

SEAMILES LIMITED
Management's Discussion and Analysis
of Financial Condition and Results of Operations
For the Three Months Ended March 31, 2008

Date: May 29, 2008

SeaMiles Limited (the "Company") owns and operates cruise based loyalty rewards programs. The Company's primary focus from a shareholder perspective is its cruise based loyalty program in the United States through its wholly owned subsidiary, SeaMiles, LLC. The Company is divesting its remaining real estate assets in the Muskoka region of Ontario in June 2008.

The following discussion and analysis is based on the Company's unaudited consolidated financial statements, including notes, for the three months ended March 31, 2008 and 2007. 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

Cruise Based Loyalty Programs

The Company continues to make the credit card loyalty program its priority 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, LLC. SeaMiles, LLC maintains a long term strategic alliance with Carnival Cruise Lines ("Carnival"), which currently offers a co-branded CarnivalSM SeaMiles® MasterCard® issued by Barclays Bank. The card offers a reward accumulation and

redemption program primarily focused in the cruise sector which continues to show steady growth.

SeaMiles, LLC has a long-term bank card marketing agreement with Chase Bank USA N.A. ("Chase"), the credit card division of JPMorgan Chase, which allowed for the expansion of the SeaMiles loyalty program. In early 2007, SeaMiles, LLC 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.

SeaMiles, LLC's business partnerships with Chase and Visa enabled the Company to successfully launch the SeaMiles® Visa® Rewards Card program in the 2nd quarter of 2007. Chase is the issuer of the SeaMiles credit card which enables U.S. cruise enthusiasts to earn SeaMiles. A cardholder earns 3 SeaMiles for every dollar spent on a cruise and 1 SeaMile for everyday purchases. At the time of redemption, cardholders can redeem on *Any Cruise Line...Any Time®* 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.

Overall, the cruising industry has been a steadily growing segment of the travel business for the past 30 years. According to the Cruise Line International Association ("CLIA"), more than 12.6 million passengers cruised in 2007 with approximately 10.3 million of the passengers originating from North America. For 2008, CLIA has forecasted 12.8 million passengers with more than 10.5 million of those passengers originating from North America. This is further supported by CLIA member travel agents, where in a recent survey, 90% expect to have as good or better annual sales over 2007.

Cruise lines are expanding their target market and luring new passengers by creating more theme and special interest cruise holidays. Existing cruise passengers are looking for new experiences, which has prompted cruise lines to create new deployments and itineraries. The industry continues to add additional capacity to meet increasing demand. The SeaMiles/SeaPoints programs will help past and future potential cruise passengers earn free cruises and discounts within the travel industry.

Real Estate Development Program

On March 27, 2008, the Company signed an agreement of purchase and sale to sell its remaining real estate assets to a shareholder of the Company. The properties to be 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. The sale is expected to close on June 16, 2008.

Since the Company is divesting its real estate assets, the Company will only be operating in the loyalty program segment going forward and has reflected its real estate division as a discontinued operation.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Company owns and operates a cruise based loyalty program in both the United States 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 airfare from the Company's wholly-owned subsidiary Seamiles, LLC in the United States and from Encore Cruises in Canada.

The consolidated financial statements of the Company have been prepared in Canadian dollars and in accordance with Canadian generally accepted accounting principles.

Adoption of New Accounting Policies

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.

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.

Revenue Recognition

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.

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 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 under the terms of each contract.

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.

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, which are reviewed periodically.

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.

Impairment of Long-lived Assets

The Company reviews, on an annual basis, long-lived assets such as real estate property and equipment with finite useful lives 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.

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.

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.

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.

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.

Use of Estimates

The preparation of consolidated 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 revenues and expenses during the reporting period. Actual results could differ from these estimates.

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.

Restatement of Previously Issued Financial Statements

During the fourth quarter of 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 \$521,219 and \$521,219 respectively for the three months ended March 31, 2007. Net loss was not impacted by this change.

RESULTS OF OPERATIONS

For the quarter ended March 31, 2008, the Company reported a loss from continuing operations of \$55,294 or \$0.00 per share compared to income of \$40,596 or \$0.00 last year. The loss for 2008 is mainly attributable to increased selling, general and administrative expenses to support the growing needs of the cruise loyalty business and a foreign exchange loss on the Company’s net monetary U.S. liabilities due to a strengthening U.S. dollar of 0.9913 at December 31, 2007 to 1.0265 at March 31, 2008.

The Company’s real estate development assets has been shown as a discontinued operation as a result of the Company’s plans to divest itself of its remaining real estate in June 2008 and the 2007 results have been restated accordingly. The Company incurred a loss from discontinued operations of \$48,903 for the first quarter of 2008 versus a loss of \$34,065 in 2007. The loss in 2008 was primarily attributable to a writedown of \$18,711 in the value of the property held for sale and professional fees of \$29,454. The loss in the previous year was primarily due to interest expense of \$22,500 incurred on a mortgage on the Company’s property held for sale.

