



# SEAMARK Asset Management Ltd.

INVESTMENT COUNSEL

## 2006 First Quarter Report to Shareholders

May 1<sup>st</sup>, 2006

### Moving Forward

SEAMARK's near-term priority is to improve financial performance by first stabilizing and then rebuilding assets under management. At the same time, work is progressing on our longer-term strategy. Whether looking at the short- or long-term, our goal is clear – to deliver shareholder value.

Based on what I have heard from the company's many clients, business partners and employees in my first few weeks, I believe that achieving our goal starts with revitalizing our focus on anticipating and serving client needs.

In addition, we are exploring ways to add further value to our existing long-term client relationships and create new ones. We are carefully considering broadening the range of products and services we offer to attract more clients.

The challenging business conditions of 2005 continued into the first quarter of 2006. SEAMARK has experienced a significant decline in assets under management, the driver of our revenue, earnings and shareholder value.

Despite recent setbacks, the company has the key elements it needs to increase assets under management going forward – outstanding people, a strong reputation, and a solid long-term record of investment performance. While re-building assets will not be quick or easy, ultimately we will be successful.

### Dividend

The Board of Directors has declared a dividend of \$0.07 per share, payable May 31, 2006 to shareholders of record as of May 15, 2006.

This quarterly dividend rate reflects the company's reduced underlying operational earnings and is a lower payout ratio than has historically been paid. This will ensure that SEAMARK has the flexibility to support future growth.

Yours truly,

Stuart R. Raftus  
President & Chief Executive Officer

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## MANAGEMENT DISCUSSION AND ANALYSIS

### FOR THE QUARTER AND THREE MONTHS ENDED MARCH 31, 2006

*Certain information regarding SEAMARK Asset Management Ltd. 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 the company 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. 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	
	2006	2005
Total revenue	\$ 8,314	\$ 6,911
Earnings before income taxes	5,316	4,911
Net Earnings	3,254	3,045
<i>Per Share</i>		
Basic earnings per share	\$ 0.30	\$ 0.29
Diluted earnings per share	0.29	0.28

#### GENERAL

This discussion and analysis has been prepared by management as of May 1, 2006 to assist shareholders in understanding SEAMARK Asset Management Ltd. ("SEAMARK")'s interim financial results for the period ended March 31, 2006. It is intended to be read in conjunction with the management discussion and analysis and financial statements contained in SEAMARK's 2005 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 10,721,000 common shares of SEAMARK issued and outstanding and 777,000 outstanding options to purchase common shares.

## FINANCIAL OVERVIEW

Earnings per share for the first quarter 2006 were \$0.29 compared to \$0.28 for the same quarter last year. The following non-recurring items impacted earnings per share this quarter:

- \$2.9 million in revenue received from ClaringtonFunds Inc. (“Clarington”) following the termination of their investment management agreement with SEAMARK. This payment and the \$0.8 million in revenues for the management of assets on behalf of Clarington prior to February 20 contributed \$0.20 to earnings per share.
- \$1.0 million in expenses associated with the recruitment of the new President & CEO, which decreased earnings per share by approximately \$0.06.

Revenues for the quarter were \$8.3 million, up from \$6.9 million for the first quarter 2005. The increase in revenue is the result of the \$2.9 million payment noted above. In the absence of this non-recurring payment, revenues would have been lower than in the year ago period, reflecting a decline in the average assets under management

Earnings before income taxes represented 64% of revenues for the quarter, down from 71% in the first quarter 2005 and from 66% recorded in the full year 2005. After including the impact of income taxes, net earnings as a percentage of revenues were 39% for the first quarter 2006, compared to 44% for the first quarter 2005 and 41% for the full year 2005. These margin declines reflect the non-recurring items and the decline in revenues described above.

## OPERATING HIGHLIGHTS

Assets under management (“AUM”) were \$5.9 billion as of March 31, 2006, down from \$9.3 billion at the beginning of the quarter and \$10.5 billion a year ago. The following table summarizes the changes in AUM during the first quarters of 2006 and 2005.

