

March 31, 2017

DK EQUITY GROWTH FUND

DEANS KNIGHT
CAPITAL MANAGEMENT LTD

DK EQUITY GROWTH FUND

**Quarterly Report
 March 31, 2017**

Rates of Return¹

	<u>3 Mths</u>	<u>1 Yr</u>	<u>2 Yrs</u>	<u>3 Yrs</u>	<u>5 Yrs</u>	<u>10 Yrs</u>	<u>15 Yrs</u>	<u>20 Yrs</u>	<u>Since Inception March 31, 1993</u>
DK EQUITY GROWTH FUND	0.1%	16.1%	7.1%	7.9%	6.4%	3.2%	13.7%	11.1%	14.6%
S&P/TSX Composite Index	2.4%	18.6%	5.3%	5.8%	7.8%	4.7%	7.4%	7.5%	8.8%
S&P 500 (in U.S. Dollars)	6.1%	17.2%	9.2%	10.4%	13.3%	7.5%	7.1%	7.9%	9.3%

Here we are, roughly 3 months into a new U.S. Presidency. Much of the headline news since the November election has been devoted to the “Trump rally” in stock prices. In the first quarter of this year the S & P 500 is up 6.1% and the Dow Jones Industrial Average is up 5.2%. The rally is attributed to the new Administration’s potentially business friendly policies and has resulted in investor amnesia with regards to the myriad of concerns that plagued the market earlier in 2016 Brexit, China dread, U.S. recession, rise in interest rates, & collapse in commodity prices. The Canadian market has had a muted response, with the S & P TSX Composite up 2.4%. Our portfolio is flat.

Bank stocks in Canada have been a dominant part of the market move in Canada. The bank index is up 3.5% in Q1. It represents 35% of the TSX Composite Index and has accounted for over half of the market appreciation. We do not own any financial companies because they do not tick our boxes.

The volume of trade between Canada and the U.S. represents the largest bilateral trading relationship in the world. It is a trading relationship that is extraordinarily complex but has proven to be beneficial to both countries.

¹ Returns are presented gross of management fees.

The Canadian stock market in general has lagged the U.S. since the election because of concerns about the new Administration's trade policies. In particular, these concerns center on the possibility of a border adjustment tax; the potential of renegotiating the North American Free Trade Agreement; and a stricter "buy America" policy. Canada's economy and, in particular, many of our portfolio companies depend heavily on export sales to the U.S.

Looking at our stable of companies over the past three months, there have been no changes to the lineup. The only activity during the quarter was adding to a number of our positions on what we saw as temporary price weakness. The news flow from our companies was mainly fourth quarter and full year 2016 earnings reports. To us, there were no surprises. Some of our companies are enjoying tailwinds, some are facing temporary headwinds, but there have been no developments to cause us to alter our long term view on our companies.

One stock that saw a significant price decline was **Asanko Gold Inc.** Asanko is our Ghana-based gold producer. Asanko began producing gold in January 2016, reached commercial production levels in April 2016, and ended 2016 producing at annual rate of 220,000 ounces. In Q1, Asanko revised their gold reserve downward by a net 2%. The stock price responded with a decline to \$3.49 by March 31st, down 15.3% from its \$4.12 closing price at year end. We added to our position. Asanko will continue to expand its gold reserves; they will grow production in 2017 to 240,000 ounces per year; and they will generate ample free cash flow which, along with cash-on-hand will finance a phase II production increase to 300,000 ounces per year by 2019, then to 450,000 ounces in 2021.

