March 31, 2014

DK EQUITY GROWTH FUND

DEANS KNIGHT

CAPITAL MANAGEMENT LTD

DK EQUITY GROWTH FUND

Quarterly Report
March 31, 2014

Rates of Return[1]

	3 Mths	6 Mths	9 Mths	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	10 Yrs	15 Yrs	20 Yrs	Since Inception March 31, 1993
DK Equity Growth Fund	**9.4%**	**16.3%**	**25.4%**	**18.2%**	**4.2%**	**-3.9%**	**2.7%**	**15.9%**	**11.6%**	**16.5%**	**14.1%**	**15.6%**
S&P/TSX Composite Index	6.1%	13.8%	20.9%	16.0%	10.9%	3.6%	7.5%	13.7%	8.1%	7.8%	8.6%	9.2%
S&P 500 (in U.S. Dollars)	1.8%	12.5%	18.4%	21.9%	17.8%	14.7%	14.9%	21.2 %	7.4%	4.5%	9.5%	9.1%

Over the past year, the market has been much more respectful about the valuations of our companies, certainly more respectful than the previous couple of years. For example, because the shares of Canadian oil & gas companies had been so depressed, the cheapest way to purchase oil & gas on the planet was by purchasing shares of oil & gas companies that traded on the Toronto Stock Exchange. That has changed and those valuations have gone from depressed to more reasonable levels. Our forest products companies, auto parts companies, and other manufacturing and service companies have also finally caught some tailwind.

All this in spite of the headwinds blowing because of the negative issues of the day. Those issues have been well aired by the media. They deserve mention, but let us just say they have been analyzed to death and the analyses are far from conclusive; outcomes are speculative and not worthy of any further consideration. These weighty issues include the following:

1. The collapse of the China growth model.
   A changing growth model ~ no doubt. But collapse? We doubt it.
2. The withdrawal of Quantitative Easing by the U.S. Federal Reserve.
   As the saying goes "when the party gets going, the Fed takes the punch bowl away". It must happen. It will happen. The economy will survive.
3. The conflict in the Ukraine and resulting recession in Russia.
   Russia is not what it once was. It is much too dependent on oil & gas, and rife with corruption. Looks like Putin's last stand.

There likely will be other such issues that emerge, which are currently unforeseen. Pontificating about the big issues of the day has never been our thing. It has never proven to us to be useful to the investment process. Better that we focus on the business of our businesses.

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

And to this point let's devote the bulk of this report to highlighting a number of our larger investments and why we own them. And hopefully for you, our readers, perhaps some common themes will emerge . . . such as management / family ownership; smaller to mid-capitalization in size; significant niche players in an industry; entrepreneurial and proven management. We invest alongside management that we know, we trust and respect, and that we actually like.

Let's start with the oil & gas industry. Our bigger holdings are **Parex Resources Inc.** (oil), **Paramount Resources Ltd.** (natural gas), **Tourmaline Oil Corp.** (natural gas), and **Whitecap Resources Inc.** (oil). All four companies are run by some of the best operators in the Canadian energy industry. We have been a backer and booster of Wayne Foo and his team at Parex for a very long time. Those guys have done it before. We were shareholders of their prior company **Petro Andina Resources Inc.** (Argentina) in which we did very well when the company was sold to a takeover bid in the fall of 2009. Wayne and his team have since then efficiently built Parex in Colombia from scratch to 18,000 barrels per day. Paramount is 50% owned by the Riddell family and insiders. They have been active in the Western Canadian energy business for over 40 years. They run Paramount like a private company, with decisions based on long-term value creation, as opposed to appeasing analyst and portfolio manager quarterly expectations. Tourmaline is run by Mike Rose and his team, who own 25%. This is Mike's third go as a CEO and a founder. His previous two companies, Berkley Petroleum Corp. and Duvernay Oil Corp., were built and sold to acquisitors. Tourmaline, started by the team a mere 5 years ago, has now reached gas production of 115,000 boepd. Whitecap is Grant Fagerheim's baby, the fourth energy company he has built in his successful career. When Whitecap started 5 years ago, Deans Knight was a founding investor on behalf of our clients. The company now produces more than 30,000 boepd. It is distinguished from the other three in that it pays us a dividend yield of 5.5% along the way.

