

**SEA BREEZE POWER CORP.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2007**  
**(Stated In Canadian Dollars)**

(Unaudited)

**NOTICE**

The accompanying unaudited interim financial statements of Sea Breeze Power Corp. (“the Company”), for the six months ended June 30, 2007, have been prepared by management and have not been the subject of a review by the Company’s independent auditor.

# SEA BREEZE POWER CORP.

## Consolidated Balance Sheets

(Unaudited – See Notice)  
(Stated in Canadian Dollars)

	June 30, 2007	December 31, 2006
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 197,892	\$ 276,014
Accounts receivable	38,118	86,148
Marketable securities (Note 4)	2,310	2,560
Prepaid expenses and deposits	88,379	73,070
	<u>326,699</u>	<u>437,792</u>
<b>Project Related Security Deposits</b>	<b>22,500</b>	<b>17,500</b>
<b>Investments (Note 6)</b>	<b>1</b>	<b>1</b>
<b>Property And Equipment (Note 8)</b>	<b>197,985</b>	<b>206,080</b>
	<u>\$ 547,185</u>	<u>\$ 661,373</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 415,498	\$ 420,693
Payable to related parties (Note 9)	779,096	844,958
	<u>1,194,594</u>	<u>1,265,651</u>
<b>Long Term Debt (Note 11)</b>	<b>1,997,646</b>	<b>860,648</b>
	<u>3,192,240</u>	<u>2,126,299</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Equity Portion Of Long Term Debt (Note 11)</b>	<b>506,275</b>	<b>199,408</b>
<b>Share Capital (Note 12)</b>	<b>18,690,240</b>	<b>18,314,592</b>
<b>Contributed Surplus (Note 12(e))</b>	<b>8,528,950</b>	<b>7,648,191</b>
<b>Special Warrants (Note 13)</b>	<b>323,215</b>	<b>352,849</b>
<b>Accumulated Other Comprehensive Income</b>	<b>(250)</b>	<b>-</b>
<b>Commitment To Issue Shares (Note 11(c))</b>	<b>522,162</b>	<b>395,606</b>
<b>Deficit</b>	<b>(31,215,647)</b>	<b>(28,375,572)</b>
	<u>(2,645,055)</u>	<u>(1,464,926)</u>
	<u>\$ 547,185</u>	<u>\$ 661,373</u>

Approved on Behalf of the Board:

\_\_\_\_\_  
"Paul B. Manson"  
Director

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"Henry P. Anderson, III"  
Director

See accompanying notes to consolidated financial statements

# SEA BREEZE POWER CORP.

## Consolidated Statements of Loss and Other Comprehensive Income

(Unaudited – See Notice)

(Stated in Canadian Dollars)

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2007	2006	2007	2006
<b>Service income</b>	\$ -	\$ -	\$ -	\$ 10,800
<b>Cost of service income</b>	-	-	-	-
<b>Gain (Loss) on service activity</b>	-	-	-	10,800
<b>Project Related Costs (Note 14)</b>	<b>621,003</b>	313,774	<b>980,199</b>	756,862
<b>Administration Expenses</b>				
Accounting and audit	32,701	184,632	99,666	211,288
Amortization	5,513	6,213	11,013	12,312
Bank charges and interest	9,116	21,893	29,254	30,812
Consulting	2,842	51,295	21,920	93,260
Filing fees	11,694	11,775	29,265	11,775
Foreign exchange (gain)	(3,973)	(15,589)	(19,981)	(10,396)
Interest on long term debt	105,302	38,151	165,084	76,051
Legal fees	26,271	12,745	3,499	39,533
Office and rent	161,107	112,321	261,409	219,576
Public relations and travel	24,207	33,691	53,097	70,053
Shareholder's Information	-	1,699	-	1,815
Stock based compensation	475,024	304,917	950,048	660,776
Salaries and benefits	125,932	127,401	247,559	230,780
Transfer agent	-	3,058	11,986	11,738
	<b>975,736</b>	894,202	<b>1,863,819</b>	1,659,373
<b>Loss Before The Following</b>	<b>1,596,739</b>	1,207,976	<b>2,844,018</b>	2,405,435
<b>Interest income</b>	<b>(2,349)</b>	(4,084)	<b>(3,942)</b>	(4,910)
<b>Net Loss for the Period</b>	<b>\$ 1,594,390</b>	\$ 1,203,892	<b>\$ 2,840,076</b>	\$ 2,400,525
<b>Other comprehensive income/(loss)</b>				
Unrealized loss on marketable securities	(250)	-	(250)	-
<b>Other comprehensive income/(loss)</b>	<b>\$ (250)</b>	\$ -	<b>\$ (250)</b>	\$ -
<b>Loss Per Share, Basic and Diluted</b>	<b>\$ 0.02</b>	\$ 0.02	<b>\$ 0.04</b>	\$ 0.04
<b>Weighted Average Common Shares Outstanding, Basic and Diluted</b>	<b>71,469,928</b>	61,101,269	<b>71,210,515</b>	64,087,265

