

**SEAMILES LIMITED**  
**(formerly Corporate Properties Limited)**  
**Management's Discussion and Analysis**  
**of Financial Condition and Results of Operations**  
**For the Fiscal Year Ended December 31, 2006**

Date: April 27, 2007

SeaMiles Limited (formerly Corporate Properties Limited) (the "Company") has primarily been engaged in the business of real estate development in the Muskoka region of Ontario, but has more recently diversified its business portfolio by engaging in the business of cruise based loyalty rewards programs. In 2005, the Company launched the SeaPoints affinity card program in Canada through its wholly owned subsidiary, SeaPoints Inc. In March 2006, the Company acquired 100% of the membership interest of SeaMiles, LLC ("Seamiles"), a business operating a cruise based loyalty program in the United States of America. The management of the Company believes that more business opportunities to increase shareholder value lie in the Company's loyalty card division and therefore changed its name to SeaMiles Limited in November 22, 2006.

The following discussion and analysis is based on the Company's audited consolidated financial statements, including notes, for the years ended December 31, 2006 and 2005. These statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The preparation of these financial statements requires management to make assumptions and estimates that affect the amounts reported of assets and liabilities as of the date of the financial statements and the amounts reported as revenue and expenses during the reporting period. Management estimates and judgment are based on historical experience and other factors deemed to be reasonable under the circumstances. Actual future results may differ materially from these estimates under different assumptions or conditions. Management believes the accounting policies outlined in the Summary of Significant Accounting Policies section of its consolidated financial statements reflect the more significant judgments and estimates used in the preparation of its consolidated financial statements.

This discussion includes assumptions made by management that involve certain risks and uncertainties. These assumptions should be given careful consideration and undue reliance should not be placed on these assumptions.

## **Overview**

During 2006, the Company continued to place a great deal of emphasis on its affinity card program division by embarking on strategic and operational initiatives that will position the Company for long term, sustainable growth.

The principal loyalty program asset is the Company's wholly owned subsidiary, Seamiles, which the Company purchased effective March 29, 2006. Seamiles maintains a long term strategic alliance with Carnival Cruise Lines ("Carnival"), which currently offers a co-branded Carnival/SeaMiles Master Card. The card offers a point accumulation program and redemption in use and continues to grow.

In November 2006, SeaMiles signed a long-term bank card marketing agreement with Chase Bank USA N.A, (Chase), the credit card division of JPMorgan Chase, which will allow for the expansion of the SeaMiles loyalty program. In early 2007, Seamiles selected VISA as its payment credit card in connection with the Chase agreement under a Promotional Co-Branded Card Agreement it signed with Visa U.S.A. Inc.

Chase will issue the SeaMiles Visa Signature Rewards Card which enables US consumers to earn for everyday spend, and much more, while redeeming on the cruise line of their choice through SeaMiles' unique redemption platform.

Furthermore, the Company continues to grow its SeaPoints program offered exclusively to Canadians through its wholly-owned subsidiary SeaPoints Inc. This program has been successful in its limited marketing efforts to date with over 6,400 members as at December 31, 2006. SeaPoints is positioned to launch a credit card in Canada, which would significantly enhance its SeaPoints program.

Overall, the cruising industry has been a steadily growing segment of the travel business for the past 30 years. More than 12 million North Americans cruised in 2005, while many more have indicated in surveys that they intend to do so in the near future. The industry continues to add additional capacity to meet continuously increasing demand. The SeaMiles/SeaPoints programs will help past and future potential cruise passengers earn free cruises and discounts within the travel industry.

The Company continues to develop its Muskoka properties. Construction on Phase 1 of the Greene Slate Inn is 80% complete. Management has completed a redesign of Phase 2 of the project for the purpose of providing a more cost effective design in compliance with the existing zoning by-laws. The Ports project received approval from the Council of the Corporation of the Township of Muskoka Lakes on February 20, 2007 to develop a mixed use retail/residential/office development that would consist of 8,800 square feet of retail space, 1,600 square feet of office space and nine dwelling units, five of which will be located above boathouses and four of which will be located above the retail. In order to facilitate this development the Company purchased from the Ministry of Natural Resources the bed of the adjacent river bed in the area that will include five dwelling units above their respective boathouses. Council's approval was appealed to the Ontario Municipal Board by the adjoining property owners, however, a tentative resolution has been negotiated with the appellant that would result in their appeal being abandoned within thirty days.

