

SeaMiles Limited
Consolidated Financial Statements
March 31, 2007
(Unaudited)

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the period ended March 31, 2007.

SeaMiles Limited
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Consolidated Financial Statements

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SeaMiles Limited
Consolidated Balance Sheets
Unaudited
(in Canadian Dollars)

| | March 31 2007 | December 31 2006 |
|--|----------------------------|----------------------------|
| Assets | | |
| Current | | |
| Cash | \$301,969 | \$276,582 |
| Accounts receivable | 2,301,530 | 1,890,062 |
| Deposits and prepaid expenses | 1,505,665 | 1,463,189 |
| Escrow bank account (Note 1) | 14,415,533 | 12,638,637 |
| | <u>18,524,697</u> | <u>16,268,470</u> |
| Deferred costs (Note 2) | 24,333 | 24,333 |
| Property held for development (Note 3) | 5,482,425 | 5,382,438 |
| Equipment (Note 4) | 192,416 | 160,799 |
| Trademarks | 6,893,500 | 6,879,902 |
| | <u>\$31,117,371</u> | <u>\$28,715,942</u> |
| Liabilities and Shareholders' Equity | | |
| Current | | |
| Accounts payable and accrued liabilities | \$2,810,577 | \$2,240,108 |
| Due to related parties | 306,744 | 256,281 |
| Notes payable | 129,328 | 130,515 |
| Current portion of mortgages payable (Note 5) | 2,507,723 | 1,509,085 |
| Current portion of other long-term debt (Note 6) | 151,189 | 153,814 |
| Deposits | 14,502,571 | 12,672,536 |
| | <u>20,408,132</u> | <u>16,962,339</u> |
| Mortgages payable (Note 5) | - | 1,000,000 |
| Other long-term debt (Note 6) | 869,088 | 919,983 |
| Convertible debentures (Note 7) | 3,000,000 | 3,000,000 |
| | <u>24,277,220</u> | <u>21,882,322</u> |
| Shareholders' equity | | |
| Share capital (Note 8) | 16,585,047 | 16,585,047 |
| Contributed surplus | 869,385 | 869,385 |
| Deficit | (10,614,281) | (10,620,812) |
| | <u>6,840,151</u> | <u>6,833,620</u> |
| | <u>\$31,117,371</u> | <u>\$28,715,942</u> |

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

SeaMiles Limited
Consolidated Statements of Deficit
Unaudited
(in Canadian Dollars)

| For the three months ended March 31 | 2007 | 2006 |
|--|-----------------------|---------------|
| Deficit, beginning of period | (\$10,620,812) | (\$7,176,441) |
| Net income (loss) for the period | 6,531 | (370,487) |
| Deficit, end of period | (\$10,614,281) | (\$7,546,928) |

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

SeaMiles Limited
Consolidated Statements of Operations
Unaudited
(in Canadian Dollars)

| For the three months ended March 31 | 2007 | 2006 |
|---|--------------------|--------------------|
| Revenue | | |
| Loyalty program revenue | \$2,805,884 | \$45,054 |
| Rental income | - | 155,750 |
| | 2,805,884 | 200,804 |
| Expenses | | |
| Loyalty program | 2,511,851 | 94,669 |
| Management fees | - | 45,000 |
| Selling, general and administrative | 163,766 | 81,252 |
| Interest on long-term debt | 83,999 | 169,052 |
| Bank charges and interest | 24,036 | 61,432 |
| Amortization of equipment | 8,201 | 2,965 |
| Amortization of deferred costs | 7,500 | 21,142 |
| Income producing properties | - | 12,102 |
| Amortization of income producing properties | - | 83,677 |
| | 2,799,353 | 571,291 |
| Net income (loss) for the period | \$6,531 | (\$370,487) |
| Income (loss) per share (Note 9) | \$0.00 | (\$0.06) |

