

SeaMiles Limited
Consolidated Financial Statements
For the years ended December 31, 2008 and 2007

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For the years ended
December 31, 2008 and 2007

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Auditors' Report

To the Shareholders of
SeaMiles Limited

We have audited the consolidated balance sheets of SeaMiles Limited as at December 31, 2008 and 2007 and the consolidated statements of operations and comprehensive income (loss), deficit and cash flows for the years 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 audits.

We conducted our audits in accordance with Canadian 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 consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte + Touche LLP

Chartered Accountants
Licensed Public Accountants
April 15, 2009

SeaMiles Limited
Consolidated Balance Sheets
(in Canadian Dollars)

December 31	2008	2007
Assets		
Current		
Cash	\$342,972	\$415,507
Accounts receivable	2,044,837	1,605,348
Deposits and prepaid expenses	1,423,756	1,216,037
Escrow bank account (Note 3)	7,704,526	3,133,613
Future income tax assets (Note 12)	1,123,000	-
Current assets of discontinued operations (Note 2)	-	206,435
	<u>12,639,091</u>	<u>6,576,940</u>
Long-term accounts receivable	234,595	250,586
Escrow bank account (Note 3)	21,617,493	13,998,565
Property and equipment (Note 4)	448,202	219,887
Trademarks	6,939,486	6,906,801
Future income tax assets (Note 12)	286,000	-
Long-term assets of discontinued operations (Note 2)	-	3,220,000
	<u>\$42,164,867</u>	<u>\$31,172,779</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$2,557,619	\$1,554,398
Current portion of deferred revenue (Note 5)	1,405,856	1,242,158
Current portion of long-term debt (Note 6)	264,351	132,835
Current portion of deposits	7,704,526	3,132,330
Forward foreign exchange contracts	-	11,944
Current liabilities of discontinued operations (Note 2)	-	147,374
Convertible debentures (Note 7)	-	3,000,000
	<u>11,932,352</u>	<u>9,221,039</u>
Deferred revenue (Note 5)	99,863	1,229,938
Long-term debt (Note 6)	548,633	1,109,273
Deposits	21,617,493	13,998,565
Future income tax liabilities (Note 12)	387,000	-
Long-term liabilities of discontinued operations (Note 2)	-	604,543
	<u>34,585,341</u>	<u>26,163,358</u>
Shareholders' equity		
Share capital (Note 8)	17,669,758	17,147,078
Contributed surplus (Note 8)	1,293,473	1,013,547
Deficit	(11,383,705)	(13,151,204)
	<u>7,579,526</u>	<u>5,009,421</u>
	<u>\$42,164,867</u>	<u>\$31,172,779</u>

On behalf of the Board

(signed) "Steven Wise"

Chairman

(signed) "Peter Rooney"

Director

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

SeaMiles Limited
Consolidated Statements of Deficit
(in Canadian Dollars)

For the years ended December 31	2008	2007
Deficit, beginning of year	(\$13,151,204)	(\$10,620,812)
Net income (loss) and comprehensive income (loss) for the year	1,767,499	(2,530,392)
Deficit, end of year	(\$11,383,705)	(\$13,151,204)

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

SeaMiles Limited**Consolidated Statements of Operations and Comprehensive Income (Loss)**
(in Canadian Dollars)

For the years ended December 31	2008	2007
Revenue		
Loyalty program revenue	\$11,551,033	\$8,938,881
Interest	263,430	633,322
	11,814,463	9,572,203
Cost of goods sold		
Loyalty program	7,414,153	5,877,615
	4,400,310	3,694,588
Gross profit		
	4,400,310	3,694,588
Expenses		
Advertising and promotion	238,585	272,840
Amortization of property and equipment	79,522	45,010
Amortization of deferred costs	-	10,748
Bank charges and interest	6,513	21,705
Foreign exchange loss	209,855	51,933
Interest on long-term debt	153,771	332,987
Management fees	-	62,500
Occupancy costs	160,501	173,149
Professional fees	203,714	345,068
Selling, general and administrative	2,632,441	2,181,950
	3,684,902	3,497,890
Income from operations	715,408	196,698
Other income and other charges		
Gain on forgiveness of debt (Notes 6 and 8)	246,114	-
Settlement of litigation (Note 9)	(461,555)	-
	499,967	196,698
Income from continuing operations before income taxes	499,967	196,698
Future income tax recovery (Note 12)	1,022,000	-
Income from continuing operations	1,521,967	196,698
Income (loss) from discontinued operations (Note 2)	245,532	(2,727,090)
Net income (loss) and comprehensive income (loss) for the year	\$1,767,499	(\$2,530,392)
Earnings per share from continuing operations - basic and diluted (Note 10)	\$0.13	\$0.02
Earnings (loss) per share from discontinued operations - basic and diluted (Note 10)	\$0.02	(\$0.24)
Earnings (loss) per share - basic and diluted (Note 10)	\$0.15	(\$0.22)

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

SeaMiles Limited
Consolidated Statements of Cash Flows
(in Canadian Dollars)

For the years ended December 31

2008

2007

Cash provided by (used in)

Operating activities

Income from continuing operations

\$1,521,967

\$196,698

Items not affecting cash

Amortization of property and equipment

79,522

45,010

Amortization of deferred costs

-

10,748

Stock-based compensation

284,606

269,100

Gain on forgiveness of debt

(246,114)

