

SEA BREEZE POWER CORP.

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007
(Stated In Canadian Dollars)

(Unaudited)

SEA BREEZE POWER CORP.

CONSOLIDATED BALANCE SHEETS

(Stated in Canadian Dollars)

	March 31, 2007	December 31, 2006
ASSETS		
Current		
Cash and cash equivalents	\$ 131,398	\$ 276,014
Accounts receivable	17,739	86,148
Related party receivable (Note 4)	144,389	-
Marketable securities (Quoted market value \$2,685; 2006 - \$3,195)	2,560	2,560
Prepaid expenses and deposits	85,780	73,070
	381,866	437,792
Project Related Security Deposits	17,500	17,500
Investments (Note 5)	1	1
Due From Co-venture Partner (Note 6)	-	-
Property And Equipment (Note 7)	203,179	206,080
	\$ 602,546	\$ 661,373
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 339,984	\$ 420,693
Payable to related parties (Note 8)	147,547	844,958
	487,530	1,265,651
Long Term Debt (Note 10)	1,970,357	860,648
	2,457,888	2,126,299
SHAREHOLDERS' (DEFICIENCY) EQUITY		
Equity Portion Of Long Term Debt (Note 10)	506,275	199,408
Share Capital (Note 11)	18,360,144	18,314,592
Contributed Surplus (Note 11(f))	8,123,215	7,648,191
Special Warrants (Note 12)	331,297	352,849
Commitment To Issue Shares (Note 10(b))	444,985	395,606
Deficit	(29,621,258)	(28,375,572)
	(1,855,342)	(1,464,926)
	\$ 602,546	\$ 661,373

Approved on Behalf of the Board of Directors:

"Paul B. Manson"
Director

"Henry P. Anderson, III"
Director

See accompanying notes to consolidated financial statements

SEA BREEZE POWER CORP.

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

(Stated In Canadian Dollars)

	THREE MONTHS ENDED MARCH 31	
	2007	2006
Service Income	\$ -	\$ 10,800
Cost Of Service Income	-	-
Income (Loss) On Service Activity	-	10,800
Project Related Costs (Note 13)	359,196	443,088
Administration Expenses		
Accounting and audit	66,965	26,656
Amortization	5,500	6,099
Bank charges and interest	20,138	8,919
Consulting	19,078	41,965
Filing fees	17,571	-
Foreign exchange (gain)	(16,008)	5,193
Interest on long term debt	59,782	37,900
Legal fees	(22,772)	26,788
Office and rent	100,302	107,255
Public relations and travel	28,890	36,362
Shareholder's Information	-	116
Stock based compensation	475,024	355,859
Salaries and benefits	121,627	103,379
Transfer agent	11,986	8,680
Total Administration Expenses	888,083	765,171
Loss Before The Following	1,247,279	1,197,458
Interest Income	(1,593)	(826)
Net Loss For The Year	1,245,686	1,196,632
Deficit, Beginning Of Year	28,375,572	23,210,267
Deficit, End Of Year	\$ 29,621,258	\$ 24,406,900
Loss Per Share, Basic And Diluted	\$ 0.02	\$ 0.02
Weighted Average Common Shares Outstanding, Basic And Diluted	70,950,922	64,004,590

See accompanying notes to consolidated financial statements

SEA BREEZE POWER CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Stated in Canadian Dollars)

	THREE MONTHS ENDED MARCH 31	
	2007	2006
Cash Flows From Operating Activities		
Net loss for the year	\$ (1,245,686)	\$ (1,196,632)
Items not affecting cash:		
Interest to be paid in common shares	49,379	27,553
Amortization	5,500	6,099
Interest on loans payable	59,782	6,946
Stock based compensation	475,024	355,859
Project development costs	-	-
Accretion of interest on convertible debentures	10,277	10,274
Changes in non-cash operating working capital items:		
Goods and Services Tax recoverable	(17,669)	16,907
Accounts payable and accrued liabilities	(80,709)	(57,494)
Accounts receivable	86,078	-
Prepaid expenses	(12,710)	(43,917)
Related party receivable	(144,389)	336,828
	(815,124)	(537,577)
Cash Flows From Financing Activities		
Related party advances	(757,193)	84,057
Common shares issued for cash	24,000	34,200
Loan Payable	-	61,668
Long Term debt	1,406,299	-
Due from co-venture partner	-	264,914
	673,106	444,839
Cash Flows From Investing Activities		
Purchase of equipment	(2,599)	(4,554)
	(2,599)	(4,554)
Decrease In Cash And Cash Equivalents	(144,616)	(97,292)
Cash And Cash Equivalents, Beginning Of Year	276,014	332,925
Cash And Cash Equivalents, End Of Year	\$ 131,398	\$ 235,633
Cash And Cash Equivalents Are Comprised Of:		
Cash on hand and balances with banks	\$ 85,573	\$ 192,931
Restricted cash (Note 3)	45,825	42,702
	\$ 131,398	\$ 235,633

Supplemental Disclosure For Non-Cash Operating, Financing And Investing Activities (Note 14)

See accompanying notes to consolidated financial statements

SEA BREEZE POWER CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007

(Stated in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Sea Breeze Power Corp. (the "Company") is a public company incorporated under the Business Corporations Act of British Columbia, Canada. The Company's principal business activity is the development of hydro-electric projects, wind power generation projects and transmission projects in British Columbia, Canada.

