

# **SEAMARK Asset Management Ltd.**

## **Annual Report to Shareholders**

**2007**

**including**

**Management Discussion & Analysis**

**and**

**Annual Financial Statements**



# LETTER TO SHAREHOLDERS

Fellow Shareholders,

We started 2007 on a mission to rebuild confidence in SEAMARK. By focusing on our priorities of enhancing client relationships, improving investment performance and identifying opportunities to broaden our client base, our aim was to show that we had stabilized the organization and demonstrate to our most important stakeholders that we were positioned for growth.

SEAMARK made progress on all of these fronts. Throughout the year, we continued to embed the operational changes we had successfully introduced in 2006. Positive client and consultant feedback in all areas of our business continued to grow. Investment performance was strong. Product launches in both the institutional and retail markets expanded our offering and created opportunities to diversify our client base.

At the same time, uncertainty around the long-term effects of our changes caused some current and potential clients to take a ‘wait and see’ approach. Asset outflows continued, particularly in the early part of the year, based on the legacy of our four-year investment performance track record. These results were clearly disappointing, but we knew we had more work to do this year and that it would take time to rebuild client confidence – the single most important factor in this industry.

As we continue to focus on our priorities, I believe that confidence is returning. I’d like to review in more detail the progress in 2007 that supports this assessment.

## **Strengthening Client Relationships**

Positive feedback and comments on a significant improvement in client service have come in from clients in all three of our business segments – institutional, retail and private client.

By the end of 2007, I’m pleased to confirm that our institutional ratings showed improvement and that we had strengthened all key relationships on our wrap programs. Our most important partners have taken SEAMARK off hold or watch status and declared us ‘open for new business’. This is a significant win for the firm and critical to positioning us for future growth.

## **Enhancing Investment Performance**

Investment performance continued to improve in 2007 and the team is working well. Our strong results in 2006 and 2007 are now contributing to the important long-term performance track record that consultants and institutions look at when selecting an investment manager.

Performance for our Canadian Equity and Fixed Income portfolios was exceptionally strong – far outpacing the indexes. In these two key areas, we now have excellent one-, two- and three-year performance numbers.

While our U.S. Equity portfolio ranked in the fourth quartile, our institutional Balanced pension composite and International Equity portfolios both recorded their second years at above-median performance.

## **New Products and New Business Opportunities**

New SEAMARK products were introduced in 2007 in line with our firm's strengths and in response to market opportunities:

- We launched an institutional North American Equity product consistent with our core competencies in this area.
- We launched a Principal Protected Note with RBC Financial Group.
- In October, we launched our own family of mutual funds with the SEAMARK North American Equity Fund, SEAMARK Canadian Equity Fund and SEAMARK Dividend & Income Fund. We believe that we have a natural marketplace for these products based on our previous experience and relationships with advisors across the country. The new funds have been well received by major financial institutions.

## **Winning Institutional Business**

Over the past few years, SEAMARK's challenges have been a persistent obstacle to winning new institutional business. In 2007, we made significant progress and we are now well positioned to win institutional business in 2008.

Consultant reviews from national consulting firms are communicating a positive view on the changes and developments at SEAMARK. This has begun to shift the perspectives of institutional clients and create new opportunities to compete for business.

To support our progress, we are implementing a 'best in class' strategy and 10-point action plan to ensure that we are displaying the quality criteria necessary for consultants to recommend us to large institutions.

## **Investing in Employees**

Our accomplishments in 2007 are the direct result of the focus and determination of SEAMARK's employees. The concerted efforts of the entire SEAMARK team in demonstrating our revitalized client service focus and investment discipline will continue to be critical to SEAMARK's return to strength.

The new compensation scheme, including a Deferred Stock Unit plan, has been well received by employees and is positively viewed by consultants as a means of increasing employee retention and their stake in the long-term success of the firm.

The SEAMARK leadership and investment team was stable through 2007. In 2008, we will realign members of our senior team in key roles as Tom MacLaren, Chief Investment Officer (CIO) retires and Angela Eaton, currently Head of Equities, moves into the CIO position.

## **Moving Forward**

Our hard won accomplishments in 2007 were tempered by challenges and setbacks, many of which stem from our challenging legacy. At the same time, we have focused on and made progress against our strategic priorities:

- **Positioning** - Client service and perception of SEAMARK have shown significant improvement. The doors are open to building our business.
- **Performance** - Short to medium-term performance has improved in four of five key products.
- **Products** - Products have been developed to diversify our offering and broaden our client base.

All of these accomplishments, taken individually or collectively, are points of strength SEAMARK has not held for a number of years.

Overall, our progress last year has positioned us well to pursue institutional business and grow retail market share in 2008.



Stuart R. Raftus  
President & Chief Executive Officer  
February 13, 2008

## MANAGEMENT DISCUSSION & ANALYSIS

Fiscal Year Ended December 31, 2007

The following management discussion and analysis (“MD&A”) has been prepared by management in accordance with Canadian Securities Administrators’ National Instrument 51-102 as of February 13, 2008 to assist shareholders in understanding SEAMARK Asset Management Ltd. (“SEAMARK”)’s financial results and condition. It should be read in conjunction with the audited annual financial statements and supporting notes that follow.

