June 30, 2014

DK EQUITY GROWTH FUND

DEANS KNIGHT

CAPITAL MANAGEMENT LTD

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Quarterly Report
June 30, 2014

Rates of Return[1]

	3 Mths	YTD	1 Yr	2 Yrs	5 Yrs	10 Yrs	15 Yrs	20 Yrs	Since Inception March 31, 1993
DK EQUITY GROWTH	**12.1%**	**22.6%**	**40.6%**	**21.6%**	**14.7%**	**12.4%**	**16.0%**	**15.1%**	**16.0%**
S&P/TSX Composite Index	6.4%	12.9%	28.7%	17.8%	11.0%	8.8%	7.7%	9.3%	9.4%
S&P 500 (in U.S. Dollars)	5.2%	7.1%	24.6%	22.6%	18.8%	7.8%	4.3%	9.8%	9.3%

Last year, the Canadian stock market was written off as a global laggard. The U.S. market had out-performed Canada by a wide margin in each of the previous three years and was attracting all the attention. Well, so far this year the Canadian stock market is well ahead of the U.S., and in fact is one of the best performing major stock markets in the world. Moreover, most investors held a stubbornly bearish view on the Canadian dollar when it fell below 90₵ U.S. earlier this year. It has stabilized and rallied back to approximately 94₵ U.S. by mid-year. More proof that past results, although they strongly influence our view of the future, are rarely indicative of future outcomes.

As we highlighted in our March 31st report, the valuations of our Deans Knight holdings have also been treated more favourably in the market. At June 30th, the one year return is 40.6% and 6 month return is 22.6%.

Let's look back at the past 6 months and see where the returns have come from.

As a group, Canadian oil & gas stocks have been the star performers this year. As we wrote repeatedly to you in the prior two years, we felt our oil & gas companies were not being recognized for the value that they were creating. At one point, we wrote that the cheapest way in the world to purchase producing oil & gas assets, and oil & gas in the ground, was on the Toronto Stock Exchange. Well, our companies are finally getting recognized. The four key positions that we own and their year to date changes are as follows:

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

Security	Sector	YTD % change
Paramount Resources Ltd.	gas	53%
Parex Resources	oil	91%
Tourmaline Oil Corp.	gas	26%
Whitecap Resources	oil	30%

In the material sector, perhaps the most beat up area of the Canadian market in the past few years, there have been glimmers of life this year.

Security	Sector	YTD % change
Lucara Diamond Corp.	diamonds	50%
Asanko Gold Inc.	gold	63%
Nevsun Resources	gold; copper; zinc	13%

However, there was further deterioration in the value of **Coalspur Mines Ltd**. Coalspur is a world class thermal coal (think electricity) project located in Alberta. Coalspur ticks all the right boxes, except for the fact that thermal coal has been in a serious bear market for the past two years. Coalspur has struggled to put in place a permanent financing package to move the project to the construction phase. The latest news, at the time of writing, is that the company has secured an additional $10mm in funding and has embarked on a strategic review process. Coalspur will engage a "reputable international bank" to provide management and the Special Committee of the Board with advice. The outcome of this process could include further financing for the project; a joint venture; or an outright sale of assets.

When we move outside of the oil & gas and the materials sectors, there have been other significant value creators in the portfolio this year.

Security	Sector	YTD % change
Dirtt Environmental	office construction	39%
Linamar Corporation	auto parts	42%
MartinRea Intl.	auto parts	63%
Winpak Ltd.	packaging	13%
Velan Inc.	valve manufacturing	43%

It is worth noting that **MartinRea Intl**. was one of the underperforming stocks in the second half of last year. As we wrote in our 2013 year-end report, an ex-Director of the company, who had been pushed out and who sold his significant shareholding, initiated a lawsuit against MartinRea and certain of its Officers and Directors. He claimed in the suit that there had been misuse of corporate funds. The company subsequently appointed an independent committee of the Board, and PricewaterhouseCoopers, to investigate the allegations. During this period, we worked successfully with the Executive Chairman to strengthen the Board. The independent audit of the allegations was released in March and found no material misuse of funds. The share price has now recovered to a level higher than it had been trading late last summer.

