



# SEAMARK Asset Management Ltd.

INVESTMENT COUNSEL

## 2004 Second Quarter Report to Shareholders

July 26<sup>th</sup>, 2004

### Record Earnings

Earnings for the second quarter reached a record \$0.31 per share. For the first six months of the year earnings per share are \$0.60, positioning SEAMARK for another year of solid earnings growth.

### Assets Under Management

Assets under management as of the end of June stood at \$10.9 billion, up from \$9.4 billion a year ago and equal to the beginning of the quarter. Equity markets took a pause in the second quarter after more than a year of steady increases, and fixed income securities also pulled back on the expectation of higher interest rates. In both cases, the effects were muted. Net new assets during the quarter totalled \$30 million, led by mutual funds.

### Six Months In

Halfway through my first year as CEO, I am pleased to announce that we continue to progress towards our goals.

In support of the firm's evolution, we have a tremendous team of talented investment professionals, and an equally dedicated team of

employees throughout the organization. We are continuing to improve and implement the business processes necessary to accommodate a growing number of client relationships. And as always, our pool of human capital is being monitored to ensure that we have all the right people in place for our future success.

As the same time, we continue to develop the channels through which we will grow our assets under management. I am confident that we are taking the right steps to position us for continued long-term asset acquisition from both retail and institutional clients.

### Dividend

The third regular quarterly dividend for 2004 of \$0.24 per share has been declared payable on August 31<sup>st</sup> to shareholders of record on August 16<sup>th</sup>.

Yours truly,

Robert G. McKim, CFA  
President & Chief Executive Officer

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#### SEAMARK Asset Management Ltd.

website: [www.seamark.ca](http://www.seamark.ca)

1801 Hollis Street, Suite 310  
Halifax NS B3J 3N4  
Tel: (902) 423-9367  
Fax: (902) 423-5106

#### Investor Relations

[investorrelations@seamark.ca](mailto:investorrelations@seamark.ca)

Brent Barrie, LL.B., CFP, CFA  
Manager, Investor Relations  
Tel: (902) 423-9367  
Fax: (902) 423-5106

#### Transfer Agent

CIBC Mellon Trust Company

PO Box 7010  
Adelaide Street Postal Station  
Toronto ON M5C 2W9  
1-800-387-0825

## MANAGEMENT DISCUSSION AND ANALYSIS FOR THE QUARTER AND SIX MONTHS ENDED JUNE 30, 2004

*This discussion and analysis, including the section titled "Outlook", presents certain forward-looking statements that reflect management's current beliefs and assumptions. These are based on management's current expectations and estimates related to the business conditions under which SEAMARK Asset Management Ltd. operates. By their very nature, forward-looking statements involve inherent risks and uncertainties as these beliefs, assumptions, expectations, and estimates may prove to be inaccurate. Actual results and events may therefore differ materially from those predicted by the forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements.*

### SUMMARY OF OPERATING RESULTS

#### UNAUDITED

For the period ended June 30  
(\$ in thousands, except per share)

	Three months		Year to date	
	2004	2003	2004	2003
Total revenue	\$ 7,290	\$ 5,803	\$ 14,480	\$ 11,935
EBITDA (1)	5,333	4,098	10,411	8,702
Net earnings	3,316	2,440	6,475	5,083
<i>Per Share</i>				
Basic earnings per share	\$ 0.31	\$ 0.23	\$ 0.61	\$ 0.48
Diluted earnings per share	0.31	0.23	0.60	0.48

(1) References to EBITDA are to earnings before interest, income taxes and depreciation. EBITDA is not a standardized earning measure under GAAP. Management believes that in addition to net income, EBITDA is a useful supplemental measure as it provides investors with an indication of cash available for distribution, income taxes, working capital needs and capital expenditures. Investors should be cautioned, however, that EBITDA should not be construed as an alternative measure of liquidity and cash flows. The Company's method of calculating EBITDA may differ from other issuers and, accordingly, EBITDA may not be comparable to similarly titled measures used by other issuers.

#### GENERAL

This discussion and analysis has been prepared by management as of July 26, 2004 to assist shareholders in understanding SEAMARK's interim financial results for the period ended June 30, 2004. It should be read in conjunction with the management discussion and analysis and financial statements contained in SEAMARK's 2003 Annual Report. Except as updated below, the information set out in the

annual management discussion and analysis is believed to be substantially unchanged.

As of the date of this interim discussion and analysis, there were 10,565,000 common shares of SEAMARK issued and outstanding and 640,000 outstanding options to purchase common shares.

## FINANCIAL RESULTS

Earnings for the second quarter of 2004 were \$0.31 per diluted share, up from \$0.29 earned in previous quarter and \$0.23 earned in the second quarter 2003 (second quarter 2003 results included the impact of a one-time adjustment that reduced earning by \$0.02). Year-to-date, earnings are \$0.60 in 2004 compared to \$0.48 in 2003.

Revenues for the quarter were \$7.3 million, up from \$7.2 million during the first quarter of 2004 and \$5.8 million for the second quarter 2003 (second quarter 2003 results included the impact of a one-time adjustment that reduced revenues by \$0.5 million). Year-to-date, revenues are \$14.5 million, up from \$11.9 million for the first six months of 2003. Higher average assets under management for both the quarter and year-to-date are responsible for the increased revenues over prior periods.

