



July 26<sup>th</sup>, 2005

### **A Bright Future**

It has now been two months since I resumed my former role as Chairman & CEO. I am pleased to report that SEAMARK is in excellent shape and continues to have a bright future.

The prudent management of our clients' portfolios remains our primary focus, and our investment team continues to do this well, through the consistent application of our proven investment principles. Investment results so far in 2005 are better than last year's, and I am confident that the outcome of our investment approach will continue to be superior results over the long term.

It is more difficult to attract and retain client assets following periods of weak relative investment results. Our investment process, however, is not broken, though it has recently been out of favour. We are well-positioned to resume our growth in assets under management when and as investment performance improves.

### **Financial Results**

SEAMARK's earnings dipped in the second quarter, to \$0.21 compared to \$0.31 last year. These results include one-time expenses related to the change in CEO during the quarter, which impacted earnings by 6 cents a share. Earnings were also impacted by a decline in the average amount of assets under management during the quarter. We ended the quarter with assets under management of \$10.3 billion, compared to \$10.9 billion this time last year.

### **Dividends**

The third regular quarterly dividend for 2005 of \$0.26 per share has been declared payable on August 31<sup>st</sup> to shareholders of record on August 16<sup>th</sup>.

Yours truly,

G. Peter Marshall  
Chairman & Chief Executive Officer

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## MANAGEMENT DISCUSSION AND ANALYSIS

### FOR THE QUARTER AND SIX MONTHS ENDED JUNE 30, 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 June 30 (\$ in thousands, except per share)	Three months		Year to date	
	2005	2004	2005	2004
Total revenue	\$ 6,776	\$ 7,290	\$ 13,687	\$ 14,480
EBITDA (1)	3,617	5,333	8,515	10,411
Earnings before income taxes	3,626	5,355	8,537	10,443
Net earnings	2,248	3,316	5,293	6,475
<i>Per Share</i>				
Basic earnings per share	\$ 0.21	\$ 0.31	\$ 0.50	\$ 0.61
Diluted earnings per share	0.21	0.31	0.49	0.60

(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 July 26, 2005 to assist shareholders in understanding SEAMARK's interim financial results for the period ended June 30, 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 10,707,000 common shares of SEAMARK issued and outstanding and 514,000 outstanding options to purchase common shares.

## LIQUIDITY & CAPITAL RESOURCES

Cash and short-term investments stood at \$4.8 million as of June 30, 2005, down from \$5.6 million at the beginning of the quarter, \$7.1 million as of December 31, 2004, and \$8.4 million a year ago. Part of the decline is explained by an increase in the amount of temporary investments, which were purchased from cash during the second half of 2004 and the first quarter of 2005. Temporary investments stood at \$5.6 million as of June 30, 2005, up from \$5.4 million at the beginning of the quarter, \$4.6 million at the beginning of the year, and \$0.7 million a year ago. The decline in cash and short-term investments also reflects payment of an increased dividend in 2005 compared to the quarterly rate paid in 2004. Finally, certain one-time costs totaling \$1.1 million were paid in the second quarter relating to a change in CEO, which impacted cash and short-term investments on hand as of June 30, 2005.

## FINANCIAL RESULTS

Earnings for the quarter were \$0.21 per share. This result includes one-time costs related to the change in CEO that reduced earnings by \$0.06 per share. Earnings for the same quarter last year had been \$0.31. Year-to-date, earnings are \$0.49 in 2005 compared to \$0.60 in 2004.

Revenues for the quarter were \$6.8 million, down from \$6.9 million during the first quarter of 2005 and \$7.3 million for the second quarter 2004. Year-to-date, revenues are \$13.7 million, down from \$14.5 million for the first six months of 2004. A decline in assets under management over both the quarter and year-to-date was responsible for the decrease in revenues.

Earnings before income taxes represented 54% of revenues for the quarter and 63% year-to-date in 2005, compared with 2004's margins of 73% and 72% respectively. The decline is primarily due to \$1.1 million in costs related to the change in CEO that were incurred in the

second quarter. After including the impact of income taxes, net earnings as a percentage of revenues were 33% for the second quarter and 39% year-to-date 2005, compared to 45% for both the quarter and year-to-date for the same period in 2004.

## OPERATIONAL RESULTS

SEAMARK's assets under management ("AUM") were \$10.3 billion as of June 30, 2005, down from \$10.9 billion as of June 30, 2004 and \$10.5 billion in the first quarter of 2005. 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 \$300 million, down from the positive \$30 million brought in during the same quarter a year ago, but an improvement from net asset withdrawals of \$460 million during the first quarter 2005. The net asset withdrawals were partially offset by market value appreciation of \$145 million during the quarter.