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

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

| For the three months ended March 31 | 2007 | 2006 |
|---|------------------|--------------------|
| Cash provided by (used in) | | |
| Operating activities | | |
| Net income (loss) for the period | \$6,531 | (\$370,487) |
| Items not affecting cash | | |
| Amortization of income producing properties | - | 83,677 |
| Amortization of deferred costs | 7,500 | 21,142 |
| Amortization of equipment | 8,201 | 2,965 |
| Changes in non-cash operating assets and liabilities | | |
| Accounts receivable | (411,468) | 102,831 |
| Deposits and prepaid expenses | (42,476) | 41,136 |
| Accounts payable and accrued liabilities | 570,469 | 521,928 |
| Escrow bank account | (1,776,896) | - |
| Deposits | 1,830,035 | 65,243 |
| | <u>191,896</u> | <u>468,435</u> |
| Investing activities | | |
| Additions to income producing properties | - | (6,617) |
| Proceeds on sale of income producing properties | - | - |
| Additions to property held for development | (99,987) | (619,792) |
| Purchase of equipment | (39,818) | (745) |
| Purchase of trademarks | (13,598) | - |
| Loan receivable | - | 398,419 |
| Acquisition of Seamiles | - | (5,087,727) |
| | <u>(153,403)</u> | <u>(5,316,462)</u> |
| Financing activities | | |
| Proceeds from mortgages payable | - | 1,750,000 |
| Repayment of mortgages payable | (1,362) | (328,933) |
| Payment to related parties | 50,463 | 3,630,164 |
| Proceeds from issue of share capital | - | 145,569 |
| Deferred costs | (7,500) | (110,967) |
| Repayment of other long-term debt | (53,520) | - |
| Notes payable | (1,187) | - |
| | <u>(13,106)</u> | <u>5,085,833</u> |
| Increase in cash during the period | 25,387 | 237,806 |
| Cash (bank indebtedness), beginning of period | 276,582 | (2,461) |
| Cash, end of period | \$301,969 | \$235,345 |
| Supplementary cash flow information | | |
| Interest paid | \$119,378 | \$229,621 |

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

SeaMiles Limited
Summary of Significant Accounting Policies
March 31, 2007
Unaudited
(in Canadian Dollars)

Nature of Business

The Company is engaged in the cruise based loyalty program in both the United States of America and Canada through its SeaMiles and SeaPoints programs respectively and real estate and resort development in the Muskoka region in Ontario, Canada. The SeaMiles and SeaPoints programs provide its commercial partners with loyalty marketing services and offers its members the ability to accumulate SeaMiles and SeaPoints respectively through its partner network. Accumulated SeaMiles and SeaPoints may be redeemed for cruise travel rewards from the Company's wholly-owned subsidiary Seamiles, LLC ("Seamiles") and OVS in the United States and from Encore Cruises in Canada.

Basis of Consolidation

The consolidated financial statements include the accounts of all subsidiaries with inter-company transactions and balances eliminated on consolidation. All of the Company's subsidiaries are wholly-owned and are considered to be fully-integrated operations.

Revenue Recognition

Revenue from the SeaMiles loyalty program is derived from the sale of a MasterCard to its members, from the sale of SeaMiles through MasterCard purchases, breakage and interest on its escrow account. Revenue from the sale of SeaMiles are recorded net of costs, in accordance with Abstract 123 of the Emerging Issues Committee ("EIC") of the Canadian Institute of Chartered Accountants ("CICA"), "Reporting Revenue Gross as a Principal Versus Net as an Agent," when the collection of the sales proceeds is reasonably assured and other material conditions of the exchange are met. Gross proceeds received on the resale of SeaMiles net of the commissions earned, are included in deposits in the attached consolidated balance sheet until remitted. Breakage represents the estimated SeaMiles that are not expected to be redeemed by members. Breakage is estimated by management 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%. Changes in the breakage factor 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. Breakage is recognized rateably over a period of 30 months, the estimated life of a SeaMile.

Revenue from rental income is recognized on a straight-line basis over the term of the rental agreement.

Foreign Currency Translation

Monetary assets and liabilities are translated at currency exchange rates in effect at the balance sheet date. Revenue and expenses are translated at average rates prevailing during the year. Translation gains and losses for the year are reflected in the statement of operations.

Cash

Cash consists of cash in bank accounts.

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Summary of Significant Accounting Policies
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Escrow Bank Account

In conjunction with the sale of SeaMiles and SeaPoints, the Company has established a redemption reserve to fund redemptions. The amount to be held in the reserve, as well as the types of securities it may be invested in, are based on policies established by management, which will be reviewed periodically.