### Forward-Looking Statements

*This MD&A, and in particular the section marked “Outlook”, contains certain forward-looking statements that reflect management’s current beliefs and assumptions as of this date. These are based on management’s current expectations and estimates related to the business conditions under which SEAMARK Asset Management Ltd. operates. Critical factors that could cause these beliefs, assumptions, expectations, and estimates to be inaccurate include, but are not limited to, changes in the level of assets under management, future absolute investment performance on behalf of clients, future relative investment performance compared to competitors, ability to retain and attract clients, ability to retain key personnel, ability to recruit qualified personnel, and changes to the regulatory environment under which SEAMARK operates. Actual results and events may differ materially from those predicted by the forward-looking statements. SEAMARK does not intend to provide updates on these forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements.*

### General

SEAMARK Asset Management Ltd. provides discretionary investment management services to a variety of clients, including:

- Institutional clients: pensions, endowments, and other funds managed on behalf of institutions, including group pension plans sponsored by life insurance companies.
- Mutual fund clients: mutual funds available directly to retail investors that are managed and sponsored by SEAMARK or managed by SEAMARK on behalf of the funds’ sponsors.
- Wrap programs: assets managed on behalf of high net worth individuals through a managed portfolio advisory program sponsored by an investment dealer.
- Private clients: assets managed on behalf of high net worth individuals who have a direct client relationship with SEAMARK.

SEAMARK operates as a single business unit delivering a similar service to all its clients. The division of clients into these four segments is intended to assist the reader in better understanding SEAMARK's business. These client segments are not distinct reportable business segments for accounting purposes.

Revenue is generated primarily by charging clients a fee calculated as a percentage of the market value of the assets managed by SEAMARK on their behalf ("assets under management" or "AUM"). Changes in the value of AUM therefore impact directly on the revenue collected by SEAMARK.

SEAMARK's assets under management change in value as a result of two functions: net new assets and market value changes. Net new assets reflect the difference between new assets which SEAMARK begins to manage on behalf of new or existing clients and assets which SEAMARK no longer manages either because a client has made a withdrawal or has closed their account. Market value changes are the change in the total value of assets under management as a result of changes in the current market price of these assets.

Salaries and benefits represent the largest part of SEAMARK's expenses. SEAMARK generally pays a full tax rate, which tends to vary as a result of changes in tax laws and the mix of its client base across various Canadian provinces.

SEAMARK's authorized share capital consists of an unlimited number of a single class of common shares issued without nominal or par value. As of the date of this MD&A there were 10,855,088 common shares issued and outstanding, of which 305,787 held in trust are subtracted from the basic common shares outstanding for the purpose of per share calculations under Canadian generally accepted accounting principles.

SEAMARK maintains a deferred stock unit plan dated October 27, 2006 ("DSU Plan") that allows for the granting of deferred stock units ("DSU") to directors and key employees where this is considered appropriate by the Compensation Committee of the Board of Directors. One DSU entitles the participants to one common share of SEAMARK on vesting, which is distributed from a trust established to purchase previously issued and outstanding shares and hold them until the DSUs vest ("DSU Trust").

SEAMARK maintains a stock option plan dated July 10, 2001 ("Stock Option Plan") that allows for the granting of stock options to directors and key employees where this is considered appropriate by the Compensation Committee of the Board of Directors. A maximum of 1,000,000 shares may be issued under option through the Stock Option Plan. To date 644,000 options are outstanding, 221,000 options have been exercised and 135,000 are available to be granted under the Plan.

## Summary of Annual and Quarterly Reports

<b>Annual</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<i>\$ in thousands, except per share</i>			
Revenues	14,174	20,502	27,148
Earnings before income taxes	4,601	9,995	17,901
Net earnings	2,831	6,277	11,207
Basic earnings per share	0.27	0.59	1.05
Diluted earnings per share	0.25	0.55	1.02
Dividends per basic share	0.28	0.41	1.04
<i>as at December 31<sup>st</sup>, \$ in thousands</i>			
Total assets	17,315	16,528	20,408
Total long-term financial liabilities	nil	nil	nil

<b>Quarterly</b>	<b>2007</b>				<b>2006</b>			
<i>\$ in thousands, except per share</i>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
Revenues	3,220	3,385	3,509	4,060	4,151	3,990	4,047	8,314
Earnings before income taxes	892	1,039	1,084	1,586	1,795	1,265	1,619	5,316
Net Earnings	516	641	664	1,010	1,269	777	977	3,254
Basic earnings per share	0.05	0.06	0.06	0.10	0.12	0.07	0.09	0.30
Diluted earnings per share	0.05	0.06	0.06	0.09	0.11	0.07	0.09	0.29

There have been no extraordinary or unusual items such as discontinued operations, reorganizations or changes in accounting policy that would affect the comparability of the financial data presented here, other than the following:

- For the third quarter and full year 2007, the cost incurred to launch three mutual funds decreased basic and diluted earnings per share by approximately \$0.01.
- For the third quarter and full year 2006 severance costs reduced earnings before income taxes by approximately \$375,000 and reduced basic and diluted earnings by \$0.02 per share.
- The first quarter and full year 2006 include \$0.8 million in revenues received prior to the termination of an investment management agreement with ClaringtonFunds Inc. and an additional \$2.9 million in revenues related to the termination. The total revenue received from ClaringtonFunds Inc. contributed approximately \$0.20 to earnings per share for the first quarter and full year 2006.
- For the first quarter and full year 2006 earnings before income taxes were reduced by \$1.0 million due to costs associated with the recruitment of a new President & CEO, which decreased basic and diluted earnings per share by approximately \$0.06.

