



# SEAMARK Asset Management Ltd.

INVESTMENT COUNSEL

## 2006 Third Quarter Report to Shareholders

October 23<sup>rd</sup>, 2006

### Focused on Our Priorities

I am pleased to report that we have made progress on our priorities of enhancing investment performance, strengthening our relationships with clients, and positioning ourselves to seize new business opportunities.

Investment performance was strong across all asset classes during the quarter, demonstrating the continued strength of SEAMARK's investment process. We remain true to our investment discipline and focused on delivering the consistent investment results clients expect of us.

In August we undertook a reorganization that has created specialized investment and client relations teams. Under the leadership of our Chief Investment Officer Tom MacLaren and our head of client relations Darren Kosack, these teams are focused on the activities needed to meet the expectations of our clients.

The steps we have taken this quarter will help us deliver results for both clients and shareholders as we move forward. We remain focused on taking such additional steps as are necessary to achieve our priorities.

### Our New Chairman

D. Stephen Rankin was appointed Chairman on October 23<sup>rd</sup> following the announced retirement of Peter Marshall from our Board.

We share Peter's pride in what he has built and thank him for his leadership and commitment. We wish him and his family well as he turns his focus and passion to enjoying life away from business following a successful 43-year career.

Steve first became a director of SEAMARK as a private company in 1985. As our longest serving director, Steve has great knowledge of our company, our employees, and many of our clients. I look forward to working with him.

### Dividend

Our next quarterly dividend of \$0.07 per share is payable November 30, 2006 to shareholders of record as of November 15, 2006.

Yours truly,

Stuart R. Raftus  
President & Chief Executive Officer

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## MANAGEMENT DISCUSSION AND ANALYSIS

### FOR THE QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 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 September 30 (\$ in thousands, except per share)	Three months		Year to date	
	2006	2005	2006	2005
Total revenue	\$ 3,990	\$ 6,674	\$ 16,351	\$ 20,451
Earnings before income taxes	1,265	4,808	8,200	13,345
Net earnings	777	2,981	5,008	8,274
<i>Per Share</i>				
Basic earnings per share	\$ 0.07	\$ 0.28	\$ 0.47	\$ 0.78
Diluted earnings per share	0.07	0.28	0.44	0.77

#### GENERAL

This discussion and analysis has been prepared by management as of October 23, 2006 to assist shareholders in understanding SEAMARK Asset Management Ltd. ("SEAMARK")'s interim financial results for the period ended September 30, 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 10,855,088 common shares of SEAMARK issued and outstanding and

732,000 outstanding options to purchase common shares.

#### LIQUIDITY & CAPITAL RESOURCES

There has been little change to SEAMARK's liquidity during the quarter. Total available liquid assets, consisting of cash, short-term investments and temporary investments, stood at \$11.6 million as of September 30, 2006, compared to \$11.7 at the beginning of the quarter and a year ago. Cash and short-term investments represented \$6.2 million of this total, up from \$6.0 million at the beginning of the quarter and \$6.1 million a year ago. Temporary investments were \$5.4 million, down from \$5.7 beginning of the quarter and up from \$5.6 million a year ago.

## FINANCIAL OVERVIEW

Earnings for the quarter were \$0.07 per share compared to \$0.28 for the third quarter 2005. Year-to-date, earnings are \$0.44 in 2006 compared to \$0.77 in 2005. Severance costs during the quarter reduced earnings by approximately \$0.02 per share. Year to date earnings for 2005 and 2006 have also been impacted by costs incurred as a result of a change in CEO, which reduced diluted earnings per share by \$0.06 in both 2006 and 2005.

Revenues for the quarter were \$4.0 million, down from \$6.8 million for the third quarter 2005. Year-to-date, revenues are \$16.4 million, down from \$20.5 million for the first nine months of 2005. The decline in revenue quarter and year-to-date is the result of lower assets under management compared to 2005.

