

SeaMiles Limited
Consolidated Financial Statements
September 30, 2008
(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 September 30, 2008

SeaMiles Limited
Consolidated Financial Statements
September 30, 2008
(Unaudited)

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Consolidated Financial Statements

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SeaMiles Limited
Consolidated Balance Sheets
Unaudited
(in Canadian Dollars)

| | September 30 2008 | December 31 2007 |
|--|----------------------------|---------------------|
| Assets | | |
| Current | | |
| Cash | \$611,853 | \$415,507 |
| Accounts receivable | 1,067,031 | 1,605,348 |
| Deposits and prepaid expenses | 1,439,263 | 1,216,037 |
| Escrow bank account (Note 4) | 24,076,400 | 17,132,178 |
| Current assets of discontinued operations (Note 3) | - | 206,435 |
| | <u>27,194,547</u> | <u>20,575,505</u> |
| Other receivable | 604,708 | 250,586 |
| Equipment (Note 5) | 199,975 | 219,887 |
| Trademarks | 6,935,686 | 6,906,801 |
| Long-term assets of discontinued operations (Note 3) | - | <u>3,220,000</u> |
| | <u>\$34,934,916</u> | <u>\$31,172,779</u> |
| Liabilities and Shareholders' Equity | | |
| Current | | |
| Accounts payable and accrued liabilities | \$1,947,310 | \$1,554,398 |
| Current portion of deferred revenue (Note 6) | 1,333,549 | 1,242,158 |
| Current portion of other long-term debt (Note 7) | 141,927 | 132,835 |
| Forward foreign exchange contracts | - | 11,944 |
| Deposits | 24,072,924 | 17,130,895 |
| Current liabilities of discontinued operations (Note 3) | - | 147,374 |
| Convertible debentures (Note 8) | - | 3,000,000 |
| | <u>27,495,710</u> | <u>23,219,604</u> |
| Deferred revenue (Note 6) | 317,535 | 1,229,938 |
| Other long-term debt (Note 7) | 490,190 | 1,109,273 |
| Long-term liabilities of discontinued operations (Note 3) | - | <u>604,543</u> |
| | <u>28,303,435</u> | <u>26,163,358</u> |
| Shareholders' equity | | |
| Share capital (Note 9) | 17,543,758 | 17,147,078 |
| Contributed surplus | 1,293,473 | 1,013,547 |
| Deficit | <u>(12,205,750)</u> | <u>(13,151,204)</u> |
| | <u>6,631,481</u> | <u>5,009,421</u> |
| | <u>\$34,934,916</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
Unaudited
(in Canadian Dollars)

| For the nine months ended September 30 | 2008 | 2007 |
|--|-----------------------|----------------|
| Deficit, beginning of period | (\$13,151,204) | (\$10,620,812) |
| Net income (loss) and comprehensive income (loss) for the period | 945,454 | (2,668,032) |
| Deficit, end of period | (\$12,205,750) | (\$13,288,844) |

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
Unaudited
(in Canadian Dollars)

