



# SEAMARK Asset Management Ltd.

INVESTMENT COUNSEL

## 2008 First Quarter Report to Shareholders

May 1<sup>st</sup>, 2008

Investment performance and new client mandates are setting a positive tone as we begin 2008.

Investment performance was very strong during the turbulent market conditions of the first quarter. Our U.S. and international equities significantly outperformed benchmark indices during this difficult period for investors. Our Canadian fixed income assets continued to outperform the benchmark index, as our clients benefited from our high credit quality portfolios. And in a quarter where only the energy and materials sectors recorded positive gains, our Canadian equity portfolios held up very well against the benchmark S&P/TSX Composite index, despite our preference to invest in a more diversified portfolio of less cyclical businesses.

The mutual funds we launched last year are ranking very well against competing funds to date. The Series A units of our newly launched Dividend & Income fund ranked 5th out of the 167 series of dividend & income funds measured by GlobeFund for the first quarter, and the Series A units of our Canadian Equity and North American Equity Funds both ranked in the top third. The advisor-oriented Series F units of our Funds ranked even higher.

I am also encouraged that this was the first quarter since the second quarter of 2004 that client deposits of new assets exceeded client withdrawals.

Management is focused on managing the business as efficiently as possible while laying the foundation for future growth. We will continue to manage the business with a focus on the fundamentals and the creation of long-term shareholder value.

### Dividend

The Board of Directors has declared our next quarterly dividend of \$0.07 per share, payable May 30, 2008 to shareholders of record as of May 15, 2008.

Yours truly,

Stuart R. Raftus  
President & Chief Executive Officer

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**SEAMARK Asset Management Ltd.**

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## MANAGEMENT DISCUSSION AND ANALYSIS FOR THE QUARTER AND THREE MONTHS ENDED MARCH 31, 2008

*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	
	2008	2007
Total revenue	\$ 3,068	\$ 4,060
Earnings before income taxes	559	1,586
Net earnings	316	1,010
<i>Per Share</i>		
Basic earnings per share	\$ 0.03	\$ 0.10
Diluted earnings per share	0.03	0.09

### GENERAL

This discussion and analysis has been prepared by management as of May 1, 2008 to assist shareholders in understanding SEAMARK Asset Management Ltd. ("SEAMARK")'s interim financial results for the period ended March 31, 2008. It is intended to be read in conjunction with the management discussion and analysis and financial statements contained in SEAMARK's 2007 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 669,000 outstanding options to purchase common shares.

### LIQUIDITY & CAPITAL RESOURCES

Total available liquid assets, consisting of cash, short-term investments, and temporary investments, stood at \$10.6 million as of March 31, 2008 down from \$12.1 million at the end of 2007 and \$11.5 million as of March 31, 2007. The decline in liquid assets during the quarter reflects a reduction in non-cash working capital and the acquisition of common shares related to the funding of the deferred stock unit plan.

There are no current liquidity concerns with any financial instruments held by SEAMARK.

## FINANCIAL OVERVIEW

Earnings per share during the first quarter of 2008 were \$0.03 compared to \$0.09 during the first quarter of 2007. The decline in earnings per share primarily reflects a decline in revenues.

Revenues during the first quarter of 2008 were \$3.1 million compared to \$4.1 million for the first quarter of 2007. The decline in revenues is the result of a decline in assets under management. First quarter 2007 revenues included \$0.2 million in realized gains from the sale of temporary investments, which increased earnings by \$0.01.

Total expenses were \$2.5 million in the first quarter of 2008, in line with the first quarter of 2007. Expenses during the first quarter of 2008 included increased equity compensation costs associated with the establishment of increased equity ownership among key employees and costs associated with the launch of new mutual fund products during the second half of 2007. These new costs were mostly offset by a reduction in costs in other areas.

Earnings before income taxes represented 18% of revenues for the first quarter of 2008, down from 39% in the first quarter of 2007. Net earnings as a percentage of revenues were 10% for the first quarter of 2008, compared to 25% for the first quarter of 2007. Declining revenues have negatively impacted these ratios in the current year period compared to prior year.