-

Settlement of litigation (Note 9)

370,040

-

Foreign exchange loss

209,855

51,933

Future income tax recovery

(1,022,000)

-

Changes in non-cash operating assets and liabilities

Accounts receivable

(66,379)

(26,480)

Deposits and prepaid expenses

56,558

(135,448)

Long-term accounts receivable

60,179

(250,586)

Accounts payable and accrued liabilities

576,102

61,366

Deferred revenue

(1,257,569)

2,472,096

Escrow bank account

(6,811,155)

(6,394,272)

Deposits

6,812,355

6,392,979

Forward foreign exchange contracts

(11,944)

11,944

556,023

2,705,088

Investing activities

Purchase of property and equipment

(307,837)

(104,098)

Purchase of trademarks

(32,685)

(26,899)

(340,522)

(130,997)

Financing activities

Proceeds from issue of share capital

12,000

437,093

Deferred costs

-

(10,748)

Repayment of long-term debt

(203,461)

(121,932)

(191,461)

304,413

Foreign exchange loss on cash held in foreign currency

(16,625)

(65,364)

Increase in cash from continuing operations

7,415

2,813,140

Decrease in cash from discontinued operations (Note 2)

(79,950)

(2,674,215)

Cash, beginning of year

415,507

276,582

Cash, end of year

\$342,972

\$415,507

Supplementary cash flow information

Interest received

\$423,303

\$589,778

Interest paid

\$176,452

\$327,803

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

SeaMiles Limited
Notes to Consolidated Financial Statements
December 31, 2008 and 2007
(in Canadian Dollars)

Nature of Business

SeaMiles Limited (the "Company") is engaged in the cruise based loyalty program in both the United States of America and Canada through its SeaMiles programs. The SeaMiles programs provide its commercial partners with loyalty marketing services and offers its members the ability to accumulate SeaMiles through its partner network. Accumulated SeaMiles may be redeemed for cruise travel rewards from Solutions at Sea and other redemption partners.

The consolidated financial statements of the Company have been prepared in Canadian dollars and in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

1. Summary of Significant Accounting Policies

a) Accounting Changes

i) Adoption of New Accounting Pronouncements

On January 1, 2008, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862, Financial Instruments – Disclosures; Section 3863, Financial Instruments – Presentation; Section 1535, Capital Disclosures; and Amended Section 1400, General Standards of Financial Statement Presentation. The standards require prospective application and are effective for the Company from January 1, 2008. The standards relate to presentation and disclosure only and do not have an impact on the Company's financial results. Refer to Notes 13, Capital Disclosures and 14, Financial Instruments for additional disclosures.

ii) Changes in Estimate

During the year ended December 31, 2008, the Company reviewed the estimated useful life of its property and equipment and determined that the useful lives should be reestablished. The Company determined that the amortization rate on its website and software development costs should be increased from 30% to 50% on a declining balance basis. This change was applied in 2008 and will be applied prospectively.

b) Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated on consolidation.

c) Revenue Recognition

Revenue is recognized as it is earned under the terms of each contract. Revenue from the SeaMiles loyalty program is derived from the sale of a MasterCard or VISA card to its members, from the sale of SeaMiles through MasterCard or VISA card purchases, breakage and interest on its escrow account. Each contract specifies the terms and conditions on how and when revenue is earned. The Company recognizes revenue when the terms and conditions are complete. Gross proceeds received on the resale of SeaMiles net of the commissions earned and SeaMiles issued for promotional purposes, at a discount or no value, are included in deposits in the attached consolidated balance sheet until SeaMiles are redeemed by members or in accordance with the accounting policy for breakage, the estimated value of SeaMiles that are not expected to be redeemed by members. Breakage is estimated by the Company based on the terms and conditions of membership and historical accumulation and redemption patterns as adjusted for changes to any terms and conditions that affect members' redemption practices. The current breakage factor is 17% with breakage recognized straight-line over a period of 30 months, the estimated life of a SeaMile. The Company continuously reviews the redemption factors used to calculate breakage and, if there are any changes in the breakage factor, they are accounted for as follows: in the period of change, the deferred revenue balance is adjusted as if the revised estimate had been used in prior periods with the offsetting amount recorded as an adjustment to revenue; and for subsequent periods, the revised estimate is used.

SeaMiles Limited
Notes to Consolidated Financial Statements
December 31, 2008 and 2007
(in Canadian Dollars)

1. Summary of Significant Accounting Policies (continued)

c) Revenue Recognition (continued)

SeaMiles meets the tests identified below and accordingly revenues from the SeaMiles loyalty program is recorded on a gross basis in accordance with Abstract 123 of the Emerging Issues Committee ("EIC") of the CICA, "Reporting Revenue Gross as a Principal Versus Net as an Agent", with the exception of redemption revenue.

The basis for gross revenue reporting as a principal is based on an evaluation of the following indicators:

- o The enterprise is the primary obligor in the arrangement
- o The enterprise has latitude in establishing price
- o The enterprise changes the product or performs part of the service
- o The enterprise has discretion in supplier selection
- o The enterprise is involved in the determination of product or service specifications

Redemption revenue earned from the sale of SeaMiles through MasterCard or VISA card purchases are netted against the cost of rewards representing the amount paid by the Company to Solutions at Sea or other redemption partners. The Company's role as an agent in the transaction is determined by the contractual arrangement in place with the loyalty program partner. The Company assumes minimal credit and inventory risk with each transaction processed. Accordingly, redemption revenue is recorded on a net basis in accordance with EIC-123.