Institutional clients represented \$4.9 billion in assets under management as of June 30, 2005, up from \$4.7 billion a year ago and unchanged from March 31, 2005. Net new assets for the quarter were a negative \$110 million compared to a positive \$20 million for the same period last year and a negative \$150 million during the first quarter.

Mutual fund assets represented \$3.2 billion as of June 30, 2005 and March 31, 2005, down from \$3.3 billion as of June 30, 2004. Net new assets were \$10 million during the quarter, down from \$80 million during the same period of 2003 but up from a negative \$45 million during the first quarter.

Private client and wrap assets stood at \$2.2 billion at the end of the quarter, down from \$2.4 billion at the beginning of the quarter and \$2.9 billion a year ago. Net new assets were a negative \$200 million during the quarter,

compared to a negative \$70 million during the same period a year ago and negative \$265 million during the first quarter of this year.

For the year-to-date, net new assets are a negative \$760 million overall, comprised of net withdrawals of \$260 million institutional, \$35 million mutual funds, and \$455 million private clients and wrap programs. During the same period in 2004 net new assets had been \$260 million, comprised of net deposits of \$30 million institutional, \$230 million mutual funds, and flat for private clients and wrap programs.

### OUTLOOK

The decline in net new assets for the quarter and the year-to-date is believed to be primarily related to SEAMARK's 2004 relative 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 was weaker than has normally been the case historically.

Relative investment performance in the first quarter was generally better than during the same period a year ago. During the first two months of the second quarter, relative performance was believed to be significantly improved, but a decline in long-term interest rates and increase in oil prices during the month of June negatively impacted many SEAMARK portfolios in relative terms compared to market indices, resulting in overall second quarter results that are expected to be weaker than relative results in the first quarter. Following periods of weak relative performance, it is generally more difficult to attract and retain client assets.

In May 2005, Robert McKim resigned as President and Chief Executive Officer. G. Peter Marshall was appointed to replace Mr. McKim. Mr. Marshall previously served in this role from 1982 to 2003, and has continued to serve as Chairman from 1996 to present. Particularly for institutional clients, it is typically more difficult to attract new assets following a change in senior investment professionals. Despite Mr. Marshall's long history with SEAMARK and significant investment experience, it is therefore expected that it will remain challenging to attract new institutional assets over the remainder of 2005.

## BALANCE SHEET

(UNAUDITED)

As at June 30, 2005 and December 31, 2004  
(\$ in thousands)

	2005	2004
<b>ASSETS</b>		
Current		
Cash and short-term investments	\$ 4,809	\$ 7,131
Temporary investments	5,577	4,636
Accounts receivable and prepaid expenses	7,759	6,913
	<u>18,145</u>	<u>18,680</u>
Furniture and equipment at cost	1,135	778
Less: accumulated depreciation	499	442
	<u>636</u>	<u>336</u>
	<u>\$ 18,781</u>	<u>\$ 19,016</u>
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current		
Accounts payable and accrued liabilities	\$ 736	\$ 960
Income taxes payable	-	682
	<u>736</u>	<u>1,642</u>
Capital stock	5,478	4,686
Contributed surplus	174	62
Retained earnings	12,393	12,626
	<u>18,045</u>	<u>17,374</u>
	<u>\$ 18,781</u>	<u>\$ 19,016</u>

## STATEMENT OF EARNINGS

(UNAUDITED)

For the period ended June 30 (\$ in thousands, except per share)	Three months		Year to date	
	2005	2004	2005	2004
<b>REVENUE</b>				
Institutional clients	\$ 2,645	\$ 2,476	\$ 5,295	\$ 4,946
Mutual fund clients	1,584	1,626	3,154	3,226
Private clients and WRAP accounts	2,453	3,143	5,071	6,229
Investment income	94	45	167	79
	<u>6,776</u>	<u>7,290</u>	<u>13,687</u>	<u>14,480</u>
<b>EXPENSES</b>				
General and administrative	3,120	1,912	5,093	3,990
Depreciation and amortization	30	23	57	47
	<u>3,150</u>	<u>1,935</u>	<u>5,150</u>	<u>4,037</u>
Earnings before income taxes	3,626	5,355	8,537	10,443
Income taxes	1,378	2,039	3,244	3,968
Net earnings	<u>\$ 2,248</u>	<u>\$ 3,316</u>	<u>\$ 5,293</u>	<u>\$ 6,475</u>
<b>EARNINGS PER SHARE</b>				
Basic	\$ 0.21	\$ 0.31	\$ 0.50	\$ 0.61
Diluted	\$ 0.21	\$ 0.31	\$ 0.49	\$ 0.60
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (in thousands)</b>				
Basic	10,647	10,548	10,636	10,539
Diluted	10,784	10,795	10,753	10,794

## STATEMENT OF RETAINED EARNINGS

(UNAUDITED)

