

DEANS KNIGHT

CAPITAL MANAGEMENT LTD

December 31, 2009

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For more detailed information on Deans Knight visit our website at
www.deansknight.com

Deans Knight Capital Management

- Established in 1992 by Wayne Deans and Doug Knight to provide specialized growth and income generating investment strategies to clients
- 2 Specialized Strategies
 - Growth
 - High Income Return
- Assets under administration are approximately \$1.4 billion, as of December 31, 2009, consisting of private clients, foundations, and select pension funds
 - 78% growth mandates / 22% income mandates
- Employees: 14

The Team

Wayne Deans

- 1968 B. Comm. - Sir George Williams University - Montreal, Quebec
- 1970 MBA - McMaster University - Hamilton, Ontario
- 1970/80 Assistant Chief, Securities Division - Bank of Canada (Ottawa/Vancouver/Montreal)
- 1980/84 Vice President and Director - Wood Gundy Ltd. (Toronto/Vancouver)
- 1985/92 President - M.K. Wong & Associates Ltd. (Investment Counsel)
- 1992 Co-founded Deans Knight Capital Management Ltd.

Craig Langdon, CA, CFA

- 1996 B.B.A - Wilfrid Laurier University - Waterloo, Ontario
- 1996/99 Audit Manager - PricewaterhouseCoopers LLP (Toronto/Vancouver)
- 2000 Deans Knight Capital Management Ltd. (Vancouver)

The Team

Dillon Cameron, CFA

- 1999 B.B.A. (Finance), Bishops University - Lennoxville, Quebec
- 1999 Trading Desk - Scotia Capital Inc. (Toronto)
- 2000 Deans Knight Capital Management Ltd. (Vancouver)

Mike Schaab, CA, CFA

- 1995 B.A. - University of Western Ontario - London, Ontario
- 1995/03 Audit Manager - PricewaterhouseCoopers LLP (Toronto/Ireland/Saudi Arabia/Vancouver)
- 2003 Deans Knight Capital Management Ltd. (Vancouver)

Mark Myles, CA, CPA

- 1995 B. Comm – Dalhousie University Halifax – Halifax, Nova Scotia
- 1995/05 Audit Senior Manager – Pricewaterhouse Coopers LLP (Vancouver/London, UK)
- 2005 Deans Knight Capital Management Ltd. (Vancouver)

Deans Knight Capital Growth Investment Opportunity

- We are opportunistic investors with a long-term focus, who buy businesses when they are out-of-favour and priced attractively
- Deans Knight has developed a broad and valuable international network of well placed clients, industry relationships and financial intermediaries which help provide investment ideas and industry insight
- \$1 million invested with Deans Knight in 1993 (our equity strategy inception) is now worth \$16 million

What We Look for in a Business

- Our capital growth strategy is focused on purchasing equity in businesses we believe to be undervalued
- We look for businesses with:
 - Assets that provide a sustainable competitive advantage
 - reliable cash flows
 - hard book values
 - strong balance sheets
 - sum of parts worth more than the whole
 - hidden values
- We invest with management teams we can trust and who are financially committed to the Company via direct ownership rather than options
- **A business may have all the right characteristics but if the price is too expensive we won't own the company**

Where We Invest

- The majority of our investments are domiciled in Canada
 - Canadian equity markets are 1/8th the size of the American markets and attract fewer followers which can lead to more pricing inefficiencies
 - Allows us better access to management teams
- Many of our ‘Canadian’ investments have Global operations
- We will invest in any industry if the opportunity is right

Portfolio Characteristics

- No use of leverage in the portfolios
- No short selling
- Concentrated portfolios of 15-20 investments
- Low turnover of investments in the portfolio
 - 20% turnover on average

Example of a Past Investment

LionOre Mining: *Out of favour company in an out of favour base metal industry*

- LionOre was an international nickel mining company with production in Botswana and Australia
- Nickel prices dropped to \$1.75 per pound following the Asian Crisis of 1997
- We began building a major position in 1998/1999 as low as \$0.51 per share
- We accumulated large amounts of stock at \$5 per share or 2.5 times cash flow in 2006
- LionOre was the subject of a bidding war in the spring of 2007 between Xstrata and Norilsk Nickel, which saw Norilsk acquire LionOre for cash at \$27.50 per share

