

*The following discussion of the financial results for Sea Breeze Power Inc. (“the Company”) and all its subsidiaries and partnership arrangements should be read in conjunction with the unaudited financial statements for the six months ended June 30, 2007. The Company’s financial statements are prepared in accordance with accounting principles generally accepted in Canada. Readers are also referred to the Company’s public filings, all of which are available at [www.sedar.com](http://www.sedar.com). All sums of money presented in this Management Discussion & Analysis (MD&A) are expressed in Canadian dollars, unless otherwise indicated. This MD&A was prepared as of August 23, 2007.*

*Certain information regarding the Company set forth in this document, including management’s assessment of the Company’s future plans and operations, contain forward-looking statements that involve substantial known and unknown risks and uncertainties. These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond the Company’s control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, precision of resource estimates, environmental risks, competition from other energy companies, lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from both internal and external sources. The Company’s actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements, and accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur. The Company assumes no obligation to publicly update or revise any forward-looking information.*

*The preparation of this Management Discussion and Analysis, as with the financial statement preparations, is in conformity with generally accepted accounting principles which 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.*

*The Company was incorporated on January 18, 1979 pursuant to the British Columbia Company Act, as a British Columbia, Canada corporation under the name Northern Horizon Resource Corporation. Effective July 29, 2003 the Company changed its name to Sea Breeze Power Corp.*

*The corporate offices for the Company are located at Suite 1400-333 Seymour Street, Vancouver, British Columbia, Canada V6B 5A6, telephone (604) 689-2991. The registered and records office of the Company is located at Suite 1500-1055 West Georgia Street, Vancouver, British Columbia, Canada V6E 4N7, telephone (604) 687-9111.*

## **Mission and Values Statement**

Sea Breeze Power Corp. regards renewable energy sources as both essential and valuable components of our society's future energy portfolio.

Our external goal as a business organization is to serve a leadership role in expediting widespread adoption of utility-scale renewable energy.

To date, Sea Breeze Power Corp. has undertaken leadership initiatives such as the initiation of large-scale power generation projects and development of strategic transmission projects to improve market access for renewable resources.

Our internal goals are to achieve superior, long-term financial returns for our shareholders and investors, and to provide a satisfying, supportive and well-compensated working environment for the committed members of our staff and management.

## **Nature of Operations**

Sea Breeze Power Corp. (the “Company”) is in the business of developing utility-scale renewable energy, and, through a 50% owned subsidiary, developing independent transmission systems. The Company is currently focused on further developing its renewable energy sites, and on obtaining long-term power purchase agreements in the British Columbia and western U.S. markets. On the transmission side, the Company is furthering development work on its transmission projects and is in the negotiation stage for commercial contracting on its first project, the “Juan de Fuca Cable”. Sea Breeze also provides consulting services to third parties on matters and activities relating to renewable energy technologies. The present geographic focus for the Company is British Columbia, with transmission activities extending from British Columbia to California.

## **Company Expertise**

Sea Breeze has exceptional in-house capabilities in wind assessment, transmission planning, consultation, environmental planning, and permit management. Due to the cross-border nature of its projects, the Company’s expertise now extends to both US and Canadian markets. Sea Breeze has also developed strong working relationships with experts in the fields of electrical transmission, engineering and design, and energy project permitting. The Company has assembled an effective environmental consultant team who are leaders in wind energy and environmental studies and assessment.

## **Renewable Energy**

Sea Breeze Power Corp.’s origins date to 1990 when Powerhouse Developments Inc. (now a wholly owned subsidiary of the Company) was formed, with the purpose of acquiring the original hydroelectric powerhouse site of Cascade Power & Light on the Kettle River in south-central British Columbia. The historic Cascade facility had been built in 1898 and was among the first generators to produce alternating current for commercial purposes.

The Cascade Heritage Power Project has been re-designed as a modern, low impact, 25 MW run-of-river hydroelectric facility suitable to the geography of the Cascade Falls site. Permit approval for the development was received on August 4, 2006.