| | Three Months Ended | | Nine Months Ended | |
|---|------------------------------|----------------------|------------------------------|----------------------|
| | September 30 2008 | September 30 2007 | September 30 2008 | September 30 2007 |
| Revenue | | | | |
| Loyalty program revenue | \$3,255,872 | \$2,248,054 | \$8,372,023 | \$6,578,653 |
| Interest | 78,275 | 167,866 | 257,887 | 474,460 |
| | 3,334,147 | 2,415,920 | 8,629,910 | 7,053,113 |
| Cost of goods sold | | | | |
| Loyalty program | 1,935,560 | 1,661,853 | 5,467,074 | 4,555,105 |
| | 1,398,587 | 754,067 | 3,162,836 | 2,498,008 |
| Expenses | | | | |
| Advertising and promotion | 42,180 | 123,034 | 158,697 | 222,481 |
| Amortization of equipment | 15,800 | 10,112 | 39,431 | 27,892 |
| Amortization of deferred costs | - | 8,898 | - | 9,000 |
| Bank charges and interest | 603 | 14,397 | 3,240 | 19,295 |
| Foreign exchange loss (gain) | 41,145 | (575) | 95,247 | 24,700 |
| Interest on long-term debt | 1,111 | 82,756 | 152,671 | 250,066 |
| Management fees | - | - | - | 62,500 |
| Occupancy costs | 31,011 | 43,609 | 113,586 | 137,642 |
| Professional fees | 34,760 | 78,237 | 123,140 | 288,880 |
| Selling, general and administrative | 586,868 | 549,440 | 2,030,627 | 1,500,014 |
| | 753,478 | 909,908 | 2,716,639 | 2,542,470 |
| Income (loss) from operations | 645,109 | (155,841) | 446,197 | (44,462) |
| Other Income | | | | |
| Debt forgiveness income | - | - | 246,114 | - |
| Income from continuing operations | 645,109 | (155,841) | 692,311 | (44,462) |
| Income (loss) from discontinued operations (Note 3) | (4,675) | (112,856) | 253,143 | (2,623,570) |
| Net income (loss) and comprehensive income (loss) for the period | \$640,434 | (\$268,697) | \$945,454 | (\$2,668,032) |
| Earnings (loss) per share from continuing operations - basic and diluted (Note 10) | \$0.05 | (\$0.01) | \$0.06 | \$0.00 |
| Earnings (loss) per share from discontinued operations - basic and diluted (Note 10) | \$0.00 | (\$0.01) | \$0.02 | (\$0.23) |
| Earnings (loss) per share - basic and diluted (Note 10) | \$0.05 | (\$0.02) | \$0.08 | (\$0.24) |

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)

| | Three Months Ended | | Nine Months Ended | |
|--|----------------------|----------------------|----------------------|----------------------|
| | September 30 2008 | September 30 2007 | September 30 2008 | September 30 2007 |
| Cash provided by (used in) | | | | |
| Operating activities | | | | |
| Income (loss) from continuing operations | \$645,109 | (\$155,841) | \$692,311 | (\$44,462) |
| Items not affecting cash | | | | |
| Amortization of equipment | 15,800 | 10,112 | 39,431 | 27,892 |
| Amortization of deferred costs | - | 8,898 | - | 9,000 |
| Stock-based compensation | - | 73,313 | 284,606 | 73,313 |
| Debt forgiveness income | - | - | (246,114) | - |
| Changes in non-cash operating assets and liabilities | | | | |
| Accounts receivable | 25,186 | 63,695 | 538,317 | 6,521 |
| Deposits and prepaid expenses | (204,059) | 64,788 | (223,226) | 54,837 |
| Other receivable | (156,729) | (84,426) | (354,122) | (162,709) |
| Accounts payable and accrued liabilities | 201,088 | (774,120) | 392,912 | (446) |
| Notes payable | - | (35,300) | - | 486,743 |
| Forward foreign exchange contracts | - | - | (11,944) | - |
| Deferred revenue | (251,856) | - | (821,012) | - |
| Escrow bank account | (2,889,750) | (1,375,262) | (6,944,222) | (3,845,551) |
| Deposits | 2,888,309 | 1,337,188 | 6,942,029 | 3,853,568 |
| | <u>273,098</u> | <u>(866,955)</u> | <u>288,966</u> | <u>458,706</u> |
| Investing activities | | | | |
| Purchase of equipment | (744) | 5,507 | (19,520) | (78,065) |
| Purchase of trademarks | (4,189) | (3,055) | (28,885) | (24,551) |
| | <u>(4,933)</u> | <u>2,452</u> | <u>(48,405)</u> | <u>(102,616)</u> |
| Financing activities | | | | |
| Repayment of convertible debt | - | - | (3,000,000) | - |
| Proceeds from issue of share capital | 12,000 | 386,500 | 392,000 | 441,500 |
| Repayment of other long-term debt | (3,367) | (117,901) | (363,877) | (333,570) |
| | <u>8,633</u> | <u>268,599</u> | <u>(2,971,877)</u> | <u>107,930</u> |
| Increase (decrease) in cash from continuing operations | 276,798 | (595,904) | (2,731,316) | 464,020 |
| Increase (decrease) in cash from discontinued operations (Note 3) | (4,675) | (119,335) | 2,927,662 | (307,874) |
| Cash, beginning of period | 339,730 | 1,147,967 | 415,507 | 276,582 |
| Cash, end of period | \$611,853 | \$432,728 | \$611,853 | \$432,728 |
| Supplementary cash flow information | | | | |
| Interest received | \$75,000 | \$160,260 | \$321,509 | \$436,842 |
| Interest paid | \$1,267 | \$76,931 | \$207,634 | \$233,802 |

