

**SEA BREEZE POWER CORP.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR SIX MONTHS ENDED JUNE 30, 2008**  
**(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, 2008, 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, 2008	December 31, 2007
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 233,609	\$ 170,035
Accounts receivable	107,067	115,965
Marketable securities (Note 5)	750	750
Prepaid expenses and deposits	93,304	61,335
	<u>434,730</u>	<u>348,085</u>
<b>Security Deposits</b> (Note 6)	73,122	76,975
<b>Investments</b> (Note 7)	1	1
<b>Property And Equipment</b> (Note 9)	<u>221,046</u>	<u>205,455</u>
	<u>\$ 728,899</u>	<u>\$ 630,516</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 332,781	\$ 361,099
Loans payable to related parties (Note 10)	544,540	1,024,412
	<u>877,321</u>	<u>1,385,511</u>
<b>Convertible Debenture</b> (Note 12)	<u>4,095,413</u>	<u>2,346,659</u>
	<u>4,972,734</u>	<u>3,732,170</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Equity Portion Of Convertible Debenture</b> (Note 12)	2,202,408	1,309,918
<b>Commitment To Issue Shares</b> (Note 12)	434,451	1,814,868
<b>Share Capital</b> (Note 13)	21,034,236	18,916,167
<b>Contributed Surplus</b>	9,613,093	9,362,015
<b>Special Warrants</b> (Note 14)	-	245,048
<b>Accumulated Other Comprehensive Income</b>	(1,810)	(1,810)
<b>Deficit</b>	<u>(37,526,213)</u>	<u>(34,747,860)</u>
	<u>(4,243,835)</u>	<u>(3,101,654)</u>
	<u>\$ 728,899</u>	<u>\$ 630,516</u>

Approved on Behalf of the Board:

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

\_\_\_\_\_  
"Henry P. Anderson, III"  
Director

See accompanying notes to consolidated financial statements

# SEA BREEZE POWER CORP.

## Consolidated Statements of Net Loss and Comprehensive Income

(Unaudited – See Notice)

(Stated in Canadian Dollars)

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2008	2007	2008	2007
<b>Service income</b>	\$ -	\$ -	\$ 26,961	\$ -
<b>Cost of service income</b>	-	-	(18,741)	-
<b>Gain (Loss) on service activity</b>	-	-	8,220	-
<b>Project Related Costs (Note 14)</b>	<b>697,454</b>	621,003	<b>1,209,511</b>	980,199
<b>Administration Expenses</b>				
Accounting and audit	86,951	32,701	151,208	99,666
Amortization	5,810	5,513	11,240	11,013
Bank charges and interest	82,657	9,116	96,097	29,254
Consulting	4,301	2,842	8,261	21,920
Filing fees	22,450	11,694	31,763	29,265
Foreign exchange (gain)	(1,003)	(3,973)	82,904	(19,981)
Interest on long term debt	186,290	105,302	323,782	165,084
Legal fees	13,124	26,271	19,135	3,499
Office and rent	136,640	161,107	257,097	261,409
Public relations and travel	17,717	24,207	39,494	53,097
Stock based compensation	125,414	475,024	251,078	950,048
Salaries and benefits	158,359	125,932	309,017	247,559
Transfer agent	-	-	-	11,986
	<b>838,710</b>	975,736	<b>1,581,079</b>	1,863,819
<b>Loss Before The Following</b>	<b>(1,536,164)</b>	(1,596,739)	<b>(2,782,367)</b>	(2,844,018)
<b>Interest income</b>	<b>2,827</b>	2,349	<b>4,014</b>	3,942
<b>Net Loss for the Period</b>	<b>\$ (1,533,337)</b>	\$ (1,594,390)	<b>\$ (2,778,353)</b>	\$ (2,840,076)
<b>Other comprehensive income/(loss)</b>				
Unrealized loss on marketable securities	250	(250)	-	(250)
<b>Other comprehensive income/(loss)</b>	<b>\$ 250</b>	\$ (250)	<b>\$ -</b>	\$ (250)
<b>Loss Per Share, Basic</b>	<b>\$ 0.02</b>	\$ 0.02	<b>\$ 0.04</b>	\$ 0.06
<b>Weighted Average Common Shares Outstanding, Basic</b>	<b>76,677,224</b>	71,469,928	<b>74,765,345</b>	71,210,515