SEAMARK's effective tax rate for the first quarter 2008 was 43.5% compared to 36.3% for the same period a year ago and 38.5% for the full year 2007. SEAMARK's statutory tax rate for the first quarter of 2008 is estimated at 35.2%, compared to 37.8% for the full year 2007. The higher effective tax rate during the first quarter 2008 reflects the impact of equity compensation costs, which are generally non-deductible for tax purposes prior to the year in which the equity compensation vests with the employee. As statutory tax rates are scheduled to decline over the next three years and as the market value of SEAMARK's common shares has declined compared to their average price at the time the equity compensation was granted, the expected value of these future income tax deductions is lower than if these expenses were deductible in the current period.

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## SUMMARY OF QUARTERLY RESULTS

<i>\$ in thousands, except per share</i>	2008	2007				2006		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	3,068	3,220	3,385	3,509	4,060	4,151	3,990	4,047
Earnings before income taxes	559	892	1,039	1,084	1,586	1,795	1,265	1,619
Net Earnings	316	516	641	664	1,010	1,269	777	977
Basic earnings per share	0.03	0.05	0.06	0.06	0.10	0.12	0.07	0.09
Diluted earnings per share	0.03	0.05	0.06	0.06	0.09	0.11	0.07	0.09

## OPERATING HIGHLIGHTS

Assets under management (“AUM”) were \$3.8 billion as of March 31, 2008, down from \$3.9 billion at the beginning of the quarter and \$4.7 billion a year ago. The table below summarizes the changes in AUM during the first quarters of 2008 and 2007.

Positive net asset flows from institutional clients led to overall positive net new assets for the quarter. This was a significant improvement over the same period a year ago when institutional clients led net asset outflows. Market value declines resulted in an overall decline in AUM for the first quarter of 2008, reflecting generally weak equity market conditions.

### Quarterly Change in AUM Summary

(in billions)	1 <sup>st</sup> Quarter 2008			AUM End of 4 <sup>th</sup> Quarter 2007	1 <sup>st</sup> Quarter 2007			AUM End of 4 <sup>th</sup> Quarter 2006
	AUM End of 1 <sup>st</sup> Quarter 2008	Net New Assets	Market Value Change		AUM End of 1 <sup>st</sup> Quarter 2007	Net New Assets	Market Value Change	
Total Firm	\$3.77	0.01	(0.11)	\$3.87	\$4.73	(0.47)	(0.01)	\$5.21
Institutional clients	2.20	0.07	(0.05)	2.18	2.79	(0.40)	-	3.19
Mutual funds	0.15	(0.01)	(0.01)	0.17	0.24	(0.02)	-	0.26
Wrap programs	1.26	(0.05)	(0.05)	1.36	1.52	(0.05)	(0.01)	1.59
Private clients	0.16	-	-	0.16	0.18	-	-	0.18

## OUTLOOK

SEAMARK continues the process of restoring its investment performance rankings compared to its competitors. Results for the first quarter of 2008 were encouraging across all mandates. Fixed income and international equities continued to outperform industry benchmarks. Canadian equity results were consistent with our investment approach and strong in the context of a commodity led market. U.S. equity mandates significantly outperformed their benchmark after a disappointing 2007. All three of the mutual funds launched last year rank very well against competing funds to date.

While it will remain challenging to win new business in the near future, conditions have improved, as evidenced by positive net new assets during the quarter. Despite the first quarter’s results, generating net new assets over the remainder of the year will remain difficult.

Continued strong investment results will be required in order to retain existing clients and attract new clients.

SEAMARK’s future 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 decline in future quarters but remain higher than in 2007. Based on current levels of assets under management, 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.

## CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

As at March 31, 2008 and December 31, 2007

(\$ in thousands)	2008	2007
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 7,836	\$ 9,189
Temporary investments (note 10)	2,782	2,875
Accounts receivable and prepaid expenses (note 9)	3,416	3,686
Income tax receivable	509	78
Future income tax asset	163	178
	14,706	16,006
Capital assets (note 3)	547	574
Intangible assets (note 4)	336	346
Goodwill (note 4)	389	389
	\$ 15,978	\$ 17,315
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current		
Accounts payable and accrued liabilities	\$ 1,218	\$ 1,849
Future income tax liability	120	160
	1,338	2,009
Shareholders' equity		
Capital stock (note 7)	6,478	6,555
Less share purchase financing (note 6)	(4,042)	(4,179)
Contributed surplus (note 8)	835	580
Retained earnings	11,523	12,447
Accumulated other comprehensive income (note 10)	(154)	(97)
	14,640	15,306
	\$ 15,978	\$ 17,315

See accompanying notes

## CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

For the three month period ended March 31 (\$ in thousands)	Three months	
	2008	2007
<b>REVENUE</b>		
Institutional clients	\$ 1,233	\$ 1,650
Mutual fund clients	111	160
Private clients and WRAP accounts	1,619	1,877
Investment income	105	373
	3,068	4,060
<b>EXPENSES</b>		
General and administrative	2,455	2,405
Amortization	54	69
	2,509	2,474
Earnings before income taxes	559	1,586
Income Taxes		
Current income taxes	254	596
Future income taxes	(11)	(20)
	243	576
Net earnings	\$ 316	\$ 1,010
<b>EARNINGS PER SHARE</b>		
Basic	\$ 0.03	\$ 0.10
Diluted	\$ 0.03	\$ 0.09
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (in thousands)</b>		
Basic	10,447	10,475
Diluted	10,882	10,813

See accompanying notes

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (UNAUDITED)

For three month period ended March 31		
(\$ in thousands)	2008	2007
Retained earnings - beginning of period	\$ 12,447	\$ 13,264
Net earnings	316	1,010
	<u>12,763</u>	<u>14,274</u>
Less		
Excess on acquisition of common shares (note 8)	503	366
Dividends paid	737	737
Retained earnings - end of period	<u>\$ 11,523</u>	<u>\$ 13,171</u>

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

For the three month period ended March 31		
(\$ in thousands)	2008	2007
Net income	\$ 316	\$ 1,010
Other comprehensive income:		
Unrealized gains (losses) on temporary investments, net of income taxes of \$13 thousand for the three month period ended March 31, 2008 (2007 - \$56 thousand)	(54)	244
Realized gains on temporary investments sold and included in net income, net of income taxes of \$1 thousand for the three month period ended March 31, 2008 (2007 - \$46 thousand)	(3)	(196)
Other comprehensive income	<u>(57)</u>	<u>48</u>
Comprehensive income	<u>\$ 259</u>	<u>\$ 1,058</u>

See accompanying notes

## STATEMENT OF CASHFLOW

(UNAUDITED)

For the three month period ended March 31  
(\$ in thousands)

	2008	2007
<b>OPERATING ACTIVITIES</b>		
Net earnings for the period	\$ 316	\$ 1,010
Items not affecting cash		
Amortization	54	69
Non-cash compensation expense	255	184
Future income tax	(11)	(20)
Gain on disposal of temporary investments	(4)	(242)
Share purchase financing (note 6)	137	137
	<u>747</u>	<u>1,138</u>
Changes in non-cash working capital related to operations (note 2)	(792)	184
	<u>(45)</u>	<u>1,322</u>
<b>FINANCING ACTIVITIES</b>		
Dividends paid	(737)	(737)
Acquisition of common shares (note 8)	(580)	(393)
	<u>(1,317)</u>	<u>(1,130)</u>
<b>INVESTING ACTIVITIES</b>		
Acquisition of capital assets	(17)	(21)
Purchase of temporary investments	(10)	(14)
Proceeds from the sale of temporary investments	36	3,043
	<u>9</u>	<u>3,008</u>
Increase (decrease) in cash and short-term investments	(1,353)	3,200
Cash and cash equivalents - beginning of period	9,189	7,372
Cash and cash equivalents - end of period	<u>\$ 7,836</u>	<u>\$ 10,572</u>
Cash is comprised of:		
Cash	\$ 489	\$ 326
Short-term investments	7,347	10,246
Cash and cash equivalents, end of period	<u>7,836</u>	<u>10,572</u>