Deferred revenue represents payments received for revenue not yet earned.

d) Foreign Currency Translation

The Company accounts for its foreign operations as integrated operations. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rates in effect at the consolidated balance sheet dates. Non-monetary assets are translated at the historical exchange rates for the respective transactions. Revenues and expenses are translated at the rates prevailing at the respective transaction dates. Amortization of non-monetary assets is translated at the same exchange rates as the assets to which they relate. Exchange gains or losses are included in expenses.

e) Foreign Currency Exchange Contracts

The Company periodically purchases forward contracts when it enters into a transaction to buy or sell foreign currency in the future. These contracts are short term in nature and are used to manage foreign exchange exposures. These contracts require the exchange of currencies on maturity of the contracts.

Foreign exchange contracts are accounted for applying hedge accounting. They are recorded using the mark-to-market method of accounting whereby foreign exchange contracts are recorded on the Company's balance sheet as either an asset or liability with changes in fair value recorded in earnings. Foreign exchange translation gains and losses on these instruments are recognized as an adjustment of revenues when the sale is recorded.

f) Escrow Bank Account

In conjunction with the issuance of SeaMiles, the Company has established a redemption reserve to fund redemptions. The funds are invested primarily in a portfolio of U.S. Treasury securities maturing in 180 days or less. Interest earned is included in interest revenue. The amount to be held in the reserve, as well as the types of securities it may be invested in, are consistent with the Company's obligations with its partners, and are reviewed periodically.

SeaMiles Limited
Notes to Consolidated Financial Statements
December 31, 2008 and 2007
(in Canadian Dollars)

1. Summary of Significant Accounting Policies (continued)

g) Deferred Costs

Financing costs incurred in connection with current and long-term debt have been deferred and are recorded as a reduction to the principal amount of the associated current and long-term debt. The costs are amortized over the term of the related debt using the effective interest rate method.

h) Property Held for Sale

Property held for sale in 2007 and prior years includes real estate properties held for future development. The Company capitalized all costs relating to the acquisition, development and construction of these properties. The Company reduced the cost of the property held for sale for any ancillary revenues earned.

i) Property and Equipment

Property and equipment is stated at cost less accumulated amortization. Amortization is based on the estimated useful life of the asset and is calculated as follows:

Computer equipment:	30% declining balance basis
Furniture and fixtures:	20% declining balance basis
Leasehold improvements:	straight-line over the term of the lease
Website and software development:	50% declining balance basis in 2008 (30% - 2007)

j) Trademarks

The Company capitalizes all trademark application costs. The trademarks have been determined to have an indefinite life. If the trademark applications are not renewed or abandoned, they are charged to operations immediately.

Trademarks are tested for impairment annually or more frequently if events or changes in circumstances indicate that the trademarks might be impaired. When the carrying amount exceeds the fair value, an impairment loss is recognized in the statement of operations and comprehensive income (loss) in an amount equal to the excess.

k) Impairment of Long-lived Assets

The Company reviews, on an annual basis, long-lived assets such as real estate property and property and equipment for impairment to see if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable. If an indication of impairment exists, the Company will calculate the total of the expected undiscounted future cash flows. If this amount is less than the carrying amount of the asset, a loss is recognized for the excess of the carrying amount over the fair value of the asset.

l) Stock-Based Compensation

The Company grants stock options to officers, directors, employees and consultants pursuant to a stock option plan. The Company accounts for the stock-based compensation using the fair value as at the grant date. Under this method, compensation expense related to option grants is recorded in the consolidated statement of operations and comprehensive income (loss) over the vesting period of the options with a corresponding increase to contributed surplus. When options are exercised, the corresponding contributed surplus and the proceeds received by the Company are added to share capital. The compensation expense amount is based on the fair value of the option as estimated using the Black-Scholes option pricing model. The assumptions used in calculating the value of the stock options include the Company's best estimate, as of the date of grant, of the expected share price volatility over the term of the stock option, expected option life, risk-free interest rate and dividend yield. As such, the amounts reported as compensation expense are subject to measurement uncertainty as the expense amount may vary significantly based on the assumptions used.

SeaMiles Limited
Notes to Consolidated Financial Statements
December 31, 2008 and 2007
(in Canadian Dollars)

1. Summary of Significant Accounting Policies (continued)

m) Financial Instruments

Financial Instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. The fair value of financial instruments represents the amounts that would have been received from or paid to counterparties to settle these instruments. After initial recognition, financial instruments are measured at their fair values, except for financial assets classified as held-to-maturity, loans and receivables and other financial liabilities, which are measured at cost or amortized cost using the effective interest rate method.

The Company has made the following classifications:

- Cash, escrow bank account and deposits are classified as “assets held for trading” and are measured at fair value. Gains and losses resulting from the periodic revaluations are recorded in net income.
- Accounts receivable are classified as “loans and receivables” and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method and included in net income.
- Accounts payable and accrued liabilities and current and long-term debts are classified as “other financial liabilities” and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method and included in net income.

