

**SEA BREEZE POWER CORP.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THREE MONTHS ENDED MARCH 31, 2009**  
**(Stated In Canadian Dollars)**

(Unaudited)

**NOTICE**

The accompanying unaudited interim financial statements of Sea Breeze Power Corp. ("the Company"), for the three months ended March 31, 2009, 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

(Stated in Canadian Dollars)

	March 31, 2009	December 31, 2008
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 110,676	\$ 194,337
Accounts receivable	125,599	103,503
Related party receivable	9,175	7,755
Marketable securities (Note 4)	-	-
Prepaid expenses and deposits	24,974	23,833
	<u>270,424</u>	<u>329,428</u>
<b>Security Deposits</b> (Note 5)	106,689	76,255
<b>Investments</b> (Note 6)	1	1
<b>Property and Equipment</b> (Note 8)	207,505	214,723
	<u>\$ 584,619</u>	<u>\$ 620,407</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 463,811	\$ 446,753
Loans payable to related parties (Note 9)	3,640,771	2,763,428
	<u>4,104,582</u>	<u>3,210,181</u>
<b>Convertible Debentures</b> (Note 11)	4,574,787	4,438,617
	<u>8,679,369</u>	<u>7,648,798</u>
<b>SHAREHOLDERS' DEFICIENCY</b>		
<b>Equity Portion of Convertible Debentures</b> (Note 11)	2,202,408	2,202,408
<b>Commitment to Issue Shares</b> (Note 11)	990,742	804,738
<b>Share Capital</b>	21,047,459	21,047,459
<b>Contributed Surplus</b>	10,606,946	10,472,430
<b>Special Warrants</b> (Note 13)	-	-
<b>Deficit</b>	(42,942,305)	(41,555,426)
	<u>(8,094,750)</u>	<u>(7,028,391)</u>
	<u>\$ 584,619</u>	<u>\$ 620,407</u>

Approved on Behalf of the Board of Directors:

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

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

See accompanying notes to consolidated financial statements

**SEA BREEZE POWER CORP.****Consolidated Statements of Net Loss and Comprehensive Loss**

(Stated in Canadian Dollars)

	<b>THREE MONTHS ENDED</b>	
	<b>MARCH 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Service Income</b>	\$ 38,572	\$ 26,961
<b>Cost Of Service Income</b>	<u>(39,593)</u>	<u>(18,741)</u>
<b>Income On Service Activity</b>	<u>(1,021)</u>	<u>8,220</u>
<b>Project Related Costs (Note 14)</b>	<u>365,630</u>	<u>512,057</u>
<b>Administration Expenses</b>		
Amortization	7,216	5,430
Bank charges and interest	73,579	13,440
Consulting	1,980	3,960
Foreign exchange loss (gain)	134,582	83,907
Interest on convertible debentures	287,365	137,492
Office and rent	95,850	120,458
Professional fees	125,866	70,268
Public relations and travel	20,547	21,777
Stock based compensation	134,516	125,664
Salaries and benefits	130,198	150,658
Transfer agent and filing fees	8,677	9,313
<b>Total Administration Expenses</b>	<u>1,020,375</u>	<u>742,366</u>
<b>Loss Before The Following</b>	<u>(1,387,026)</u>	<u>(1,246,203)</u>
<b>Write Off On Marketable Securities</b>	-	
<b>Interest Income</b>	<u>147</u>	<u>1,187</u>
<b>Net Loss For The Period</b>	<u>(1,386,879)</u>	<u>(1,245,016)</u>
<b>Other Comprehensive Income (Loss)</b>		
Unrealized gain (loss) arising on available for sale investments during the period	<u>-</u>	<u>(250)</u>
<b>Comprehensive Loss For The Period</b>	<u>\$ (1,386,879)</u>	<u>\$ (1,245,266)</u>
<b>Loss Per Share - Basic and diluted</b>	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>
<b>Weighted Average Common Shares Outstanding</b>	<u>78,365,906</u>	<u>72,853,466</u>

See accompanying notes to consolidated financial statements

**SEA BREEZE POWER CORP.****Consolidated Statements of Cash Flows**

(Stated in Canadian Dollars)

