DEANS KNIGHT
CAPITAL MANAGEMENT LTD

DK BOND FUND

Quarterly Report
March 31, 2005

Rates of Return

	3 Mths	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	10 Yrs
DK Bond Fund	**7.5%**	**29.2%**	**28.0%**	**21.5%**	**17.4%**	**12.2%**	**11.4%**
SCM Universe Bond Index	1.1%	5.0%	7.9%	8.3%	7.5%	7.7%	8.6%
ML CDN High Yield (hedged)	-1.8%	4.8%	12.0%	8.8%	5.2%	3.3%	
ML USD High Yield (unhedged)	-1.4%	6.9%	14.3%	10.5%	7.9%	6.7%	7.5%

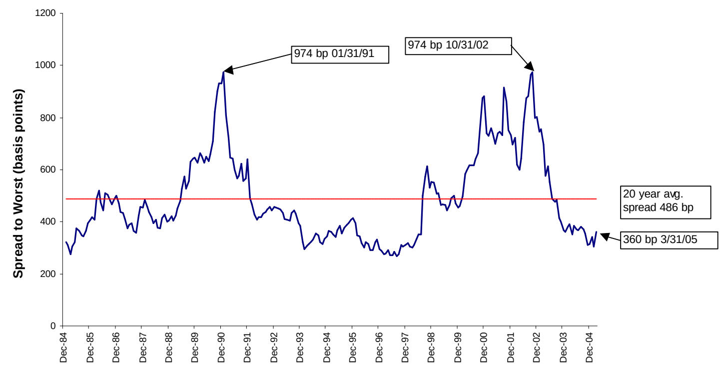
It has been the best of times for corporate credit and DK portfolio returns show it. Looking forward, investors should expect DK portfolio returns to be much lower than in the last 3 years. Future returns will be primarily generated from portfolio income and that is currently running around 7¼%. In the current environment banks and institutional investors are tripping over themselves to lend money to corporations - and at interest rates that are extremely low by historical standards. Corporations have lots of available liquidity at a low cost and they are operating in an improving economic environment. For corporations it doesn't get much better than this, and many companies are taking advantage of this favourable environment to refinance and replace existing high cost debt with lower cost financing.

Unfortunately, as income investors, the current favourable environment is working against us. When companies refinance it often creates a capital gain in the portfolio but it lowers future portfolio income returns. For example, we held 5% of the DK portfolio in **Anchor Lamina** $9^{7/8}$% bonds due in 2008. The book cost in the portfolio was $65.75, meaning this holding provided an income return of 15% on portfolio cost. Anchor Lamina called these bonds at $101.64 during the quarter. While the portfolio has booked a significant gain this quarter, it is obvious that we will have difficulty reinvesting these funds to earn even half the former income. Similarly, **Scott Paper** is redeeming the 10% bonds due in 2007 at $100 and **Petrobank Energy** is also calling 20% of the 9% bonds due in 2006. These redemptions indicate corporations have low cost capital available now and that new investors are less concerned with credit quality.

The graph below indicates credit spreads are well below the long-term average similar to the 6 year period 1992 to 1998. With narrow credit spreads today and historically low interest rates, it is difficult for us to find income opportunities in corporate bonds where the return compensates for risk. To earn attractive returns we may need to be patient until interest rates are higher.

Credit Spread History

Merrill Lynch High Yield Master Index Less 10 year Treasury Yield



Source: Merrill Lynch high yield

During the quarter we added to the portfolio holding of **Paramount Resources** 8½% bonds due in 2013. The first call date is in 2007 at a price of $104. We believe there are good reasons why the Company may redeem the bonds in 2007 and this would provide a return of 9.35% on the average portfolio cost.

We continue to look for more unique income opportunities and hold approximately 20% (by book value) of the portfolio in income trusts and other equity securities. These holdings have added significantly to returns. For example, the share price for **Vicwest Corporation** rose almost 50% during the quarter after the Company announced it will be pursuing conversion to an income trust. The Company also reported very good 4^{th} quarter earnings, and earned cash flow during 2004 of $28.6 million (EBITDA less capex). This cash flow equals $1.40 per share and if paid out before tax would provide income of 13% based on the quarter-end share value. Vicwest is an attractive income trust opportunity and has grown in value to become the largest portfolio holding.

Market prices for most income trusts have increased significantly over the past few years raising concerns of overvaluation. We share this concern and we have kept our income trust holdings to a small number (5) and a small portion of the portfolio (13%). We only invest in companies with a business and management we know well and where we can purchase units at an attractive cost price. **Harvest Energy**, our largest income trust holding, is attractively valued (4.5x cash flow), has a healthy balance sheet and strong income distribution visibility. Harvest paid distributions in 2004 of only 50% of generated cash flow (the average for income trusts is over 80%); the remaining funds are retained to grow the assets of the company. We believe our income trust holdings, like Harvest Energy, provide attractive income payments and are priced at sensible valuations.

Outlook

We continue to keep a short term to maturity for bonds in the portfolio in order to minimize the risk of a potential rise in general interest rate levels. We will be patient and allow the cash portion of the portfolio to rise while we wait for investments that add significant income and value to the portfolio. The DK portfolio currently provides an income return of approximately 7¼% annualized.

Portfolio Holdings

As of March 31st, the 10 largest holdings were:

	% of Portfolio	
Vicwest Corp.	10.9%	Building & Construction
Sherritt Intl. Corp.	4.8%	Power Producer
Harvest Energy Trust	4.5%	Oil & Gas
Call-Net Enterprises	4.0%	Telecommunications
Gerdau Ameristeel	3.7%	Steel Mini Mills
Baytex Energy Ltd.	3.6%	Oil & Gas
Paramount Resources	3.6%	Oil & Gas
Petrobank Energy	3.5%	Oil & Gas
Saskatchewan Wheat	3.5%	Agricultural Operations
LionOre Mining Intl.	3.5%	Nickel Mining
Total	**45.6%**	