DEANS KNIGHT
CAPITAL MANAGEMENT LTD

DK EQUITY GROWTH FUND

Quarterly Review
March 31, 2006

Rates of Return[1]

	3 Mths	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	10 Yrs	Since Inception March 31, 1993
DK Equity Growth Fund	**19.8%**	**43.1%**	**41.6%**	**47.3%**	**38.4%**	**38.2%**	**18.7%**	**22.6%**
Nesbitt Burns Small Cap Index (Unweighted)	12.7%	24.7%	15.9%	31.2%	16.6%	16.5%	8.2%	9.4%
S&P/TSX Composite Index	8.0%	28.4%	21.0%	26.3%	13.5%	11.7%	11.2%	11.8%
DJIA	4.2%	8.3%	5.9%	14.1%	4.0%	4.6%	9.2%	11.8%
S&P 500	4.2%	11.7%	9.2%	17.2%	4.9%	4.0%	9.0%	10.5%

Looking back on our quarterly letters over the past two years, our discussion and analysis of developments in the oil and gas markets have dominated these pages. This is partly because we have made substantial profits in this area. However, it is more so because, in our view, there is a gross misunderstanding about what has driven oil and natural gas commodity prices higher and why prices will remain high for some time to come.

The events of this past quarter have reinforced our view that the market just does not get it and focuses too closely on very short term developments. The price of natural gas was driven down by traders from a year end level of $9.52 per mcf to a low in March of $6.31 per mcf. As a consequence, many investors panicked and sold North American natural gas producers, big caps and small caps alike. Many high quality natural gas exploration and production companies declined in value by 30 – 40% from levels of late last year. Even Encana, Canada's largest natural gas producer declined 33% from a high of $70 to $46. Investors have decided that they no longer "like the gas story".

Investors are reacting to a one time historical event . . . . . North America experienced the warmest January in history, and demand for natural gas for heat was down and there is now more gas in storage than what is normal for this time of year. Big deal!

What about the bigger picture? Let's step back from this for a moment and look at the facts. North American exploration and production companies are drilling more gas wells than ever before, but production is declining and will continue to do so into the future. We cannot find

[1] Returns longer than one year are annualized.

sufficient new natural gas reserves and production to offset the production decline rates of existing wells. Adding to the problem, the decline rates of new conventional gas wells is significantly higher than the rate of older wells.

The price of natural gas must remain high enough to encourage the search for the less plentiful and more expensive conventional supplies, and to encourage the search for the more costly unconventional sources such as shale gas and coal bed methane. The price must also remain high enough to ration demand as production continues to decline, and also high enough to bring on the development of other energy sources such as nuclear power.

With the significant decline in valuations, we took the opportunity during the quarter to add to some of our positions in natural gas producers. Although we expect short term volatility, we expect that gas prices will trend back up toward $10 per mcf as we approach next winter.

We also expect volatility in world oil prices. As with North American natural gas, world oil is entering a period of supply constraints. World oil productive capacity is essentially flat and will enter a period of irreversible decline over the next few years. These are uncharted waters as the world oil market has never before operated in a capacity constrained environment. The price of oil must be such that demand is controlled in a manner that matches long term supply. This means a more volatile pricing environment, but higher rather than lower prices.

The constrained supply of gas and oil makes it highly likely that the expansion of nuclear power capacity will be a logical alternative to the energy problem. This has driven today's uranium prices to roughly $40 per pound from a low of $7, five years ago, and will continue to push them higher in the future. This has produced big profits in our investments in **Paladin Resources**. Paladin will commission into production a major uranium mine in Namibia in the second half of this year. The Langer Heinrich mine is expected to begin producing 2.6 million pounds of uranium per year. The company has arranged sales contracts for over 6.5 million pounds of the mine's output to be delivered over the next 6 years. Paladin also has a number of other promising projects in development, for example, the Kayelekera mine is in the feasibility stage and this, along with increasing production at Langer Heinrich, could double the annual production for Paladin.

The prices for base metals commodities continued to be very strong in the first three months of 2006. Copper increased from $2.10 to $2.45 per pound; zinc from $0.85 to $1.20 per pound; and nickel $6.00 to $6.90. Demand continues to be strong from developing countries, while inventories remain low, with limited new sources of production on the horizon. **Kagara Zinc** appreciated in value by 55%, **Anvil Mining** (copper) by 25%, and **Perilya Limited** (zinc) has doubled since it was first purchased in January.

