



LAWRENCE PARTNERS FUND

December 31, 2006 Quarterly Update

Performance Overview

Series 1 NAV per share	Monthly Performance	Year-to-Date Performance	Since Inception Performance
\$203.12	+7.2%	+74.7%	+401.6%

Shares of Lawrence Partners Fund were up 7.2% net of all fees and accruals in the month of December. This compares to a gain of 1.4% on the S&P500 and a gain of 1.5% on the S&P/ TSX Index. For the quarter and for the year ended December 31st, the fund has returned 18.9% and 74.7% respectively. This compares to a total return of 10.4% and 17.3% on the quarter and for 2006, on the S&P / TSX Index.

Market Update

This past quarter was kind to Canadian equities however the gains came from new sources – financials and telecoms provided a big lift to the index while energy underperformed. At the end of Q3 the weighting of energy exceeded that of financials for the first time ever. However, year-end saw the energy sub-index of the Toronto Stock Exchange post a negative total-return for the year and the energy weighting shrink back below that of financials.

The Canadian market with its heavy exposure to energy and basic materials has not surprisingly shown a very high correlation to emerging markets. While we seldom invest in foreign equities, we pay very close attention to economic and market developments abroad, particularly in emerging markets. While emerging markets in aggregate have performed superbly (some astronomically) in recent years, and recast in USD terms have performed even better, they are still in almost every measure of value far less expensive than pre-Asian Flu (1997) or even in 1994. In fact, on a p/e basis or looking at the relative market capitalization of emerging markets to the market capitalization of the S&P 500, emerging markets are in aggregate only 60% as expensive as they were in 1994. This compares to about 40% as expensive at their lows. This isn't solely a statement of today's value but rather a combination of that and with the benefit of hindsight, their absurd overvaluation a decade ago. It is also important to note that in the past these economies have had mountains of debt overhanging them and this has historically led to disaster. In this pass they are in most cases creditors! The shackles of indebtedness have been torn asunder – can these countries still be consider 'emerging' markets if they are the ones providing liquidity to the world economy?

These are very general observations and certainly there are extreme differences country-to-country. Our point is that not only are we not at mania valuations in emerging markets they likely represent value. In fact they may be cheaper and ultimately more liquid than many of the western markets in the coming years. This translates to continued healthy demand for base metals, structural growth in demand for crude oil, and continued globalization in a strong world economy. This translates into robust conditions for the Canadian economy and our stock markets which are approximately 50% weighted to energy and basic materials.

Whether commodity prices continue higher or not in 2007 they are likely to remain above historical means and demonstrate incredible volatility thus creating many opportunities for profit. We continue to highlight the fact that larger companies in all commodity sectors have record share prices, balance sheets stronger than they've ever had, and record cash flows. These same companies collectively share a similar problem however – declining reserves. This will fuel continued mergers and acquisitions in basic materials and energy. This state of strong balance sheets, low earnings multiples, and cash-based consolidation and privatization is entirely inconsistent with the traits of financial bubbles. It is possible and entirely likely that commodity and emerging markets related assets, and particularly emerging markets themselves will eventually find themselves in bubble-type scenarios. For now however, that is simply not the case.

For the last 5 years the Income Trust market has been one of the most interesting and differentiated areas in the Canadian market. On October 31st the Federal Government indicated that it will abolish the special tax treatment for public trusts in 2011. There is ongoing debate surrounding this issue but material modifications to this abrupt and surprising change are possible but unlikely. This change caused the Income Trust index to plummet some 17% in two days. It has since recovered somewhat but the sector remains in turmoil with incredible volatility and confusion as to the future of the companies operating within it. It is our view that a large percentage of these companies are merged or acquired before 2011. Those remaining will simply persist as high-yielding common equities. They will look to shield their tax in the same way many consistently profitable companies do and continue to pay high yields to investors. It is worthwhile noting that the changes had no effect on taxable investors after-tax income from these vehicles. The drop in share prices was caused by the penurious effect on non-taxable or tax-deferred investors who previously and now until 2011 participated in income-streams unfettered by corporate tax. These marginal buyers set the prices of shares to all investors benefit. As we have indicated, it is our view that any modifications to the indicated changes are likely to be minor, but the selling has occurred and the taxation is largely priced into this sector.

It is our view that Canadian markets will have a positive return for 2007 but it is entirely possible that we will see that brought about by the telecoms and financials sectors not energy and basic materials. It is our view that most of the profits to be had in the latter two sectors will be from small and mid capitalization companies not included in any major index.

Strategy for Q1 and 2007

The Partners Fund will continue to focus on deep value investments and catalyst investments from the long and short side of the market. As discussed earlier, given the system-wide liquidity and low return thresholds, we believe there will continue to be a prodigious level of M&A activity and are positioning ourselves in stocks and sectors we believe to be likely beneficiaries.

Continued uncertainty and volatility has created ongoing opportunities in the income trust market and we expect to be as active as ever in this area throughout 2007. Many investors have left this market entirely and this negative flow-of-funds has created an opportunity for us in an asset class with high cash yields, stable low-volatility businesses, and a high probability of consolidation and privatization. The Lawrence Income Fund outperformed its benchmark by over 2000 basis points in 2006 and much of this activity was and will continue to be replicated in the Lawrence Partners Fund.

The Energy sector is likely to be the largest single exposure of the Partners Fund in Q1. Recent weakness in both oil and gas prices has created opportunities from the short side in the very short term, and from the long side in the medium and long term. Senior oil and gas companies have very strong balance sheets and

cash-flows but are facing declining reserves. This will continue to be a catalyst for consolidation from which we are positioning ourselves to benefit. Large national oil companies are also on the hunt adding to the value of long-life, high quality reserves in politically safe jurisdictions. Canada has the second largest oil reserve in the world (after Saudi Arabia) and other than the United States, is the only country in the top 10 in terms of reserves not considered to be very high risk geopolitically. We expect to be active in private, junior public, and large-cap public oil and gas companies. We will also be involved in oil and gas royalty trusts, and energy services companies.

As always, our portfolio is not designed to reflect a strong directional market view, positive or otherwise. We continue to utilize a series of hedged strategies and focus most of our capital on special situations opportunities where we believe we can earn superior returns with a reasonable level of risk.

Thank you for your continued support.

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