Deferred Costs

Financing costs related to the issue of debt securities are deferred and amortized over the term of the debt.

Property Held for Development

Property held for development includes properties held for future development. The Company capitalizes all costs relating to the acquisition, development and construction of these properties. The Company reduces the cost of the property held for development for any ancillary revenues earned.

Equipment

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

| | |
|-------------------------|--------------------------------------|
| Computer equipment: | 20% diminishing balance basis |
| Furniture and fixtures: | 20% diminishing balance basis |
| Leasehold improvements: | amortized over the term of the lease |
| Website development: | 30% diminishing balance basis |

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 will be charged to operations immediately.

Income Producing Properties

Land is recorded at cost which includes development and carrying costs. Other income producing properties are stated at cost less accumulated amortization. Amortization based on the estimated useful life of the asset is calculated as follows:

| | |
|-------------------------|-------------------------------|
| Building: | 4% diminishing balance basis |
| Furniture and fixtures: | 20% diminishing balance basis |
| Paving: | 8% diminishing balance basis |

Impairment of Long-Lived Assets

The Company reviews long-lived assets such as property, equipment and intangible assets with finite useful lives for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the total of the expected undiscounted future cash flows 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.

SeaMiles Limited
Summary of Significant Accounting Policies
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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 over the vesting period of the options. 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 management's best estimate, as of the date of grant, of the expected share price volatility over the term of the stock option and expected option life. 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.

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 realized.

Income(loss) per Share

Income(loss) per share is calculated based on the weighted average number of shares outstanding during the year. The treasury stock method is used for the calculation of the dilutive effect of stock options.

Financial Instruments

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from its financial instruments and their carrying values approximate fair values.

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from management's best estimates as additional information becomes available in the future.

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Notes to Consolidated Financial Statements
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1. Escrow Bank Account

The escrow bank account consists of funds invested in a U.S. money market fund comprising a portfolio of high quality U.S. treasury securities maturing in 180 days or less.

2. Deferred Costs

| | March 31 2007 | December 31 2006 |
|--------------------------|--------------------------|---------------------|
| Deferred costs | \$50,000 | \$40,000 |
| Accumulated amortization | (25,667) | (15,667) |
| | \$24,333 | \$24,333 |

3. Property Held for Development

During the three months ended March 31, 2007, interest of \$42,123 (2006 - \$42,178) and financing costs of \$2,500 (2006 - \$1,667) was capitalized to property held for development.

4. Equipment

| | Cost | Accumulated Amortization | March 31 2007 Net Book Value | December 31 2006 Net Book Value |
|------------------------|------------------|-------------------------------------|---|---------------------------------------|
| Computer equipment | \$48,788 | \$25,520 | \$23,268 | \$ 22,920 |
| Furniture and fixtures | 23,935 | 2,693 | 21,242 | 16,927 |
| Leasehold improvements | 75,507 | 4,708 | 70,799 | 66,446 |
| Website development | 114,654 | 37,547 | 77,107 | 54,506 |
| | \$262,884 | \$70,468 | \$192,416 | \$160,799 |

SeaMiles Limited
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5. Mortgages Payable

| | March 31 2007 | December 31 2006 |
|---|--------------------------|---------------------|
| Prime, due November 2007, monthly payments of \$508 principal and interest, secured by a mortgage on land | \$75,155 | \$75,828 |
| 10%, due January 2008, interest only, monthly, secured by a mortgage on land | 1,000,000 | 1,000,000 |
| 10%, due November 2007, interest only, monthly, secured by a mortgage on land | 487,500 | 487,500 |
| 8.5%, due April 2007, monthly payments of \$1,591 principal and interest, secured by a mortgage on land | 195,068 | 195,757 |
| 12%, due October 2007, interest only, monthly, secured by a second mortgage on land | 750,000 | 750,000 |
| | 2,507,723 | 2,509,085 |
| Less: Current portion | 2,507,723 | 1,509,085 |
| | \$0 | \$1,000,000 |

Principal repayments for the next two years are as follows:

| | |
|----------------------------|--------------------|
| Current portion thereafter | \$2,507,723 |
| | - |
| | \$2,507,723 |

The fair value of the mortgages payable is approximately \$2,507,723 which is estimated based upon future cash flows discounted using the current market rate for similar instruments.