The carrying amount of all financial instruments classified as current approximates their fair value because of the short maturities and normal trade terms of these instruments. The fair value of other financial instruments disclosed in the financial statements are based on the Company’s best estimates using present value and other valuation techniques that are significantly affected by the assumptions used concerning the amounts and timing of estimated cash flows and discounted rates which reflect varying degrees of risk.

n) Derivative Financial Instruments

Derivative financial instruments are measured at their fair value upon initial recognition and on each subsequent reporting date. The fair value of quoted derivatives is equal to their positive or negative market value. If a market value is not available, the fair value is calculated using standard financial valuation models, such as discounted cash flow or option pricing models. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in fair value are recorded in income at each reporting period. The Company does not enter into derivative financial agreements for trading or speculative purposes.

o) Compound Financial Instruments

The convertible debentures contain both a liability component and an equity component, represented by the conversion feature and are presented in the financial statements in its component parts, measured using the residual method at the time of issue. The initial value of the debt component was calculated as the present value of the required interest and principal payments, discounted at a rate approximating the interest rate that would have been applicable to non-convertible debt at the time the debentures were issued. The difference between the debt component and the face value of the debentures was determined to be insignificant and therefore there was no classification to equity.

p) Income Taxes

The Company follows the liability method of tax allocation in accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws expected to be in effect when the differences are expected to reverse. Future income tax assets are recognized to the extent it is more likely than not they will be realized.

SeaMiles Limited
Notes to Consolidated Financial Statements
December 31, 2008 and 2007
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1. Summary of Significant Accounting Policies (continued)

q) Earnings (loss) per Share

Basic earnings (loss) per share is calculated by dividing the net income (loss) and comprehensive income (loss) available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted income (loss) per share is calculated using the treasury stock method, which assumes that all outstanding stock option grants and warrants are exercised and that all outstanding convertible debt are converted, if dilutive, and the assumed proceeds are used to purchase the Company's common shares at the average market price during the year. Diluted income (loss) per share is not presented if the effect would be anti-dilutive.

r) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. The significant items requiring the use of management estimates are the life of a SeaMile, breakage, the useful life of property and equipment, valuation of stock options and future income taxes. Actual results could differ from these estimates.

s) Long-Term Accounts Receivable

Long-term accounts receivable represents the estimated value of SeaMiles rewards that are not expected to be redeemed by members. Breakage, as described above, is estimated by the Company based on the terms and conditions of membership and historical accumulation and redemption patterns as adjusted for changes to any terms and conditions that affect members' redemption practices. The current breakage factor is 17% with breakage recognized ratably over a period of 30 months, the estimated life of a SeaMile.

t) New Accounting Pronouncements

i) Financial Statement Concepts

In February 2008, the CICA issued revised Handbook Section 1000, Financial Statement Concepts. This revised Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt this new standard for its fiscal year beginning January 1, 2009. Section 1000 on financial statement concepts removes references to recognition of assets and liabilities solely on the basis of matching of net income items and clarifies timing of expense recognition and the creation of an asset. The Company is currently evaluating the impact of the adoption of this new Section on its financial statements.

ii) Goodwill and Intangible Assets

In February 2008, the CICA published Handbook Section 3064, Goodwill and Intangible Assets. This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to their initial recognition and replaces Handbook Section 3062, Goodwill and Other Intangible Assets. Commencing January 1, 2009, the new recommendations of the CICA for goodwill and intangible assets will apply to the Company. The Company has not yet determined the impact of the adoption of the above standard on its financial statements.

iii) International Financial Reporting Standards

On February 13, 2008, the Canadian Accounting Standards Board ("AcSB") confirmed the mandatory International Financial Reporting Standards ("IFRS") changeover date for Canadian profit-oriented publicly accountable entities ("PAEs"). This means that PAEs will be required to prepare financial statements under IFRS for fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require restatement for comparative purposes for amounts reported by the Company for annual and interim periods for the year ended December 31, 2010.

SeaMiles Limited
Notes to Consolidated Financial Statements
December 31, 2008 and 2007
(in Canadian Dollars)

1. Summary of Significant Accounting Policies (continued)

t) New Accounting Pronouncements (continued)

iv) Business Combinations

In January 2009, the AcSB issued CICA Handbook Section 1582, Business Combinations. This Section replaces Handbook Section 1581, Business Combinations, and establishes standards for the accounting for a business combination. It is the Canadian equivalent to International Financial Reporting Standard IFRS 3, Business Combinations. The standard applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. The Company has not yet determined the impact of the adoption of this change on its financial statements.

v) Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the AcSB issued CICA Handbook Section 1601, Consolidated Financial Statements and Section 1602, Non-controlling Interests. These Sections replace Handbook Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Section 1602 is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27, Consolidated and Separate Financial Statements. These standards are effective on or after the beginning of the first annual reporting period on or after January 2011 with earlier application permitted. The Company has not yet determined the impact of the adoption of these changes on its financial statements.

