

DEANS KNIGHT INCOME CORPORATION

ANNUAL INFORMATION FORM

Voting Common Shares

DEANS KNIGHT

INCOME CORPORATION

March 6, 2014

No securities regulatory authority has expressed an opinion about the Voting Common Shares or the Non-Voting Common Shares and it is an offence to claim otherwise.

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1. NAME, FORMATION AND HISTORY OF THE COMPANY

1.1 Legal Structure of the Company

Deans Knight Income Corporation (the "**Company**") is a closed-end, non-redeemable investment company. The Company is a corporation continued under the *Canada Business Corporations Act*. The head and registered office of the Company is currently located at 1500 – 999 West Hastings Street, Vancouver, British Columbia V6C 2W2. Deans Knight Capital Management Ltd. (the "**Investment Advisor**") acts as the investment advisor to the Company. The fiscal year-end of the Company is December 31.

1.2 Initial Public Offering

The Company completed its initial public offering of voting common shares (the "**Voting Common Shares**") on March 18, 2009 (the "**Closing Date**") for gross proceeds of \$100,368,900. On the Closing Date, Matco Capital Ltd. ("**Matco**") also converted the Convertible Debenture (as defined herein) into 345,671 non-voting common shares ("**Non-Voting Common Shares**" and together with the Voting Common Shares, the "**Shares**" and the holders of such Shares being referred to herein as "**Shareholders**") of the Company (after giving effect to the Consolidation (as defined herein)). 10,036,890 Voting Common Shares were originally issued in connection with the Company's initial public offering and as of the date of this Annual Information Form, 10,191,592 Voting Common Shares and 345,671 Non-Voting Common Shares are issued and outstanding.

References in this Annual Information Form to a Shareholder means, unless the context otherwise requires, the owner of a beneficial interest in Shares.

1.3 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 National Instrument 81-102 – *Mutual Funds* ("**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.

1.4 Prior Business of the Company

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 Medi-Tech Inc. ("**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 Toronto Stock Exchange (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 a secured convertible debenture of the Company in the original principal amount of \$2,960,000 (the "**Convertible Debenture**") and the Company and Forbes agreed to reorganize the business of the Company (the "**Reorganization**"). On May 9, 2008 the Company 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. As part of the Reorganization, Matco subscribed for the Convertible Debenture.

Prior to the Reorganization, the Company was a life sciences company involved in the research, development and commercialization of innovative products for the prevention and treatment of life-threatening diseases. The Company's infrastructure supported a portfolio of discovery and development stage pharmaceutical compounds and nutraceutical products. 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 amended its articles of incorporation ("**Articles**") to change its name to "Deans Knight Income Corporation". In connection with the reorganization of the Company into an investment company, the Company amended its Articles to, among other things, consolidate the issued and outstanding Voting Common Shares and Non-Voting Common Shares on the basis of one share for each 382 outstanding shares (the "**Consolidation**"), provide for the Investment Objectives (as defined herein) and Investment Restrictions (as defined herein) of the Company and amend the terms of the Voting Common Shares to provide for the redemption by the Company of the Voting Common Shares as set forth under "Termination of the Company".

2. INVESTMENT RESTRICTIONS

Currently, the Company is subject to certain investment restrictions that, among other things, limit the securities that the Company may acquire for its portfolio (the "**Portfolio**"). The Articles currently require that until the period beginning 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 "Active Investment Strategy", the following investment restrictions (collectively, the "**Investment Restrictions**"):

- (a) **Concentration.** The Company will not purchase securities of any issuer if after such purchase more than 7% of the aggregate value of the assets of the Company (the "**Total Assets**") 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 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 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 (as defined herein) 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 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 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 *Income Tax Act* (Canada) (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.

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 Voting Common Shares and Non-Voting Common 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 "Description of the Securities of the Company — Meetings and Acts Requiring Shareholder Approval".

The Company has called the 2014 Shareholder Meeting (as defined herein) at which Voting Shareholders (as defined herein) will consider, among other matters, the removal of the Investment Restrictions from the Articles. See "Other Material Information – CRA Audit and 2014 Shareholder Meeting".

3. ACTIVE INVESTMENT STRATEGY

The following disclosure in respect of the Active Investment Strategy (as defined in section 3.1 below) details the Company's investment strategies employed by the Company and the Investment Advisor prior to calling of the 2014 Shareholder Meeting. The Company's business operations and strategy following the 2014 Shareholder Meeting is anticipated to be dedicated solely to: (i) divesting any Remaining Securities (as defined herein); (ii) attending to, and if necessary, litigating, the CRA Audit (as defined herein) and the Tax Appeal (as defined herein) in a manner that is beneficial to Shareholders; (iii) attending to the distribution of any Withheld Amount to Shareholders and the eventual wind-up and termination of the Company thereafter; (iv) assisting with any ancillary matters related to the foregoing (collectively, the "**Wind-Down Operations**"). **The Wind-Down Operations differ materially from the**

Active Investment Strategy. See "Other Material Information – CRA Audit and 2014 Shareholder Meeting" and "Other Material Information – Risk Factors".

3.1 General Investment Strategy

The Investment Advisor, under the Active Investment Strategy, actively manages the Portfolio, which consists primarily of corporate debt securities rated BBB or below by Standard & Poor's Rating Services ("S&P") or equivalent ratings from other recognized credit rating organizations. 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 under the Active Investment Strategy, the Investment Advisor will focus on the following investment strategies (collectively with the other investment strategies summarized under this Section 3, the "Active Investment Strategy"):

- 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' ability to reduce or refinance the debt; and
- the overall term of the debt and yield to bondholders.