The decline in AUM during the quarter is primarily the result of the termination of the Clarington relationship, which is reflected in the net asset withdrawals from mutual fund clients in the table above. Institutional client net asset withdrawals were heavily weighted to January but continued over the quarter. Private client and wrap program net asset withdrawals continued throughout the quarter.

### Quarterly Change in AUM Summary

(in billions)	AUM End of 1 <sup>st</sup> Quarter 2006	1 <sup>st</sup> Quarter 2006		AUM End of 4 <sup>th</sup> Quarter 2005	AUM End of 1 <sup>st</sup> Quarter 2005	1 <sup>st</sup> Quarter 2005		AUM End of 4 <sup>th</sup> Quarter 2004
		Net New Assets	Market Value Change			Net New Assets	Market Value Change	
Total Firm	\$5.90	(3.94)	0.50	\$9.34	\$10.47	(0.46)	0.07	\$10.86
Institutional clients	3.66	(0.69)	0.22	4.13	4.89	(0.15)	0.06	4.98
Mutual funds	0.27	(3.04)	0.15	3.16	3.15	(0.04)	(0.03)	3.22
Wrap programs	1.81	(0.19)	0.12	1.88	2.25	(0.26)	0.04	2.47
Private clients	0.16	(0.02)	0.01	0.17	0.18	(0.01)	-	0.19

## LIQUIDITY & CAPITAL RESOURCES

Total available liquid assets, consisting of cash, short-term investments, and temporary investments, stood at \$10.3 million as of March 31, 2006, compared to \$12.0 million at the beginning of the quarter and \$11.0 million a year ago. Of this total, cash and short-term investments represented \$4.7 million, down from \$6.4 million at the beginning of the quarter and \$5.6 million a year ago. Temporary investments stood at \$5.6 million as of March 31, 2006, unchanged from the beginning of the quarter and up from \$5.4 million a year ago.

The decline in cash and short-term investments reflects a disbursement of \$5.75 million pursuant to the employment agreement entered into during the quarter with the new President & CEO. This disbursement consisted of two loans totaling \$5.0 million and a one-time payment of \$750,000 in respect of potential liabilities to and deferred compensation from his previous employer. The non-recurring expense item described above includes the cost of this one-time payment. The impact of this disbursement on cash and short-term investments was partially offset by the receipt during the quarter of the non-recurring payment of \$2.9 million from Clarington.

## OUTLOOK

The difficult business conditions for SEAMARK that prevailed during 2005 have extended into 2006. Contributing to this difficult environment have been concerns about an expected change in leadership at SEAMARK and about relative investment performance. The company has made progress on both during the first quarter.

The appointment of Stuart Raftus as President & CEO and the continued service of Peter Marshall as Chairman of the Board and Chief Investment Officer addresses uncertainty regarding the most senior leadership of SEAMARK.

During the first quarter of 2006, investment performance was strong relative to benchmarks and to our peers for most client mandates. Management believes that the consistent application of the company's proven investment process will lead to sustained improvement in relative investment performance and, over time, to improvement in net asset flows.

Revenues going forward will be impacted by the decline in SEAMARK's assets under management. Included in first quarter results were \$800 thousand in revenues for the management of assets on behalf of Clarington prior to February 20th and the \$2.9 million non-recurring payment. No revenues will be received from Clarington in the future.

Management is reviewing the proper cost structure for the current needs of the business. In doing so, resources will be allocated to meet three key priorities: maintain the quality of our investment services, strengthen existing client relationships, and build new relationships.

