December 31, 2006

DK EQUITY GROWTH FUND

DEANS KNIGHT

CAPITAL MANAGEMENT LTD

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Quarterly Review

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Rates of Return[1]

	3 Mths	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	10 Yrs	Since Inception March 31,1993
DK Equity Growth Fund	**28.8%**	**56.9%**	**45.0%**	**39.9%**	**44.1%**	**41.7%**	**19.0%**	**23.6%**
Nesbitt Burns Small Cap Index (unweighted)	7.2%	12.9%	13.3%	13.1%	20.6%	15.6%	6.8%	8.9%
S&P/TSX Composite Index	10.4%	17.3%	20.6%	18.6%	20.5%	13.1%	10.0%	11.8%
DJIA	7.4%	19.0%	10.0%	8.4%	13.1%	6.8%	8.9%	12.2%
S&P 500	6.7%	15.8%	10.2%	10.4%	14.7%	6.2%	8.4%	10.7%

It is instructive to look back one year ago to review what we said in our comment to clients at that time. All the talk as 2005 came to a close, centered on oil and gas. In the wake of Hurricane Katrina, oil reached a high of just over $70 per barrel and North American natural gas reached $15.39 per mcf. As a result, the oil and gas subgroup of the S&P/TSX index appreciated 63.5% in 2005. Because we held large positions in oil and gas shares, our client portfolios benefited handsomely.

We wrote at the time that we detected a big change in market sentiment regarding oil and gas. The skepticism that had persisted in the face of a strong rise in oil and gas commodity prices over the previous 7 years, was giving way to a wave of optimism. In late 2005 and into the early days of 2006, analysts capitulated and began predicting endless gains for oil and gas shares. We stated in our December 2005 report "now is the time to be more cautious and vigilant when looking at public oil and gas companies". We went on to state that we still had substantial dollars invested in oil and gas shares at the end of 2005, but these investments were smaller and more concentrated in fewer companies. We said that this trend would continue into 2006.

By the end of 2006, roughly 21% of the assets of the portfolio were invested in oil and gas exploration and production and related service companies. This compares to 40% at the end of 2005. In stark contrast to the strong gains generated by the S&P/TSX oil and gas subgroup in 2005, the subgroup posted a modest return of 6% in 2006. Oil ended the year at $61.05 per barrel, little changed from one year ago but well below the all time high of $77.03 set on July 14, 2006. Natural gas ended the year at $5.50 per mcf down 42% from year end 2005.

[1] Returns longer than one year are annualized.

We have written repeatedly over the past year that most investors and analysts are excessively focused on short term issues such as oil and gas weekly inventory numbers, current weather trends, and economic forecasts. More important, we believe oil and gas are becoming increasingly supply constrained commodities. Taking a longer term view, the price of world oil and North American natural gas must be high enough to both ration demand and to encourage the continued development of the more costly remaining resources.

Moreover, with the recent reductions in the valuations, particularly Canadian natural gas producers and service companies, attractive investment opportunities are beginning to re-emerge, both in the public and private markets. In a speech on resource investing that we delivered at a conference in Montreal in May, we stressed "it was time to exercise discipline . . . look for temporarily out of favour resource companies". In the case of oil and gas, that time is now.

Our view regarding the supply constrained nature of the oil and gas business has been forcing us to develop a much broader outlook for energy. Simply put, the world cannot continue to rely to the same extent on burning fossil fuels to generate energy. More efficient and less environmentally destructive methods of using fossil fuels need to be developed. Moreover, shifting the emphasis to other sources of energy such as nuclear, hydro, wind, biomass, and others will be important going forward.

We stressed in that same Montreal speech, the key role that nuclear power was likely to play in providing global energy needs going forward. This view led us into one of the most profitable investments we have ever made ~ **Paladin Resources**. We first invested in this Australian based uranium development company just over two years ago. Since 1998, during a period of sustained downturn in global uranium markets, Paladin had been accumulating a portfolio of advanced uranium projects, each with production potential. By late 2006 Paladin had begun producing U_3O_8 at its Langer Heinrich uranium mining operation in Namibia, which will ramp up production to 2.6 million pounds per year of U_3O_8 and has a projected mine life of 17 years. Having successfully launched the first major new uranium mine in the last 10 years, combined with the advancement of other new projects and a doubling in the price of uranium, resulted in Paladin's share price appreciating by 353% in 2006. Although our view regarding the importance of the role of nuclear power remains unchanged, we have gradually reduced our investment in Paladin as investors developed a buying frenzy for any and all uranium-related companies in the latter part of 2006.

Our view of the need to burn fossil fuels more efficiently and in a manner that releases fewer pollutants into the environment, led us to take an interest in a small Canadian company called **Hy-Drive Technologies**. We recognize this is a highly speculative investment as the company currently has minimal revenues.

