September 30, 2016

DK EQUITY GROWTH FUND

DEANS KNIGHT

CAPITAL MANAGEMENT LTD

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Quarterly Report
September 30, 2016

Rates of Return[1]

	3 Mths	YTD	1 Yr	3 Yrs	10 Yrs	15 Yrs	20 Yrs	Since Inception March 31, 1993
DK EQUITY GROWTH FUND	**5.9%**	**21.7%**	**23.9%**	**13.1%**	**6.2%**	**16.6%**	**11.4%**	**14.9%**
S&P/TSX Composite Index	5.5%	15.8%	14.2%	8.0%	5.3%	8.0%	7.7%	8.7%
S&P 500 (in U.S. Dollars)	3.8%	7.7%	15.3%	11.1%	7.2%	7.1%	7.9%	9.0%

During the past quarter we endured the summer market doldrums. The same bearish concerns that dominated the headlines earlier in the year continued to dominate over the past few months. We reported on these concerns in our past two quarterly reports (click to review March 31, 2016 and June 30, 2016) . . . slow global growth . . . threat of a U.S. recession . . . China collapsing . . . excessive debt . . . threat of rising rates . . . Brexit . . .weak oil prices . . . the upcoming U.S. Presidential election . . .

In spite of all the negative noise, the broad market indices and our portfolio valuation climbed that wall of worry. Our valuation improvement had little to do with the "macro" environment, but much to do with positive developments at some of the individual companies that we own. Let's look at these developments . . .

Paramount Resources Ltd. . . in early July Paramount announced the sale of 310 net sections of Deep Basin Musreau/Kakwa assets to Seven Generations Energy Ltd. (Seven Gen) for $1.9 billion. The deal was comprised of $475 million cash and 33.5 million Seven Gen shares valued at $25 per share (approximately $837 million). Seven Gen also agreed to assume Paramount's outstanding U.S. $450 million ($585 million Cdn) unsecured notes due in 2023. This transaction is in addition to Paramount's previously announced March sale of its gas plant and other physical assets for $556 million, which we reported earlier in the year.

[1] Returns are presented gross of management fees.

Following the July sale, Paramount emerged with:

- 10,500 boepd of production (67% gas)
- A land base of 660,000 net acres
- 10% of the shares of the publicly traded, TSX listed, Seven Generations Energy Ltd.
- Northern frontier assets in Central Mackenzie and Mackenzie Delta region
- Cavalier Energy Inc. oil sands assets
- 7 triple sized drill rigs
- Shares in publicly traded Trilogy Energy Corp., MEG Energy Corp., Strategic Oil & Gas Ltd., Marquee Energy Ltd., and RMP Energy Inc.

At the time of the July transaction we placed a value of Paramount's portfolio assets at $9.00 and the value of the remaining 10,500 boepd production at $6.00 per share, for a total of $15.00. The shares were trading at $9.80 prior to the transaction and quickly appreciated. Clay Riddell, Executive Chairman of Paramount, subsequently acquired 3.6 million shares in the market at $12.10 ($46 million), to bring his total investment to 44.7 million shares or 42% of the total outstanding. Moreover, one of the Directors (the second largest inside shareholder) bought 150,000 shares to increase his holdings to 2.3% of the outstanding shares. It gives us comfort to see management's confidence in the business and we applaud the alignment of their interests with ours. Earlier this year we were able to acquire additional shares of Paramount as low as $4.00 per share. Paramount shares closed September 30 at just under $15.00 per share.

On September 22, Paramount announced they had monetized 24.7 million of the 33.5 million Seven Gen shares for gross proceeds of $735 million . . . $310 million now, and the balance in December. Paramount will record a gain of $110 million on the sale, and they will now have $780 million of cash on hand, $450 million of equity in publicly traded companies, 10,500 boepd of cash flow production, partially offset by $284 million of debt maturing in 2019. The Company has plenty of liquidity to exploit and explore their 660,000 acres of land. Earlier this year, Mr. Market had all but written off and abandoned the Riddell's and Paramount . . . a misjudgment of high quality people and assets.