See accompanying notes

## NOTES TO FINANCIAL STATEMENTS MARCH 31, 2008 AND 2007

(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, 2007 annual financial statements included in the 2007 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, 2007 except for the following:

#### a) Financial instruments – Disclosure and Presentation

On January 1, 2008, the Company adopted Section 3862 – Financial Instruments Disclosures and 3863 – Financial Instruments Presentation from the Canadian Institute of Chartered Accountants' ("CICA") Handbook. Sections 3862 and 3863 replace section 3861 – Financial Instruments – Disclosure and Presentation, and increase emphasis on, and disclosure about, fair value, and the credit, liquidity and market risks associated with the financial instruments.

#### b) Capital Disclosures

On January 1, 2008 the Company adopted Section 1535 – Capital Disclosures from the CICA Handbook. It requires the Company to disclose its objectives, policies and processes for the management of its capital.

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

(thousands of dollars)	2008	2007
	\$	\$
Accounts receivable	270	143
Income tax receivable	(431)	(44)
Accounts payable and accrued liabilities	(631)	85
Changes in non-cash working capital	(792)	184

### 3. Capital Assets

(thousands of dollars)	As at March 31, 2008		
	Cost	Accumulated Depreciation	NBV
	\$	\$	\$
Furniture & office equipment	587	394	193
Computer equipment	385	266	119
Software	431	202	229
Leasehold	67	61	6
<b>Total capital assets</b>	<b>1,470</b>	<b>923</b>	<b>547</b>

(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
<b>Total capital assets</b>	<b>1,453</b>	<b>879</b>	<b>574</b>

### 4. Intangible Assets and Goodwill

The Company's net book value of goodwill at March 31, 2008 is \$389,000 (December 31, 2007 – \$389,000).

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, 2008			December 31, 2007		
	Cost	Accumulated Amortization	NBV	Cost	Accumulated Amortization	NBV
	\$	\$	\$	\$	\$	\$
Investment management contracts	402	66	336	402	56	346

### 5. Employee Benefit Plan

During the quarter ended March 31, 2008, the Company contributed \$46,000 (2007 - \$46,000) to its defined contribution pension plan.

## 6. Share Purchase Financing

The Company has 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 market value of the shares at March 31, 2008 was \$129,000.

During the quarter the loans, less earned or accrued forgiveness, outstanding of \$4,042,000 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, 2008 (March 31, 2007 – \$137,000) is accounted for as compensation expense in the accompanying statement of operations.

## 7. Share Capital

### Authorized

Unlimited common shares without par value

### Issued

	2008	
	Number of Shares	Amount
(thousands of dollars, except number of shares)	#	\$
<b>Common Shares</b>		
Balance beginning of period	10,549	6,555
Acquisition of common shares for deferred stock unit plan	(123)	(77)
Balance as at March 31, 2008	10,426	6,478

## **8. Stock-based Compensation**

### **Deferred Stock Units**

The Company operates a deferred stock 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 123,000 shares at a total cost of \$580,000 under the DSU plan and charged \$77,000 against share capital and the balance of \$503,000 to retained earnings.

For the three months ended March 31, 2008 the Company had awarded 164,000 DSUs (2007 – 44,000). 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, 2008 was \$183,000 (2007 – \$134,000).

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, 2008, \$43,000 (2007 – \$22,000) 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, 2008. Of the 779,000 remaining, 669,000 are subject to outstanding options and 110,000 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 table summarizes the status of the Company's stock options plan at March 31, 2008 and March 31, 2007 and changes during the periods then ended.

	2008		2007	
	Number	Price* \$	Number	Price* \$
Outstanding, beginning of period	644,000	13.47	649,000	13.45
Granted	25,000	4.72	-	-
Forfeited	-	-	-	-
Exercised	-	-	-	-
Outstanding, end of period	669,000	13.14	649,000	13.45
Total options exercisable	475,000	14.03	402,000	13.94

\*weighted average exercise price

The following table summarizes information for stock options outstanding at March 31, 2008.

