION

By: (Signed) Charles A. Butt
President (Chief Executive Officer)

By: (Signed) David G. Goold
Chief Financial Officer

On behalf of the Board of Directors

By: (Signed) D. Alan Ross
Director

By: (Signed) Craig Langdon
Director

DEANS KNIGHT CAPITAL MANAGEMENT LTD.
as Promoter

By: (Signed) Wayne Deans
Chief Executive Officer

CERTIFICATE OF THE AGENTS

Dated: March 9, 2009

To the best of our knowledge, information and belief, this prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, Nova Scotia, New Brunswick, Newfoundland and Labrador, Prince Edward Island, Northwest Territories, Yukon Territory and Nunavut.

GMP SECURITIES L.P.

By: (Signed) Neil Selfe

RBC DOMINION SECURITIES INC.

By: (Signed) Graham Macmillan

CANACCORD CAPITAL CORPORATION

By: (Signed) Stephen Swaffield

TD SECURITIES INC.

By: (Signed) Cameron Goodnough

BLACKMONT CAPITAL INC.

By: (Signed) Charles Pennock

HAYWOOD SECURITIES INC.

By: (Signed) Kevin Campbell

FIRSTENERGY CAPITAL CORP.

By: (Signed) Erik B. Bakke