See accompanying notes to consolidated financial statements

# 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	
	2008	2007	2008	2007
<b>Cash Flows From Operating Activities</b>				
Net loss for the period	\$ (1,533,337)	\$ (1,594,390)	\$ (2,778,353)	\$ (2,840,076)
Items not affecting cash:				
Interest to be paid in common shares	116,353	77,176	220,254	126,555
Amortization	5,810	5,513	11,240	11,013
Interest on loans payable	80,949	(33,791)	92,320	25,991
Stock based compensation	125,414	475,024	251,078	950,048
Accretion of interest on convertible debentures	290,191	27,289	323,782	37,562
Changes in non-cash operating working capital items:				
Accounts receivable	24,227	(20,380)	8,899	48,029
Accounts payable and accrued liabilities	114,877	75,515	(28,319)	(5,195)
Prepaid expenses	(33,772)	(2,599)	(31,969)	(15,309)
Related party receivable	-	144,389	-	-
	<u>(809,288)</u>	<u>(846,254)</u>	<u>(1,931,068)</u>	<u>(1,661,382)</u>
<b>Cash Flows From Financing Activities</b>				
Related party payable	(819,672)	665,340	144,637	1,314,450
Common shares issued for cash	1,682,983	252,726	1,872,983	276,726
	<u>863,389</u>	<u>918,066</u>	<u>2,017,620</u>	<u>1,591,176</u>
<b>Cash Flows From Investing Activities</b>				
Purchase of capital assets	(25,057)	(318)	(26,831)	(2,917)
Projects related security deposits	6,220	(5,000)	3,853	(5,000)
	<u>(18,837)</u>	<u>(5,318)</u>	<u>(22,978)</u>	<u>(7,917)</u>
<b>Increase (Decrease) In Cash</b>	<b>35,264</b>	<b>66,494</b>	<b>63,574</b>	<b>(78,122)</b>
<b>Cash, Beginning Of The Period</b>	<b>198,345</b>	<b>131,398</b>	<b>170,035</b>	<b>276,014</b>
<b>Cash, End Of The Period</b>	<b>\$ 233,609</b>	<b>\$ 197,892</b>	<b>\$ 233,609</b>	<b>\$ 197,892</b>
<b>Cash And Cash Equivalents Are Comprised Of:</b>				
Cash on hand and balances with banks	\$ 233,609	\$ 152,067	\$ 233,609	\$ 152,067
Restricted cash (Note 5)	-	45,825	-	45,825
	<u>\$ 233,609</u>	<u>\$ 197,892</u>	<u>\$ 233,609</u>	<u>\$ 197,892</u>

**Supplemental Disclosure For Non-Cash Operating, Financing And Investing Activities (Note 16).**  
See accompanying notes to consolidated financial statements

