



# LAWRENCE PARTNERS FUND

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## FOURTH QUARTER 2008

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Dear Investors,

We begin 2009 with many challenges ahead of us. During the month of December we continued to review the holding values of our illiquid investments in cooperation with KPMG, the Fund's auditor and valuator. We have undertaken a detailed review of every position and in light of the challenged environment we have significantly reduced the value at which we hold several positions. This resulted in a further significant reduction in the NAV of the Fund at year end. In particular, our holdings in Athabasca Oilsands, Canadian Bio-Energy Corporation, Mag Minerals, and Virginia Uranium were written down and represented the bulk of the reduction in NAV. We believe that many of the current levels represent 'distressed' pricing with the potential to return to normalized values when markets stabilize. These writedowns in December have resulted in a further decrease to the net asset value, resulting in a total decline of 80% in 2008.

The direction of the market and of the economy is not clear. Despite stimulus packages and bailouts the credit crisis continues and the economies of the developed world continue to contract. There are however reasons for optimism. The key emerging market economies are growing slower than anticipated but continue to grow. The rapid decline in the price of commodities that has hit Canadian capital markets so hard is providing a huge boost to emerging economies that need to import these essential materials. It is also a relief for consumers around the world and for large scale infrastructure projects whose material costs have now plummeted. These phenomena will take some time to translate into improvements in the economy and markets but will ultimately prevent a long-term global contraction. In the meantime, there are still opportunities in the chaos of today's markets. Many companies are trading substantially below tangible book value at unsustainably low valuations. Many companies that will need to access new capital to sustain operations or refinance existing obligations are excellent opportunities from a short perspective. In between the long and the short, the shortage of capital has created the best risk-reward situation in market-neutral opportunities that has been seen in years.

It has been an extremely difficult period, but we believe the team at Lawrence Asset Management Inc. (LAMI) is equipped to participate and profit from these opportunities. To do this we must modify the mandate and structure of the Lawrence Partners Fund to allow us to satisfy all investors' needs and put the fund in a position to capitalize on these opportunities.

Accordingly, LAMI is proposing a re-structuring of the Partners Fund in order to address the needs/wishes of its shareholder base. To that end, LAMI has put forth to you two separate resolutions to be voted upon by shareholders on February 2<sup>nd</sup>, 2009; aimed at determining the future direction of the Fund, in addition to maximizing shareholder value.

LAMI believes that the approval of Resolution #1 would be in the best interest of shareholders; and failing that, the approval of Resolution #2. LAMI and its principals will be voting our shares in Favour

of Resolution #1, and will be asking for 100% of our existing shares to be exchanged for newly created 'Re-Invest' shares.

### **Resolution #1: Proposal to create 2 new classes of Shares (Re-Invest & Wind-Up)**

This resolution acknowledges that certain shareholders would like liquidity as soon as possible; while others are open to the idea of approving a longer lock-up period in hopes that the team at LAMI can produce returns and rebuild the net-asset-value of the Fund over time.

Approval of the Resolution provides all shareholders of the Fund with ultimate flexibility given the circumstances. Shareholders that desire liquidity will receive it in an orderly fashion but not at the expense of those who would like to continue as investors. Furthermore, all shareholders have the ability to divide their shares between the two classes in any manner they like allowing investors to receive part of their capital back as dispositions are made and keep part of their capital invested in the Fund.

Management fees will be reduced to 1.0% on the existing portfolio. A NAV will continue to be struck monthly on each class of shares

Re-Invest shares will be subject to new investment restrictions: they will not be able to use leverage, but will be able to short sell. Eligible equities will be publicly traded (no unlisted or restricted securities), will be listed on the TSX or TSX Venture, and have a market cap of at least \$100 million CDN. The management fee will return to 1.5% on capital that is reinvested. There will be no performance fees on the Reinvest shares.

For Resolution #1 to pass requires that:

1. 67% of shareholders vote in Favor, and
2. At least 25% of shareholders elect the Re-Invest option, and
3. Notices of dissent account for less than 3% of shares outstanding

### **Resolution #2: Dissolution of the Corporation in the best possible terms**

If Resolution #1 does not pass, the result of this resolution becomes relevant. In summary, Resolution #2 calls for an orderly wind up of the Partners Fund with an eye towards maximizing shareholder value by liquidating existing portfolio positions over time in the best possible terms.

Management Fees will be reduced to 1.00% in this scenario.

For Resolution #2 to pass:

1. 67% of shareholders must vote in Favour

It is critical for shareholders to understand that if neither Resolution 1 nor 2 are approved, the Fund will move into immediate liquidation of portfolio assets. This will almost certainly result in a far lower value being returned to investors than can be achieved with the success of either resolution.

LAMI strongly encourages all shareholders to vote in FAVOUR of the 2 outlined resolutions by:

1. Mailing the completed proxy to SGGG Fund Services Inc. (to be received by SGGG no later than the close of business on Friday, January 30<sup>th</sup>); or
2. By voting in person at the meeting to be held on Monday, February 2<sup>nd</sup>.

Regardless of your vote, we also strongly encourage you to send back the Irrevocable Direction as to your preference for Re-Invest or Wind-Up Shares as contemplated under Resolution 1. **Investors who do not return the Direction will automatically receive Reinvest shares, which will not be redeemable until March 2011.**

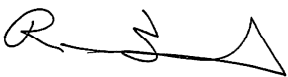
Should Resolution 1 be passed, once the Reinvest shares have achieved a suitable level of liquidity we will actively pursue new investors and new investment opportunities. The strategy for 2009 is to focus on three classes of opportunity:

1. Market neutral opportunities. While volatility is declining and some stability has returned to markets, there is still far less capital chasing typical market neutral trading strategies. While the return potential is not spectacular, we expect the risk-reward in this style of trades to remain very attractive for the foreseeable future.
2. Companies with balance sheet issues. Companies with weak balance sheets or otherwise requiring access to capital markets to execute their business plans provide several opportunities in this market. Short-selling companies with immediate and difficult financing or re-financing requirements is a strategy we have employed heavily in the past and will continue to employ in 2009. An example of this opportunity is Oilexco – a company with quality assets but a serious funding problem which pushed the company to bankruptcy. Conversely, in some cases there are opportunities to buy equity or debt in such companies at distressed prices on a financing or in the secondary market.
3. World-class companies at historic lows. Indices have recently rallied from their November lows but we still have some of the largest and highest quality companies trading at multi-year lows and multiples never before seen. We do not expect the market to provide much return to investors in and of itself in 2009 but the current situation has provided an opportunity to buy great companies at great prices. Returns from dividends and call-writing strategies will help provide some return and limit downside in the short-term.

We will be phasing in our active investment over the course of the year as liquidity is achieved within the fund.

We at Lawrence Asset Management are extremely sensitive to the losses incurred by all investors in the Lawrence Partners Fund. Our investment in this fund is the primary asset of our firm and its principals. We are optimistic that through this restructuring we can maximize value for shareholders seeking liquidity and sustain a vehicle that has generated returns in the past for shareholders wishing to remain invested. Thank you in advance for your support and understanding in these challenging times.

Sincerely,



Ravi Sood  
President  
Lawrence Asset Management Inc.