## Financial Overview & Operating Highlights

Revenues declined in 2007 compared to 2006 reflecting an overall decline in AUM. Revenues in 2007 benefited from a realized gain of \$0.3 million on the sale of temporary investments, compared to \$0.1 million in 2006, which contributed \$0.01 to basic and diluted earnings per share.

Net asset outflows continued in 2007, but at a slower rate, in both absolute terms and as a percentage of overall AUM, compared to the previous year. Market value changes contributed more to AUM in 2006 compared to 2007, reflecting weaker global stock market conditions in 2007 compared to the previous year. The following table summarizes changes in AUM during 2007 and 2006:

Annual Change in AUM Summary (in billions)							
	AUM end of 2007	2007		AUM end of 2006	2006		AUM end of 2005
		Net New Assets	Market Value Change		Net New Assets	Market Value Change	
Total Firm	\$3.87	(\$1.35)	\$0.01	\$5.21	(\$4.98)	\$0.85	\$9.34
Institutional clients	2.18	(1.07)	0.06	3.19	(1.43)	0.50	4.13
Mutual funds	0.17	(0.07)	(0.02)	0.26	(3.06)	0.16	3.16
Wrap programs	1.36	(0.19)	(0.04)	1.59	(0.47)	0.17	1.88
Private clients	0.16	(0.02)	-	0.18	(0.02)	0.03	0.17

Equity compensation expenses increased in 2007, reflecting an investment in key employees initiated in the second half of 2006 in order to establish increased equity ownership by key employees. In an effort to broaden our product offerings and create opportunities to diversify our client base, we also invested in the launch of a new institutional product and retail mutual funds. Related expenses were offset by an overall reduction in costs in other areas, resulting in general & administrative expenses for 2007 being in line with 2006.

Earnings before income taxes as a percentage of total revenue was 33% in 2007, compared to 49% in 2006. Net earnings as a percentage of revenues were 20% in 2007 compared to 30% in 2006. Declining revenues negatively impacted these ratios during 2007 compared to the previous year. SEAMARK's effective tax rate increased to 38.5% in 2007 compared to 37.2% in 2006 as a result of an increase in non-deductible expenses and a reduction in non-taxable dividends received from temporary investments in 2007 compared to 2006.

## Fourth Quarter 2007

The following table summarizes the asset flows for the fourth quarter of 2007 and 2006:

Quarterly Change AUM Summary (in billions)									
	AUM End of 4 <sup>th</sup> Quarter 2007	4 <sup>th</sup> Quarter 2007			AUM End of 3 <sup>rd</sup> Quarter 2007		4 <sup>th</sup> Quarter 2006		
		Net New Assets	Market Value Change	AUM End of 4 <sup>th</sup> Quarter 2006			Net New Assets	Market Value Change	AUM End of 3 <sup>rd</sup> Quarter 2006
Total Firm	3.87	(0.24)	(0.10)	4.21		\$5.21	(\$0.33)	\$0.41	\$5.13
Institutional clients	2.18	(0.18)	(0.03)	2.39		3.19	(0.24)	0.27	3.16
Mutual funds	0.17	(0.01)	(0.01)	0.19		0.26	(0.02)	0.03	0.25
Wrap programs	1.36	(0.05)	(0.05)	1.46		1.59	(0.07)	0.10	1.56
Private clients	0.16	-	(0.01)	0.17		0.18	-	0.01	0.17

Consistent with the experience for the full year, net asset outflows during the fourth quarter of 2007 were lower, in both absolute terms and as a percentage of overall AUM, than during the same period in 2006. Market value changes contributed positively to AUM in the fourth quarter of 2006 but detracted from AUM in the fourth quarter of 2007, reflecting declining global stock markets during the fourth quarter of 2007.

Revenues declined during the fourth quarter of 2007 compared to the same period in 2006 and third quarter 2007 reflecting the reduced level of AUM. Expenses during the fourth quarter of 2007 were relatively unchanged compared to the fourth quarter of 2006, reflecting the impact of stock compensation granted in late 2006 and early 2007, offset by reduced expenses in other areas.

## Liquidity and Capital Resources

SEAMARK had \$12.1 million in cash, short-term investments and temporary investments at the end of 2007, up from \$11.0 million at the end of 2006.

Combined cash, short-term investments and temporary investments exceeded the figure of a year ago due to total cash generated by SEAMARK in 2007 exceeding total cash expenditures during the year, including the payment of dividends. Currently available liquid assets are expected to be adequate to meet SEAMARK's financial needs for the immediate future, therefore no additional capital resources have been arranged.

No portion of SEAMARK's short-term or temporary investments were held in asset-backed commercial paper at any time during 2006 or 2007. As such SEAMARK's short-

term and temporary investments were not impacted by the liquidity crisis in such instruments in 2007.