2. Discontinued Operations

During 2007, the Company made the decision to divest its remaining real estate assets. On March 27, 2008, the Company signed an agreement of purchase and sale to sell its remaining assets. The properties sold are located in the Muskoka region of Ontario. Accordingly, the Company has reflected its real estate assets and liabilities as a discontinued operation. The sale closed on June 16, 2008. The aggregate cash purchase price was \$3,715,854 and was satisfied by the cancellation of \$1,500,000 in convertible debentures previously issued by the Company, the assumption by the purchaser of existing mortgages of \$607,549 and a cash payment by the purchaser to the Company of \$1,608,305, which was primarily used to retire the remaining \$1,500,000 of convertible debentures outstanding following the sale. The Company's results of operations related to discontinued operations for the years ended December 31, 2008 and 2007 and the Company's assets and liabilities related to discontinued operations as at December 31, 2008 and 2007 are shown in the following tables:

Consolidated Statements of Operations and Comprehensive Income (Loss)	2008	2007
Revenue		
Rental income	\$ -	\$ -
Expenses		
Amortization of deferred costs	-	23,500
Bank charges and interest	238	75,590
Professional fees	44,167	-
Selling, general and administrative	1,284	55,547
	45,689	154,637
Loss from discontinued operations before undernoted	(45,689)	(154,637)
Write down of property held for sale	(35,336)	(2,572,453)
Gain from disposal of property held for sale	326,557	-
Net income (loss) from discontinued operations	\$245,532	(\$2,727,090)

SeaMiles Limited
Notes to Consolidated Financial Statements
December 31, 2008 and 2007
(in Canadian Dollars)

2. Discontinued Operations (continued)

The gain from disposal of property held for sale was calculated as follows:

Cash proceeds	\$ 3,715,854
Assumption of accounts payable	<u>47,002</u>
Gross proceeds	3,762,856
Selling expenses	<u>(23,809)</u>
	<u>3,739,047</u>
Net book value of properties sold	3,220,000
Deposits paid by the purchaser	95,854
Deposits assumed by the purchaser	<u>96,636</u>
	<u>3,412,490</u>
Gain from disposal of property held for sale	<u>\$ 326,557</u>

Consolidated Balance Sheets

2008 2007

Assets

Current Assets

Accounts receivable	\$ -	\$1,702
Deposits and prepaid expenses	-	<u>204,733</u>
	-	206,435
Property held for sale	-	<u>3,220,000</u>
	<u>\$ -</u>	<u>\$3,426,435</u>

Liabilities

Current liabilities

Accounts payable and accrued liabilities	\$ -	\$137,074
Current portion of mortgages payable, net of deferred costs	-	<u>10,300</u>
	-	147,374
Mortgages payable	-	<u>604,543</u>
	<u>\$ -</u>	<u>\$751,917</u>

Cash provided by (used in) discontinued operations

2008 2007

Cash provided by (used in) operating activities	(\$25,962)	(\$370,791)
Cash provided by (used in) investing activities	(46,694)	(409,182)
Cash provided by (used in) financing activities	<u>(7,294)</u>	<u>(1,894,242)</u>
Net cash flows provided by (used in) discontinued operations	<u>(\$79,950)</u>	<u>(\$2,674,215)</u>

SeaMiles Limited
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(in Canadian Dollars)

3. Escrow Bank Account

The escrow bank account consists of funds primarily invested in a U.S. money market fund comprising a portfolio of U.S. treasury securities maturing in 180 days or less. The current portion is the Company's estimate of the amount to be withdrawn from the escrow account in the next twelve months based on historical trends.

4. Property and Equipment

	Cost	Accumulated Amortization	December 31 2008 Net Carrying Value
Computer equipment	\$98,126	\$49,229	\$48,897
Furniture and fixtures	24,877	9,412	15,465
Leasehold improvements	76,451	18,884	57,567
Website and software development	435,546	109,273	326,273
	\$635,000	\$186,798	\$448,202

	Cost	Accumulated Amortization	December 31 2007 Net Carrying Value
Computer equipment	\$76,841	\$32,834	\$44,007
Furniture and fixtures	24,877	5,545	19,332
Leasehold improvements	75,507	10,594	64,913
Website and software development	149,938	58,303	91,635
	\$327,163	\$107,276	\$219,887

5. Deferred Revenue

In 2007, the Company and Barclays Bank ("Barclays") agreed to a one-time payment by Barclays to the Company of \$2,500,000 U.S. This payment will be recognized as revenue over 24 months and is subject to the continuation of the SeaMiles rewards platform currently operated through the Barclays issued Carnival SeaMiles credit card. The Company also has a further \$90,389 U.S. in deferred revenue from another contract which it received in 2007. Revenue will be recognized as it is earned under the terms of the contract.

The Canadian dollar equivalent of total deferred revenue is \$1,505,179 as of December 31, 2008 (December 31, 2007 - \$2,472,096). Revenue is recognized under the terms of the contracts as follows:

	December 31 2008	December 31 2007
Current portion	\$1,405,856	\$1,242,158
Long-term portion	99,863	1,229,938
	\$1,505,719	\$2,472,096

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6. Long-term Debt

	December 31 2008	December 31 2007
Long-term debt, non-interest bearing, due February 2010, monthly principal payments of \$3,000 U.S., unsecured	\$48,615	\$70,721
Long-term debt, non-interest bearing, repayable monthly in varying amounts based on previous loyalty program commitments, unsecured	520,769	604,059
Long-term debt under settlement agreement, non-interest bearing, principal repayments of \$100,000 U.S. in each of November 2009 and 2010 (Note 9)	243,600	-
Other long-term debt, non-interest bearing, no fixed repayment date, unsecured	-	339,329
Note payable, 10% per annum, unsecured	-	227,999
	812,984	1,242,108
Less: Current portion	264,351	132,835
	\$548,633	\$1,109,273

The long-term debt due February 2010 was discounted at an interest rate of 8% per annum.