Subsequent to the quarter ended March 31, 2007, the Company paid off the \$195,068 mortgage which was due on April 29, 2007.

6. Other Long-term Debt

| | March 31 2007 | December 31 2006 |
|--|--------------------------|---------------------|
| Note payable, non-interest bearing, due February 2010, monthly principal payments of \$3,000 | \$107,750 | \$116,942 |
| Note payable, non-interest bearing, no fixed repayment date, amount will not be repaid in next 12 months | 137,397 | 138,659 |
| Other long-term debt, non-interest bearing, repayable monthly in varying amounts based on previous loyalty program commitments | 775,130 | 818,196 |
| | 1,020,277 | 1,073,797 |
| Less: Current portion | 151,189 | 153,814 |
| | \$869,088 | \$919,983 |

The note payable due February 2010 was discounted at an interest rate of 8% per annum.

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7. Convertible Debentures

| | <u>March 31 2007</u> | <u>December 31 2006</u> |
|----------------------------|---------------------------|-----------------------------|
| 10% Convertible debentures | <u>\$3,000,000</u> | <u>\$3,000,000</u> |

The convertible debentures have a two year term and bear interest at a coupon rate of 10%, payable monthly. The debentures are convertible into common shares at the rate of \$3.00 per share at the sole option of the lenders for the entire term expiring no later than April 30, 2008. If all of the debentures are converted, it will result in the issuance of 1,000,000 common shares. The debentures are secured by a general security agreement and mature on April 30, 2008.

Convertible debentures are presented in the financial statements in their component parts, by assigning to the equity component, the residual amount after deducting from the debenture as a whole, the amount separately determined for the debt component. The debt component has been calculated using 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 debenture was issued.

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

| | <u>Number of</u> | | <u>\$</u> | |
|--|-------------------------------------|---|-------------------------------------|---|
| | <u>Voting Common Shares</u> | <u>Common Share Purchase Warrants</u> | <u>Voting Common Shares</u> | <u>Equity Component of Convertible Debt</u> |
| Balance as at December 31, 2006 and March 31, 2007 | <u>11,271,399</u> | <u>612,498</u> | <u>\$16,585,047</u> | <u>\$ -</u> |

SeaMiles Limited
Notes to Consolidated Financial Statements
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8. Share Capital (continued)

Stock Options

The Company has a stock option plan (the "Plan") for its directors, senior officers, employees and consultants under which the Company may grant options to acquire a maximum of 10% of its issued and outstanding common shares of the Company. These options are non-transferable and are valid for a maximum of five years from the date of issue. Vesting terms and conditions are determined by the Board of Directors at the time of the grant. The exercise price of the options is fixed by the Board of Directors and the Company at the time of the grant, subject to all regulatory requirements.

The Company has the following stock options to its officers, directors and certain consultants outstanding as at March 31, 2007:

| <u>Date of Grant</u> | <u>Stock Options (#)</u> | <u>Exercise Price</u> | <u>Expiry Date</u> |
|----------------------|--------------------------|-----------------------|--------------------|
| July 8, 2005 | 300,000 | \$1.10 | July 8, 2007 |
| May 12, 2006 | 410,000 | \$3.50 | May 12, 2008 |
| August 24, 2006 | <u>150,000</u> | \$3.25 | August 24, 2008 |
| | <u>860,000</u> | | |

The fair value of the stock options granted were based on the Black-Scholes model for pricing options.

Warrants

The Company has the following common share purchase warrants outstanding as at March 31, 2007:

| <u>Warrants</u> | <u>Exercise Price</u> | <u>Expiry Date</u> |
|-----------------|-----------------------|--------------------|
| 412,498 | \$3.00 | April 30, 2007 |
| <u>200,000</u> | \$3.50 | September 30, 2007 |
| <u>612,498</u> | | |

9. Income (loss) per Share

Income (loss) per share is calculated using the weighted average number of common shares outstanding during the three months ended March 31, 2007, which is 11,271,399 (2006 – 5,847,641) shares. Fully diluted loss per share for the three months ended March 31, 2007 and 2006 have not been presented since the potential conversions of convertible debentures and warrants outstanding are anti-dilutive.