Example of a Past Investment

Algoma Steel: *Overlooked company in the public market*

- Algoma was a steel producer that emerged from CCAA bankruptcy in 2002 as one of the lowest cost steel producers in North America, with a new CEO and a strong balance sheet
- We were able to buy the Company as low as 0.3 times book value because the market still considered Algoma a bankrupt company
- 2002 sales were \$1.2 billion, market cap went as low as \$30 million
- Within 3 years, Algoma was generating cash flows of \$400 million
- We accumulated shares at prices ranging between \$2.80 and \$8.60
- We sold our position in March 2005 for as high as \$39.80 per share

Example of an Investment That Did Not Work

CFM International - *Unanticipated foreign competition*

- CFM was the largest manufacturer of gas and electric fireplaces in North America
- Deans Knight started buying CFM in February 2002 and gained a significant position in September 2003 with an average cost of \$9.60 per share
- In 2002, CFM took on additional debt to further expand its gas barbecue business through the Keanall Holdings acquisition
- In 2004, steel prices were high, and CFM's gas barbecue business, unlike in its fireplace business, suffered from a lack of pricing power with big customers like Home Depot and Lowe's. These customers looked to China for similar, yet much cheaper products. As a result of these squeezed margins, CFM's cash flows collapsed by 95% putting the company in financial difficulty
- Deans Knight sold the position in early 2005 at an average price \$1.62 per share
- CFM was finally bought in April 2005 by the Ontario Teachers' Pension Fund for \$1.50 per share

Where We Get Our Investment Ideas

- Our investment ideas not only come from our in-house research but also from our extensive network of contacts
- Deans Knight has developed a broad international network of:
 - well placed clients,
 - industry relationships and
 - financial intermediaries
- The majority of Deans Knight clients are entrepreneurs who have created major businesses. This provides us access to a wealth of knowledge in various industries.

Unrivaled Network

- Our international network of contacts not only provides us with investment ideas but also with:
 - Information
 - Industry perspectives
 - Deal flow
 - Liquidity
 - Advice
- Our network is an essential part of the value we bring as an investment group

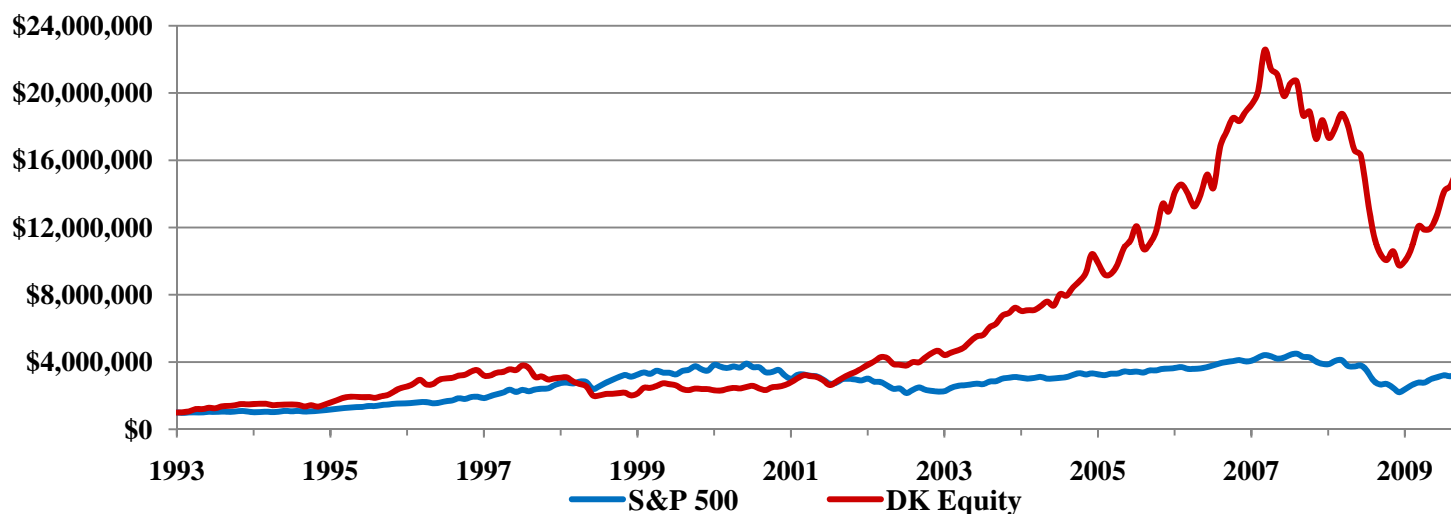
Example of a Current Investment

Athabasca Oil Sands: *Access to exclusive opportunities*

- Athabasca was incorporated as a grass roots Alberta Oil Sands developer in 2006
- Our industry relationships provided us access to an early financing round alongside the founders at \$1 per share
- Today the Company controls 1.3 million acres of Oil Sands leases and reserves of approximately 10 billion barrels of oil
- On August 31, 2009, the Company announced a joint venture partnership with PetroChina, which valued the Company based on total reserves at approximately \$20 per share

