June 30, 2011

DK INCOME FUND

DEANS KNIGHT
CAPITAL MANAGEMENT LTD

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Quarterly Report
June 30, 2011

Rates of Return[1]

	3 Mths	YTD	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	10 Yrs	15 Yrs	Since June '93
DK Income Fund	**-1.1%**	**3.1%**	**15.5%**	**24.3%**	**12.1%**	**11.1%**	**12.7%**	**15.5%**	**11.9%**	**12.2%**
DEX Universe Bond Index	2.5%	2.2%	4.7%	5.8%	6.2%	6.3%	6.0%	6.4%	6.9%	7.2%
ML CDN High Yield	0.0%	2.4%	9.9%	18.3%	5.7%	3.1%	4.8%	5.1%		
ML USD High Yield	1.0%	4.9%	15.4%	21.3%	12.4%	8.6%	9.2%	8.8%	7.4%	7.7%
S&P/TSX Composite Index	-5.1%	0.2%	20.9%	16.3%	0.2%	1.8%	5.7%	8.0%	8.9%	9.2%

Our objective is to provide investors with a stable stream of income that is higher than government bonds or investment grade corporate bonds, while preserving capital. We have been able to accomplish this by investing in a diversified portfolio of higher yielding bonds, private debt financings and dividend paying corporations. For almost 20 years, the DK Income Fund has provided stable income to its unitholders of between 7.5 – 10% per annum. We have added additional value by opportunistically investing in bonds trading at a discount, and by structuring private debt financings with equity incentives to provide capital appreciation.

Over the last 5 years, our income strategy was stress-tested as the economy suffered through the worst global recession and financial crisis since the 1930's. The results of this stress test were decidedly positive. In addition to providing a stable uninterrupted stream of income during this period, the total annualized return, which includes capital appreciation, exceeded all other income and equity benchmarks by a substantial margin.

	5-year Returns As of June 30, 2011 (annualized)	5-year Returns As of June 30, 2011 (Cumulative)
DK Income Fund	**12.7%**	**81.7%**
Government Bonds[2]	6.2%	35.1%
Investment Grade Bonds[3]	6.9%	39.6%
USD High Yield Bonds[4]	9.2%	55.3%
Cdn High Yield Bonds[5]	4.8%	26.4%
S&P/TSX Composite Index	5.6%	31.3%
Dow Jones Industrial Average	5.0%	27.6%

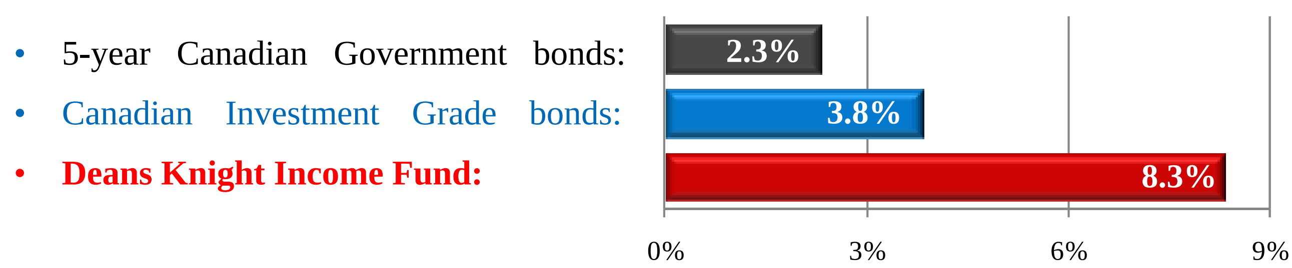
[1] Returns longer than one year are annualized gross of management fees.
[2] Merrill Lynch U.S. Treasury Master Index
[3] Merrill Lynch U.S. Corporate Master Index
[4] Merrill Lynch U.S. High Yield Index
[5] Merrill Lynch Cdn High Yield Index

Media pundits would have you believe the best place to have invested during the recession and ensuing volatility in the past 5 years was government and/or investment grade bonds. This is not the case. The table above clearly shows that the DK Income Fund, a portfolio of less than investment grade bonds and private debt financings with equity incentives, delivered twice the total return with regular income payouts, than government bonds, investment grade bonds and stocks.

The media places far too much emphasis on default risk when discussing high yield bonds. Default does not necessarily mean loss. Over the past 5 years two of our investments defaulted. In both cases, we were protected by the underlying asset value and, on average, received more than our initial investment. In one case, GBS Gold, we were appointed to lead the secured Noteholders' committee and we ultimately negotiated the sale of the Company's assets recovering our investment. We also owned a senior subordinated note in Blackwatch Energy. Blackwatch went through a soft restructuring in 2009, where the subordinated noteholders received shares in exchange for the notes. We gradually sold our share position and, in this case, we actually more than doubled our initial investment.

Currently, there are growing concerns that the U.S. economic recovery is slowing down (it is); that China's growth is slowing (it must); and that Greece's debt woes will wreak havoc on the European banks (more liquidity will be thrown at the problem to push the inevitable default further away). Despite these concerns, earnings of the companies we are invested in are improving and their balance sheets are in better shape than they were prior to the recession. Even though our companies are in better shape, the average yield on our holdings is still double that of investment grade bonds and three times a 5 year government bond.

Yield to Maturity
As of June 30, 2011



The majority of our portfolio is currently invested in high yield debt rated below BBB, or investment grade, by rating agencies such as Moody's and S&P. Rating agencies are often wrong. For proof, you need to look no further than Worldcom, Enron and Asset Backed Commercial Paper, which were all rated investment grade before they collapsed. We use in-depth knowledge of the outstanding corporate issues, the trust indentures, and experience in structuring new debt securities to evaluate opportunities regardless of the rating and determine whether or not we are being compensated for the risk.

In addition to our high yield bond investments we are negotiating private debt financings, unique to Deans Knight, such as bridge, mezzanine and short-term secured loans. The financings offer high coupons and equity incentives to enhance returns. They are typically short term, provide a high coupon, and in some cases are fully secured. Most importantly, they provide the opportunity for capital growth through “equity kickers” in the form of warrants or convertible debt.

We compliment our investments in high yield and private debt financings with investments in a select number of high dividend paying corporations. Unlike interest payments, dividends are not guaranteed. As such, we focus on analyzing the underlying business and how much cash flow is being generated, rather than just the investment’s yield to determine whether or not we are paying a fair price for the business.