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

SeaMiles Limited
Notes to Consolidated Financial Statements
Unaudited
(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 and SeaPoints programs respectively. 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 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) Adoption of New Accounting Policies

i) Capital Disclosures

On January 1, 2008, the Company adopted Section 1535, Capital Disclosures. This Section established standards for disclosing information about an entity's capital and how it is managed to enable users of financial statements to evaluate the entity's objectives, policies and procedures for managing capital. This information is provided in Note 13, Capital Disclosures.

ii) Financial Instruments – Disclosure and Presentation

On January 1, 2008, the Company adopted two sections: Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation. These standards replace Section 3861, Financial Instruments – Disclosure and Presentation.

Section 3862 describes the required disclosures related to the significance of financial instruments on the entity's financial position and performance and the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. This Section complements the principles of recognition, measurement and presentation of financial instruments of Sections 3855, Financial Instruments – Recognition and Measurement, 3863, Financial Instruments – Presentation and 3865, Hedges. The adoption of this Section implied that the Company now presents sensitivity analysis regarding foreign exchange risk, interest rate risk, commodity prices risk and stock-based compensation costs risk. Comparative information about the nature and extent of risks arising from financial instruments is not required in the year Section 3862 is adopted.

Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. This information is provided in Note 14, Financial Instruments.

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.

SeaMiles Limited
Notes to Consolidated Financial Statements
Unaudited
(in Canadian Dollars)

1. Summary of Significant Accounting Policies (continued)

c) Revenue Recognition

SeaMiles meets the tests identified below and accordingly revenue from the SeaMiles loyalty program is recorded on a gross basis 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", with the exception of redemption revenue.

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

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

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. 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. Breakage represents the estimated 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 ratably 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.

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. Redemption revenue is recorded on a net basis in accordance with EIC-123.

Deferred revenue represents payments received for revenue not yet earned. Revenue is recognized as it is earned under the terms of each contract.

d) Foreign Exchange Translation

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. Exchange gains or losses are included in expenses.

SeaMiles Limited
Notes to Consolidated Financial Statements
Unaudited
(in Canadian Dollars)

1. Summary of Significant Accounting Policies (continued)

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, are in the regular course of business and are used to manage foreign exchange exposures.

Foreign exchange contracts are not hedges. 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 to net 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 and SeaPoints, 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.

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 includes real estate 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 sale for any ancillary revenues earned.

i) 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: | 30% diminishing balance basis |
| Furniture and fixtures: | 20% diminishing balance basis |
| Leasehold improvements: | straight-line over the term of the lease |
| Website development: | 30% diminishing balance basis |

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 will be 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 in an amount equal to the excess.

SeaMiles Limited
Notes to Consolidated Financial Statements
Unaudited
(in Canadian Dollars)

1. Summary of Significant Accounting Policies (continued)

k) Impairment of Long-lived Assets

The Company reviews, on an annual basis, long-lived assets such as real estate 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 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.

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 over the vesting period of the options with an offset to contributed surplus. When options are exercised, the corresponding contributed surplus and the proceeds received by the Company are credited 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 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.

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. After initial recognition, financial instruments are measured at their fair values, except for financial assets classified as held-to-maturity on 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.
- 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.

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

n) Fair Value of Financial Instruments

The fair value of financial instruments represents the amounts that would have been received from or paid to counterparties to settle these instruments. 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.

SeaMiles Limited
Notes to Consolidated Financial Statements
Unaudited
(in Canadian Dollars)

1. Summary of Significant Accounting Policies (continued)

o) 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.

p) 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.

q) 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.

r) 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 period. 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 period. Diluted income (loss) per share is not presented if the effect would be anti-dilutive.

s) 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. Actual results could differ from these estimates.

t) Other Receivable

Other receivable represents the estimated 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 ratably over a period of 30 months, the estimated life of a SeaMile. Other receivable is comprised of the estimated long-term receivable portion of breakage.

