June 30, 2015

DK EQUITY GROWTH FUND

DEANS KNIGHT

CAPITAL MANAGEMENT LTD

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Quarterly Report
June 30, 2015

Rates of Return[1]

	3 Mths	YTD	1 Yr	2 Yrs	3 Yrs	5 Yrs	10 Yrs	15 Yrs	20 Yrs	Since Inception March 31, 1993
DK EQUITY GROWTH	**4.7%**	**9.7%**	**2.3%**	**19.9%**	**14.8%**	**7.0%**	**9.4%**	**16.5%**	**13.5%**	**15.4%**
S&P/TSX Composite Index	-1.6%	0.9%	-1.2%	12.8%	11.1%	8.3%	6.9%	4.9%	8.4%	8.9%
S&P 500 (in U.S. Dollars)	0.3%	1.2%	7.4%	15.7%	17.3%	17.3%	7.9%	4.4%	8.9%	9.2%

The management of our investee companies continue to execute well, and continue to meet or exceed our expectations. As a result, outside of natural resource producers, the market has been rewarding our companies with improved valuations. Overall, the portfolio has exceeded the returns of the North American stock market indices over the past two years.

The returns have been good in spite of the headwinds created by challenging commodity markets. With regard to oil and gas, we were fortunate to have reduced our commitment in the sector a year ago. We further reduced our exposure in the first half of this year. In this difficult environment, we want best-in-class management who are low cost operators with strong balance sheets and access to capital, if needed.

Besides weak commodity prices, the other knock against the Alberta-based producers is the recent election of an NDP government. It brings with it the uncertainty of new policies that may or may not be hospitable to the energy industry. Inhospitable royalty policies are not new. Let us not forget that one of the most punitive royalty regimes in recent memory (entitled "Our Fair Share") was foisted on the industry 8 years ago by the Alberta Conservative government of Ed Stelmach. It was so draconian it was ultimately rolled back. The industry survived and became stronger for it.

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

Our oil & gas companies are generating positive cash flow, and none are experiencing financial stress. The management teams who run our key holdings are doing a great job for us in this low commodity price environment. WTI oil peaked at roughly $107 per barrel in August 2014 before plummeting to $45 this past March. It has rallied to just under $60 at the end of June. North America natural gas peaked at close to $6 per mcf in February 2014 and bottomed at roughly $2.60 before recovering marginally to $2.80 June 30. Our gas producers . . . **Paramount Resources Ltd., Pine Cliff Energy Ltd.**, and **Tourmaline Oil Corp.** and our oil producers . . . **Parex Resources Inc.** and **Whitecap Resources Inc.**, continue to grow production, both through the drill bit and through well-priced acquisitions.

We also own shares and purchase warrants **Canadian International Oil Corp.** (CIOC), a private oil and gas company. We initially invested in CIOC in 2010. CIOC has a large (200,000 net acres) contiguous land base in the Montney and Duvernay formations in Alberta, two of the most prolific resource plays in North America. CIOC's key financial partner is Riverstone Holdings LLC, a New York based oil & gas private equity company. On June 30th, the Company closed a convertible preferred share financing with Riverstone which provided $200 million to the Company. In conjunction with the financing, the Company also put forth a Plan of Arrangement, which was approved by warrant holders, that reduced the strike price of the outstanding purchase warrants, and shortened the maturity date of those warrants to 2 years. The Company is now well funded and has the drilling opportunities to grow production. We are carrying the shares and warrants in the portfolio at what we believe to be a very conservative valuation.

We sold our holding in **PRD Energy Inc.** in the past quarter. We had made a small investment in PRD one year ago. PRD is a Canadian company with production in Germany, and the largest oil and gas land position in that country. The Company had a number of JV opportunities available to them for future development. However, the decline in the price of oil in the latter part of last year derailed those plans. To be consistent with our goal of staying with the companies with the strongest financials, we sold.

In our mining holdings, **Lundin Mining Corporation** (a new position reported on in the last quarter), announced a significant new discovery at their low-cost nickel mine in Michigan, which will ultimately add to their nickel production. Lundin Mining is a diversified, low-cost, global base metals producer: Copper 67%, Nickel 14%, Zinc 7%, Lead 6%.