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10. 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.

11. Segmented Financial Information

The results of operations are reported under two segments: loyalty program and real estate. These segments reflect how the Company is managed and how operations are classified for planning and measuring performance. The loyalty program earns income by providing loyalty marketing services. The real estate segment earns rental income from commercial properties. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

The table below is a summary of financial information by segment for the past two years.

| | For the Three Months Ended March 31 | | | | | |
|-------------------------------------|-------------------------------------|--------------|-------------|--------------|--------------|--------------|
| | Loyalty Program | | Real Estate | | Consolidated | |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Revenue | \$2,805,884 | \$45,054 | \$ - | \$155,750 | \$2,805,884 | \$200,804 |
| Segment earnings | \$283,369 | (\$53,407) | (\$433) | (\$165,049) | \$282,936 | (\$218,456) |
| Corporate expenses | | | | | (276,405) | (152,031) |
| Net loss for the period | | | | | \$6,531 | (\$370,487) |
| Identifiable assets | \$25,377,038 | \$13,883,566 | \$5,693,039 | \$12,543,644 | \$31,070,077 | \$26,427,210 |
| Corporate assets | | | | | 47,294 | 129,363 |
| Total assets | | | | | \$31,117,371 | \$26,556,573 |
| Bank charges and interest | \$9,630 | \$1,078 | \$398 | \$203,626 | \$10,028 | \$204,704 |
| Corporate bank charges and interest | | | | | 98,007 | 25,780 |
| | | | | | \$108,035 | \$230,484 |

12. Income Taxes

The difference between the effective tax rate of 36.12% and the actual rate of Nil% is attributable to the fact that no future tax asset has been recorded for available loss carryforwards as their ultimate utilization is uncertain.

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13. Commitments and Contingencies

a) Lease Commitments:

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

| | |
|------------|-----------|
| 2007 | \$194,000 |
| 2008 | 173,000 |
| 2009 | 173,000 |
| 2010 | 173,000 |
| thereafter | 583,000 |

- b) Under an agreement between Seamiles and Carnival Cruise Lines ("Carnival"), Seamiles has certain financial obligations which it must meet on an annual basis. Seamiles has met its obligations to date under this agreement.
- c) Pursuant to a settlement agreement dated September 26, 2005, Seamiles was liable to its former president/former member for \$787,500 U.S. for alleged damages arising under various state and federal lawsuits. This settlement amount was non-interest bearing and was payable as follows: 5 payments of \$17,500 U.S. payable on a quarterly basis commencing September 2006; 10 annual payments of \$70,000 U.S. commencing September 2008. Seamiles was both a plaintiff and defendant in the various settled lawsuits arising in Miami-Dade County, Florida (United States). Seamiles subsequently filed a motion in the settled litigation to enforce the settlement agreement and terminate any future payments owed under the settlement agreement. On December 14, 2006, the Court ruled in favor of Seamiles, thereby terminating the \$787,500 U.S. liability. The matter is now on appeal, which should be resolved in 2007. Subsequent to the termination of the \$787,500 U.S. liability, an individual claiming an indirect ownership interest in Seamiles through a company owned and controlled by Seamiles' former president/former member, filed suit in Miami-Dade County against Seamiles and its former president/former member seeking compensation for the reasonable value of his alleged indirect interest in Seamiles. No amount has been ascribed to the claim as of yet. Seamiles has rejected the claim, as SeaMiles Limited (through its wholly owned subsidiary) was a *bona fide* purchaser for value of one hundred percent of the membership interests of Seamiles, LLC. Furthermore, the claimant signed the September 26, 2005 settlement agreement acknowledging that he owned no interest in Seamiles, LLC.
- d) There is currently a legal proceeding in connection with the renovations of a real estate development property held by one of the Company's subsidiaries with a vendor regarding a Claim for Lien, pursuant to Section 39 of the Ontario Construction Lien Act, against the property. The amount of the claim is approximately \$331,000. This court matter is currently under settlement negotiations and has not been concluded.

14. Subsequent Events

- a) On April 30, 2007, 412,498 warrants of the Company expired.
- b) Subsequent to March 31, the Company paid off the mortgage on its property maturing April 29, 2007.

15. Comparative Figures

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