SEAMARK has no material contractual obligations other than certain operating leases described in Note 15 to the Financial Statements that accompany this MD&A. SEAMARK has no off-balance sheet financial arrangements. The payments due under these contractual obligations are summarized below:

<i>\$ in thousands</i>	2008	2009	2010	2011	2012	after 2012
Long Term Debt	nil	nil	nil	nil	nil	nil
Operating Leases	629	332	nil	nil	nil	nil
Other Long Term Obligations	nil	nil	nil	nil	nil	nil
Total Contractual Obligations	629	332	nil	nil	nil	nil

## Outlook

The organizational changes undertaken in 2006 resulted in generally improved operations in 2007. Client relations and investment performance produced enhanced results. Investment results for clients were particularly strong in Canadian equities and in Canadian fixed income during 2007, both in absolute terms and relative to competitors. Our Balanced pension composite ranked in the top half of its peer group for the year, as measured by the RBC Dexia industry survey of Canadian investment managers. Results from international equities were generally in line with benchmarks and peer returns for the year. Returns from US equities were below median.

The combined investment results of 2007 and 2006 have begun the process of restoring SEAMARK's relative rankings against competitors over the critical three- and four-year periods that are often used by clients to evaluate investment managers. Performance in Canadian equities and Canadian fixed income are now building positive longer term track records. Over the past two years and for 18 of the past 23 years SEAMARK's balanced pension composite has generated above median performance according to the RBC Dexia industry survey. These results and the increased strength of SEAMARK's organization should position the company to continue to slow the decline in assets under management as 2008 proceeds. It will remain challenging, however, to win new business in the near future. Continued strong investment results will be required in order to retain existing clients and attract new clients.

SEAMARK's revenues are expected to track its assets under management in a manner consistent with their historical relationship. Expenses will vary according to the needs of SEAMARK's business over the course of 2008. SEAMARK's effective tax rate in 2008 is expected to approximate that of 2007 as a decline in the statutory federal tax rate may be offset by an expected increase in non-deductible expenses as a percentage of total revenues. Based on current levels of AUM, revenues, and liquid assets, SEAMARK expects to continue to pay its current level of quarterly dividends in 2008, although this will continue to be reviewed quarterly as is company policy.

## **Accounting Policies**

The financial information presented here has been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). The significant accounting policies followed are set out in Note 1 to the Financial Statements that accompany this MD&A. All financial figures are presented in Canadian dollars.

There are no critical accounting estimates involved in the presentation of SEAMARK’s financial results.

## **Transactions with Related Parties**

Approximately 31% of SEAMARK’s common shares are owned by The Manufacturers Life Insurance Company, a wholly-owned subsidiary of Manulife Financial Corporation (“Manulife”). SEAMARK provides investment services to Manulife and certain of its subsidiaries on an arm’s length basis on normal commercial terms. SEAMARK’s revenues included \$2.8 million in fees from Manulife and its subsidiaries in 2007 and \$3.0 million in 2006. SEAMARK also purchases services from Manulife and its subsidiaries from time to time on normal commercial terms. The cost of these services did not represent a material amount in 2007 or 2006.

## **Disclosure Controls**

Management is responsible for establishing and maintaining and has designed disclosure controls and procedures and internal controls over financial reporting pursuant to Canadian Securities Administrators’ Multilateral Instrument 52-109. Based on an evaluation of the disclosure controls and procedures as of the end of the period covered by this MD&A, management believes such controls and procedures are adequate and effective in providing reasonable assurance that material information is made known to them. There has been no change during the most recent interim period that has materially affected, or is likely to materially affect, SEAMARK’s internal control over financial reporting.

## **Other Information**

Additional information about SEAMARK Asset Management Ltd., including its most recent Annual Information Form, is located on the System for Electronic Document Analysis and Retrieval (SEDAR) website: [www.sedar.com](http://www.sedar.com)

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Preparation of the financial statements accompanying this annual report and the presentation of all other information in the report is the responsibility of management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect management's best estimates and judgments. All other financial information in the report is consistent with that contained in the financial statements.

The Board of Directors, through its Audit Committee, oversees management in carrying out its responsibilities for financial reporting and systems of internal control. The Audit Committee, which is chaired by and composed solely of non-management directors, meets regularly with financial management and external auditors to satisfy itself as to the reliability and integrity of financial information and the safeguarding of assets. The Audit Committee reports its findings to the Board of Directors for consideration in approving the annual financial statements to be issued to shareholders. The external auditors have full and free access to the Audit Committee.



**Stuart R. Raftus**  
President & Chief Executive Officer  
February 13, 2008



**Donald A. Wishart**  
Chief Financial & Operating Officer  
February 13, 2008

## AUDITORS' REPORT

To the Shareholders of  
**SEAMARK Asset Management Ltd.**

We have audited the balance sheet of **SEAMARK Asset Management Ltd.** as at December 31, 2007 and 2006 and the statements of operations, retained earnings, comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2007 and 2006 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Halifax, Canada  
February 13, 2008

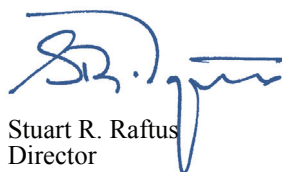
*Ernst & Young* LLP  
Chartered Accountants