During the second quarter of 2008, the Company reached agreements with certain creditors to eliminate \$626,114 of pre-acquisition debt of the Company's subsidiary SeaMiles, LLC ("LLC"). Under the agreements, \$380,000 worth of debt was exchanged for 190,000 shares of the Company (Note 8). The remaining debt of \$246,114 was forgiven and has been recognized as debt forgiveness income in the consolidated statements of operations and comprehensive income (loss).

7. Convertible Debentures

	December 31 2008	December 31 2007
10% Convertible debentures	\$ -	\$3,000,000

The convertible debentures were repaid in June 2008 (Note 2).

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8. Share Capital

Authorized:

- Unlimited number of voting common shares
- Unlimited number of non-voting common shares

Issued: common shares and common share purchase warrants

	Number of		\$
	Voting Common Shares	Common Share Purchase Warrants	Voting Common Shares
Balance at December 31, 2006	11,271,399	612,498	\$16,585,047
Expired common share purchase warrants	-	(612,498)	-
Issued through the exercise of stock options	165,000	-	306,438
Issued through private placement	130,000	-	255,593
Balance at December 31, 2007	11,566,399	-	17,147,078
Issued through shares for debt exchange and settlement of litigation (Notes 6 and 9)	290,000	-	506,000
Issued through the exercise of stock options	6,000	-	16,680
Issued through settlement of litigation as security for future settlement payments (Note 9)	200,000	-	-
Balance at December 31, 2008	12,062,399	-	\$17,669,758

Stock Options

The Company's Stock Option Plan provides for the issuance of up to a maximum of 10% of its issued and outstanding common shares at an exercise price fixed by the Company's Board of Directors at the time of grant. The option period for the Stock Option Plan is a maximum of five years. Options granted may be vested over certain time periods within the option period, which will limit the number of options exercisable during each option year. Each stock option is exercisable into one common share of the Company at the price specified in the terms of the option. As at December 31, 2008, options to purchase 640,000 common shares have been granted and options to purchase 566,239 common shares remain available to be granted under the Stock Option Plan.

In April and May 2008, options to acquire 360,000 common shares (2007 – 345,000) were granted to directors, senior officers, employees and consultants at an exercise price ranging from \$2.00 to \$2.15 (2007 – \$2.00) in accordance with the Company's Stock Option Plan. The options granted in 2008 and 2007 vested immediately. The fair value of the stock options granted was estimated on the date of grant using the Black Scholes option-pricing model with the following assumptions:

	2008	2007
Number of options	360,000	345,000
Exercise price	\$2.00 - \$2.15	\$2.00
Dividend yield	0%	0%
Volatility	67% - 69%	59%
Risk-free interest rate	2.73% - 2.77%	4.00%
Expected option lives (in years)	2	2
Weighted average fair value of each option	\$0.79	\$0.78

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8. Share Capital (continued)

The compensation expense recorded for 2008 with respect to the above options granted amounted to \$284,606 (2007 - \$269,100) and is included in selling, general and administrative expenses.

The following table summarizes the changes in stock options outstanding during the years ended December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Balance, beginning of year	905,000	860,000
Granted	360,000	345,000
Expired	(510,000)	-
Cancelled	(109,000)	(135,000)
Exercised	(6,000)	(165,000)
	<u>640,000</u>	<u>905,000</u>
Balance, end of year		
	<u>640,000</u>	<u>905,000</u>
Exercisable at year-end		
	<u>640,000</u>	<u>905,000</u>

The following table summarizes the weighted average exercise price and the weighted average remaining contractual life of the options outstanding and exercisable as at December 31, 2008:

Range of exercise prices	\$2.00 - \$2.15
Options outstanding	640,000
Weighted average remaining contractual life	373 days
Options exercisable	640,000
Weighted average exercise price	\$2.02

The following table summarizes the stock options outstanding as at December 31, 2008:

<u>Date of Grant</u>	<u>Stock Options (#)</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
August 21, 2007	290,000	\$2.00	August 21, 2009
April 30, 2008	265,000	\$2.00	April 30, 2010
May 15, 2008	85,000	\$2.15	May 15, 2010
	<u>640,000</u>		

The following table summarizes the changes in contributed surplus during the years ended December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Balance, beginning of year	\$1,013,547	\$869,385
Fair value of options granted	284,606	269,100
Options exercised	(4,680)	(124,938)
	<u>\$1,293,473</u>	<u>\$1,013,547</u>
Balance, end of year		
	<u>\$1,293,473</u>	<u>\$1,013,547</u>

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9. Settlement of Litigation

In October 2008, the Company settled certain disputes with the former president and member of the subsidiary SeaMiles, LLC under the terms of a confidential agreement that provided for the payment of stock and cash to the former president and member in exchange for mutual releases and other consideration. The amount owing by the Company was settled through a cash payment of \$75,000 U.S. (\$91,515 Canadian), the issuance of 100,000 common shares of the Company, a payment of \$100,000 U.S. in November 2009 consisting of \$75,000 U.S. cash and, at the Company's option, \$25,000 U.S. in cash or Company shares, and a final \$100,000 U.S. cash payment in November 2010. Each of the \$100,000 U.S. future payments are secured by 100,000 shares of the Company. Accordingly, the Company recorded \$461,555 as the cost to settle this litigation.