**SEA BREEZE POWER CORP.**

**Consolidated Statements of Shareholders' (Deficiency) Equity**

For Period Ended June 30, 2008

	Shares	Amount	Equity Portion of LT Debt	Contributed Surplus	Special Warrants	Commitment to Issue Shares	Other Comprehensive Income	Deficit	Total
Balance, December 31, 2006	70,951,709	\$ 18,314,592	\$ 199,408	\$ 7,648,191	\$ 352,849	\$ 395,606	\$ -	\$ (28,375,572)	\$ (1,464,926)
Issued for cash pursuant to:									
Private placement at \$0.34 USD	441,176	166,515							166,515
Exercise of special warrants at \$0.15	803,333	120,500							120,500
Exercise of stock options at \$0.15	523,742	78,561							78,561
Exercise of stock options at \$0.35	49,000	17,150							17,150
Exercise of stock options at \$0.30 USD	40,000	12,748							12,748
Special warrants valuation		107,801			(107,801)				-
Stock options valuation		98,300		(98,300)					-
Equity portion of new convertible debentures			1,309,918						1,309,918
Conversion of convertible debenture			(199,408)			1,098,672			899,264
Interest earned payable in shares						320,590			320,590
Unrealized loss on marketable securities							(1,810)		(1,810)
Stock based compensation				1,812,124					1,812,124
Net loss for the year								(6,372,288)	(6,372,288)
Balance, December 31, 2007	72,808,960	18,916,167	1,309,918	9,362,015	245,048	1,814,868	(1,810)	(34,747,860)	(3,101,654)
Issued for cash pursuant to:									
Exercise of special warrants at \$0.15	1,815,668	272,350							272,350
Special warrants valuation		245,048			(245,048)				-
Conversion of convertible debenture	3,721,278	1,600,671				(1,600,671)			-
Equity portion of new convertible debentures			892,490						892,490
Interest earned payable in shares						220,254			220,254
Stock based compensation				251,078					251,078
Net loss for the year								(2,778,353)	(2,778,353)
<b>Balance, June 30, 2008</b>	<b>78,345,906</b>	<b>\$ 21,034,236</b>	<b>\$ 2,202,408</b>	<b>\$ 9,613,093</b>	<b>\$ -</b>	<b>\$ 434,451</b>	<b>\$ (1,810)</b>	<b>\$ (37,526,213)</b>	<b>\$ (4,243,835)</b>

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

June 30, 2008

(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 \$2,778,353 and \$2,840,076 for the six months ended June 30, 2008 and 2007, respectively, and has an accumulated deficit of \$37,526,213 at June 30, 2008. 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, 2008

(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 Slollicum Joint Venture, and the Company's proportionate interest (50%) in the assets, liabilities and expenses of Sea Breeze Pacific Regional Transmission Systems, Inc., and the Company's proportionate interest (47.5%) in 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) Financial Instruments

Effective January 1, 2007, the Company has adopted three new accounting standards related to financial instruments that were issued by the Canadian Institute of Chartered Accountants ("CICA") in 2005. These accounting policy changes were adopted on a prospective basis with no restatement to prior period financial statements. The new standards and accounting policy changes are as follows:

##### Financial Instruments – Recognition and Measurement (CICA Handbook Section 3855)

In accordance with the new standard the Company now classifies all financial instruments as either held-to-maturity, available-for-sale, held for trading or loans and receivables. Financial assets held to maturity, loans and receivable and financial liabilities other than those held for trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized on the statement of loss.

##### Comprehensive Income (CICA Handbook Section 1530)

Comprehensive Income is the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources. In accordance with this new standard, when applicable, the Company's financial statements will include a consolidated statement of comprehensive income/loss and accumulated other comprehensive income/loss will be added to the shareholders' equity section of the consolidated balance sheet. The components of this new category will include unrealized gains and losses on financial assets classified as available-for-sale and the effective portion of cash flow hedges, if any.

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

June 30, 2008

(Stated in Canadian Dollars)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Hedges (CICA Handbook Section 3865)

The new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed. The Company has not designated any hedging relationships.

c) 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.

d) 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.

e) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term deposits maturing within 90 days or less when acquired. The Company did not have cash equivalents as of June 30, 2008.

f) Marketable Securities

On January 1, 2007, the Company adopted the new financial instrument standards (CICA Section 3855 and Section 1530) and classifies its marketable securities as "available for sale" and records the marketable securities at their fair value.

g) 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

h) 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.

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

June 30, 2008

(Stated in Canadian Dollars)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) 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, 2008 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.

j) 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.

k) 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.

l) 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.

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

June 30, 2008

(Stated in Canadian Dollars)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### m) Variable Interest Entities

The Company follows 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, 2008

(Stated in Canadian Dollars)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Project Development Costs

The Company expenses project related development costs until such time as final development decisions with respect to each specific project are made. After a final positive development production decision is made on a project, the project related development costs will be capitalized and amortized over the expected life of the project.

o) Comparative Figures

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

### 3. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2008, the Company adopted the following Canadian Institute of Chartered Accountants ("CICA") Handbook Sections without restatement of prior periods. There was no material impact on the Company's financial condition or operating results as a result of the adoption of these new standards:

- a) Section 1535 – Capital Disclosures, which establishes standards for disclosing information about an entity's capital and how it is managed to enable users of financial statements to evaluate the entity's objectives, policies and procedures for managing capital.
- b) Section 3862 – Financial Instruments – Disclosures, which describes the required disclosures related to the significance of financial instruments on the Company's financial position and risks associated with the financial instruments.
- c) Section 3863 – Financial Instruments – Presentation, which replaces Section 3861 – Financial Instruments – Disclosure and Presentation, establishes standards for presentation of financial instruments and non-financial derivatives.
- d) Section 1400 – General Standards of Financial Statement Presentation, which include requirements to assess and disclose an entity's ability to continue as a going concern.