## BALANCE SHEET

(UNAUDITED)

As at March 31, 2006 and December 31, 2005

(\$ in thousands)

	2006	2005
<b>ASSETS</b>		
Current		
Cash and short-term investments	\$ 4,658	\$ 6,387
Temporary investments (note 2)	5,658	5,652
Accounts receivable and prepaid expenses	5,987	7,322
Income tax receivable	-	294
	<u>16,303</u>	<u>19,655</u>
Capital assets (note 3)	726	753
	<u>\$ 17,029</u>	<u>\$ 20,408</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current		
Accounts payable and accrued liabilities	\$ 1,878	\$ 1,651
Income tax payable	55	-
	<u>1,933</u>	<u>1,651</u>
Future income tax	67	-
	<u>2,000</u>	<u>1,651</u>
Shareholders Equity		
Capital stock	5,797	5,797
Less share purchase financing (note 6)	(4,875)	-
Contributed surplus	265	228
Retained earnings	13,842	12,732
	<u>15,029</u>	<u>18,757</u>
	<u>\$ 17,029</u>	<u>\$ 20,408</u>

## STATEMENT OF OPERATIONS

(UNAUDITED)

For the period ended March 31 (\$ in thousands, except per share)	Three months	
	2006	2005
<b>REVENUE</b>		
Institutional clients	\$ 2,138	\$ 2,650
Mutual fund clients	3,821	1,570
Private clients and WRAP accounts	2,241	2,618
Investment income	114	73
	8,314	6,911
<b>EXPENSES</b>		
General and administrative	1,930	1,973
Depreciation	48	27
Earnings before the following	6,336	4,911
Unusual item (note 5)	1,020	-
Earnings before income taxes	5,316	4,911
Income Taxes		
Current income taxes	1,995	1,866
Future income taxes	67	-
	2,062	1,866
	<u>\$ 3,254</u>	<u>\$ 3,045</u>
<b>EARNINGS PER SHARE</b>		
Basic	\$ 0.30	\$ 0.29
Diluted	\$ 0.29	\$ 0.28
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (in thousands)</b>		
Basic	10,721	10,624
Diluted	11,272	10,800

## STATEMENT OF RETAINED EARNINGS

(UNAUDITED)

For the period ended March 31 (\$ in thousands)	Three Months	
	2006	2005
Retained earnings - beginning of period	\$ 12,732	\$ 12,626
Net earnings	3,254	3,045
	15,986	15,671
Less		
Dividends paid	2,144	2,763
Retained earnings - end of period	<u>\$ 13,842</u>	<u>\$ 12,908</u>

## STATEMENT OF CASHFLOW

(UNAUDITED)

For the period ended March 31 (\$ in thousands)	Three months	
	2006	2005
<b>OPERATING ACTIVITIES</b>		
Net earnings for the period	\$ 3,254	\$ 3,045
Items not affecting cash		
Depreciation	48	27
Non-cash compensation expense	37	14
Future income tax	67	-
Share purchase financing (note 6)	(4,875)	-
	(1,469)	3,086
Changes in non-cash working capital related to operations	1,911	(1,086)
	442	2,000
<b>FINANCING ACTIVITIES</b>		
Proceeds from exercised stock options	-	77
Dividends paid	(2,144)	(2,763)
	(2,144)	(2,686)
<b>INVESTING ACTIVITIES</b>		
Purchase of capital assets	(21)	(90)
Purchase of temporary investments	(6)	(759)
	(27)	(849)
Decrease in cash and short-term investments	(1,729)	(1,535)
Cash and short-term investments - beginning of period	6,387	7,131
Cash and short-term investments - end of period	\$ 4,658	\$ 5,596
Cash is comprised of		
Cash	\$ 3,939	\$ 822
Short-term investments	719	4,774
	\$ 4,658	5,596

## NOTES TO FINANCIAL STATEMENTS MARCH 31, 2006 AND 2005

(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, 2005 annual financial statements included in the 2005 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, 2005.

### 2) Temporary Investments

Temporary investments are valued at the lower of cost or market. The market value of temporary investments at March 31, 2006 was \$5,919,000.