Long-Term Results

- A \$1,000,000 investment with Deans Knight in 1993 would be worth **\$16,000,000** today, more than 3 times the value created by the TSX Composite:



DK Equity Growth Fund Historical Rates of Return
as of December 31, 2009

	3 Mths	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	10 Yrs	Since Inception March 1993
DK Equity Growth Fund	14.4%	60.5%	-7.5%	-4.4%	8.2%	12.9%	20.9%	18.1%
S&P/TSX Composite	3.9%	35.1%	-4.9%	-0.2%	3.9%	7.7%	5.6%	9.6%
S&P 500 (in USD)	6.0%	26.5%	-10.7%	-5.6%	-0.7%	0.4%	-0.9%	7.6%

Note: Past returns are not a guarantee of future returns.

Deans Knight Income Investment Opportunity

Experienced Manager: Deans Knight was the first investment management firm in Canada to specialize in higher yielding corporate debt securities

High Return Potential: As of December 31, 2009 Canadian High Yield bonds offered investors an average yield to maturity of 8.7%

- Yield to maturity is an investor's expected annual rate of return

Strong Track Record: Returns from Deans Knight's income strategy have exceeded those of the major North American Equity and High Yield Bond indices over the past 5, 10 & 15 year periods

Access to Best Opportunities: Deans Knight's long history in the Canadian High Yield market provides us with unrivaled access to opportunities

What are High Yield Bonds?

- High Yield bonds are debt rated below BBB

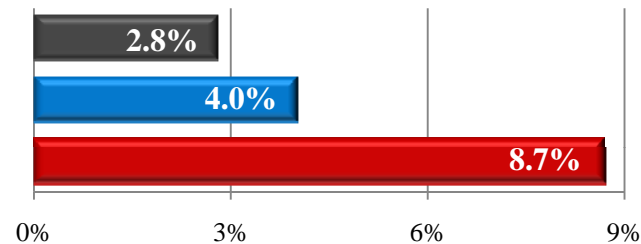


- **RATING AGENCIES ARE OFTEN WRONG!**
 - WorldCom, Enron and Asset Backed Commercial Paper were all rated A or better before their highly publicized collapse
- Deans Knight uses its in-depth knowledge of the outstanding corporate issues, the trust indentures, and experience in structuring new debt securities to evaluate opportunities regardless of the rating

Why High Yield Bonds?

- High Yield bonds currently yield more than twice that of Investment Grade bonds and more than 3 times that of Government Bonds

- 5-year Canadian Government bonds:
- Canadian Investment Grade bonds:
- **Canadian High Yield bonds:**



- The expected returns on a High Yield portfolio will approximate the yield to maturity at the time of investment
- As of Dec. 31, 2009, Deans Knight's income strategy yielded 7.0%

Why Canada?

- The US High Yield market is \$1 Trillion
- Canadian High Yield market is \$25 Billion
 - The smaller Canadian market attracts fewer buyers, resulting in inefficiencies, mispricing and more opportunity
- Deans Knight's expertise in this inefficient and illiquid market gives us a competitive advantage that leads to superior returns
 - During our 17 year involvement in the Canadian High Yield market Deans Knight has developed strong relationships with High Yield issuers and bond dealers, which provide deal flow and unique investment opportunities

Why Deans Knight?