SeaMiles Limited
Notes to Consolidated Financial Statements
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1. Summary of Significant Accounting Policies (continued)

u) New Accounting Pronouncements

Goodwill and Intangible Assets

In February 2008, the CICA published Section 3064, Goodwill and Intangible Assets. This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets and replaces Section 3062, Goodwill and Other Intangible Assets. This new standard will be effective for interim periods and annual financial statements starting October 1, 2008. The Company is presently evaluating the impact of this new standard.

SeaMiles Limited
Notes to Consolidated Financial Statements
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2. Restatement of Previously Issued Financial Statements

During the fourth quarter ended December 31, 2007, the Company reevaluated its position on EIC – 123, “Reporting Revenue Gross as a Principal versus Net as an Agent.” Under this EIC, revenues for loyalty rewards redeemed are reported on a net basis whereas the revenue and cost sources were previously reported on a gross basis. The impact of this change was to decrease loyalty program revenue and loyalty program costs by \$499,037 and \$499,037 respectively for the three months ended September 30, 2007 and \$1,474,171 and \$1,474,171 respectively for the nine months ended September 30, 2007. Net loss was not impacted by this change.

3. Discontinued Operations

During the fourth quarter of 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, all of which are located in the Muskoka region of Ontario, consist of the Greene Slate Inn, the Ports development project and three residential houses. Accordingly, the Company has reflected its real estate division 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. These consolidated financial statements have adopted the recommendations of CICA Handbook Section 3475, Disposal of Long-lived Assets and Discontinued Operations. The Company’s results of operations related to discontinued operations for the three and nine months ended September 30, 2008 and 2007 and the Company’s assets and liabilities related to discontinued operations as at September 30, 2008 and December 31, 2007 are shown in the following tables, with the 2007 figures restated:

Consolidated Statements of Operations and Comprehensive Income

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|--|------------------------------------|-------------|-----------------------------------|---------------|
| | 2008 | 2007 | 2008 | 2007 |
| Revenue | | | | |
| Rental income | \$ - | \$ - | \$ - | \$ - |
| Expenses | | | | |
| Amortization of deferred costs | - | 7,500 | - | 22,500 |
| Bank charges and interest | 55 | 16,426 | 239 | 62,136 |
| Professional fees | 243 | - | 36,857 | - |
| Selling, general and administrative | 4,377 | 9,634 | 5,661 | 19,231 |
| | 4,675 | 33,560 | 42,757 | 103,867 |
| Loss from discontinued operations before undernoted | (4,675) | (33,560) | (42,757) | (103,867) |
| Write down of property held for sale | - | (79,296) | (30,657) | (2,519,703) |
| Gain from disposal of property held for sale | - | - | 326,557 | - |
| Net income (loss) from discontinued operations | (\$4,675) | (\$112,856) | \$253,143 | (\$2,623,570) |

SeaMiles Limited
Notes to Consolidated Financial Statements
Unaudited
(in Canadian Dollars)

3. 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><u>\$ 326,557</u></u> |

| Consolidated Balance Sheets | September 30 | December 31 |
|---|---------------------|--------------------|
| | 2008 | 2007 |
| Assets | | |
| Current Assets | | |
| Accounts receivable | \$ - | \$1,702 |
| Deposits and prepaid expenses | - | 204,733 |
| | - | <u>206,435</u> |
| 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> |

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
| | September 30, 2008 | | September 30, 2008 | |
| Cash provided by (used in) discontinued operations | 2008 | 2007 | 2008 | 2007 |
| Cash provided by (used in) operating activities | (\$4,675) | (\$39,409) | \$353,161 | (\$68,394) |
| Cash provided by (used in) investing activities | - | (76,796) | 3,189,344 | (349,765) |
| Cash provided by (used in) financing activities | - | (3,130) | <u>(614,843)</u> | <u>110,285</u> |
| Net cash flows provided by (used in) discontinued operations | <u>(\$4,675)</u> | <u>(\$119,335)</u> | <u>\$2,927,662</u> | <u>(\$307,874)</u> |

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(in Canadian Dollars)

4. 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.

