

**For Immediate Release, November 5, 2013**

## **Deans Knight Income Corporation**

### **Announces Third Quarter 2013 Operating Update (Unaudited) and Proposal to Extend its Termination Date**

**Vancouver, B.C.** - Deans Knight Income Corporation (the "Company") (TSX: DNC) is pleased to provide an operational update of the Company and the Company's quarterly portfolio disclosure for the nine months ended September 30, 2013.

Further, the Company announces that a special meeting (the "Meeting") of holders (the "Shareholders") of voting common shares (the "Shares") of the Company will be held on December 16, 2013 at 10:00 a.m. (Vancouver time) at the offices of the Deans Knight Capital Management, located at 999 West Hastings, Suite 1500, Vancouver, British Columbia. The purpose of the Meeting is to seek Shareholder approval to extend the term of the Company for up to a further two-year period (the "Proposed Extension").

#### **Highlights during the Quarter:**

- At September 30, 2013, the net asset value ("NAV") of the Company was \$12.59 per Share.
- Net investment income<sup>1</sup> for the nine months ended September 30, 2013 was \$5.36 million, or \$0.5091 per Share.
- The Company paid dividends of \$0.5247 per share on all of its outstanding voting and non-voting common shares (collectively, the "Shares") for the nine months ended September 30, 2013. This equated to approximately 103% of net investment income for that period.
- Cash and cash equivalents in the Company at September 30, 2013 totaled \$26.38 million, or 19.90% of the NAV.

#### **Meeting of the Shareholders – Proposed Extension of the term of the Company**

The purpose of the Meeting is to consider and, if thought advisable, to approve a special resolution (the "Special Resolution") authorizing an amendment to the Company's articles of incorporation ("Articles") to extend the term of the Company for up to a further two-year period. The Company's current termination date is April 30, 2014, and the Proposed Extension, if approved, would extend that date to April 30, 2016 or such earlier date as the Company deems appropriate on not less than 30 days' notice to Shareholders. In order to become effective, the Proposed Extension must be approved by 66 2/3% of the votes cast by a quorum of Shareholders present in person or by proxy at the Meeting.

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<sup>1</sup> The Company calculates net investment income as interest income less the on-going operating costs of the Company, and excluding any realized capital gains and losses and any income or loss not derived from debt securities.

The Company is seeking the Extension in order to give the Company time to conclude the ongoing audit by the Canada Revenue Agency (the "CRA") before redeeming the Voting Common Shares and terminating the Company in accordance with the current Articles. The CRA's audit includes an examination of whether the Company is entitled to deduct non-capital losses and other tax attributes in the years under audit, which the Company has carried forward from previous taxation years. There is no guarantee that the CRA will allow the Company to deduct some, or all, of the non-capital losses or other tax attributes as claimed in its income tax filings. Should the CRA assess any additional tax on the basis that the Company is not entitled to deduct the non-capital losses and other tax attributes, the Company estimates that it would be subject to additional income tax and arrears interest of approximately \$21,500,000, or \$2.04 per share. The Company has consulted with its advisors and remains of the view that its tax filing position is appropriate, and plans to vigorously defend its position if and when the CRA issues any assessment of additional tax.

Management believes the additional two years will provide sufficient time for the CRA to complete its audit and for the Company to take any steps it deems necessary to resolve any assessment of additional tax, should such an assessment be received. Should this matter be concluded before April 30, 2016, the Company intends to provide Shareholders with liquidity, as contemplated by the amended Articles, as promptly as practicable thereafter.

Assuming the Special Resolution is approved, the Company intends to continue to manage its portfolio on the basis of its current investment strategy and provide a stable monthly dividend, as it has done since reorganizing its business in March 2009. Management believes that this strategy will continue to generate a yield significantly higher than government and investment grade bonds. As mentioned above, the Company remains of the view that the non-capital losses and other tax attributes as claimed in its income tax returns remain available to the Company, and it intends to file its future tax returns on a basis consistent with this view.

Details regarding the Proposed Extension will be contained in an information circular (the "Circular") which is expected to be mailed to Shareholders in mid-November 2013. The record date for the special meeting is November 15, 2013. Shareholders are encouraged to complete and return their proxy forms in order for their Shares to be voted at the Meeting.

#### **Corporate:**

During the nine months ended September 30, 2013, the Company generated net investment income of \$5.36 million. Offsetting net investment income, the Company incurred \$8.58 million of realized capital losses to September 30, 2013 from the sale of certain holdings and the settlement of foreign currency contracts. This resulted in an overall decrease to net assets from operations before tax of \$2.43 million. The Company paid out \$5.53 million in dividends for the nine months ended September 30, 2013, equalling \$0.0583 per Share each month, or \$0.1749 per Share each quarter. The dividends paid equate to approximately 103% of net investment income.

On October 4, 2013 the Company announced it will continue to pay the monthly dividends of \$0.0583 per Share throughout the fourth quarter of 2013.

