DEANS KNIGHT
CAPITAL MANAGEMENT LTD

DK BOND FUND
Quarterly Report

September 30, 2003

Rates of Return

	3 Mths	YTD	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	10 Yrs
DK Bond Fund	**5.7%**	**19.3%**	**27.2%**	**18.0%**	**6.2%**	**5.6%**	**5.5%**	**9.2%**
SCM Universe Bond Index	1.3%	5.7%	8.1%	8.3%	8.5%	7.9%	6.7%	8.3%
ML CDN High Yield (hedged)	2.2%	19.9%	36.6%	10.4%	1.3%	0.9%	2.9%	
ML USD High Yield (unhedged)	2.6%	21.0%	29.3%	12.2%	5.7%	4.5%	4.4%	6.8%

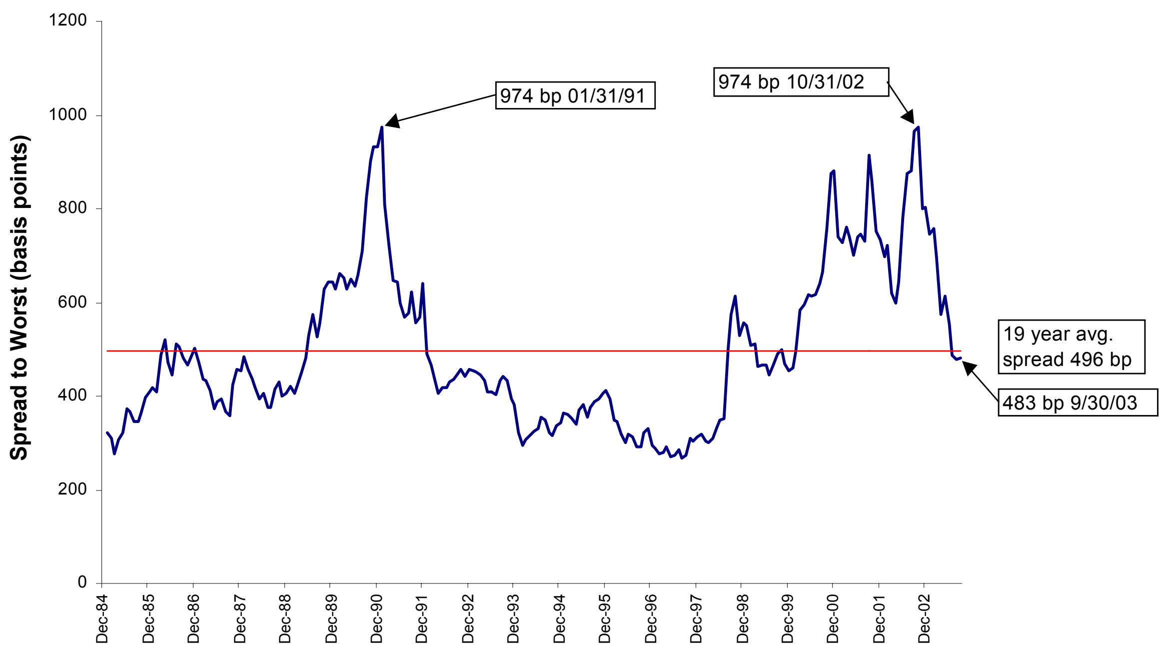
The third quarter was again positive for corporate bonds. The DKBond fund earned 5.7% for the quarter versus 1.3% for the SCMU bond index (primarily Government bonds). Investors in the DKBond fund have enjoyed a 19% year-to-date return and 18% per annum over 2 years. This 2 year return is more than double the return of 8.3% for the SCMU bond index. The fundamental backdrop for corporate bonds is quite favourable. Economic growth is accelerating, earnings are positive and stock prices are rising. Reported changes to corporate bond ratings are turning more positive and corporate default rates are less than half the peak level reached 18 months ago in February 2002.

With all this good news investors are probably wondering whether corporate bonds will continue to produce high double-digit returns. Our best guess for returns over the next 2 years is more moderate at 8½ - 9%. Why? Because this return is roughly equal to the income distribution generated from the portfolio. We do not see the potential for significant further capital gains for 3 reasons:

Firstly, corporate bond valuations were too low last year and have snapped back quickly. The unusually large return this year is largely the result of corporate bond valuations that were too cheap, for too long, returning to normal levels this year. The good news is bond valuations were so undervalued to begin with, that despite strong returns this year, the high yield corporate bond market still looks attractive. Current credit spreads still provide generous added coupon income of 483 basis points over U.S. Government bond yields.

Credit Spread History

Merrill Lynch High Yield Master Index Less 10 year Treasury Yield



Source: Merrill Lynch high yield

Secondly, we should not count on further credit spread narrowing to generate higher prices. Corporate credit spreads have returned to their long-term historical average as shown in the chart above. Credit spreads should be more stable during a period of economic improvement, similar to the 1992 to 1997 period. This means investors in higher yielding corporate bonds should expect to earn returns primarily from portfolio income. The DKBond fund distribution has provided an income return of 9.3% (annualized) for the year-to-date period. We believe that an 8½ – 9% return over the next 2 – 4 years is an attractive investment and is double the interest return available from Government bonds.

Finally, bonds have a natural tendency to go to $100 (par value) over time. The starting unit value for the DKBond fund was $500 in 1993 and the current unit value is $491.50, or slightly below the starting value. There is obviously little room left for capital appreciation. During the last 10 years, while the DKBond unit value has fluctuated above and below $500, portfolio return has consistently been provided from interest income. Since inception 10 years ago, each DKBond unit has received $499.35 in interest distributions, a greater amount than the current unit value. This clearly illustrates that it is interest income that generates bond return over time.

Portfolio Activity

It is our policy to hedge the currency exposure on U.S. dollar bond holdings. As a result, the portfolio has not been negatively impacted by the 14% decline in the U.S. dollar this year. U.S. dollar bond holdings are sizeable at 36% of the portfolio. Because there are more investment opportunities in U.S.

markets, and because we are able to hedge the currency risk, we continue to add to U.S. dollar holdings. For example, during the quarter we added new U.S. dollar bonds in **DiGiorgio Corp**. (food distribution) to yield 10.0%, **Calpine Corp**. (power utility) to yield 8.75%, **Metro PCS** (cellular phone) to yield 10.75% and **Quintiles Transnational** (pharmaceuticals) to yield 9.75%. We are still able to find bond opportunities that provide income at or above the portfolio income distribution of 9.3%.

Conclusion

The environment is favourable for corporate bonds, bond valuations remain reasonable and DKBond fund distributions provide an interest return of 9.3% (annualized). We believe investors continue to be fairly compensated for investing in a well-diversified portfolio of corporate bonds.