



# SEAMARK Asset Management Ltd.

INVESTMENT COUNSEL

## 2007 First Quarter Report to Shareholders

May 1<sup>st</sup>, 2007

### Focused on the Fundamentals

2006 was a year of change for SEAMARK and a challenging one for all of us as shareholders. I believe, however, that we have put a major period of change behind us.

As we move through 2007, we must understand that winning new institutional business to offset asset outflows will remain challenging. It will take at least until the end of 2007, and likely into 2008, before we can expect to consistently win new institutional business.

In the retail area, however, two positive developments during the quarter have better positioned SEAMARK to begin to grow assets. Our major wrap program clients completed their reviews of our operations, improving our ability to pursue new assets from these programs. In addition, SEAMARK was selected by RBC Capital Markets to provide investment management services to a new series of principal protected notes. Both developments are a vote of confidence in the changes we have made at SEAMARK.

I'm very proud of the way our people have risen to the recent challenges and are now focused the fundamentals of our business: investment performance and client service.

With this ongoing focus, we are determined to return the company to a position of strength that will deliver the shareholder value SEAMARK shareholders expect.

### Dividend

The Board of Directors has declared our next quarterly dividend of \$0.07 per share, payable May 31, 2007 to shareholders of record as of May 15, 2007.

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, 2007

*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	
	2007	2006
Total revenue	\$ 4,060	\$ 8,314
Earnings before income taxes	1,586	5,316
Net earnings	1,010	3,254
<i>Per Share</i>		
Basic earnings per share	\$ 0.10	\$ 0.30
Diluted earnings per share	0.09	0.29

#### GENERAL

This discussion and analysis has been prepared by management as of May 1, 2007 to assist shareholders in understanding SEAMARK Asset Management Ltd. ("SEAMARK")'s interim financial results for the period ended March 31, 2007. It is intended to be read in conjunction with the management discussion and analysis and financial statements contained in SEAMARK's 2006 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 649,000 outstanding options to purchase common shares.

#### LIQUIDITY & CAPITAL RESOURCES

Total available liquid assets, consisting of cash, short-term investments, and temporary investments, stood at \$11.5 million as of March 31, 2007 up from \$10.3 million as of March 31, 2006. Of this total, cash and short-term investments represented \$10.6 million compared to \$4.7 million a year ago. The increase in cash and short-term investments from a year ago reflects the sale of \$3.0 million of temporary investments during the first quarter of 2007 and the re-investment of those proceeds in short-term investments.

## FINANCIAL OVERVIEW

The comparability of financial results for the first quarter of 2007 and the first quarter of 2006 are impacted by the following non-recurring items:

- the first quarter of 2006 included \$3.7 million in revenue from Clarington Funds Inc. (“Clarington”), which contributed \$0.20 to earnings per share; and,
- the first quarter of 2006 included \$1.0 million in expenses associated with the recruitment of the new President & CEO, which decreased earnings per share by approximately \$0.06.

Earnings per share during the first quarter of 2007 were \$0.09 compared to \$0.29 during the first quarter of 2006. The decline in earnings per share reflects the two non-recurring items noted above, a decline in the company’s revenues and an increase in expenses related to compensation.

Revenues during the first quarter of 2007 were \$4.1 million compared to \$8.3 million for the first quarter of 2006. The decline in revenues reflects the impact of the Clarington revenues received during the first quarter of 2006 and a decline in the company’s average assets under management.

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## OPERATING HIGHLIGHTS

Assets under management (“AUM”) were \$4.7 billion as of March 31, 2007, down from \$5.2 billion at the beginning of the quarter and \$5.9 billion a year ago. The table on the next page summarizes the changes in AUM during the first quarters of 2007 and 2006.

Included in revenues during the first quarter of 2007 were realized gains of \$0.2 million on the sale of temporary investments, which contributed \$0.01 to earnings per share. There were no such realized gains during the first quarter of 2006

Expenses, excluding the impact of the non-recurring expenses noted above, were higher in the first quarter of 2007 compared to the first quarter of 2006, reflecting increased compensation costs partially offset by a reduction in costs in other areas.

Earnings before income taxes represented 39% of revenues for the first quarter of 2007, down from 64% in the first quarter 2006. After including the impact of income taxes, net earnings as a percentage of revenues were 25% for the first quarter 2007, compared to 39% for the first quarter 2006. These margin declines reflect the non-recurring items, the reduction in revenues and the increase in expenses described above.