In the fourth quarter of 2006 the Company disposed of its two income producing properties in Muskoka, Ontario, which were the Cranberry Cove Resort and Tapps

Cottage Eatery. The effect of these two sales reduced the Company's long-term debt by \$5.15 million dollars.

On the real estate side, the Company's goal is to maximize the profitability of all its real estate holdings and reinvest the profits into its loyalty program. The Company does not plan to acquire any additional real estate as it will focus all its efforts and resources on its core loyalty program.

As the Company operates in two different industry segments, the Company has provided segmented reporting for its loyalty program and real estate divisions.

## **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Revenue Recognition**

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

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 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.

### **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 capitalized 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.

## **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 on a diminishing balance basis as follows:

- Building – 4%
- Furniture and fixtures – 20%
- Paving – 8%

## **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.

## RESULTS OF OPERATIONS

For the year ended December 31, 2006, the Company reported a net loss of \$3,444,371 or \$0.37 per share compared to a net loss of \$1,404,339 or \$0.29 per share in the previous year. The net loss was \$2,238,694 from real estate and \$1,827,285 from corporate expenses which was partially offset by net income of \$621,608 from the loyalty program. The net loss from the real estate division was primarily attributable to a loss of \$1,718,355 incurred on the disposal of the Company's income producing properties. Corporate expenses included stock based compensation of \$717,945 and fees paid for management and professional services to support the ongoing strategic and operational activities of the Company and its subsidiaries.

For the fourth quarter, the Company reported a net loss of \$2,012,030 or \$0.18 per share compared to a net loss of \$433,000 or \$0.07 per share in 2005. Of the current quarter's loss, \$1,816,490 is related to real estate and \$354,493 to corporate expenses, partially offset by net income of \$158,953 from the loyalty program. The major component of the loss from real estate was the loss of \$1,718,355 incurred from the disposal of the income producing properties discussed above.

### Revenue

For 2006, the Company reported total net revenue of \$7,408,006 compared to \$665,084 in 2005. Rental revenue for 2006 was \$492,033 compared to \$663,500 the previous year. The decrease in rental revenue by \$171,467 or 25.8% from the previous year is primarily attributed to the disposal of the Company's income producing properties during the fourth quarter. Loyalty program revenue for 2006 was \$6,915,973 compared to \$1,584 in 2005. The \$6,914,389 increase in loyalty program revenue is mainly related to the acquisition of SeaMiles on March 29, 2006.

For the fourth quarter ended December 31, 2006, the Company reported total net revenue of \$2,328,529 compared to \$157,208 during the same quarter in 2005. Revenue for the fourth quarter of 2006 comprised \$1,113 in rental revenue versus \$155,624 in 2005 and \$2,327,416 in loyalty program revenue versus \$1,584. The decrease in the rental income in 2006 was due to the disposition by the Company of its income producing properties in the fourth quarter.

### Expenses

Total expenses for the year ended December 31, 2006 were \$10,852,377, inclusive of the loss of \$1,718,355 on the disposal of the income producing properties, compared to \$2,069,423 for 2005. The expenses for 2006 are comprised of \$2,730,727 related to real estate versus \$1,224,573 in 2005, \$6,294,365 related to the loyalty program versus

\$126,648 in the previous year and \$1,827,285 in corporate expenses versus \$718,202 in 2005.

For the year ended December 31, 2006, amortization expense on income producing real estate was \$247,169 compared to \$286,594. The decrease of \$39,425 is related to the disposal of the Company's income producing real estate during the fourth quarter of 2006.

Amortization expense on the Company's equipment for 2006 was \$29,696 versus \$12,451 in 2005. The increase of \$17,245 is comprised of SeaMiles portion of equipment amortization and a full year of amortization for SeaPoints' website costs whereas there was only a partial year of amortization during 2005.