	<b>THREE MONTHS ENDED MARCH 31</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash Provided By (Used In):</b>		
<b>Cash Flows From Operating Activities</b>		
Net loss for the year	<b>\$ (1,386,879)</b>	\$ (1,245,016)
Items not affecting cash:		
Interest to be paid in common shares	<b>185,439</b>	130,901
Amortization	<b>7,217</b>	5,430
Interest on loans payable	<b>71,869</b>	11,371
Stock based compensation	<b>134,516</b>	125,664
Unrealized foreign exchange loss	<b>278,431</b>	-
Accretion of interest on convertible debentures	<b>101,926</b>	33,591
Changes in non-cash operating working capital items:		
Accounts receivable	<b>(22,097)</b>	(15,328)
Accounts payable and accrued liabilities	<b>17,058</b>	(143,196)
Prepaid expenses	<b>(1,141)</b>	1,803
	<b>(613,661)</b>	(1,121,780)
<b>Cash Flows From Financing Activities</b>		
Loans payable to related parties	<b>560,000</b>	964,231
Common shares issued for cash	<b>-</b>	190,000
	<b>560,000</b>	1,154,231
<b>Cash Flows (Used In) From Investing Activities</b>		
Purchase of equipment	<b>-</b>	(1,774)
Security deposits	<b>(30,000)</b>	(2,367)
	<b>(30,000)</b>	(4,141)
<b>Increase (Decrease) In Cash</b>	<b>(83,661)</b>	(28,310)
<b>Cash, Beginning Of The Period</b>	<b>194,337</b>	170,035
<b>Cash, End Of The Period</b>	<b>\$ 110,676</b>	\$ 198,345

**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 For the three month period ended March 31, 2009

	COMMON SHARES		EQUITY PORTION OF CONVERTIBLE DEBENTURES	CONTRIBUTED SURPLUS	SPECIAL WARRANTS	COMMITMENT TO ISSUE SHARES	OTHER COMPREHENSIVE LOSS	DEFICIT	TOTAL
	NUMBER	AMOUNT							
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)	<b>(3,101,654)</b>
Issued for cash pursuant to:									<b>272,350</b>
Exercise of special warrants at \$0.15	1,815,668	272,350	-	-	-	-	-	-	<b>7,000</b>
Exercise of stock options at \$0.35	20,000	7,000	-	-	-	-	-	-	-
Special warrants valuation	-	245,048	-	-	(245,048)	-	-	-	-
Stock options valuation	-	6,262	-	(6,262)	-	-	-	-	-
Conversion of convertible debenture	3,721,278	1,600,632	-	-	-	(1,600,632)	-	-	-
Equity portion of convertible debentures	-	-	892,490	-	-	-	-	-	<b>892,490</b>
Interest payable in shares	-	-	-	-	-	590,502	-	-	<b>590,502</b>
Unrealized gain on marketable securities	-	-	-	-	-	-	1,810	-	<b>1,810</b>
Stock based compensation	-	-	-	1,116,677	-	-	-	-	<b>1,116,677</b>
Net loss for the year	-	-	-	-	-	-	-	(6,807,566)	<b>(6,807,566)</b>
Balance, December 31, 2008	78,365,906	21,047,459	2,202,408	10,472,430	-	804,738	-	(41,555,426)	<b>(7,028,391)</b>
Interest payable in shares	-	-	-	-	-	186,004	-	-	<b>186,004</b>
Stock based compensation	-	-	-	134,516	-	-	-	-	<b>134,516</b>
Net loss for the year	-	-	-	-	-	-	-	(1,386,879)	<b>(1,386,879)</b>
<b>Balance, March 31, 2009</b>	<b>78,365,906</b>	<b>\$ 21,047,459</b>	<b>\$ 2,202,408</b>	<b>\$ 10,606,946</b>	<b>\$ -</b>	<b>\$ 990,742</b>	<b>\$ -</b>	<b>\$ (42,942,305)</b>	<b>\$ (8,094,750)</b>

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

For three months ended March 31, 2009

(Stated in Canadian Dollars)

---

### 1. NATURE OF OPERATIONS AND GOING CONCERN

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

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

The Company reported net losses of \$1,386,879 and \$1,245,016 for the three months ended March 31, 2009 and 2008, respectively, and has an accumulated deficit of \$42,942,305 at March 31, 2009. 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. The consolidated financial statements do not include any adjustments to the recoverability and classification of recorded assets, or the amounts of, and classification of liabilities that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