### 3) Capital Assets

(in thousands)

	As at March 31, 2006		
	Cost	Accumulated Depreciation	NBV
Furniture & Office Equipment	\$ 584	\$ 286	\$ 298
Computer Equipment	445	254	191
Software	250	41	209
Leasehold	66	38	28
Total Capital Assets	1,345	619	726

	As at December 31, 2005		
	Cost	Accumulated Depreciation	NBV
Furniture & Office Equipment	\$ 584	\$ 271	\$313
Computer Equipment	433	239	194
Software	243	25	218
Leasehold	64	36	28
Total Capital Assets	1,324	571	753

### 4) Employee Benefit Plan

The Company expensed \$40,000 for the period ended March 31, 2006 (March 31, 2005 - \$37,000) to its defined contribution pension plan.

## 5) Unusual Item

During the quarter the Company incurred costs of \$1,020,000 related to the change in Chief Executive Officer.

## 6) Share Purchase Financing

During the period the Company advanced two equal forgivable loans totaling \$5,000,000 to the new President and CEO of the Company in connection with an employment agreement. Under the terms of the agreement the President and CEO is obligated to purchase \$7,500,000 of the Company's common shares. The employment agreement provides for forgiveness of \$250,000 of the first loan annually subject to the achievement of certain performance criteria. The second loan is also forgivable at \$250,000 annually and is subject to the President and CEO fulfilling equivalent service requirements. The loans are also forgivable in the event of termination of employment without cause. The loans, less earned or accrued forgiveness, outstanding of \$4,875,000 are accounted for in the accompanying balance sheet as share purchase financing and as a result are deducted from shareholder's equity. The related earned or accrued forgiveness of \$125,000 for the period ended March 31, 2006 (2005 – nil) is accounted for as compensation expense in the accompanying statement of operations. The loans are non-interest bearing, have full recourse against the President and CEO and the Company is a beneficiary of a life insurance policy on the life of the President and CEO.

## 7) Stock Option Plan

The Company has reserved 1,000,000 common shares pursuant to a Company stock option plan of which 779,000 remain available for issuance at March 31, 2006. Of the 779,000 remaining, 777,000 are subject to outstanding options issued and 2,000 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 of the Company's stock options plan as of March 31, 2006 and March 31, 2005 and changes during the periods then ended:

	2006		2005	
	Number	Price*	Number	Price*
Balance at December 31	589,000	15.35	561,000	13.73
Granted	190,000	8.69	nil	
Forfeited	2,000	17.68	nil	
Exercised	nil		7,000	11.00
Balance at March 31	777,000	15.40	554,000	13.77
Total options exercisable	341,000	13.68	293,000	12.75

\*weighted average exercise price

The following table summarizes information for stock options outstanding at March 31, 2006:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number	Remaining life (years) *	Price *	Number	Price *
\$8.69 to \$8.69	190,000	9.81	8.69	nil	
\$11.00 to \$11.00	303,000	5.21	11.00	242,000	11.00
\$16.86 to 17.68	39,000	5.75	17.41	27,000	17.40
\$18.29 to \$18.29	95,000	9.21	18.29	nil	
\$20.19 to \$20.98	80,000	7.79	20.54	20,000	20.51
\$23.00 to \$23.29	70,000	6.41	23.08	50,000	23.12
	777,000			529,000	

\* *weighted average*

Total compensation cost that has been charged against income for the stock option plan for the period is \$37,000 (2005 - \$14,000).

Options granted during the quarter ended March 31, 2006 were 190,000 (March 31, 2005 – 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 of 3.85%; dividend yields 8.80%; weighted-average volatility factors of the expected market price of the Company's common shares 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 March 31, 2006 was \$1.21

The Company's pro-forma net income would be reduced by \$36,000 for the period ended March 31, 2006 (March 31, 2005 – \$36,000) had the fair value method been adopted for options granted in 2002. Basic earnings per share would be unchanged from \$0.30 (March 31, 2005 – reduced from \$0.29 to \$0.28). Diluted earnings per share would be unchanged at \$0.29 (March 31, 2005 – unchanged at \$0.28).