Asanko Gold Inc. continues to make steady progress toward putting their Ghana gold project into production in the early part of next year. The construction is on time and on budget. We expect initial production to begin in the first half of 2016, ramping up to 190,000 ounces per annum in phase one. The second phase will be brought on using cash flow from phase one and will ramp total production up to 410,000 ounces per annum. Cash costs are expected to approximate $800 per ounce.

Nevsun Resources Ltd., our low-cost copper producer, continues to gush cash. Nevsun Resources has a market value of $900 million, has no debt, and has $450 million cash in the bank. They are looking for acquisition opportunities. We suspect Nevsun itself will be looked at as a takeover candidate. In the meantime, the Company pays a 4% dividend yield while we wait.

There have been no significant new developments regarding our forest product companies. However, on the macro front, the U.S. housing industry continues to gather momentum with the latest housing starts report coming in at just over 1 million units. This compares with a 2009 recession low of 0.5 million units. We expect U.S. starts will eventually trend back to a normalized level of roughly 1.5 million units.

In the industrial and consumer sectors, recent reports from each of our key holdings, **Bird Construction Co., Dirtt Environmental Solutions**, **Heroux-Devtek Inc., Linamar Corporation, Martinrea International Inc., Transat A.T. Inc**., **Rona Inc., Uni-Select Inc.** and **Velan Inc.,** continue to track to our expectations.

Our two auto parts companies, **Linamar Corporation** and **Martinrea International Inc.**, are currently benefitting from the tailwind of strong demand and production of motor vehicles in the U.S. Martinrea International Inc. has a new President/CEO, Pat D'Eramo. He definitely has the right credentials. We recently spent some time with him and we were impressed.

Transat A.T. Inc. recently reported strong fiscal results in a very highly competitive travel industry. Transat is a classic value situation. The Company is North America's largest integrated tour operator with revenues at $3.6 billion. The guts of the business is taking freezing Canadians to warm southern destinations in the winter, and to Europe in the summer. It is a very competitive business, but Transat has been at it for 30 years. They have built strong brand recognition and a strong network of travel partners. The Company is still run by its CEO and Founder, Jean-Marc Eustache. By our calculation, the break-up value of the business is somewhere between $13 and $16 per share. The current market value is roughly $8 per share. The tour business will make an estimated $85 million EBITDA this fiscal year. Valuing this at a reasonable multiple of 4 times, yields a value of $341 million or $9.27 per share. The Company also holds a 35% stake in 6 hotels located throughout the Caribbean and sits on a large, but varying, amount of cash. The market is attributing no value to the Company's hotels or its cash. Valuing the hotel interest at book value yields another $2.57 per share. Cash on the balance sheet varies seasonably between $1.50 and $4.00 per share.

	Value	Value per Share
Tour Operator Business		
Trailing 12 month EBITDA	$ 85.3 million	
Multiple	4 x	
	$341.2 million	$9.27
Book Value of Hotel JV	$ 94.5 million	$2.57
Cash		$1.50 - $4.00
Total		**$13.34 - $15.84**

Uni-Select Inc. is the largest after-market auto parts distributor in Canada and largest auto paint distributor in North America. The Company completed the sale of their U.S. parts division to Carl Ichan, Ichan Enterprises, on June 1st. The previously announced sale price of $340 million was a significant positive surprise to the market. Uni-Select is now debt free, and has plenty of financial flexibility to pursue expansion in their remaining lines of business.

Cott Corporation's share price has appreciated 50% year to date. Recall that we wrote about the Company in our previous report, following our visit with CEO Jerry Fowden in Tampa in January. We were very impressed by the progress that Jerry has made in diversifying the Company away from its traditional roots in carbonated soft drink production. Cott is the largest private label soft drink producer in the world. Jerry has done a wonderful job in shifting the focus of the business toward alternative beverage manufacturing, co-packing for other branded products, and of course with the transformational acquisition of DS Services which was highlighted in our previous report. DS Services is the largest direct-to- home and office supplier of water and coffee in the U.S. Carbonated soft drink production now accounts for less than 20% of Cott's total revenue.

Over the past quarter we also added two new companies to the portfolio, **XBiotech Inc.** and **AutoCanada Inc.**

We purchased a small 1% position in the initial public offering of technology company **XBiotech**. We have closely followed the Company for the past five years, while it was a private company. We have made numerous visits to their headquarters in Austin, Texas, and have spent a considerable amount of time with management; in particular the CEO and Founder, John Simard.