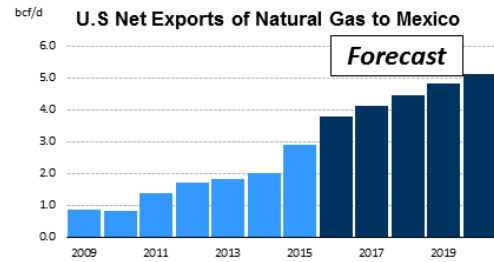
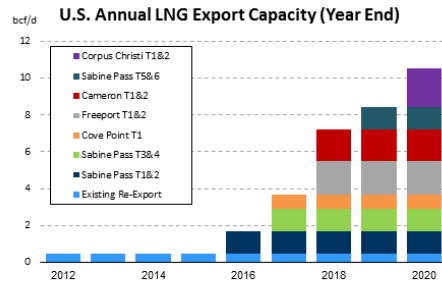
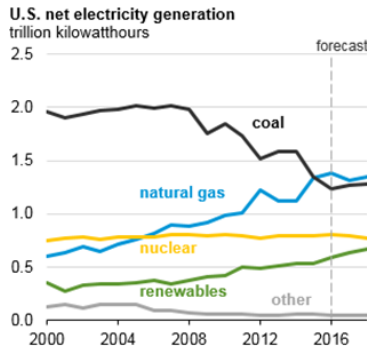
Oil and gas stocks have been weak through the first quarter of 2017. The TSX oil and gas sub index is down 5.5% year to date. The price of oil has pulled back from a recent high of \$54.45 per barrel (WTI) on February 23rd to close the quarter at \$50.60. Natural gas (Nymex) pulled back from a high of \$3.93 per mcf on December 28th, 2016 to \$3.19.

The global oil market continues the rebalancing process after hitting a low of just over \$26 per barrel one year ago. It will not be a straight line upward.

Some important points to be made about the oil business:

- 1) Oil remains the world's most valuable industrial commodity. It is important not only for the energy it supplies, but also for the many critical inputs for so many of the world's essential products.
- 2) Oil will remain an important industrial commodity for many years to come.
- 3) Over the past decade, technology advancements have unlocked reserves previously uneconomic to produce. As a result, U.S. production doubled from roughly 5 million barrels per day to almost 10 million barrels per day between 2010 and 2015. This has ended OPEC's stranglehold over global pricing.
- 4) The drop in the price of oil in 2014/15 resulted in record low levels of capital spending and discovery of new reserves in 2015 and 2016.

- 5) Against the backdrop of shrinking reserves, global demand for oil continues to grow, reaching 96 million barrels per day in 2016 versus 85 million barrels per day a decade ago.
- 6) The operating cost structure of oil and gas producers has come down over the past two years, protecting margins in a lower commodity price environment.
- 7) Natural gas continues to displace coal to produce electricity. Moreover, exports of gas to Mexico and LNG exports from North America continue to grow.



Our 5 oil and gas producers fared well during the downturn in oil and gas prices in 2015 and into 2016. All 5 companies emerged from the downturn with stronger balance sheets and a lower operating cost structure. In today's environment all 5 companies are generating free cash flow and creating value for the owners.