See accompanying notes to consolidated financial statements

## SEA BREEZE POWER CORP.

### Consolidated Statements of Deficit

(Unaudited – See Notice)  
(Stated in Canadian Dollars)

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2007	2006	2007	2006
Deficit, Beginning Of Period	\$ 29,621,258	\$ 24,406,900	\$ 28,375,572	\$ 23,210,267
Net Loss for the Period	<u>1,594,390</u>	<u>1,203,892</u>	<u>2,840,076</u>	<u>2,400,525</u>
Deficit, End Of Period	<u>\$ 31,215,648</u>	<u>\$ 25,610,792</u>	<u>\$ 31,215,648</u>	<u>\$ 25,610,792</u>

# SEA BREEZE POWER CORP.

## Consolidated Statements of Cash Flows

(Unaudited – See Notice)

(Stated in Canadian Dollars)

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2007	2006	2007	2006
<b>Cash Flows From Operating Activities</b>				
Net loss for the period	\$ (1,594,390)	\$ (1,203,892)	\$ (2,840,076)	\$ (2,400,525)
Items not affecting cash:				
Interest to be paid in common shares	77,176	18,405	126,555	45,958
Amortization	5,513	6,213	11,013	12,312
Interest on loans payable	(33,791)	19,936	25,991	26,882
Stock based compensation	475,024	304,917	950,048	660,776
Accretion of interest on convertible debentures	27,289	6,422	37,562	16,696
Changes in non-cash operating working capital items:				
Accounts receivable	(20,380)	5,990	48,029	22,897
Accounts payable and accrued liabilities	75,516	10,116	(5,195)	(47,378)
Prepaid expenses	(2,599)	19,395	(15,309)	(24,522)
Related party receivable	144,389	(133,000)	-	203,828
	<u>(846,254)</u>	<u>(945,499)</u>	<u>(1,661,380)</u>	<u>(1,483,076)</u>
<b>Cash Flows From Financing Activities</b>				
Loans payable	-	(1,189)	-	60,479
Related party payable	665,340	1,027,006	(91,853)	1,111,063
Common shares issued for cash	252,726	21,150	276,726	55,350
Long term debt/Convertible debenture	-	13,314	1,406,303	13,314
Due from co-venture partner	-	25,078	-	289,992
	<u>918,066</u>	<u>1,085,359</u>	<u>1,591,176</u>	<u>1,530,198</u>
<b>Cash Flows From Investing Activities</b>				
Purchase of capital assets	(318)	(3,330)	(2,917)	(7,884)
Projects related security deposits	(5,000)	-	(5,000)	-
	<u>(5,318)</u>	<u>(3,330)</u>	<u>(7,917)</u>	<u>(7,884)</u>
<b>Increase (Decrease) In Cash</b>	<b>66,494</b>	<b>136,530</b>	<b>(78,122)</b>	<b>39,238</b>
<b>Cash, Beginning Of The Period</b>	<b>131,398</b>	<b>235,633</b>	<b>276,014</b>	<b>332,925</b>
<b>Cash, End Of The Period</b>	<b>\$ 197,892</b>	<b>\$ 372,163</b>	<b>\$ 197,892</b>	<b>\$ 372,163</b>
<b>Cash And Cash Equivalents Are Comprised Of:</b>				
Cash on hand and balances with banks	\$ 152,067	\$ 326,339	\$ 152,067	\$ 326,339
Restricted cash (Note 5)	45,825	45,825	45,825	45,825
	<u>\$ 197,892</u>	<u>\$ 372,163</u>	<u>\$ 197,892</u>	<u>\$ 372,163</u>

