



LAWRENCE PARTNERS FUND
LAWRENCE ASSET MANAGEMENT INC.

Performance Overview

Series 1 NAV per share	Monthly Performance	Year-to-Date Performance	Since Inception Performance
\$171.01	-4.85%	+47.12%	+322.38%

Shares of Lawrence Partners Fund were down 4.85% net of all fees and accruals in the month of September. This compares to a gain of 2.46% on the S&P500 and a loss of 2.59% on the S&P/ TSX Index. For the quarter and year-to-date, the fund has returned 1.64% and 47.1% respectively. This compares to a return of 1.28% and 4.34% on the quarter and year-to-date respectively, on the S&P / TSX Index.

We exit this quarter with a disappointing month but in excellent financial position to profit from the current market turmoil - an ideal market for the Lawrence Partners Fund.

Market Update – The Beginning of the End or just the End of the Beginning?

This past quarter was a difficult one for Canadian investors. The commodity complex and cyclicals in general encountered continued selling and a major technical trend-line break. Meanwhile the Dow has visited new all-time highs, and in Canada the financials and telecom stocks have yielded similarly spectacular performance, also registering new all-time highs. Quietly, the Canadian dollar seems poised for a break-down versus the U.S. dollar, a further negative indicator for commodities. One must then ask if this is the beginning of the end for the commodity bull and all that entails for Canadian markets or is it perhaps just the end of the beginning?

Oil is of course, the grand-daddy of the commodity complex and as oil goes, so go most commodity-related stocks, whether or not their respective underlying commodity is coming or going. The recent retreat in oil prices seems rather alarming and was certainly affected with a certain velocity. However, it has 'retreated' to prices it was at just a few months ago and continues to flirt with the \$60 level – prices that would've been considered unspeakably high just a few years ago (particularly if you run an airline) but now seem dangerously low for investors in oil companies.

While many of the western super-major producers have largely been sitting on their corporate-hands, the Chinese government-controlled companies have invested more than US\$40 billion in projects abroad, including projects in Iran, Kazakhstan, Peru, Sudan, and Venezuela. Similarly, the Indian public sector giant Oil and Natural Gas Corporation (ONGC) has so far invested an estimated US\$4.5 billion in assets spread across Australia, Cote

d'Ivoire, Egypt, Iran, Iraq, Libya, Russia, Sudan, and Qatar. Increasingly, when macro-scale energy assets come for sale in global markets, India and China are the leading bidders. In August 2005, China National (PetroChina) defeated ONGC by paying US\$4.2 billion for Canadian company PetroKazakhstan. A month later, the Chinese again defeated their Indian rivals by outbidding them for the Ecuadorian assets of another Canadian company, Encana, for US\$1.4 billion. January of this year saw yet another showdown with Chinese giant CNOOC defeating Indian bidders to buy a US\$2.3 billion stake in a Nigerian oil field. We would be hesitant to conclude anything from this activity other than to note that the vast majority of the energy assets in the developing world are managed by Canadian companies, listed on the Toronto Stock Exchange and that this level of consolidation is likely to continue with promising returns for correctly positioned investors.

While oil pauses, uranium prices have continued to soar unabated with buyers (utilities) factoring in \$80/lb prices into their own financial models versus current prices in the \$60/lb range. Conversely uranium equities have floundered continuing to trade with oil price and energy sentiment rather than uranium fundamentals. Thermal coal has given back its super spike pricing and returned to more sustainable levels, causing coal equities to be the worst performing group in the S&P 500 in the past quarter. We are active on a limited special situations basis in Uranium-related equities.

Volatility in Canadian markets has not been confined to commodities - the Canadian income trust market has also been a roller-coaster this past quarter, registering its first down quarter on a total return basis in the past 9. While yields on the Government of Canada 10-year flirt with 4% and threaten to visit the lows of 2005, the trust market has been soundly thrashed with a peak to trough sell-off of 15% during the quarter. REITs have continued to soar with much activity on the M&A front: threatened, rumoured, and actual. Similarly, other interest-rate sensitive names have performed well. However, the largest component of the income trust world remains the oil and gas royalty trusts which have had to deal with a decline in oil prices, 3-year lows on gas prices, and capital budgets and balance-sheets conceived with much higher commodity prices in mind. The rest of the income trust market has been negatively impacted by the huge weakness in oil and gas trust prices.

As we pointed out in our last quarterly update subsequent to the June sell-off in commodities and the Canadian market, reality contrasts sharply with current sentiment. Corporate balance sheets are bulging and M&A activity is accelerating. Insider buying of shares is at an all-time high. Earnings multiples remain very low. These are not conditions consistent with a bubble or bear-market implosion.

We aren't in the business of being market prognosticators or generating target prices for securities, commodities, or indices. However, there appears to be a strong case that this is just the end of the beginning, rather than the beginning of the end of the secular bull for energy and commodities and Canadian markets. Emerging market demand continues to increase and the supply-side response has been very weak in the face of very high prices. Commodity and in particular energy prices are likely to stay 'high', but that does not preclude a correction, even a serious one, in the short term. In any case, our portfolio is, as always, positioned on the basis of intensive bottom-up analysis, not a directional view on markets or any sector or commodity. We look forward to continued difficult market conditions as an opportunity to profit from volatility and uncertainty.

Strategy for Q4

Our strategy going into Q4 has not changed markedly from that in Q3. Volatility has created significant opportunities for us. We continue to focus our energies on a core portfolio of undervalued securities while selectively shorting the market and specific securities to both reduce our outright exposure and generate profits by identifying overvalued securities.

As in the previous quarter, we continue to be highly active in the energy sector. We have short positions in several companies with impaired balance sheets and high cost production. Conversely, we have long positions in a number of promising juniors with strong balance sheets and positive catalysts. If we were in a rampant bull market for energy, gas in particular, these opportunities would not be present – capital markets would willingly finance away the balance sheet woes of the weaker companies and the high quality juniors would be back at exorbitant valuations. We don't expect any short term gratification from our current energy portfolio but our philosophy of largely ignoring short term cash flows and multiples in favour of purchasing companies at a material discount to conservatively calculated NAV while being short companies with financial difficulties will continue to reward us over any period of time.

Outside of the energy complex, we have, as always, several investments in what we would consider special situations. Our core positions include names in the auto sector, real estate, forestry, and technology. We cannot pinpoint exact timing for our strategies to come to fruition, only that they are well conceived and represent unusual value to us as investors.

Thank you for your continued support.

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