Earnings before income taxes represented 32% of revenues for the quarter and 50% year-to-date in 2006, compared with 2005's margins of 71% and 65% respectively. After including the impact of income taxes, net earnings as a percentage of revenues were 19% for the third quarter and 31% year-to-date 2006, compared to 44% for the quarter and 40% year-to-date for the same period in 2005. The severance costs noted above were a significant contributor to the decline in margins for the quarter, while the year-to-date margins also reflect costs related to the change in CEO and the decline in revenue.

## OPERATING HIGHLIGHTS

Assets under management ("AUM") were \$5.13 billion as of September 30, 2006, down from \$5.27 billion at the beginning of the quarter and \$10.22 billion a year ago. The following table summarizes the changes in AUM during third quarter and year-to-date:

The decline in AUM during the quarter is the result of net asset withdrawals offsetting market value appreciation from strong investment performance. The decline year-to-date includes the termination of the ClaringtonFunds Inc. relationship, which resulted in approximately \$3 billion in net asset withdrawals from mutual funds, as noted in the table below.

Quarterly Change in AUM Summary (in billions)								
	AUM End of 3 <sup>rd</sup> Quarter 2006	3rd Quarter 2006		AUM End of 2 <sup>nd</sup> Quarter 2006	3 <sup>rd</sup> Quarter 2005			AUM End of 2 <sup>nd</sup> Quarter 2005
		Net New Assets	Market Value Change		AUM End of 3 <sup>rd</sup> Quarter 2005	Net New Assets	Market Value Change	
Total Firm	\$5.13	(0.34)	0.20	\$5.27	\$10.22	(0.49)	0.40	\$10.31
Institutional clients	3.16	(0.24)	0.14	3.25	4.78	(0.32)	0.21	4.89
Mutual funds	0.25	(0.01)	0.01	0.25	3.22	–	0.06	3.16
Wrap programs	1.56	(0.12)	0.05	1.63	2.05	(0.16)	0.12	2.09
Private clients	0.17	0.03	–	0.14	0.17	(0.01)	0.01	0.17

Year to Date Change in AUM Summary (in billions)								
	AUM End of 3 <sup>rd</sup> Quarter 2006	3 <sup>rd</sup> Quarter 2006		AUM End of 4 <sup>th</sup> Quarter 2005	AUM End of 3 <sup>rd</sup> Quarter 2005	3 <sup>rd</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	\$5.13	(4.65)	0.44	\$9.34	\$10.22	(1.25)	0.60	\$10.86
Institutional clients	3.16	(1.19)	0.22	4.13	4.78	(0.58)	0.38	4.98
Mutual funds	0.25	(3.05)	0.13	3.16	3.22	(0.03)	0.03	3.22
Wrap programs	1.56	(0.40)	0.07	1.88	2.05	(0.62)	0.19	2.47
Private clients	0.17	(0.01)	0.01	0.17	0.17	(0.02)	-	0.19

## OUTLOOK

During the third quarter, management implemented a series of organizational changes to strengthen the firm and revitalize its focus on investment performance and client relations. Thomas R. MacLaren, a 17 year veteran of SEAMARK, was appointed Chief Investment Officer, taking over from Peter Marshall. Marshall, whose duties as Chief Executive Officer had been assumed by Stuart Raftus in March, retired from SEAMARK's Board of Directors in October. MacLaren's appointment ensures continuity in investment approach and certainty with respect to the long-term occupant of this key position. Portfolio management and client relation responsibilities across the company were reviewed and re-aligned, creating an investment and client relations team structure that will improve the company's ability to deliver consistent investment performance and superior client service.

This revitalized organizational structure is expected to improve SEAMARK's ability to attract and retain client assets. It will take time for the benefit of these efforts to reflect positively in SEAMARK's assets under management. To meet the expectations of clients and restore SEAMARK's competitive position in the industry, recent improvement in relative investment performance must be sustained. It will also require time for the enhanced focus on client

service to be reflected in client retention rates. Past relative investment performance issues and the organizational changes described above will impact the company's ability to win new business and retain existing client assets in the near term as consultants and clients become comfortable that there will be consistency in SEAMARK's investment discipline and its investment personnel and sustained improvement in investment results.

Management will continue to focus on three key priorities: enhancing investment performance, strengthening existing client relationships, and building new relationships.