**Supplemental Disclosure For Non-Cash Operating, Financing And Investing Activities (Note 15).**  
See accompanying notes to consolidated financial statements

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

June 30, 2007

(Stated in Canadian Dollars)

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### 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 \$2,840,076 and \$2,400,525 for the six months ended June 30, 2007 and 2006, respectively, and has an accumulated deficit of \$31,215,648 at June 30, 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

June 30, 2007

(Stated in Canadian Dollars)

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### 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 Stollicum 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 their fair 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

June 30, 2007

(Stated in Canadian Dollars)

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### 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 June 30, 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

June 30, 2007

(Stated in Canadian Dollars)

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### 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.

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

June 30, 2007

(Stated in Canadian Dollars)

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### 3. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Sections 1530, "Comprehensive Income"; 3855, "Financial Instruments-Recognition and Measurement"; 3861, and "Financial Instruments-Disclosure and Presentation". The adoption of these new standards resulted in changes in accounting have been recorded in accumulated other comprehensive income.

Comprehensive income includes a new requirement to present, amongst other things, certain unrealized gains and losses outside of net income or loss as a separate component of shareholders' equity.

### 4. MARKETABLE SECURITIES

	Carrying Value	Unrealized Gains/(losses)	Fair Value
Available-for-sale	\$2,560	(\$250)	\$2,310

Upon adoption of the new CICA Handbook Section 3855, the Company designates its marketable securities as available for sale and as such, it is valued at fair value as of June 30, 2007. Unrealized changes to market value are adjusted to Other Comprehensive Income.

### 5. 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.

### 6. INVESTMENTS

#### a) Investment in Juan De Fuca Cable 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 Pacific 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

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

June 30, 2007

(Stated in Canadian Dollars)

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### 6. INVESTMENTS (Continued)

Angeles, Washington State, U.S.A. The Company and its joint venture partner Boundless Energy, LLC initially developed the Project and assigned their 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 into project equity at US Power Fund's option. 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\$5,496,139 (2006 – US\$5,100,000) have been remitted to the partnership by US Power Fund, LP in tranches through June 30, 2007.

The loan bears 20% interest per annum, compounded annually. As at June 30, 2007, accumulated interest totalled US\$1,979,715 (2006 – US\$746,119). The loan balance and accrued interest is repayable by JDFC and matures on the earliest of June 30, 2008 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.

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 six months ended June 30, 2007, JDFC incurred \$776,494 of project related costs charged to operations, including \$730,015 (US\$643,276) 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 June 30, 2007, Sea Breeze has not included its 49.75% proportional share of the loss of the partnership in its consolidated financial statements.

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

June 30, 2007

(Stated in Canadian Dollars)