In 2002, Sea Breeze Energy Inc. (a wholly owned subsidiary of Sea Breeze Power Corp.) became the first private entity within British Columbia to identify and act upon wind power generation as a business opportunity. It was the first renewable energy company to apply for provincial lands for the investigation of wind potential, and the first company to be granted environmental approvals for the construction of a wind farm facility in British Columbia. Sea Breeze Energy holds investigative use permits for wind farms on approximately 200,000 hectares of land in of British Columbia. These properties are in various stages of development and are in the following areas:

- Fourteen properties on northern Vancouver Island.
- Four large properties on the Central Coast.
- Thirteen properties in the Peace region.
- Three properties in the Okanagan region.

## **Transmission Systems**



In 2003, the Company undertook a comprehensive investigation of independent transmission options for the large-scale sale of power from British Columbia to potential customers in the United States. The review of transmission options culminated in a Joint Venture Agreement being executed with Boundless Energy LLC, of York Harbor, Maine, for development of independent transmission projects. Thus far Sea Breeze's association with Boundless Energy LLC has resulted in three major transmission project initiatives that have been the subject of public disclosure, along with several other potential major projects either in the conceptual or negotiation stages.

Through its interest in the Sea Breeze Pacific Juan de Fuca Cable, LP, the Company is actively developing the 1100 MW Juan de Fuca Transmission Corridor ("JDF Cable" – Project 1 (550 MW) estimated to cost US\$ 250 million).

Through its 50% owned subsidiary, Sea Breeze Pacific Regional Transmission System, Inc., (and affiliated special purpose companies, collectively hereinafter referred to as SBP-RTS) is proposing the development of the West Coast Cable, a 650-mile 1600 MW cable to be routed offshore between San Francisco Bay and the Columbia River. Presently, the West Coast Cable is one of four transmission alternatives under consideration by California ISO's "Joint Stakeholder Long Term Planning Study". The West Coast Cable is also under review by the Western Electricity Coordinating Council's Regional Planning Review Group, which was initiated by Pacific Gas and Electric Company, a wholly-owned subsidiary of the largest utility in California.

Such a cable would enable PG&E and other California utilities to access inexpensive hydroelectric energy from the Pacific Northwest, and, through the new Juan de Fuca corridor, also provide access to the vast renewable energy resources of western Canada.

The two transmission projects described above, along with an under-utilized segment of grid controlled by Bonneville Power Administration, would form a new transmission pathway between energy rich Canada, and the constrained, highly populated energy load centers of California.

All generation and transmission projects being undertaken through Sea Breeze Power Corp. and its subsidiaries are conceived and developed as "stand-alone" projects. All of the projects under development are free of "project-on-project" risk.

## **Financial Data**

This Management Discussion and Analysis (MD&A) is to be read in conjunction with the unaudited Consolidated Financial Statements for the six months ended June 30, 2007. These consolidated financial statements were prepared on a going-concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. As at June 30, 2007, the Company's assets were in Canada.

The Company reported net losses of \$2,840,076 (2006 - \$2,400,525) for the six months ended June 30, 2007, and has an accumulated deficit of \$31,215,648 at June 30, 2007. These recurring losses and the need for continued funding raise doubt about the Company's ability to continue as a going concern. The unaudited financial statements do not include any adjustments that might result from the outcome of this uncertainty.

## ***Chronological Milestones***



## **Wind Farms**

On January 16, 2006, the Company signed a protocol in respect with the Quatsino and Tlatlasikwala First Nations, acknowledging their claim under aboriginal and treaty rights in the proposed and permitted Knob Hill Wind Farm site located on North Vancouver Island, British Columbia. Each party desires a mutually beneficial relationship, including sharing information, identifying potential economic opportunities and working to develop community benefits.

## **Transmission Projects**

On March 2, 2006, the Company's affiliated subsidiary, Sea Breeze Victoria Converter Corporation ("SBVCC"), withdrew its application for a Certificate of Public Convenience and Necessity with the British Columbia Utilities Commission in respect to the Vancouver Island Cable. The project was in a regulatory hearing process with a competing proposal by publicly-owned British Columbia Transmission Corporation. Late evidence introduced at the hearing stated that the competing project would be financed with a capital structure of 100% provincially guaranteed debt. This announcement led to a decision by SBVCC to withdraw its application for the Vancouver Island Cable project as the late evidence placed the project in a non competitive position.

