

**For Immediate Release, May 14, 2012**

## **Deans Knight Income Corporation**

### **Announces First Quarter 2012 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, 2012.

#### **Highlights:**

- At March 31, 2012, the net asset value (“NAV”) of the Company was \$13.65 per Share.
- Net investment income<sup>1</sup> for the three months ended March 31, 2012 was \$2.18 million, or \$0.2064 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, 2012, which equated to 85% of net investment income.

#### **Corporate:**

During the three months ended March 31, 2012, the Company generated net investment income of \$2.18 million. In addition to net investment income, the Company also generated \$2.8 million of realized capital gains to March 31, 2012 from the sale of certain holdings and the settlement of foreign currency contracts. The Company paid out \$1.84 million in dividends, equalling \$0.0583 per Share each month or \$0.1749 per Share for the quarter. This represented approximately 85% of net investment income.

Based on the Company’s investments at March 31, 2012, 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 2012.

#### **Investments:**

At March 31, 2012, the portfolio has 73.4% in high yield and convertible bonds, 10.6 % in private debt financings, 6.2% in equity, and 5.2% in cash. The equity consisted predominantly of shares in Whitecap Resources Inc., which arose from the conversion of private debt that the Company provided to Whitecap in September 2009. The investment has done very well and, as of March 31, 2012, was trading at 3 times the conversion price.

---

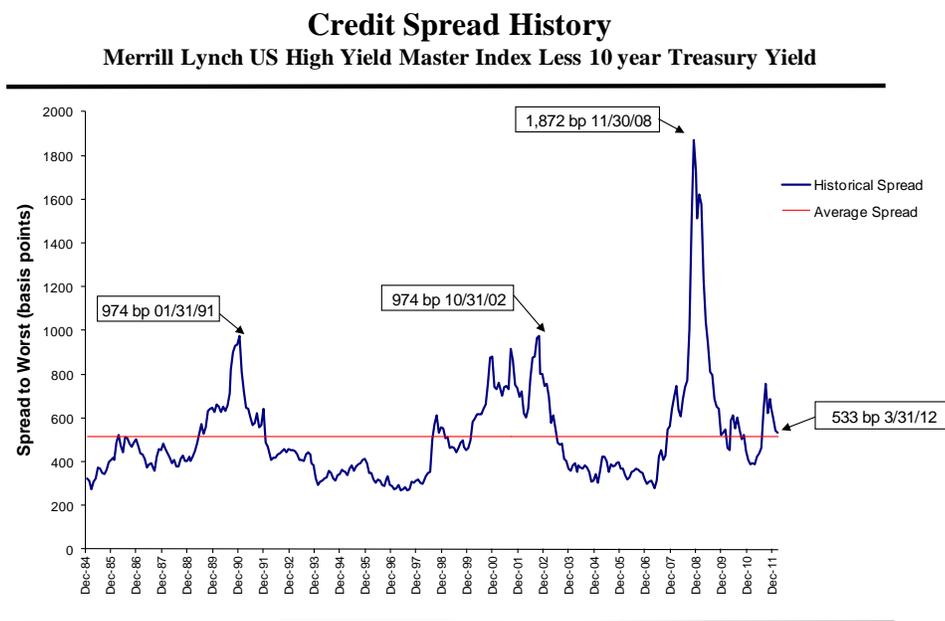
<sup>1</sup> The Company calculates net investment income as interest income less the on-going operating costs of the Company, and excluding any realized capital gains and losses and any income or loss not derived from debt securities.

The environment this past quarter was dominated by continuing concerns about European Sovereign debt problems and the threat of renewed recession in the Eurozone countries. This in turn has focused attention on the slowdown in economic growth in China, as Europe is China's largest trading partner. Despite these concerns, high yield bond prices have remained relatively stable, even increasing during the quarter. Why? As a debtholder in a corporation, the most important consideration is the borrower's ability to meet its coupon payments and pay back principal at maturity. Companies in the portfolio, in general, are performing relatively well as good management teams are using improving cash flows to de-lever their balance sheets.