5. Equipment

| | September 30 2008 | | |
|------------------------|----------------------|-----------------------------|-----------------------|
| | Cost | Accumulated Amortization | Net Carrying Value |
| Computer equipment | \$95,416 | \$44,327 | \$51,089 |
| Furniture and fixtures | 24,877 | 8,190 | 16,687 |
| Leasehold improvements | 76,451 | 16,215 | 60,236 |
| Website development | 149,938 | 77,975 | 71,963 |
| | \$346,682 | \$146,707 | \$199,975 |

| | December 31 2007 | | |
|------------------------|---------------------|-----------------------------|-----------------------|
| | Cost | Accumulated Amortization | 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 development | 149,938 | 58,303 | 91,635 |
| | \$327,163 | \$107,276 | \$219,887 |

6. Deferred Revenue

In the fourth quarter of 2007, SeaMiles, LLC and Barclays Bank ("Barclays") agreed to a one-time payment by Barclays to SeaMiles, LLC 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. SeaMiles, LLC also has a further \$93,146 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 \$1,651,084 as of September 30, 2008 (December 31, 2007 - \$2,472,096). Revenue is recognized under the terms of the contracts as follows:

| | September 30 2008 | December 31 2007 |
|-------------------|----------------------|---------------------|
| Current portion | \$1,333,549 | \$1,242,158 |
| Long-term portion | 317,535 | 1,229,938 |
| | \$1,651,084 | \$2,472,096 |

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7. Other Long-term Debt

| | September 30 | December 31 |
|---|---------------------|-------------|
| | 2008 | 2007 |
| Other long-term debt, non-interest bearing, due February 2010, monthly principal payments of \$3,000 U.S., unsecured | \$51,089 | \$70,721 |
| Other long-term debt, non-interest bearing, no fixed repayment date, unsecured | - | 339,329 |
| Note payable, 10% per annum, unsecured | - | 227,999 |
| Other long-term debt, non-interest bearing, repayable monthly in varying amounts based on previous loyalty program commitments, unsecured | 581,028 | 604,059 |
| | 632,117 | 1,242,108 |
| Less: Current portion | 141,927 | 132,835 |
| | \$490,190 | \$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 SeaMiles, LLC. Under the agreements, \$380,000 worth of debt was exchanged for 190,000 shares of the Company at a price of \$2.00 per share (Note 9). 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.

8. Convertible Debentures

| | September 30 | December 31 |
|----------------------------|---------------------|-------------|
| | 2008 | 2007 |
| 10% Convertible debentures | \$ - | \$3,000,000 |

The convertible debentures were retired in June 2008 (Note 3).

SeaMiles Limited
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9. 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 as 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 | 190,000 | - | 380,000 |
| Issued through the exercise of stock options | 6,000 | - | 16,680 |
| Balance at September 30, 2008 | 11,762,399 | - | \$17,543,758 |

During the second quarter of 2008, the Company reached agreements with certain creditors to eliminate \$626,114 of pre-acquisition debt of SeaMiles, LLC. Under the agreements, \$380,000 of debt was exchanged for 190,000 shares of the Company at a price of \$2.00, with the remaining debt of \$246,114 being forgiven.

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 September 30, 2008, options to purchase 654,000 common shares have been granted and options to purchase 522,239 common shares remain available to be granted under the Stock Option Plan.

The following table summarizes the changes in stock options outstanding during the nine months ended September 30, 2008:

| | <u>2008</u> |
|-----------------------------------|------------------|
| Balance, beginning of period | 905,000 |
| Cancelled | (605,000) |
| Exercised | (6,000) |
| Granted | 360,000 |
| Balance as at September 30, 2008 | 654,000 |
| Exercisable at September 30, 2008 | 654,000 |

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9. Share Capital (continued)

The following table summarizes the weighted average exercise price and the weighted average remaining contractual life of the options outstanding and exercisable as at September 30, 2008:

| | |
|---|-----------------|
| Range of exercise prices | \$2.00 - \$2.15 |
| Options outstanding | 654,000 |
| Weighted average remaining contractual life | 466 days |
| Options exercisable | 654,000 |
| Weighted average exercise price | \$2.02 |