The Investment Advisor employs 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.

3.2 Portfolio

While operating under the Active Investment Strategy, the Portfolio generally consists primarily of corporate debt securities rated BBB and below by S&P or equivalent ratings from other recognized credit rating organizations.

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

Asset Class	Permitted Range at Time of Purchase	Allocation as of February 28, 2014
Corporate Bonds ⁽¹⁾	60-100%	15%
Convertible Debt Securities	0-30%	0%
Equity Securities ⁽²⁾	0-15%	3%

Note:

1. The percentage currently falls below the permitted range as a result of the Company's liquidation of the Portfolio in anticipation of the Cash Distribution (as defined herein).
2. The Company does not intend to purchase equity securities directly unless they are associated with a debt instrument, at which time the Investment Advisor will determine if it is in the best interests of Shareholders to continue holding such securities.

3.3 Foreign Currency Exposure

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

3.4 Leverage

Currently, the Company does not have a credit facility. However, the Company may borrow, from time to time, to make investments or maintain liquidity and may pledge its assets to secure the borrowings, all in accordance with its Investment Objectives, Active Investment Strategy and Investment Restrictions.

3.5 Securities Lending

The Company has not and does not anticipate that it will lend securities. However, in order to assist in achieving its Investment Objectives, the Company may, consistent with the Active 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.

3.6 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.

3.7 Normal Course Issuer Bids

During periods where the Investment Advisor is of the opinion that the market price of the Voting Common Shares is not reflective of the underlying value of the Voting Common Shares, the Investment Advisor may apply to the TSX, on behalf of the Company, to implement a normal course issuer bid. On May 14, 2013, the Company announced that the TSX had accepted the Company's application in respect of a normal course issuer bid (the "**NCIB**"), under which the Company was permitted to purchase for cancellation, up to a maximum of 956,794 Voting Common Shares or approximately 10 percent of the Company's issued and outstanding Voting Common Shares as of May 9, 2013. The NCIB was effective as of May 17, 2013 and will terminate on April 30, 2014. The Company did not acquire any Voting Common Shares under the NCIB.

4. INVESTMENT OBJECTIVES

The Company's current investment objectives (the "**Investment Objectives**"), as contained in the current Articles, 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 (which 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). **In the event that Shareholders approve the Article Amendment Resolution at the 2014 Shareholder Meeting, the Company intends to remove the Investment Objectives from the Articles in order to permit the Company to carry out the Wind-Down Operations. See "Other Material Information – CRA Audit and 2014 Shareholder Meeting".**

The Company, in accordance with the Active Investment Strategy and the current Investment Objectives, invests primarily in corporate debt securities. Prior to the Reorganization and change in business as discussed in Name, Formation and History of the Company - Prior Business of the Company, the Company generated significant tax losses and other tax attributes as a result of its prior research and development activities. The Company has recorded, as a tax asset, the full amount of the potential tax benefit of such items to the extent of its projected taxable income. 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 "Other Material Information – Risk Factors – Risks Related to an Investment in the Company – Availability of Tax Attributes".

5. DESCRIPTION OF THE SECURITIES OF THE COMPANY

5.1 Description of Voting Common Shares

The Company is authorized to issue an unlimited number of Voting Common Shares. The holders of Voting Common Shares are entitled to one vote for each Voting Common 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 Voting Common Shares and the Non-Voting Common Shares must be declared and paid in an equal amount per share and at the same time on the Voting Common Shares and the Non-Voting Common Shares without preference or distinction. The Company's dividend policy is described under "Company Governance — Dividend 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 Voting Common Shares and the holders of Non-Voting Common Shares shall rank equally and shall be entitled to share and receive the remaining property of the Company.

The Voting Common Shares may be redeemed by the Company as described under "Description of the Securities of the Company — Termination of the Company".

5.2 Description of Non-Voting Common Shares

Subject to the provisions of the *Canada Business Corporations Act*, the holders of Non-Voting Common 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 Common 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 Voting common Shares and the Non-Voting Common Shares must be declared and paid in an equal amount per share and at the same time on the Voting Common Shares and the Non-Voting Common 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 Voting Common Shares and the holders of Non-Voting Common Shares shall rank equally and shall be entitled to share and receive the remaining property of the Company.

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

5.3 Meetings and Acts Requiring Shareholder Approval

Meetings of Shareholders

Holders of Voting Common Shares are entitled to one vote for each Voting Common Share held. The quorum for any meeting of holders of Voting Common Shares is two or more shareholders or proxyholders holding not less than 5% of the issued and outstanding Voting Common 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 Voting Common Share held.

In addition to any other matters requiring approval of the holders of Voting Common 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 Voting Common 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 Voting Common Share distribution will require the approval of Shareholders by a resolution passed by at least 66 $\frac{2}{3}$ % of the votes cast at a meeting called and held for such purpose with holders of Voting Common Shares and Non-Voting Common 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.

5.4 Termination of the Company

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

The current Articles also provide that 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. The Company may also, 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, without any approval by Shareholders, 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.

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.

The Company has called the 2014 Shareholder Meeting where Voting Shareholders will consider the Article Amendment Resolution (as defined herein), which would permit the Company to proceed with the Extension Amendment (as defined herein) and the Restriction Removal Amendment (as defined herein). See "Other Material Information – CRA Audit and 2014 Shareholder Meeting".