- Deans Knight was the first manager in Canada to specialize in higher yielding corporate debt securities
- Returns from Deans Knight's income strategy have exceeded those of the major North American Equity and High Yield Bond indices over the past 5, 10 & 15 year periods

Strong Track Record

DK Income Fund Historical Rates of Return as of December 31, 2009

	3 Mths	2009	2Yr	3Yr	4Yr	5Yr	10Yr	Since Inception March 1993
DK Income Fund ⁽¹⁾	8.4%	60.6%	13.2%	14.0%	12.7%	14.3%	12.3%	12.0%
S&P/TSX Composite	3.9%	35.1%	-4.9%	-0.2%	3.9%	7.7%	5.6%	9.6%
S&P 500	6.0%	26.5%	-10.7%	-5.6%	-0.7%	0.4%	-0.9%	7.6%
Dow Jones Avg	8.1%	22.7%	-8.6%	-3.1%	2.0%	1.9%	1.3%	9.3%
CDN High Yield Index ⁽²⁾	5.3%	47.5%	-0.5%	0.2%	2.4%	1.4%	2.2%	N/A
SCM Bond Universe ⁽³⁾	-0.2%	5.4%	5.9%	5.2%	4.9%	5.2%	6.7%	7.3%

⁽¹⁾ DK Income Fund is Deans Knight's longest standing income fund.

⁽²⁾ Merrill Lynch CAD & USD High Yield, Canadian Issuers Index

⁽³⁾ Contains Investment Grade and Government Bonds

- By definition, a company's bonds are less risky than its equity due to their priority position in the capital structure

Note: Past Performance is not a guarantee of future returns.

Identifying Opportunities

- Our exhaustive in-house credit research helps Deans Knight identify the best opportunities and protect our investments in the event of a default

Example: VicWest Corporation 12.5% March 10, 2007

- VicWest distributes light gauge steel roofing and siding for industrial, agricultural and commercial applications
- Deans Knight bought bonds of VicWest in early 2000 at an average price of \$84
- In 2002, VicWest breached their Canadian banking covenants and was placed into CCAA protection
- Deans Knight was involved in the restructuring process, participated in the DIP financing, and placed a trusted advisor on the board to protect our interests
- The Bonds were converted into common shares in late 2003 as VicWest emerged from bankruptcy. Our conversion price was \$1.60/share. The shares traded at \$18.88 on December 31, 2009
- In 2005, Vicwest converted into an income trust and as of December 31, 2009 the firm had paid \$7.61/unit in cumulative distributions
- The IRR to Deans Knight clients has been **26.6%** through to December 31, 2009

Creating Opportunities

- Deans Knight has more than 15 years experience in creating, structuring, and advising on corporate debt financings

Example: Lionore Mining

\$16 million Convertible Debenture

- Purchased April 2000
- 5 year maturity
- 10% coupon
- Convertible at \$2.40

\$12 million Unsecured Debenture

- Purchased June 2001
- 3 year maturity
- 12% coupon
- Additional incentive: 11 warrants per \$100 of debt (exercise price is \$2.00)

In July 2007, Lionore Mining was purchased by Norilsk Nickel for \$27.50, our average cost was \$2.20. The total annualized returns provided by the Convertible and Unsecured Debenture (incl. warrants) were 45% and 37%, respectively.

Strategic Network Equals Opportunity

- Deans Knight has developed a broad international network of well placed clients, industry relationships and financial intermediaries
- This strategic network gives us:
 - Information
 - Investment ideas
 - Deal flow
 - Liquidity
 - Advice

Exclusive Private Debt Investment Opportunities

- Private Debt Financings have the following characteristics:
 - High Coupon (8 – 15%)
 - Short term to Maturity (1 month – 3 years)
 - Security (through a General Security Agreement or restrictive covenants)
 - “Equity Kickers”(typically in the form of warrants or convertible debt)

Exclusive Private Debt Investment Opportunity

Example: Athabasca Oilsands Corp

- In July 2008, Athabasca raised \$400 million through a debt offering with GMP Securities, a leading Canadian investment bank
- Deans Knight was enlisted to structure the terms and vet the trust indenture
- Deans Knight negotiated a 13% coupon, 3 year maturity, plus premiums if the bonds were called early and, most importantly, security over all the assets of the Company, which Deans Knight conservatively valued at roughly \$3.3 Billion
- On August 31, 2009, Athabasca announced a deal to sell two of its major projects (30% of its assets) for \$1.9 Billion to PetroChina, the world's largest oil company
- The bonds will be called this spring at \$107, providing an IRR of 18% to investors

Exclusive Private Debt Investment Opportunity

Example: Pristine Power Short Term Bridge Facility

- In June 2007, Deans Knight lent \$5 million of a \$7 million short term bridge facility to Pristine Power Inc., an independent power producer based in Alberta
- The Company was in the process of closing a deal to build a natural gas fired cogeneration plant in Windsor, Ontario
- Obtaining bank financing to close the deal was taking longer than expected. Deans Knight agreed to structure a bridge facility which would be outstanding for 90 days with a 12% coupon for the first 45 days and 15% thereafter. Once the bank financing was in place our loan was to be repaid
- In September 2007, the Pristine Power needed to extend the maturity as the Bank continued to perform its due diligence. We agreed to extend the bridge for 45 days in exchange for a 1% fee, payable to our clients, and continued to earn a 15% coupon
- The loan was ultimately repaid on November 2, 2007, resulting in an IRR of 18% to Deans Knight clients