Deans Knight looks for corporate debt in businesses with a good management team, tangible assets as collateral, strong cash flows and reasonable leverage. In addition, we use our credit knowledge and experience in structuring debt securities to evaluate the trust indentures to ensure our interests are protected.

The Company believes another reason for the increased demand for high yield bonds, thus rising bond prices, is the alternatives are not providing enough income. Canadian 5-year Government bonds are yielding 1.6%<sup>2</sup>, Canadian investment grade bonds are yielding 3.3%<sup>3</sup> and investors tend to pay a premium for dividend paying corporations whose cash flows are never guaranteed...remember, dividends can be cut!

Interestingly, as early as September 30, 2011, investors were panicking, selling higher yielding mutual funds creating forced selling while bidding up government and investment grade bonds in a "flight to quality". Now, the reverse is happening bringing spreads back down to the historical average as seen in the graph below.

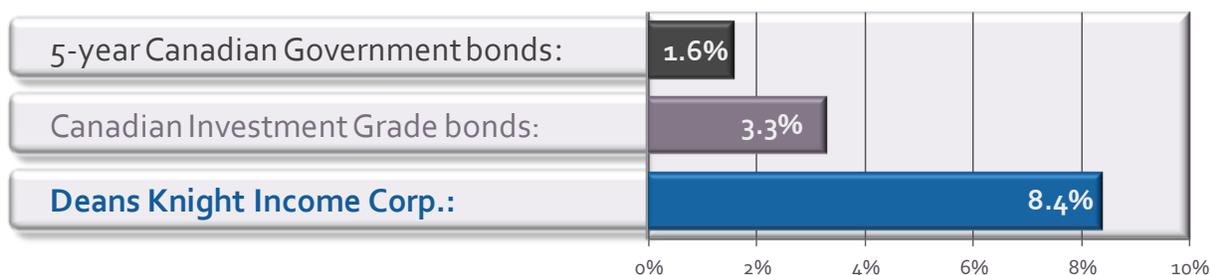


Source: Bank of America Merrill Lynch

<sup>2</sup> Source: Bank of America Merrill Lynch Canadian Corporate Index

<sup>3</sup> Source: Bloomberg

This highlights an important point. High yield bond prices can fluctuate. The Company has no control over this. What we have control over is providing an attractive level of income to investors regardless of the environment. The investments in the Deans Knight Income Corp, as of March 31<sup>st</sup>, are yielding 8.4% which is 2.5 times that of investment grade bonds and 5.25 times that of 5-year government bond, see graph below.



One way the Company looks to add additional value is by investing in private debt financings with equity incentives, such as the previously mentioned Whitecap Resources. These can provide equity-like returns. The recent volatility in equity markets presents an opportunity, as companies looking for capital may not want to issue equity at depressed prices. This allows the Company to provide secured debt financing with equity kickers issued at a depressed price.

For example, subsequent to quarter end, the Company participated in a secured debt financing with Petroamerica Oil Corp. for \$35 million (\$4.0 million has been allocated to the Company). Petroamerica is an oil company with a balanced portfolio of development and exploration assets in Colombia. The proceeds from the debt financing will be used to develop their Balay discovery (\$11.5 million) and appraising their Las Maracas discovery (\$12 - 20 million). In addition, the Company had \$20 million in cash on December 31, 2011 and estimated base case cash flows for 2012 of \$20 million which will be used to fund their \$34 million exploration program.

The Debentures mature on April 19, 2015 and bear interest of 11.5%. In addition to the coupon, the Company receives a commitment fee of 1.5% and warrants to purchase 100 common shares per \$100 of debt at a price of \$0.20 per share, which mature on April 19, 2015. At March 31, 2012, the common stock closed at \$0.16. Petroamerica has a strong management team who Deans Knight have invested with in the past and, with the capital raised in this financing, are poised to increase value for stakeholders.