For the period ended June 30 (\$ in thousands)	Three Months		Year to date	
	2005	2004	2005	2004
Retained earnings - beginning of period	\$ 12,908	\$ 10,194	\$ 12,626	\$ 9,404
Net earnings	2,248	3,316	5,293	6,475
	<u>15,156</u>	<u>13,510</u>	<u>17,919</u>	<u>15,879</u>
Less				
Dividends paid	2,763	2,533	5,526	4,902
Retained earnings - end of period	<u>\$ 12,393</u>	<u>\$ 10,977</u>	<u>\$ 12,393</u>	<u>\$ 10,977</u>

## STATEMENT OF CASHFLOW

(UNAUDITED)

For the period ended June 30 (\$ in thousands)	Three months		Year to date	
	2005	2004	2005	2004
<b>OPERATING ACTIVITIES</b>				
Net earnings for the period	\$ 2,248	\$ 3,316	\$ 5,293	\$ 6,475
Items not affecting cash				
Depreciation	30	23	57	47
Non-cash compensation expense	98	13	112	27
	<u>2,376</u>	<u>3,352</u>	<u>5,462</u>	<u>6,549</u>
Changes in non-cash working capital related to operations	(666)	958	(1,752)	41
	<u>1,710</u>	<u>4,310</u>	<u>3,710</u>	<u>6,590</u>
<b>FINANCING ACTIVITIES</b>				
Proceeds from exercised stock options	715	310	792	416
Dividends paid	(2,763)	(2,533)	(5,526)	(4,902)
	<u>(2,048)</u>	<u>(2,223)</u>	<u>(4,734)</u>	<u>(4,486)</u>
<b>INVESTING ACTIVITIES</b>				
Purchase of capital assets	(267)	(42)	(357)	(66)
Purchase of temporary investments	(182)	-	(941)	-
	<u>(449)</u>	<u>(42)</u>	<u>(1,298)</u>	<u>(66)</u>
Increase (decrease) in cash and short-term investments	(787)	2,045	(2,322)	2,038
Cash and short-term investments - beginning of period	5,596	6,393	7,131	6,400
Cash and short-term investments - end of period	<u>\$ 4,809</u>	<u>\$ 8,438</u>	<u>\$ 4,809</u>	<u>\$ 8,438</u>

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 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 808,000 remain available for issuance at June 30, 2005. Of the 808,000 remaining, 529,000 are subject to outstanding options issued and 279,000 are available for new option grants. 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 Company's stock options plan as of June 30, 2005 and June 30, 2004 and changes during the periods then ended.

	2005		2004	
	Number	Price*	Number	Price*
Balance at March 31	554,000	13.77	671,000	13.88
Granted	40,000	20.49	nil	
Forfeited	nil		nil	
Exercised	65,000	11.00	27,000	11.49
Balance at June 30	529,000	14.61	644,000	13.98
Total options exercisable	256,000	14.29	257,000	12.01

\* weighted average exercise price

The following table summarizes information for stock options outstanding at June 30, 2005.

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number	Remaining life (years) *	Price *	Number	Price *
\$11.00 to \$11.00	332,000	5.95	11.00	175,000	11.00
\$16.86 to 17.68	47,000	6.64	17.46	19,000	17.53
\$20.19 to \$20.98	80,000	8.53	20.54	12,000	20.45
\$23.00 to \$23.29	70,000	7.15	23.08	50,000	23.12
	529,000			256,000	

\* weighted average

Total compensation cost that has been charged against income for the stock option plan for the year is \$112,000 (2004 - \$27,000).

Options granted during the quarter ended June 30, 2005 were 40,000 (June 30, 2004 – nil). 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 3.85%; dividend yields of 4.82%; weighted-average volatility factors of the expected market price of the Company's common shares of 28.3% and the weighted-average expected life of the options of 5 years. The weighted average fair value of options issued during the quarter ended June 30, 2005 was \$3.63.

The Company's pro-forma net income would be reduced by \$36,000 for the quarter (June 30, 2004 – \$49,000) and \$72,000 for the first six months ended June 30, 2005 (June 30, 2004 - \$98,000) had the fair value method been adopted for options granted in 2002. Basic earnings per share would remain unchanged at \$0.21 for the quarter and reduced from \$0.50 to \$0.49 for six months ended June 30, 2005 (June 30, 2004 – unchanged at \$0.31 and \$0.61 respectively). Diluted earnings per share would be unchanged at \$0.21 for the quarter and unchanged at \$0.49 for the six months ended June 30, 2005 (June 30, 2004 - reduced from \$0.31 to \$0.30 and from \$0.60 to \$0.59 respectively).

### **3) Employee Benefit Plan**

The Company contributed \$48,000 for the quarter (June 30, 2004 - \$35,000) and \$85,000 for the first six months ended June 30, 2005 (June 30, 2004 - \$70,000) 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 June 30, 2005 was \$5,871,000.