These consolidated financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business.

The Company reported net losses of \$1,245,686 and \$1,196,632 for the three months ended March 31, 2007 and 2006, respectively, and has an accumulated deficit of \$29,621,258 at March 31, 2007. These recurring losses and the need for continued funding, discussed below, raise substantial doubt about the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Company is in the development stage and currently derives no revenues from its projects. To date, the Company has financed its operations principally through equity financing and loans. The application of the going concern concept is dependent upon continuing rights to the areas, the obtaining of necessary regulatory approvals, the ability to obtain the necessary financing to complete development, and the successful development and sale of electricity.

The Company's ability to meet its obligations in the ordinary course of business is dependent upon its ability to establish profitable operations and to obtain additional funding through public or private equity financing, collaborative or other arrangements with corporate or other sources. Management plans to continue raising capital through private placement equity financing.

Management is working to obtain sufficient working capital from external sources in order to continue operations, as well as further developing the Company's business model to obtain revenues from its wind, hydro-electric power generating and transmission projects. There is, however, no assurance that the aforementioned events, including the receipt of additional funding, will occur or be successful.

SEA BREEZE POWER CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007

(Stated in Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Principles of Consolidation

These consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada, and include the accounts of the Company and its wholly-owned subsidiaries, Powerhouse Developments Inc., Powerhouse Electric Corp., Sea Breeze Energy Inc., Sea Breeze Management Services Inc., Sea Breeze Power Projects Inc., SBJF Holding Corp. and the Company's proportionate interest (80%) in the assets of the Slollicum Joint Venture, and the Company's proportionate interest (50%) in the assets, liabilities and expenses of Sea Breeze Pacific Regional Transmission Systems, Inc., Sea Breeze Pacific West Coast Cable LP and Sea Breeze High Desert Conversion LP. All significant inter-company balances and transactions have been eliminated upon consolidation. The Company uses the equity method to account for investments over which the Company exerts significant influence. The Company uses the proportionate consolidation method of accounting to account for the Company's interest in jointly controlled entities.

b) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from these estimates.

c) Foreign Currency

Monetary items denominated in a foreign currency are translated to Canadian dollars at exchange rates in effect at the balance sheet date. The resulting foreign exchange gains and losses are included in the statement of loss and deficit.

d) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term deposits maturing within 90 days.

e) Marketable Securities

Marketable securities are recorded at the lower of cost and market value.

f) Property and Equipment

Equipment is carried at cost and being amortized as follows:

Computer and automotive equipment	30% declining balance basis
Office and field equipment	20% declining balance basis

SEA BREEZE POWER CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007

(Stated in Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Stock Based Compensation

The Company follows the recommendations of CICA Handbook Section 3870 – “Stock Based Compensation and Other Stock Based Payments” to account for stock based transactions with officers, directors, employees, and outside consultants. Accordingly, the fair value of stock options is charged to operations with an offsetting credit to contributed surplus. The fair value of stock options which vest immediately is recorded at the date of grant; the fair value of options which vest in the future is recognized on a straight-line basis over the vesting period. Any consideration received on exercise of stock options together with the related portion of contributed surplus is credited to share capital.

h) Loss Per Share

Basic loss per share is calculated using the weighted average number of shares outstanding during the year. The Company uses the treasury stock method to determine the dilutive effect of stock options and other dilutive instruments on loss per share. Under the treasury stock method, only instruments with exercise amounts less than market prices impact the diluted calculations. In computing diluted loss per share, no shares were added to the weighted average number of common shares outstanding during the period ended March 31, 2007 for the dilutive effect of employee stock options and warrants as they were all anti-dilutive. No adjustments were required to reported loss from operations in computing diluted per share amounts.

i) Income Taxes

The Company uses the asset and liability method of accounting for income taxes whereby future income tax assets are recognized for deductible temporary differences and operating loss carry forwards, and future income tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the amounts of assets and liabilities recorded for income tax and financial reporting purposes. Future income tax assets are recognized only to the extent that management determines that it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment. The income tax expense or benefit is the income tax payable or refundable for the period plus or minus the change in future income tax assets and liabilities during the period.

j) Asset Impairment

On an annual basis or when impairment indicators arise, the Company evaluates the future recoverability of capital assets and project related development costs. Impairment losses or write downs are recorded in the event the net book value of such assets exceeds the estimated indicated future cash flows attributable to such assets.

SEA BREEZE POWER CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007

(Stated in Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Service Revenues

The Company provides wind generation research and consulting services to third parties. Revenues from consulting services are recognized over the contract period, which is the period during which the services were provided and the related expenses were incurred.

l) Variable Interest Entities

Effective January 1, 2005, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Accounting Guideline 15 – “Consolidation of Variable Interest Entities” (VIE).