### 4. FUTURE PRONOUNCEMENTS

On January 8, 2008, the CICA issued Section 3064, Goodwill and Intangible Assets. Section 3064, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. Section 3064 is effective for the Company for annual and interim financial statements commencing January 1, 2009.

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

June 30, 2008

(Stated in Canadian Dollars)

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### 5. MARKETABLE SECURITIES

	Carrying Value	Unrealized Gains/(losses)	Fair Value
Available-for-sale	\$2,560	(\$1,810)	\$750

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, 2008. Unrealized changes to market value are adjusted to Other Comprehensive Income.

### 6. SECURITY DEPOSITS

The Company has advanced \$44,122 (2007 - \$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. The Company has also posted \$29,000 (2007 - \$31,150) in project related security deposits.

### 7. 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 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\$5,791,000 (2007 - US\$5,441,000) have been remitted to the partnership by US Power Fund, LP in tranches through June 30, 2008.

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

June 30, 2008

(Stated in Canadian Dollars)

### 7. INVESTMENTS (Continued)

The loan bears 20% interest per annum, compounded annually. As at June 30, 2008, accumulated interest totalled US\$3,539,848 (2007 – US\$1,979,719). The loan balance and accrued interest is repayable by JDFC and matures on the earliest of August 29, 2008 or the day upon which financing for construction of the project is closed.

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 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, 2008, JDFC incurred \$1,575,570 of project related costs charged to operations, including \$822,047 (US\$813,908) 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, 2008, 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:

	June 30, 2008	December 31, 2007
<b>Balance Sheets</b>		
Cash	\$ 5,779	\$ 145,448
GST recoverable and deposits	17,710	17,521
<b>Current and Total Assets</b>	<b>\$ 23,489</b>	<b>\$ 162,969</b>
<b>Liabilities and Equity</b>	<b>\$ 12,651,452</b>	<b>\$ 11,044,000</b>
<b>Partners' Deficiency</b>	<b>(12,627,963)</b>	<b>(10,881,031)</b>
	<b>\$ 23,489</b>	<b>\$ 162,969</b>

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

June 30, 2008

(Stated in Canadian Dollars)

### 7. INVESTMENTS (Continued)

	SIX MONTHS ENDED JUNE 30	
	2008	2007
<b>Statements Of Loss</b>		
Project development costs	\$ 655,215	\$ 391,634
Interest expense	822,047	730,015
Foreign exchange	98,595	(345,155)
<b>Net Loss For The Year</b>	<b>\$ (1,575,857)</b>	<b>\$ (776,494)</b>

Statements of Cash Flows	SIX MONTHS ENDED JUNE 30	
	2008	2007
<b>Cash Provided By (Used In):</b>		
Net loss	\$ (1,575,857)	\$ (776,494)
Items not affecting cash	822,047	485,944
Changes of non-cash operating working capital items	279,038	279,890
<b>Operating Activities</b>	<b>(474,772)</b>	<b>10,660</b>
<b>Financing Activities</b>	<b>310,516</b>	<b>-</b>
<b>Investing Activities</b>	<b>-</b>	<b>-</b>
<b>(Decrease)/Increase In Cash</b>	<b>(164,256)</b>	<b>(10,660)</b>
<b>Cash, Beginning Of Period</b>	<b>170,035</b>	<b>29,244</b>
<b>Cash, End Of Period</b>	<b>\$ 5,779</b>	<b>\$ 18,584</b>

#### 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, which conducts research activities. The \$10,000 equity purchase was paid upon commencement of Standard Hydrogen's operations. The Company considers the investment in Standard Hydrogen no longer an economical asset. As of June 30, 2008, the carrying value is \$1 (December 31, 2007 - \$1).