Earnings before income taxes represented 73% of revenues for the quarter and 72% year-to-date in 2004, in line with 2003's margins of 72% and 73% respectively. After including the impact of income taxes, net earnings as a percentage of revenues were 45% for the second quarter and year-to-date 2004, compared to 42% and 43% respectively for 2003.

## OPERATIONAL RESULTS

SEAMARK's assets under management were \$10.9 billion as of June 30, 2004, up from \$9.4 billion as of June 30, 2003 and equal to the assets under management as of the end of the first quarter 2004. Net new assets during the quarter were \$30 million, down from over \$95 million in quarter ended June 30, 2003 and \$230 million for the first quarter 2004. Market value changes had no material impact on assets under management during the second quarter.

Institutional clients represented \$4.7 billion in assets under management as of June 30, 2004, up from \$4.1 billion a year ago and unchanged from March 31, 2004. Net new assets for the quarter were \$20 million. Net new institutional assets had been up \$70 million during the same period in 2003 and up slightly in the first quarter 2004.

Mutual fund assets represented \$3.3 billion as of June 30, 2004 and up from \$2.7 billion as of June 30, 2003 and \$3.2 billion on March 31, 2004. Net new assets were \$80 million during the quarter, compared to \$10 million during the same period of 2003. Mutual fund net new sales in the first quarter, the traditional RRSP contribution period, had been \$150 million.

Private client and wrap assets stood at \$2.9 billion at the end of the quarter, up from \$2.4 billion as of June 30, 2003 but down from \$3.0 billion at the end of first quarter 2004. Net new assets declined by nearly \$70 million during the quarter as growth in newer wrap programs was more than offset by net withdrawals from older programs. Net new assets had been \$15 million for the quarter ended June 30, 2003 and \$70 million for the quarter ended March 31, 2004.

For the year-to-date, net new assets are \$260 million overall, comprised of \$30 million institutional, \$230 million mutual funds, and relatively flat from private clients and wrap programs. During the same period in 2003 net new assets had been \$185 million, comprised of \$110 million institutional, \$35 million mutual funds, and \$40 million private clients and wrap programs.

## OUTLOOK

After rising steadily from their lows of March 2003, equity markets paused in the second quarter of 2004. A wide-spread global economic

recovery appears to be well underway, boding well for corporate earnings going forward. With interest rates likely to rise from their current historic lows, market value appreciation on fixed income assets is likely to be muted, and equity assets will likely require proof of the sustainability of corporate earnings growth to fuel additional appreciation. Despite the challenging near term conditions, SEAMARK believes its proven investment process positions it well to continue to attract new assets over the long-term from both retail and institutional clients.

## BALANCE SHEET

(UNAUDITED)

As at June 30, 2004 and December 31, 2003  
(\$ in thousands)

	2004	2003
<b>ASSETS</b>		
Current		
Cash and short-term investments	\$ 8,438	\$ 6,400
Temporary investments, at market	706	689
Accounts receivable and prepaid expenses	6,709	6,802
	<u>15,853</u>	<u>13,891</u>
Furniture and equipment at cost	829	763
Less: accumulated depreciation	484	437
	<u>345</u>	<u>326</u>
	<u>\$ 16,198</u>	<u>\$ 14,217</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Accounts payable and accrued liabilities	\$ 1,035	\$ 735
Income taxes payable	275	610
	<u>1,310</u>	<u>1,345</u>
Capital stock	3,866	3,450
Contributed surplus	45	18
Retained earnings	10,977	9,404
	<u>14,888</u>	<u>12,872</u>
	<u>\$ 16,198</u>	<u>\$ 14,217</u>

## STATEMENT OF EARNINGS

(UNAUDITED)

For the period ended June 30 (\$ in thousands, except per share)	Three months		Year to date	
	2004	2003	2004	2003
<b>REVENUE</b>				
Institutional clients	\$ 2,476	\$ 2,185	\$ 4,946	\$ 4,181
Mutual fund clients	1,626	1,336	3,226	2,713
Private clients and wrap accounts	3,143	2,198	6,229	4,982
Investment income	45	84	79	59
	<u>7,290</u>	<u>5,803</u>	<u>14,480</u>	<u>11,935</u>
<b>EXPENSES</b>				
General and administrative	1,912	1,621	3,990	3,174
Depreciation and amortization	23	29	47	53
	<u>1,935</u>	<u>1,650</u>	<u>4,037</u>	<u>3,227</u>
Earnings before income taxes	5,355	4,153	10,443	8,708
Income taxes	2,039	1,713	3,968	3,625
Net earnings	<u>\$ 3,316</u>	<u>\$ 2,440</u>	<u>\$ 6,475</u>	<u>\$ 5,083</u>
<b>EARNINGS PER SHARE</b>				
Basic	\$ 0.31	\$ 0.23	\$ 0.61	\$ 0.48
Diluted	\$ 0.31	\$ 0.23	\$ 0.60	\$ 0.48
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (in thousands)</b>				
Basic	10,548	10,507	10,539	10,507
Diluted	10,795	10,682	10,794	10,677