## CONSOLIDATED BALANCE SHEETS

As at December 31 (\$ in thousands)	2007	2006
<b>ASSETS</b>		
Current		
Cash and short-term investments	\$ 9,189	\$ 7,372
Temporary investments (note 14)	2,875	3,620
Accounts receivable and prepaid expenses (note 13)	3,686	4,074
Income tax receivable	78	47
Future income tax asset (note 9)	178	107
	16,006	15,220
Capital assets (note 5)	574	646
Intangible assets (note 6)	346	386
Goodwill (note 3, 6)	389	276
	\$ 17,315	\$ 16,528
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current		
Accounts payable and accrued liabilities	\$ 1,849	\$ 1,539
Future income tax (note 9)	160	226
	2,009	1,765
Capital stock (note 11)	6,555	5,796
Less share purchase financing (note 10)	(4,179)	(4,729)
Contributed surplus (note 12)	580	432
Retained earnings	12,447	13,264
Accumulated other comprehensive income (note 14)	(97)	-
	15,306	14,763
	\$ 17,315	\$ 16,528

*See accompanying notes*

On behalf of the Board:

  
 Stuart R. Raftus  
 Director

  
 Richard B. Coles  
 Director

## CONSOLIDATED STATEMENTS OF OPERATIONS

Year ended December 31 (\$ in thousands, except per share)	2007	2006
<b>REVENUE</b>		
Institutional clients (note 13)	\$ 5,671	\$ 7,609
Mutual fund clients	563	4,316
Private clients and WRAP accounts	7,159	7,996
Investment income	781	581
	14,174	20,502
<b>EXPENSES</b>		
General and administrative	9,330	9,266
Amortization	243	221
	9,573	9,487
Unusual items (note 8)	-	1,020
Earnings before income taxes	4,601	9,995
Income taxes (note 9)		
Current income taxes	1,885	3,752
Future income taxes	(115)	(34)
	1,770	3,718
Net earnings	\$ 2,831	\$ 6,277
<b>EARNINGS PER SHARE</b>		
Basic	\$ 0.27	\$ 0.59
Diluted	\$ 0.25	\$ 0.55
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (in thousands)</b>		
Basic	10,465	10,681
Diluted	11,109	11,342

*See accompanying notes*

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Year ended December 31 (\$ in thousands)	2007	2006
Retained earnings - beginning of year	\$ 13,264	\$ 12,732
Net earnings	2,831	6,277
	16,095	19,009
Less		
Excess on acquisition of common shares (note 12)	689	1,331
Dividends paid	2,959	4,414
Retained earnings - end of year	\$ 12,447	\$ 13,264

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31 (\$ in thousands)	2007
Net income	\$ 2,831
Other comprehensive income:	
Unrealized losses on temporary investments, net of income taxes of \$46 thousand for the year ended December 31, 2007.	(199)
Realized gains on temporary investments sold and included in net income, net of income taxes of \$53 thousand for the year ended December 31, 2007.	(230)
Other comprehensive income	(429)
Comprehensive income	\$ 2,402

*See accompanying notes*

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31 (\$ in thousands)	2007	2006
<b>OPERATING ACTIVITIES</b>		
Net earnings for the year	\$ 2,831	\$ 6,277
Items not affecting cash		
Amortization	243	221
Non-cash compensation expense	855	204
Future income tax	(115)	(34)
Loss on disposal	9	15
Gain on disposal of temporary investments	(283)	(133)
Share purchase financing (note 10)	550	(4,729)
	4,090	1,821
Changes in non-cash working capital related to operations (note 4)	667	3,383
	4,757	5,204
<b>FINANCING ACTIVITIES</b>		
Dividends paid	(2,959)	(4,414)
Share issue costs	-	(4)
Acquisition of common shares (note 12)	(750)	(1,444)
	(3,709)	(5,862)
<b>INVESTING ACTIVITIES</b>		
Acquisition of capital assets	(140)	(112)
Purchase of temporary investments	(2,734)	(306)
Business acquisition (note 3)	-	(410)
Proceeds from the sale of temporary investments	3,643	2,471
	769	1,643
Increase in cash and short-term investments	1,817	985
Cash and cash equivalents - beginning of year	7,372	6,387
Cash and cash equivalents, end of year	\$ 9,189	\$ 7,372
Cash is comprised of		
Cash	\$ 624	\$ 1,400
Short-term investments	8,565	5,972
Cash and cash equivalents, end of year	\$ 9,189	\$ 7,372

*See accompanying notes*

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006**

### **1. Summary of Significant Accounting Policies**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies followed in the preparation of these financial statements are summarized below:

#### **Depreciation**

Furniture and office equipment is depreciated over its estimated useful life, at the annual rate of 20% calculated using the declining balance basis. Computer equipment is depreciated over its estimated useful life, at the annual rate of 30% calculated using the declining balance basis. Software is depreciated over its estimated useful life calculated using the straight-line method. Leasehold improvements are depreciated over the life of the lease calculated using the straight-line method.

#### **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.

#### **Goodwill**

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 of ten years. When impairment has occurred, a write down to fair value is charged to income in the period that such determination is made.

#### **Income taxes**

The Company follows the liability method of accounting for income taxes whereby future income tax assets and liabilities are determined based on temporary differences between the financial reporting and tax base of assets and liabilities, measured using the tax rates substantially enacted at the balance sheet date. The effect of changes in income tax rates on future income tax assets and liabilities is recognized in income in the period that the change becomes substantially enacted.

#### **Earnings per share**

Basic earnings per share is based on the weighted average of common shares outstanding for the year. Diluted earnings per share is calculated using the treasury stock method and based on the weighted average number of common shares outstanding plus diluted common share equivalents.

