



# SEAMARK Asset Management Ltd.

INVESTMENT COUNSEL

## 2005 First Quarter Report to Shareholders

May 2<sup>nd</sup>, 2005

### Investment Performance Improves

I am pleased to report that our relative investment performance for the first quarter shows improvement compared to this time last year. Our Canadian equities in particular have done very well thanks to our bottom-up stock-picking. In the important wrap segment, investment performance exceeded most benchmarks in the first quarter.

Although it may take a number of quarters of improved results to restore our overall short-term numbers to the same level as our superior long-term relative performance, we are off to a better start to 2005.

### Dividend

Following our strong financial results for 2004, the Board of Directors was able to increase our regular quarterly dividend to \$0.26 per share in February. Our next regular dividend will be paid on May 31, 2005 to shareholders of record on May 16, 2005.

### Continuing Opportunities

As discussed in our annual report, SEAMARK's current challenge is to reaffirm the merits of our proven investment process to existing and prospective clients. We are seeing some successes in this effort. Pension consultants, both in Canada and the U.S., have expressed confidence in our approach, which is reflected in their willingness to continue to recommend SEAMARK for new client opportunities.

And while it is more difficult to communicate with the wider retail audience, this quarter we hired a new wrap representative who will assist us in delivering our message to Toronto-based financial advisors of our wrap partners. In addition, I'm pleased to report that we signed an agreement with a new wrap partner this quarter. We are well-positioned to resume our growth in assets under management provided short-term investment performance continues to improve.

Yours truly,

Robert G. McKim, CFA  
President & Chief Executive Officer

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## MANAGEMENT DISCUSSION AND ANALYSIS

### FOR THE QUARTER AND THREE MONTHS ENDED MARCH 31, 2005

Certain information regarding the company contained herein may constitute forward looking statements within the meaning of applicable securities laws. Forward looking statements include estimates, plans, expectations, opinions, forecasts, projections, guidance or other statements that are not statements of fact. These statements reflect management's current expectations based on the business conditions under which SEAMARK Asset Management Ltd. is currently operating, and are believed to be reasonable, but management can give no assurance that such expectations will prove to have been correct.

By their very nature, forward-looking statements involve inherent risks and uncertainties, as actual results and events will be affected by a number of factors, many of which are beyond the company's control. 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 any forward looking statement. SEAMARK's forward looking statements are expressly qualified in their entirety by this cautionary statement.

#### SUMMARY OF RESULTS

UNAUDITED

For the period ended March 31 (\$ in thousands, except per share)	Three months	
	2005	2004
Total revenue	\$ 6,911	\$ 7,190
EBITDA (1)	4,865	5,078
Earnings before income taxes	4,911	5,088
 Net Earnings	 3,045	 3,159
<i>Per Share</i>		
Basic earnings per share	\$ 0.29	\$ 0.30
Diluted earnings per share	0.28	0.29

(1) References to EBITDA are to earnings before interest, income taxes, and depreciation. EBITDA is not a standardized earnings measure under GAAP. Management believes that in addition to net earnings, 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 May 2, 2005 to assist shareholders in understanding SEAMARK's interim financial results for the period ended March 31, 2005. It is intended to be read in conjunction with the management discussion and analysis and financial statements contained

in SEAMARK's 2004 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 10,627,000 common shares of SEAMARK issued and outstanding and 594,000 outstanding options to purchase common shares.

## LIQUIDITY & CAPITAL RESOURCES

Cash and short-term investments stood at \$5.6 million as of March 31, 2005, down from \$6.4 million as of March 31, 2004 and \$7.1 million as of December 31, 2004. The decline compared to a year ago reflects primarily an increase in the amount of temporary investments to \$5.4 million as of March 31, 2005, up from \$0.7 million as of March 31, 2004 and \$4.6 million as of the beginning of the quarter, as well as the payment of an increased dividend during the first quarter of 2005.

## FINANCIAL RESULTS

Earnings for the first quarter of 2005 were \$0.28 per fully diluted share, down from \$0.29 in the first quarter of 2004 and \$0.31 in last quarter of 2004.

Revenues for the quarter were \$6.9 million, down from \$7.2 million for both the first quarter and the fourth quarter of 2004. Lower average assets under management, as discussed below in "Operational Results", were responsible for the decrease in revenues.

Earnings before income taxes represented 71% of revenues during the first quarter of 2005, the same as the first quarter of 2004 but down from the 74% margin recorded for the full year 2004. After including the impact of income taxes, net earnings as a percentage of revenues were 44% during the first quarter of 2005, the same as the first quarter of 2004 but down from the 46% after-tax margin recorded for the full year 2004. The lower margins compared to the full year 2004 reflect primarily the decrease in revenues.