Sleep Country Canada Holdings Inc. . . reported strong Q2 results on July 28. Year over year revenues were up 17%, EBITDA up 34%, and net income and earnings per share up 42%. Same store sales are up 12.2% . . . the 12th consecutive quarter of strong same store sales growth. During the quarter, Sleep Country opened 5 new stores and renovated 5 existing stores. The Company also announced a 15% increase in the quarterly dividend.

Cott Corporation . . . on August 4 Cott reported positive 2nd quarter results which included strong new customer additions in its U.S. home and office coffee/water delivery business, a 4% increase in beverage case volume (sparkling water growth more than offsetting declines in carbonated soft drinks and juices), a 15% growth in contract manufacturing, and increases in operating and free cash flow. Cott also announced its third major acquisition in the past two years, with the purchase of S&D Coffee & Tea. S&D is a premium coffee roaster and provider of customized coffee, tea and extract solutions to the food service, convenience, gas, hospitality and office segments in the U.S. The purchase price was U.S. $355 million. Cott has done a superb job over the past two years, squeezing cash flow from its traditional, but declining, private label soft drink and juice business, and redirecting the cash towards acquisitions in the growing coffee and water home and office delivery business.

Linamar Corporation . . . reported record 2nd quarter results on August 10. Year over year sales were up 21%, operating earnings up 29%, and net earnings and earnings per share up 31%. Content per vehicle grew in every market segment, and new business wins increased the launch book to $3.9 billion.

Pine Cliff Energy Ltd. . . the shares of our pure natural gas producer benefitted this quarter from an improvement in natural gas pricing (from $2.30 mcf June 30 to $2.60 mcf September 30). Moreover, on August 10 Pine Cliff announced that they renewed their credit facilities with the Canadian banking syndicate, and closed a $30 million private placement with Alberta Investments Management Corporation of 6¾% notes due 2020, with 4.5 million warrants exercisable at $1.38 until August 2018. The balance sheet is now solid. Pine Cliff continues to be one of the best managed and lowest cost operators in the Canadian oil and gas industry.

Maxim Power Corp. . . there were two important developments in September. Maxim is an independent power producer which owns and operates 39 power plants generating 778MW in three business units . . . Alberta, the United States and France. Maxim's stated strategy is to maximize and monetize the value of these assets.

On September 13, Maxim announced an agreement to sell its 32 natural gas-fired power generation facilities (totaling 176MW of capacity) in France for approximately $1.30 per Maxim share.

On September 26, Maxim announced a resolution of their dispute with the U.S. Federal Energy Regulatory Commission (FERC) by agreeing to make settlement payments totaling $8 million over the next 2 years. In November 2014, FERC had alleged that Maxim violated power pricing regulations which Maxim vigorously denied. The settlement now clears the way for the U.S. assets to be sold. The U.S. assets could fetch $2 per share, at a minimum. Maxim's shares are valued in the market at roughly $3. This implies that the Alberta assets are worth less than zero.

We commented extensively in recent reports, and as well in a speech delivered in Montreal on April 26, about our take on the two-year decline in oil prices. Our views remain unchanged. The price of oil was little changed on September 30 from June 30 ($48 range). However, the global oil market continues to rebalance. In response to the decline in pricing, capital investment by the industry has declined for 3 consecutive years, and in 2015, the discovery of new reserves fell to a 60 year low. Meanwhile, the global demand for oil continues to grind higher.

What is not getting much publicity is the significant reduction in drilling, well completion, and G&A expenses in the industry. We are being told by our oil and gas teams that the reductions on the cost side are meaningful and significant. One CEO, who is actively drilling and producing in the prolific Montney region in Western Alberta, claims that the cost to drill and complete a similar well today, compared to a year ago, is roughly 30% lower . . . and recoveries are better. Two conclusions . . . the well-run, low-cost operators can make decent returns on capital at these lower oil prices . . . and when we see an improvement in product prices over the next two years, we will see a gusher of cash flows from these companies.

During the quarter we did not add nor delete any companies from the portfolio. As usual, during the summer months there was a slowdown in the number of companies coming through our office to tell their stories. Of those we saw, we did not find any that met our criteria. However, we did add shares to our existing holdings in Linamar, **Nevsun Resources Ltd.** Paramount and **AutoCanada Inc.**