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

June 30, 2008

(Stated in Canadian Dollars)

### 8. 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>Jun 30, 2008</b>	<b>December 31, 2007</b>
Cash	\$ 10,368	\$ 2,848
Prepaid expenses	11,725	19,359
GST recoverable	1,304	1,005
<b>Current Assets</b>	<b>22,397</b>	<b>23,212</b>
<b>Restricted Cash</b>	<b>18,535</b>	<b>20,238</b>
<b>Capital Assets</b>	<b>972</b>	<b>1,123</b>
<b>Total Assets</b>	<b>\$ 42,904</b>	<b>\$ 44,573</b>
<b>Current Liabilities</b>	<b>22,177</b>	<b>16,103</b>
<b>Due to Affiliated Companies</b>	<b>536,036</b>	<b>505,783</b>
<b>Common Shares</b>	<b>100</b>	<b>100</b>
<b>Deficit</b>	<b>(515,409)</b>	<b>(477,413)</b>
<b>Total Liabilities And Equity</b>	<b>\$ 42,904</b>	<b>\$ 44,573</b>
<b>Proportionate Share (50%) of Cash Flows</b>	<b>SIX MONTHS ENDED JUNE 30</b>	
	<b>2008</b>	<b>2007</b>
Project related costs (recoveries)	20,018	17,684
Expenses	17,978	25,729
<b>Net Income (Loss)</b>	<b>\$ (37,996)</b>	<b>\$ (43,413)</b>

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

June 30, 2008

(Stated in Canadian Dollars)

### 8. JOINT VENTURE (Continued)

Proportionate Share (50%) of Cash Flows	SIX MONTHS ENDED JUNE 30	
	2008	2007
Net (loss)	\$ (37,996)	\$ (43,413)
Changes of non-cash operating working capital items	13,560	22,559
<b>Operating activities</b>	<b>(24,436)</b>	<b>(20,854)</b>
<b>Financing activities</b>	<b>30,253</b>	<b>16,505</b>
<b>Investing activities</b>	<b>-</b>	<b>-</b>
<b>Increase (Decrease) In Cash</b>	<b>5,817</b>	<b>(4,349)</b>
<b>Cash, Beginning of Period</b>	<b>23,086</b>	<b>27,560</b>
<b>Cash, End of Period</b>	<b>\$ 28,903</b>	<b>\$ 23,211</b>
Cash on hand and balances with banks	\$ 10,368	\$ 2,973
Restricted cash	18,535	20,238
	<b>\$ 28,903</b>	<b>\$ 23,211</b>

The Company funded 100% of the costs incurred up to June 30, 2008. As a result, the Company is entitled to a reimbursement of \$435,416 (2007 - \$405,163), 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, 2008.

### 9. PROPERTY AND EQUIPMENT

	June 30, 2008		
	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	\$ 114,639	\$ 78,185	\$ 36,454
Automotive equipment	41,541	10,890	30,651
Office equipment	27,664	13,744	13,920
Field equipment	39,012	24,552	14,460
Land	125,560	-	125,560
	<b>\$ 348,416</b>	<b>\$ 127,371</b>	<b>\$ 221,046</b>
	December 31, 2007		
	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	\$ 109,082	\$ 72,404	\$ 36,679
Automotive equipment	21,156	9,027	12,129
Office equipment	26,776	12,322	14,454
Field equipment	39,012	22,379	16,633
Land	125,560	-	125,560
	<b>\$ 321,586</b>	<b>\$ 116,131</b>	<b>\$ 205,455</b>

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

June 30, 2008

(Stated in Canadian Dollars)

### 10. PAYABLE TO RELATED PARTIES

	<b>June 30, 2008</b>	December 31, 2007
Loan payable to directors and companies controlled by directors with interest at 10% per annum, unsecured, due on demand.	<b>\$ 360,952</b>	\$ 925,841
Interest on loans payable to directors and companies controlled by directors, unsecured, due on demand	<b>183,588</b>	98,571
	<b>\$ 544,540</b>	\$ 1,024,412