On September 7, 2006, the Juan de Fuca Cable Project became the first international merchant transmission line to gain approval from Canada's National Energy Board ("NEB").

On September 14, 2006, SBVCC had been granted a Participant Assistance/Cost Award in the amount of CAD\$251,725 by the British Columbia Utilities Commission for its intervention in the recent Vancouver Island Transmission Reinforcement Project proceeding.

On March 12, 2007, the Draft Environmental Impact Statement prepared for the Juan de Fuca Cable had been submitted to the U.S. Department of Energy.

On May 4, 2007, comments for the Draft Environmental Impact Statement for the Juan de Fuca Cable had been published in the Federal Register.

On July 4, 2007, Phase II status for the Juan de Fuca Cable Project had been acknowledged by the Western Electricity Coordinating Council

## **Hydroelectric Projects**

On August 4, 2006, the Company received the British Columbia Environmental Assessment Certificate for the Cascade Heritage Power Project.

## **Financing**

During the six months ended June 30, 2007, the Company received proceeds of \$33,000 from the exercise of warrants and issued 220,000 shares of the Company accordingly. The Company also received \$77,211 from the exercise of options and issued 462,742 common shares.

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.



## Selected Annual Information

### Summary

This management's discussion and analysis is based on the consolidated financial statements prepared in conformity with generally accepted accounting principles (GAAP) of Canada, and includes the accounts of the Company and its wholly-owned subsidiaries.

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.

**Table 1. Selected Annual Information**

	Six Months Ended	Year Ended	Year Ended
	2007	2006	2005
<b>Net Sales</b>			
<b>Income/(Loss) before Discontinued Operations and Extraordinary Items</b>			
- in total	\$(2,840,076)	\$(5,165,305)	\$(4,955,109)
- on a per-share basis	(0.04)	(0.08)	(0.08)
- on a diluted per-share basis	(0.04)	(0.08)	(0.08)
<b>Net Income/(Loss)</b>			
- in total	\$(2,840,076)	\$(5,165,305)	\$(4,955,109)
- on a per-share basis	(0.04)	(0.08)	(0.08)
- on a diluted per-share basis	(0.04)	(0.08)	(0.08)
<b>Total Assets</b>	\$547,185	\$661,373	\$1,634,138
<b>Total long-term financial liabilities</b>	1,997,646	860,648	845,797
<b>Cash dividends declared per share for each class of share</b>	N/A	N/A	N/A

## **Results Of Operations**

### **Summary**

During the six months ended June 30, 2007, the Company incurred project related expenditures of \$120,414 (2006 - \$92,486) for hydroelectric projects, \$ 439,474 (2006 - \$164,814) for wind farm projects and \$420,311 (2006 - \$499,562) for transmission projects totaling \$980,199 in “project under development” expenses charged to operations.

“Projects under development” relate to the costs of land and associated holdings, development, approval and proposals on projects held for future development as electricity generation sites. Directly related management fees, overhead costs, and interest costs are allocated to the projects under development based on the level of expenditures incurred.

### **Wind Farm Projects**

During the six months ended June 30, 2007, the Company incurred \$439,474 (2006 - \$164,414) in wind farm related expenditures, 56.9% of which (\$250,045) were spent for Knob Hill wind farm. The funds expended were primarily for both collection and assessment of environmental and meteorological data and preparation for 2008 Call for Tenders. Also 43.1% (\$189,429) were spent to continue developing the wind farm projects of Nimpkish, God’s Pocket, Hushamu, Shushartie, and other prospects. The expenditures on those sites were a combination of meteorological testing and environmental field studies required to be completed for eventual application for Environmental Assessment review. Corresponding costs were project consulting, professional fees and project administration costs, necessary to design and install improved meteorological towers (i.e. more resilient to wind inflicted stress, improved instruments for automated data transmission, advanced software for analysis of wind data, etc).