In the forest products sector we own two companies, both based in Vancouver, both lumber producers whose fortunes are largely determined by housing construction. **West Fraser Timber Co. Ltd.** is North America's largest lumber producer and **Conifex Timber Inc.** is a relative new-comer to the industry and smaller in production and market capitalization. West Fraser is arguably North America's lowest cost lumber producer, whose stock was hammered with the U.S. housing collapse in 2008 / 2009. During the Great Recession West Fraser continued to generate positive cash flow and reinvest in their business. Conifex was created as a result of the U.S. housing collapse and ensuing recession. Some very smart and experienced forest products guys in Vancouver, whom we know well and respect, formed Conifex when they acquired two sawmills in British Columbia, in 2008 and 2010, from bankruptcy situations and put them back into production. West Fraser is approximately 30% owned by the founding Ketcham Family, and Conifex is approximately 10% owned by the management and directors of the company. U.S. housing starts plummeted from a peak of 2.2 million in 2007 to a low of approximately 500,000 during the Great Recession. They have recovered to roughly 925,000 in the Fall of 2013. U.S. demographics would suggest that starts will need to get back to roughly 1.5 million to provide necessary housing. The Great Recession caused capacity in the industry to shut down, some permanently, the western pine beetle epidemic has reduced timber supply, and demand for North American lumber from Asia has emerged as a significant issue.

While we have experienced a significant increase in West Fraser's market valuation from the lows, Conifex has lagged. Although the company is not as well known, with management's continued focus on improving operational efficiencies, it is a company we believe is adding a lot of shareholder value that will eventually get recognized.

In the manufacturing and services area we have a number of key holdings worth noting.

We own a significant position in the Montreal-based **Heroux-Devtek Inc.** Heroux is the third largest manufacturer of aircraft landing gear in the world. The company manufactures product for commercial aircraft, private aircraft and military aircraft. The company is run by Gilles Labbé who owns 12% of the stock. Gilles is one of Canada's great entrepreneurs. He built the company steadily over the years, from when he joined the business in 1982. He has steadily created value for shareholders and will continue to do so. There have been two very recent and positive developments in this regard. Late last year, Heroux was awarded a contract to build the entire landing gear assembly for the new Boeing 777X jetliner. Early this year, Heroux expanded its footprint by acquiring APPH Group, based in the U.K., enhancing their global market penetration. We can't think of a better operator to be partnered with than Gilles.

During the Great Recession we began to acquire shares in **Contrans Group Inc**. Contrans is Canada's third largest trucking company, based in Woodstock, Ontario. Contrans was founded in 1985 and built by Stan Dunford over the past 29 years. Stan owns 15% of the company, and he runs it like an owner and the trucker that he is. Trucking is a tough business and you want to partner with tough guys like Stan. Stan has provided us with great shareholder value and he pays us a 3.8% dividend at today's share price. The industry is cyclical, but it does grow with the economy over time. With Stan at the helm, we expect Contrans to grow at a better clip than the industry.

Bird Construction Inc., based in Toronto, is our window on commercial construction. Again, well-managed, and 13% owned by the management team and employees of the company. Another cyclical business but better managed than most and with a heavy emphasis on the stronger, faster growing Western part of Canada.

Linamar Corporation is our big position in the auto parts manufacturing industry. Based in Southern Ontario, Linamar is Canada's second largest auto parts company, behind the much larger Magna International**.** Linamar was founded by Frank Hasenfratz in the basement of his home 48 years ago. Frank was a Hungarian tool and die maker who immigrated to Canada in 1957. The Hasenfratz family owns 30% of the company, which is named after Frank's late wife Margaret and their two daughters, Linda and Nancy. Today, Frank is the Chairman and daughter Linda is the President and CEO. We have known Frank for many years. Frank invented "hands on" management. His plants are efficient and spotless. Although headquartered in Southern Ontario, Linamar is truly now a global enterprise, serving most major car manufacturers, and with manufacturing facilities in Canada, U.S., Mexico, Europe and China.

We have a smaller position in auto parts maker **Martinrea International Inc.** We wrote extensively on the issues facing the company late last year. The company and certain officers were accused last September, by a former officer and Director, of misusing their position and corporate funds for personal gain. The company appointed PricewaterhouseCoopers to conduct a forensic audit. The results were recently released and no major wrongdoing was uncovered. In the interim, we worked closely with the Executive Chairman of the company who has handled the matter very well, and we have been influential in creating a stronger, more independent Board of Directors. The stock was trading at roughly $12 per share prior to the accusations. It declined to the $6 range subsequent to that, and has since recovered to over $10.

We entered the after-market auto parts distribution business last year with our purchase of stock in **Uni-Select Inc**. Uni-Select is the largest distributor of parts in Canada, 5th largest in the U.S. and is the largest distributor of after-market auto paint in the U.S. We bought stock when the shares were depressed as the company struggled to integrate acquisitions in the U.S. and to implement new information technology systems. Since then, they have been very successful in dealing with these issues, margins have improved, and the share price has moved higher. The trigger for our involvement was when an old friend, Robert Chevrier, joined Uni-Select as Chairman of the Board. Robert is an experienced, successful, serial entrepreneur and turnaround specialist. We had a positive experience with Robert when he came into United Westburne Industries almost 20 years ago. Westburne, one of North America's largest distributors of plumbing supplies, was underperforming at the time. Robert polished it up and the company was ultimately taken out at a very attractive price. When we saw him reappear at Uni-Select, it was duly noted.