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number	Remaining life (years)*	Price* \$	Number	Price* \$
\$4.72 to \$4.72	25,000	9.76	4.72	-	-
\$8.69 to \$8.69	190,000	7.83	8.69	76,000	8.69
\$11.00 to \$11.00	227,000	3.24	11.00	227,000	11.00
\$16.86 to 17.68	37,000	3.79	17.44	37,000	17.44
\$18.29 to \$18.29	85,000	7.24	18.29	34,000	18.29
\$20.19 to \$20.98	40,000	4.72	20.59	36,000	20.54
\$23.00 to \$23.29	65,000	4.48	23.09	65,000	23.09
	669,000			475,000	

\*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 \$29,000 (2007 - \$28,000).

Options granted during the three months ended March 31, 2008 were 25,000 (March 31, 2007 – nil). The fair value of options granted was estimated at the date of granting using a Black-Scholes Option Pricing Model with the following assumptions: weighted average risk-free interest rate of 3.60%; dividend yields 6.07%; weighted-average volatility factors of the expected market price of the Company's common shares 33.0% and the weighted average expected life of the options of 5 years. The weighted average fair value of options issued during the quarter ended March 31, 2008 was \$0.82.

Options granted in 2002 had an expected life of 5 years and had the fair value method been adopted for these options they would have been fully expensed in 2007. Therefore pro-forma net income, basic earnings per share and diluted earnings per share would not be impacted for the three months ended March 31, 2008 (2007 – pro-forma net income reduced by \$36,000, basic earnings per share reduced from \$0.10 to \$0.09 and diluted earnings per share unchanged at \$0.09).

## 9. Related Party Transactions

The Manufacturers Life Insurance Company, a wholly-owned subsidiary of Manulife Financial Corporation ("Manulife"), owns approximately 31% of the Company. The Company provides investment services to Manulife. A summary of the related party transactions with Manulife, during the three months ended March 31, 2008 and 2007 are as follows;

- Included in fee revenue is \$586,000 (2007 - \$776,000) which was earned from Manulife.
- Included in accounts receivable are amounts due from Manulife of \$575,000 (2007 - \$794,000). These receivables are the same commercial and credit terms as non-related parties.
- Included in temporary investments are Manulife common shares with a cost of \$40,000 (2007 – nil). These shares were purchased on the open market at fair market value.
- The Company also purchases services from Manulife and its subsidiaries on normal commercial terms. These amounts were not material.

The Company is the manager for the SEAMARK Pooled Funds and manager-trustee for the SEAMARK Mutual Funds. A summary of the related party transactions with these funds, during the three months ended March 31, 2008 and 2007 is as follows;

- Included in fee revenue is \$575,000 (2007 - \$779,000) which was earned from the funds.
- Included in general and administrative expenses is \$103,000 (2007 - \$50,000) of fund expenses absorbed by the Company.
- Included in temporary investments is seed money which is invested in units of the funds with a cost of \$1,690,000 (2007 – \$543,000). These units were purchased at their then current net asset values, on the same terms as third party unitholders. Income earned on these units is recorded as investment income and reinvested in additional units of the fund.
- Included in cash and cash equivalents is \$7,347,000 (2007 - \$10,246,000) in units of the money market pooled fund. These units were purchased at their current net asset values, on the same terms as third party unitholders. Income earned on these units is recorded as investment income and reinvested in additional units of the fund.

## 10. Accumulated Other Comprehensive Income

(thousands of dollars)	2008 \$	2007 \$
Balance at beginning of period	(97)	332
Unrealized losses on temporary investments, net of income taxes of \$13 thousand (2007 - \$21 thousand)	(54)	(88)
Realized gains on temporary investments sold and included in net income, net of income taxes of \$1 thousand (2007 - \$46 thousand)	(3)	(196)
Balance at end of period	(154)	48

## 11. Financial Instruments and Risk Management

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.
- 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.