### 11. 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, 2008, the Company incurred \$39,600 (2007 - \$36,000) in consulting fees to a company controlled by a director of the Company. Further, the Company incurred \$39,600 (2007 - \$36,000) for consulting services to financial officer of the Company. Included in accounts payable and accrued liabilities is \$10,844 (2007 - \$50,854) owing to such an officer of the Company.

b) Public Relation Fees

The Company paid \$nil (2007 - \$6,000) to a company related to an officer for public relations and governmental advisory services.

c) Interest Payable

As at June 30, 2008, accrued convertible debenture interest payable in shares included \$434,489 (December 31, 2007 - \$590,886) owing to directors or companies controlled by directors.

d) Fees Charged to Partnership

During the six months ended June 30, 2008, the Company charged the JDFC partnership \$195,246 for travel, wages and consulting fees related to the JDF transmission project.

## SEA BREEZE POWER CORP.

### Notes to Consolidated Financial Statements

June 30, 2008

(Stated in Canadian Dollars)

#### 12. CONVERTIBLE DEBENTURES

	June 30, 2008	December 31, 2007
Convertible debentures	\$ 6,060,610	\$ 4,446,879
Conversions during the year	-	(913,837)
Equity portion of convertible debentures	<b>(2,202,408)</b>	<b>(1,309,918)</b>
	<b>3,858,202</b>	2,223,124
Interest accretion	<b>237,211</b>	123,535
	<b>\$ 4,095,413</b>	<b>\$ 2,346,659</b>

- a) 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.

As of June 30, 2008, accumulated interest payable was \$194,325 (Dec 31, 2007 - \$124,501) resulting in a possible 476,036 (Dec 31, 2007 - 321,212) 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. The debentures are secured by a floating charge over all assets of the Company.

- b) On August 28, 2007 the Company issued convertible debentures to directors of the Company in the amount of \$2,250,000, which are due and payable on August 28, 2012. The debentures are convertible into units of the Company at \$0.42 per unit in years one and two, and increasing by 10% per unit in years three to five (Year 1 to year 5: \$0.42, \$0.42, \$0.46, \$0.51, and \$0.56). 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 August 28, 2012 or upon conversion of the debenture, whichever is sooner.

As of June 30, 2008, accumulated interest payable was \$227,836 (Dec 31, 2007 - \$93,205) resulting in a possible 513,494 (Dec 31, 2007 - 233,014) 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. The debentures are secured by a floating charge over all assets of the Company.

## SEA BREEZE POWER CORP.

### Notes to Consolidated Financial Statements

June 30, 2008

(Stated in Canadian Dollars)

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#### 12. CONVERTIBLE DEBENTURES (Continued)

- c) On June 16, 2008, the Company issued convertible debentures in the amount of \$2,500,000, which are due and payable on June 16, 2013. The debentures are convertible into units of the Company at \$0.32 per unit in years one and two, and increasing by 10% per unit in years three to five (Year 1 to year 5: \$0.32, \$0.32, \$0.35, \$0.39, and \$0.43). 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 June 16, 2013 or upon conversion of the debenture, whichever is sooner.

As of June 30, 2008, accumulated interest payable was \$12,329 resulting in a possible 25,685 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. The debentures are secured by a floating charge over all assets of the Company.

- d) 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 USD\$0.34 per unit. Each unit consists of one common share and one 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.

On December 19, 2007, the debentures were converted into units of the Company at US\$0.34 per unit. On May 6, 2008, the Company issued 3,721,278 shares upon conversion of the debentures and the accumulated interest payable.

- e) 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, 2008

(Stated in Canadian Dollars)

### 13. SHARE CAPITAL AND SHAREHOLDERS' EQUITY

a) Authorized

Unlimited common shares without par value and 20,000,000 preferred shares without par value

b) As at June 30, 2008, 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>
2,166,666	*1)	\$0.76	July 7, 2008
166,666	*1)	\$0.76	August 30, 2008
559,600	*1)	\$0.76	October 13, 2008
220,588	*1)	\$0.76	April 23, 2009
<u>3,113,520</u>			

\*1) exercisable at US\$0.75

A summary of changes in the Company's warrants for the six months ended June 30, 2008 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	(803,333)	(0.15)
Expired	(1,320,000)	(0.33)
Balance, December 31, 2007	5,498,733	\$ 0.46
Exercised	(1,815,668)	(0.15)
Expired	(569,545)	(0.18)
Balance, June 30, 2008	<u>3,113,520</u>	<u>\$ 0.76</u>

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

June 30, 2008

(Stated in Canadian Dollars)

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

- c) At June 30, 2008, 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.