#### **Financial instruments**

The Company fair values financial instruments as follows:

- Cash and short term investments are classified as financial assets held for trading and are measured at fair value. Gains and losses related to periodic revaluation are recorded in net income. The carrying amount approximates fair value.
- Temporary investments are classified as available for sale and are measured at fair value and marked-to-market through comprehensive income at each period end.
- Accounts receivable are classified as loans and receivables which are initially measured at fair value and subsequent periodic revaluations are recorded at amortized cost using the effective interest rate method. The carrying amount approximates fair value.
- Bank overdraft, accounts payable and accrued liabilities are classified as other liabilities and are initially measured at fair value and subsequent periodic revaluations are recorded at amortized cost using the effective interest rate method. The carrying amount approximates fair value.

## **1. Summary of Significant Accounting Policies (continued)**

Transaction costs for financial instruments classified as held for trading, loans and receivables and other liabilities are recognized immediately in net income. Transaction costs for available for sale financial assets that are directly attributable to the acquisition are included in the fair value of the asset.

The Company has elected trade-date accounting for regular-way purchase or sale of financial assets. The asset to be received and the liability to pay for it as well as the derecognition of an asset to be sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment are recognized on the trade date.

### **Revenue recognition**

Revenue related to the provision of investment management and advisory services is recognized as the related services are provided.

WRAPs are separately managed accounts at brokerage firms for which the Company provides investment management services.

### **Stock-based compensation**

The Company accounts for its stock options in accordance with the fair value based method of accounting for stock-based compensation. The proceeds from the exercise of stock options are recorded as share capital when options are exercised.

The Company operates a deferred stock unit plan for its employees. Each deferred stock unit entitles the participant to receive one common share of the Company subject to certain vesting provisions. Compensation expense is recorded on a straight-line basis over the vesting period commencing at the time such entitlement is earned by the employee at the fair value of the Company's shares as at that date.

### **Employee benefit plan**

The Company has a defined contribution pension plan covering substantially all of its employees. Company contributions to the plan are expensed as incurred.

### **Consolidation of variable interest entities**

The Company uses a compensation trust, which holds the Company's common shares, to fulfill obligations to employees arising from the Company's deferred stock unit plan. The Company is the primary beneficiary of the trust, and therefore the trust is consolidated in the financial statements of the Company.

### **Use of estimates**

The preparation of the financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions based on currently available information. Such estimates and assumptions may affect the reported amounts of assets and liabilities, and the reported amounts of revenues and expenses during the period. Significant areas requiring the use of management estimates include revenue accruals, intangible asset amortization and impairment assessment and goodwill impairment assessment. Actual results could differ from the estimates and assumptions used.

## **1. Summary of Significant Accounting Policies (continued)**

### **Accounting Changes**

#### **a) Financial instruments – recognition and measurement**

On January 1, 2007, the Company adopted Section 3855 of the Canadian Institute of Chartered Accountants' ("CICA") Handbook, "Financial instruments – Recognition and Measurement". It sets forth the standards for recognizing and measuring financial instruments on the balance sheet and for reporting gains and losses in the financial statements. Financial assets available for sale, assets and liabilities held for trading and derivative financial instruments, part of a hedging relationship or not, have to be measured at fair value.

The adoption of this Section was done retroactively without restatement of the consolidated financial statements of prior periods, resulting in an increase in temporary investments of \$409,000 and an increase in accumulated other comprehensive income of \$332,000, net of tax of \$77,000 as of January 1, 2007.

The Company selected January 1, 2007 as its transition date for embedded derivatives. An embedded derivative is a component of a financial instrument or another contract of which the characteristics are similar to a derivative. This had no impact on the consolidated financial statements.

#### **b) Comprehensive income**

On January 1, 2007, the Company adopted Section 1530 of the CICA Handbook, "Comprehensive Income". It describes reporting and disclosure recommendations with respect to comprehensive income and its components. These transactions and events include unrealized gains and losses resulting from changes in fair value of certain financial instruments.

The adoption of this Section requires that the Company now present a consolidated statement of comprehensive income as a part of the consolidated financial statements. The comparative statements are not restated to reflect the application of this section for changes in the balance of temporary investments.

#### **c) Equity**

On January 1, 2007, the Company adopted Section 3251 of the CICA Handbook. It describes standards for the presentation of equity and changes in equity for the reporting period as a result of the application of Section 1530, "Comprehensive Income".

## **2. Ownership and Major Customers**

The Manufacturers Life Insurance Company, a wholly-owned subsidiary of Manulife Financial Corporation ("Manulife"), owns approximately 31% of the Company.

During the year, the Company had three customers who represented approximately 23%, 21% and 10% (2006 - 17%, 15%, and 7%) of revenue, respectively.

## **3. Business Acquisition**

On July 31, 2006 the Company acquired 100% of the shares of Rudderham Norwood Ellison Investment Counsel Ltd. ("RNE"), for consideration of \$375,000 in cash and the issuance of 134,088 common shares. The acquisition was accounted for using the purchase method. In the event that certain revenue targets were not met, the purchase price could have been reduced by \$450,000. As at December 31, 2007, the contingency was settled, the purchase price was not reduced, and \$113,000 in the form of 16,495 common shares of the Company was allocated to the purchase price as goodwill. The remaining \$337,000 is stock-based compensation and recorded as compensation expense (note 12).