6. VALUATION OF PORTFOLIO SECURITIES

6.1 Valuation Policies and Procedures

Unless otherwise required by law, for the purpose of calculating net asset value of the Company, which will be equal to (i) the Total Assets of the Company, less (ii) the aggregate value of the liabilities of the Company, and as more particularly described below (the "**Net Asset Value**") on a valuation date (which is the second last business day of each week or the last business day of a month end (the "**Valuation Date**")), the value of the Company's assets on such Valuation Date is 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 is deemed to be the full amount thereof provided that if the person who has been appointed by the Company to calculate the Net Asset Value per Share and the Net Asset Value of the Company (which is currently the Company) (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) is 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 is 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 is priced by the Valuation Agent and is 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 is the current market value thereof;
- (e) the value of any security or other asset for which a market quotation is not readily available is 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 values 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 is 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 are 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 are 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 is equal to the Net Asset Value divided by the sum of the number of Voting Common Shares and Non-Voting Common Shares then outstanding (the "**Net Asset Value per Share**") and 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 is calculated in Canadian dollars.

7. CALCULATION OF NET ASSET VALUE

The Valuation Agent calculates the Net Asset Value per Share as at the close of business on each Valuation Date. The Company makes the Net Asset Value per Share available at www.dkincomecorp.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.

8. PURCHASES OF VOTING COMMON SHARES AND NON-VOTING COMMON SHARES

The issued and outstanding Voting Common Shares were initially issued to holders in connection with the initial public offering of the Company. The Voting Common Shares are listed for trading on the TSX under the symbol DNC and may be purchased through the facilities of the TSX.

In the event that the Company pays the Cash Distribution, the Company will no longer meet the continued listing requirements of the TSX. **As a result, provided the Capital Reduction Resolution is approved by Shareholders, the Company intends to take steps to voluntarily delist the Voting Common Shares from trading on the TSX on or about April 15, 2014.**

The issued and outstanding Non-Voting Common Shares were initially issued to holders on a private placement basis. The Non-Voting Common Shares are not listed on any stock exchange. Accordingly, there is no market through which the Non-Voting Common Shares may be sold.

9. REDEMPTION OF SECURITIES

The Shares are not redeemable by the Shareholders. The Shares may be redeemed by the Company in connection with the termination of the Company in accordance with the terms of the current Articles. See "Description of the Securities of the Company – Termination of the Company".

10. RESPONSIBILITY FOR COMPANY OPERATIONS

10.1 The Company

The executive officers and the Board of Directors together with the Investment Advisor are responsible for the management and stewardship of the Company. The Board of Directors is currently composed of 5 directors, 3 of whom are "independent" within the meaning of applicable securities legislation. Directors are appointed to serve on the Board of Directors by the holders of Voting Common Shares until the time that they retire or are removed and successors are appointed. The name, municipality of residence, office and principal occupation of each of the directors and officers of the Company are as follows:

Name, Municipality of Residence and Position with the Company	Number of Voting Common Shares Beneficially Owned or Controlled	Date First Appointed	Principal Occupation with the Past 5 Years
Denyse Chicoyne ⁽¹⁾⁽²⁾ Montreal, Québec	31,300	March 18, 2009	Corporate Director. Ms. Chicoyne also serves as a director, member of the finance and audit committee, the governance committee, the rules and policies committee and the regulatory oversight committee of the TMX Group and as a director and member of the human resource committee of Richelieu Hardware Ltd. Previously, 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 dépôt et placement du Québec.
Wayne Deans ⁽³⁾ Vancouver, British Columbia	400,000	March 16, 2009	Chief Executive Officer and a director of Deans Knight Capital Management Ltd., a respected British Columbia-based investment firm focused on high income and growth mandates.
Philip Hampson ⁽¹⁾⁽²⁾⁽⁴⁾ Toronto, Ontario	Nil	March 18, 2009	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 made private debt and equity investments and participated in structured finance transactions. Mr. Hampson has served as a Senior Director in the merchant banking practice of CIT. Prior to working at CIT, he worked almost 10 years for 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 services. In addition, Mr. Hampson is a director of Madison Telecommunications Holdings Inc. (a regulated telco) and a director of Vicwest Inc.
D. Alan Ross ⁽¹⁾⁽²⁾⁽⁵⁾ Calgary, Alberta	25,555 ⁽⁶⁾	March 18, 2009	Managing Director of Matco, a private investment company, since 2006; prior thereto, Partner at the law firm of Bennett Jones LLP.
Craig Langdon Vancouver, British Columbia	40,000	February 5, 2009	President, Co-Chief Investment Officer and director of Deans Knight Capital Management Ltd.

Notes:

1. Member of the Independent Review Committee
2. Member of the Audit Committee
3. Executive Chairman of the Board of Directors
4. Chairman of the Audit Committee
5. Chairman of the Independent Review Committee
6. Mr. Ross is a Managing Director of Matco, which holds 129,146 Voting Common Shares and 345,671 Non-Voting Common Shares.

10.2 The Manager

The Company does not have a manager.

