DK EQUITY GROWTH FUND

Quarterly Report
December 31, 1999

Rates of Return

	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	6Yrs
DK Equity Growth Fund	**12.9%**	**-12.1%**	**-9.2%**	**4.4%**	**11.1%**	**9.2%**
Nesbitt Burns Small Cap Index (Unweighted)	16.4%	-4.4%	-2.1%	4.6%	6.1%	3.4%
TSE 300	31.7%	13.9%	14.2%	17.6%	17.0%	13.9%

The 31.7% return for the TSE 300 Index does not represent what happened to most Canadian stocks in 1999. We have been emphasizing for some time that the broad market indices in North America have been rising on the price appreciation of a shrinking number of technology stocks, both because of their heavy weightings in the index and their rise to unbelievably high valuations. The following four stocks dominated the move in the TSE 300 for the year:

	Market Cap Dec 31,1999	TSE300 Wt.	Stock Return 1999
Nortel	$200 billion	15.89%	270%
BCE Inc.	$ 84 billion	10.98%	119%
JDS Uniphase	$ 68 billion	1.58%	266%
Celestica Inc.	$ 13 billlion	1.29%	251%

Nortel and BCE together account for roughly 27% of the TSE 300 Index. Furthermore, Nortel drives the BCE share price because of BCE's 40% ownership in Nortel. Essentially then, one stock drives 27% of the TSE 300 return.

To dramatize the impact these stocks have had on the TSE 300 Index last year, the table below illustrates how the TSE 300 return is affected by removing the 4 stocks mentioned above:

	1 Yr. Return to Dec. 1999
TSE 300	31.7%
TSE 300 ex Nortel	17.2%
TSE 300 ex Nortel, BCE	8.8%
TSE 300 ex Nortel, BCE, JDS	5.7%
TSE 300 ex Nortel, BCE, JDS, Celestica	4.2%

Just by removing Nortel and BCE, the TSE 300 return drops from 31.7% to 8.8%. Upon further analysis of the roughly 1400 stocks listed on the Toronto Stock Exchange, the return of the median stock was 3.8%. Furthermore, 56% of all the stocks had a negative rate of return for the year.

We have not been investing clients' money in the latest craze – technology stocks. Remember, one of our key disciplines is to find companies with a competitive advantage and, most importantly, **to purchase these companies at reasonable valuations**. The problem with most technology stocks, particularly internet related, is that it is extremely difficult to find even remotely sane valuations. To emphasize this point, the table below shows the recent 12-month and forecasted 2000 P/E ratios for the three technology stocks mentioned above:

	P/E 12 Month Trailing	**P/E Forecast 2000**
Nortel	(loss)	100 x
JDS	467 x	302 x
Celestica	27 x	51 x

Valuations on big cap technology stocks in the U.S. are even scarier, and they have driven the NASDAQ index up exponentially in 1999. The one-year return in 1999 for the NASDAQ was 86% and since mid-October the NASDAQ is up 50%, and has registered 59 record high closes.

We find ourselves in the company of many seasoned financial people regarding our view that what is taking place in technology stocks is a speculative mania. Alan Abelson, the noted financial columnist recently wrote in his Barron's newspaper column regarding tech stocks that "nothing succeeds like excess". He went on to point out the flip side however, that "nothing recedes like excess". The short-lived but violent connection in tech stocks in the first few trading days of January should be an important reminder that if the tide changes, the declines in stocks with stratospheric price/earnings multiples can be scary.

Paul Volker, the former Chairman of the U.S. Federal Reserve and the man who managed the United States economy for most of the 1980's is as nervous about the bubble as we are. Most economists would agree that it was Paul Volker, who by breaking the back of the 1970's double digit inflation, set the stage for the "expansion" of the 1980's and 90's. In a recent interview in the New York Times, Mr. Volker is quoted as saying, "you obviously have a kind of speculative fever. I think it is a kind of casino. It's all the rage, trading certificates that have no intrinsic value. There's enormous confidence today, but it can evaporate very quickly for reasons that are not very clear."

Benjamin Graham, the co-author of "Security Analysis", once the bible of value investing, long ago put his finger on the most dangerous words in an investor's vocabulary: "This time is different". When you listen to financial news these days "Interest rates don't

matter"; "Higher oil prices don't mean anything"; "Technology is lowering the cost of doing business for everybody"; "The business cycle is dead"; "Inflation is a distant memory".

