LAWRENCE PARTNERS FUND

Dec 31, 2005 Update and Year in Review

Performance Overview

NAV per share	Monthly Performance	Year-to-Date Performance	Since Inception Performance
$116.24	+0.79%	+20%	+187%

Shares of Lawrence Partners Fund were up 0.79% net of all fees and accruals in the month of December. This compares to a loss of 1.29% on the S&P500 and a gain of 2.48% on the TSX Composite Index.

December was the fourth consecutive month of positive returns for the LPF, however the fund underperformed the Toronto Stock Exchange. There are several reasons for our underperformance this month including our lack of exposure to gold, negative net contribution from our market neutral spread-trade positions, and the fact that the TSX itself set a difficult pace to match. This is not to be unexpected and is likely to continue in future months. In the last quarter of 2005 the LPF delivered a return of 13.30% to investors after all fees and expenses versus 2.37% on the Toronto Stock Exchange. For the year, the LPF delivered investors 20% versus 21.90% on the TSX. A modest underperformance, but one achieved with a portfolio that we believe exhibited a risk profile substantially different from that of the Toronto Stock Exchange and Canadian capital markets in general.

As with November, the Fund exited December with no cash and using modest leverage to hold securities with value in excess of the net asset value of the Fund. We continue to be comfortable with this position and believe it to be consistent with the objectives of the Fund and our view of the risk inherent in our portfolio. In December we did not add any additional core positions and were largely inactive on the trading side, in particular during the final two weeks of the year.

Market Update – 2005 in Review and 2006

In reviewing Canadian markets in 2005, the phrase ‘firing on all cylinders’ comes to mind. Energy prices were strong and profits from oil and gas companies set records. Metals and minerals prices continued their bull run leading to record profits in those sectors as well. The banking and insurance companies benefited from the low interest rate environment, strong capital markets, and the boom in the wealth of Canadians to also put in record showings that took their share prices to all time highs. If that wasn’t enough, the mainstay of retail investors for the past 4 years – income trusts – came roaring back in November and December to close the year with a total return for 2005 in excess of 20%. Looking around at the world in aggregate, global equities gained nearly 15% in 2005 in local currencies, or 25% outside the U.S. market. A stellar year all round.

Given what occurred in 2005, it is difficult not to be wary of what lies ahead for 2006. However, we believe equities markets globally will on balance show positive returns again in 2006. The U.S. is vulnerable to a consumer-led mid-cycle slowdown, but growth elsewhere should be able to offset such a slowdown if it is moderate and controlled. It is important to note that core inflation remains low almost everywhere on the planet. Such a global phenomenon in a global economy requires global explanations. How is this possible given the sensational inflation in commodity prices? For supply-siders out there, an acceptable explanation is that there are huge positive supply-side changes occurring that are boosting economic activity and containing prices. That is to say, the perfect conditions for a low inflation boom.

Perhaps the most obvious and important ingredient to this boom is the high velocity transfer of production from high-cost regions to low-cost regions. Yes, China China China, but lets not forget the shift from Western Europe to the former communist countries of Eastern Europe. This has two consequences. First it immediately lowers the cost of production, second it puts immense pressure on companies everywhere to become more efficient or die a quick death.

We can also use our old friend technology to explain this boom. There has been a huge jump in productivity worldwide, reducing labour costs in all industries. In the US, the 3 year average productivity growth is higher than it's been since WWII. Similarly, unit labour costs in China are plunging, suggesting that technology and capital investment is leading to soaring productivity in that country.

Increased competition and this rapid transfer of production globally is creating several high growth companies and destabilizing many former industry leaders. However, this increased competition and globalization is driving productivity gains and will be positive for the long-term prospects of the global economy.