The following table summarizes the stock options outstanding as at September 30, 2008:

| <u>Date of Grant</u> | <u>Stock Options (#)</u> | <u>Exercise Price</u> | <u>Expiry Date</u> |
|--------------------------|------------------------------|---------------------------|------------------------|
| August 21, 2007 | 294,000 | \$2.00 | August 21, 2009 |
| April 30, 2008 | 275,000 | \$2.00 | April 30, 2010 |
| May 15, 2008 | 85,000 | \$2.15 | May 15, 2010 |
| | <u>654,000</u> | | |

10. Earnings (loss) per Share

Earnings per share is calculated using the weighted average number of common shares outstanding during the three and nine months ended September 30, 2008, which is 11,758,682 (2007 – 11,445,692) and 11,635,815 (2007 – 11,336,729) shares, respectively. Diluted loss per share has not been presented since the potential conversions of convertible debentures 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.

12. Segmented Information

As the Company has divested its real estate assets, the Company will only be operating in the loyalty program segment going forward. Accordingly, only segmented balance sheet information is provided. The table below summarizes the segmented balance sheet information as at September 30, 2008 and December 31, 2007.

The designation of segments is based on the nature of the products and services provided and the information used by the Chief Operating Decision Maker. The accounting policies followed by the segments are the same as those described in the summary of significant accounting policies.

| | <u>Loyalty Program</u> | | <u>Discontinued Operations</u> | | <u>Consolidated</u> | |
|---------------------|------------------------------|-----------------------------|--------------------------------|-----------------------------|------------------------------|-----------------------------|
| | <u>September 30 2008</u> | <u>December 31 2007</u> | <u>September 30 2008</u> | <u>December 31 2007</u> | <u>September 30 2008</u> | <u>December 31 2007</u> |
| Identifiable assets | \$34,786,517 | \$27,652,797 | \$ - | \$3,426,435 | \$34,786,517 | \$31,079,232 |
| Corporate assets | | | | | 148,399 | 93,547 |
| Total assets | | | | | \$34,934,916 | \$31,172,779 |

SeaMiles Limited
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13. Capital Disclosures

The Company defines its capital as follows:

- i) Other long-term debt
- ii) Convertible debentures
- iii) Shareholders' equity
- iv) Cash and cash equivalents

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

| | September 30 | December 31 |
|---------------------------|---------------------|-------------|
| | 2008 | 2007 |
| Other long-term debt | \$632,117 | \$1,242,108 |
| Convertible debentures | - | 3,000,000 |
| Shareholders' equity | 6,631,481 | 5,009,421 |
| Cash and cash equivalents | 611,853 | 415,507 |
| Escrow bank account | 24,076,400 | 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 and SeaPoints, 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 the period.

14. Financial Instruments

i) Fair Value

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

The carrying value and estimated fair value of the Company's financial instruments is their fair value which is the amount that has been recorded in the financial statements.

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies, as disclosed below. However, considerable judgment can be required to develop certain of these estimates. Accordingly, these estimated values are not necessarily indicative of the amounts the Company could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of each class of financial instruments are discussed below.

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14. Financial Instruments (continued)

i) Fair Value (continued)

The fair value of financial instruments represents the amounts that would have been received from or paid to counterparties to settle these instruments. 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.

ii) 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 and cash equivalents, are 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.

iii) Interest Rate Risk

The Company does not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates, relative to interest rates on the investments, owing to the short term nature of the investments. Based on management's knowledge and experience of the financial markets, management does not believe that the Company's current financial instruments will not be affected by interest rate risk in the near future.

iv) 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 the 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 exchange risk. Sensitivity to a +/- 10% movement in the Canadian dollar would result in a \$58,067 variance in net liabilities of the Company as at September 30, 2008.

| As of September 30, 2008 | CDN \$ Total | USD Total |
|--|---------------------|---------------------|
| FX Rates Used to Translate to USD | | \$1.0642 |
| Financial assets | | |
| Cash and cash equivalents | \$511,077 | \$480,245 |
| Accounts receivable | 1,041,867 | 979,014 |
| Deposits and prepaid expenses | 1,332,570 | 1,252,180 |
| Escrow bank account | 23,971,696 | 22,525,556 |
| Other receivable | 604,708 | 568,228 |
| Total | \$27,461,918 | \$25,805,223 |
| Financial liabilities | | |
| Accounts payable and accrued liabilities | \$1,826,765 | \$1,716,562 |
| Deposits | 23,969,899 | 22,523,867 |
| Deferred revenue | 1,651,084 | 1,551,479 |
| Other long-term debt | 632,117 | 593,983 |
| Total | \$28,079,865 | \$26,385,891 |