The Company reported a net loss and comprehensive loss for the quarter of \$104,197 or \$0.01 per share in 2008 versus net income and comprehensive income of \$6,531 or \$0.00 in 2007.

Revenue

For the three months ended March 31, 2008, the Company reported revenue of \$2,574,243 compared to \$2,284,665 in 2007. The increase in loyalty program revenue of \$289,578 or 13% in 2008 over 2007 is primarily due to the implementation of management's strategic and operational initiatives to grow its cruise loyalty program, partially offset by a weakening U.S. dollar from the first quarter of 2007 to the first quarter of 2008 and a decrease in interest revenue as a result of interest rate cuts made by the U.S. government.

Cost of Goods Sold

Loyalty program direct costs for the quarter ended March 31, 2008 were \$1,774,868 compared to \$1,427,622 for 2007. The increase in direct costs by \$347,246 is primarily attributed to the increased loyalty program revenue and increased onboard card selling activities, partially offset by the weakening U.S. dollar.

Expenses

Total expenses from continuing operations for the first quarter of 2008 were \$854,669 compared to \$816,447 for 2007. Increased expenditures were made as the Company was working on growing its loyalty program business, partially offset by the weakening U.S. dollar.

For the three months ended March 31, 2008, advertising and promotion expense was \$54,039 compared to \$46,599 in 2007. Expenses include various campaigns to promote the SeaMiles loyalty program to its target market within the cruise industry.

Amortization expense on the Company's equipment for the first quarter of 2008 was \$11,266 versus \$8,201 in 2007. The increase in amortization expense by \$3,065 is a result of increased equipment purchases and website development costs made to support the growing needs of the Company.

During the three months ended March 31, 2008, bank charges and interest expense was \$1,120 versus \$1,139 for the same period in 2007.

The Company had a foreign exchange loss of \$79,028 for the first quarter of 2008 compared to a foreign exchange loss of \$18,423 in 2007. Exchange gains or losses arise from the translation of the Company's operations in the United States. The exchange loss in 2008 is primarily due to the increase in the U.S. dollar of \$0.9913 at December 31, 2007 to \$1.0265 at March 31, 2008 on the Company's net monetary U.S. liabilities.

Interest on long-term debt for the three months ended March 31, 2008 was \$82,159 compared to \$83,999 in 2007. The interest is mainly attributed to the convertible debentures issued by the Company, which amounted to \$75,000 for each quarter.

During the quarter ended March 31, 2008, management fees were nil as compared to \$37,500 last year. The decrease in fees by \$37,500 is due to the addition of permanent resources to support head office activity which is now reflected in selling, general and administrative expenses.

Occupancy costs declined to \$41,064 for the first quarter of 2008 versus \$47,740 in 2007, due to the weakening U.S. dollar. Occupancy costs consist of rent, maintenance fees and utilities.

Professional fees were \$25,811 for the three months ended March 31, 2008 compared to \$89,890 for the same period in 2007. The decrease in professional fees is primarily attributable to a reduction in legal fees in 2008 versus 2007. Professional fees include auditing, tax and legal services provided to the Company.

Selling, general and administrative expenses increased to \$560,182 versus \$482,956 last year. The increase in expenses is primarily due to the addition of permanent resources as well as increased costs to support corporate activity in the cruise loyalty program business, partially offset by a weakening U.S. dollar.

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 real estate assets to a shareholder of the Company. The properties to be 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. The sale is expected to close on June 16, 2008. The Company's consolidated financial statements have adopted the recommendations of the 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 months ended March 31, 2008 and 2007 are shown in the following table:

	<u>2008</u>	<u>2007</u>
Revenue		
Rental income	\$ -	\$ -
Expenses		
Amortization of deferred costs	-	7,500
Bank charges and interest	96	22,898
Professional fees	29,454	-
Selling, general and administrative	642	3,667
	<u>30,192</u>	<u>34,065</u>
Loss from discontinued operations before		
Undernoted	(30,192)	(34,065)
Write down of property held for sale	<u>(18,711)</u>	<u>-</u>
Net loss from discontinued operations	<u>(\$48,903)</u>	<u>(\$34,065)</u>

During the year ended December 31, 2007, management reviewed the carrying value of its property held for sale. As a result of this review, management determined that a decline in the value of the property had occurred. For the three months ended March 31, 2008, the Company recorded a write down in the amount of \$18,711. The carrying value of the Company's property held for sale at December 31, 2007 and March 31, 2008 is \$3,220,000.

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2008, the Company had total assets of \$34,325,297 compared to total assets of \$31,172,779 as at December 31, 2007. The Company had \$1,675,572 in cash and cash equivalents compared to \$415,507 as at December 31, 2007. As at March 31, 2008, the Company held funds in an escrow bank account totaling \$19,425,326 versus \$17,132,178 at December 31, 2007. 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 March 31, 2008, the Company had total liabilities of \$29,420,073 versus total liabilities of \$26,163,358 as at December 31, 2007. Total liabilities include \$3,000,000 in convertible debt (\$3,000,000 at December 31, 2007), deferred revenue of \$2,237,675 (\$2,472,096 – at December 31, 2007) and long term debt from continuing operations of

\$1,256,565 (\$1,242,108 – at December 31, 2007). Liabilities of discontinued operations amounted to \$670,062 as compared to \$751,917 at December 31, 2007.