10. Earnings (loss) per Share

Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the year ended December 31, 2008, which is 11,726,650 (2007 – 11,394,618) shares. Diluted earnings (loss) per share has not been presented since the potential conversions of convertible debentures and stock options outstanding are anti-dilutive.

11. Related Party Transactions

Related party transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent for the services.

The Company had outstanding amounts due from/to officers, directors, shareholders and companies owned by directors and shareholders of the Company as follows:

	December 31 2008	December 31 2007
Accounts receivable from officer	\$57,297	\$86,611
Accounts payable and accrued liabilities to directors and companies owned by directors of the Company	\$18,319	\$43,589
Long-term debt to directors of the Company	\$ -	\$167,143
Convertible debentures to officer, company owned by a director and shareholders	\$ -	\$2,750,000

The following table summarizes the Company's related party transactions for the year:

	December 31 2008	December 31 2007
Interest income from officer	\$2,617	\$8,191
Interest expense to officer, directors and shareholders of the Company	132,022	334,990
Rent expense to companies owned by directors of the Company	131,791	132,965
Professional fees to companies owned by director of the Company	-	2,772
Gain from disposal of property held for sale to a company owned by shareholder of the Company (Note 2)	326,557	-
Amounts owing to directors and shareholders of the Company exchanged for shares (Note 6)	195,000	-

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12. Income Taxes

The following table reconciles the amount of income tax expense for the Company at Canadian statutory rates of 33.50% and 36.12% and U.S. statutory rates of 40% and 40% for 2008 and 2007, respectively:

	<u>2008</u>	<u>2007</u>
Canadian statutory rate	33.50%	36.12%
Income from continuing operations before income taxes	<u>\$499,967</u>	<u>\$196,698</u>
Income tax provision computed at statutory rate	\$167,489	\$71,047
Increase (decrease) in income tax provision resulting from:		
Foreign tax rate differences	(64,815)	11,777
Stock-based compensation	95,343	97,199
Foreign currency on consolidation	91,546	21,721
Other	5,826	(8,971)
Utilization of loss carry-forwards	(295,389)	(192,773)
Recognition of net future income tax assets	<u>(1,022,000)</u>	<u>-</u>
Future income tax recovery	<u>(\$1,022,000)</u>	<u>\$ -</u>

The income tax effect of temporary differences and net operating losses that result in future income tax assets are as follows:

	<u>2008</u>	<u>2007</u>
Future income tax assets:		
Net operating loss carry-forward	\$1,346,000	\$1,578,000
Deferred revenue recorded for tax purposes	603,000	-
Non-deductible provision	373,000	198,000
Non-deducted share issue costs	7,000	25,000
Excess of tax basis of real estate over their carrying amount	<u>-</u>	<u>757,000</u>
	<u>2,329,000</u>	<u>2,558,000</u>
Valuation allowance	<u>(920,000)</u>	<u>(2,558,000)</u>
Future income tax assets	<u>\$1,409,000</u>	<u>\$ -</u>
Comprising:		
Current portion of future income tax assets	\$1,123,000	\$ -
Non current portion of future income tax assets	<u>286,000</u>	<u>-</u>
	<u>\$1,409,000</u>	<u>\$ -</u>

The income tax effect of temporary differences that result in future income tax liabilities are as follows:

	<u>2008</u>	<u>2007</u>
Future income tax liabilities:		
Excess of tax basis of trademarks over their carrying amount	(\$383,000)	\$ -
Non-deductible provision	<u>(4,000)</u>	<u>-</u>
Future income tax liabilities	<u>(\$387,000)</u>	<u>\$ -</u>
Comprising:		
Non current portion of future income tax liabilities	<u>(\$387,000)</u>	<u>\$ -</u>

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12. Income Taxes (continued)

The Company has non-capital losses available for income tax purposes which can be used to reduce taxable income of future years, of which \$1,325,000 have been reflected as future income tax assets in these financial statements. These losses expire as follows:

	Canadian	U.S.	Total
2015	\$ 507,000	\$ -	\$ 507,000
2026	1,493,000	8,000	1,501,000
2027	336,000	-	336,000
2028	2,152,000	-	2,152,000
	<u>\$ 4,488,000</u>	<u>\$ 8,000</u>	<u>\$ 4,496,000</u>

13. Capital Disclosures

The Company defines its capital as follows:

- i) Long-term debt
- ii) Convertible debentures
- iii) Shareholders' equity
- iv) Cash

The amounts included in the Company's capital are as follows:

	<u>December 31 2008</u>	<u>December 31 2007</u>
Long-term debt	\$812,984	\$1,242,108
Convertible debentures	-	3,000,000
Shareholders' equity	7,579,526	5,009,421
Cash	342,972	415,507
Escrow bank account	29,322,019	17,132,178

The Company's objectives when managing capital are to maintain a flexible capital structure to allow the Company the ability to respond to changes in economic conditions and the risk characteristics of the underlying assets and ensure sufficient liquidity to implement its strategic initiatives, meet anticipated working capital requirements and other capital expenditures. The Company's financing decisions are made on a specific transaction basis and depend on such things as the Company's needs, and market and economic conditions at the time of the transaction.