Sustained global growth combined with ample liquidity around the world has created an environment conducive to asset bubbles. The prime candidates appear to be energy and resource plays as well as assets associated to Asian growth. At this time however, energy and resource companies are trading at discounts to market multiples and a vast discount to historical peak of cycle multiples exhibited in so-called bubbles. We are quick to observe that Internet stocks once traded at 450 times nothing in particular, while you can still buy quality oil and gas companies at less than 5 times cash-flow during a period of historically low interest rates. Oil and gas prices may decline but the stocks are not exhibiting bubble-like behaviour. In fact, share buy-backs and acquisitions paid for with profits from operations are common. When we are in a bubble scenario we will see more share-for-share transactions, few cash transactions and some absurd diversifications. We'll get there, but probably not in 2006.

Lawrence Partners Fund Featured Position – Coastal Contacts

Coastal Contacts is one of the largest and fastest growing contact lens retailers in the world with operations and distribution hubs in both North America and Europe. The Company's large volume business combined with its cost effective global operations enable it to offer contact lenses to customers worldwide at reduced prices, delivered quickly with strong customer service follow-up. Coastal's direct to consumer model and single product focus combine to create the distinct competitive advantage of a more efficient, customer- focused model for worldwide contact lens distribution.

As of its most recent quarter, Coastal is adding 1,300 new customers per day, with 85% returning every 9 months for follow-on orders. This is creating a recurring annuity stream and tremendous shareholder value. Moreover, this growth is on very profitable terms. Coastal has the lowest customer acquisition costs in the industry, and a lean operating platform that enables it to compete on price and service while still enjoying higher margins than its competitors.

Recently, Coastal's primary competitor, 1-800 Contacts, publicly articulated concerns over Coastal's compliance with the Fairness to Contact Lens Consumers Act (FCLCA) which governs contact lens distribution in the United States. In response, the LPF visited the company to scrutinize their compliance first-hand, and encouraged the company to sanction a full-scale audit of their FCLCA compliance. We were satisfied with the state of their operations and controls and significantly increased the size of our position. On December 28, 2005, the company announced that Deloitte & Touche had completed their audit and concluded that Coastal is in complete FCLCA compliance. We view 1-800 Contacts allegation as spurious and representative of a company facing substantial competitive threats and meaningful market share deterioration.

The Lawrence Partners Fund has accumulated a sizeable position in the company at an average cost of $1.83, and currently owns approximately 5% of the outstanding shares. The stock presently trades at $2.25 and the LPF believes this understate the future prospects of the company. On a discounted cash flow basis, we believe Coastal is conservatively worth $3.00. Furthermore, Coastal has a significant cash position, no debt and is poised to make additional accretive acquisitions to further consolidate the highly fragmented contact lens distribution industry.

If you wear contact lenses we encourage you to give Coastal a try – www.coastalcontacts.com.

Strategy for January and 2006

Despite our generally positive view on capital markets and the Canadian market in particular, the LPF is not specifically positioned to benefit from this thesis becoming reality. Rather we are sticking to our focus of identifying core positions where we believe we can achieve outsized returns over a reasonable time period, regardless of market performance. Of course we will continue to augment our core positions with opportunistic trading positions and more traditionally market-neutral positions as they appear.

As outlined in recent months, a significant part of our portfolio continues to be in junior and medium capitalization companies which we believe are likely acquisition candidates. A particular focus is on junior commodity producers. With major producers flush with cash and enjoying record high stock prices while facing declining reserves, it is our view that there is going to be a significant amount of M&A activity in 2006 and that the share prices of junior and intermediate commodity producers will benefit. Similarly, we continue to have a significant percentage of the fund invested in energy services companies which we believe to be undervalued versus their prospects for the coming year. We continue to hold two core positions in the sector and have traded out of a further two with the intention of redeploying the proceeds into the sector but in more junior opportunities. It is expected that we will have a material position in energy services through much of 2006.

Over the past several months we have been evaluating several technology and technology services related companies. While we are not likely to invest in any high growth, technologically complex businesses, some companies with recurring revenue streams and easily understood value propositions are becoming more interesting to us. Although this sector lacks a specific catalyst, with everyone continuing to focus on oil and gas and other commodities stocks, valuations in this sector have become very attractive and the share prices will ultimately sort themselves out. It is likely that we continue to increase our exposure to the technology sector in 2006.

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