DEANS KNIGHT
INCOME CORPORATION

Press Release

For Immediate Release, May [7], 2010

Deans Knight Income Corporation

Announces First Quarter 2010 Operating Update - Unaudited

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 three months ended March 31, 2010.

Highlights:

- At March 31, 2010, the net asset value ("NAV") of the Company was $12.42 per Share.
- Net earnings[1] for the three months ended March 31, 2010 were $1.85 million, or $0.1751 per Share.
- The Company paid dividends of $0.1749 per share on all of its outstanding voting and non-voting common shares (collectively, the "Shares") for the three months ended March 31, 2010, which equated to 100% of net earnings.

Corporate:

During the three months ended March 31, 2010, the Company generated net earnings of $1.85 million. In addition to net earnings, the Company also generated $3.7 million of realized capital gains to March 31, 2010 from the sale of certain holdings and the settlement of foreign currency contracts. The Company paid out $1.85 million in dividends, equalling $0.0583 per Share each month or $0.1749 per Share for the quarter. This represented approximately 100% of net earnings.

During the three months ended March 31, 2010, the Company carried an average of $4.3 million in cash and short-term deposits. Since quarter end, the cash and short term deposits have been redeployed. Based on the Company's investments at March 31, 2010, the Company anticipates that it will be able to generate enough income from its investments to pay the monthly dividends of $0.0583 per Share throughout the second quarter of 2010.

Investments:

Looking back to this time last year, high yield bonds were trading, on average, at 62% of their par value[2] as we were mired in the most severe bear market since the 1930's. Investors, the media and market analysts all appeared to be paralyzed by fear. The general consensus promoted by the media was the world, as we knew it, had come to an end. Defaults would rise as even good companies would struggle to

[1] The Company calculates net earnings 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.
[2] Merrill Lynch USD High Yield Index

make interest payments, or worse, be unable to refinance their debt. However, by March 31, 2010, high yield bonds were trading at 98% of their par value[2].

One year ago who could have predicted this outcome?

As management of the Company pointed out when marketing the initial public offering of the Company, bonds have a contractual obligation to pay a coupon and, barring a default, investors are "paid to wait". When credit markets improve and spreads return to more normal levels, the high yield bond market has historically provided equity like returns.

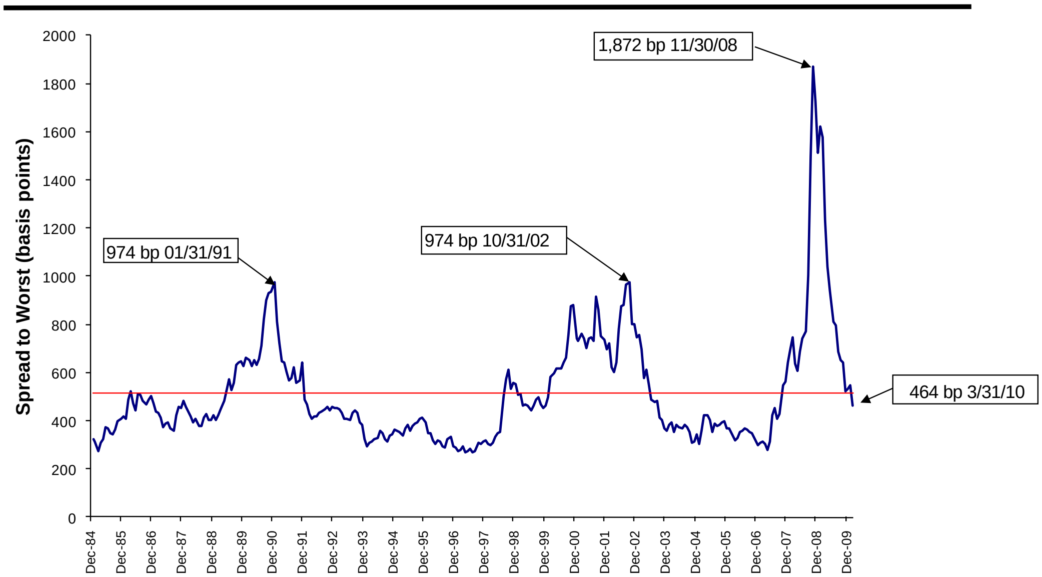
One year ago, many bonds were valued at market levels suggesting the companies were going out of business. The Company was investing in the debt of businesses with tangible assets as collateral, strong cash flows and reasonable leverage. These businesses were painted with the same brush as the over-levered companies. The bonds in which the Company had invested were priced at levels that, even in the event of a default, we felt would still make money. The media ignored these opportunities, choosing to dub the entire high yield sector as too risky. With the benefit of hindsight, their thinking was totally irrational.