Net asset flows in every client segment improved during the first quarter of 2007 compared to the first quarter of 2006, both in absolute terms and as a percentage of assets managed, but remained negative. The decline in AUM during the first quarter of 2007 primarily reflects the result of net asset withdrawals from institutional clients, where we continue to experience asset outflows with limited new deposits.

### Quarterly Change in AUM Summary

(in billions)	1 <sup>st</sup> Quarter 2007			AUM End of 4 <sup>th</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 2007	Net New Assets	Market Value Change		AUM End of 1 <sup>st</sup> Quarter 2006	Net New Assets	Market Value Change	
Total Firm	\$4.73	(0.47)	(0.01)	\$5.21	\$5.90	(3.94)	0.50	\$9.34
Institutional clients	2.79	(0.40)	-	3.19	3.66	(0.69)	0.22	4.13
Mutual funds	0.24	(0.02)	-	0.26	0.27	(3.04)	0.15	3.16
Wrap programs	1.52	(0.05)	(0.01)	1.59	1.81	(0.19)	0.12	1.88
Private clients	0.18	-	-	0.18	0.16	(0.02)	0.01	0.17

### OUTLOOK

The outlook for SEAMARK's business remains essentially unchanged from that presented in the annual MD&A in February. Recent investment performance in Canadian equities and fixed income mandates remains strong. Following generally strong results in 2006, balanced and total equity mandate results experienced relative underperformance during the first quarter of 2007, attributable primarily to U.S. equities. Sustained improvement in overall investment results will be required to restore SEAMARK's competitive position in the industry.

All major wrap program clients have completed their reviews of SEAMARK's operations, improving SEAMARK's ability to pursue new assets from these programs. SEAMARK was

selected by RBC Capital Markets to provide investment management services to a new series of principal protected notes, the sale of which has begun during the second quarter. These developments should improve SEAMARK's ability to win new business from retail clients over the remainder of 2007 compared to 2006. Winning and retaining institutional client assets, however, is expected to remain challenging throughout 2007.

Management's focus will be on investment performance, client relationships, and enhancing the long-term profitability of the company.

## BALANCE SHEET

(UNAUDITED)

As at March 31, 2007 and December 31, 2006  
(thousands of dollars)

	2007	2006
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 10,572	\$ 7,372
Temporary investments (note 11)	891	3,620
Accounts receivable	3,931	4,074
Income tax receivable	91	47
Future income tax asset	107	107
	<u>15,592</u>	<u>15,220</u>
Capital assets (note 4)	611	646
Intangible assets (note 5)	373	386
Goodwill (note 5)	276	276
	<u>\$ 16,852</u>	<u>\$ 16,528</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current		
Accounts payable and accrued liabilities	\$ 1,624	\$ 1,539
Future income tax liability	206	226
	<u>1,830</u>	<u>1,765</u>
Capital stock (note 9)	5,769	5,796
Less share purchase financing (note 8)	(4,592)	(4,729)
Contributed surplus (note 10)	616	432
Retained earnings	13,171	13,264
Accumulated other comprehensive income (note 11)	58	-
	<u>15,021</u>	<u>14,763</u>
	<u>\$ 16,852</u>	<u>\$ 16,528</u>

*See accompanying notes*

## STATEMENT OF OPERATIONS

(UNAUDITED)

For the three month period ended March 31 (thousands of dollars)	Three months	
	2007	2006
<b>REVENUE</b>		
Institutional clients	\$ 1,650	\$ 2,138
Mutual fund clients	160	3,821
Private clients and WRAP accounts	1,877	2,241
Investment income	373	114
	<u>4,060</u>	<u>8,314</u>
<b>EXPENSES</b>		
General and administrative	2,405	1,930
Amortization	69	48
	<u>2,474</u>	<u>1,978</u>
Unusual item (note 7)	-	1,020
Earnings before income taxes	<u>1,586</u>	<u>5,316</u>
Income Taxes		
Current income taxes	596	1,995
Future income taxes	(20)	67
	<u>576</u>	<u>2,062</u>
Net earnings	<u>\$ 1,010</u>	<u>\$ 3,254</u>
<b>EARNINGS PER SHARE</b>		
Basic	\$ 0.10	\$ 0.30
Diluted	\$ 0.09	\$ 0.29
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (in thousands)</b>		
Basic	10,475	10,721
Diluted	11,132	11,272