In 2007, the Company conducted a complete review of all their wind sites in the North Vancouver Island Region, Okanagan, North Coast and Peace River Region. The review focused on prioritizing the sites for future continued development. The Company decided to install 16 new meteorological towers (9 in North Vancouver Island, 2 in Peace River Region, 1 in Okanagan and 4 in North Coast). Installation of these towers had commenced in June 2007, with the completion date projected for mid 2008.

In January of 2006, the Company abandoned its LWBC Investigative Permit for the Roberts Bank property due to the project’s unfeasibility.

### **Knob Hill**

Knob Hill is a proposed wind energy project on northern Vancouver Island with a permitted area of over 5,000 hectares (approximately 12,500 acres). The site has received environmental approvals that cover up to a maximum installed capacity of 450 MW. Six meteorological towers are in operation onsite, and wind-modeling simulations have been conducted. Interconnection studies have also been conducted for the adjoining Georgie Lake Transmission Line. The Company is in ongoing negotiations with potential buyers of power, financiers, manufacturers, and First Nations.

### **God’s Pocket, Shushartie, Hushamu, Windy Ridge, Nimpkish**

These sites are near to the Knob Hill site on northern Vancouver Island, and were staked at approximately the same time, though they are not as developed as Knob Hill. The sites vary in size, forest cover, terrain, etc. Onsite and desktop studies are planned for the near future to determine feasibility and locations for meteorological towers for the higher priority sites.



All these sites had an increase in expenses during the Period compared to the previous year's Period, since the Company's focus in 2007 on increasing development of their wind sites. Table 2 outlines these changes.

**Table 2:**

<b>Projects</b>	<b>Percent of Total</b>	<b>2007</b>	<b>2006</b>
Knob Hill	56.9%	\$250,045	\$131,523
God's Pocket	0.5%	2,024	701
Shushartie Mountain	12.1%	53,309	939
Hushamu	7.8%	34,124	9,978
Nimpkish	0.8%	3,565	3,611
Other	21.9%	96,407	18,062
<b>Total Expenses</b>	<b>100.00%</b>	<b>\$439,474</b>	<b>\$164,814</b>

### **Other projects under preparation**

The Company holds Investigative Use Permits with the Ministry of Agriculture and Lands for 42 potential wind energy sites in BC. These permits lie on northern Vancouver Island, along the BC coast, in the Okanagan, and in the Peace River region. The Company currently has eight meteorological towers erected and collecting wind speed data, and additional towers are planned at many sites. Onsite and desktop studies are currently underway in order to determine feasibility and locations for meteorological towers for the higher priority sites.

### **Transmission Projects**

During the six months ended June 30, 2007, the Company spent \$420,311 (2006 - \$499,562) on the development of transmission projects.

### **Juan de Fuca Cable Project**

In April of 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 limited partnership, Sea Breeze Pacific Juan de Fuca Cable, LP ("JDFC"). The original sole purpose of the partnership was 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 Greater 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 since inception and assigned their interest in the project to JDFC for a nominal amount.

On April 6, 2005, JDFC secured a development loan of up to US\$8,000,000 from US Power Fund, L.P., a New York based private investment fund to advance permitting of the project, and to conduct an auction ("Open Season") for capacity on the potential transmission line to be developed jointly by the Company and its partners.



As at June 30, 2007, the loan advances totaled US\$5,496,139, comprised of an initial amount of US\$2,500,000 and further advances of US\$2,996,139. The loan bears 20% interest per annum, compounded annually. As at June 30, 2007, accumulated interest totaled US\$1,979,715. The loan balance and accrued interest is repayable by JDFC and matures on the earliest of June 30, 2008 or the day when financing for construction of the project is closed.

All proceeds of the loan are to be 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 a non-recourse loan and is payable by the project upon financial close.

The loan is secured by a registered security interest in all rights, assets, partners' voting rights, and partners' interests of 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 the financial closing has not been achieved upon full advance of the total loan amount. During 2005, an amendment of the original development loan agreement provided for a new transmission project to be added to the purpose of the partnership. The new project relates to the Vancouver Island Cable.

The amending agreement allowed JDFC to use a maximum aggregate of US\$1,000,000 of the original loan advanced 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 Vancouver Island Cable project to JDFC for costs incurred as at the date of transfer, December 16, 2005.