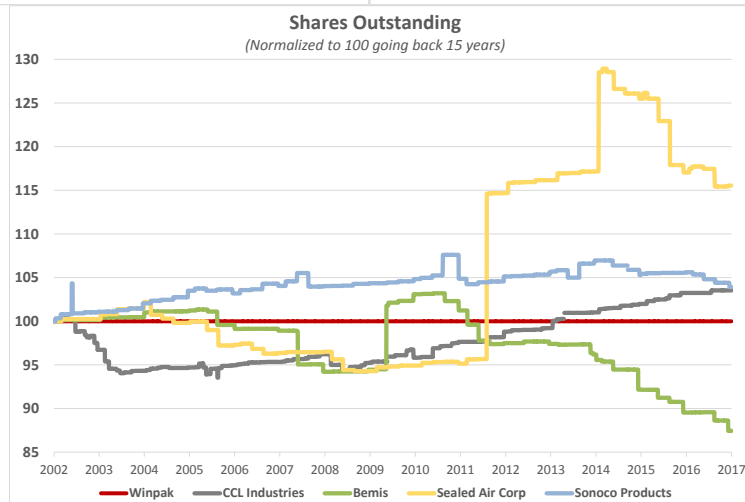
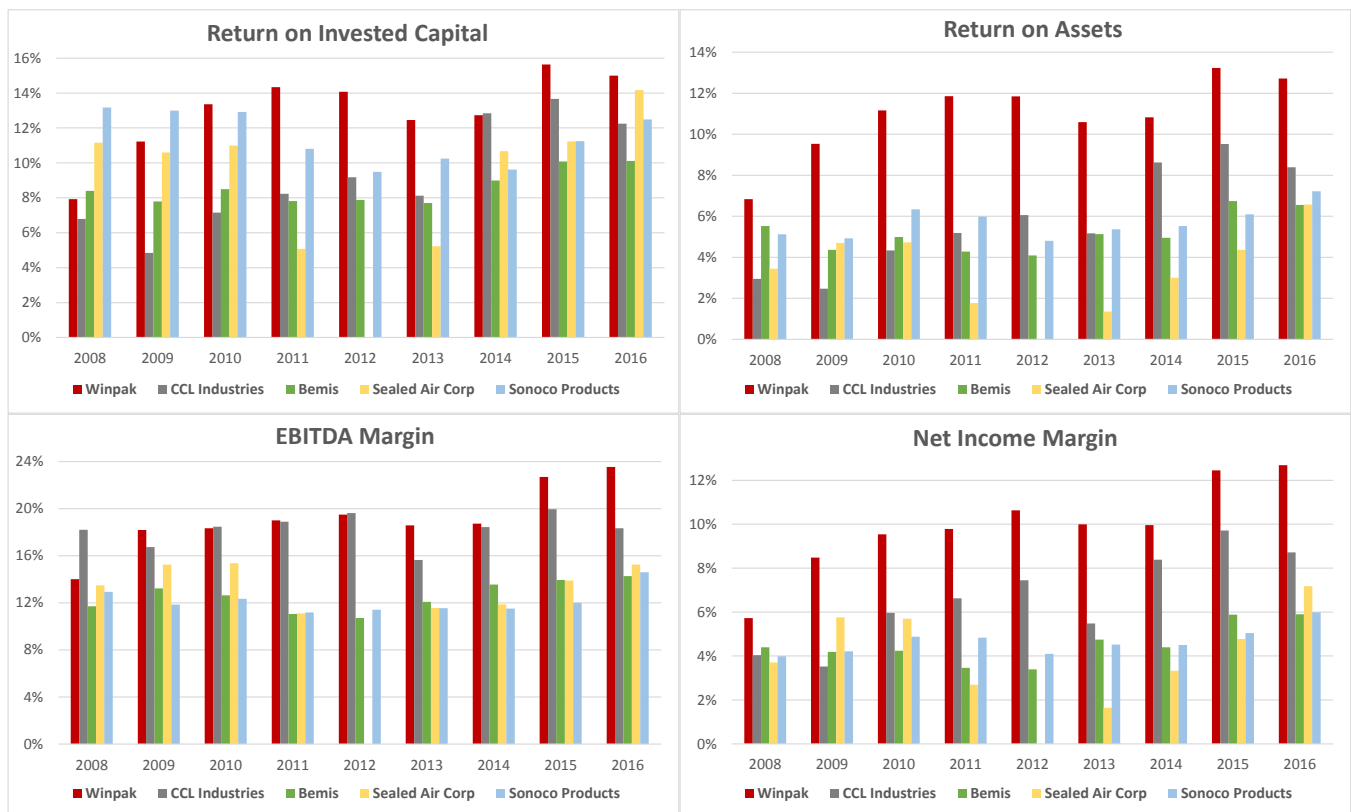
Our company selection criteria that have been part of our discipline for 24 years, results in a definite "TYPE" of company ownership. The resulting type of companies that you will see in our portfolio will share many of the following characteristics:

- Significant ownership by the founder, founding family, and insiders
- Companies that are significant players in a niche industry
- Companies that generate free cash flow yields for the owners
- Companies where the executives are not excessively compensated at the expense of the outside owners
- A portfolio of companies with an average market cap of \$1.8 billion, well below the average market capitalization of TSX Index companies (\$8.4 billion)
- A concentrated portfolio of 20-25 unique companies that will not track any broad index & stocks

We don't trade stocks, and we hold a typical company for at least 5 years; some we have held much longer. Often the sale is to a takeover bid, which has been the outcome for 45 of our companies over the past 24 years.

We professional investors rarely find the perfect company the company that ticks almost all of our boxes and then consistently performs up to our expectations. One of those rare companies that we own is **Winpak Ltd.** Winpak is in the business of manufacturing rigid and flexible packaging solutions for customers throughout North America from its manufacturing facilities in Canada and the U.S. Winpak, founded in 1977, is 52% owned by the founding Finnish

Wihuri Family. The company has had only 2 CEOs in its history; has a strong corporate culture; is a key player in a specialized industry; is a low cost producer; never dilutes its owners by issuing stock; does not offer stock options to management; consistently generates free cash flow; pays a regular dividend; and pays special dividends as cash builds on the balance sheet. The company currently has no debt; has \$210 million in cash; and has unutilized production capacity. With no significant capital spending required in the foreseeable future, it would not surprise us if Winpak paid a special dividend in 2017. We received a \$1 special dividend in 2014 and another \$1.50 in 2015. Just to give you an idea about Winpak’s superior operating performance, take a look at the following comparisons of Winpak’s operating metrics compared to 4 other companies in the industry . . . return on invested capital, return on assets, EBITDA margin, net margin, and shares outstanding. Doesn’t get much better than this.