The guideline establishes that a VIE is to be consolidated by the primary beneficiary based upon the determination of who will receive the majority of a VIE's expected losses, expected residual returns, or both, defined as a variable interest, rather than solely based on the voting interests. Variable interests are ownership interests or contractual relationships that enable the holder to share in the financial risks and rewards resulting from the activities of a VIE.

The accounting guideline specifies that an entity is a VIE if either of the following criteria are met:

1. total equity invested is insufficient to finance the entity without additional subordinated financial support; or
2. the holders of the equity investment, as a group:
 - i) do not have the right to make decisions about an entity's activities that have a significant effect on the success of the entity; or
 - ii) are protected either directly or indirectly from variability in cash flows from the entity; or
 - iii) do not have the right to all of the residual returns of the entity.

The Company has considered the provisions of the guideline for all subsidiaries and their related investments.

As a result of this review, the Company determined that the wholly-owned subsidiary that holds the Company's interest in the Juan de Fuca partnership is considered a VIE as the equity invested was not sufficient to finance the entity without additional subordinated financial support. The Company then determined that the subsidiary is not the primary beneficiary of the VIE and does not consolidate the entity. Accordingly, the Company's general and limited partner interests in the partnership are presented as an equity investment and the results from operations are presented as equity income (loss) on the consolidated statement of loss. There was no impact to net earnings as a result of adoption of this accounting guideline.

3. RESTRICTED CASH

The Company has advanced \$45,825 (2006 - \$45,825) to be held as security on corporate credit card accounts. The funds are held as security for credit advanced to the Company and, as such, may not be used for general corporate purposes.

SEA BREEZE POWER CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007

(Stated in Canadian Dollars)

4. RELATED PARTY RECEIVABLE

Amounts owing from related parties are as follows:

	<u>March 31,</u>	<u>December 31,</u>
	<u>2007</u>	<u>2006</u>
Due from related party	<u>\$ 144,389</u>	<u>\$ -</u>

The amount due from related party represents funds in transit to the Company with respect to participation in the convertible debenture.

5. INVESTMENTS

a) Investment in Juan De Fuca Partnership

During the year ended December 31, 2005, the Company became the holder of a 49.5% limited partnership interest and a 25% equity interest in the general partner, which is also a 1% limited partner, in a newly formed, special purpose (State of Delaware, USA) limited partnership, Sea Breeze Juan de Fuca Cable, L.P. ("JDFC"). The original purpose of the partnership is to develop the Juan de Fuca Transmission Cable Project ("The Project"). The Project consists of the development of a 550 MW High Voltage Direct Current submarine transmission link spanning the Strait of Juan de Fuca connecting the city of Victoria on the southern tip of Vancouver Island, British Columbia, Canada to Port Angeles, Washington State, U.S.A. The Company and its joint venture partner Boundless Energy, LLC initially developed the Project and assigned its interest in the project to JDFC for a nominal amount. As a result the Company's cost of the investment in the partnership is \$Nil.

On April 6, 2005, JDFC secured a development loan of up to US\$8,000,000 from US Power Fund, LP to advance permitting of the project, and to conduct a bonded bid auction ("Open Season") for capacity on the potential transmission line to be developed jointly by the Company and its partners. The proceeds of the loan are convertible at US Power Fund's option into project equity. Advances of funds under the agreement are subject to certain milestones being met by the Company and its joint venture partner. Loan advances totalling US\$5,441,000 (2005 – US\$4,050,000) have been remitted to the partnership by US Power Fund, LP in tranches through March 31, 2007.

The loan bears 20% interest per annum, compounded annually. As at March 31, 2007, accumulated interest totalled US\$1,629,487 (2006 – US\$1,336,438). The loan balance and accrued interest is repayable by JDFC and matures on the earliest of June 30, 2007 or the day upon which financing for construction of the project is closed (Financial Closing Date).

All proceeds of the loan were used by JDFC to pay costs and expenses incurred in the development of the project and in accordance with the development loan budget.

SEA BREEZE POWER CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007

(Stated in Canadian Dollars)

5. INVESTMENTS (Continued)

a) Investment in Juan De Fuca Partnership (Continued)

The loan is secured by a registered security interest in all rights, assets, partners' voting rights, and partners' interests in JDFC and its subsidiaries. The loan agreement further provides for an overrun amount of up to US\$1,000,000 of costs incurred in excess of the amounts budgeted for at each milestone of the development loan agreement to be paid by Boundless and Sea Breeze in the event that Financial Closing has not been achieved upon full advance of the total loan amount. The overrun amount is jointly to be borne by the Company and its joint venture partner Boundless Energy, LLC.

During the year ended December 31, 2005, an amendment of the original development loan agreement provided for a further transmission project (the "New Project") to be added to the purpose of the partnership. The New Project relates to a submarine transmission cable crossing the Strait of Georgia from Vancouver mainland to Vancouver Island, British Columbia, Canada.

The amending agreement allowed JDFC to use a maximum aggregate of US\$1,000,000 of the original loan advance under the development loan agreement for costs incurred on the new project. The Company's jointly held subsidiary, Sea Breeze Pacific Regional Transmission System Inc. ("SBPRTS"), sold its right, title and interest in the project to the partnership for costs incurred as at the date of signing the agreement, December 16, 2005.