### 6. INVESTMENTS (Continued)

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

	<u>June 30, 2007</u>	<u>December 31, 2006</u>
<b>Balance Sheets</b>		
Cash	\$ 18,584	\$ 29,244
GST recoverable and deposits	<u>9,709</u>	<u>11,544</u>
<b>Current And Total Assets</b>	<u>\$ 28,293</u>	<u>\$ 40,788</u>
<b>Current Liabilities</b>	\$ 9,309,928	\$ 8,989,840
<b>Partners' Deficiency</b>	<u>(9,281,635)</u>	<u>(8,949,052)</u>
	<u>\$ 28,293</u>	<u>\$ 40,788</u>
	<b>SIX MONTHS ENDED JUNE 30</b>	
	<u>2007</u>	<u>2006</u>
<b>Statements Of Loss</b>		
Project development costs	\$ 391,634	\$ 2,803,762
Interest expense	730,015	509,328
Foreign exchange	<u>(345,155)</u>	<u>(204,361)</u>
<b>Net Loss For The Year</b>	<u>\$ (776,494)</u>	<u>\$ (3,108,729)</u>
	<b>SIX MONTHS ENDED JUNE 30</b>	
	<u>2007</u>	<u>2006</u>
<b>Statements of Cash Flows</b>		
<b>Cash Provided By (Used In):</b>		
Net loss	\$ (776,494)	\$ (3,108,729)
Items not affecting cash	485,944	-
Changes of non-cash operating working capital items	<u>279,890</u>	<u>1,919,636</u>
<b>Operating Activities</b>	<u>(10,660)</u>	<u>(1,189,093)</u>
<b>Financing Activities</b>	<u>-</u>	<u>-</u>
<b>Investing Activities</b>	<u>-</u>	<u>-</u>
<b>(Decrease)/Increase In Cash</b>	<b>(10,660)</b>	<b>(1,189,093)</b>
<b>Cash, Beginning Of Period</b>	<u>29,244</u>	<u>1,355,430</u>
<b>Cash, End Of Period</b>	<u>\$ 18,584</u>	<u>\$ 166,337</u>

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

June 30, 2007

(Stated in Canadian Dollars)

### 6. INVESTMENTS (Continued)

#### b) Investment in Standard Hydrogen

During fiscal 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. The Company considers the investment in Standard no longer an economical asset. As of June 30, 2007, the carrying value is \$1 (December 31, 2006 - \$1).

### 7. JOINT VENTURE

In May 2004, 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:

<b>Proportionate Share (50%) of the Joint Venture</b>	<b>June 30, 2007</b>	<b>December 31, 2006</b>
Cash	\$ 2,973	\$ 7,322
Prepaid expenses	31,772	31,165
GST recoverable	543	194
Accounts receivables	-	14,568
Restricted cash	20,238	20,238
<b>Current Assets</b>	<b>55,526</b>	<b>73,487</b>
<b>Capital Assets</b>	<b>1,236</b>	<b>424</b>
<b>Total Assets</b>	<b>\$ 56,762</b>	<b>\$ 73,911</b>
<b>Current Liabilities</b>	<b>24,577</b>	<b>14,818</b>
<b>Due To Affiliated Companies</b>	<b>474,026</b>	<b>457,521</b>
<b>Deficit</b>	<b>(441,841)</b>	<b>(398,428)</b>
<b>Total Liabilities And Equity</b>	<b>\$ 56,762</b>	<b>\$ 73,911</b>
Project related costs (recoveries)	17,684	(14,030)
Expenses	25,729	61,777
<b>Net Income (Loss)</b>	<b>\$ (43,413)</b>	<b>\$ (47,747)</b>

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

June 30, 2007

(Stated in Canadian Dollars)

### 7. JOINT VENTURE (Continued)

Proportionate Share (50%) of Cash Flows	SIX MONTHS ENDED JUNE 30	
	2007	2006
Net (loss)	\$ (43,413)	\$ (70,697)
Changes of non-cash operating working capital items	22,559	277,386
<b>Operating activities</b>	<b>(20,854)</b>	<b>206,689</b>
<b>Financing activities</b>	<b>16,505</b>	<b>(187,755)</b>
<b>Investing activities</b>	<b>-</b>	<b>-</b>
<b>Increase (Decrease) In Cash</b>	<b>(4,349)</b>	<b>18,934</b>
<b>Cash, Beginning of Period</b>	<b>27,560</b>	<b>27,396</b>
<b>Cash, End of Period</b>	<b>\$ 23,211</b>	<b>\$ 46,330</b>
Cash on hand and balances with banks	\$ 2,973	\$ 26,093
Restricted cash	20,238	20,238
	<b>\$ 23,211</b>	<b>\$ 46,331</b>

The Company funded 100% of the costs incurred up to June 30, 2007. As a result, the Company is entitled to a reimbursement of \$414,954 (2006 - \$277,690), which is Boundless Energy's 50% of the joint venture's costs. The reimbursement will be reduced by Boundless Energy's contribution, which has not been quantified as at June 30, 2007.