In conjunction with the issuance of SeaMiles, the Company has established a redemption reserve to fund redemptions. The funds are invested primarily in a portfolio of U.S. Treasury securities maturing in 180 days or less. Interest earned is paid to the Company and is included in interest revenue. The amount to be held in the reserve, as well as the types of securities it may be invested in, are consistent with the Company's obligations with its partners, and are reviewed periodically. The Company assumes minimal credit and inventory risk with each transaction processed.

There were no changes in the Company's approach to capital management during 2008 from 2007.

14. Financial Instruments

i) Fair Value

The fair values of short term financial assets and liabilities, including cash, accounts receivable, escrow bank account, accounts payable and accrued liabilities, deposits, current and long-term debt and convertible debentures, as presented in the balance sheet approximate their carrying amounts due to the short period to maturity of these financial instruments.

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14. Financial Instruments (continued)

ii) Liquidity Risk

The Company's objective is to maintain sufficient liquidity to meet its financial liabilities as they come due. The Company manages liquidity risk through financial leverage which includes monitoring of its cash balances and uses cash flows generated from operations to meet financial liability requirements.

iii) Market Risk

The Company primarily operates in the U.S. and is exposed to global economic conditions which affect the U.S. economy. While the impact of such conditions cannot be reasonably determined, they could adversely impact the Company's revenues, earnings and cash flow.

iv) Credit Risk

The Company's maximum exposure to credit risk on its financial assets is limited to their respective carrying amounts. Funds from the escrow bank account are invested primarily in a portfolio of U.S. Treasury securities maturing in 180 days or less. The amount to be held in the escrow bank account, as well as the types of securities it may be invested in, are consistent with the Company's obligations with its partners, and are reviewed periodically. Excess cash, included in cash, is invested in bank term deposits, as per the Company's practice of protecting its capital rather than maximizing investment yield. Historically, the Company has not experienced bad debts on its accounts receivable balances.

v) Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to fluctuations in interest rates with respect to the escrow bank account and cash, all of which bear interest at variable rates. For the year ended December 31, 2008, the Company has determined that a 1% increase or decrease in the interest rates on the escrow bank account would result in an increase or decrease in income from continuing operations before income taxes of approximately \$214,000 and \$156,000 respectively .

vi) Currency Risk

The Company's primary focus is its cruise based loyalty program in the United States through its wholly-owned subsidiary, SeaMiles, LLC. This exposes the Company to different translation rates between the Canadian and U.S. dollar as earnings and cash flows may be adversely affected by the fluctuations in the exchange rate of the U.S. dollar relative to the Canadian dollar. The Company currently does not use financial instruments to hedge these risks.

The Company holds balances in U.S. dollars that give rise to exposure to foreign currency exchange risk. Sensitivity to a +/- 10% movement in the Canadian dollar would result in a \$66,893 variance in net liabilities of the Company as at December 31, 2008.

As of December 31, 2008	CDN \$ Total	USD Total
FX Rates Used to Translate to CDN		\$1,2180
Financial assets		
Cash	\$160,712	\$131,948
Accounts receivable	2,007,548	1,648,233
Deposits and prepaid expenses	1,417,221	1,163,564
Escrow bank account	29,216,337	23,987,140
Long-term accounts receivable	234,595	192,607
Total	\$33,036,413	\$27,123,492
Financial liabilities		
Accounts payable and accrued liabilities	\$2,315,668	\$1,901,205
Deposits	29,216,797	23,987,518
Deferred revenue	1,505,719	1,236,222
Long-term debt	812,984	667,475
Total	\$33,851,168	\$27,792,420

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15. Commitments and Contingencies

a) Lease Commitments:

The Company is committed to future minimum annual lease payments on certain non-cancelable operating leases as follows:

2009	\$239,000
2010	194,000
2011	140,000
2012	136,000
2013	136,000
Thereafter	<u>375,000</u>
Total	<u>\$1,220,000</u>

Lease commitments include related party transactions with companies owned by directors of the Company. These transactions are recorded at the exchange value as established and agreed to by the related parties.

- b) In 2008, the Company entered into a services agreement. At December 31, 2008, there was \$50,000 of services still to be performed under the agreement.
- c) Under an agreement with loyalty program partners, the Company has certain financial obligations which it must meet on an annual basis. All obligations incurred under the agreement are recorded at the time they are incurred. The Company has met its obligations to date under this agreement. The Company has pledged certain of its assets under this agreement. The agreement expires in December 2009.
- d) The Company has been named as a defendant in an action. The Company is of the opinion that this claim will not be successful and accordingly no amount has been accrued in these financial statements.

16. Segmented Information

Historically, the Company has provided segmented information for both its real estate and loyalty program divisions. As the Company has divested its real estate assets, the Company will only be operating in the loyalty program segment going forward. The Company's real estate assets and liabilities and results of operations have been reflected as discontinued operations.

17. Comparative Figures

Certain comparative figures have been reclassified to conform with the method of presentation adopted for the current year. These primarily involve disclosing the current and long term portion of the escrow bank account and deposits on the balance sheet and consequential changes to the statement of cash flows.

18. Non Cash Transactions

The Company has non cash transactions described in Notes 2, 6, 8, 9 and 11.