The company should make around $1.30/share in earnings next year, with the potential to grow to more than $2/share in coming years. A reasonable 10x earnings multiple would imply a potential share price greater than $20 while it trades at $13 today.

Velan Inc., our valve manufacturing business, which most had left for dead, actually arose from a deep slumber and increased its value by 44% year to date. Albeit this took place on very little volume (the float is tiny), but nevertheless operating numbers have been improving. We still think the private market value of the company is close to $30 per share versus the current market price of $19.

We have slowly continued to add to our positions in **Rona Inc.** (retail hardware) and **Transat AT** (tour operator). Both have been, and continue to be, out of favour situations in the market. Both, however, have significant brand awareness and strong management teams. In the face of intense competition, these companies have successfully streamlined their cost structures and improved the customer experience.

Our major holding in the forest products business, **West Fraser Timber Co. Ltd.,** and a smaller holding, **Conifex Timber Inc.**, were more or less flat year to date. West Fraser had a big run last year. We reduced the size of our holding, but hold a meaningful position as we do not believe the U.S. housing recovery has fully matured as yet.

Uni-Select Inc., our auto parts distribution company, rose sharply in valuation in the latter part of 2013, but has slightly declined in value by 3.3% so far this year. At this quarter end the shares were trading at $27.80. In our view, there is well in excess of $30 of value here and we have been adding more shares.

The share price of our aerospace landing gear company, **Heroux-Devtek Inc**., has increased marginally by 1.5% year to date. Earlier this year, they completed an important acquisition of U.K.-based APPH, a smaller tier one supplier of landing gear and hydraulic systems. The acquisition increases Heroux’s footprint and client base. As part of the financing for the transaction, Heroux completed a $50mm equity financing at the end of June. Heroux is the third largest manufacturer of landing gear systems in the world. In late 2013, Heroux was awarded a major contract to supply complete landing gear systems for the Boeing 777 and 777X airliners, a major milestone for the company. This landmark contract, along with APPH acquisition sets the company up to double in size in the next 5 years.

Business at our trucking company, **Contrans Group Inc.,** continues to be very good. In May, Contrans completed the sale of a small division in Alberta and pocketed $70mm. Also, in May, the company again boosted the dividend (Stan Dunford, the CEO and 15% owner loves his dividend, and so do we). The company still sees many 'mom and pop' style acquisition opportunities in niche areas of trucking as operators age and look to exit. This sets Contrans up for significant continued growth over the coming years.

A couple of new additions to the portfolio in the most recent quarter . . . **PRD Energy** and **New Look Eyewear.**

PRD Energy is a Canadian oil & gas exploration and production company with its production and properties in Germany. We participated in the company's public financing in May, enabling us to acquire a small starting position. We became involved for two reasons . . . firstly, we know and respect the people, both the operating team and a key Director, Grant Fagerheim (co-founder and CEO of Whitecap). Directors and Officers own 22% of the stock. Secondly, Western Europe desperately needs oil & gas to escape the stranglehold that Russia has on them. The business plan is to use Canadian expertise and technology to recover oil and natural gas previously considered uneconomic. In Germany, PRD has five year licenses covering roughly 2.4mm acres, much of which has a history of production.

We have followed, and admired New Look Eyewear for some time. However, the shares have been tightly held ~ Management and Directors own 52.6% and a small group of outside shareholders controlled the balance ~ and until recently it was not possible to acquire any shares. We were able to acquire a small position in early June. New Look provides eye examinations and prescription eyewear through 140 retail locations in Quebec and the Atlantic provinces, generating approximately $130mm in annual revenues. New Look is the largest integrated optical company in Quebec and the Atlantic region, the 3rd largest in Canada, and 8th largest in North America. The industry is very fragmented and is currently dominated by individual operators. New Look aims to be the industry leading consolidator in Canada. Total Canadian industry revenues are estimated at $3 billion. Margins are strong and New Look pays a 2.7% dividend yield. As New Look consolidates smaller players, we expect new shares to be issued giving us an opportunity to acquire more shares. We have known the Chairman and Founder for many years, and have a ton of respect for his integrity and ability.