On February 25, 2008, the Company granted 3,578,572 options exercisable at \$0.31 for a period of five years 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.

On August 29, 2007, the Company granted 3,962,902 options exercisable at \$0.42 for a period of three years 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 the grant.

During the six months ended June 30, 2008, the Company charged \$251,078 in stock based compensation expense to operations as follows:

A stock based compensation expense of \$90,508 was charged to operations, relating to vested options, which were granted during the year 2007. The remaining stock based compensation expense of \$160,570 relates to options granted during the year 2008.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2008	2007
Risk free interest rate	3.40%	4.19%
Expected Life	5 years	3 years
Expected volatility	130%	126%
Expected dividend yield	-	-
Weighted average of fair value of options granted	\$0.27	\$0.36

The following table summarizes information about fixed stock options outstanding at June 30, 2008:

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
\$ 0.31-0.61	14,297,577	2.52 years	\$ 0.43	10,645,530	\$ 0.46

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

June 30, 2008

(Stated in Canadian Dollars)

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

A summary of changes in the Company's fixed stock option plan for the period ended June 30, 2008 is as follows:

	<u>OPTIONS OUTSTANDING</u>	
	<u>NUMBER OF SHARES</u>	<u>WEIGHTED AVERAGE EXERCISE PRICE</u>
Balance, December 31, 2006	9,668,935	\$ 0.53
Granted	3,962,902	0.42
Exercised	(612,742)	0.18
Cancelled	<u>(480,000)</u>	0.43
Balance December 31, 2007	12,539,095	\$ 0.51
Granted	3,578,542	0.31
Cancelled	<u>(1,820,060)</u>	0.44
Balance June 30, 2008	<u>14,297,577</u>	\$ 0.43

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

### 14. SPECIAL WARRANTS

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. The balance of 500,000 unexercised warrants expired 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, 2008

(Stated in Canadian Dollars)

### 14. SPECIAL WARRANTS (Continued)

On June 28, 2004 the Company received an approval certificate from British Columbia Environmental Assessment Office for the Knob Hill wind farm project 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.

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.

### 15. 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	
	2008	2007
Hydroelectric projects	\$ 107,308	\$ 120,414
Wind farm projects	547,689	439,474
Transmission projects	554,515	420,311
Total project related expenses for the period	<u>\$ 1,209,512</u>	<u>\$ 980,199</u>

Cumulative project costs incurred since the projects' inception amounted to \$14,961,404 (2007 - \$11,707,704).

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

	SIX MONTHS ENDED JUNE 30	
	2008	2007
Cascade	\$ 107,308	\$ 120,414
Cumulative hydro project costs	<u>\$ 5,951,161</u>	<u>\$ 5,627,566</u>

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

June 30, 2008

(Stated in Canadian Dollars)

### 15. PROJECT DEVELOPMENT COSTS (Continued)

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

	SIX MONTHS ENDED JUNE 30	
	2008	2007
Knob Hill	\$ 259,609	\$ 250,045
God's Pocket	1,413	2,024
Shushartie Mountain	27,192	53,309
Hushamu	707	34,124
Windy Ridge	1,783	1,125
Nimpkish	6,811	3,565
Other projects under preparation	250,173	95,282
Total project related expenses for the period	<u>\$ 547,688</u>	<u>\$ 439,474</u>
<b>Cumulative wind farm project costs</b>	<u>\$ 5,998,466</u>	<u>\$ 4,466,851</u>

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

	SIX MONTHS ENDED JUNE 30	
	2008	2007
Transmission projects	\$ 554,515	\$ 420,311
<b>Cumulative transmission project costs</b>	<u>\$ 3,011,776</u>	<u>\$ 1,969,268</u>

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

June 30, 2008

(Stated in Canadian Dollars)

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

During the six months period ended June 30, 2008 the Company had the following non-cash operating, financing and investing activities:

- i) allocated \$272,350 to common shares pursuant to the exercise of special warrants;
- ii) issued 2,702,889 common shares pursuant to the conversion of \$913,837 of principal and \$184,835 of accrued interest thereof of convertible debentures.

