March 31, 2011

DK EQUITY GROWTH FUND

DEANS KNIGHT

CAPITAL MANAGEMENT LTD

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Quarterly Report
March 31, 2011

Rates of Return[1]

	3 Mths	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	10 Yrs	15 Yrs	Since Inception March 31,1993
DK Equity Growth Fund	**5.0%**	**25.3%**	**53.4%**	**11.0%**	**5.2%**	**10.9%**	**23.8%**	**16.0%**	**19.2%**
S&P/TSX Composite Index	5.6%	20.4%	30.8%	5.0%	4.7%	6.0%	8.8%	9.4%	10.2%
S&P 500 (in U.S. Dollars)	5.9%	15.6%	31.6%	2.4%	0.4%	2.6%	3.3%	6.8%	8.2%

There was certainly a lot to fret about during this past quarter. Unrest in the Middle East, rising oil prices, and American frustration with Federal energy policy. Sounds like a new crisis in the making. However, to those of us who are, as the French say, of a "certain age", it sounds like a replay of the 1973 Arab oil embargo, only less severe.

Someone once said *"the more things change, the more they stay the same"*. President Obama gave a speech on U.S. energy policy on March 31, 2011, where he pledged to reduce America's reliance on foreign oil. Every President since Jimmy Carter has given the same speech, almost verbatim. Yet America is more dependent on imported oil than ever before. The unrest in the Middle East . . . Egypt . . . Tunisia . . . Libya . . . Syria, what does it teach us? It teaches us that those dictators whose regimes economically benefit their cronies, while the populace struggles in abject poverty, will ultimately be shown the door. Moreover, when it happens in an oil rich region, it teaches us how reliant the world still is on oil as an energy source, and how less abundant it is becoming.

What will be the social and economic implications of what is happening in the Middle East? As George Jonas recounts in a recent column in the Canadian National Post . . . when the legendary Chou En Lai was asked in 1949 what he thought about the 1789 French Revolution, he replied *"too soon to tell"*.

The 9.0 earthquake and resulting tsunami in Japan on March 11, 2011, shocked the world. The massive death toll and devastation saddened us all, and roiled financial markets. The damage to nuclear power facilities and the media coverage of the efforts to contain the spread of radioactive material, has resulted in much debate about the future of nuclear power as an energy source. Will these events curtail or slow the growth of nuclear power plants? Perhaps, but we surely cannot be certain of that. A growing world, demanding increased prosperity, will require more energy.

[1] Returns longer than one year are annualized.

The problem in Japan has reignited the debate about the safety of nuclear. This debate reminds us of a wise statement we read recently . . . "*a great many people think they are thinking, when are merely rearranging their prejudices*". Perhaps the outcome may be a positive one . . . more efficient, safer nuclear power facilities.

The nuclear scare in Japan caused a panicky sell-off in uranium company share prices. In the days following the quake, uranium company share prices fell on average by 50%. As our readers recall, we received an unconditional all cash takeover bid this past December 14th, at $8 per share for our uranium company, **Mantra Resources.** The buyer is the Russian government controlled uranium company, ARMZ. Mantra is developing a world class, low cost uranium deposit in Tanzania. With uranium company share prices declining following the earthquake and tsunami, ARMZ threatened to pull out of the deal. The result was a meeting and a renegotiation to an effective price of $7.02. This represents a 12% reduction from the original price. Not an ideal outcome, but a much smaller concession compared to the decline in other global uranium share prices. Furthermore, it avoids potential costly and lengthy litigation.

In spite of all the chaos that occurred this quarter, combined with the lingering concerns brought on by the 2008 financial crisis and recession, North America stock market indices edged higher. With all these concerns and worries, is the market not paying attention? The answer is, the market is ignoring noise and is focusing on the earnings and financial health of underlying companies. Broad market indices are still 10 – 15% below their pre-recession levels, yet companies, we would argue, have higher earnings and stronger balance sheets than pre-recession. Global economies are recovering, and in 10 years time, will likely show sufficiently greater output than they do today.

Yes, there are a lot of things to worry about. There normally are. The world seems like a scary place. But guess what? . . . It always is. Your author would argue, with the benefit of a certain age, that the world is less scary today than it was 60 years ago. Your author can recall a world still reeling from a devastating world war. He can recall as a child in grade school, participating in drills on what to do in case of a nuclear attack . . . recall people building and stocking bomb shelters on their property . . . the assassination of the President of the United States, the man who held the most powerful office on earth . . . the assassinations of Martin Luther King . . . of presidential candidate Robert Kennedy . . . race riots in Los Angeles and Detroit . . . the most unpopular conflict in U.S. history, Vietnam, and the violent protests that resulted . . . the Arab oil embargo of the U.S. . . the frightening inflation of the 1970's . . . the impeachment of the President. At the time it felt like the U.S. was imploding economically and socially and that the global economy was heading for a cataclysmic collapse. Didn't happen. The U.S. economy and the global economy overcame obstacles and continued to grow. The U.S. GDP has grown six-fold since 1950, and the global GDP more than ten-fold. We are now hearing that well-worn phase "*this time, it's different*". We wouldn't bet on that.

Just after quarter-end we received an all cash bid for the shares of **Peak Energy Services**. Peak is a Calgary-based oil and gas service company operating in Western Canada and the U.S. We have been involved with Peak for many years. As the recession hit in 2008, demand for energy services declined and in early 2010 the Company found itself in breach of covenants with its lenders. We had confidence in Peak's management and Deans Knight, in February 2010, on behalf of clients, injected $15 million of equity at 20¢ per share to reduce the debt level. This resulted in clients of

Deans Knight owning 52% of the outstanding shares of Peak. Clean Harbors Inc., a U.S. based service company, announced an all cash bid of 95¢ per share on April 6, 2011. We are satisfied with the price, and have entered a lockup agreement to tender all of our shares to the bid. The combination of the sale of Mantra and Peak will create a significant amount of cash in the portfolio.

During this past quarter, we have gradually begun to initiate a few new positions in the portfolio. We will continue to build on these positions as opportunities arise, and we will report fully on these new positions when they are established.