

SEAMILES LIMITED
Management's Discussion and Analysis
of Financial Condition and Results of Operations
For the Three Months Ended September 30, 2008

Date: October 31, 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 divested 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 September 30, 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. The Company estimates 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. The Company 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 the Company 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 and younger passengers by creating more theme and special interest cruise holidays that deliver high marks for value. 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.

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 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.

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 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

\$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.

RESULTS OF OPERATIONS

For the quarter ended September 30, 2008, the Company reported income from continuing operations of \$645,109 or \$0.05 per share compared to a loss of \$155,841 or \$0.01 last year.

For the nine months ended September 30, 2008, the Company reported income from continuing operations of \$692,311 or \$0.06 per share versus a loss of \$44,462 or \$0.00 for the same period in 2007. The 2008 amount includes stock-based compensation expense of \$284,606 and forgiveness of debt income of \$246,114 as compared to stock-based compensation expense of \$73,313 in 2007. During the second quarter of 2008, the Company recognized forgiveness of debt income as agreements were reached between the Company and certain of its creditors to eliminate \$626,114 of pre-acquisition debt, of which \$246,114 was forgiven.

The Company's real estate development business has been shown as a discontinued operation as a result of the Company divesting itself of its remaining real estate assets in June 2008 and the 2007 results have been restated accordingly. The Company reported a loss from discontinued operations of \$4,675 or \$0.00 per share for the third quarter of 2008 versus a loss of \$112,856 or \$0.01 per share in 2007.

The Company reported net income and comprehensive income for the quarter of \$640,434 or \$0.05 per share in 2008 versus a net loss and comprehensive loss of \$268,697 or \$0.02 in 2007.

For the nine months ended September 30, 2008, the Company reported net income and comprehensive income of \$945,454 or \$0.08 per share compared to a net loss and comprehensive loss of \$2,668,032 or \$0.24 per share the previous year.

Revenue

For the quarter ended September 30, 2008, the Company's revenue in U.S. dollars, its principal source, was \$3,200,371, a 38% increase from \$2,312,770 U.S. last year. The increase in revenue is primarily a result of the implementation of management's strategic and operational initiatives to grow its cruise loyalty program. The Company reported revenue of \$3,334,147 Canadian compared to \$2,415,920 Canadian in 2007, a 38% increase.

For the nine months ended September 30, 2008, the Company's revenue in U.S. dollars was \$8,457,401 U.S. as compared to \$6,412,690 U.S. last year, a 32% increase. The Company's reported revenue in 2008 was \$8,629,910 Canadian, an increase of 22% compared to \$7,053,113 Canadian last year. The reported revenue in Canadian dollars in 2008 was negatively impacted by a weakening U.S. dollar during the first six months of the year.

Cost of Goods Sold

Loyalty program direct costs for the quarter ended September 30, 2008 were \$1,935,560 compared to \$1,661,853 for 2007. The increase in direct costs by \$273,707 or 16% is primarily attributed to the increased loyalty program revenue and increased onboard card selling activities.

Expenses

Total expenses from continuing operations for the third quarter of 2008 were \$753,478 compared to \$909,908 for 2007. The decrease in expenditures by \$156,430 or 17% were primarily due to decreased advertising and promotion expenses, interest on short-term and long-term debt and professional fees, partially offset by a foreign exchange loss and increased selling, general and administrative costs to support the growing needs of the Company.

For the nine months ended September 30, 2008, total expenses from continuing operations was \$2,716,639 versus \$2,542,470 for the same period in 2007.

For the three months ended September 30, 2008, advertising and promotion expense was \$42,180 compared to \$123,034 in 2007. Advertising and promotion expense for the nine months ended September 30, 2008 was \$158,697 compared to \$222,481 in 2007. Expenses include various campaigns to promote the SeaMiles loyalty program to its target market within the cruise industry. The 2007 expense includes campaign costs to promote the launch of the SeaMiles Visa Rewards Card.

Amortization expense on the Company's equipment for the third quarter of 2008 was \$15,800 versus \$10,112 in 2007. For the nine months ended September 30, 2008, amortization expense increased to \$39,431 compared to \$27,892 last year. The increase in amortization expense 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 September 30, 2008, bank charges and interest expense was \$603 versus \$14,397 for the same period in 2007. Bank charges and interest for the nine months ended September 30, 2008 was \$3,240 compared to \$19,295 the previous year.

The Company had a foreign exchange loss of \$41,145 for the third quarter of 2008 compared to a foreign exchange gain of \$575 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 value of the U.S. dollar relative to the Canadian dollar from \$1.0197 at June 30, 2008 to \$1.0642 at September 30, 2008 on the Company's net monetary U.S. liabilities. Total foreign exchange loss for the nine months ended September 30, 2008 was \$95,247 compared to a loss of \$24,700 in 2007.