During the three months ended March 31, 2007, JDFC incurred \$342,339 of project related costs charged to operations, including \$332,502 (US\$293,049) of accrued interest related thereto. The Company accounts for its investment under the Equity-Method and, accordingly, as its investment in the partnership is \$Nil as at March 31, 2007, Sea Breeze has not included its 49.75% proportional share of the loss of the partnership in its consolidated financial statements.

A summary of financial data relating to the partnership is as follows:

	<u>March 31, 2007</u>	<u>December 31, 2006</u>
Balance Sheets		
Cash	\$ 48,580	\$ 29,244
Prepaid expenses and advances	-	-
GST recoverable and deposits	<u>5,657</u>	<u>11,544</u>
Current And Total Assets	<u>\$ 54,237</u>	<u>\$ 40,788</u>
Current Liabilities	\$ 9,335,791	\$ 8,989,840
Long Term Liabilities	-	-
Partners' Deficiency	<u>(9,281,554)</u>	<u>(8,949,052)</u>
	<u>\$ 54,237</u>	<u>\$ 40,788</u>

SEA BREEZE POWER CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007
(Stated in Canadian Dollars)

5. INVESTMENTS (Continued)

a) Investment in Juan De Fuca Partnership (Continued)

	THREE MONTHS ENDED MARCH 31	
	2007	2006
Statements Of Loss		
Project development costs	\$ 28,252	\$ 1,952,412
Interest expense	342,339	250,401
Foreign exchange	<u>(38,090)</u>	<u>(43,909)</u>
Net Loss For The Year	\$ (332,502)	\$ (2,158,904)

	THREE MONTHS ENDED MARCH 31	
Statements of Cash Flows	2007	2006
Cash Provided By (Used In):		
Net loss	\$ (332,502)	\$ (2,158,904)
Items not affecting cash	388,150	-
Changes of non-cash operating working capital items	<u>(36,312)</u>	<u>807,827</u>
Operating Activities	19,336	(1,351,077)
Financing Activities	<u>-</u>	<u>-</u>
Investing Activities	<u>-</u>	<u>-</u>
(Decrease)/Increase In Cash	19,336	(1,351,077)
Cash, Beginning Of Period	29,244	8 1,355,430
		0
		7
		,
		8
		2
		7
Cash, End Of Period	\$ 48,580	\$ 4,353

b) Investment in Standard Hydrogen

During the year ended December 31, 2004, the Company paid \$10,000 for a 33% non-controlling interest in a private start-up Ontario corporation, Standard Hydrogen Inc. ("Standard"), which conducts research activities. The \$10,000 equity purchase was paid upon commencement of Standard's operations. In addition, the Company loaned Standard \$10,000 on April 28, 2004. The

loan carries no interest repayments, no security and no principal repayment terms for a one year period. Standard has agreed to pay 8% simple interest on the loan amount upon repayment of the loan. As of December 31, 2005, the Company considers the outstanding loan as uncollectable and decided to write off the loan. In addition, the Company considers the investment in Standard no longer an economical asset and decided to write the investment down to \$1.

SEA BREEZE POWER CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007

(Stated in Canadian Dollars)

6. JOINT VENTURE

On May 31, 2005, the Company incorporated Sea Breeze Pacific Regional Transmission System, Inc.; a company jointly owned and jointly operated by the Company (50%) and Boundless Energy LLC, of York Harbor, Maine (50%). The parties signed a joint venture agreement and are committed to jointly pursue specific merchant transmission opportunities. Summary financial information of the Company's proportionate interest in the joint venture is as follows:

Proportionate Share (50%) of the Joint Venture	March 31, 2007	December 31, 2006
Cash	\$ 5,066	\$ 7,322
Prepaid expenses	32,590	31,165
GST recoverable	348	194
Accounts receivables	70	14,568
Restricted cash	<u>20,238</u>	<u>20,238</u>
Current Assets	58,312	73,487
Capital Assets	<u>1,292</u>	<u>424</u>
Total Assets	\$ 59,604	\$ 73,911
Current Liabilities	23,907	14,818
Due To Affiliated Companies	465,061	457,521
Deficit	<u>(429,364)</u>	<u>(398,428)</u>
Total Liabilities And Equity	\$ 59,604	\$ 73,911
Project related costs (recoveries)	18,071	(14,030)
Expenses	<u>12,865</u>	<u>61,777</u>
Net Income (Loss)	\$ 30,936	\$ (47,747)
	THREE MONTHS ENDED MARCH 31	
Proportionate Share (50%) Of Cash Flows Of The Joint Venture Resulting From	2007	2006
Net loss	\$ (30,936)	\$ (52,534)
Amortization	56	
Changes of non-cash operating working capital items	<u>22,008</u>	<u>(52,436)</u>
Operating Activities	(8,872)	(104,970)
Financing Activities	<u>7,540</u>	<u>153,161</u>
Investing Activities	<u>(924)</u>	<u>-</u>
Increase In Cash	(2,256)	48,191
Cash, Beginning Of Period	<u>27,560</u>	<u>27,396</u>
Cash, End Of Period	\$ 25,304	\$ 75,587
Cash on hand and balances with banks	\$ 5,066	\$ 56,187
Restricted cash	<u>20,238</u>	<u>19,400</u>
	\$ 25,304	\$ 75,587

SEA BREEZE POWER CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007
(Stated in Canadian Dollars)

6. JOINT VENTURE (Continued)

The Company funded the majority of the costs incurred up to March 31, 2007. As a result, the Company is entitled to a reimbursement of \$401,176 (2006 - \$355,981), which is Boundless Energy's 50% of the joint venture's costs. As at March 31, 2007, the Company has recorded an allowance for this amount as the recoverability is uncertain.