For the six months ended June 30, 2007, JDFC incurred \$776,494 of project related costs charged to operations, including \$730,015 of accrued interest related thereto. The Company accounts for its investment under the Equity Method and, accordingly, as its investment in JDFC is \$Nil as at June 30, 2007, Sea Breeze has not included its 49.75% proportional share of the loss of JDFC in its consolidated financial statements. A summary of financial data relating to the partnership can be found in the financial statements to be read in conjunction with this MD&A.

On September 7, 2006, the Juan de Fuca Cable Project became the first international merchant transmission line to gain approval from Canada's National Energy Board ("NEB").

On October 19, 2006, Governor in Council approval was received, marking another significant permitting milestone.

On September 14, 2006, SBVCC had been granted a Participant Assistance/Cost Award in the amount of CAD\$251,725 by the British Columbia Utilities Commission for its intervention in the recent Vancouver Island Transmission Reinforcement Project proceeding.

On November 7, 2006, SBVCC's request to appeal the BC Utilities Commission's decision to grant a Certificate of Public Convenience and Necessity for the Vancouver Island Transmission Reinforcement project was denied by the BC Court of Appeal.

## **Hydroelectric Projects**

During the six months ended June 30, 2007, the Company incurred \$120,414 in expenditures towards its hydroelectric projects. The Company spent \$120,414 (2006 – 80,096) on the Cascade project, \$Nil (2006 - \$8,435) on the Slollicum project and \$Nil (2006 - \$3,955) on the Great Central Lake project.



Expenditures for the hydroelectric projects are mainly for professional fees related to project consulting and for project engineering services, rendered by the Vice-President of Project Development. As of June 30, 2007, the cumulated project expenditures for hydroelectric projects were \$5,627,566 (2006 - \$5,406,490).

### **Cascade Project**

In 1991 the Company submitted an application to the Ministry of Environment, Lands and Parks under the Small Hydro Electric Projects to develop the Cascade Heritage Power Project. The site of the proposed project was on land owned by the Company, acquired in 1990. The property previously served as the site of a hydro electric generating plant built in 1898. In December 1993, the Company submitted an Energy Project Certificate Application to the Ministry of Energy, Mines, and Petroleum Resources. During the subsequent review, requirements for design changes and additional environmental information were met. In March 1995, the Company submitted a proposal to BC Hydro to develop the Cascade Project for sale of the electrical output to BC Hydro. Additional environmental work was carried out in 1998 and 1999, following changes to the provincial government permitting process, which required the project to be considered for a Project Approval Certificate under the British Columbia Environmental Assessment Act (BCEAA).

In accordance with the BCEAA, a Project Approval Certificate Application was submitted to the EAO in May 1999. On December 30, 2002, the *Environmental Assessment Act* S. British Columbia 2002 c43 was proclaimed, and the former Act of 1996 was repealed. On the same date, Transition Order #02-02 for the Cascade Heritage Power Project was issued. The current application, for the Cascade Project (under the new Act) was accepted for formal review on November 18, 2003. On August 4, 2006, the Company received the British Columbia Environmental Assessment Certificate.

On September 29, 2006, the Province of British Columbia issued Powerhouse Developments Inc, a Conditional Water Licence for its Cascade Heritage Power Project. The licence authorizes the construction of works or the diversion and use of water before the issuance of a final licence.

An application to appeal the Conditional Water Licence was submitted by a third party to the Environmental Appeal Board. The hearing began and adjourned in May 2007 and will reconvene in October 2007.

### **Slollicum Project**

In 1989, Pretty's Timber Company Ltd. made an initial proposal to BC Hydro with respect to development of hydro electric power on Slollicum Creek, located on the eastern shore of Harrison Lake, on the north side of the Fraser Valley. In 1992, a second proposal was made to BC Hydro. In 1993, Pretty's Timber applied for a water license and review under the Energy Project Review Process, on the basis of environmental work conducted by Triton Environmental Consultants Ltd. and H. A. Simons. The Company formed an 80/20 joint venture with Pretty's Timber in 1994. (Pretty's Timber was subsequently purchased by Lakeside Pacific Forest Products Ltd.). Also in 1994, an agreement in principle was reached with BC Hydro for the purchase of power. Over subsequent years, discussions were held with prospective engineering and construction firms.

