

For Immediate Release, January 27, 2014

## Deans Knight Income Corporation

### Announces Receipt of Proposal Letter from the Canada Revenue Agency

**Vancouver, B.C.** - Deans Knight Income Corporation (the "Company") (TSX: DNC) has received a proposal letter ("Proposal Letter") from the Canada Revenue Agency ("CRA") wherein the CRA states 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. The 2013 year is not included in the scope of the CRA's current audit, but any final outcome would also apply to the 2013 and future taxation years. 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).

In management's view, the CRA's audit of the Company, and certain of its recent reassessments of other Canadian companies, is part of a broader initiative on the CRA's part to challenge companies with respect to the use of tax attributes. The Company, in consultation with its 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 warranted.

The Company has yet to receive the notice of reassessment ("Reassessment") from the CRA. When it does, the Reassessment will specify the additional tax liability. Based on the information in the Proposal Letter, and including the Company's results for the taxation year 2013, the Company estimates its total additional tax liability to be approximately \$21.5 million. This equates to approximately \$2.04 per share, based on its current number of outstanding voting common shares and non-voting common shares (together, the "Shares").

Given the Company's significant cash balance, it intends to prepay \$21.5 million to the CRA, being its best current estimate of the total additional tax. This will minimize any further interest from accruing on the reassessed amounts. Once the Reassessment is received, the Company also intends to pay any additional tax noted in the Reassessment, should there be any. If the Company is successful in defending its tax filing position, the total amount prepaid would be refunded, plus interest.

The Company will have 90 days from the date of the Reassessment to file a notice of objection ("Objection") with the CRA, outlining why the Company does not agree with the CRA's position. In the event that the Company is not successful in having the Reassessment overturned, the Company has the right to appeal to the Tax Court of Canada. The Company anticipates that legal proceedings through the Tax Court of Canada would take considerable time to resolve.

As previously announced, the Company now intends to call a special meeting to seek shareholder approval to extend the term of the Company until such time as the tax dispute is concluded and retain sufficient cash to cover general and administrative expenses during the extension period. The extension of the Company, if approved by shareholders, will allow the Company to vigorously defend its tax filing position. At the meeting, the Company also intends to seek approval to reduce the stated capital of the Shares in order to permit the Company to pay a cash distribution to shareholders as a return of capital. The Company expects to mail a notice of the meeting and information circular to shareholders in the first half of March with the meeting to be held in the first half of April.

## **Forward-Looking Statements**

This press release contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends" and similar expressions are intended to identify forward-looking information or statements. More particularly and without limitation, this press release contains forward-looking statements and forward-looking information concerning the Company's view of its tax filing position; the anticipated time to resolve the audit of the CRA with the CRA and/or through legal proceedings and the Company's plans to call a shareholder meeting and the proposed business to be conducted at such meeting.

The forward-looking statements and forward-looking information are based on certain key expectations and assumptions made by the Company, including, but not limited to, expectations and assumptions concerning prevailing tax laws and the maximum potential amount that could be assessed as additional tax and arrears interest to the Company by the CRA. Although the Company believes that the expectations and assumptions on which such forward-looking statements and information are based are reasonable, undue reliance should not be placed on the forward-looking statements and forward-looking information because the Company can give no assurance that they will prove to be correct.

Since forward-looking statements and forward-looking information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risks associated with potential changes in legislation and administrative policy, changes in tax laws, risks associated with corporate debt securities, general economic, political and market conditions, availability of tax attributes, interest rate fluctuations, failure to obtain required regulatory, corporate, shareholder and other approvals and other risks as set forth in the Company's annual information form dated March 11, 2013 on file with the securities regulatory authorities at [www.sedar.com](http://www.sedar.com).

The Company assumes no obligation to update forward-looking statements or information except as may be required by applicable securities laws.

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