7. PROPERTY AND EQUIPMENT

	MARCH 31, 2007		
	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	\$ 103,234	\$ 61,931	\$ 41,303
Automotive equipment	12,656	6,176	6,480
Office equipment	21,254	10,132	11,122
Field equipment	36,979	18,265	18,714
Land	125,560	-	125,560
	\$ 299,682	\$ 96,504	\$ 203,179
	DECEMBER 31, 2006		
	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	\$ 95,860	\$ 56,438	\$ 39,422
Automotive equipment	12,656	5,650	7,006
Office equipment	27,025	11,920	15,105
Field equipment	35,982	16,995	18,987
Land	125,560	-	125,560
	\$ 297,083	\$ 91,003	\$ 206,080

8. PAYABLE TO RELATED PARTIES

	March 31, 2007	December 31, 2006
Loan payable to directors and companies controlled by directors with interest at 10% per annum, unsecured, due on demand.	\$ 80,465	\$ 795,476
Interest on loans payable to directors and companies controlled by directors, unsecured, non-interest bearing, due on demand	67,082	49,482
	\$ 147,547	\$ 844,958

SEA BREEZE POWER CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007

(Stated in Canadian Dollars)

9. RELATED PARTY TRANSACTIONS

All related party transactions are recorded at the exchange value, which is the amount established and agreed to by the related parties.

Related party transactions not disclosed elsewhere in these consolidated financial statements are as follows:

a) Consulting Fees

During the three month ended March 31, 2007, the Company paid and expensed \$18,000 (2006 - \$18,000) in consulting fees to a company controlled by a director of the Company. Further, the Company paid or accrued \$36,000 (2006 - \$31,670) for consulting and accounting services to officers of the Company. Included in accounts payable and accrued liabilities is \$50,854 (2006 - \$56,224) owing to such officers of the Company.

b) Public Relation Fees and Governmental Advisory Services

The Company paid \$12,000 (2006 - \$18,000) to a company related to an officer for public relations and governmental advisory services. Of the amount paid, \$12,000 is included in consulting expense, and \$Nil (2006 - \$Nil) is included in public relations and travel expense.

c) Interest Payable

As at March 31, 2007, accrued convertible debenture interest payable in shares included \$333,768 (2006 - \$294,380) owing to directors or companies controlled by directors.

d) Fees Charged to Partnership

For the three months ended March 31, 2007, the Company charged the JDFC partnership US\$87,284 (2006 - US\$177,500) for travel, wages and consulting fees related to the JDFC transmission project in which reimbursement is expected.

10. LONG TERM DEBT

	<u>March 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
Convertible debentures	\$ 2,320,139	\$ 941,655
Conversions during the year	-	(27,818)
Equity portion of convertible debentures	<u>(506,275)</u>	<u>(199,408)</u>
	1,813,864	714,429
Interest accretion	<u>156,493</u>	<u>146,219</u>
Debt portion of convertible debenture	<u>\$ 1,970,357</u>	<u>\$ 860,648</u>

SEA BREEZE POWER CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007

(Stated in Canadian Dollars)

10. LONG TERM DEBT (Continued)

- a) On May 7, 2003 the Company issued convertible debentures in the amount of \$1,000,000, which are due and payable on May 7, 2008. The debentures was re-negotiated on February 14, 2007 as convertible into shares of the Company at US\$ 0.34 per share until their expiry on May 7, 2008. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant has an expiry date of May 7, 2008 and entitles the holder to purchase one common share at the conversion price. Interest on the debenture is calculated at 12% per annum. The interest payments are payable in shares and calculated semi-annually at the market price of the shares on the semi-annual calculation dates. The interest shares are to be issued on May 7, 2008 or upon conversion of the debenture, whichever is sooner.

During the three months ended March 31, 2007, \$Nil (2006 - \$27,818) of principal of the debentures has been converted into units of the Company at a conversion price of \$0.40 per unit. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant has a term of two years from the date of conversion and entitles the holder to purchase one common share at the conversion price.