Our participation in the packaging industry is through **Winpak Ltd.** The company is headquartered in Winnipeg, Manitoba. However, this is a North American company with 80% of its sales and much of its manufacturing capacity in the U.S.A. The company was run from its initial year of operation in 1977, by Bob Lavery, who we got to know very well and who retired in December 2003, but still sits on the Board. His successor, Bruce Berry, who has been with Winpak since its inception, took over as CEO and has run Winpak with the same strong culture and principles since then. We have known Bruce for many years. He is our type of manager. The company is 50% owned by the Finnish-based Wihuri family, who are a powerful force in the packaging industry in Europe. One of the most unique features of Winpak, and a feature any shareholder should be ecstatic about . . . since its IPO in 1986, not a single additional share has been issued . . . no additional public offerings, nor a single stock option issued. We asked Bob Lavery many years ago about the lack of an option plan. His response was "you don't want me to give your company away for nothing, do you?" Employees own stock, but they pay for it. Winpak has been built on cash flow from nothing to annual revenue of $750 million, over a period of 37 years. This is a truly unique and remarkable achievement.

Velan Inc. is our valve manufacturing company. Velan is headquartered in Montreal and was founded by A.K.Velan, an immigrant engineer from Czechoslovakia in 1950. A.K. is now 96 years old, and although not as actively involved in the day to day operations of the business, he still keeps an office and shows up most days. Day to day operations are handled by two of his three sons, Tom and Ivan, and his third son, Peter, who sits on the Board. Velan is a specialty custom valve manufacturer with 17 plants in 11 different countries. The three brothers collectively control over 70% of the stock. We and a few other loyal outside shareholders control the bulk of the rest. Essentially, Velan is a private company, with a small public float. Since becoming a public company in 1996, the share price has been relatively flat. That said, the management has created value, which has clearly not been reflected in the stock market valuation. Since going public, revenues have doubled and the book value has more than quadrupled. In our view this business will be acquired one day, though we don't know when. When that occurs, it will be at a price considerably above today's market price. In the meantime we get a 2% dividend yield and we have received special dividends along the way because the company generates free cash flow and operates mostly without debt. We can sleep soundly at night while we wait for the value to be unlocked.

A word about the state of the mining sector and our participation in the area. The mining industry has been in a depression that began in 2008. The extremely robust metals prices that were the result of the "China Miracle" in the prior decade brought too much new capital to the industry, too much new production, and too much optimism. We have now had 6 years of depressed conditions in the industry . . . virtually no new capital allocated to the area, metals prices falling, a slew of bankruptcies, and flight of investors from the sector. This will not go on forever. The lack of new capital will alone begin to set the stage for a revival, as few new mines are built. In the meantime, global demand for metals continues to grow. With this in mind we have begun, cautiously, to build our commitments in the area. We have gradually been adding positions in **Asanko Gold Inc**. (gold mining) and **Nevsun Resources Ltd.** (gold, copper, zinc). These are still small positions that we are adding to. Both companies are run by very good people, backed by strong Directors, and both sit on a boatload of cash, and do not need access to the capital markets. Our third mining position is **Coalspur Mines Ltd.**, which we have been involved with since 2010. Coalspur is developing a large thermal coal project (thermal coal electricity) in Western Alberta. The company achieved an important milestone in February, when they were awarded a mine permit from the Alberta government. The company must now put together a financing package (debt, off take agreement, equity) of roughly $500 to $550 million to begin construction of the mine in June. Not an easy accomplishment in the current environment of depressed thermal coal prices. Why are we involved? It is a great project, perhaps the best, highest quality, low cost undeveloped thermal coal project in the world. Moreover, dedicated, best in class people, supported by a strong Board. Speculative? Yes. Contrarian position? For sure, given the current negative environment for thermal coal. That said, thermal coal is still the fuel that provides over 50% of global electricity. Global growth = growth in electricity demand.

There are other holdings in the portfolio but we have highlighted most in this report. Some others have been highlighted in previous reports. We encourage our readers, if you have further questions about any of the holdings in the portfolio to please feel free to call and ask.

Hopefully there is a clear theme that runs through all your investments . . . it's the people. We believe we have aligned our investments with operator / owners who share our values. We think they are some of the best operators we can find. This does not mean our investment returns will be the best each and every quarter, or each and every year. It does mean though, that in spite of what the stock market says, we can be comfortable with the way our businesses are being run, that over time value is being built and will one day be reflected in the share valuations.