### 8. PROPERTY AND EQUIPMENT

	June 30, 2007		
	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	\$ 103,552	\$ 65,102	\$ 38,450
Automotive equipment	12,656	6,701	5,955
Office equipment	21,254	10,678	10,576
Field equipment	36,977	19,534	17,444
Land	125,560	-	125,560
	<b>\$ 300,001</b>	<b>\$ 102,016</b>	<b>\$ 197,985</b>
	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
	<b>\$ 297,083</b>	<b>\$ 91,003</b>	<b>\$ 206,080</b>

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

June 30, 2007

(Stated in Canadian Dollars)

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### 9. PAYABLE TO RELATED PARTIES

	<b>June 30, 2007</b>	December 31, 2006
Loan payable to directors and companies controlled by directors with interest at 10% per annum, unsecured, due on demand.	<b>\$ 709,642</b>	\$ 795,476
Interest on loans payable to directors and companies controlled by directors, unsecured, non-interest bearing, due on demand	<b>69,454</b>	49,482
	<b>\$ 779,096</b>	\$ 844,958

### 10. RELATED PARTY TRANSACTIONS

All related party transactions are recorded at the exchange value.

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

a) Consulting Fees

During the six months period ended June 30, 2007, the Company paid and expensed \$36,000 (2006 - \$36,000) in consulting fees to a company controlled by a director of the Company. Further, the Company paid or accrued \$72,000 (2006 - \$72,000) for consulting services to officers of the Company. Included in accounts payable and accrued liabilities is \$38,494 (2006 - \$38,254) owing to such officers of the Company.

b) Public Relation Fees

The Company paid \$6,000 (2006 - \$36,000) to a company related to an officer for public relations and governmental advisory services.

c) Interest Payable

As at June 30, 2007, accrued convertible debenture interest payable in shares included \$401,657 (December 31, 2006 - \$294,380) owing to directors or companies controlled by directors.

d) Fees Charged to Partnership

During the six months ended June 30, 2007, the Company charged the JDFC partnership \$205,624 for travel, wages and consulting fees related to the JDF transmission project.

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

June 30, 2007

(Stated in Canadian Dollars)

### 11. LONG TERM DEBT

	<b>June 30, 2007</b>	December 31, 2006
Convertible debentures	<b>\$ 2,320,139</b>	\$ 941,655
Conversions during the year	-	(27,818)
Equity portion of convertible debentures	<b>(506,275)</b>	(199,408)
	<b>1,813,864</b>	714,429
Interest accretion	<b>183,782</b>	146,219
	<b>\$ 1,997,646</b>	\$ 860,648

- 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 are convertible into units of the Company at \$0.30 per unit in year one and increasing by 10% per unit in each subsequent year for five years (Year 1 to year 5: \$0.30, \$0.33, \$0.36, \$0.40, and \$0.44). In 2007, the terms were renegotiated to have the conversion price on the debenture at USD\$0.34. 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 May 8, 2008 or upon conversion of the debenture, whichever is sooner.

During the six months ended June 30, 2007, \$Nil (2006 - \$27,818) of principal of the debentures has been converted into units of the Company at a conversion price of \$0.44 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 9, 2007 the Company issued convertible debentures in the amount of US\$1,218,000, which are due and payable on March 9, 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 9, 2012 or upon conversion of the debenture, whichever is sooner.