The following table is a comparison by category of the carrying amounts and fair values of the Company's financial instruments at March 31, 2008 and December 31, 2007:

	Carrying Amount		Fair Value	
	March 31, 2008	December 31, 2007	March 31, 2008	December 31, 2007
(thousands of dollars)	\$	\$	\$	\$
Cash	489	624	489	624
Short term investments	7,347	8,565	7,347	8,565
Temporary investments	2,782	2,875	2,782	2,875
Accounts receivable	3,237	3,510	3,237	3,510
Accounts payable and accrued liabilities	1,218	1,849	1,218	1,849

The Company is exposed to a number of financial risks by virtue of its activities, encompassing market risk (including currency risk), fair value interest rate risk and credit risk. The risk management program is focused on the volatility of financial markets and seeks to limit any potential adverse impact on financial performance and balance sheet strength.

Risk management is carried out by the Executive Management Committee under investment policies approved by the Board of Directors. The finance department implements and maintains controls to ensure that these risks are mitigated in accordance with approved policies. Management reports to the Audit Committee and Board of Directors regularly on the results and effectiveness of these controls.

### Market Risk

Temporary investments include capital which the Company invests in new products in order to ensure their successful introduction into the marketplace. Products generally consist of mutual and other funds which are comprised of a selection of equity securities, including a portion for which the underlying companies are domiciled outside Canada. Consequently, the Company is impacted by both the changing value of the securities in the market, as well as changes in the relative value of foreign currencies vis-a-vis the Canadian dollar. The Company does not hedge these two risks;

rather, it minimizes risk by limiting the amount of capital allocated to new product introduction to amounts which would not materially impact the financial strength and capacity of the Company. In addition, each fund is diversified by sector and the diversity of businesses in which the investee companies are engaged.

The Company also invests in money market instruments which are limited to securities rated R1-Low or higher. No investments are made in structured debt instruments, including asset backed commercial paper.

The following table demonstrates the sensitivity to a reasonable possible change in the S&P market index of 2.5% with all other variables held constant of the Company's other comprehensive income. There is no impact on the Company's net income.

(thousands of dollars, except market index percentage)	Increase/ decrease in market index	2008 Effect on other comprehensive income
S&P TSX	±2.5%	±40
S&P 500	±2.5%	±16

The following table demonstrates the sensitivity to a reasonable possible change of 5% in foreign currency exchange rate with all other variables held constant of the Company's other comprehensive income. There is no impact on the Company's net income.

(thousands of dollars, except currency rate percentage)	Increase/ decrease currency rate	2008 Effect on other comprehensive income
Euro	±5.0%	± 6
US dollar	±5.0%	±40

#### **Fair Value Interest Rate Risk**

The Company's money market investments are the only financial instruments bearing interest rate risk. This risk is minimized by the short term to maturity and high credit quality of the underlying borrowers.

## Credit Risk

The Company's credit risk is limited to its accounts receivable which have normal thirty day terms. No allowance for bad debts exists and no credit related bad debts have been realized over the past five years.

The aging of the Company's accounts receivable at March 31, 2008 is summarized in the table below.

(thousands of dollars)	30 days or less	90 days or less	180 days or less	1 year or more
Account receivables	2,966	260	11	0

## Liquidity Risk

The Company has contractual obligations and financial liabilities and therefore is exposed to liquidity risk. The Company monitors its current and expected cash flow requirements to ensure it has sufficient cash and cash equivalents to meet its liquidity requirements short and longer terms.

## 12. Capital Management

The Company's primary objectives in managing capital are:

- to provide an optimal level of shareholder's equity and cash to cover anticipated dividend payments.
- to provide sufficient unencumbered cash to fund product initiatives in the strategic plan.
- to provide financial flexibility to respond to opportunities as they arise.

The Company has determined that no debt will be included in its capital structure at this time. Accordingly, its capital is equal to Shareholder's Equity on the balance sheet. The Company has no externally imposed material capital requirements.