Hy-Drive is a hydrogen-based energy and power technology firm that has developed a patented Hydrogen Generating System. The system generates and injects a small amount of hydrogen into the combustion chamber of an internal combustion engine, creating an enriched air mixture and a more complete and faster burning air/fuel mixture. The result is reduced emissions, improved fuel efficiency, and increased power. Based on trials to date, performance enhancement on a wide variety of engines has been significant:

- 9% - 30% fuel savings
- 2% - 6% horsepower improvement
- up to 98% reduction of carbon monoxide
- up to 45% reduction of nitrous oxide
- up to 95% reduction of particulate matter

The initial target market for the product is the existing after-market stock of commercial diesel powered trucks and buses.

In contrast to the decline in the percentage commitment to oil and gas shares in 2006, the commitment to base metals and minerals nearly doubled to approximately 38% of the portfolio. The increase was partly due to our continued purchases of nickel producer **LionOre Mining International,** and partly due to a significant increase in the valuation on our holdings. Softness in LionOre's share price during the first half of the year provided us with opportunities to purchase more shares at attractive pricing. Investors focused so intently on Falconbridge and Inco during the dramatic takeover battles for these companies, they failed to evaluate LionOre correctly. With Falconbridge absorbed by Swiss-based Xstrata and Inco by Brazilian CVRD, LionOre became the largest publicly traded pure nickel producer in the world. This combined with record nickel prices of over $15 per pound in late 2006 led to a significant increase in LionOre's valuation.

Base metal prices, in spite of some soft periods during the year due mainly to concerns about a looming recession in the U.S. in 2007, remained relatively firm for most of 2006. This, combined with significant gains in production per share at the operating level of our companies, led to significant increases in shareholder value:

	December 31, 2005	December 31, 2006	% Increase
Anvil Mining (copper)	$5.90	$11.17	89%
Kagara Zinc	$2.28 AU	$7.00 AU	207%
LionOre Mining Intl (nickel)	$4.95	$13.25	168%

We do not believe that investing in base metal producers at these current valuations is as attractive as it was. It is highly likely that in 2007 we will see a gradual reduction in our commitments in this area, either because we are selling shares or because there may be further consolidation of companies within the industry and we could conceivably lose investments to take-over bids.

We continue to look for opportunities in the out of favour Canadian manufacturing area. We have written repeatedly that we think that there are good opportunities here because the valuations are so low. Export-oriented Canadian manufacturers have experienced a very difficult operating environment in the last few years because of the significant appreciation of the Canadian dollar versus the U.S. dollar, and also because of increased input costs including most metals and petroleum based packaging materials.

Probably the hardest hit industry has been auto parts as companies here have faced the added problem of a client base (the big three North American auto companies) whose competitive position has been eroding.

That said, we think there are some unique investment opportunities emerging in Canadian manufacturing. There are companies here that have strong North American and global franchises and although they are currently struggling against some very strong headwinds, they are gradually adjusting to these conditions. If we are patient we will be able to extract a significant improvement in shareholder value going forward.

One factor that we think is currently being overlooked by the market is the Canadian dollar peaked at 91¢ U.S. in May 2006 and declined to 86¢ U.S. by year end. The adjustments that Canadian manufacturing companies had been making were masked by the continuing run-up of the dollar. With a stable to even slightly lower dollar, these adjustments will become more evident on a quarterly, year over year comparative basis in 2007.

One of the big stories of 2006 of course was the Halloween surprise announcement that the Conservative Government decided to begin taxing income trusts. We do not want to spend an excessive amount of time on this matter as it has been adequately hashed out in the media for the past two months. That said however, we have two major issues with what has transpired.

Firstly, the Conservatives had clearly stated in January they would not tax the trusts. Canadian companies and individual Canadian investors made decisions and organized their affairs accordingly. The consequence . . . roughly $30 billion of individual savings has been rubbed out.

Secondly, the Conservatives stated that the primary reason for the decision was to stop the tax "leakage". However, the Government has not released any supporting documentation to support the claim that there is any tax leakage. On the other hand, there is enough anecdotal evidence to suggest that the opposite is the case. Personal and corporate tax receipts have been stronger than forecasted.

In our opinion the outcome of this decision may produce a classic inducement of the "law of unintended consequences". Government income tax revenues may decline and the Conservatives may be thrown out of office.

Our job as professional investors is to take best advantage of any given set of circumstances. Trusts are still just businesses, albeit businesses that trade now at lower and some at potentially attractive valuations.

We have stressed to our clients over the years that we don't make bold predictions about the future and don't make investment decisions in that fashion. Our success has been in identifying overlooked areas and companies in these areas that are out of favour and available at some measure of attractive valuation. That said we are likely to see less in the way of resource commitments going forward, not because we foresee a major collapse in commodity markets, but rather these areas have attracted the attention of the masses, and attractive valuations are now more difficult to find. We expect to continue to find opportunities in manufacturing and other consumer related areas.