In 2001, an assessment of the project was conducted by new management of the Company. On November 21, 2003, the Company made a submission to Land and Water British Columbia Inc. ("LWBC") under the new proponent application name of Harrison Lake Hydro Inc. renewing the application of the original water license application and requesting LWBC to proceed with review of the application.

In 2005, stream flow measurements were made and a recording gauge was installed in the creek.

Due to a greatly improved climate for independent power production, the project presently appears to have a higher chance of success than at any time in the past.

### 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 have agreed to jointly pursue specific merchant transmission opportunities.

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 which is Boundless Energy's 50% of the joint venture's costs. As at June 30, 2007, the Company has recorded an allowance for this amount.

### Summary of Quarterly Results for Sea Breeze Power Corp.

The following table summarizes key financial information for quarters ending:

**Table 3. Summary of Quarterly Results**

	Income/Loss*	Net Loss	EPS
2007			
Second Quarter	(1,594,390)	(1,594,390)	(0.02)
First Quarter	(1,245,686)	(1,245,686)	(0.02)
2006			
Fourth Quarter	(1,687,686)	(1,687,686)	(0.02)
Third Quarter	(1,077,094)	(1,077,094)	(0.02)
Second Quarter	(1,203,893)	(1,203,893)	(0.02)
First Quarter	(1,196,632)	(1,196,632)	(0.02)

During the six months ended June 30, 2007, the Company received \$38,873 from the District of Squamish for work invoiced in late 2006.

## Liquidity

Revenue from wind farm projects is not expected to begin until 2009 at the earliest, from the hydroelectric projects until 2009 at the earliest and from transmission projects 2009 at the earliest. Present and emerging trends in the industry indicate strong future demand for the Company's anticipated production of renewable energy. Notwithstanding those trends, there can be no assurance that further financing, either equity or debt, will always be available to the Company. Management has confidence in the Company's ability to attract further financing.

The Company is in the development stage and currently derives no revenues from its projects besides a small stream generated from consulting to unrelated parties such as the project underway with the District of Squamish to erect and monitor a wind measurement tower.

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, obtaining necessary regulatory approvals, obtaining the necessary financing to complete development, and securing a power purchase agreement.

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 and private equity financing, 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 develop the Company's business model to obtain revenues from its wind, hydroelectric power generating and transmission projects. There is, however, no assurance that the events, including the receipt of additional funding, will occur or be successful.

The Company's contractual obligations are shown in the table below:

**Table 4. Contractual Obligations as of June 30, 2007:**

		Payments Due by Year				
		Total	Less than 1 year	2 – 3 years	4 – 5 Years	After 5 Years
Copier		\$33,175	\$7,620	\$14,970	\$8,760	\$1,825
Office lease		\$172,608	\$137,547	\$35,061	\$Nil	\$Nil
<b>Total</b>		<b>\$205,783</b>	<b>\$145,167</b>	<b>\$53,031</b>	<b>\$8,760</b>	<b>\$1,825</b>

## Capital Resources

New installations of renewable generation equipment (wind or hydro electric) typically cost in the range of US\$ 2,500,000 per megawatt installed. By extension, a 100 MW farm would cost approximately US\$250,000,000.

Typically, the majority of the funding required for project construction (50% - 80%) comes in the form of "senior debt". Sources of senior debt generally require environmental assessment approval and a "power purchase agreement" in place prior to advancing funds.

The amount of project financing not covered by senior debt usually requires an investment of equity, provided by the developer, partners, or a purchaser of the project.

Funding for renewable energy projects has been growing in availability in British Columbia over the past few years due to favourable changes in government policy (introduced in November 2002), demand for this type of investment from the financial community, and growing recognition of the positive contribution that renewable energy will bring to the issue of global climate change both socially and economically.

The Company is in discussion with a number of arms-length parties who have expressed interest in participation in wind farm investments, however, as of June 30, 2007, no commitments have been given or made.

## 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.

The Company's debentures detailed below 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.

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.

In the past, the Company has used convertible debentures, stock options, warrants, and unsecured loans as financial instruments to support its project developments.