## OPERATIONAL RESULTS

SEAMARK's assets under management ("AUM") were \$10.5 billion as of March 31, 2005, down from \$10.9 billion as of both March 31, 2004 and December 31, 2004. The decrease in AUM from the beginning of the quarter is the result of net asset withdrawals exceeding positive market value appreciation. Net new assets during the quarter were negative \$460 million, down from positive \$230 million in the first quarter of 2004 and a negative \$165 million for the fourth quarter of 2004. The net asset withdrawals were partially offset by market value appreciation of \$60 million during the quarter.

Institutional clients represented \$4.9 billion in AUM as of March 31, 2005, up from \$4.7 billion a year ago but down from \$5.0 billion at the beginning of the quarter. Net new assets for the quarter were a negative \$150 million compared to a positive \$10 million for the first quarter last year and a positive \$35 million in the fourth quarter of 2004. The negative net new assets reflect withdrawals by existing clients and account closures exceeding assets deposited by existing clients and new institutional accounts opened during the quarter.

Mutual fund assets represented \$3.2 billion as of March 31, 2005, unchanged from the beginning of the quarter and from the end of the first quarter of 2004. Net new assets were a

negative \$45 million during the quarter, compared to a positive \$150 million during the first quarter 2004 and a negative \$30 million in the fourth quarter of 2004. The number of mutual funds managed did not change during the quarter.

improvement in net new asset flows will likely depend on a continued improvement in short-term relative numbers.

Private client and wrap assets were \$2.4 billion at the end of the quarter, down from \$3.0 billion as of March 31, 2004 and \$2.7 billion at the beginning of the quarter. Net new assets were a negative \$265 million during the quarter, compared to a positive \$70 million in the first quarter of 2004 and a negative \$170 million in the fourth quarter 2004. One new wrap partner agreement was signed during the quarter.

#### **OUTLOOK**

Net asset withdrawals across all client segments during the quarter are believed to reflect client reactions to SEAMARK's relative 2004 investment returns. Despite the consistent application of SEAMARK's investment process, market conditions during 2004 were not favourable for SEAMARK portfolios, as many of the best performing market sectors were areas where SEAMARK's portfolios traditionally have limited exposure. As a result, despite generally positive returns during 2004, SEAMARK's relative performance in 2004 was weaker than has normally been the case historically.

Relative investment performance during the first quarter of 2005 is believed to generally have been better than during the same period in 2004. It may require a number of quarters of improved relative results, however, to restore overall short-term numbers to the same level as SEAMARK's superior long-term relative performance. In the meantime, our discussions with both existing and prospective clients will be focused on the productivity of our investment process and why it works over the long-term. While we are hopeful that this approach will prove effective at retaining and attracting new clients in the long-term, a significant

## BALANCE SHEET

(UNAUDITED)

As at March 31, 2005 and December 31, 2004  
(\$ in thousands)

	2005	2004
<b>ASSETS</b>		
Current		
Cash and short-term investments	\$ 5,596	\$ 7,131
Temporary investments	5,395	4,636
Accounts receivable and prepaid expenses	6,691	6,913
	<u>17,682</u>	<u>18,680</u>
Furniture and equipment at cost	868	778
Less: accumulated depreciation	<u>469</u>	<u>442</u>
	399	336
	<u>\$ 18,081</u>	<u>\$ 19,016</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current		
Accounts payable and accrued liabilities	\$ 334	\$ 960
Income taxes payable	-	682
	<u>334</u>	<u>1,642</u>
Capital stock	4,763	4,686
Contributed surplus	76	62
Retained earnings	<u>12,908</u>	<u>12,626</u>
	<u>17,747</u>	<u>17,374</u>
	<u>\$ 18,081</u>	<u>\$ 19,016</u>

## STATEMENT OF OPERATIONS

(UNAUDITED)

For the period ended March 31 (\$ in thousands, except per share)	Three months	
	2005	2004
<b>REVENUE</b>		
Institutional clients	\$ 2,650	\$ 2,470
Mutual fund clients	1,570	1,600
Private clients and WRAP accounts	2,618	3,086
Investment income	73	34
	<u>6,911</u>	<u>7,190</u>
<b>EXPENSES</b>		
General and administrative	1,973	2,078
Depreciation	27	24
	<u>2,000</u>	<u>2,102</u>
Earnings before income taxes	4,911	5,088
Income taxes	1,866	1,929
Net earnings	<u>\$ 3,045</u>	<u>\$ 3,159</u>
<b>EARNINGS PER SHARE</b>		
Basic	\$ 0.29	\$ 0.30
Diluted	\$ 0.28	\$ 0.29
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (in thousands)</b>		
Basic	10,624	10,530
Diluted	10,800	10,808