## BALANCE SHEET

(UNAUDITED)

As at September 30, 2006 and December 31, 2005  
(\$ in thousands)

	2006	2005
<b>ASSETS</b>		
Current		
Cash and short-term investments	\$ 6,210	\$ 6,387
Temporary investments (note 2)	5,378	5,652
Accounts receivable and prepaid expenses	4,249	7,322
Income tax receivable	146	294
	15,983	19,655
Goodwill and other intangibles (note 3)	526	-
Capital assets (note 4)	705	753
	\$ 17,214	\$ 20,408
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current		
Accounts payable and accrued liabilities	\$ 1,679	\$ 1,651
Future income tax	76	-
	1,755	1,651
Shareholders Equity		
Capital stock	5,909	5,797
Less share purchase financing (note 6)	(4,867)	-
Contributed surplus	332	228
Retained earnings	14,085	12,732
	15,459	18,757
	\$ 17,214	\$ 20,408

*See accompanying notes*

## STATEMENT OF OPERATIONS

(UNAUDITED)

For the period ended September 30 (\$ in thousands, except per share)	Three months		Year to date	
	2006	2005	2006	2005
<b>REVENUE</b>				
Institutional clients	\$ 1,806	\$ 2,654	\$ 5,788	\$ 7,949
Mutual fund clients	162	1,630	4,151	4,783
Private clients and WRAP accounts	1,896	2,378	6,068	7,451
Investment income	126	102	344	268
	<u>3,990</u>	<u>6,764</u>	<u>16,351</u>	<u>20,451</u>
<b>EXPENSES</b>				
General and administrative	2,671	1,908	6,978	5,901
Amortization	54	48	153	105
	<u>2,725</u>	<u>1,956</u>	<u>7,131</u>	<u>6,006</u>
Earnings before the following	1,265	4,808	9,220	14,445
Unusual items (note 6)	-	-	1,020	1,100
Earnings before income taxes	1,265	4,808	8,200	13,345
Income taxes				
Current income taxes	483	1,827	3,116	5,071
Future income taxes	5	-	76	-
	<u>488</u>	<u>1,827</u>	<u>3,192</u>	<u>5,071</u>
Net earnings	<u>\$ 777</u>	<u>\$ 2,981</u>	<u>\$ 5,008</u>	<u>\$ 8,274</u>
<b>EARNINGS PER SHARE</b>				
Basic	\$ 0.07	\$ 0.28	\$ 0.47	\$ 0.78
Diluted	\$ 0.07	\$ 0.28	\$ 0.44	\$ 0.77
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (in thousands)</b>				
Basic	10,711	10,717	10,718	10,663
Diluted	11,376	10,786	11,418	10,773

## STATEMENT OF RETAINED EARNINGS

(UNAUDITED)

For the period ended September 30 (\$ in thousands)	Three Months		Year to date	
	2006	2005	2006	2005
Retained earnings - beginning of period	\$ 14,068	\$ 12,393	\$ 12,732	\$ 12,626
Net earnings	777	2,981	5,008	8,274
	<u>14,845</u>	<u>15,374</u>	<u>17,740</u>	<u>20,900</u>
Less				
Dividends paid	760	2,788	3,655	8,314
Retained earnings - end of period	<u>\$ 14,085</u>	<u>\$ 12,586</u>	<u>\$ 14,085</u>	<u>\$ 12,586</u>

See accompanying notes

## STATEMENT OF CASHFLOW

(UNAUDITED)