In early May 2013, the Company responded to a letter from Canada Revenue Agency ("CRA") advising the Company that it is under audit for the taxation years 2008 to 2012, being those that end after the recapitalization and reorganization of the Company. To date, the Company has not received any correspondence from the CRA indicating its findings from this audit, nor does the Company have a definitive timeline for when the process will conclude.

## **Investments:**

At September 30, 2013, as a percentage of Net Asset Value, the portfolio has 62.7% in high yield and convertible bonds, 8.4% in private debt financings, 7.5% in equity, and 19.9% in cash; the remaining 1.5% of NAV consists primarily of accrued income and future tax assets net of liabilities.

During the nine months ended September 30, 2013, government and investment grade bond indices have provided negative returns, because interest rates have increased. For example, 10 year US Treasury bond yields have gone from 1.8% at the end of 2012 to 2.6% at September 30, 2013. As a result, the DEX Universe Bond Index return is negative 1.6% year to date. The high yield market is less impacted from rising interest rates and trades largely on credit worthiness; which is why the high yield indices have provided small positive returns this year by comparison.

The Company continues to focus on maximizing the return for shareholders by investing in corporate debt securities rated BBB or below by Standard & Poor's Rating Services ("S&P") or an equivalent rating by another nationally recognized statistical rating organization. In today's environment for investing in high yield debt, the majority of the portfolio's return will be from the income generated off its investments. In a low interest rate environment, like the one we are in today, achieving attractive income levels is challenging. In addition to lower interest rates, we have held a large cash position, ranging between 15 – 20% throughout the year. Although this had the effect of lowering our income from last year, we were able to maintain our dividend. For the nine months ended September 30, 2013, the Company paid out roughly 103% of net investment income.

In terms of the overall return, the Company's portfolio provided a negative year to date return, predominantly due to events that lowered prices of two of our holdings this year: **Northlands Resources**, which was discussed in March and has since been sold, and **Mirabela Nickel Ltd.**

In our June report, we wrote about our position in Mirabela bonds which we originally purchased when issued in April 2011. We owned the bonds as Mirabela has a world class nickel sulphide deposit in Brazil; produces roughly 20,000 tonnes of nickel per annum with relatively low production costs; a solid management team; and a first-class processing plant. Mirabela had cash of \$108 million USD on the balance sheet at June 30<sup>th</sup> and, although cash flow negative after administrative costs and debt servicing costs, had minimized cash burn at the mine site during the second quarter. Mirabela's large cash position on the balance sheet, as well as the low cash burn operationally, gave the Company comfort that, despite slumping nickel prices, the bonds were covered and an investor was being compensated for the risk with a 16% yield at June 30<sup>th</sup>.

In late September, Mirabela provided a disappointing operational update outlining higher cash costs in July and August, resulting in a reduction of cash on hand to \$80 million USD. In addition, Mirabela received notification from one of its two customers, Votorantim Metals, of its intention to close its smelting facilities from November 2013, noting they will only procure a minimal amount of nickel concentrate from Mirabela in 2014. As a result, Mirabela is exploring opportunities for new strategic financing and off-take alternatives in a very challenging environment and bonds have gone from \$76.50 at June 30, 2013 to \$30.00 at September 30, 2013. The Manager, Deans Knight Capital Management, has been in contact with management and continues to evaluate the Company's options.

At September 30, 2013, the Company has a large position in cash. To date, Management has not been re-investing much of the cash generated by the portfolio, as the Company approached the April 30, 2014 termination date. However, if the Proposed Extension is approved, management will look to invest the

cash in attractive opportunities, so the portfolio generates sufficient income to maintain the current dividend.

### Detail of Net Asset Value:

The net asset value of the Company at September 30, 2013 was \$132,623,414, or \$12.59 per Share, which consisted of the following components:

	\$	Per Share <sup>(1)</sup>	%
Investments <sup>(2)</sup>	104,284,295	9.90	78.6
Gain on forward contracts <sup>(3)</sup>	35,038	0.00	0.0
Cash and cash equivalents	26,386,498	2.50	19.9
Accrued Income	1,901,452	0.18	1.4
Future Income Tax Asset <sup>(4)</sup>	700,000	0.07	0.6
Accrued Liabilities net of prepaids	(683,869)	(0.06)	(0.5)
	132,623,414	12.59	100.0

### Notes

<sup>(1)</sup> Based on 10,537,262 Shares, being the total number of voting and non-voting common shares outstanding during the period.

<sup>(2)</sup> Details of the investments held at September 30, 2013 are included in the Summary of Investment Portfolio below.

<sup>(3)</sup> Represents the mark-to-market gain (loss) on forward foreign currency contracts at September 30, 2013. The Company has hedged substantially all foreign denominated investments back to the Canadian Dollar.

<sup>(4)</sup> The Company had approximately \$19,960,000 of tax credits available to be applied against future years' income tax returns. The Company's policy is to recognize a future tax asset to the extent that it believes that it is more likely than not that the future tax asset will be realized. The Company will continue to review these estimates on a periodic basis and will amend the asset value accordingly, if deemed appropriate.