*See accompanying notes*

## STATEMENT OF RETAINED EARNINGS

(UNAUDITED)

For three month period ended March 31		
(\$ in thousands)	2007	2006
Retained earnings - beginning of period	\$ 13,264	\$ 12,732
Net earnings	1,010	3,254
	<u>14,274</u>	<u>15,986</u>
Less		
Excess on acquisition of common shares (note 10)	366	-
Dividends paid	737	2,144
Retained earnings - end of period	<u>\$ 13,171</u>	<u>\$ 13,842</u>

## STATEMENT OF COMPREHENSIVE INCOME

(UNAUDITED)

For the three month period ended March 31		
(\$ in thousands)	2007	2006
Net income	\$ 1,010	\$ 3,254
Other comprehensive income:		
Unrealized gains on temporary investments	300	-
Realized gains on temporary invests sold and included in net income	(242)	-
Other comprehensive income (note 11)	58	-
Comprehensive income	<u>\$ 1,068</u>	<u>\$ 3,254</u>

*See accompanying notes*

## STATEMENT OF CASHFLOW

(UNAUDITED)

For the three month period ended March 31		
(\$ in thousands)	2007	2006
<b>OPERATING ACTIVITIES</b>		
Net earnings for the period	\$ 1,010	\$ 3,254
Items not affecting cash		
Amortization	69	48
Non-cash compensation expense	184	37
Future income tax	(20)	67
Gain on disposal of temporary investments	(242)	-
Share purchase financing (note 8)	137	(4,875)
	1,138	(1,469)
Changes in non-cash working capital related to operations (note 3)	184	1,911
	1,322	442
<b>FINANCING ACTIVITIES</b>		
Dividends paid	(737)	(2,144)
Acquisition of common shares	(393)	-
	(1,130)	(2,144)
<b>INVESTING ACTIVITIES</b>		
Acquisition of capital assets	(21)	(21)
Purchase of temporary investments	(14)	(6)
Proceeds from the sale of temporary investments	3,043	-
	3,008	(27)
Increase (decrease) in cash and short-term investments	3,200	(1,729)
Cash and cash equivalents - beginning of period	7,372	6,387
Cash and cash equivalents - end of period	\$ 10,572	\$ 4,658
Cash is comprised of:		
Cash	\$ 326	\$ 3,939
Short-term investments	10,246	719
Cash and cash equivalents, end of period	10,572	4,658

See accompanying notes

## NOTES TO FINANCIAL STATEMENTS MARCH 31, 2007 AND 2006

(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, 2006 annual financial statements included in the 2006 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, 2006 except for the following:

#### 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 Company has made the following classifications:

- 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.

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.

The adoption of this Section is done retroactively without restatement of the consolidated financial statements of prior periods.

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 reporting period as a result of the application of Section 1530, "Comprehensive Income".

## 2. 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. The purchase price may be reduced by \$450,000 in the event of that certain revenue targets are not met. As at March 31, 2007 the outcome of the contingent consideration is not known.

## 3. Changes in Non-Cash Working Capital

(thousands of dollars)	2007 \$	2006 \$
Accounts receivable	143	1,335
Income tax receivable	(44)	294
Accounts payable and accrued liabilities	85	227
Income tax payable	-	55
Changes in non-cash working capital	184	1,911

#### 4. Capital Assets

(thousands of dollars)	As at March 31, 2007		
	Cost	Accumulated Depreciation	NBV
	\$	\$	\$
Furniture & office equipment	586	346	240
Computer equipment	431	261	170
Software	304	120	184
Leasehold	65	48	17
<b>Total capital assets</b>	<b>1,386</b>	<b>775</b>	<b>611</b>

	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
<b>Total capital assets</b>	<b>1,365</b>	<b>719</b>	<b>646</b>

#### 5. Intangible Assets and Goodwill

The Company's net book value of goodwill at March 31, 2007 is \$276,000 (December 31, 2006 – \$276,000).

