March 31, 2012

DK INCOME FUND

DEANS KNIGHT

CAPITAL MANAGEMENT LTD

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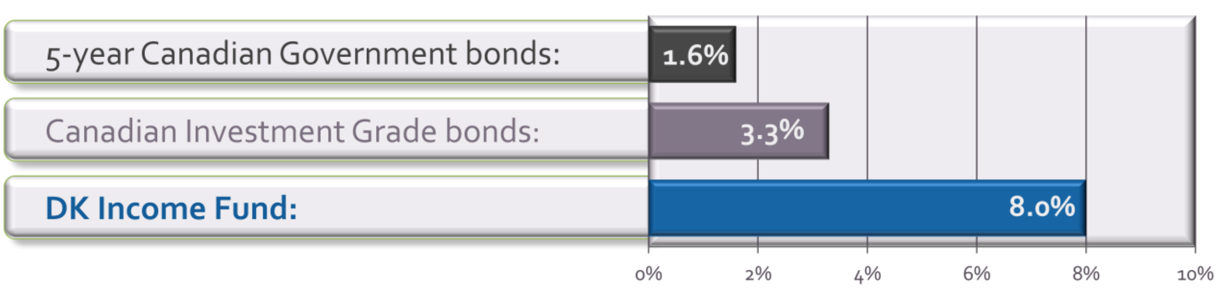
Quarterly Report
March 31, 2012

Rates of Return[1]

	3 Mths	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	10 Yrs	15 Yrs	Since June '93
DK Income Fund	**5.4%**	**5.2%**	**11.9%**	**27.2%**	**12.8%**	**12.1%**	**15.5%**	**11.4%**	**12.0%**
DEX Universe Bond Index	-0.2%	9.7%	7.4%	6.6%	6.2%	6.1%	6.6%	6.7%	7.3%
ML CDN High Yield	5.1%	5.6%	9.8%	23.8%	10.9%	7.8%	9.0%	7.1%	7.7%
ML USD High Yield	5.3%	6.3%	8.1%	23.0%	6.6%	3.7%	5.7%		
S&P/TSX Composite Index	4.4%	-9.8%	4.2%	15.6%	1.1%	1.7%	7.2%	7.4%	8.6%

Our income strategy is creatively designed to provide clients with a stable stream of income, higher than what can be earned from government or investment grade corporate bonds, but without assuming undue risk. We achieve this by investing predominantly in high yield corporate bonds while owning a handful of private debt financings and dividend paying equities. The DK Income Fund, as of March 31st, is yielding 8.0% which is 2.5 times investment grade bonds and 5 times a five year government bond, see graph below.



At March 31st, the portfolio has 65.6% in high yield bonds, 10.1% in private debt financings, 9.4% in dividend paying equities and 11.0% in cash. In addition, we have a 3.9% weight in Whitecap, an equity position which was converted from a private debt financing that we designed and funded in September 2009. The investment has done very well and, as of March 31st, is trading at 3 times the conversion price.

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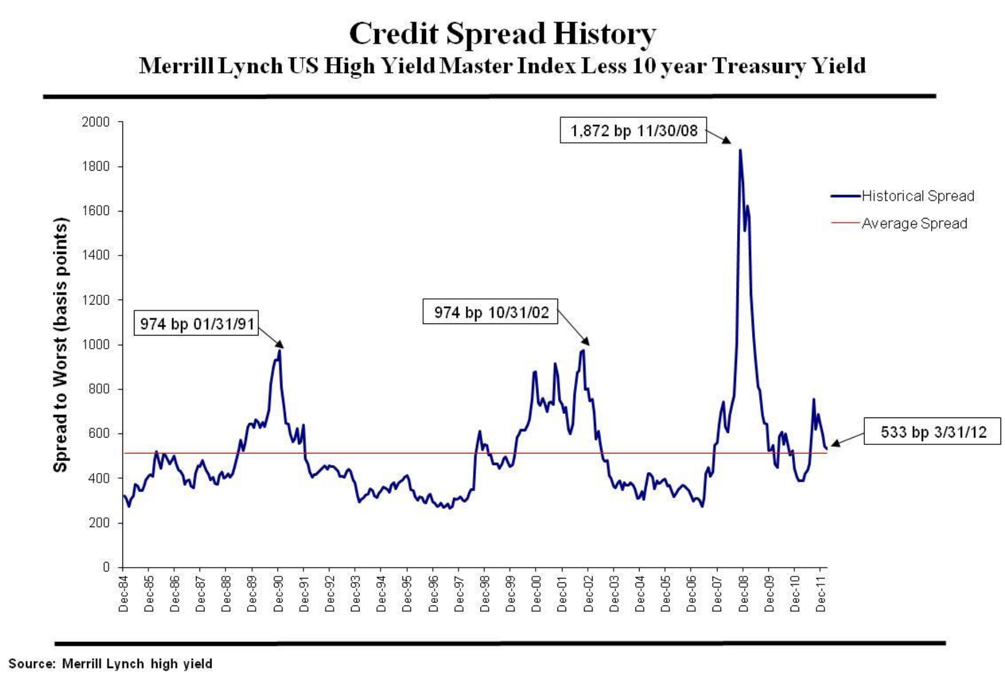
[1] Returns longer than one year are annualized gross of management fees.