10.3 Investment Advisor

Deans Knight Capital Management Ltd., the Investment Advisor and a company incorporated on September 28, 1992 pursuant to the *Canada Business Corporations Act*, has been retained by the Company to provide investment advisory and portfolio management services to the Company pursuant to an advisory agreement between the Investment Advisor and the Company (the "**Investment Advisor Agreement**"). The principal office of the Investment Advisor is 1500 – 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 \$1.3 billion. The Investment Advisor has an experienced management team and a long history of successful investing in corporate debt securities. Affiliated Managers Group, an asset management holding company based in Boston, Massachusetts, which had in excess of US\$430 billion of assets under management as at December 31, 2011 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 ⁽¹⁾

	Total (\$MM)
Income Mandates ⁽²⁾	\$311
Equity Mandates ⁽³⁾	\$776
	\$1,087

*Source: Deans Knight Capital Management Ltd.

Notes:

1. As of February 28, 2014.
2. Includes Deans Knight Income Fund, the Company's portfolio and segregated income mandates.
3. Includes various Deans Knight Growth Funds and segregated growth mandates.

Portfolio Management Team

The portfolio managers who are responsible for the management of the Portfolio are Wayne Deans, Craig Langdon and Dillon Cameron. The allocation of securities in the Portfolio is 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.

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 manages the assets held by the Company in accordance with the Investment Objectives, Active 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 receives from the Company the Investment Advisory Fee (as defined herein) and is 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 is 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. Under the terms of the Investment Advisor Agreement, the Investment Advisor shall 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".

The Company anticipates that the Investment Advisor Agreement will be terminated by the Company and the Investment Advisor following the proposed payment by the Company of the Cash Distribution. See "Other Material Information – CRA Audit and 2014 Shareholder Meeting".

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.

The Company may use derivatives from time to time. 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.

10.4 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 are made independently of those made for its other clients and independently of its own investments.

10.5 Voting Rights in the Portfolio Securities

Shareholders do not have any voting rights in respect of the securities held in the Portfolio. 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. 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.

10.6 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 its 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.

As of the date hereof, no brokerage commissions have been directed by the Company or the Investment Advisor to third parties for soft dollar arrangements.

10.7 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 are paid by the Company. Compensation for each member of the Audit Committee, in their capacity as a member of such committee, is \$1,500 per member per meeting, with an additional \$7,500 for the chair.

10.8 Auditors

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

10.9 Custodian

RBC Investor & Treasury Services Trust (the "**Custodian**") acts as the custodian of the Company's assets pursuant to a custodian agreement entered into between the Company and the Custodian, as it may be amended from time to time (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.

10.10 Registrar and Transfer Agent

Computershare Trust Company of Canada is the registrar, transfer agent and distribution agent for the Voting Common Shares. The register and transfer ledger is kept by the registrar at its principal stock and bond transfer offices located in Vancouver, British Columbia and in Toronto, Ontario.

11. CONFLICTS OF INTEREST

11.1 Principal Holders of Securities

As of March 9, 2013, there are 10,191,592 Voting Common Shares issued and outstanding and to the knowledge of the directors and executive officers of the Company and based on information as at the date hereof, there are no persons who own, control or direct, directly or indirectly, more than 10% of the outstanding Voting Common Shares.

As at March 11, 2013, there are 345,671 Non-Voting Common Shares issued and outstanding and to the knowledge of the directors and executive officers of the Company, all such Non-Voting Common Shares are held by Matco.

The Investment Advisor is owned by the employees of the Investment Advisor and Affiliated Managers Group Inc. ("AMG"). AMG currently owns 20.3% of the shares of the Investment Advisor, Wayne Deans owns 23.0% of the Investment Advisor, Craig Langdon owns 15.2% of the Investment Advisor, and Dillon Cameron owns 11.7% of the Investment Advisor.

As at March 11, 2013, in aggregate, directors and senior officers of the Company own 5.4% of the issued and outstanding Voting Common Shares.

11.2 Securities Held by Members of the Independent Review Committee

See "Responsibility for Company Operations – The Company" for details on the number of Voting Common Shares held by each member of the Independent Review Committee.

11.3 Affiliated Entities

The Company is not an "affiliated entity" of any other person or company.

12. COMPANY GOVERNANCE

12.1 Introduction

The Company has its own Board of Directors and Audit Committee which are responsible for the overall stewardship of the business and affairs of the Company. Details regarding the names, principal occupations, recent relevant experience and background of the individual members of the Board of Directors are set out in Section 8.1 of this Annual Information Form.

The Audit Committee consists of 3 members, all of whom are independent. The responsibilities of the Audit Committee include, but are not limited to, review of the Company's financial statements and the annual audit performed by PricewaterhouseCoopers LLP ("PwC"), the auditors of the Company; oversight of internal controls and of the Compliance with tax laws and regulations. PwC reports to the Board of Directors and the Audit Committee and PwC have direct communication channels to discuss and review specific issues as appropriate.

The Board of Directors, in consultation with the Investment Advisor, is responsible for developing the Company's approach to governance issues. To ensure the proper management of the Company and compliance with regulatory

requirements, the Board of Directors and the Investment Advisor have adopted policies, procedures and guidelines relating to business practices, risk management control and internal conflicts of interest.

12.2 Dividend 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.

Until December 31, 2013, the Company declared and paid a monthly cash dividend to Shareholders, which targeted to pay out a minimum of 75% of the Company's net earnings annually (which 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). On December 9, 2013 in connection with the announcement of the proposed Cash Distribution, the Company announced it would cease paying its monthly dividend in January 2014. Other than in respect of the Cash Distribution and the payment to Shareholders of any remaining Withheld Amount, the Company has no intentions of declaring a dividend or other distribution at this time.