Marketable securities are carried at their fair value. Any unrealized gain or loss arising from the change in fair value is recorded in Other Comprehensive Income in the Equity section of the Balance Sheet. The fair value of marketable securities at June 30, 2007 was \$2,310.

## Long Term Debt

**Table 5. Long Term Debt**

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

On May 7, 2003, the Company issued convertible debentures in the amount of CDN\$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). 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 the earlier of May 7, 2008 or upon conversion of the debenture.

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. Each unit consists of 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.

As of June 30, 2007, accumulated interest payable was \$522,977 (2006 - \$395,606) resulting in a possible 1,075,158 (2006 - 758,766) common shares issuable in payments 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.

The liability component of the convertible debt is calculated as a 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.

## Related Party Transactions

Related party transactions are as follows:

<b>Payable to related parties</b>	<b>June 30, 2007</b>	<b>December 31, 2006</b>
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>	42,982
	<b>\$ 779,096</b>	\$ 844,958

### Consulting Fees

During the six months 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.

### 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.

### 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.

### 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.

## Share Capital and Shareholders' Equity

Total issued and outstanding common shares as at June 30, 2007 were 72,075,627 (Dec.31, 2006 – 70,951,709)

During the six months ended June 30, 2007, the Company received cash proceeds of \$33,000 from the exercise of warrants, issuing 220,000 shares accordingly. The Company also received \$77,211 from the exercise of options, issuing 462,742 commons shares.



As at June 30, 2007, the Company had the following warrants to purchase common shares of the Company outstanding:

NUMBER OF WARRANTS	EXERCISE PRICE	EXPIRY DATE
1,250,000	\$0.93 – (US\$0.80)	November 1, 2007
2,399,000	\$0.15	April 16, 2008
500,000	\$0.15	April 16, 2008
69,546	\$0.40	June 6, 2008
2,166,667	\$0.53 – (US\$0.50)	June 29, 2008
166,666	\$0.53 – (US\$0.50)	August 30, 2008
559,600	\$0.53 – (US\$0.50)	October 13, 2008
220,588	\$0.53 – (US\$0.50)	April 23, 2009

As of June 30, 2007, the Company has 9,036,193 stock options outstanding with an average exercise price of \$0.52, of which 8,138,942 are exercisable at an average price per share of \$0.54.

A stock based compensation expense of \$950,048 was charged to operations, of which all relate to vested stock options granted during 2005 and 2006.

Changes in Contributed Surplus for the six months ended June 30, 2007 were \$880,759, of which \$950,048 from vesting of stock options and (\$69,289) was related to the exercise of stock options. As at June 30, 2007, total Contributed Surplus was \$8,528,950 (Dec. 31, 2006 - \$7,648,191).

## **Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this Management's Discussion and Analysis, management evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, management has concluded that, as of the end of the period covered by this Management's Discussion and Analysis, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws, and that material information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

## **Internal Controls Over Financial Reporting**

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP. Management is responsible for establishing and maintaining adequate internal controls over financial reporting for the Company.

The Company's management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the internal controls over financial reporting. Based on this evaluation, management has concluded that internal controls over financial reporting were designed effectively as of June 30, 2007.

## **Subsequent Events**

Subsequent to June 30, 2007, the Company:

- a) Issued 40,000 common shares upon the exercise of options at USD\$0.30 per share
- b) Issued 100,000 common shares upon the exercise of options at \$0.15 per share
- c) Received USD\$350,000 in the Juan De Fuca Partnership from Energy Investor Fund
- d) The terms of the re-negotiated convertible debenture (USD\$782,000) were accepted by the Toronto Stock Exchange

## **Other MD&A Requirements**

Additional information relating to the Company is to be found on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website: <http://www.SeaBreezePower.com/>.



### **Additional Information**

During the six months ended June 30, 2007, the Company has not been party to any legal proceedings. Other than as previously disclosed above, and in the financial statements related to the periods discussed herein, the Company has no material contracts or commitments. Achievement of the Company's future business objectives is reliant upon receipt of regulatory approval from a number of government agencies, both provincial and federal. There is no guarantee as to the eventual receipt of such approvals.