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 has focused attention on the slowdown in economic growth in China. 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 company's ability to meet its coupon payments and pay back our principal at maturity. Companies, in general, are actually doing relatively well as good management teams are using improving cash flows to de-lever their balance sheets.

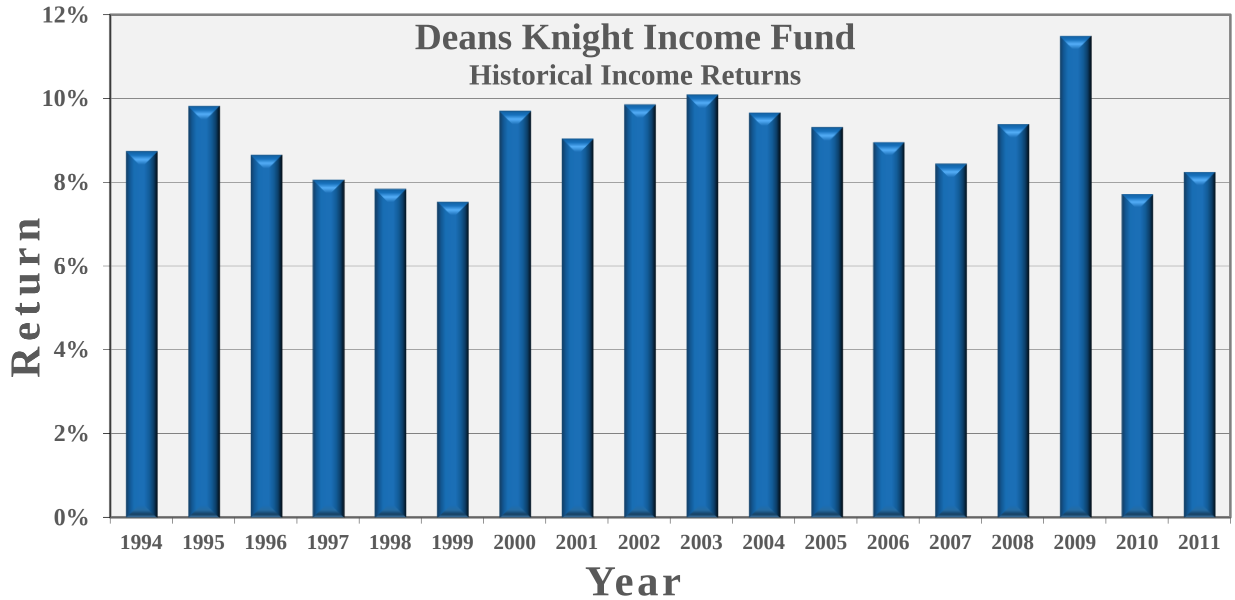
We look for corporate debt in businesses with a good management team, tangible assets as collateral, strong cash flows and reasonable leverage. In addition, we use our credit knowledge and experience in structuring debt securities to evaluate the trust indentures to ensure our interests are protected.

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%, Canadian investment grade bonds are yielding 3.3% 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.



We highlight this as it brings up an important point. High yield bond prices can fluctuate. We have no control over this. What we have control over is providing an attractive level of income to investors regardless of the environment. The graph below shows the consistent level of annual income earned since our inception which has ranged from 7.5 – 10%.



The portfolio today is currently yielding 8.0%, which should be a good predictor of our return over the next five years. We will look to add additional value by investing in private debt financings with equity incentives, such as Whitecap Resources, that 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 us to provide secured debt financing with equity kickers issued at a depressed price.

For example, subsequent to quarter end, we finalized a secured debt financing with Petroamerica Oil Corp. for $35 million ($6.0 million has been allocated to the DK Income portfolio). 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, our clients receive 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 31st, the common stock closed at $0.16. Petroamerica has a strong management team who we've invested with in the past and, with the capital raised in this financing, are poised to increase value for stakeholders.

We will continue to look for these types of investments to add value to our unitholders.