Bonds with Security and Warrants

Example: Imperial Metals 8% Secured Line of Credit June 30, 2006 (included Purchase Warrants)

- In May 2005, Deans Knight lent \$4.5 million of a \$14.5 million short term line of credit to Imperial Metals
- Imperial Metals was a copper producer in British Columbia with 438 Million pounds of copper and 433,000 ounces of gold in Proven and Probable Reserves
- The credit facility was secured by substantially all the assets of the Company
- As a sweetener, the lenders received 133.5 warrants per \$1000 of loan to buy shares at \$6.00, less than a 5% premium to its trading price at the time
- Deans Knight exercised warrants and sold shares in February 2006 at \$7, a 17% premium to its exercise price
- The IRR to Deans Knight clients was 19%

Credit Research Protects Investors

- Deans Knight's in-house credit research identifies high yielding debt securities backed by enough asset value to protect our principal invested

Example: Harvest Operations (Rated CCC by S&P)

- In the first quarter of 2009, Deans Knight invested in Harvest's 7.875% Senior notes due October 2011 at an average of price \$69, yielding 25%
- Harvest Energy generated \$300 Million in cash flow in the first half of 2009. Even this depressed cash flow covered Interest Expense by more than 5 times
- On October 21, 2009 Harvest entered into an agreement to sell all issued and outstanding shares to Korea National Oil Corporation (KNOC) for \$1.8 billion plus the assumption of \$2.3 billion of debt
- The company has the option to call these bonds at \$102 which if called immediately would provide an IRR of roughly 60% to Deans Knight's clients
- If KNOC chooses not to call the bonds we are happy to continue to collect this attractive coupon from an A rated credit

Credit Research Protects Investors

- In Deans Knight's 17 year history, we have had only **13** defaults, and on average we have recovered **100%** of our investment

Example: GBS Gold Int'l 12% May 27, 2011

- GBS is a Northern Australian gold producer with 2.6 Million ounces of Indicated Gold Resources
- In March 2007, Deans Knight purchased \$20 Million of a \$46 million bond issue
- Deans Knight played a principal role in structuring these notes to ensure they were fully secured by all the assets of the Company
- In September 2008, GBS entered into default. Due to our knowledge of the structure, Deans Knight was appointed to lead the secured Noteholders' committee in the restructuring of the company
- In February 2009, the Noteholders signed off on the Asset Sale Agreement that will result in the Noteholders recovering 100% of the initial investment

Opportunity Presented by Downgrades

- Credit downgrade is when the independent rating agencies reduce their credit rating for a particular issuer
- When a bond is downgraded from Investment Grade to High Yield it undergoes significant “re-pricing” to adjust for the perceived increase in risk and the forced liquidation from investors who, due to mandate reasons, can no longer hold the bond
- Downgrades have presented excellent opportunities for us to invest in the debt of credit-worthy companies at deep discounts to the original price of the bonds

Opportunity Presented by Downgrades

Example: Telus Bonds

- In July 2002, Moody's downgraded Telus bonds to High Yield
- Telus had a strong wireline franchise in Western Canada and generated significant cash flows; however, Moody's was nervous about the slew of bankruptcies occurring in the telecom space at the time
- Panicked sellers of the bonds drove the price down from \$100 to below \$50
- Moody's upgraded Telus back to Investment Grade roughly one year later and bonds traded back to \$100
- Deans Knight purchased these bonds after the downgrade and more than doubled clients' money from the lows in less than a year

Summary of Income Opportunity

- Inefficiencies in the Canadian High Yield bond market create an opportunity to earn yields far superior to Government or Investment Grade bonds
- Deans Knight's income strategy has historically outperformed Equity indices in an asset class that is inherently less risky
- Deans Knight has an experienced management team with a long and successful track record
- Our pioneering role in the High Yield market has enabled us to develop an unparalleled strategic network

Contact Information

For more information on Deans Knight you can contact us by
phone at 604.669.0212, or visit our website at
www.deansknight.com

To obtain any further documentation please contact:

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