- b) On March 7, 2007 the Company issued convertible debentures in the amount of US\$1,218,000, which are due and payable on March 7, 2012. The debentures are convertible into units of the Company at US\$0.34 per unit in years one and two, and increasing by 10% per unit in each subsequent year for five years (Year 1 to year 5: US\$0.34, US\$0.34, US\$0.37, US\$0.41, and US\$0.45). Each unit consists of one common share and one share purchase warrant. Each share purchase warrant has a term of two years from the date of conversion and entitles the holder to purchase one common share at the conversion price. Interest on the debenture is calculated at 12% per annum. The interest payments are payable in shares and calculated semi-annually at the market price of the shares on the semi-annual calculation dates. The interest shares are to be issued on March 7, 2012 or upon conversion of the debenture, whichever is sooner.
- c) As of March 31, 2007, accumulated interest payable was \$444,985 (2006 - \$395,606) resulting in a possible 882,214 (2006 - 758,766) common shares issuable in payment thereof. The amount has been recorded as a commitment to issue shares within the shareholders' equity section of the balance sheet. Of the total debentures outstanding on March 31, 2007, \$2,083,681 (2006 - \$677,379) were issued to directors, officers, or companies controlled by directors. Of the total interest payable \$333,768 (2006 - \$294,380) is owed to directors, officers or companies controlled by directors. The debentures are secured by a floating charge over all assets of the Company.
- d) The liability component of the convertible debt is calculated as the present value of the principal, discounted at a rate approximating the interest rate that was estimated would have been applicable to non-convertible debt at the time the debt was issued. This portion of the convertible debt is accreted over its term to the full face value by charges to interest expense. The accretion is a non-cash transaction and has been excluded from the statement of cash flows.

The equity element of the convertible debt comprises the value of the conversion option, being the difference between the face value of the convertible debt and the liability component.

SEA BREEZE POWER CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007
(Stated in Canadian Dollars)

11. SHARE CAPITAL AND SHAREHOLDERS' EQUITY

a. Issued and Outstanding Common Shares

Authorized share capital comprises an unlimited number of common shares without par value and 20,000,000 preferred shares without par value.

	<u>Number Of Shares</u>	<u>Consideration</u>
Balance, December 31, 2005	63,972,476	\$ 16,007,489
Shares issued for cash:		
Private Placement	5,785,871	1,941,339
Exercise of warrants	70,000	23,100
Exercise of special warrants	631,000	94,650
Exercise of stock options	407,000	62,700
Shares issued for non-cash:		
Conversion of debentures	85,362	41,132
Special warrants valuation of exercised special warrants	-	84,996
Stock option valuation of exercised stock options	-	59,186
Balance, December 31, 2006	70,951,709	18,314,592
Shares issued for cash:		
Private Placement	-	-
Exercise of special warrants	160,000	24,000
Shares issued for non-cash:		
Special warrants valuation of exercised special warrants	-	21,552
Balance, March 31, 2007	<u>71,111,709</u>	<u>\$ 18,360,144</u>

SEA BREEZE POWER CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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11. SHARE CAPITAL AND SHAREHOLDERS' EQUITY (Continued)

- c) As at March 31, 2007, the Company had the following warrants to purchase common shares of the Company outstanding:

<u>NUMBER OF WARRANTS</u>	<u>EXERCISE PRICE</u>	<u>EXPIRY DATE</u>
1,250,000 *1)	\$0.93	November 1, 2007
2,619,000 *2)	\$0.15	April 16, 2008
500,000 *3)	\$0.15	April 16, 2008
69,546	\$0.40	June 6, 2008
2,166,667 *4)	\$0.58	June 29, 2008
166,666 *4)	\$0.58	August 30, 2008
559,600 *4)	\$0.58	October 13, 2008

*1) exercisable at US\$0.80

*2) see (Note 13)

*3) contingently issuable – see (Note 13)

*4) exercisable at US\$0.50

A summary of changes in the Company's warrants for the year ended March 31, 2007 is as follows:

	<u>NUMBER OF WARRANTS</u>	<u>WEIGHTED AVERAGE EXERCISE PRICE</u>
Balance, December 31, 2006	7,401,478	\$ 0.46
Granted	-	
Exercised	(160,000)	(0.15)
Expired	(33,000)	(0.70)
Balance, March 31, 2007	<u>7,208,478</u>	<u>\$ 0.46</u>

- d) At March 31, 2007, the Company has a fixed stock option plan. Under the policies of the TSX Venture Exchange ("TSXV"), the Company may grant incentive stock options up to a total of 20% of the Company's issued and outstanding common shares of 61,009,205 issued as of the record day of May 13, 2005.

During the three months ended March 31, 2007, the Company charged \$475,024 in stock based compensation expense to operations.

SEA BREEZE POWER CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007

(Stated in Canadian Dollars)

11. SHARE CAPITAL AND SHAREHOLDERS' EQUITY (Continued)

d) (Continued)

A stock based compensation expense of \$475,024 was charged to operations, relating to vested options, which were granted for years prior to 2007.

On June 29, 2006 the Company granted 2,691,754 options exercisable at US\$0.30 to officers, directors, employees and consultants of the Company. One third of the stock options vested immediately, one third vest after six months and one third vest after eighteen months from the date of grant. The options expire June 29, 2009. A stock based compensation expense of \$367,514 was charged to operations. The fair value of the options granted was estimated on the date of grant using the Black-Scholes option pricing model using a risk free interest rate of 4.42%, a dividend yield of \$Nil, expected life of 3.0 years, and volatility of 101%.