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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:

| | |
|------------|----------|
| 2008 | \$52,000 |
| 2009 | 202,000 |
| 2010 | 163,000 |
| 2011 | 114,000 |
| Thereafter | 417,000 |

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) Under an agreement between SeaMiles, LLC and Carnival Cruise Lines, SeaMiles, LLC has certain financial obligations which it must meet on an annual basis. Due to the confidentiality provisions of the agreement, the Company is unable to disclose the terms of the financial obligations. All obligations incurred under the agreement are recorded at the time they are incurred. SeaMiles, LLC has met its obligations to date under this agreement.
- c) SeaMiles, LLC was previously a plaintiff and a defendant in various lawsuits, which arose in Miami-Dade County, Florida (United States), against its former president/former member. All pending lawsuits were settled pursuant to an agreement dated September 26, 2005. As a compromise, SeaMiles, LLC agreed to pay its former president/former member \$787,500 U.S. for alleged damages arising under various state and federal lawsuits and for all interest the former president/former member claimed to own in SeaMiles, LLC. 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. Subsequent to the settlement, SeaMiles, LLC filed a motion in the settled litigation to enforce a provision of the settlement agreement which allowed SeaMiles, LLC to terminate future payments owed under the settlement agreement if the former president/former member breached certain provisions of the settlement agreement. On December 14, 2006, the Court ruled in favor of SeaMiles, LLC, finding that the former president/former member breached the settlement agreement and the Court therefore terminated the \$787,500 U.S. liability (Note 17(a)).
- d) Subsequent to the Court terminating the \$787,500 U.S. liability, an individual claiming an indirect ownership interest in SeaMiles, LLC, through a company owned and controlled by SeaMiles, LLC's former president/former member, filed suit in Miami-Dade County against SeaMiles, LLC and its former president/former member. This individual seeks compensation for the reasonable value of his alleged indirect interest in SeaMiles, LLC. No amount has been ascribed to the claim as of yet. SeaMiles, LLC 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. However, the individual claims he did not knowingly sign the settlement agreement, and was instead tricked by the former president/former member into signing the signature page without seeing the entire settlement agreement. In fact, the trial court ruled that SeaMiles, LLC's former president/former member made misrepresentations in the September 26, 2005 settlement agreement and that the claimant did not knowingly sign the September 26, 2005 settlement agreement (Note 17(b)).

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16. Comparative Figures

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

17. Subsequent Events

- a) In connection with the litigation discussed in Note 15 (c) above, on October 29, 2008, the Florida Court of Appeal reversed the trial court below and found in favor of the former president/former member in respect of certain claims against the Company. However, the parties have settled the underlying disputes under the terms of a confidential agreement that provides for the payment of stock and cash to the former president/former member in exchange for mutual releases and other consideration. Under this agreement, \$425,000 U.S. owed by the Company will be settled through a cash payment of \$75,000 U.S., the issuance of 100,000 common shares at a deemed price of \$1.50 U.S. per share in the capital of the Company, a payment of \$100,000 U.S. one year from now 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 two years from now. Each of the \$100,000 U.S. future payments will be secured by 100,000 shares of the Company (Note 15(c)).
- b) In connection with the litigation discussed in Note 15 (d) above, the determination of the binding validity of claimant's signature on the signature page of the September 26, 2005 settlement agreement was addressed in the appeal between SeaMiles, LLC and its former president/former member. On October 29, 2008, the Court of Appeal reversed the trial court below and ruled that the individual's signature was valid and binding, thereby rejecting the individual claimant's claim that he is not bound by his signature on the September 26, 2005 settlement agreement. The individual claimant may still proceed with his lawsuit, which was not directly on appeal. However, the Company has defenses against the lawsuit, including, but not limited to the October 29, 2008 appellate decision, as well as indemnity claims available to the Company against the former president/former member of SeaMiles, LLC (Note 15(d)).