## SEA BREEZE POWER CORP.

### Notes to Consolidated Financial Statements

June 30, 2007

(Stated in Canadian Dollars)

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#### 11. LONG TERM DEBT (continued)

- c) As of June 30, 2007, accumulated interest payable was \$522,977 (Dec 31, 2006 - \$395,606) resulting in a possible 1,075,158 (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 June 30, 2007, \$2,083,681 (2006 - \$677,379) were issued to directors, officers, or companies controlled by directors. Of the total interest payable \$401,657 (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

June 30, 2007

(Stated in Canadian Dollars)

### 12. SHARE CAPITAL AND SHAREHOLDERS' EQUITY

#### a) Issued and Outstanding Common Shares

	<b>Number Of Shares</b>	<b>Consideration</b>
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	441,176	166,515
Exercise of special warrants	220,000	33,000
Exercise of stock options	462,742	77,211
Shares issued for non-cash:		
Special warrants valuation of exercised special warrants	-	29,634
Stock option valuation of exercised stock options	-	69,288
<b>Balance, June 30, 2007</b>	<b>72,075,627</b>	<b>\$ 18,690,240</b>

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

June 30, 2007

(Stated in Canadian Dollars)

### 12. SHARE CAPITAL AND SHAREHOLDERS' EQUITY (Continued)

- b) As at June 30, 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)	\$0.85	November 1, 2007
2,399,000	*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)	\$0.53	June 29, 2008
166,666	*4)	\$0.53	August 30, 2008
559,600	*4)	\$0.53	October 13, 2008
220,588	*4)	\$0.53	April 23, 2009

\*1) exercisable at US\$0.80

\*2) see Note 12

\*3) contingently issuable – see Note 12

\*4) exercisable at US\$0.50

A summary of changes in the Company's warrants for the six months ended June 30, 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	220,588	(0.53)
Exercised	(220,000)	(0.15)
Expired	(70,000)	(0.33)
Balance, June 30, 2007	<u>7,332,066</u>	<u>\$ 0.46</u>

- c) At June 30, 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 71,612,885 issued as of the record day of May 13, 2007.

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

June 30, 2007

(Stated in Canadian Dollars)

### 12. SHARE CAPITAL AND SHAREHOLDERS' EQUITY (Continued)

During the six months ended June 30, 2007, the Company charged \$950,048 in stock based compensation expense to operations as follows:

A stock based compensation expense of \$858,169 (2006 - \$1,032,272) was charged to operations, relating to vested options, which were granted during the year 2005. The remaining stock based compensation expense of \$91,879 relates to options granted during the year 2006.

The following table summarizes information about fixed stock options outstanding at June 30, 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	9,036,193	1.36 years	\$ 0.52	8,138,942	\$ 0.54

A summary of changes in the Company's fixed stock option plan for the period ended June 30, 2007 is as follows:

	OPTIONS OUTSTANDING	
	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Balance, December 31, 2005	12,141,841	0.62
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	(462,742)	0.17
Cancelled	(170,000)	0.57
Balance June 30, 2007	9,036,193	\$ 0.56

- d) 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

June 30, 2007

(Stated in Canadian Dollars)

### 12. SHARE CAPITAL AND SHAREHOLDERS' EQUITY (Continued)

e) Changes in Contributed Surplus for the period ended June 30, 2007 are as follows:

	<u>June 30, 2007</u>	<u>December 31, 2006</u>
Balance, beginning of year	\$ 7,648,191	\$ 6,311,255
Incentive stock options granted	950,048	1,396,123
Incentive stock options exercised	(69,289)	(59,187)
Balance, end of year	<u>\$ 8,528,950</u>	<u>\$ 7,648,191</u>

### 13. SPECIAL WARRANTS

	<u>June 30, 2007</u>	<u>December 31, 2006</u>
<b>Special warrants issued:</b>		
2,500,000 warrants on April 16, 2003	\$ 336,819	\$ 336,819
1,000,000 warrants on June 28, 2004	134,700	134,700
Consideration paid in excess of net liabilities assumed	<u>471,519</u>	<u>471,519</u>
Less: Special warrants exercised	<u>(148,304)</u>	<u>(118,670)</u>
	<u>\$ 323,215</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.