On October 14, 2005 the Company granted 4,921,336 options exercisable at US\$0.60 to officers, directors, employees and consultants of the Company. One third of the stock options vested immediately, one third vest after six months and one third vest after eighteen months from the date of grant. The options expire October 14, 2008. A stock based compensation expense of \$858,168 was charged to operations. The fair value of the options granted was estimated on the date of grant using the Black-Scholes option pricing model using a risk free interest rate of 3.5%, a dividend yield of \$Nil, expected life of 2.5 years, and volatility of 146%.

SEA BREEZE POWER CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007
(Stated in Canadian Dollars)

11. SHARE CAPITAL AND SHAREHOLDERS' EQUITY (Continued)

d) (Continued)

The following table summarizes information about fixed stock options outstanding at March 31, 2007:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
\$ 0.15–1.00	9,668,935	1.55 years	\$ 0.51	7,131,238	\$ 0.49

A summary of changes in the Company's fixed stock option plan for the three months ended March 31, 2007 is as follows:

	OPTIONS OUTSTANDING	
	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Balance, December 31, 2005	8,119,129	\$ 0.56
Granted	2,691,754	0.33
Exercised	(407,000)	(0.15)
Cancelled	(4,757,660)	(0.71)
Balance, December 31, 2006	9,668,935	0.51
Granted	-	-
Exercised	-	-
Cancelled	-	-
Balance March 31, 2007	<u>9,668,935</u>	<u>\$ 0.51</u>

e) Of the Company's issued and outstanding shares, 100,000 are held in escrow, their release being subject to regulatory approval.

SEA BREEZE POWER CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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11. SHARE CAPITAL AND SHAREHOLDERS' EQUITY (Continued)

f) Changes in Contributed Surplus for the three months ended March 31, 2007 are as follows:

	<u>March 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
Balance, beginning of year	\$ 7,648,191	\$ 6,311,255
Incentive stock options granted	475,024	1,396,123
Incentive stock options exercised	-	(59,187)
	<u>\$ 8,123,215</u>	<u>\$ 7,648,191</u>

12. SPECIAL WARRANTS

	<u>March 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
Special warrants issued:		
2,500,000 warrants on April 16, 2003	\$ 336,819	\$ 336,819
1,000,000 warrants on September 28, 2005	<u>134,700</u>	<u>134,700</u>
Consideration paid in excess of net liabilities assumed	471,519	471,519
Less: Special warrants exercised	<u>(140,222)</u>	<u>(118,670)</u>
	<u>\$ 331,297</u>	<u>\$ 352,849</u>

On April 16, 2003 the Company acquired 100% of the shares of Sea Breeze Energy Inc. ("Sea Breeze"), a company developing projects to generate energy from wind power and incorporated under the Company Act of British Columbia, Canada.

As consideration for the shares the Company is to pay 5% net profit royalties from proceeds of the sale of energy generated from the Sea Breeze wind power locations under development at the time of closing of the agreement and 5% of the net proceeds of any sale of such wind power properties, as well as to issue special warrants which allow the holder to acquire 4,000,000 common shares of the Company, of which 2,500,000 were exercisable upon closing of the transaction valued at their fair value of \$336,819 using the Black-Scholes option pricing model. The exercise price of the special warrants is \$0.15 per share. Any unexercised warrants expire on April 16, 2008.

Of the remaining special warrants 1,000,000 were exercisable upon receipt of the first project approval certificate from the British Columbia Environmental Assessment Office, and 500,000 warrants are exercisable upon commencement of commercial wind generated power production.

On September 28, 2005 the Company received an approval certificate from British Columbia Environmental Assessment Office for the wind farm project 'Knob Hill' and issued 1,000,000 special warrants accordingly. The warrants were valued at their fair value of \$134,700 using the Black-

Scholes option pricing model.

SEA BREEZE POWER CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007

(Stated in Canadian Dollars)

12. SPECIAL WARRANTS (Continued)

The value of the consideration of the remaining 500,000 special warrants and the net profit royalties will be recorded when the amounts are due and payable.

As the acquired company was in the development stage and had not commenced business operations, the acquisition has been accounted for as a purchase of assets and net liabilities of Sea Breeze Energy Inc., with fair value of the consideration given being allocated to fair value of the identifiable assets and liabilities acquired on April 16, 2003. The consideration given in excess of the net liabilities assumed has been expensed as project related costs. The fair value of \$471,519 was calculated using a Black-Scholes pricing model with the following weighted average assumptions: risk free rate of 5.25 %; dividend yield of \$Nil, volatility factor of 184% and an average expected life of the warrants in each year of 3 years.

13. PROJECT DEVELOPMENT COSTS

- a) The project development costs incurred and expensed relating to the hydroelectric, wind farm, and transmission projects are as follows:

	THREE MONTHS ENDED MARCH 31	
	2007	2006
Hydroelectric projects	\$ 29,214	\$ 35,340
Wind farm projects	156,641	95,244
Transmission projects	169,400	312,504
Total project related expenses for the year	<u>\$ 359,196</u>	<u>\$ 443,088</u>

Cumulative project costs incurred since the project inception amounted to \$11,438,741 (2006 - \$9,522,838).