Interest on long-term debt for the three months ended September 30, 2008 was \$1,111 compared to \$82,756 in 2007. The interest in 2007 is mainly attributed to the convertible debentures issued by the Company, which amounted to \$75,000 in the third quarter. For the nine months ended September 30, 2008, interest on long-term debt was \$152,671 versus \$250,066 for 2007. The convertible debentures were retired during June 2008, following the sale of the Company's remaining real estate assets.

During the three and nine months ended September 30, 2008, management fees were nil compared to nil and \$62,500 respectively, for the same periods last year. The decrease in fees 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 \$31,011 for the third quarter of 2008 versus \$43,609 in 2007. For the nine months ended September 30, 2008, occupancy costs were \$113,586 compared to \$137,642 for the same period in 2007. Occupancy costs consist of rent, maintenance fees and utilities.

Professional fees were \$34,760 for the three months ended September 30, 2008 compared to \$78,237 for the same period in 2007. During the nine months ended September 30, 2008, professional fees amounted to \$123,140 versus \$288,880 in 2007. Professional fees include auditing, tax and legal services provided to the Company.

Selling, general and administrative expenses for the quarter increased to \$586,868 versus \$549,440 last year. The increase in selling, general and administrative expenses for the third quarter of 2008 by \$37,428 is primarily due to the addition of permanent human resources as well as increased costs to support corporate activity in the cruise loyalty program business partially offset by stock-based compensation expense of \$73,313 last year. Selling, general and administrative expenses for the nine months ended September 30, 2008 were \$2,030,627 compared to \$1,500,014 in 2007. Included in these figures is stock-based compensation expense of \$284,606 in 2008 as compared to \$73,313 in 2007.

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2008, the Company had total assets of \$34,934,916 compared to total assets of \$31,172,779 as at December 31, 2007. The Company had \$611,853 in

cash compared to \$415,507 as at December 31, 2007. As at September 30, 2008, the Company held funds in an escrow bank account totaling \$24,076,400 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 September 30, 2008, the Company had total liabilities of \$28,303,435 versus total liabilities of \$26,163,358 as at December 31, 2007. Total liabilities include deferred revenue of \$1,651,084 (\$2,472,096 – at December 31, 2007) and long term debt from continuing operations of \$632,117 (\$1,242,108 – at December 31, 2007). Liabilities of discontinued operations were nil as the Company divested its remaining real estate assets during June 2008 compared to \$751,917 at December 31, 2007.

The Company's net working capital as at September 30, 2008 was a deficit of \$301,163 compared to a deficit of \$2,644,099 as at December 31, 2007. The improvement in the Company's net working capital deficit is primarily attributed to the Company retiring its convertible debt in the amount of \$3,000,000 following the sale of its real estate in June 2008.

The current and long-term portion of deferred revenue as at September 30, 2008 was \$1,651,084 (\$2,472,096 – at December 31, 2007). The principal amount of deferred revenue represents the unearned portion of 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 \$1,333,549.

The Company's long-term debt from continuing operations decreased by \$609,991 from December 31, 2007 due primarily to the Company reaching agreements with certain creditors to eliminate \$626,114 of pre-acquisition debt of SeaMiles, LLC during June 2008.

The Company's liabilities from discontinued operations were eliminated following the sale of the Company's real estate assets during June 2008.

Shareholder's Equity was \$6,631,481 as at September 30, 2008 versus \$5,009,421 as at December 31, 2007. The increase in shareholders' equity is primarily due to a combination of net income of \$945,454 for the nine months ended September 30, 2008, an increase of \$284,606 in contributed surplus from stock option grants and an increase of \$380,000 in share capital as a result of the Company reaching agreements with certain creditors to eliminate the pre-acquisition debt of SeaMiles, LLC.

The Company has the following stock options to its officers, directors, employees and certain consultants 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	<u>85,000</u>	\$2.15	May 15, 2010
	<u>654,000</u>		

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

Cash provided by operating activities from continuing operations was \$273,098 for the three months ended September 30, 2008 compared to cash used in operating activities from continuing operations of \$866,955 in 2007. The increase in cash for the quarter is primarily due to income generated from continuing operations in 2008 compared to a loss from continuing operations in 2007.

Cash provided by operating activities from continuing operations was \$288,966 for the nine months ended September 30, 2008 compared to cash provided by operating activities from continuing operations of \$458,706 in 2007.

The Company has in excess of \$4 million in 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 sale of the Company's real estate and the elimination of all of the pre-acquisition debt of SeaMiles, LLC during June 2008, the Company retired all of its mortgages, interest bearing debt and convertible debt and therefore is no longer exposed to the risk of interest rate changes.

SUBSEQUENT EVENTS

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.

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.

See Note 17 to the Company's September 30, 2008 interim financial statements.

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:

- 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
- The U.S. economy
- Foreign exchange rates

DISCLOSURE CONTROLS AND PROCEDURES

As at the period ended September 30, 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 September 30, 2008 to provide reasonable assurance that material information relating to the Company would be made known to them by others within the Company.