## Detail of Net Asset Value:

The net asset value of the Company at March 31, 2012 was \$143,801,922, or \$13.65 per Share, which consisted of the following components:

	\$	Per Share <sup>(1)</sup>	%
Investments <sup>(2)</sup>	129,809,215	12.32	90.3%
Loss on forward contracts <sup>(3)</sup>	(331,134)	-0.03	-0.1%
Cash and cash equivalents	7,479,740	0.71	5.2%
Accrued Income	2,919,826	0.28	2.0%
Future Income Tax Asset <sup>(4)</sup>	4,630,000	0.44	3.2%
Accrued Liabilities net of prepaids	(705,725)	-0.07	-0.6%
	<u>143,801,922</u>	<u>13.65</u>	<u>100.0%</u>

### 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, 2012 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, 2012. The Company has hedged substantially all foreign denominated investments back to the Canadian Dollar.

(4) The Company had approximately \$32,700,000 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:

Craig Langdon  
Chief Executive Officer and Director  
Deans Knight Income Corporation  
(604)669-0212

Mark Myles  
Chief Financial Officer  
Deans Knight Income Corporation  
(604)669-0212

## Summary of Investment Portfolio

The following is a summary of the Company's investment portfolio as at March 31, 2012. 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		6.6	<b>Fixed Income</b>		
STONE ENERGY CORP	8.625%	1-Feb-17		6.4	Canadian denominated in CAD		43.5
WHITECAP RESOURCES	N/A	N/A		6.2	Canadian denominated in USD		19.7
NORTH AMERICA ENERGY	9.125%	7-Apr-17		5.6	United States denominated in USD		16.4
CCS INC	11.000%	15-Nov-15		5.5			<u>79.6</u>
MIRABELA NICKEL LTD	8.750%	15-Apr-18		4.6	<b>Convertible Debentures</b>		
CALFRAC HOLDINGS LP	7.500%	1-Dec-20		4.2	Other Foreign denominated in USD		3.3
SOUTHERN PACIFIC RES	10.750%	7-Jan-16		4.1	Other Foreign denominated in AUD		1.0
TEMBEC INDUSTRIES	11.250%	15-Dec-18		3.7			<u>4.3</u>
RAPIDEYE CANADA	5.000%	31-Aug-14		3.7	<b>Equity and Warrants</b>		6.2
NORTHLAND RESOURCES	13.000%	6-Mar-17		3.3			
MERCATOR MINERALS	7.000%	3-Jan-13		3.1	<b>Investment Portfolio</b>		90.2
PERPETUAL ENERGY INC	8.750%	15-Mar-18		3.0	<b>Cash &amp; Short-term Deposits</b>		5.2
SKYLINK AVIATION INC	12.250%	15-Mar-16		2.8	<b>Other Net Assets</b>		4.6
SHERRITT INTL CORP	8.000%	15-Nov-18		2.8			<u>100.0</u>
CARA OPERATIONS LTD	9.125%	1-Dec-15		2.5	<b>Sector Breakdown</b>		
GARDA WORLD SECURITY	9.750%	15-Mar-17		2.4	Energy		49.0
CONIFEX TIMBER INC	10.000%	31-Dec-12		2.1	Materials & Metals		15.0
GATEWAY CASINOS	8.875%	15-Nov-17		2.0	Consumer Discretionary		8.2
BEAZER HOMES USA	9.125%	15-Jun-18		1.9	Forestry		6.9
BLACK PRESS GROUP	100.000%	4-Feb-14		1.9	Industrial/Manufacturing		3.9
PACIFIC RUBIALES	7.250%	12-Dec-21		1.7	Technology		3.7
SURE ENERGY	6.250%	21-Jan-14		1.7	Financial Services		-
WESTERN ENERGY SVS	7.785%	30-Jan-19		1.6	<b>Investment Portfolio</b>		90.2
MCMORAN EXPLORATION	11.875%	15-Nov-14		1.5	<b>Cash &amp; Short-term Deposits</b>		5.2
					<b>Other Net Assets</b>		4.6
							<u>100.0</u>