December 31, 2009

DK INCOME FUND

DEANS KNIGHT
CAPITAL MANAGEMENT LTD

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Quarterly Report
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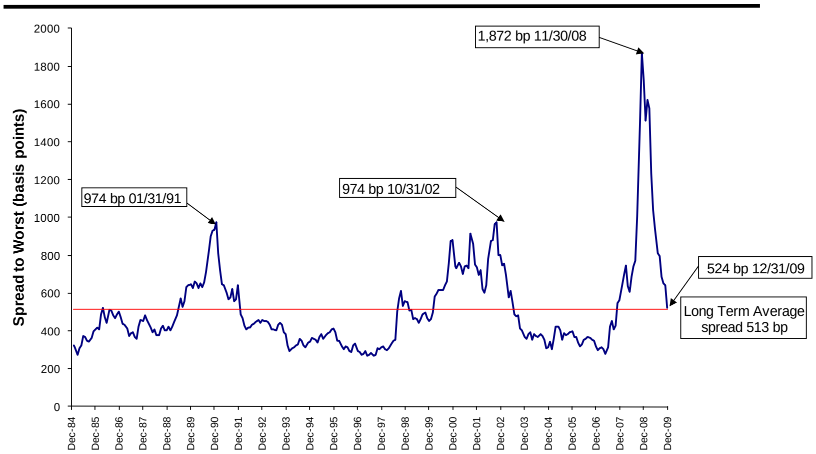
Rates of Return[1]

	3 Mths	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	10 Yrs	15 Yrs	Since June '93
DK Income Fund	**8.4%**	**60.6%**	**13.2%**	**14.0%**	**12.7%**	**14.3%**	**12.3%**	**12.2%**	**12.0%**
SCM Universe Bond Index	-0.2%	5.4%	5.9%	5.2%	4.9%	5.2%	6.7%	7.7%	7.3%
ML CDN High Yield	5.3%	47.5%	-0.5%	0.2%	2.4%	1.4%	2.2%		
ML USD High Yield	6.0%	57.5%	7.7%	5.8%	7.3%	6.4%	6.5%	7.6%	7.2%
S&P/TSX Composite Index	3.9%	35.1%	-4.9%	-0.2%	3.9%	7.7%	5.6%	9.3%	9.0%

During a recession, corporate bond prices decline as investors become increasingly concerned about potential defaults. As we entered 2009 mired in the worst global recession since the 1930's, spreads had widened to historically high levels, see graph below. These widening spreads led to the DK Income Funds negative 20.3% return in 2008. As history has shown, this is also the best time to buy corporate bonds. When credit markets improve and spreads return to more normal levels, the high yield bond market provides equity like returns.

In 2009, the economy showed signs of improvement, corporate credit spreads returned to their long-term historical average and bond prices rose dramatically. As a result, our total return in 2009 was over 60%. An incredible number, which was only achievable because of the unprecedented situation we were faced with in 2008.

Credit Spread History
Merrill Lynch US High Yield Master Index Less 10 year Treasury Yield

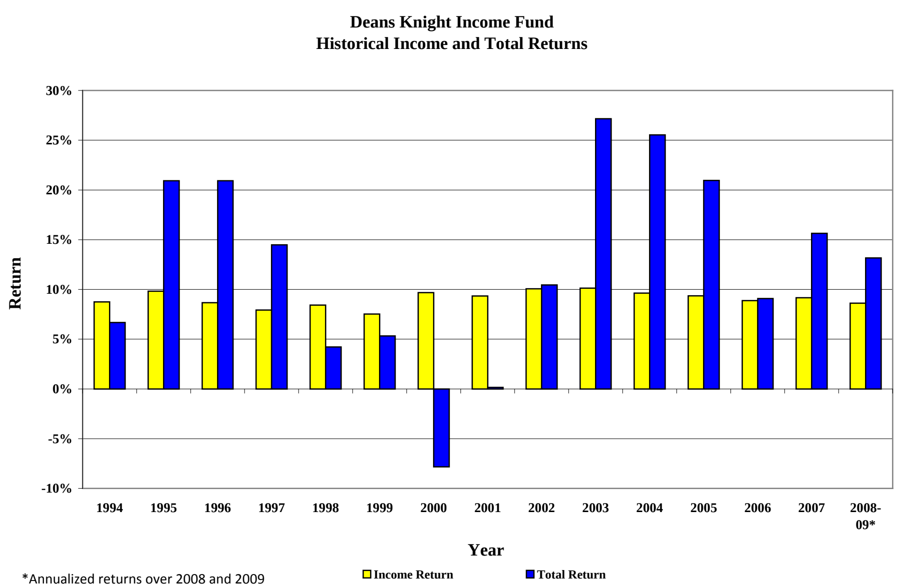


Source: Merrill Lynch high yield

[1] Returns longer than one year are annualized.