## STATEMENT OF RETAINED EARNINGS

(UNAUDITED)

For the period ended June 30 (\$ in thousands)	Three Months		Year to date	
	2004	2003	2004	2003
Retained earnings - beginning of period	\$ 10,194	\$ 7,392	\$ 9,404	\$ 7,481
Net earnings	3,316	2,440	6,475	5,083
	<u>13,510</u>	<u>9,832</u>	<u>15,879</u>	<u>12,564</u>
Less				
Dividends paid	2,533	2,206	4,902	4,938
Retained earnings - end of period	<u>\$ 10,977</u>	<u>\$ 7,626</u>	<u>\$ 10,977</u>	<u>\$ 7,626</u>

## STATEMENT OF CASHFLOW

(UNAUDITED)

For the period ended June 30 (\$ in thousands)	Three months		Year to date	
	2004	2003	2004	2003
<b>OPERATING ACTIVITIES</b>				
Net earnings for the period	\$ 3,316	\$ 2,440	\$ 6,475	\$ 5,083
Items not affecting cash				
Depreciation	23	29	47	53
Non-cash compensation expense	13	-	27	-
	<u>3,352</u>	<u>2,469</u>	<u>6,549</u>	<u>5,136</u>
Changes in non-cash working capital related to operations	958	245	41	(1,469)
	<u>4,310</u>	<u>2,714</u>	<u>6,590</u>	<u>3,667</u>
<b>FINANCING ACTIVITIES</b>				
Proceeds from exercised stock options	310	-	416	11
Dividends paid	(2,533)	(2,206)	(4,902)	(4,938)
	<u>(2,223)</u>	<u>(2,206)</u>	<u>(4,486)</u>	<u>(4,927)</u>
<b>INVESTING ACTIVITIES</b>				
Purchase of capital assets	(42)	(19)	(66)	(64)
	<u>(42)</u>	<u>(19)</u>	<u>(66)</u>	<u>(64)</u>
Increase (decrease) in cash and short-term investments	2,045	489	2,038	(1,324)
Cash and short-term investments - beginning of period	6,393	3,704	6,400	5,517
Cash and short-term investments - end of period	<u>\$ 8,438</u>	<u>\$ 4,193</u>	<u>\$ 8,438</u>	<u>\$ 4,193</u>

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004 AND 2003 (UNAUDITED)

### 1) Summary of Significant Accounting Policies

These interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information and, accordingly, do not include all disclosures required for annual financial statements.

These statements should be read in conjunction with the December 31, 2003 annual financial statements included in the 2003 Annual Report. These financial statements reflect the same significant accounting policies as those described in the notes to the audited financial statements of SEAMARK Asset Management Ltd. for the year ended December 31, 2003.

### 2) Stock Option Plan

The Company has reserved 1,000,000 common shares pursuant to a Company stock option plan. For the quarter ended June, 2004 there were no options granted. The total options granted under the plan is 705,000 (June 30, 2003 —655,000). A total of 27,000 (June 30, 2003 —nil) options were exercised during the quarter leaving 644,000 (June 30, 2003 —658,000) options outstanding at the end of the quarter which range in price from \$11 to \$23.29 with a weighted average exercise price of \$13.98 (June 30, 2003 —\$13.29). These options expire at varying dates to 2014. Total options exercisable at June 30, 2004 were 257,000 (June 30, 2003 —117,000) at a weighted average exercise price of \$12.65.

Total compensation cost that has been charged against income for the stock option plan for June 30, 2004 is \$27,000 (June 30, 2003 —nil)

Options granted during the quarter were nil and 20,000 for the first six months ended June 30, 2004 (June 30, 2003 -10,000 for the quarter and first six months). The fair value of options granted was estimated at the date of granting using a Black-Scholes Option Pricing Model with the following assumptions: weighted average risk-free interest rate 4.19%; dividend yields of 3.75%; weighted-average volatility factors of the expected market price of the Company's common shares of 32.5% and the weighted-average expected life of the options of 5 years. The weighted average fair value of options granted for the six month period ended June 30, 2004 was \$5.55.

The Company's pro-forma net income would be reduced by \$49,000 for the quarter (June 30, 2003 —\$52,000) and \$98,000 for the first six months ended June 30, 2004 (2003 - \$101,000) had the fair value method been adopted for options granted in 2002. Basic earnings per share would remain unchanged at \$0.31 for the quarter and \$0.61 for six month ended June 30, 2004 (June 30, 2003 —unchanged at \$0.23 and \$0.48 respectively). Diluted earnings per share would be reduced from \$0.31 to \$0.30 for the quarter and reduced from \$0.60 to \$0.59 for the six months ended June 30, 2004 (June 30, 2003 from \$0.24 to \$0.23 and from \$0.48 to \$0.47 respectively).

### 3) Employee Benefit Plan

The company contributed \$35,000 for the quarter (2003 - \$37,000) and \$70,000 for the first six months ended June 30, 2004 (June 30, 2003- \$67,000) to its defined contribution pension plan.