### 17. INCOME TAXES

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

	<u>2007</u>	<u>2006</u>
Statutory tax rate	34%	34%
Expected income tax recovery	\$ (2,167,000)	\$ (1,734,000)
Non-deductible differences	1,533,000	1,094,000
Future income tax expense (benefit) resulting from change in tax rate	1,672,000	-
Unrecognized tax losses and change in valuation allowance	<u>(1,038,000)</u>	<u>586,000</u>
Income tax provision	<u>\$ -</u>	<u>\$ -</u>

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

	<u>2007</u>	<u>2006</u>
Project development costs	\$ 4,309,000	\$ 4,815,000
Operating losses	<u>2,541,000</u>	<u>2,623,000</u>
	6,850,000	7,438,000
Less: Valuation allowance	<u>(6,850,000)</u>	<u>(7,438,000)</u>
Future tax asset (liability) recognized	<u>\$ -</u>	<u>\$ -</u>

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

June 30, 2008

(Stated in Canadian Dollars)

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### 17. INCOME TAXES (Continued)

As at December 31, 2007, the Company has incurred operating income tax losses totalling \$9,421,000 which expire from 2008 to 2027 as follows:

2008	\$	776,000
2009	\$	462,000
2010	\$	1,274,000
2014	\$	1,479,000
2015	\$	1,985,000
2026	\$	1,687,000
2027	\$	1,758,000

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.

### 18. FINANCIAL INSTRUMENTS

#### a) Fair Value of Short Term Financial Instruments

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

The Company has designated cash as "held for trading" as the fair value can be reliably measured. Accounts receivable are classified as "receivables" and accounts payable and accrued liabilities are classified as "other financial liabilities". Subsequent measurements are recorded at amortized cost using the effective interest rate method.

#### b) Long Term Debt and Interest Rate Risk

The Company's debentures detailed in Note 12 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.

The debentures are classified as "other financial liabilities" and are initially measured at their fair value.

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

June 30, 2008

(Stated in Canadian Dollars)

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### 18. FINANCIAL INSTRUMENTS (Continued)

- c) Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market prices. The Company is exposed to foreign exchange risk on the translation of foreign monetary liabilities. Gains and losses arising on the translation of these operations have a direct impact on the Company's investment and other income.
- d) Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument defaults in its contractual obligations. Cash and restricted cash are held by a large Canadian financial institution. The Company's receivables consist primarily of amounts due from the Federal government.
- e) Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial obligations. The Company manages this risk by continuous monitoring of the Company's cash resources based on financial forecasts and anticipated cash flows. The Company currently relies on private placement equity and convertible debenture financing.

### 19. CAPITAL DISCLOSURES

The Company's objective when managing its capital is to ensure the Company's ability to maximize the growth of its business and returns to its shareholders. The Company's capital includes shareholder's equity and convertible debentures.

	<b>June 30, 2008</b>	December 31, 2007
Convertible debentures	<b>\$ 4,095,413</b>	\$ 2,346,659
Shareholders' equity	<b>(4,243,835)</b>	(3,101,654)
Total Capital	<b>\$ (148,422)</b>	\$ (754,995)

The Company manages the capital structure and makes adjustment to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

### 20. COMMITMENTS

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

2008     \$     35,061

# **SEA BREEZE POWER CORP.**

## **Notes to Consolidated Financial Statements**

June 30, 2008

(Stated in Canadian Dollars)

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### **21. SEGMENTED INFORMATION**

The Company's activities are in the power generation and transmission industry. As at June 30, 2008, 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.

### **22. SUBSEQUENT EVENTS**

Subsequent to June 30, 2008, the Company:

- a) Issued 20,000 common shares for proceeds for \$7,000 pursuant to the exercise of options.
- b) 118,043 stock options with exercise price of \$0.35 expired on July 11, 2008.
- c) 2,166,667 warrants with exercise price of US\$0.75 expired on July 7, 2008.