



LAWRENCE PARTNERS FUND

October 31, 2005 Update

Performance Overview

NAV per share	Monthly Performance	Year-to-Date Performance	Since Inception Performance
\$111.8	+9.0%	+15.4%	+176.2%

Shares of Lawrence Partners Fund were up 9.0% net of all fees and accruals in the month of October. This compares to a loss of 1.8% on the S&P500 and a loss of 5.7% on the TSX Composite Index.

October was an extremely difficult month in capital markets. Canadian markets with their heavy weighting to energy stocks were particularly badly hit. Moreover, the income trust market continued its Ministry of Finance inspired decline with virtually every issuer showing a negative return for the month. Our positive performance was due primarily to various market neutral spread trades that performed extremely well this past month. These trades have generally worked against us year-to-date but in October, more than offset the negative net contribution of our long positions.

The Fund entered the month with a small short exposure and a significant cash position. Conversely, we exited October with no short positions and a very small cash position. We believe the valuations on our core positions exiting October are compelling and offer substantial upside over the next several months.

Market Update – Income Trusts and a market upside down

We now believe that the worst case scenario for income trusts would be one in which we have no clarity on the government's intentions due to an impending federal election. Beyond that, we believe the probability of the government introducing a layer of taxation on income trusts is now near zero, and the probability of modest yet still highly constructive corporate tax cuts is high. Attached is a report authored by Marc Robinson that details our submission to the Ministry of Finance on how to deal with the perceived income trust problem in a highly constructive manner. We continue to be highly active and vocal participants in this debate. The conclusion is that a small cut to corporate taxes combined with a small cut to individual taxation of dividends will level the taxation playing field for corporations and income trusts. The decision to buy back shares (a capital gain), pay dividends, or convert to an income trust will be purely a business decision, not a foregone conclusion due to an elephantine taxation arbitrage.

Outside of the income trust market, we expect volatility in broader markets to remain high as well. The Toronto Stock Exchange has been one of the top performing markets globally for several years, but October saw a broad punishment of commodity-based stocks and weakness across the board on the TSX. We believe November and December will show a reversal in this trend.

Balance sheets have never been stronger. The cost of borrowing has gone up recently but is still at historic lows. The share prices of many large cap companies have been strong but in many cases have underperformed their underlying business fundamentals. The share prices of many small companies with strong underlying fundamentals, particularly in the commodity complex, have not recovered from

technical damage done in March and April of this year and suffered a serious setback in October. We believe that this is a balanced equation for consolidation. Our portfolio is configured accordingly.

Lawrence Partners Fund Featured Position – Cineplex Galaxy Income Fund

“Just because I have a refrigerator doesn’t mean I don’t go to restaurants anymore.”

The film exhibition business has suffered an extremely difficult year and after industry-wide turmoil and multiple bankruptcies at the end of the 90’s followed by a series of consolidation and restructuring, once again finds itself completely out of favour in capital markets. A terrible slate of films over the past year, combined with overarching concerns regarding the effect of home entertainment systems, video-on-demand, and the speed at which films are making their way to DVD have led to what we believe are very attractive valuations in a business that is not going to disappear. While several hedge funds have come to the same conclusion and taken significant positions in U.S. based exhibition chains, we have acquired shares in our friendly neighborhood Canadian film exhibitor that, in comparison to its U.S. brethren, has no meaningful competition. Moreover, as an income trust, it has become significantly less expensive over the past month, in fact, so cheap, that despite its market position and advantageous tax structure, it trades at a discount to its U.S. peers.

Cineplex Galaxy is Canada’s dominant film exhibitor, with a 64% share of the Canadian box office market through 1267 screens in 130 theaters. In July 2005, Cineplex acquired Famous Players, its primary competitor.

We closely monitor the theatrical exhibition industry and regularly meet with Cineplex’s management team, which we consider one of the strongest in Canada. Cineplex’s unit price declined 20% over the past two months, primarily because of: (i) weak film product (a factor out of Cineplex’s control) leading to lower box office revenue; and (ii) the turmoil in the income trust market surrounding future government policy.

With the recent decline in Cineplex’s share price, the Fund has accumulated a position. We believe that Cineplex’s earnings are poised for significant growth as a result of:

- higher attendance due to a strong slate of movies, including *Harry Potter*, *The Chronicles of Narnia*, and *King Kong* in Q4 2005, and *Mission Impossible III*, *The Da Vinci Code*, and *Pirates of the Caribbean II* in 2006;
- increased average ticket prices at Famous Players theaters (implemented in Nov. 2005);
- Famous Players acquisition synergies of \$20 million (\$0.363 per unit), and potentially additional cost savings at the theater operating level from consolidating vendor contracts;
- increased revenue from pre-show digital advertising; and
- new theater openings.

Cineplex is currently trading at an 8.9% yield and 8.4x our estimate of 2006 EBITDA. We anticipate distributions per unit to grow from its current annualized level of \$1.15 to \$1.44 in 2006 and \$1.51 in 2007. As this growth is achieved and as government policy towards income trusts is resolved, we also anticipate the market to afford Cineplex a higher multiple and a lower yield, resulting in further unit price appreciation. As with all income trusts with sustainable distributable cashflow, we are getting paid handsomely to wait for our investment to appreciate. We encourage all LPF shareholders to go out and see *Harry Potter*, *Chronicles of Narnia*, and *King Kong*. Take your kids and buy the extra large popcorn.

Next Month

As mentioned earlier, we closed all of our short positions in October and have reduced our cash position reflecting the numerous opportunities for significant capital gains that have been presented to us. In November, our new positions will primarily be in the areas of energy services and income trusts.

Subsequent to a recent trip to Alberta visiting several oil and gas, and energy services companies, we were left with a reinforced view that the energy services complex will continue to see very high utilization rates, high prices, and growing cash flows. There is also a high likelihood of value-unleashing catalysts in this sector including mergers and acquisitions as well as income trust conversions.

We expect to be utilizing all of our capital this month and through to the end of the year. The volatility in our markets is creating numerous trading opportunities and excellent entry points for core positions.

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