We strive, with each and every investment, to find the best companies, run by the best teams, in their respective industries. We rarely find companies that fit our mold as well as Winpak.

As of March 31st, the 10 largest holdings as a percentage of the portfolio were:

Heroux-Devtek Inc	7.0%	Aircraft Landing Gear
Cott Corp	6.9%	Beverages
Linamar Corporation	6.4%	Auto Parts Manufacturer
West Fraser Timber Co Ltd	6.2%	Forest Products
Winpak Ltd	6.2%	Packaging
Paramount Resources Ltd	6.1%	Natural Gas Production
Parex Resources Inc	5.9%	Oil Production
Sleep Country Canada	5.4%	Mattress Retail
Lundin Mining Corp	5.4%	Base Metals Mining
AutoCanada Inc	5.0%	Auto Dealerships
	<u>60.5%</u>	

DEANS KNIGHT CAPITAL MANAGEMENT LTD.
PORTFOLIO VALUATION REPORT
AS OF MARCH 31, 2017

SHARES or PAR VALUE	ISSUER	ISSUE	UNIT COST	TOTAL COST	% OF PORT @COST	MARKET PRICE	MARKET VALUE	% OF PORT @MKT	ACCRUED DIVIDEND	
	Cash-INVEST-CAD	Investment Cash-CAD	\$ 1.00	\$ 4,131,954.58	3.3		\$ 4,131,954.58	2.5	\$	
CASH TOTALS				\$ 4,131,954.58	3.3		\$ 4,131,954.58	2.5	\$	
EQUITY										
CANADA										
ENERGY										
604,200	PARAMOUNT RES LTD	POU	CLASS A	\$ 14.23	\$ 8,597,591.78	6.9	\$ 16.98	\$ 10,259,316.00	6.1	\$ 0.00
585,074	PAREX RESOURCES	PXT	COMMON	\$ 6.25	\$ 3,656,396.32	3.0	\$ 16.95	\$ 9,917,004.30	5.9	\$ 0.00
6,218,900	PINE CLIFF ENERGY	PNE	COMMON	\$ 1.36	\$ 8,445,086.35	6.8	\$ 0.82	\$ 5,099,498.00	3.1	\$ 0.00
172,950	TOURMALINE OIL CORP	TOU	COMMON	\$ 27.61	\$ 4,775,724.72	3.9	\$ 29.65	\$ 5,127,967.50	3.1	\$ 0.00
328,410	WHITECAP RESOURCES	WCP	COMMON	\$ 3.31	\$ 1,087,632.85	0.9	\$ 10.35	\$ 3,399,043.50	2.0	\$ 7,651.95
					\$ 26,562,432.02	21.5		\$ 33,802,829.30	20.2	\$ 7,651.95
BASE METALS AND MINERALS										
1,201,500	LUNDIN MINING CORP	LUN	COMMON	\$ 4.96	\$ 5,961,350.06	4.8	\$ 7.49	\$ 8,999,235.00	5.4	\$ 36,045.00
1,196,200	NEVSUN RESOURCES	NSU	COMMON	\$ 4.06	\$ 4,855,055.71	3.9	\$ 3.42	\$ 4,091,004.00	2.4	\$ 15,934.70
					\$ 10,816,405.77	8.7		\$ 13,090,239.00	7.8	\$ 51,979.70
PRECIOUS METALS										
2,089,510	ASANKO GOLD INC	AKG	COMMON	\$ 2.74	\$ 5,719,836.17	4.6	\$ 3.49	\$ 7,292,389.90	4.4	\$ 0.00
518,900	LUNDIN GOLD	LUG	COMMON	\$ 4.16	\$ 2,159,098.26	1.7	\$ 6.09	\$ 3,160,101.00	1.9	\$ 0.00
					\$ 7,878,934.42	6.4		\$ 10,452,490.90	6.3	\$ 0.00
PAPER AND FOREST PRODUCTS										
185,814	WEST FRASER TIMBER	WFT	COMMON	\$ 26.05	\$ 4,840,595.13	3.9	\$ 55.62	\$ 10,334,974.68	6.2	\$ 13,006.98
OTHER MATERIALS										
194,505	WINPAK LTD	WPK	COMMON	\$ 29.45	\$ 5,727,501.86	4.6	\$ 53.10	\$ 10,328,215.50	6.2	\$ 5,835.15
INDUSTRIALS										
344,800	BIRD CONSTRUCTION	BDT	COMMON	\$ 11.65	\$ 4,016,900.14	3.2	\$ 10.01	\$ 3,451,448.00	2.1	\$ 11,206.00
359,797	DIRTT ENVIRONMENTAL	DRT	COMMON	\$ 2.21	\$ 794,814.32	0.6	\$ 6.99	\$ 2,514,981.03	1.5	\$ 0.00
1,671	FIO CORPORATION		COMMON HOLD	\$ 928.00	\$ 1,550,688.00	1.3	\$ 500.00	\$ 835,500.00	0.5	\$ 0.00
1,003,887	HEROUX-DEVTEK INC	HRX	COMMON VTG	\$ 6.14	\$ 6,166,143.74	5.0	\$ 11.62	\$ 11,665,166.94	7.0	\$ 0.00
176,600	LINAMAR CORPORATION	LNR	COMMON	\$ 34.21	\$ 6,041,481.60	4.9	\$ 60.49	\$ 10,682,534.00	6.4	\$ 21,192.00
407,700	TRANSAT A.T. INC	TRZ	VTG AND VAR SHS	\$ 9.77	\$ 3,981,888.71	3.2	\$ 5.27	\$ 2,148,579.00	1.3	\$ 0.00
452,300	VELAN INC	VLN	SUB VTG	\$ 15.02	\$ 6,791,840.83	5.5	\$ 17.31	\$ 7,829,313.00	4.7	\$ 0.00
					\$ 29,343,757.35	23.7		\$ 39,127,521.97	23.4	\$ 32,398.00
CONSUMER DISCRETIONARY										
374,300	AUTOCANADA	ACQ	COMMON	\$ 26.63	\$ 9,966,797.31	8.1	\$ 22.44	\$ 8,399,292.00	5.0	\$ 0.00
192,193	NEW LOOK VISION GR	BCI	CLASS A	\$ 24.17	\$ 4,646,085.69	3.8	\$ 27.05	\$ 5,198,820.65	3.1	\$ 0.00
277,900	SLEEP COUNTRY CANADA	ZZZ	COMMON	\$ 18.55	\$ 5,155,930.83	4.2	\$ 32.41	\$ 9,006,739.00	5.4	\$ 0.00