For the period ended September 30 (\$ in thousands)	Three months		Year to date	
	2006	2005	2006	2005
<b>OPERATING ACTIVITIES</b>				
Net earnings for the period	\$ 777	\$ 2,981	\$ 5,008	\$ 8,274
Items not affecting cash				
Amortization	54	48	153	105
Non-cash compensation expense	30	28	104	140
Future income tax	5	-	76	-
Gain on disposal of temporary investments	(12)	-	(12)	-
Share purchase financing (note 7)	(117)	-	(4,867)	-
	737	3,057	462	8,519
Changes in non-cash working capital related to operations	356	708	3,249	(1,044)
Increase in cash from operating activities	1,093	3,765	3,711	7,475
<b>FINANCING ACTIVITIES</b>				
Proceeds from exercised stock options	-	319	-	1,111
Dividends paid	(760)	(2,788)	(3,655)	(8,314)
Share issue costs	(4)	-	(4)	-
Decrease in cash from financing activities	(764)	(2,469)	(3,659)	(7,203)
<b>INVESTING ACTIVITIES</b>				
Purchase of capital assets	(52)	(29)	(105)	(386)
Purchase of temporary investments	(3)	(4)	(13)	(945)
Business acquisition (note 3)	(410)	-	(410)	-
Proceed from sale of temporary investments	299	-	299	-
Decrease in cash from investing activities	(166)	(33)	(229)	(1,331)
Increase (decrease) in cash and short-term investments	163	1,263	(177)	(1,059)
Cash and short-term investments - beginning of period	6,047	4,809	6,387	7,131
Cash and short-term investments - end of period	\$ 6,210	\$ 6,072	\$ 6,210	\$ 6,072
Cash is comprised of				
Cash	\$ 435	\$ 525	\$ 435	\$ 525
Short-term investments	5,775	5,547	5,775	5,547
	\$ 6,210	\$ 6,072	\$ 6,210	\$ 6,072

*See accompanying notes*

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 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 except for the following:

#### a) Business Acquisitions

The Company accounts for business acquisitions as purchase transactions. Accordingly, the purchase price of a business transaction is allocated to its identifiable net assets on the basis of estimated fair values as at the date of purchase, including identifiable intangible assets and associated future income tax effects, with any excess being assigned to goodwill.

#### b) Goodwill and Other Intangibles

Goodwill and intangible assets with indefinite lives are not amortized but are tested for impairment at least annually or when circumstances suggest that impairment may have occurred. Intangible assets with a definite life are amortized on a straight-line basis over their useful life.

### 2) Temporary Investments

Temporary investments are valued at the lower of cost or market. The market value of temporary investments at September 30, 2006 was \$5,784,000 (2005 – \$6,050,000).

### 3) Business Acquisition

On July 31, 2006 the Company acquired 100% of Rudderham Norwood Ellison Investment Counsel Ltd. ("RNE"), an investment counsel company, for consideration of \$375,000 in cash and the issuance of 134,088 common shares. The shares are held in escrow and had a weighted average price of \$6.82 based on the weighted average share price, the day of, five days before, and five days after the announcement date of the acquisition.

The purchase price may be reduced by \$450,000 in the event that RNE does not meet certain revenue targets. Once the outcome is known the contingent consideration will be allocated between the purchase price allocation and compensation expense.

In addition, the release of 51,079 shares from escrow is based on the continued employment of principal shareholders and is automatically forfeited if employment terminates. The shares, held in escrow will be treated as compensation expense over a four year period based on the continued employment of the principal shareholders of the acquired company.

The total purchase price of \$526,000 including \$35,000 in transactions costs was accounted for using the purchase method and the operating results of RNE have been included in the financial statements as of the acquisition date. The purchase price allocation below is preliminary and management is currently in

the process of the identification and valuation of intangible assets. As a result the actual amount allocated to each identifiable asset may vary from the initial recorded amounts.

The preliminary purchase price allocation is as follows:

<b>Assets</b>	\$
Accounts receivable and prepaid	18
Capital assets	8
Goodwill and other intangibles	526
	<u>552</u>
<b>Liabilities</b>	
Accounts payable	(26)
Total purchase price allocation	<u>526</u>

Consideration is comprised of:

Cash	375
Issuance of shares	116
Total consideration	<u>491</u>
Transaction costs incurred	35
Total purchase price	<u>526</u>

#### 4) Capital Assets

(in thousands)

	As at September 30, 2006		
	Cost	Accumulated Depreciation	NBV
	\$	\$	\$
Furniture and office equipment	589	318	271
Computer equipment	480	287	193
Software	294	75	219
Leasehold improvements	66	44	22
Total Capital Assets	<u>1,429</u>	<u>724</u>	<u>705</u>