12.3 Independent Review Committee

Pursuant to National Instrument 81-107 – *Independent Review Committees* ("**NI 81-107**"), the Company has established 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 has adopted a written charter which it follows when performing its functions and is 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 reports annually to Shareholders of the Company which report is available free of charge upon request to the Company and is also posted on the Company's website at www.deansknight.com.

Fees and expenses of the Independent Review Committee are paid by the Company. Compensation for each member of the Independent Review Committee, in their capacity as a member of such committee, is \$1,500 per member per meeting attended, with an additional \$7,500 for the chair.

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

12.4 Use of Derivatives

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.

12.5 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 Active 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.

12.6 Proxy Voting

The proxies associated with securities held by the Company are 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 posts the proxy voting record on www.deansknight.com no later than August 31 of each year. The Company also sends 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.

12.7 Short-Term Trading Policy

The Voting Common Shares are traded on the TSX under the symbol "DNC" and the Non-Voting Common Shares are not listed on an exchange. The Company does not have policies and procedures in place to monitor, detect and deter short-term trading.

13. FEES AND EXPENSES PAYABLE BY THE COMPANY

13.1 Fee Payable to the Investment Advisor

Pursuant to the terms of the Investment Advisor Agreement, the Investment Advisor is 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 an adjusted Net Asset Value calculated at quarter end. In the event that the Company and the Investment Advisor enter into the Services Agreement (as defined herein), other than a nominal fee in the amount of \$10.00 per month, the Manager will not receive any fees under the Services Agreement however the Manager will be reimbursed for any expenses or disbursements incurred on behalf of the Company.

13.2 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, provincial/territorial sales taxes and harmonized sales tax); the provision of such other managerial and administrative services as may be reasonably required for the ongoing business and administration of the Company.

14. CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of the principal Canadian federal income tax considerations generally applicable to a holder of Voting Common Shares who, within the meaning of the Tax Act is or is deemed to be resident in Canada for the purposes of the Tax Act, deals at arm's length with the Company, is not affiliated with the Company and holds the Voting Common Shares as capital property.

The following summary is applicable in respect of the Company as it is currently constituted and prior to payment of the Cash Distribution and the implementation of any of the Special Resolutions (as defined herein) to be considered at the 2014 Shareholder Meeting. Canadian tax considerations to holders of Voting Common Shares may differ materially following the payment of the Cash Distribution and/or the implementation of any of the Special Resolutions

Generally, the Voting Common Shares will be capital property to a holder provided the holder 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 or concern in the nature of a trade. Certain holders who might not otherwise be considered to hold Voting Common 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 holder who is a "financial institution" for the purposes of the "mark-to-market rules", to a holder an interest in which would be a "tax shelter investment", to a holder who has elected to determine its Canadian tax results in a "functional currency" (which does not include Canadian currency), or to a holder that is a "specified financial institution" or a "restricted financial institution", each as defined in the Tax Act. Such holders should consult their own tax advisors. This summary also assumes that all issued and outstanding Voting Common Shares are listed on and will continue to be listed on a designated stock exchange (which includes the TSX).

For the purposes of this summary, it is assumed that the Voting Common Shares will not be "taxable preferred shares" or "short-term preferred shares" as defined in the Tax Act.

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 holder. Accordingly, prospective holders 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, all specific proposals to amend the Tax Act 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**"). 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.

14.1 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.

Furthermore, the Company is a "restricted financial institution" for purposes of the Tax Act and will, therefore, be subject to the "mark-to-market rules" under the Tax Act.

14.2 Taxation of Shareholders

Dividends

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

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 33 $\frac{1}{3}$ % refundable tax under Part IV of the Tax Act on dividends received (or deemed to be received) on the Voting Common Shares to the extent such dividends are deductible in computing its taxable income.

Redemption

If the Company redeems or otherwise acquires the Voting Common 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 by which the amount paid by the Company or the fair market value of the property received, as the case may be, exceeds 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 by the Company or the fair market value of the property received, as the case may be, 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" below.

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.

Dispositions

A holder who disposes of or is deemed to dispose of the Voting Common Shares (other than 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 Voting Common 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. 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 must 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 6 $\frac{2}{3}$ %.

14.3 Eligibility for Investment

Provided that the Voting Common Shares are listed on a designated stock exchange (which includes the TSX) at the particular time the Voting Common Shares will be qualified investments under the Tax Act at such time for trusts governed by registered retirement savings plans ("RRSP"), registered retirement income funds ("RRIF"), deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts ("TFSA") (each a "Registered Plan").

Notwithstanding that the Voting Common Shares may be qualified investments for an RRSP, an RRIF or a TFSA, the annuitant or holder ("annuitant") of the RRSP, RRIF or TFSA, as the case may be, will be subject to adverse tax consequences on Voting Common Shares held in the RRSP, RRIF or TFSA if such Voting Common Shares are "prohibited investments" for the purposes of the Tax Act. The Voting Common Shares will generally be "prohibited investments" if the annuitant (i) does not deal at arm's length with the Company for the purposes of the Tax Act, (ii) has a "significant interest" (within the meaning of the Tax Act) in the Company, or (iii) has a "significant interest" (within the meaning of the Tax Act) in a corporation, partnership or trust with which the Company does not deal at arm's length for the purposes of the Tax Act. Proposed amendments to the Tax Act released on December 21, 2012 propose to delete the condition in (iii) above. Prospective investors who intend to hold Voting Common Shares in their RRSPs, RRIFs or TFSAs should consult their own tax advisers with respect to their individual circumstances.

