DEANS KNIGHT
CAPITAL MANAGEMENT LTD

DK EQUITY GROWTH FUND

Quarterly Review
June 30, 2005

Rates of Return

	3 Mths	YTD	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	10 Yrs
DK Equity Growth Fund	**-0.6%**	**11.4%**	**33.9%**	**42.1%**	**32.2%**	**32.6%**	**31.8%**	**17.6%**
Nesbitt Burns Small Cap Index (Unweighted)	-2.4%	0.4%	10.4%	25.2%	15.3%	11.0%	7.6%	7.2%
S&P/TSX Composite Index	3.6%	8.1%	18.0%	21.2%	13.6%	8.3%	1.1%	10.0%
DJIA	-1.6%	-3.6%	0.7%	9.3%	5.9%	1.6%	1.7%	10.6%
S&P 500	1.4%	-0.8%	6.3%	12.5%	8.3%	1.0%	-2.4%	9.9%

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Oil and gas continued to be the big news in the most recent quarter. The price of crude (WTI) reached an all time high of $60.54 U.S. per barrel in the final week of June, while natural gas reached a 2005 high of $7.88 per mcf. It is the rising price of oil and natural gas and the rising valuations on oil and gas producers, that account for the divergent trend between Canadian and U.S. market indices this year. The S&P/TSX is up 8.1% year-to-date, while the Dow 30 is down 3.6% and the S&P 500 is down 0.8%. Oil and gas shares represent 23.9% of the TSX but only 4.3% of the Dow and 9.0% of the S&P 500.

Our portfolio valuations lagged the TSX in the second quarter primarily because the larger capitalization oil and gas stocks showed stronger price performance than the smaller capitalization companies. We are much more concentrated in smaller and mid sized oil and gas companies because in our opinion they can create more value in the long run by increasing their production at a much greater rate. For example, it is much easier for a junior to grow from 1,000 boepd to 2,000 boepd (a 100% increase), than it is for a 500,000 boepd producer to go to 1 million boepd. Early in the second quarter, the price of oil pulled back temporarily to $46.80. From what we can determine, some investors decided to sell their oils at that time with the view that they would be able to buy them back cheaper later in the year. Oil and gas stocks declined as a result. Well, when oil reversed and charged back up to its record high price, these same players decided they were wrong and dove back into the oils. The only way they could get their oil weightings back up quickly was to buy the more liquid larger capitalization companies. As a consequence, the bigger cap companies ended the quarter at or near their 52 week highs. Smaller cap oil and gas producers by comparison lagged and ended roughly 15 – 25% below their highs. We expect this divergence will be reversed as the year progresses.

We have written extensively about the oil and gas business in these reports over the past few years. Those of you that have been our clients and our readers know that we were in a minority regarding our bullish views on oil and gas commodity pricing and on the valuations for oil and gas producers. However – that is changing very quickly as continuing strong commodity prices, and high returns, have dragged more investors to the party.

Although we still foresee healthy oil and gas prices, we do not believe the big returns that shareholders have seen over the past few years will be repeated going forward. With this massive influx of new and less informed investors in the oil and gas business, valuations are being pushed to the limit. Moreover, we are seeing a lack of proper due diligence and we are seeing unproven management teams attracting too much capital, too cheaply. This is always a reliable warning sign that a sector is getting frothy and that exercising proper caution is important.

We are limiting our investments to those companies where we have confidence that management can grow shareholders value. These are management groups that we know well, and have had rewarding experiences with in the past.

Our views on base metals companies and the operating environment for the industry are similar to oil and gas. Although not quite as frothy or as speculative, the commodity prices and the share valuations have come up a long way from their lows of five years ago. Again we are keeping our focus on proven management teams and companies where the valuations are more attractive to us. One such example is **Imperial Metals.** Imperial is a copper and gold producer with its main asset near Williams Lake, BC. In September 2001, management halted production at the Mount Polley mine due to weak metal prices. The mine reopened in October 2004 and in early July 2005 Imperial announced its first full shipment of 11,500 tonnes of copper concentrate. Management expects this to be the beginning of monthly shipments of roughly 10,000 tonnes of concentrate. At today's metal prices, the Company would generate in excess of $2/share in annual cash flow from these shipments. At June 30th, the share price for Imperial was $5.95, less than 3 times the expected annualized cash flow.

We also continue to build our position in uranium through our investment in **Paladin Resources**. Paladin will begin production in 2006 in Namibia, making it one of the first of the junior uranium exploration companies to begin producing, while also being among the lowest cost producers of uranium. The outlook for uranium is very good. As oil and natural gas remain supply constrained, we foresee the need for more nuclear power facilities to satisfy global growth for electricity demand. Underinvestment in uranium development for the last 25 years in our opinion will continue to lead to higher prices.

As opportunities in the resource industries are becoming more mature, we are gradually turning our attention to other areas where the valuations are more attractive. Specifically, we are focusing on Canadian manufacturing companies that have been challenged not only by the rise in the Canadian dollar against the U.S. dollar, but also by high basic materials costs. The valuations on these businesses have been hurt substantially and as a result some of them are becoming attractive. For example, one of our largest portfolio holdings is now **CAE Inc**. Montreal-based CAE is a world leader in flight simulator production and pilot training for both commercial and military customers. They have enhanced their business strategy and begun cost restructurings in the past few years and are now poised to take advantage of the aerospace sector recovery. A new

position for our portfolio is **Emergis Inc**. Emergis was formerly a diversified cash-burning technology company controlled by BCE Inc. BCE has sold its interest and Emergis has become a much more focused and cash flow positive organization. We like the prospects of the remaining two business units and with $1.20/share cash in the bank on a $3.00/share price, we are buying it at a favourable price.

As of June 30th, the portfolio breakdown by industry group stood as follows:

Energy	42.8%
Industrials	21.1%
Base Metals & Minerals	18.8%
Consumer Discretionary	5.4%
Information Technology	3.0%
Healthcare	2.8%
Utilities	2.2%
Other Materials	2.0%
Paper & Forest Products	1.1%
Precious Metals	0.6%
Cash & Miscellaneous	0.2%
	100%

As of June 30th, the 10 largest equity holdings were:

CAE Inc.	6.2%	Aerospace Equipment & Services
LionOre Mining International	5.2%	Nickel Mining
Kereco Energy Ltd.	5.1%	Oil & Gas
Paladin Resources	4.4%	Uranium Mining
Kagara Zinc Ltd.	4.3%	Zinc Mining
Petrobank Energy & Resource	3.9%	Oil & Gas
Transat A.T. Inc.	3.8%	Tour Operator
Blackrock Ventures	3.8%	Oil & Gas
Linamar Corporation	3.6%	Auto Parts
Clear Energy Inc.	3.5%	Oil & Gas
	43.8%	