#### 4. Changes in Non-Cash Working Capital

(thousands of dollars)	2007	2006
	\$	\$
Accounts receivable	388	3,248
Income tax receivable	(31)	247
Accounts payable and accrued liabilities	310	(112)
Changes in non-cash working capital	667	3,383

#### 5. Capital Assets

(thousands of dollars)	As at December 31, 2007		
	Cost	Accumulated Depreciation	NBV
	\$	\$	\$
Furniture & office equipment	587	384	203
Computer equipment	382	256	126
Software	417	181	236
Leasehold	67	58	9
Total capital assets	1,453	879	574

	As at December 31, 2006		
	Cost	Accumulated Depreciation	NBV
	\$	\$	\$
Furniture & office equipment	585	333	252
Computer equipment	411	248	163
Software	304	93	211
Leasehold	65	45	20
Total capital assets	1,365	719	646

#### 6. Intangible Assets

The Company's net book value of goodwill at December 31, 2007 is \$389,000 (December 31, 2006 – \$276,000). The Company tested for impairment during the year and goodwill was not impaired.

The Company's intangible assets are comprised of investment management contracts which are amortized over their estimated useful life of 10 years. The net book value of intangible assets is as follows:

(thousands of dollars)	December 31, 2007			December 31, 2006		
	Cost	Accumulated Amortization	NBV	Cost	Accumulated Amortization	NBV
	\$	\$	\$	\$	\$	\$
Investment management contracts	402	56	346	402	16	386

#### 7. Employee Benefit Plan

During the year, the Company contributed \$162,000 (2006 – 160,000) to its defined contribution pension plan.

## 8. Unusual Item

There were no unusual items during the year ended December 31, 2007 (2006 - \$1,020,000 related to the change in Chief Executive Officer).

## 9. Income Taxes

The tax effects of temporary differences that give rise to future tax assets and future tax liabilities are presented in the following table:

(thousands of dollars)	2007 \$	2006 \$
Financial Instruments	22	
Capital assets	(54)	(79)
Intangible asset	(106)	(147)
Compensation arrangements	156	107
Total future income taxes	18	(119)

A reconciliation of statutory income tax rate to the effective income tax rate is as follows:

(in thousands of dollars, except percentages)	2007 \$	2006 \$
Earnings before income taxes	4,601	9,995
Combined federal and provincial statutory income tax rate	37.8%	37.7%
Income tax expense calculated at statutory rates	1,739	3,768
Adjustments to taxes resulting from:		
Non-deductible expenses	132	87
Non-taxable dividends	(28)	(96)
Non-taxable portion of capital gains	(53)	(50)
Other	(20)	9
Income tax expense	1,770	3,718

## 10. 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 was obligated and has subsequently purchased \$7,500,000 of the Company's common shares. The employment agreement provides for forgiveness of \$250,000 of each loan annually subject to the achievement of certain performance criteria and 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 has advanced a forgivable \$250,000 loan to an employee in connection with an employment agreement for the purchase of 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 full recourse non-interest bearing and the escrowed shares are held by the Company as security. The shares are released annually in installments of 20%. The current market value of the escrowed shares at December 31, 2007 was \$148,000.

## 10. Share Purchase Financing (continued)

During the year the loans, less earned or accrued forgiveness, outstanding of \$4,179,000 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 \$550,000 for the twelve months ended December 31, 2007 (2006 – \$521,000) is accounted for as compensation expense in the accompanying statement of operations.

## 11. Share Capital

### Authorized

Unlimited common shares without par value.

### Issued

	2007		2006	
	Number of Shares	Amount	Number of Shares	Amount
(thousands of dollars, except number of shares)	#	\$	#	\$
<b>Common Shares</b>				
Balance beginning of year	10,533	5,796	10,721	5,797
Issuance of common shares for business acquisition (note 3)			17	112
Acquisition of common shares for deferred stock unit plan (note 12)	(108)	(61)	(205)	(113)
Contingent consideration settled for business acquisition (note 3)	16	113		
Shares released from escrow to employees (note 12)	25	171		
Shares released for DSU's (note 12)	83	536		
Balance end of year	10,549	6,555	10,533	5,796

## 12. Stock-based Compensation

The Company operates a deferred share unit ("DSU") plan for certain employees. Each vested DSU entitles the participant to receive one common share of the Company. DSUs vest over a three year period in equal installments of one third per year. The Company uses a trust to acquire the Company's common shares on the open market to fulfill its obligations under the DSU plan. An independent party serves as the trustee of the plan. During the year the Company acquired 108,000 shares at a total cost of \$750,000 under the DSU plan and charged \$61,000 against share capital and the balance of \$689,000 to retained earnings.

At December 31, 2007 the company had awarded 44,000 DSUs (2006 – 205,000). The total compensation cost that has been charged against income and credited to contributed surplus for the DSU plan for the year ended December 31, 2007 was \$536,000 (2006 – \$36,000). During the year ended December 31, 2007, 83,000 shares were released from the trust for vested DSU's.

As part of a business acquisition, 100,565 common shares were held in escrow and are released based on the continued employment of the principal shareholders of the acquired company and are automatically forfeited if employment terminates. During the year ended December 31, 2007, 25,000 shares (2006 – nil) were released from escrow. For the year ended December 31, 2007 \$206,000 (2006 – \$36,000) has been charged to compensation expense.