## STATEMENT OF RETAINED EARNINGS

(UNAUDITED)

For the period ended March 31 (\$ in thousands)	Three Months	
	2005	2004
Retained earnings - beginning of period	\$ 12,626	\$ 9,404
Net earnings	3,045	3,159
	<u>15,671</u>	<u>12,563</u>
Less		
Dividends paid	2,763	2,369
Retained earnings - end of period	<u>\$ 12,908</u>	<u>\$ 10,194</u>

## STATEMENT OF CASHFLOW

(UNAUDITED)

For the period ended March 31 (\$ in thousands)	Three months	
	2005	2004
<b>OPERATING ACTIVITIES</b>		
Net earnings for the period	\$ 3,045	\$ 3,159
Items not affecting cash		
Depreciation	27	24
Non-cash compensation expense	14	14
	<u>3,086</u>	<u>3,197</u>
Changes in non-cash working capital related to operations	(1,086)	(917)
	<u>2,000</u>	<u>2,280</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from exercised stock options	77	106
Dividends paid	(2,763)	(2,369)
	<u>(2,686)</u>	<u>(2,263)</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of capital assets	(90)	(24)
Purchase of temporary investments	(759)	-
	<u>(849)</u>	<u>(14)</u>
Increase (decrease) in cash and short-term investments	(1,535)	(7)
Cash and short-term investments - beginning of period	7,131	6,400
Cash and short-term investments - end of period	<u>\$ 5,596</u>	<u>\$ 6,393</u>

## NOTES TO FINANCIAL STATEMENTS MARCH 31, 2005 AND 2004

(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, 2004 annual financial statements included in the 2004 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, 2004.

### 2) Stock Option Plan

The Company has reserved 1,000,000 common shares pursuant to a Company stock option plan of which 873,000 remain available for issuance at March 31, 2005. The exercise price of the option is determined by the Compensation Committee of the Board of Directors at the time the option is granted, but cannot be less than the average price of the shares on the last five trading dates preceding the date of the grant. The expiry date of the options is determined by the Compensation Committee of the Board of Directors at the time the option is granted, but cannot be more than ten years from the date of the grant. Options become exercisable either on the anniversary of the grant date or over time at the rate of 20% of the total options granted on each anniversary of the grant date.

The following summarizes the status of the Company's stock options plan as of March 31, 2005 and March 31, 2004 and changes during the periods ended.

	2005		2004	
	Number	Price*	Number	Price*
Balance, beginning of year	561,000	13.73	659,000	13.58
Granted	nil		20,000	23.29
Forfeited	nil		nil	
Exercised	7,000	11.00	8,000	13.20
Balance at March 31	554,000	13.77	671,000	13.88
Total options exercisable	293,000	12.75	272,000	12.12

\*weighted average exercise price

The following table summarizes information for stock options outstanding at March 31, 2005 and March 31, 2004 and changes during the periods ended.

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number	Remaining life (years) *	Price *	Number	Price *
\$11.00 to \$11.00	397,000	6.19	11.00	240,000	11.00
\$16.86 to 17.68	47,000	6.89	17.51	17,000	17.51
\$20.19 to \$20.98	40,000	7.68	20.45	12,000	20.45
\$23.00 to \$23.29	70,000	7.40	23.05	24,000	23.05
	554,000			293,000	

\* weighted average

Total compensation cost that has been charged against income for the stock option plan for the year to date as of March 31, 2005 is \$14,000 (March 31, 2004 - \$14,000).

The Company's pro-forma net income for the quarter ended March 31, 2005 would be reduced by \$36,000 (March 31, 2004 - \$49,000) had the fair value method been adopted for options granted in 2002. Basic earnings per share would be reduced from \$0.29 to \$0.28 (March 31, 2004 – unchanged at \$0.30) for the first quarter and diluted earnings per share would remain unchanged at \$0.28 (March 31, 2004 – unchanged at \$0.29) for the first quarter.

**3) Employee Benefit Plan**

The Company contributed \$37,000 for the quarter (March 31, 2004 - \$35,000) to its defined contribution pension plan.

**4) Temporary Investments**

Temporary investments are valued at the lower of cost or market. The market value of temporary investments at March 31, 2005 was \$5,612,000.