Pricing in the stock market, particularly those stocks associated with the information revolution, suggests that things really are different. On the other hand, stocks of companies associated with the older economy have tended to languish. As in Canada, roughly one half the stocks on the New York Stock Exchange and NASDAQ were trading at lower prices at December 31, 1999 than they were on January 1, 1999.

There is no doubt the information technology revolution we are witnessing is profoundly changing the way we live. Much of the euphoria regarding new economy companies stems from this massive change. However, the rules of stock valuation never change. Ultimately the value of a company today is related and determined by the amount of cash flow that it generates for its shareholders in the future. There have been many "transforming" industries in the past and there was much euphoria surrounding those industries. Rarely, however, have these industries proved to be a profitable area in which to invest.

Warren Buffet is another investor who also finds himself on the "outside looking in" regarding technology stocks. However, he points out in an article in the November 22, 1999 edition of Fortune magazine that "the fact is that markets behave in ways, sometimes for a very long stretch, that are not linked to value. Sooner or later though, value counts". Buffet acknowledges that the information revolution is having a profound effect on our way of life. However he looks back on two other industries that transformed life earlier this century: automobiles and aviation. Looking at automobiles, he estimates that at one point there were at least 2400 manufacturers in the U.S.A. After the corporate carnage we are now down to three, which have not exactly been whopper investments. You could have grasped the importance of the automobile but it would have been extraordinarily difficult to pick long term successful investments.

He goes on to the other truly transforming industry – airplanes. There have been 129 airlines that in the past 20 years have filed for bankruptcy. As of 1992, the total net profits made since the dawn of aviation by all U.S. airline companies was zero. His conclusion is worth heeding: "the key to investing is not assessing how much an industry is going to affect society or how much it will grow, but rather determining the competitive advantage of any given company and, above all, the durability of that advantage".

If you are not convinced that there is excessive speculation in this stock market, let's look at one more thing before moving on. In 1999, according to Sanford Bernstein & Company, capital raised in initial public stock offerings totaled roughly $75 billion – equal to the amount raised in new issues during all of the 1980's. Roughly one third of those offerings were internet companies that paid more in investment banking fees than they booked in revenues in the most recent 12 months. From 1986 to 1994 the average first-day move in an initial offering was about 10%. In 1999 the average new issue rose 60% on its first day.

In the latter part of 1999, technology stocks soared and resource stocks gave back some of the gains they made earlier in the year. We continue to believe that ultimately the real money will be made by staying with those companies that are throwing off strong cash flow for their owners, but whose shares have been ignored by investors for the past two years, i.e. good quality resource producers and undervalued, out of favour, industrial and consumer products manufacturers.

Your portfolio is dominated by low multiple companies with strong growth profiles and strong and rising cash flows. Just picking a few of the stocks on the list of the 10 largest holdings will highlight this.

The 10 largest holdings are:

Lionore Mining	4.2%	nickel
Unican	4.1%	locks and keys
Western Star Trucks	4.0%	trucks, buses
Breakwater Resources	3.4%	zinc producer
OSF Inc.	3.3%	store fixtures
Genesis Exploration	3.2%	oil and gas
UCAR International	3.2%	graphite electrodes
Cott Corp.	3.0%	soft drinks
Winpak Ltd.	3.0%	packaging
West Fraser Timber	3.0%	forest products
	34.4%	

Lionore Mining has become the largest holding as we continue to accumulate stock at what we believe are terrific prices. Lionore Mining is a nickel producer. LionOre mines nickel in Botswana and is developing nickel and gold assets in Australia. Nickel prices have moved from a low of $1.70 per pound in late 1998 to roughly $3.90 per pound today. Lionore's Tati Nickel Mine (owned jointly with Anglo American) currently produces 15 million pounds of nickel per year and currently generates roughly $1 million dollars per month in cashflow to LionOre. We expect that reserves and production at Tati will be raised significantly over the next 12 months.

Lionore also has two nickel deposits which will be brought on stream with local partners in Western Australia in the next two years. The company is also a partner in a major gold discovery in Western Australia called Thunderbox. The company has no debt and an estimated break-up value when the individual pieces are considered of $3.50 for a stock that currently trades at $1.82. With the proposed expansion at Tati and development of the 60% owned Thunderbox gold discovery and the new nickel deposits, LionOre has the potential to cashflow in excess of $1.00 per share when the properties come into production.