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204,400	UNI SELECT INC	UNS	COMMON	\$ 12.39	\$ 2,533,245.02	2.0	\$ 35.37	\$ 7,229,628.00	4.3	\$ 17,374.00
				\$ 22,302,058.85	18.0		\$ 29,834,479.65	17.8	\$ 17,374.00	
CONSUMER STAPLES										
696,300	COTT CORP	BCB	COMMON	\$ 7.18	\$ 4,999,714.43	4.0	\$ 16.46	\$ 11,461,098.00	6.9	\$ 0.00
HEALTHCARE										
80,400	XBIOTECH INC	XBIT	COMMON	\$ 18.43 USD	\$ 1,837,047.93	1.5	\$ 16.49 USD	\$ 1,766,106.11	1.1	\$ 0.00
UTILITIES										
1,025,799	MAXIM POWER CORP	MXG	COMMON	\$ 5.20	\$ 5,330,745.74	4.3	\$ 2.76	\$ 2,831,205.24	1.7	\$ 0.00
CANADA TOTALS					\$ 119,639,193.50	96.7		\$ 163,029,160.35	97.5	\$ 128,245.78
EQUITY TOTALS					\$ 119,639,193.50	96.7		\$ 163,029,160.35	97.5	\$ 128,245.78
PORTFOLIO TOTALS IN CANADIAN DOLLARS					\$ 123,771,148.08	100.0		\$ 167,161,114.93	100.0	\$ 128,245.78
ACCRUED INCOME					\$ 128,245.78			\$ 128,245.78		
TOTAL INCLUDING ACCRUED INCOME					\$ 123,899,393.87			\$ 167,289,360.71		