	As at December 31, 2005		
	Cost	Accumulated Depreciation	NBV
	\$	\$	
Furniture and office equipment	584	271	\$313
Computer equipment	433	239	194
Software	243	25	218
Leasehold improvements	64	36	28
Total Capital Assets	<u>1,324</u>	<u>571</u>	<u>753</u>

#### **5) Employee Benefit Plan**

The Company contributed \$40,000 for the quarter (2005 - \$40,000) and \$127,000 for the nine months ended September 30, 2006 (2005 - \$124,000) to its defined contribution pension plan.

#### **6) Unusual Item**

The Company incurred costs of \$1,020,000 for the nine months ended September 30, 2006 (2005 - \$1,100,000) related to a change in Chief Executive Officer.

#### **7) Share Purchase Financing**

The Company advanced two equal forgivable loans totaling \$5,000,000 to the 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 are non-interest bearing, have full recourse against the President and CEO and the Company is the beneficiary of a life insurance policy on the life of the President and CEO.

The Company advanced a forgivable loan of \$250,000 to a new employee in connection with an employment agreement and for the purchase of common shares of the Company. The employment agreement provides for the forgiveness of \$50,000 annually subject to the employee fulfilling equivalent service requirements. The loan is non-interest bearing and the shares are held by the company as security. The shares are released annually in installments of 20%. The current market value of the shares at September 30, 2006 was \$254,000.

The loans, less earned or accrued forgiveness, outstanding of \$4,867,000 are accounted for in the accompanying balance sheet as share purchase financing and as a result are deducted from shareholders' equity. The related earned or accrued forgiveness of \$133,000 for the quarter (2005 – nil) and \$383,000 for the nine months ended September 30, 2006 (2005 – nil) is accounted for as compensation expense in the accompanying statement of operations.

#### **8) 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 September 30, 2006. Of the 779,000 remaining, 732,000 are subject to outstanding options issued and 47,000 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 September 30, 2006 and September 30, 2005 and changes during the periods then ended:

	2006		2005	
	Number	Price*	Number	Price*
Balance at June 30	777,000	15.40	529,000	14.29
Granted	nil		100,000	18.29
Forfeited	45,000	19.90	nil	
Exercised	nil		29,000	11.00
Balance at September 30	732,000	13.34	600,000	15.40
Total options exercisable	440,200	13.68	327,000	13.81

\*weighted average exercise price

The following table summarizes information for stock options outstanding at September 30, 2006:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number	Remaining life (years) *	Price *	Number	Price *
\$8.69 to \$8.69	190,000	9.31	8.69	nil	
\$11.00 to \$11.00	303,000	4.72	11.00	303,000	11.00
\$16.86 to 17.68	37,000	5.27	17.44	25,000	17.44
\$18.29 to \$18.29	85,000	8.72	18.29	17,000	18.29
\$20.19 to \$20.98	48,000	6.57	20.57	36,000	20.57
\$23.00 to \$23.29	69,000	5.93	23.08	59,200	23.10
	732,000			440,200	

\* weighted average

Total compensation cost that has been charged against income for the stock option plan for the year is \$104,000 (2005 - \$140,000).

No options were granted during the quarter ended September 30, 2006 (September 30, 2005 – 100,000).

The Company's pro-forma net income would be reduced by \$35,000 for the quarter ended September 30, 2006 (2005 – \$36,000) and \$107,000 for the nine months ended September 30, 2006 (2005 - \$107,000) had the fair value method been adopted for options granted in 2002. Basic earnings per share would remain unchanged from \$0.07 for the quarter and reduced from \$0.47 to \$0.46 for the nine months ended September 30, 2006 (2005 – reduced from \$0.28 to \$0.27 and reduced from \$0.78 to \$0.77, respectively). Diluted earnings per share would remain unchanged from \$0.07 for the quarter and reduced from \$0.44 to \$0.43 for the nine months ended September 30, 2006 (2005 – reduced from \$0.28 to \$0.27 and reduced from \$0.77 to \$0.76, respectively).