June 30, 2014

DK INCOME FUND

DEANS KNIGHT
CAPITAL MANAGEMENT LTD

DEANS KNIGHT
CAPITAL MANAGEMENT LTD

DK INCOME FUND

Quarterly Report
June 30, 2014

Rates of Return[1]

	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	15 Yrs	20 Yrs	Since Inception June 1993
DK Income Fund	**5.1%**	**6.3%**	**6.8%**	**6.0%**	**13.0%**	**12.9%**	**10.9%**	**11.5%**	**11.3%**
DEX Universe Bond Index	2.0%	4.8%	5.3%	4.8%	5.2%	5.5%	5.9%	7.2%	6.8%
ML CDN High Yield	3.0%	6.8%	13.2%	9.9%	13.2%	6.0%	4.7%		
ML USD High Yield	2.6%	5.6%	11.8%	9.3%	13.9%	8.9%	7.5%	8.2%	7.9%

During the quarter, the DK Income Fund return was 5.1% versus a 3.0% return on the Canadian High Yield Bond Index and a 2.0% return on the DEX Universe Bond Index (a portfolio of government and investment grade bonds). The DK Income Fund provided returns this quarter above the indices, largely as a result of our investments in dividend paying equities. These investments provided half of the return during the quarter, despite only representing 22% of the portfolio.

With extraordinarily low interest rates and the spread between corporate and government bond rates at historical lows, we are looking at a universe of low yield bonds regardless of credit rating. In such periods like today, it is necessary for us to become more creative and diversify from traditional high yield bonds in order to generate higher income for our clients.

As mentioned above, one area we have focused on over the last few years of low interest rates, is dividend paying equities. Because dividend distributions are not guaranteed, we look for companies with sustainable and predictable cash flow; strong management teams; a strong competitive advantage; reliable cash flows with potential for growth; strong balance sheets; and hidden value. In the short term, equity prices can fluctuate, but over the long term we believe these income generating equity investments will augment the returns on our high yield bonds. Here is a list of our current equity positions and their total return during the quarter:

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

Security	**Sector**	**3-Month Total Return**
American Hotels	Hotel REIT	1.1%
Bird Construction	General Contractor	-3.7%
Contrans Group	Trucking	23.7%
Range Royalty Trust	Oil & Gas Royalty	32.5%
Vicwest Inc.	Ag and Building Products	19.3%
Wajax Corp.	Industrial Equipment	-2.0%
Whitecap Resources	Oil Producer	35.0%
	Simple Average	**15.1%**

In addition to dividend paying equity, we continue to look for private debt financings. They are well secured; short term (e.g. less than 3 years); pay a higher coupon; and provide capital growth through "equity kickers" in the form of warrants, convertible debt, or ongoing royalties. In June, we funded a $5 million Senior Secured Note to a private mining company, of which the DK Income Fund committed $2.15 million. Our Note is secured by the equipment, with a conservative $9 million appraisal value, and mineral rights which the company recently acquired for $15 million. The Note is a short term bridge with a maturity of 18 months although we expect it to be repaid early. The total return ranges between 14 – 18% depending on how long the Note is outstanding.

To generate yield, we will continue to hunt for private debt opportunities, and for high dividend paying equities. Our holding in **Whitecap Resources Inc.** highlights both of these opportunities. When Whitecap started 5 years ago, Deans Knight was a founding investor on behalf of our clients, providing equity capital and a secured convertible debenture. Our converts had an exercise price of $2.88 per share and within 15 months were converted into equity as the share price was trading above $6.00 per share. We sold roughly half of our shares as they appreciated in value but retained the balance. In 2013, Whitecap began paying a dividend with a yield of roughly 5% on today's stock price which has risen to $16.00 per share.

At the end of the quarter, there were positive developments regarding our investment in **Mirabela Nickel**. You will recall that late last year Mirabela was a victim of a two year slump in the nickel market. We worked for over 6 months as part of a debtholder group to restructure the Company. As a result, we exchanged our debt for shares in the restructured business. The new shares were re-listed on the Australian Stock Exchange on June 30th. Our ultimate recovery on the initial debt investment will be determined by the value of the shares. We have been carrying the debt at 10 cents on the dollar, but strongly believe the ultimate recovery price will be higher.