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)	March 31, 2007			December 31, 2006		
	Cost	Accumulated Amortization	NBV	Cost	Accumulated Amortization	NBV
	\$	\$	\$	\$	\$	\$
Investment management contracts	402	29	373	402	16	386

#### 6. Employee Benefit Plan

During the quarter ended March 31, 2007, the Company contributed \$46,000 (2006 - \$40,000) to its defined contribution pension plan.

#### 7. Unusual Item

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

## 8. 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 shares at March 31, 2007 was \$290,000.

During the quarter the loans, less earned or accrued forgiveness, outstanding of \$4,592,000 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 \$137,000 for the three months ended March 31, 2007 (March 31, 2006 – \$125,000) is accounted for as compensation expense in the accompanying statement of operations.

## 9. Share Capital

### Authorized

Unlimited common shares without par value

### Issued

	2007	
	Number of Shares	Amount
(thousands of dollars, except number of shares)	#	\$
<b>Common Shares</b>		
Balance beginning of year	10,533	5,796
Acquisition of common shares for deferred stock unit plan	(50)	(27)
Balance end of year	10,483	5,769

## 10. Stock-based Compensation

The Company operates a deferred share unit ("DSU") plan for key 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 quarter the Company acquired 50,000 shares at a total cost of \$393,000 under the DSU plan and charged \$27,000 against share capital and the balance of \$366,000 to retained earnings.

For the three months ended March 31, 2007 the company had awarded 44,000 DSUs (2006 – nil). The total compensation cost that has been charged against income and credited to contributed surplus for the DSU plan for the three months ended March 31, 2007 was \$134,000 (2006 – nil).

As part of a business acquisition, 51,079 common shares are 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. The shares are treated as compensation expense over the four year escrow period based on the continued employment of the principal shareholders of the acquired company. For the three months ended March 31, 2007, \$22,000 (2006 – nil) has been charged to compensation expense in the accompanying statements.

### 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 March 31, 2007. Of the 779,000 remaining, 649,000 are subject to outstanding options and 130,000 are available for new option grants. The exercise price of the option is determined by the Compensation Committee of the Board of Directors at the time the option is granted, but cannot be less than the average price of the shares on the last five trading dates preceding the date of the grant. The expiry date of the options is determined by the Compensation Committee of the Board of Directors at the time the option is granted, but cannot be more than ten years from the date of the grant. Options become exercisable either on the anniversary of the grant date or over time at the rate of 20% of the total options granted on each anniversary of the grant date.

The following summarizes the status Company's stock options plan as of March 31, 2007 and March 31, 2006 and changes during the periods 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	-	-	2,000	17.68
Exercised	-	-	-	-
Outstanding, end of period	649,000	13.45	777,000	15.40
Total options exercisable	402,000	13.94	341,000	13.68

\*weighted average exercise price

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

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number	Remaining life (years)*	Price* \$	Number	Price* \$
\$8.69 to \$8.69	190,000	8.82	8.69	38,000	8.69
\$11.00 to \$11.00	232,000	4.22	11.00	232,000	11.00
\$16.86 to 17.68	37,000	4.78	17.44	31,000	17.44
\$18.29 to \$18.29	85,000	8.22	18.29	17,000	18.29
\$20.19 to \$20.98	40,000	5.71	20.59	28,000	20.53
\$23.00 to \$23.29	65,000	5.47	23.09	56,000	23.10
	649,000			402,000	

\*weighted average

Total compensation cost that has been charged against income and credited to contributed surplus for the stock option plan for the period is \$28,000 (2006 - \$37,000).

Options granted during the three months ended March 31, 2007 were nil (March 31, 2006 – 190,000).

The Company's pro-forma net income would be reduced by \$33,000 (2006 - \$36,000) for the quarter ended March 31, 2007 had the fair value method been adopted for options granted in 2002. Basic earnings per share would be reduced from \$0.10 to \$0.09 (2006 – unchanged from \$0.30) for the quarter and diluted earnings per share would be unchanged at \$0.09 (2006 – unchanged from \$0.29) for the quarter.

## 11. Accumulated Other Comprehensive Income

(in thousands of dollars)	2007	2006
Balance at December 31, as previously reported	-	-
Unrealized gains on temporary investments Financial Instruments – recognition and measurement (Note 1)	409	-
Restated balance , beginning of period	409	-
Unrealized losses on temporary investments	(109)	-
Realized gains on temporary investments sold and included in net income	(242)	-
Balance at March 31	58	-

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. Prior periods were not restated