The amortization of deferred costs for 2006 was \$222,539 compared to \$119,712 in 2005. This primarily relates to financing costs incurred for the issuing of debt securities which are capitalized and amortized over the term of the debt.

Bank charges and interest expense was \$169,152 for 2006 versus \$153,744 in 2005. The increase of \$15,408 is mainly attributed to SeaMiles portion of interest costs for which there was nothing reported the previous year.

Expenses related to the income producing real estate properties increased by \$20,814 to \$54,743 for 2006 compared to \$33,929 in 2005.

Interest on long-term debt for 2006 was \$742,380 compared to \$681,155 in 2005. The increase of \$61,225 is primarily due to interest paid on the \$3 million of convertible debentures issued in April 2006.

Expenses related to the loyalty program excluding amortization, interest and bank charges amounted to \$6,220,640 in 2006, versus \$113,996 last year. The current year's increase is due to the acquisition of Seamiles on March 29, 2006.

Management fees amounted to \$317,750 in 2006 as compared to \$154,981 last year. The increased fees are due to the increased head office activity in 2006.

Selling, general and administrative expenses increased to \$412,008 versus \$209,981 last year. The increase in expenses is due to the increased head office activity in 2006.

The Company recorded stock-based compensation expense of \$717,945 in 2006. This related to the Company having granted 410,000 stock options to its officers and certain consultants and 150,000 stock options to its directors pursuant to its stock option plan as well as having 100,000 stock options granted in 2005 vest in 2006. The Company accounted for the stock based options using the fair-value method as at the grant date. The average fair value of the options was valued at \$0.8445, \$1.018 and \$2.19 respectively using the Black-Scholes method for pricing options.

In the fourth quarter of 2006, the Company disposed of its income producing properties in two separate transactions. In October, the Company sold its property at 125 Medora Street for \$1,200,000. In November, the Company sold, to a related party, one of its subsidiary companies for \$1 and the assumption of liabilities, with the sole asset being the Cranberry Marsh Cove property. These transactions are summarized below:

Cash proceeds	\$ 1,200,001
Assumption of mortgages payable by purchaser	4,250,000
Assumption of other net payables by purchaser	<u>38,310</u>
	5,488,311
Net book value of income producing properties	<u>7,206,666</u>
Loss on sale of income producing properties	<u><u>(\$1,718,355)</u></u>

## SELECTED QUARTERLY FINANCIAL DATA

(Expressed in thousands of Canadian dollars, except per share amounts)

The following information summarizes quarterly financial information for the fiscal years ended December 31, 2006 and 2005.

Quarter	2006				2005			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
Total revenue	201	2,383	2,496	2,329	151	153	204	157
Net income (loss)	(370)	(413)	(649)	(2,012)	(173)	(254)	(544)	(433)
Income (loss) per share	(0.06)	(0.05)	(0.06)	(0.18)	(0.04)	(0.05)	(0.11)	(0.08)

## SELECTED ANNUAL FINANCIAL DATA

(Expressed in Canadian dollars)

	2006	2005	2004
Total Assets	\$ 28,715,942	\$ 12,688,974	\$ 11,054,808
Total Long-Term Debt	4,919,983	6,448,631	2,065,107
Total Shareholders' Equity	6,833,620	2,771,428	1,215,582
Common Shares Outstanding	11,271,399	5,838,447	4,155,118
Book Value per Share	\$ 0.61	\$ 0.47	\$ 0.29
Revenue	\$ 7,408,006	\$ 665,084	\$ 411,991
Net Loss	(\$3,444,371)	(\$1,404,339)	(\$219,011)
Net Loss per Share	(\$0.37)	(\$0.29)	(\$0.08)

## LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2006, the Company had total assets of \$28,715,942 compared to total assets of \$12,688,974 for the same period in 2005. The company had \$276,582 in cash compared to (\$2,461) in 2005. As at December 31, 2006, the Company held funds in an escrow bank account totaling \$12,638,637. The funds in the account will be used to primarily fund future point redemptions made by members of the SeaMiles loyalty program for cruise rewards.