- a) The project development expenses relating to hydro electric projects in British Columbia are as follows:

	THREE MONTHS ENDED MARCH 31	
	2007	2006
Cascade	\$ 29,214	\$ 27,759
Stollicum	-	7,581
	<u>\$ 29,214</u>	<u>\$ 35,340</u>

Cumulative hydro project costs (life to date)

\$ 5,536,366 \$ 5,349,346

SEA BREEZE POWER CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007
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13. PROJECT DEVELOPMENT COSTS (Continued)

- c) The project related development expenses relating to wind farm projects in British Columbia are as follows:

	THREE MONTHS ENDED MARCH 31,	
	2007	2006
Knob Hill	\$ 112,528	\$ 78,503
God's Pocket	1,384	701
Shushartie Mountain	6,968	774
Hushamu	2,405	2,090
Windy Ridge	-	-
Nimpkish	3,115	898
Other projects under preparation	30,242	12,279
Total project related expenses for the year	\$ 156,641	\$ 95,244
Cumulative wind farm project costs	\$ 4,184,018	\$ 3,509,282

- d) The project related development expenses relating to transmission projects in Canada and the United States are as follows:

	THREE MONTHS ENDED MARCH 31,	
	2007	2006
Transmission projects	\$ 169,400	\$ 312,504
Cumulative transmission project costs	\$ 1,718,357	\$ 664,210

14. SUPPLEMENTAL DISCLOSURE FOR NON-CASH OPERATING, INVESTING AND FINANCING ACTIVITIES

- a) During the three months ended March 31, 2007, the Company had the following non-cash operating financing and investing activities:
- i) Nil
- b) During the year ended December 31, 2006, the Company had the following non-cash operating financing and investing activities:
- i) The Company issued 85,362 shares pursuant to the conversion of \$27,818 of principal and \$9,548 of accrued interest thereto of convertible debentures.

SEA BREEZE POWER CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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15. INCOME TAXES

A reconciliation of income taxes at statutory rates to the Company's effective income tax expense is as follows:

	<u>2006</u>	<u>2005</u>
Statutory tax rate	34%	35%
Expected income tax recovery	\$ (1,743,000)	\$ (1,734,000)
Non-deductible differences	1,168,000	1,094,000
Unrecognized tax losses and change in valuation allowance	<u>575,000</u>	<u>640,000</u>
Income tax provision	<u>\$ -</u>	<u>\$ -</u>

Future tax assets (liabilities) of the Company are as follows:

	<u>2006</u>	<u>2005</u>
Project development costs	\$ 4,378,000	\$ 4,119,000
Operating losses	<u>3,077,000</u>	<u>2,606,000</u>
	7,455,000	6,725,000
Less: Valuation allowance	<u>(7,455,000)</u>	<u>(6,725,000)</u>
Future tax asset (liability) recognized	<u>\$ -</u>	<u>\$ -</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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15. INCOME TAXES (Continued)

As at December 31, 2006, the Company has incurred operating income tax losses totalling \$9,021,000 which expire from 2007 to 2026 as follows:

2007	\$	1,082,000
2008	\$	650,000
2009	\$	1,053,000
2010	\$	1,265,000
2014	\$	1,529,000
2015	\$	1,750,000
2026	\$	1,692,000

A valuation allowance has been recorded to reduce the net benefit recorded in the financial statements related to these future tax assets. The valuation allowance is deemed necessary as a result of the uncertainty associated with the ultimate realization of these tax assets.

16. FINANCIAL INSTRUMENTS

a) Fair Value of Short Term Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, restricted cash, accounts payable and accrued liabilities, amounts due to and from related parties, and loans payable. Unless otherwise stated, the fair value of the financial instruments approximates their carrying value, due to their short term to maturity.

b) Long Term Debt and Interest Rate Risk

The Company's debentures detailed in Note 10 are all convertible at the option of the holders into common shares of the Company and are issued with interest payable at rates less than normal market rates under similar conditions without the conversion feature.

Therefore, should the holder of such debentures not elect to exercise their conversion rights, replacement funds would not likely be available to repay the debentures on their respective maturity dates at equivalent rates. No reliable estimate can be made as to the financial amount of such risk.

17. COMMITMENTS

The Company leases an office premises in Vancouver, Canada. The lease commenced on October 1, 2005 and ends September 30, 2008. The future minimum lease payments are as follows:

2007	\$	99,789
2008	\$	105,183

SEA BREEZE POWER CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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18. SEGMENTED INFORMATION

The Company's activities are in the power generation and transmission industry. As at March 31, 2007, all of the Company's assets were in Canada.

19. SUBSEQUENT EVENTS

Subsequent to March 31, 2007, the Company:

- a) Completed a US\$150,000 Private Placement for 441,176 units, at a cost of US\$ 0.34 per unit. Each unit consists of one common share and one-half of a share purchase warrant. Each warrant is exercisable into one common share of the Company at a price of US\$0.50 per share in the first year and US\$0.75 in the second year.
- b) Issued 60,000 common shares for proceeds of \$9,000 pursuant to the exercise of Special Warrants.