15. REMUNERATION OF DIRECTORS AND OFFICERS

The current executive officers and other employees which provide services to the Company from time to time are all executive officers and employees of the Investment Advisor.

Other than the payment of directors' fees to the directors of the Company, the Company pays no compensation to its directors, executive officers or other employees. See "Directors Summary Compensation Table" below. The current executive officers and other employees which provide services to the Company from time to time are all executive officers and employees of the Investment Advisor. Pursuant to Investment Advisory Agreement, the Investment Advisor receives the Investment Advisory Fee. However, payment and decisions in respect of compensation by the Investment Advisor to the executive officers and employees of the Company is at the sole discretion of the Investment Advisor and is not dependent, directly or indirectly, on any input from the Board of Directors or management of the Company and does not necessarily correlate to the Investment Advisory Fee received by the Investment Advisor.

Directors Summary Compensation Table

The following table sets forth for the year ended December 31, 2013, information concerning the compensation paid to the Company's directors, other than Messrs. Deans and Langdon, the non-independent directors, who did not receive any compensation other than through an indirect share of the Investment Advisory Fee pursuant to their interest in the Investment Advisor:

Director's Name	Directors Fees Earned (\$) ⁽⁶⁾	Committee Fees Earned	Share-based awards (\$)	Option-based awards (\$)	Non-equity Incentive plan Compensation (\$)	Pension Value (\$)	All other Compensation (\$)	Total (\$)
John A. Brussa ⁽¹⁾	3,000	3,000	-	-	-	-	-	6,000
Denyse Chicoyne ⁽²⁾⁽³⁾	32,500	4,500	-	-	-	-	-	37,000
Philip Hampson ⁽²⁾⁽³⁾⁽⁴⁾	34,000	13,500	-	-	-	-	-	47,500
D. Alan Ross ⁽²⁾⁽³⁾⁽⁵⁾	34,000	13,500	-	-	-	-	-	47,500

Notes:

1. John Brussa did not stand for re-election to the Board of Directors at the Company's Annual General Meeting on June 4, 2013.

2. Member of the Independent Review Committee. Each member of the Independent Review Committee received \$1,500 for each committee meeting attended with the Chair of the Independent Review Committee receiving an additional \$7,500.
3. Member of the Audit Committee. Each member of the Audit Committee received \$1,500 for each committee meeting attended with the Chair of the Audit Committee receiving an additional \$7,500.
4. Chair of the Audit Committee.
5. Chair of the Independent Review Committee.
6. Directors' fees consist of an annual retainer of \$25,000 and \$1,500 for each meeting attended.

Directors' Outstanding Option-based and Share-based Awards

The Company did not have any option-based or share-based awards outstanding at the end of the most recently completed financial year nor does the Company have any option-based or share-based compensation plans.

16. MATERIAL CONTRACTS

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

- (a) the Investment Advisor Agreement; and
- (b) the Custodian Agreement.

Copies of the foregoing documents may be examined during normal business hours at the principal office of the Company.

17. LEGAL AND ADMINISTRATIVE PROCEEDINGS

There are no ongoing legal or administrative proceedings material to the Company, pursuant to which the Company is a party. See "Other Material Information – CRA Audit and 2014 Shareholder Meeting" for information in respect of the ongoing CRA Audit.

18. OTHER MATERIAL INFORMATION

18.1 Risk Factors

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

Risk Factors Related to an Investment in the Company

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.

Tax Audit and Potential Reassessment

The Company has received the Proposal Letter (as defined herein) from the CRA wherein the CRA has indicated in the that it intends to deny the use of certain tax attributes by the Company on the basis that an acquisition of control of the Company occurred and on the basis of the General Anti-Avoidance Rule in the *Income Tax Act* (Canada). The Company, in consultation with its advisors, remains of the view as of the date hereof that its tax filing position

is appropriate, and does not believe any additional assessment of income tax by the CRA is appropriate. However, there can be and there is no guarantee that the Company will be successful in defending its tax filing position. If the Company is unsuccessful in defending its tax filing position, then any tax assessed to the Company by the CRA plus any applicable interest and penalties will have to be paid to the CRA, which may have a material adverse effect on the Company and the net asset value of the Company. See "Other Material Information – CRA Audit and 2014 Shareholder Meeting".

Going Concern

On January 27, 2014, the Company called the 2014 Shareholder Meeting at which Voting Shareholders will consider, among other matters, the Capital Reduction Resolution (as defined herein) and the Article Amendment Resolution (as defined herein). In the event that the Capital Reduction Resolution is approved by Shareholders, the Company intends to pay the Cash Distribution to Shareholders. In the event that the Article Amendment Resolution is approved by Shareholders, the Company intends to effect the Article Amendment (as defined herein) to, among other matters, extend the Termination Date (as defined in the articles of the Company) from April 30, 2014 until such time as is reasonably practicable following the conclusion of the CRA Audit and the Tax Appeal or such other date as the Company deems appropriate on not less than 30 days' notice to Shareholders. The Company anticipates receiving approval from Shareholders for the Capital Reduction Resolution and the Article Amendment Resolution and therefore, the audited financial statements for the Company's fiscal year ended December 31, 2013 have been prepared on a "going concern basis", which is described more fully in such financial statements. However, there is and there can be no guarantee that Shareholders will approve the Capital Reduction Resolution and/or the Article Amendment Resolution. In accordance with Canadian generally applied accounting principles and based upon key factors listed herein, the Company believes a going concern note in the Company's financial statements is appropriate. The application of a "going concern" depends upon the Company's ability to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company's financial statements for the fiscal year ended December 31, 2013 do not contain any adjustments to the amounts, recoverability or classification of assets and liabilities that may be necessary should the Company be unable to continue operating as a going concern. Such adjustments could be material and could have a material adverse effect on the Company and the value and/or market price of its Shares.