For a long term investor, our 2008 and 2009 annual returns are irrelevant. As prices fell off during the fourth quarter of 2008, we were focused on owning debt in businesses with tangible assets as collateral, strong cash flows and reasonable leverage that we felt would weather a prolonged downturn. We didn't panic, didn't sell any of our core holdings, and in some cases added to them, and remained fully invested throughout the credit crunch. In fact, nine of our top ten holdings as of September 30, 2008 were top ten holdings during the fourth quarter of 2009. Our investment philosophy never changed. As a result, we were able to recuperate the "paper" losses suffered in 2008 and provide an annualized 2 year return of 13.2% from December 2007 to December 2009.

To give you an idea of how the last two years compare to our previous 15, we present the graph below. We have used this graph in the past to show historical annual income and total returns since inception. In order to put this in perspective, we have combined 2008 and 2009 and provided annualized income and total return for these two years.

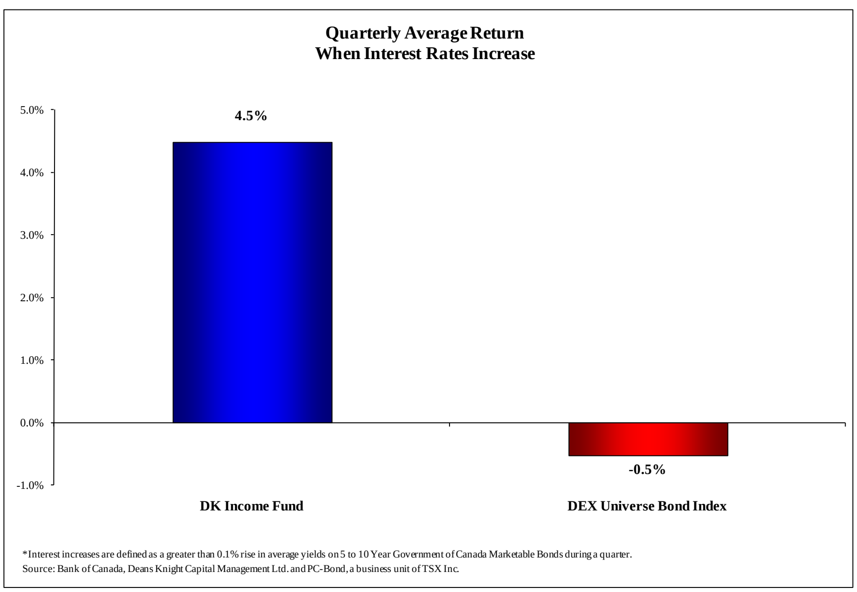


The main objective of the DK Income Fund is to provide a higher income stream than available from government and investment grade bonds while preserving capital. Since the Fund's inception, we have demonstrated an ability to generate stable income returns of 7.5% to 10% for our clients. The graph above shows that despite the volatility over the last two years, we were able to generate income consistent with our historical distributions as well as provide additional return from capital appreciation.

Bonds were so undervalued in early 2009 that, despite recent returns, the high yield corporate bond market still looks attractive. Corporate credit spreads have returned to their long-term historical average, as shown in the chart on the first page. Although we should not count on further credit spread narrowing to generate higher prices, with 10-year Government bonds in Canada and the U.S. below 4%, high yield bonds continue to offer the most attractive income returns for investors.

What does the future hold? Although we don't have a crystal ball, bond portfolio returns are far more predictable than stock returns. Over the long run, the rate of return from investing in bonds should be its current yield. The DK Income Fund currently provides interest distributions of 7.5%, versus 10-year Government bonds and investment grade bonds yielding 3.7% and 4.6%, respectively.

We feel high yield bonds offer the most attractive income returns, especially given the risk of rising interest rates as the economy improves. A rising interest rate environment is negative for investment grade bonds. Currently, the difference between the 10-year U.S. treasury yield and average U.S. corporate bond yields is less than 1%. As government interest rates rise, prices on investment grade bonds, which typically have a fixed coupon, would have to fall. Otherwise, investors could earn more investing in less risky government bonds. In contrast, a rising interest rate environment for high yield bonds is actually positive. High yield bond spreads are determined by credit quality. Interest rates won't rise until the economy shows signs of recovery, which means credit markets are easing and the risks associated with high yield bonds are diminishing. Therefore, a rise in interest rates would be more than offset by the improving credit environment. In addition, the average term on high yield bonds currently outstanding in the market is lower than investment grade bonds, 6.0 years versus 9.9 years, as investors are willing to lend money to higher rated credits for longer periods. Moreover, the average term of the bonds in the DK Income Fund is 5 years. As interest rates rise, the average price of investment grade bonds should fall by almost 50% more than high yield bonds, all else being equal.[2] The graph below provides a comparison of the DK Income Fund returns versus returns of the DEX Universe Bond Index[3] during quarters where interest rates have risen.



It's a fool's game to predict what will happen in the short term with respect to bond prices. All we can do is concentrate on investing in businesses with tangible assets as collateral, strong cash flows and reasonable leverage that generate an attractive income return for our clients.

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[2] Calculated using duration of the ML US Corporate Index (6.2) and the ML US High Yield Index (4.3). Duration can be defined as the percentage change in a bond's price function with respect to interest rates.

[3] The DEX Universe Bond Index was designed to be a broad measure of the Canadian investment grade fixed income market