Our investment in nickel producer **LionOre International Mining** ended the quarter little changed. We have continued to add to this position. As LionOre moves from a producer of nickel concentrate, to a fully integrated producer of nickel with the deployment of its proprietary Activox hydrometallurgical technology, the value of its nickel assets will be realized. Moreover, there is consolidation underway in the nickel industry . . . . Inco has made an offer for Falconbridge (subject to various regulatory approvals); CVRD (the state-owned Brazilian mining giant) has purchased Canadian-based Canico (undeveloped nickel deposit in Brazil) and French-

based Eramet S.A. has recently made a bid for Weda Bay Minerals (undeveloped nickel deposit in Indonesia). Major international base metal producers are flush with cash and they need to purchase additional production growth to meet demand.

We reiterate that we continue to purchase shares in certain Canadian manufacturing companies whose valuations have declined substantially because of the 25% rise of the Canadian dollar vis a vis the U.S. dollar over the past 3 years and because of the rise of input costs such as oil and gas, steel, and aluminum. We can purchase some companies, particularly those who have or can regain product pricing power, at very attractive values and we continue to do so.

A word of caution regarding a disquieting trend emerging in global markets. We have witnessed spectacular growth in the global pool of investment assets, a good portion of which is chasing short term returns. It is estimated that the global pension, insurance, and mutual fund assets under management currently stands at U.S. $46 trillion, up roughly 30% from 2000. Hedge funds have more than doubled over the same period to almost U.S. $1 trillion. Global central bank reserves have doubled to U.S. $4 trillion. Furthermore, because of a combination of reduced capital spending and rising profits, U.S. companies alone are sitting on $1.3 trillion in liquid assets. Couple this with an environment of low interest rates and we have an unprecedented demand for financial investments.

As was pointed out in a study in the Wall Street Journal late last year, there is a huge wave of capital flowing around the world, with all of its owners anxiously searching for a better return. These global investors are diving into a wide variety of riskier assets. Add to this the availability of leverage at a very low cost, and you have even further amplification of these bets.

This glut of money is bidding up the price of investments and investors are getting less return in exchange for the risk that they are taking. For example, yield spreads between corporate bonds and government bonds are at historically low levels and the P/E ratio of the S&P 500 stock index stands at 19 today, much higher than the norm of 11 of the past 100 years. Pension and endowment funds are seeking more return by pouring increasing amounts into private equity funds, hedge funds, and real estate. However, the returns are declining and the risks are rising. For example, in 2005 the S&P hedge fund index was up a mere 2½% and the CSFB Tremont hedge fund index was up a slim 3¼%. Private equity funds are increasingly layering on debt and taking cash out of the companies they acquire, thus raising the risk, in order to boost returns.

The conclusion that we draw is we must contain the investment capital under our discretion to manageable levels. It is the only way that we can maneuver our way into areas that this massive wave of global capital cannot. To make good on this, we have given up roughly $150 million of mutual fund assets effective March 31st.

As of March 31st, the portfolio breakdown by industry group stood as follows:

Industry Group	%
Energy	33.0%
Base Metals & Minerals	29.1%
Industrials	20.8%
Consumer Discretionary	7.1%
Information Technology	4.2%
Utilities	3.2%
Precious Metals	2.9%
Healthcare	1.0%
Other Materials	1.0%
Cash & Miscellaneous	-2.3%
	100%

As of March 31st, the 10 largest equity holdings were:

Holding	%	Industry
Paladin Resources	10.5%	Uranium Mining
Kagara Zinc Ltd.	7.2%	Zinc Mining
CAE Inc.	5.4%	Aerospace Equipment & Services
Paramount Resources Ltd.	4.8%	Oil & Gas
LionOre Mining Intl.	4.7%	Nickel Mining
Clear Energy Inc.	4.5%	Oil & Gas
Menu Foods	4.3%	Private Label Pet Food
Emergis Inc.	4.2%	Electronic Transaction Processing
Mahalo Energy	4.1%	Oil & Gas
Niko Resources Ltd.	4.0%	Oil & Gas
	53.7%	