Breakwater Resources we have written about before, is the North American equity market's purest play on zinc. Breakwater has four operating mines and no downstream processing

facilities and the price of Breakwater shares is driven by zinc prices. The fundamentals for zinc, like nickel, are also very strong. It is estimated that there was a 3.9% increase in total world consumption of zinc in 1999 and a further 2.6% demand growth in 2000 is expected. Zinc prices are expected to peak at 50-60% above their current levels in 2000. It is expected that Breakwater had 385Mlbs of zinc production in 1999 at a cash cost of around $0.39/lb. Breakwater is estimated to have earned $0.30 per share in 1999 and $0.60 per share is expected in 2000.

We continue to hold significant investments in oil and gas exploration and production companies and related service stocks. Even though in the latter part of 1999, the sector gave back some of its gains made earlier in the year, the industry fundamentals showed further improvement. Revenue, cash flow, and earnings in the industry grew stronger in the fourth quarter, and will continue to do so in the year 2000. For example, we wrote about Vermilion Resources in our last report. Vermilion had cashflow per barrel of $20 in Q4 1999 despite having 30% of production hedged at $16 per barrel vs. $3.53 per barrel in Q4 1998. For 2000, Vermilion's 30% hedge is in place at $22 dollars per barrel!

All but one of our oil and gas companies performed well in 1999. The exception was Merit Energy. At the time of writing the company is looking at options to protect shareholder value. The story of what went wrong cannot yet fully be told. Suffice it to say the problem stemmed from decline rates at a few key wells that were much greater than management and directors anticipated or were aware of. This occurred in spite of an enormous amount of scrutiny on our part and in spite of Merit having a high quality Board of Directors (many of whom we know well) and a CEO that was well regarded among his industry peers.

We wrote about OSF in our previous report. In 1999 OSF has become a takeover target of Center Partners, a New York-based buy-out firm. As of our September 30 report we were looking at a cash bid of $6 per share and felt the company was worth more. To get a higher price we threw our support behind a rival bid by Toronto-based Royal Laser Tech Inc. As a result, Center Partners raised their bid to $7.00 and then subsequently to $7.25. This should be the end of the bidding and we expect to receive all cash for the position in February.

A word about UCAR International, which we have written about before. UCAR (NYSE) is the world's largest supplier of graphite/carbon electrodes which are used in steel manufacturing. However, what is not yet reflected in the share valuation is UCAR's partnership with Vancouver-based Ballard Power in the development of hydrogen fuel cells. In a recent press release UCAR pointed out that their graphoil membrane technology will be an integral part of the Ballard fuel cell. In fact, UCAR's input could be as high as 30% of the finished product.

Cott Corporation has engineered a magnificent turnaround over the past 2 years under new CEO Frank Weiss. We own Cott because of its unique competitive advantage as the world's dominant supplier of private label soft drinks. Through streamlining operations, lowering costs, focussing its efforts on profitable areas, combined with rising soft drink prices in their key U.S. market, we have seen earnings and cash flow improve dramatically.

There is more improvement to come. We remember clearly that Frank Weiss told us when he took over the helm and bought stock himself at $10 per share, he felt he could make the company worth at least $20 per share before he was done. We believe he can. The stock has come from a low of $4.50 last year to roughly $10 currently.

We know we are sitting on value because we continue to lose companies to takeover bids. Just after year-end we received an all cash bid for Tritech Precision at $33 per share when the stock was trading at $23. We will tender to the offer. Here again is an example of a company that is now valued in the private market at a price nearly 50% higher than the price in the public market.

Another example of value that will gradually surface is Western Star Trucks. We have been highlighting the hidden value in reports for some time now. Following year end, the company announced it had reached an agreement to sell its European truck business (ERF) for net proceeds of about $180 million, which we calculate will net Western Star in excess of $12.50 cash per share. Prior to the transaction Western Star was trading at $26, or about 6.5 times our June 30 fiscal year earnings per share estimate. Without ERF we estimate the company will still earn over $4 per share this fiscal year. So we are sitting on a business that is now valued at only about 4 times our estimated earnings, ex the cash component. We believe this transaction is a first step toward surfacing more value going forward.

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

Metals	14%
Oil & Gas	25%
Forest Products	6%
Total Resource	45%
Consumer Products	11%
Industrial Products	24%
Transportation	2%
Communications	5%
Merchandising	7%
Financial Services	1%
U.S & International	5%
	100%