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

June 30, 2007

(Stated in Canadian Dollars)

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### 13. SPECIAL WARRANTS (Continued)

On June 28, 2004 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.

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.

### 14. PROJECT DEVELOPMENT COSTS

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

	SIX MONTHS ENDED JUNE 30	
	2007	2006
Hydroelectric projects	\$ 120,414	\$ 92,486
Wind farm projects	439,474	164,814
Transmission projects	420,311	499,562
Total project related expenses for the period	<u>\$ 980,199</u>	<u>\$ 756,862</u>

Cumulative project costs incurred since the projects' inception amounted to \$11,707,704 (2006 - \$9,836,610).

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

June 30, 2007

(Stated in Canadian Dollars)

### 14. PROJECT DEVELOPMENT COSTS (Continued)

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

	SIX MONTHS ENDED JUNE 30	
	2007	2006
<b>Cascade</b>	<b>\$ 120,414</b>	<b>\$ 80,096</b>
<b>Slollicum</b>	<b>-</b>	<b>8,435</b>
<b>Great Central Lake</b>	<b>-</b>	<b>3,955</b>
	<b>\$ 120,414</b>	<b>\$ 92,486</b>
<b>Cumulative hydro project costs</b>	<b>\$ 5,627,566</b>	<b>\$ 5,406,490</b>

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

	SIX MONTHS ENDED JUNE 30	
	2007	2006
Knob Hill	\$ 250,045	\$ 131,523
God's Pocket	2,024	701
Shushartie Mountain	53,309	939
Hushamu	34,124	9,978
Windy Ridge	1,125	-
Nimpkish	3,565	3,611
Other projects under preparation	95,282	18,062
Total project related expenses for the period	<b>\$ 439,474</b>	<b>\$ 164,814</b>
<b>Cumulative wind farm project costs</b>	<b>\$ 4,466,851</b>	<b>\$ 3,578,852</b>

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

	SIX MONTHS ENDED JUNE 30	
	2007	2006
Transmission projects	<b>\$ 420,311</b>	<b>\$ 499,562</b>
<b>Cumulative transmission project costs</b>	<b>\$ 1,969,268</b>	<b>\$ 851,268</b>

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

June 30, 2007

(Stated in Canadian Dollars)

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

During the six months period ended June 30, 2007 and 2006 the Company had the following non-cash operating financing and investing activities:

- i) issued 220,000 (2006 – 291,000) common shares pursuant to the exercise of warrants.
- ii) issued 462,742 (2006- NIL) common shares pursuant to the exercise of options.
- iii) issued 441,176 common shares pursuant to a private placement.

### 16. 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>

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

June 30, 2007

(Stated in Canadian Dollars)

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### 16. 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.

### 17. 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 11 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.

### 18. COMMITMENTS

The Company leases an office premises in Vancouver, Canada. The office lease commenced on October 1, 2006 and ends June 30, 2008. The future minimum lease payments are as follows:

2007	\$	67,425
2008	\$	105,183

## **SEA BREEZE POWER CORP.**

### **Notes to Consolidated Financial Statements**

June 30, 2007

(Stated in Canadian Dollars)

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#### **19. SEGMENTED INFORMATION**

The Company's activities are in the power generation and transmission industry. As at June 30, 2007, all of the Company's assets were in Canada. The receivable from the related party is owing from the Company's US partnership interest, Sea Breeze Pacific Juan de Fuca Cable, LP.

#### **20. SUBSEQUENT EVENTS**

Subsequent to June 30, 2007, the Company:

- a) received additional funding for its Juan De Fuca Partnership via receipt of USD\$350,000 from EIF.
- b) issued 140,000 common shares for proceeds for \$27,960 pursuant to the exercise of options.
- c) terms of the re-negotiated convertible debenture (USD\$782,000) were accepted by the Toronto Stock Exchange