DEANS KNIGHT
CAPITAL MANAGEMENT LTD

DK EQUITY GROWTH FUND

Quarterly Review
March 31, 2005

Rates of Return

	3 Mths	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	10 Yrs
DK Equity Growth Fund	**12.1%**	**40.2%**	**49.4%**	**36.9%**	**37.0%**	**33.5%**	**20.0%**
S&P/TSX Composite Index	4.4%	13.9%	25.3%	8.9%	7.9%	2.0%	10.2%
DJIA	-2.1%	3.6%	17.2%	2.6%	3.7%	1.2%	11.9%
S&P 500	-2.1%	6.7%	20.1%	2.7%	2.1%	-3.2%	10.8%

The broad Canadian stock index, the S&P/TSX, has provided better returns than the U.S. Dow Jones and S&P 500 for the past few years due mainly to its much higher weighting in oil and gas stocks. Oil continued to be big news in the first three months of 2005. After making a record high of roughly $55 per barrel in October of last year, the price per barrel slumped to $41 early this year, but bounced back to set a new record of $57 in late March.

We have written extensively about oil and gas and the related stocks because we believe that the fundamentals of the industry are not well understood and are not accurately reported or interpreted in the financial press. The oil industry has attracted more attention from investors over the past few years. Investors have been drawn to the sector because of rising prices and also because oil and gas has become a bigger weight in the S&P/TSX index. The bulk of the "professionally" managed money in Canada is either benchmarked or indexed to the S&P/TSX. Back in 1999, when oil was $11 per barrel and oil companies were cheap, oil and gas stocks represented roughly 8% of the index. As of March 31, 2005, with oil at $55, the weight is 21.5%. Therefore, just to be a "market weight" or "neutral weight", a portfolio manager would have to invest 1 out of every 5 dollars of their assets in this sector. Moreover, if the sector is leading the market higher, the manager must "overweight". This draws to the sector a significant number of investors who now have to own oil stocks, and own them in a major way. Many of these investors are new to the area and have little experience investing in the oil business. This is creating increased volatility, pricing distortions, and overvaluations in some of the shares.

The dramatic rise in oil is also attracting more journalistic attention to the sector. This is good because it brings more information to the average investor, but bad as we begin to see more misinformation being reported. One storyline that is beginning to emerge draws parallels between the tech bubble of the late 1990's and the rise in oil shares. This is just plain dumb. We suspect these stories are being printed just for their shock value. Yes, the oil and gas sector is attracting speculators, momentum players, and plain ignorant investors because it is going up in value. However, to compare this to a tech bubble is stretching it.

The tech bubble was the biggest speculation in the history of financial markets, and when it burst, it represented the biggest destruction of wealth in history. The valuation distortions at the peak of the bubble were extraordinary. Nortel alone, a company with dubious earnings, was given a value of $400 billion at its peak. By comparison the current market cap of the entire S&P/TSX Energy index of 34 companies is only $259 billion. By daily trading volume, oil is by far the most valuable commodity in the world, and it has been for decades. However the price of a barrel today is still 37% below its inflation adjusted previous peak of $91.50 per barrel, reached in 1980. Furthermore oil priced in Euros is still at the same level as it was in October 2000. The price of world oil and North American natural gas has risen in U.S. dollar terms mainly because underlying growth in global consumption has been growing faster than production capacity for over a decade. Excess capacity is now razor thin. It is no more complicated than that. To suggest that this is a bubble akin to the late 1990's is a distortion of the facts.

That said, oil and gas shares, because of the increased attention, certainly trade at higher valuations than 5 years ago. For example, in 1999 we could buy good quality exploration and production companies at below net asset value and at previous year cash flow multiples of 2 – 3 times. Today, many companies trade at 2 – 4 times NAV and 5 – 10 times forward cash flow. Moreover, some companies with poor producing assets, and some with no producing assets, are being accorded significant valuations. Five years ago we might have seen one new oil financing per month. Now we see one per day. Many are not worth investing in. In our view, investing in the sector can still be rewarding, but less so. Furthermore, it is a lot more work than it was 5 years ago, and you have to be a lot more skeptical and definitely more patient.

Over the past year we have sold down a number of our larger positions in the oil patch, as the valuations have increased. Among the notables have been **Vermilion Energy Trust, Peyto Energy Trust,** and **Ketch Resources Trust.** We have added some junior names, particularly those that are staffed by management teams that we are familiar with and have confidence in.

Also in Q1 we sold the last of our position in **Algoma Steel** at prices as high as $39.80. It is always a tough decision to divest of a winning stock, especially when business conditions are so strong. However, this is a company that 2 years ago at $1 per share had a total value of $30 million and had sales of $1.2 billion. Today the market value is $1.3 billion with sales of $1.8 billion. The market value to revenue ratio has gone from 2.5% to 72%. When the shares were valued at $1, the book value $15. The stock recently traded as high as $40 and book value is $32. Price to book has gone from 6.7% to 125%. Time to leave the party.

We also sold 20% of our **First Quantum Minerals** shares. Again, simply a matter of valuation. As an offset we continued to add to **Anvil Mining Limited**, another copper producer, but we feel with a better valuation. We continued to build the position in **Kagara Zinc Ltd.**, an emerging low cost Australian based zinc producer. In the case of Anvil and Kagara we are familiar with the key individuals and have confidence in their ability to continue to grow the business.

We also continued to buy **Paladin Resources**, an Australian based uranium company that is scheduled to begin producing in Namibia early 2006. We believe the fundamentals for uranium parallel those of oil, i.e. years of underinvestment in production capacity being caught by steady global growth in energy demand.

We increased our ownership in **Maxim Power Corporation**. In Q1 Maxim acquired the 80% of H.R. Milner, a coal-fired power facility, that it did not own. This doubles the size of Maxim's power output. Furthermore the transaction brings with it a strengthening of the Board and also gives the company a larger platform from which more growth can be driven.

We had written before that attractive situations may emerge in those Canadian companies that have been beaten down by the steep appreciation of the Canadian dollar, and higher input costs such as steel and energy. We have substantial investments in a number of these companies (**Winpak Ltd**., **CAE Inc., Velan Inc., Exco Technologies, Linamar Corporation**) and in most cases we plan to be patient and expect them to make money for us over time. However, we did sell our holding in **CFM Corporation** (barbeques & fireplaces) as we felt that the effect of the rising Canadian dollar and rising steel prices, combined with their ill-timed expansion with the barbeque manufacturing business, could prove to be too difficult for them to overcome.

As of March 31st, the portfolio breakdown by industry group stood as follows:

Energy	43.9%
Industrials	20.4%
Base Metals & Minerals	19.5%
Consumer Discretionary	6.1%
Healthcare	3.1%
Utilities	2.3%
Paper & Forest Products	2.0%
Other Materials	1.7%
Precious Metals	0.5%
Cash & Miscellaneous	0.5%
	100%

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

LionOre Mining International	5.8%	Nickel Mining
CAE Inc.	5.8%	Aerospace Equipment & Services
Paramount Resource Ltd.	5.4%	Oil & Gas
Kagara Zinc Ltd.	4.2%	Zinc Mining
Blackrock Ventures	4.2%	Oil & Gas
Transat A.T. Inc.	4.2%	Tour Operator
Mustang Resources Inc.	4.1%	Oil & Gas
West Energy Ltd.	3.9%	Oil & Gas
Bonterra Energy	3.5%	Oil & Gas
Petrobank Energy & Resource	3.3%	Oil & Gas
	44.4%	