As at December 31, 2006, the Company had total liabilities of \$21,882,322 versus total liabilities of \$9,917,546 in 2005. Total liabilities include \$3,000,000 in convertible debt (\$2,427,443 at December 31, 2005) and current and long term debt of \$3,582,882 (\$6,413,488 at December 31, 2005).

The Company's net working capital as at December 31, 2006 was a deficit of \$693,869 compared to a deficit of \$2,978,350 as at December 31, 2005. The Company was able to improve its net working capital position primarily by issuing \$3 million in convertible debt in April 2006, raising \$4,375,400 from the issuance of share capital and raising

\$1,200,001 in proceeds from the disposal of its income producing real estate properties, partially offset by \$5,257,874 in loans made for the Company in connection with the SeaMiles acquisition and \$1,148,438 spent on property held for development.

The Company's long-term debt, including the current portion, as of December 31, 2006 was \$3,582,882 compared to \$6,413,488 at December 31, 2005. The decrease of \$2,830,606 from the previous year is primarily due to the Company disposing of its income producing real estate, thus reducing its long term debt by \$5.15 million and other mortgage and debt payments of \$1,103,875, partially offset by the Company raising \$2,250,000 in mortgage financing and assuming \$1,177,672 in long term debt from the purchase of Seamiles.

As at December 31, 2006, the Company had \$3 million in convertible debt compared to \$2,427,443 as at December 31, 2005. The \$3 million in convertible debentures was issued in April 2006 and has a two year term (2005 – two year term) and bear interest at a coupon rate of 10% (2005 – 12%), payable monthly. The debentures are convertible into common shares (2005 – units) at the rate of \$3.00 per share (2005 - \$1.10) at the sole option of the lenders for the entire term expiring no later than April 30, 2008 (2005 – August 19, 2007). Each unit comprises one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share at the rate of \$1.10 per share and the warrants can be exercised up to and including August 19, 2007. If all of the current debentures are converted, it will result in the issuance of 1,000,000 (2005 – 4,545,454) common shares. The debentures are secured by a general security agreement and the debentures mature on April 30, 2008 (2005 – August 19, 2007).

In May 2006 all the 12% convertible debentures were converted and all the common share purchase warrants attached to the 12% convertible debentures were exercised, resulting in the issuance of 4,545,454 common shares.

Shareholder's Equity was \$6,833,620 as at December 31, 2006 versus \$2,771,428 as at December 31, 2005. The increase in shareholders' equity is due to an increase of \$6,913,260 and \$680,085 in share capital and contributed surplus respectively, offset by the net loss of \$3,444,371 and \$86,782 equity portion of convertible debt converted in 2006. The increase in share capital is primarily due to the following:

- a) In March and April 2006, the Company raised \$1,320,400 from the exercise of 587,498 common share purchase warrants at a price of \$2.25 per share, after deducting issue costs of \$1,473.
- b) In May 2006, the Company received \$5,000,000 in new equity from the conversion of \$2,500,000 of convertible debt at a conversion price of \$1.10 per common share and the exercise of 2,500,000 of warrants attached to the convertible debt at an exercise price of \$1.10 per common share. A total of 4,545,454 common shares were issued pursuant to the financing.

c) In May 2006, the Company raised \$500,000 from the exercise of 250,000 common share purchase warrants at a price of \$2.00 per share.

At December 31, 2006, the Company has the following issued and outstanding common shares and common share purchase warrants:

	Number of		\$	
	Voting Common Shares	Common Share Purchase Warrants	Voting Common Shares	Equity Component of Convertible Debt
Balance	11,271,399	612,498	\$16,585,047	\$ -

The terms of the outstanding common share purchase warrants are as follows:

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

The Company has the following stock options to its officers, directors and certain consultants outstanding as at December 31, 2006:

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

The fair value of stock options granted during 2006 are as follows: 410,000 at \$0.8445; 150,000 at \$1.018. In addition, 100,000 stock options granted in July 2005 vested in July 2006 and were valued at \$2.19. The method used to determine the rates was the Black-Scholes model for pricing options.

