DEANS KNIGHT
CAPITAL MANAGEMENT LTD

DK BOND FUND
Quarterly Report

December 31, 2004

Rates of Return

	3 Mths	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	10 Yrs
DK Bond Fund	**8.9%**	**25.5%**	**26.3%**	**20.8%**	**15.3%**	**10.2%**	**11.1%**
SCM Universe Bond Index	3.1%	7.1%	6.9%	7.5%	7.7%	8.2%	9.0%
ML CDN High Yield (hedged)	4.4%	9.6%	17.4%	9.9%	5.3%	3.0%	
ML USD High Yield (unhedged)	4.5%	10.9%	19.2%	11.7%	9.9%	6.7%	8.3%

The fund distributed income during 2004 of 9.6%. Adding the valuation increase, generated primarily from income trust holdings, the portfolio provided a total return of 25% for the year. The added return from income trusts illustrates why we have been communicating the need to look for income generating ideas outside of corporate bonds. Interest rates on corporate bonds have never been lower than today and corporate bonds are not nearly as attractive as 3 years ago. Our strategy to expand into income trusts and other income generating vehicles has been very helpful to the portfolio providing over half of the return for the year.

We increased the holdings in income trusts during the year to 11% of the portfolio from less than 5% a year ago. We added investments in **Harvest Energy, Peak Energy Services, Progress Energy** and **DirectCash Services**. These are companies with management we know and trust where management and directors have a significant equity stake, cash flow is retained to grow the business and we could acquire units at a reasonable valuation.

Harvest Energy Trust was created by Bruce Chernoff who is an advisor for both of our Private Energy funds. Harvest provides a current annual distribution of $2.40 per unit and will generate cash flow of roughly $7.00 per unit in 2005. In addition to the attractive income distribution, providing a 10½% return, Harvest Energy has substantial excess cash to reinvest in order to grow production and cash flow. We think trusts, operated like Harvest Energy, that provide high income with the prospect of modest growth, at the right valuation, are a much more attractive income investment than corporate bonds in the current low interest rate environment.

We participated in the initial public offering of **DirectCash Income Fund** in December 2004. DirectCash is a leading independent operator of ATMs, Debit Terminals and prepaid cash cards in Canada. The firm was co-founded in 1997 by Jeffrey Smith and Susan Gallacher who, along with Susan's husband William Gallacher, form the management group of the Fund. They have retained a 55% interest in the company. We have had a relationship with members of this management group for over 10 years and they have a proven track record of creating value. DirectCash has annualized growth in revenue and EBITDA over the last 6 years of 29% and 52%, respectively. The unit provides the portfolio with an annual distribution of 9.5% and the company has many growth opportunities.

The portfolio realized significant value from its investment in **Vicwest**, a private company that distributes light gauge steel roofing and siding for industrial, agricultural and commercial applications. We initially invested in the bonds. Due to problems with the U.S. parent, the Company was forced to file for creditor protection in 2002. Deans Knight helped lead the bondholder committee in 2003 which resulted in a recapitalization of the Company. In September 2003 the debt was swapped for 100% of the equity of the company and these shares, as a private company, were valued at $1.60 at the beginning of 2004. Vicwest shares were listed on the TSX in June 2004 and the share price closed the year at $7.00. Vicwest should generate over $20 million of free cash flow during 2004, or over $1.00 per share. This strong cash flow makes the Company an ideal candidate for an income trust. If Vicwest were an income trust today, every $100 originally invested would be worth $170 in Vicwest trust units and provide an income distribution of approximately 15% per annum.

We continue to look for unique opportunities to improve the portfolio income return. For example, during the 4th quarter we participated in a Bridge Loan, arranged by Citibank, for **Dollarama Group L.P.** (dollar stores) purchased by Bain Capital in a private transaction. Dollarama Group L.P. is the largest dollar store operator in Canada with 330 stores and it has four times the market share of its next largest competitor. Dollarama's buying power provides a distinct competitive advantage allowing the Company to generate very high operating margins for a merchandise business. For the twelve months ended July 31, 2004, Dollarama generated sales and adjusted EBITDA of $612.3 million and $102.3 million, respectively. Our security is a subordinated short term loan for 18 months that pays a floating rate of interest and additional commitment fees which should generate a rate of return of 12% for the portfolio.

In 2005 we expect the income distribution from the DK income portfolio to be approximately 7.5%; lower than last year but still double 5 year Government bond yields at 3.65%. We have to lower our expectations for returns in 2005 from the income area. Interest rates on corporate debt have never been lower. We have enjoyed the improving valuations in the corporate bond and income trust markets which contributed to our returns last year, but it won't continue.

Portfolio Holdings

As of December 31st, the 10 largest holdings were:

	% of Portfolio	
Vicwest Corp.	7.8%	Building & Construction
Harvest Energy Trust	5.3%	Oil & Gas
Sherritt Intl. Corp.	5.0%	Power Producer
Saskatchewan Wheat	5.0%	Agricultural Operations
Anchor Lamina Inc.	5.0%	Metal Processor
Scott Paper Ltd.	4.9%	Paper Products
LionOre Mining Intl.	4.1%	Nickel Mining
Call-Net Enterprises	4.0%	Telecommunications
Gerdau Ameristeel	4.0%	Steel Mini Mills
Baytex Energy Ltd.	3.8%	Oil & Gas Production
Total	**48.9%**	