One of Warren Buffett's simple rules to apply is *"be fearful when others are greedy, and be greedy when others are fearful."* In Warren Buffett's letter to shareholders distributed in March 2009, he discussed the very unusual conditions that existed in the corporate bond and municipal bond markets, and that these securities were ridiculously cheap relative to U.S. Treasuries. In his latest letter, Buffett states "we backed this view with some purchases, but I should have done far more. Big opportunities come infrequently. "*When it's raining gold, reach for a bucket, not a thimble."*

Credit spreads, as shown in the graph below, are at their historical average. Cash flows of most of the businesses in which the Company has invested are improving, and given the amount of corporate bonds issued in the last year, it is safe to say the credit markets are no longer frozen.

Credit Spread History

Merrill Lynch US High Yield Master Index Less 10 year Treasury Yield



Source: Merrill Lynch high yield

However, this is not to say Deans Knight thinks all bonds are still attractive. It is important to be selective.

Given the uncertainty surrounding interest rates, Deans Knight believes it is best to invest in shorter duration high yield bonds. Deans Knight believes yields on high grade government/corporate bonds with long maturities are currently too low given the threat of rising interest rates. To illustrate this point lets look at Rogers Communication bonds, whose 10 and 30 year bonds currently yield 5.1% and 6.3%, respectively. Making the assumption government yields increase by 2% over the next 4 years and the spread remains unchanged, what effect would this have on the price of these bonds? The answer: prices on Rogers' 10 and 30 year bonds would fall by 6.5% and 20%, respectively!

By contrast, it is likely a rising interest rate environment will not have a significant impact on the Company's holdings, which currently yield approximately 8.0%, because the average bond in the portfolio will mature in the next 4.5 years at par. The fact is rising interest rates are positive for the Company's portfolio, because it signals a stronger economy. As the Company's holdings mature, and credit quality improves, we will be reinvesting cash from these maturities at higher rates.

During the quarter, **Athabasca Oil Sands** 13% Notes due July 30, 2011 were called at $107. Athabasca is an oil sands company, focused on developing their oil sands leases in the Athabasca region of Northern Alberta. On August 28th, 2009, Athabasca signed a joint venture with PetroChina to develop their Dover and McKay River projects. PetroChina agreed to pay $1.9 billion for 60% of these two assets (approximately 3 billion net barrels of recoverable resource). Upon closing of the Joint Venture, Athabasca was required to call its bonds, including the bonds held by the Company, at $107. Our investment in the Athabasca bonds had an internal rate of return of 50%.

The Company is still finding attractive investment opportunities. One example is **North American Energy Partners** (NAEP), who refinanced their existing debt in March with a 9.125% Debenture due in 2017. NAEP provides a wide range of heavy construction and mining, piling and pipeline installation services to customers in the Canadian oil sands, mineral mining, commercial and public construction and conventional oil and gas markets. NAEP's EBITDA in 2009 was $120 million and, post financing, the Company will have Net Debt of $235 million.

Despite the low debt level, NAEP has only a B credit rating due to the perceived cyclical nature of their cash flows. As a result, NAEP has to pay a high coupon and adhere to stricter covenants protecting the bondholders. Although a portion of NAEP's business is cyclical, Deans Knight believes NAEP has a strong management team with a core oil sands business generating recurring cash flows sufficient to service its debt. With a yield of 9.125%, we believe we are being compensated for the risk.