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. As of December 31, 2013, the Company terminated its monthly dividend program in anticipation of the liquidation process. Additionally, there can be no assurance that the Company will be successful in earning 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 Voting Common 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.

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

Trading Price of the Voting Common 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 Voting Common Shares will trade at a discount from, a premium to, or at the Company's Net Asset Value.

The market price of the Voting Common 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 Voting Common Shares at any given point in time may not accurately reflect the Company's long-term value. The market price of the Voting Common Shares will be determined by, among other things, the relative demand and supply of the Voting Common 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 Voting Common 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.

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 Voting Common Shares and restrictions imposed on mutual funds under Canadian securities laws, including NI 81-102, do not apply to the Voting Common 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. Any such changes could relate to deductions previously taken, or amounts claimed to date. 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.

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, which policy was extended by the Company until April 30, 2014, 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.

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.

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 Voting Common 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 Voting Common 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 Voting Common 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 under "Investment Restrictions". 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 Custodian 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 Custodian experiences financial difficulty. In such case, the Company may experience losses due to insufficient assets at the Custodian to satisfy the claims of its creditors, and adverse market movements while its positions cannot be traded. In addition, the Custodian 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.

18.2 CRA Audit and 2014 Shareholder Meeting

On January 21, 2014, the Company received a proposal letter ("**Proposal Letter**") from the Canada Revenue Agency ("**CRA**"). In the Proposal Letter, the CRA stated that it intends to reassess the Company and deny the deduction of certain non-capital losses and other tax attributes in the Company's taxation years ending in 2009 to and including 2012, which are currently the subject of an audit by the CRA (the "**CRA Audit**"). The CRA has indicated in the Proposal Letter that it intends to deny the use of certain tax attributes by the Company on the basis that an acquisition of control of the Company occurred and on the basis of the General Anti-Avoidance Rule in the *Income Tax Act* (Canada). The Company, in consultation with its legal advisors, remains of the view that its tax filing position is appropriate, and does not believe any additional assessment of income tax by the CRA is appropriate.

The Company has not yet received a notice of reassessment (the "**Reassessment**"), which, if issued by the CRA, will provide the CRA's view of the proposed additional tax, interest and penalties owed by the Company. Based on the information in the Proposal Letter and discussions with the CRA, the Company estimates the net potential tax liability to be approximately \$21.7 million, or \$2.06 per share, based on its current number of outstanding Voting Common Shares and Non-Voting Common Shares of the Company. This estimate is based on an aggregate reassessment for the 2009 through 2012 taxation years totaling approximately \$22.7 million (the "**Disputed Amount**") which is expected to be reduced by the anticipated tax refund for the Company's 2013 taxation year of approximately \$1.0 million (the "**2013 Tax Refund**"). The 2013 Tax Refund is based on the Company's results of operations for the 2013 taxation year. Subsequent to December 31, 2013, the Company prepaid the Disputed Amount to the CRA to minimize any further interest from accruing.

If the CRA Audit is concluded without a Reassessment, then the total amount prepaid would be refunded, with interest. However, if a Reassessment is issued as a result of the CRA Audit, then the Company will have the right to appeal to the Tax Court of Canada (the "**Tax Appeal**"). The Company anticipates that legal proceedings through the Tax Court of Canada to resolve the Tax Appeal would take considerable time to resolve. If the Company is successful in the Tax Appeal, the total amount prepaid would be refunded to the Company, with interest.

In order to provide Shareholders with liquidity in a manner contemplated by the current articles of incorporation of the Company (the "**Articles**"), while permitting the Company to litigate the Tax Appeal to attempt to maximize the potential return of net asset value ("**NAV**") to Shareholders, the Company is proposing to pay a special cash distribution by way of a return of capital to Shareholders (the "**Cash Distribution**") on or before April 30, 2014. The Cash Distribution is anticipated to be equal to:

- (i) NAV on the Cash Distribution Record Date (as defined herein);
- less:
- (ii) the Disputed Amount (\$22.7 million)¹;
 - (iii) the value attributed to any Remaining Securities (as defined herein) on the Cash Distribution Record Date; (the "**Remaining Securities Amount**"); and
 - (iv) an amount held back to pay a portion of the general and administrative expenses of the Company that it may incur in dealing with the CRA Audit and Tax Appeal ("**G&A Holdback**") (\$1.2 million)².

¹ The Disputed Amount of \$22.7 million is expected to be reduced by the 2013 Tax Refund of \$1.0 million, and as a result the Company's estimate of Potential Taxes Payable is \$21.7 million.

² The G&A Holdback is expected to be approximately \$1.2 million, as the 2013 Tax Refund of \$1.0 million will also be used to fund the estimated general and administration costs to operate the Corporation for a period of up to four years and the estimated legal costs associated with

The Potential Taxes Payable, the Remaining Securities Amount and the G&A Holdback comprise the "**Withheld Amount**".