The Company's net working capital as at March 31, 2008 was a deficit of \$3,111,822 compared to a deficit of \$2,644,099 as at December 31, 2006. The net working capital deficit is primarily attributed to the Company's convertible debt in the amount of \$3,000,000. As a result of the Company's sale of its real estate in June 2008, the working capital deficiency will be eliminated as the proceeds of sale will be used to retire the convertible debt along with the real estate liabilities.

The current and long-term portion of deferred revenue as at March 31, 2008 was \$2,237,675 (\$2,472,096 – at December 31, 2007). The principal amount of deferred revenue is represented by a \$2,500,000 U.S. payment received by SeaMiles, LLC from Barclays Bank in the fourth quarter of 2007. The payment will be recognized as revenue over 24 months and subject to the continuation of the SeaMiles rewards platform currently operated through the Barclays issued Carnival SeaMiles credit card. The current portion of the deferred revenue is \$1,286,307.

The Company's long-term debt from continuing operations increased by \$14,457 from the previous period due to the value of the U.S. dollar increasing from 0.9913 at December 31, 2007 to 1.0265 at March 31, 2008, partially offset by the Company making payments to reduce its long-term debt.

The Company's liabilities from discontinued operations decreased by \$81,855 primarily as a result of the Company making payments to retire real estate debt.

As at March 31, 2008, the Company had \$3 million in convertible debt which is unchanged from December 31, 2007. The \$3 million in convertible debentures was issued in April 2006 and had a two year term, bearing 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. On April 7, 2008, the Company entered into agreements with the convertible debenture holders to extend the maturity date of the convertible debentures to June 30, 2008. If all of the current debentures are converted, it will result in the issuance of 1,000,000 common shares. The debentures are secured by a general security agreement. The sale by the Company of its remaining real estate in June 2008 will result in the Company retiring its \$3,000,000 of convertible debt.

Shareholder's Equity was \$4,905,224 as at March 31, 2008 versus \$5,009,421 as at December 31, 2007. The decrease in shareholders' equity is due to the net loss of \$104,197.

The Company has the following stock options to its officers, directors, employees and certain consultants outstanding as at March 31, 2008:

<u>Date of Grant</u>	<u>Stock Options (#)</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
May 12, 2006	410,000	\$3.50	May 12, 2008
August 24, 2006	125,000	\$3.25	August 24, 2008
August 21, 2007	<u>320,000</u>	\$2.00	August 21, 2009
	<u>855,000</u>		

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

Cash provided by operating activities from continuing operations was \$1,407,198 for the three months ended March 31, 2008 compared to cash provided by operating activities from continuing operations of \$251,447 in 2007. The cash of \$1,407,198 provided by operating activities during the first quarter of 2008 is primarily due to an increase of \$1,278,215 in accounts payable and accrued liabilities.

The Company has \$4,334,000 of loss carry forwards which it can use to apply against taxable income in subsequent years. Accordingly, the Company does not anticipate paying any taxes in the foreseeable future.

FINANCIAL INSTRUMENTS

With the pending sale of the Company's real estate in June 2008, the Company will be retiring all of its mortgages and convertible debt and therefore no longer be exposed to the risk of interest rate changes as the Company will have eliminated all of its interest bearing debt. Therefore, the Company is not exposed to any significant interest risks and their carrying values approximate their fair values.

SUBSEQUENT EVENTS

On April 7, 2008, the Company entered into agreements with the convertible debenture holders to extend the maturity date of the convertible debentures to June 30, 2008. All other existing terms and conditions of the convertible debentures remained unchanged.

On April 30, 2008, the Company granted 275,000 stock options to certain of its directors, Executive Officers, employees and consultants in accordance with the Company's Stock Option Plan. The options have an exercise price of \$2.00 per share exercisable for a period of two years.

On May 12, 2008, 410,000 stock options expired.

On May 15, 2008, the Company granted 85,000 stock options to certain of its directors, Executive Officers, employees and consultants in accordance with the Company's Stock Option Plan. The options have an exercise price of \$2.15 per share exercisable for a period of two years.

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:

- The purchaser not completing the purchase of the Company's real estate properties in June 2008 under the March 2008 purchase and sale agreement
- Interest rate trends
- Circumstances that are beyond the control of the Company such as acts of terrorism or severe climate changes
- Competition from other loyalty credit cards
- 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 period ended March 31, 2008, an evaluation was carried out under the supervision of and with the participation of the Company's management, including the Chief Executive Officer, President and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer, President and the Chief Financial Officer concluded that the design and operations of these disclosure controls and procedures were effective as at March 31, 2008 to provide reasonable assurance that material information relating to the Company would be made known to them by others within the Company.