Deans Knight continues to invest in debt of businesses with good management teams, tangible assets as collateral, strong cash flows and reasonable leverage. The Company's portfolio maintains a short maturity of 4.5 years, while still producing a yield of 8.0%. In management's opinion, this is a much more attractive opportunity than lending to the Government of Canada for 10 years at 3.6% or investing in a portfolio of investment grade bonds yielding 4.5% and maturing in 10 years.

Detail of Net Asset Value:

The net asset value of the Company at March 31, 2010 was $130,869,536, or $12.42 per Share, which consisted of the following components:

	$	Per Share (1)	%
Investments (2)	117,862,106	11.19	90.1
Gain/(loss) on forward contracts (3)	938,178	0.09	0.7
Cash and cash equivalents	2,566,668	0.24	2.0
Accrued Income	2,364,099	0.22	1.8
Future Income tax asset (4)	7,740,000	0.73	5.9
Accrued liabilities net of prepaids	(601,515)	(0.06)	(0.5)
	130,869,536	12.42	100.0

Notes

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

(2) Details of the investments held at March 31, 2010 are included in the Summary of Investment Portfolio below.

(3) Represents the mark-to-market gain (loss) on forward foreign currency contracts at March 31, 2010. The Company has hedged substantially all foreign denominated investments back to the Canadian Dollar.

(4) The Company had approximately $60,000,000 of losses and deductions 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 will 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.

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 March 31, 2010. This is a summary only and will change due to ongoing portfolio transactions of the Company. Additional information is available at www.dkincomecorp.com.

Top 25 investments	% of Net asset value
Paramount Resources 8.5% 01-31-2013	6.2
North America Energy 9.13% 04-07-2017	6.1
Whitecap Resources 8.0% 09-30-2012	5.7
Calfrac Holdings LP 7.75% 02-15-2015	5.5
Trinidad Drilling 7.75% 07-31-2012	5.5
Teck Resources Ltd. 10.75% 05-15-2019	5.2
CCS Inc. 11.0% 11-15-2011	4.9
Harvest Operations 7.88% 10-15-2015	4.3
Harvest Energy 7.25% 09-30-2013	4.3
Bombardier Inc. 8.00% 11-15-2014	4.3
MetroPCS Wireless (AJ9) 9.25% 11-01-2014	4.3
Dollarama Group Holding FRN 08-15-2012	4.2
Chesapeake Energy Co. 7.5% 09-15-2013	3.5
Methanex Corp. 8.75% 08-15-2012	3.0
Sherritt International Corp. 7.75% 10-15-2015	2.8
Cott Beverages Inc. 8.38% 11-15-2017	2.7
Western Areas NL 8.0% 07-02-2012	2.4
Provident Energy 6.5% 04-30-2011	2.3
Pacific Rubiales Energy 8.75% 11-10-2016	2.1
Garda World Security 9.75% 03-15-2017	1.9
Gibson Energy ULC 11.75% 05-27-2014	1.7
FMG Finance Pty Ltd. 10.63% 09-01-2016	1.5
Opti Canada Inc. 7.88% 12-15-2014	1.4
MetroPCS Wireless (AC4) 9.25% 11-01-2014	1.2
Sherritt International Corp. 7.88% 11-26-2012	1.0

Portfolio composition	% of Net asset value
Fixed Income	
Canadian denominated in CAD	11.8
Canadian denominated in USD	39.0
United States denominated in USD	17.5
Other Foreign denominated in USD	1.6
	69.9
Convertible Debentures	
Canadian denominated in CAD	17.8
Other Foreign denominated in AUD	2.4
	20.2
Investment Portfolio	90.1
Cash & short-term deposits	1.9
Other assets less liabilities	8.0
	100.0
Sector Breakdown	
Energy	54.0
Materials and metals	16.6
Consumer goods	8.8
Technology	5.5
Industrial/Manufacturing	4.3
Forestry	0.9
Investment Portfolio	90.1
Cash and short-term deposits	1.9
Other net assets	8.0
	100.0