For reference, as of February 28, 2014 the NAV of the Company consisted of the following components:

	\$ (in millions)	\$ per Share
Cash and short term deposits	88.6	8.41
Prepaid tax asset (Disputed Amount)	22.7	2.15
Investments to be sold prior to Cash Distribution	15.2	1.45
Remaining Securities	4.0	.38
Accrued income	0.3	.03
Accrued liabilities less prepaid expenses	(0.5)	(0.05)
	130.3	12.36

The "Remaining Securities" are certain securities held by the Company, which the Company may or may not be able to divest prior to the Cash Distribution Record Date. As of February 28, 2014, the Remaining Securities consisted of the following:

Conifex Timber Inc. - Share purchase warrants valued at \$0.0.

Mirabela Nickel Ltd. - Bonds valued at \$1.0 million.

RapidEye Canada Ltd. - Royalty stream valued at \$1.5 million.

Skylink Aviation Inc. - Debtor-in-process financing, bonds and common shares; together valued at \$1.4 million.

As Remaining Securities are liquidated, the Company intends to make additional distributions to Shareholders.

The Company plans to cease all investing and portfolio activities following the payment of the Cash Distribution, other than the disposition of the Remaining Securities, if any. Following the payment of the Cash Distribution, the Company intends to terminate the Investment Advisor Agreement. Further, the Company intends to enter into a limited services agreement with the Investment Advisor ("**Services Agreement**") pursuant to which the Investment Advisor will assist the Company with its (i) divesting of any Remaining Securities; (ii) attending to, and if necessary, litigating, the CRA Audit and the Tax Appeal; (iii) attending to the distribution of any Withheld Amount to Shareholders and the eventual wind-up and termination of the Company thereafter; and (iv) assisting with any ancillary matters related to the foregoing. Other than a nominal fee in the amount of \$10.00 per month, the Manager will not receive any fees under the Services Agreement however the Manager will be reimbursed for any expenses or disbursements incurred on behalf of the Company. The Company intends to distribute to Shareholders the remaining Withheld Amount upon the conclusion of the CRA Audit and the Tax Appeal (following payment of all liabilities of the Company).

In order to provide the Company with the time to litigate the Tax Appeal, the Company will need to amend the Articles to extend the Termination Date (as defined in the Articles) from April 30, 2014 until such time as is reasonably practicable following the conclusion of the CRA Audit and the Tax Appeal or such other date as the Company deems appropriate on not less than 30 days' notice to Shareholders (the "**Extension Amendment**"). Further, in order to permit the Company to attend to the CRA Audit and the Tax Appeal in a cost-effective manner, the Company is also proposing to remove the restrictions on the business that the Company may carry on, which currently restrict the Company to carrying on investment activities in accordance with its investment objectives (the "**Restriction Removal Amendment**" and together with the Extension Amendment, the "**Article Amendment**").

the potential Tax Appeal. The G&A Holdback may vary depending on the value of the Remaining Securities at the time of the Cash Distribution Record Date.

As a result, the Company has called a meeting of the holders of Voting Common Shares ("**Voting Shareholders**") to be held on April 4, 2014 (the "**2014 Shareholder Meeting**") where the Company intends to have the Voting Shareholders consider, and if thought advisable, approve a special resolution authorizing:

- (a) the reduction in the stated capital of the Voting Common Shares in an amount equal to the net asset value per Share on the Cash Distribution Record Date less the Withheld Amount per Share multiplied by the number of Shares outstanding as at the Cash Distribution Record Date (the "**Capital Reduction Resolution**"); and
- (b) the Article Amendment (the "**Article Amendment Resolution**" and together with the Capital Reduction Resolution, the "**Special Resolutions**").

Management of the Company expects that the Capital Reduction Resolution will permit the Company to pay the proposed Cash Distribution to Shareholders on a tax efficient basis as a return of capital. See "Particulars of Matters to be Acted Upon at the Meeting – Certain Canadian Federal Income Tax Consequences" in the information circular and proxy statement of the Company dated on or about dated March 6, 2014 (the "**Information Circular**") and available on the Company's SEDAR profile at www.sedar.com.

Management of the Company believes that the Article Amendment Resolution, which provides for the extension of the Termination Date and the removal of the restrictions on business that the Company may carry on, will provide the Company with the ability to take any and all steps it deems necessary to litigate and conclude the CRA Audit and the Tax Appeal in a manner that is beneficial to the Shareholders. While there is no guarantee that the Company will be successful in defending its tax filing position, the Article Amendment will, at the very least, provide the Company with the opportunity to defend its tax filing position. In the event that the Company is successful in defending its tax filing position, it is anticipated that the Disputed Amount together with the proceeds of disposition of any Remaining Securities and any remaining G&A Holdback (following payment of all liabilities of the Company) would be paid to Shareholders, thereby maximizing the total net asset value ultimately paid to Shareholders.

The sole holder of the outstanding Non-Voting Common Chares has indicated that it intends to approve the Special Resolutions by way of a written consent resolution.

If the Special Resolutions are approved by Shareholders at the Meeting, the record date for determining Shareholders entitled to receive the Cash Distribution is expected to be April 22, 2014 or such other date as may be determined by the Board of Directors (the "**Cash Distribution Record Date**") and the Cash Distribution is anticipated to be paid on or about April 30, 2014. Additionally, provided the Special Resolutions are approved, the Company intends to take steps to voluntarily delist the Voting Common Shares from trading on the TSX on or about April 15, 2014.

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Additional information about the Company is available in the Company's most recently filed management reports of fund performance and financial statements. The management reports of fund performance and financial statements are available on the Company's website at www.dkincomecorp.com. These documents and other information about the Company are also available at www.sedar.com.