### About Deans Knight Income Corporation

Deans Knight Income Corporation is an investment company focused on investing in corporate debt securities, predominantly rated below investment grade. The Company's objective is to maximize the total return for shareholders, consisting of bond price appreciation and income received from bond investments. The Company intends to pay a monthly dividend to shareholders, based on earned income each month. The capital of the Company is actively managed by Deans Knight Capital Management, a respected investment firm based in Vancouver B.C. that has been investing in corporate bonds since its inception in 1992. For more information: [www.dkincomecorp.com](http://www.dkincomecorp.com).

As an investment company, Deans Knight Income Corporation falls under the continuous disclosure requirements for investment funds. In compliance with such continuous disclosure requirements, the Company will provide shareholders with financial statements on a semi-annual basis. In an effort to keep shareholders informed, the Company intends to provide shareholders with an operational update each quarter, detailing relevant investment activity and holdings.

## **Forward-Looking Statements**

This press release contains forward-looking statements. More particularly, this press release contains forward-looking statements concerning the Company's corporate objectives, availability of tax losses and deductions, the Company's expectations concerning market trends, the Company's intention to pay out earned income in the form of monthly dividends, the anticipated performance and characteristics of Deans Knight's portfolio companies, the intention to maintain a short term maturity and the yield on the Shares. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, undue reliance should not be placed on them because the Company can give no assurance that they will prove to be correct since forward-looking statements address future events and conditions and by their very nature, involve inherent risks and uncertainties. The forward-looking statements contained in this press release are made as of the date hereof and the Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, unless so required by applicable securities laws. For further information contact:

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## Summary of Investment Portfolio

The following is a summary of the Company's investment portfolio as at September 30, 2013. This is a summary only and will change due to ongoing portfolio transactions of the Company. Additional information is available at [www.dkincomecorp.com](http://www.dkincomecorp.com).

<b>Top 25 Investments</b>				<b>% of Net Asset Value</b>	<b>Portfolio Composition</b>		<b>% of Net Asset Value</b>
PARAMOUNT RESOURCES	8.250%	13-Dec-17		7.2			
WHITECAP RESOURCES	N/A	N/A		7.0	<b>Fixed Income</b>		
SOUTHERN PACIFIC RES	8.750%	25-Jan-18		4.1	Canadian denominated in CAD		44.9
CALFRAC HOLDINGS LP	7.500%	1-Dec-20		3.9	Canadian denominated in USD		11.9
TEMBEC INDUSTRIES	11.250%	15-Dec-18		3.6	United States denominated in USD		13.3
PERPETUAL ENERGY INC	8.750%	15-Mar-18		3.6	Other Foreign denominated in EUR		1.0
STONE ENERGY CORP	8.625%	1-Feb-17		3.5			<u>71.1</u>
CCS INC	11.000%	15-Nov-15		3.4	<b>Equity and Warrants</b>		<u>7.5</u>
PETROAMERICA OIL	11.500%	19-Apr-15		3.0	<b>Investment Portfolio</b>		78.6
SHERRITT INTL CORP	8.000%	15-Nov-18		2.8	<b>Cash &amp; Short-term Deposits</b>		19.9
CARA OPERATIONS LTD	9.125%	1-Dec-15		2.7	<b>Other Net Assets</b>		<u>1.5</u>
BEAZER HOMES USA	9.125%	15-Jun-18		2.6			<u>100.0</u>
GARDA WORLD SECURITY	9.750%	15-Mar-17		2.6	<b>Sector Breakdown</b>		
ATHABASCA OIL CORP	7.500%	19-Nov-17		2.5	Energy		47.5
NORTH AMERICA ENERGY	9.125%	7-Apr-17		2.4	Materials & Metals		8.4
MIRABELA NICKEL LTD	8.750%	15-Apr-18		2.3	Consumer Discretionary		12.7
GATEWAY CASINOS	8.875%	15-Nov-17		2.2	Forestry		3.6
PACIFIC RUBIALES	7.250%	12-Dec-21		1.9	Financial Services		1.9
SURE ENERGY	6.250%	21-Jan-14		1.9	Technology		1.0
DIRECTCASH PAYMENTS	8.125%	8-Aug-19		1.9	Services		<u>3.5</u>
URANERZ ENERGY CORP	6.000%	31-Dec-13		1.7	<b>Investment Portfolio</b>		78.6
WESTERN ENERGY SVS	7.785%	30-Jan-19		1.7	<b>Cash &amp; Short-term Deposits</b>		19.9
JUST ENERGY GROUP	6.000%	30-Jun-17		1.7	<b>Other Net Assets</b>		<u>1.5</u>
99 CENTS ONLY STORES	11.000%	15-Dec-19		1.6			<u>100.0</u>
SHERRITT INTL CORP	7.500%	24-Sep-20		1.4			