## 12. Stock-based Compensation (continued)

### Stock Options

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 December 31, 2007. Of the 779,000 remaining, 644,000 are subject to outstanding options issued and 135,000 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 option plan as of December 31, 2007 and December 31, 2006 and changes during the periods then ended.

	2007		2006	
	Number	Price* \$	Number	Price* \$
Outstanding, beginning of year	649,000	13.45	589,000	15.35
Granted	-	-	190,000	8.69
Forfeited	5,000	11.00	130,000	15.14
Exercised	-	-	-	-
Outstanding, end of year	644,000	13.47	649,000	13.45
Total options exercisable	437,000	14.50	364,000	14.48

\*weighted average exercise price

The following table summarizes information for stock options outstanding at December 31, 2007.

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number	Remaining life (years)*	Price* \$	Number	Price* \$
\$8.69 to \$8.69	190,000	8.08	8.69	38,000	8.69
\$11.00 to \$11.00	227,000	3.48	11.00	227,000	11.00
\$16.86 to 17.68	37,000	4.04	17.44	37,000	17.44
\$18.29 to \$18.29	85,000	7.48	18.29	34,000	18.29
\$20.19 to \$20.98	40,000	4.97	20.59	36,000	20.54
\$23.00 to \$23.29	65,000	4.73	23.09	65,000	23.09
	644,000			437,000	

\*weighted average

Total compensation cost that has been charged against income and credited to contributed surplus for the stock option plan for the year is \$113,000 (2006 – \$132,000).

During the year ended December 31, 2007 no options were granted (2006 – \$190,000).

The Company's pro-forma net income would be reduced by \$42,000 (2006 - \$142,000) for the year ended December 31, 2007 had the fair value method been adopted for options granted in 2002. Basic earnings per share would be unchanged from \$0.27 (2006 – from \$0.59 to \$0.57) for the year and diluted earnings per share would be unchanged from \$0.25 (2006 – from \$0.55 to \$0.54) for the year.

### 13. Related Party Transactions

Included in fee revenue is \$2,782,000 (2006 - \$3,018,000) which was earned from Manulife, an affiliated company.

Included in accounts receivable are amounts due from Manulife of \$652,000 (2006 - \$688,000). These receivables are on the same commercial and credit terms as non-related parties.

Included in temporary investments are Manulife common shares with a cost of \$40,000 (2006 – preferred shares with a cost of \$500,000). These shares were purchased on the open market at fair market value.

### 14. Accumulated Other Comprehensive Income

(thousands of dollars)	2007
Balance at beginning of year, as previously reported	-
Unrealized gains on temporary investments financial instruments – recognition and measurement	332
Restated balance, beginning of period	332
Unrealized losses on temporary investments, net of income taxes of \$46 thousand	(199)
Realized gains on temporary investments sold and included in net income, net of income taxes of \$53 thousand	(230)
Balance at end of year	(97)

As at January 1, 2007, the impact on the consolidated balance sheet of measuring financial assets at fair value was an increase to temporary investments and accumulated other comprehensive income of \$409,000, net of income taxes of \$77,000. Prior periods were not restated.

### 15. Commitments

The aggregate future commitments under operating leases relate to vehicles, services and leased office equipment and premises occupied by the Company and amount to \$961,000. The minimum annual lease payments over the next two years are as follows:

2008	\$629,000
2009	\$332,000

### 16. Comparative Figures

Certain of the comparative figures have been reclassified to conform with the presentation adopted in the current year.

## SHAREHOLDER INFORMATION

### Corporate Information

SEAMARK Asset Management Ltd.  
Head Office  
310 – 1801 Hollis Street  
Halifax NS B3J 3N4 CANADA  
Tel: (902) 423-9367  
Fax: (902) 423-5106  
website: [www.seamark.ca](http://www.seamark.ca)

### Stock Exchange Listing

SEAMARK's common shares trade on the Toronto Stock Exchange under the symbol "SM"

### Transfer Agent

CIBC Mellon Trust  
PO Box 7010  
Adelaide Street Postal Station  
Toronto, ON M5C 2W9  
Tel: 1-800-387-0825  
Fax: (416) 643-5501

### Shareholder Contacts

For changes of address, information on dividend payments, and estate transfers, please contact the transfer agent, CIBC Mellon Trust, at 1-800-387-0825.

For other shareholder inquiries, please contact SEAMARK by email at [investorrelations@seamark.ca](mailto:investorrelations@seamark.ca) or at (902) 423-9367.

### Annual Meeting Information

SEAMARK's annual meeting of shareholders will be held on Thursday, 1 May 2008, at 2 pm, in the Four Points Sheraton, 1496 Hollis Street, Halifax, Nova Scotia.

### Quarterly Earnings Release Dates

SEAMARK's quarterly earnings are scheduled for release on the following dates:

First Quarter	1 May 2008
Second Quarter	30 July 2008
Third Quarter	30 October 2007
Fourth Quarter	February 2008

### Dividend Dates

The following tentative dates are subject to approval by the Board of Directors:

<u>Record Dates</u>	<u>Payment Dates</u>
25 February 2008	29 February 2008
15 May 2008	30 May 2008
15 August 2008	29 August 2008
14 November 2008	28 November 2008



