DEANS KNIGHT
CAPITAL MANAGEMENT LTD

DK EQUITY GROWTH FUND
Quarterly Review
June 30, 2004

Rates of Return

	3 Mths	YTD	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	10 Yrs
DK Equity Growth Fund	**4.1%**	**8.3%**	**50.8%**	**31.4%**	**32.2%**	**31.2%**	**23.2%**	**17.7%**
Nesbitt Burns Small Cap Index (Unweighted)	-4.8%	2.4%	42.0%	17.8%	11.3%	6.9%	9.5%	6.6%
S&P/TSX Composite Index	0.0%	4.8%	24.5%	11.4%	5.2%	-2.7%	5.7%	9.7%
DJIA	1.2%	0.8%	18.6%	8.7%	1.9%	2.0%	0.9%	13.4%
S&P 500	1.7%	3.4%	19.1%	9.3%	-0.7%	-4.4%	-2.2%	11.8%

The major North American stock market indices have essentially moved sideways in the first half of 2004. The pundits attribute the lack of strength to a litany of woes including high oil prices, U.S. election uncertainty, global terrorism, the Iraq war and the threat of higher interest rates.

How come nobody talks about excessive valuations? We know we sound like a broken record on this point, but we need to know why all the experts ignore the fact the stocks determining the index level are, by historical measures, too expensive.

We have reiterated in recent reports that at the bottom of the bear market in October 2002 the dividend yield on the U.S. S&P 500 at 2% was the lowest of all bear market troughs in the last 60 years. In fact, it was by far the lowest and was half the average of the previous troughs. Furthermore the P/E ratio at the bottom in October 2002 was 3 times higher than the P/E ratio at the bottom of a similar bear market of 1973/74. Scarier still, the market recovery since October 2002 has been based largely on companies with negligible earnings, or worse.

It is important to remember the words of the legendary Benjamin Graham:

> "In the short term the market is like a voting machine, reflecting a company's popularity, but over the longer term, it more resembles a weighing machine, reflecting a company's true value."

Throughout the 1990's the North American stock market, more often than not, was a voting machine. For example, as the decade progressed the market reflected the popularity of certain industries such as telecommunication and technology by wildly overvaluing most companies in those industries. At the same time, basic industries such as steels, mining, oil and gas, and industrial manufacturing were seen as the most unpopular girls in school and valued accordingly.

We suspect we are today in the prolonged adjustment period where the popular stocks are being re-evaluated and those unpopular girls are being looked at like they have had a face-lift and a fresh coat of lip gloss. Remember though the stocks currently driving the value of the indices are still those that won the popularity contest in the 90's, and it takes a prolonged period of time to scrub off value.

We suspect we are in the midst of an adjustment period where market indices can go down or go sideways for an extended period of time. It has happened before. Remember the 1970's, where value was eroded from the market indices for so long that in 1979 Business Week had a cover story proclaiming "the death of equities". In fact, the Dow Jones Industrial average closed at 874 in 1964 and at 875 in 1981 – a whopping gain of 1 point over 17 years.

What we attempt to do for our clients is to take advantage of the voting machine nature of the stock markets. We are trying to avoid the popularity contest winners, or at least examine their value with skepticism. We are more inclined to look for investment opportunities among those companies currently losing the popularity vote. It is here we hope to find good business franchises that for a variety of reasons, usually shorter term in nature, are trading at reasonable valuations.

A few examples of companies we have been busy building positions in over the past six months are as follows:

CAE Inc. (price June 30 ~ $6.03)

World's largest manufacturer of flight simulators and world's second largest flight training provider to the civil aviation market. Provides similar services and products to the military and marine business. Out of favour since Sept/01 because of the depressed condition of the airline travel industry. Company continues to be profitable in tough conditions and is generating cash to pay down debt.

CFM International Corporation (price June 30 ~ $9.75)

North America's largest manufacturer of gas and electric fireplaces, also manufactures barbeques and related products. Strong revenue growth and market share growth. Profitability hampered by high steel prices and strong Canadian dollar, yet the company continues to be profitable.

Velan Inc. (price June 30 ~ $13.06)

Designs and manufactures steel valves for industrial purposes. The Company is valued in the market at roughly its book value. Book value is very solid and is comprised of cash, real estate, and inventory. Company is hampered by the strong Canadian dollar and high raw material costs. Valuation is also dampened by small public float (20%) and a misperception that corporate governance is not up to standards. Company has no debt and continues to generate free cash flow.

We continue to be quite heavily invested in oil & gas companies and related service companies. We have made a lot of money in this area since oil hit a low of roughly $11 per barrel in 1998. Since that time oil has risen to its current level of almost $40. As a result of the rise in the commodity price, and the profits made in this sector, the oil industry has begun to attract more attention from investors and company valuations have increased dramatically. We now have the popular small to mid cap E & P companies trading as high as 8-10 times cash flow versus 2-3 times cash flow in 1998/99. We still like the longer term outlook for energy prices but because of higher valuations we are exercising caution when examining investment opportunities in this area.

One factor giving us optimism is that the vast majority of energy analysts have been predicting lower oil prices for the last six years and they still are. In fact, Bloomberg news did a survey in the first week of July of 19 oil analysts regarding their outlook for oil prices. Guess what? 18 of the 19 are predicting lower oil prices for 2005. Analysts still believe that oil prices are high because of a "terror" premium. Our view continues to be that oil prices are high because of steadily rising global consumption, driven primarily by developing nations, combined with razor thin excess global production capacity. Oil prices may be volatile in the short term, but looking long term, we believe the average oil price over the next five years will be higher than the average price for the past five years.

As of June 30th the portfolio breakdown by industry group stood as follows:

Energy	32.8%
Industrials	24.0%
Base Metals & Minerals	13.2%
Consumer Discretionary	12.9%
Other Materials	7.0%
Healthcare	3.4%
Paper & Forest Products	3.0%
Precious Metals	2.4%
Utilities	0.6%
Cash & Miscellaneous	0.7%
	100%

As of June 30th the 10 largest equity holdings were:

Transat A.T. Inc.	7.9%	Tour Operator
LionOre Mining International	7.4%	Nickel Mining
CFM Corporation	4.7%	Consumer Products
Algoma Steel Inc.	4.7%	Steel Manufacturer
Bonterra Energy	4.5%	Oil & Gas
Linamar Corporation	4.4%	Auto Parts
Blackrock Ventures	4.3%	Oil & Gas
CAE Inc.	4.2%	Aerospace Equipment & Services
First Quantum Minerals	4.0%	Copper Mining
Mustang Resources Inc.	3.8%	Oil & Gas
	49.9%	