Cash used in operations was \$1,852,962 for 2006 compared to \$593,892 for 2005. This increase of cash is due to the increase in the Company's activities for the year, primarily resulting from the increase in prepaid expenses.

## FINANCIAL INSTRUMENTS

The Company's financial instruments involve mortgages payable which are secured against property of the Company and convertible debentures. The risks associated with the mortgages payable is that interest rates could rise, making it more expensive to borrow money against the various properties, and cyclical changes in the real estate market. The convertible debentures are also subject to the risk of interest rates rising. The Company is not exposed to any significant interest risks and their carrying values approximate their fair values.

Contractual Obligations	<u>Total</u>	<u>Less than 1 year</u>	<u>1 - 2 Years</u>	<u>Greater than 2 Years</u>
Long-Term Debt (including current portion)	\$ 3,582,882	\$ 1,662,899	\$ 1,156,620	\$ 763,363
Convertible Debt	3,000,000	-	3,000,000	-
Purchase Obligations	1,296,000	194,000	173,000	929,000
Total Contractual Obligations	<u>\$ 7,878,882</u>	<u>\$ 1,856,899</u>	<u>\$ 4,329,620</u>	<u>\$ 1,692,363</u>

## 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 directors and shareholders as follows:

	December 31 2006	December 31 2005
Accounts receivable	\$ -	\$ 173,813
Accounts payable and accrued liabilities	\$ -	\$ 122,368
Due to related parties	\$ 256,281	\$ 325,302
Mortgage payable	\$ 487,500	\$ 500,000
Convertible debentures	\$ 2,750,000	\$ 750,000

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

	December 31 2006	December 31 2005
Rental income	\$ 407,850	\$ 575,000
Interest	\$ 334,117	\$ 188,176
Leasehold improvements	\$ 56,385	\$ -
Management fees	\$ 224,000	\$ 154,981
Financing fees	\$ 101,655	\$ -
Rent	\$ 55,618	\$ 8,942
Professional fees	\$ 34,097	\$ 13,621
Selling, general and administrative	\$ 81,755	\$ -

	<b>December 31 2006</b>	December 31 2005
Sale of income producing property		
Cash proceeds	\$ 1	
Assumption of mortgages payable by purchaser	4,250,000	
Assumption of other net payables by purchaser	<u>38,310</u>	
	<b>4,288,311</b>	
Net book value of income producing property	<u>5,709,313</u>	
Loss on sale of income producing property	<u><b>(\$1,421,002)</b></u>	

These transactions are recorded at the exchange value as agreed by the parties.

## **SUBSEQUENT EVENTS**

In January 2007, the Company renewed its \$1,000,000 mortgage on one of its properties at a rate of 10% for one year.

In January 2007, the Company signed a Promotional Co-branded Card Agreement with Visa U.S.A. Inc.

## **RISKS AND UNCERTAINTIES**

The Company is exposed to a variety of risk factors relative to the nature of its business. It is difficult to accurately predict future operating results as actual results may differ significantly from any forward-looking statements. Factors that may cause such differences include but are not limited to the following:

- Obtaining adequate and timely financing on terms that are acceptable
- Whether properties are successfully developed and the timing of such developments
- Obtaining municipal approval for its development projects
- Costs and timing of products and services required associated with development activities
- Market acceptance of properties offered
- The cyclical nature of real estate market values
- Interest rate trends

- Circumstances that are beyond the control of the travel industry such as acts of terrorism or severe climate changes
- Competition in the cruise card loyalty business
- Ability to generate positive cash flow from operations
- Ability to retain and attract key management and other experienced personnel

## **DISCLOSURE CONTROLS AND PROCEDURES**

As at the financial year ended December 31, 2006, an evaluation was carried out under the supervision of and with the participation of the Company's management, including the President and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the President and the Chief Financial Officer concluded that the design and operations of these disclosure controls and procedures were effective as at December 31, 2006 to provide reasonable assurance that material information relating to the Company would be made known to them by others within the Company.