Our readers are likely wondering what hallucinogenic drugs we are taking. Why we would invest in a biotech company when we have just seen a raging bull market in bio stocks that would appear to be bubble-like in nature. A damn good question indeed.

Well firstly, let's stress that we are not betting the farm with a 1% position in the portfolio. It is a small position in a Company with many possible positive outcomes. Moreover, XBiotech is not a 'bubble' stock. It is relatively unknown and underfollowed. There is currently no research coverage.

The Company did an IPO in May, raising a relatively modest sum of $75 million. It remains tightly controlled (roughly 40%) by insiders (management and the Board). Like many of our investments, it is all about the people. We have spent a lot of time with John Simard and members of his team. John is the real deal. He is a leading expert in the area of human antibodies. He wrote the textbook and he holds numerous patents in the field.

Xbiotech is an industry leader in the application of human antibodies in the fight against inflammatory diseases. Unlike many emerging biotech companies which are one trick ponies, XBiotech has multiple indications for its technology. The Company is currently in various phases of clinical trials for a variety of these. The list includes . . . symptomatic and metastatic colorectal cancer; non-small cell lung cancer; type II diabetes, restenosis (heart disease); pyoderma gangrenosum (skin ulcers); acne; psoriasis; and, staph infections. XBiotech is also unusual for an emerging biotech in that it conducts all phases in house . . . R & D, clinical trials, and manufacturing.

The Company is currently well-funded with $100 million of cash on hand, the result of a private round late in 2014, and then the IPO this past quarter. In addition to John Simard, the Company has attracted two well-respected senior biotech executives to its Board of Directors. Dr. Fabrizio Bonanni is a retired Executive V.P. from Amgen Inc., a $100 billion market cap U.S. biotech giant. He is currently a Director of the Biotechnology Industry Organization. Dr. Daniel Vasella is Honorary Chairman and former Chairman and CEO of Novartis International AG, the Swiss-based behemoth $250 billion market cap biotech firm.

Over our 23 year history we have, from time to time, taken small positions in development companies; i.e. companies with no current revenues, but with a high probability of near-term revenues. In the past some of these smaller weighted investments have yielded outsized returns. The key ingredients have been the high quality of the assets, and the people involved. We currently have roughly 4% of the portfolio invested in 3 such companies ~ XBiotech Inc., Asanko Gold Inc., and Lundin Gold.

We initiated a larger position in **AutoCanada Inc.** AutoCanada is the only publicly traded consolidator of auto dealerships in Canada. The Company was founded in 2005 by Pat Priestner and he still Chairs the Company. Pat has run car dealerships for most of his adult life. Pat lives and breathes cars. He is regarded as one of the best operators in the auto dealer business in Canada. AutoCanada currently operates 46 dealerships, representing 12 auto manufacturers. They have most major car brands with the exception of Ford, Honda, and Toyota. These three have been reluctant to allow public companies to own dealerships in Canada. Public auto dealer companies in the U.S. (AutoNation, Penske Corporation), have been successful in breaking down these barriers. It is a reasonable bet that Canada will follow.

The auto dealer business is attractive. Witness that in May, Berkshire Hathaway completed the acquisition of the Van Tuyl Auto Group, the largest auto dealership acquisition in the industry's history. At the time of the deal Van Tuyl had 78 dealerships and roughly $9 billion in revenue. Buffett has stated publicly that this is just the beginning of his foray into this business.

For reference, the auto dealer industry is the largest retail segment in Canada. It accounts for $120 billion in annual revenues, 24% of overall annual retail sales in Canada, and employs 4.8% of the Canadian workforce. The auto dealer business is fragmented, and consolidation is underway. There are 3,400 dealerships in the country ~ 50% are single ownership; 15% are 2 to 4 dealerships; and 35% are 5 or more.

We started buying AutoCanada early in the quarter. To date our average cost is just over $40 per share, well below the high of $92 that it reached in the latter part of 2014. AutoCanada's origins are in Alberta and is headquartered in Edmonton. It has roughly 44% of its revenue in Alberta. Sharply lower energy prices equal lower sales in its Alberta stores. Layer on the election of the NDP government in Alberta and we have another knock against the Company. Neither will be a fatal blow. AutoCanada will continue to expand, both through acquisition and organically.