The Company is in the development stage and currently derives no revenues from its projects. 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. To date, the Company has financed its operations principally through equity financing and loans. The current financial equity market conditions, the challenging funding environment and the low price of the Company's common shares make it difficult to raise funds by private placements of shares. The industry has been severely impacted by the world economic situation, as it is considered to be a high-risk investment. There is no assurance that the Company will be successful with any financing ventures. It is dependent upon the continuing financial support of shareholders and obtaining financing to continue development of its hydro-electric, wind power generation and transmission projects. While the Company is expending its best efforts to achieve its plans by continuing to raise capital through private placement equity financing there is no assurance that any such activity will generate funds that will be available for operations. 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.

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

For three months ended March 31, 2009

(Stated in Canadian Dollars)

---

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### a) Principles of Consolidation

These consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada, and include the accounts of the Company and its wholly-owned subsidiaries, Powerhouse Developments Inc., Powerhouse Electric Corp., Sea Breeze Energy Inc., Sea Breeze Management Services Inc., Sea Breeze Power Projects Inc., SBJF Holding Corp. and the Company's proportionate interest (80%) in the assets of the Slollicum Joint Venture, and the Company's proportionate interest (50%) in the assets, liabilities and expenses of Sea Breeze Pacific Regional Transmission Systems, Inc., 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 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 receivables 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

For three months ended March 31, 2009

(Stated in Canadian Dollars)

---

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

#### b) Financial Instruments (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

The Company's reporting currency is the Canadian dollar. Transactions in foreign currencies have been translated into Canadian dollars using the temporal method as follows:

- i) Monetary items at the rate prevailing at the balance sheet date;
- ii) Non-monetary items at the historical exchange rate;
- iii) Revenues and expenses at the average rate in effect during the applicable accounting period; and
- iv) Gains or losses arising on foreign currency translation are included in the statements of loss and deficit.

#### e) Cash and Cash Equivalents

Cash is comprised of cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments with maturities within three months held for the purpose of meeting short-term cash commitments rather than for investing purposes. The Company did not have cash equivalents as of March 31, 2009 and 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 equipment and software	45% declining balance basis
Automotive equipment	30% declining balance basis
Office and field equipment	20% declining balance basis

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

For three months ended March 31, 2009

(Stated in Canadian Dollars)

---

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

#### 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.

#### i) Fair Value of Warrants

Proceeds from unit placements are allocated between shares and warrants issued according to their relative fair value using the residual method to determine the fair value of warrants issued. Warrants issued to brokers are evaluated using the Black-Scholes method.

#### j) 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 three months ended March 31, 2009 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.

#### k) 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.

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

For three months ended March 31, 2009

(Stated in Canadian Dollars)

---

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

l) 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.

m) 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.

n) 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

For three months ended March 31, 2009

(Stated in Canadian Dollars)

---

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

o) 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.

p) Future Accounting Pronouncements

i) The CICA issued Section 1582 - Business Combinations, Section 1601 - Consolidated Financial Statements and Section 1602 - Non-controlling Interests. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These new sections will be applicable to financial statements relating to the Company's interim and fiscal year beginning on or after January 1, 2011. The Company has not yet determined the impact of the adoption of these new sections on the consolidated financial statements.

iii) Canada's Accounting Standards Board ratified a plan that will result in Canadian GAAP being converged with International Financial Reporting Standards ("IFRS") by 2011. Management has performed a preliminary analysis and highlighted areas where its current Canadian accounting practices differ from IFRS. The impact on the Company's consolidated financial statements has not yet been determined.

q) Comparative Figures

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

### 3. NEWLY ADOPTED 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.

## **SEA BREEZE POWER CORP.**

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

For three months ended March 31, 2009

(Stated in Canadian Dollars)

---

#### **3. NEWLY ADOPTED ACCOUNTING POLICIES (Continued)**

- 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.
- e) Section 1506 – Accounting Changes establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and the correction of errors. The disclosure is to include, on an interim and annual basis, a description and the impact on the Company on any new primary source of GAAP that has been issued but is not yet effective.

Effective January 1, 2009, the Company adopted the new CICA Section 3064 – Goodwill and Intangible Assets, which replaced Section 3450, Research and Development Costs. The new standard, establishes guidelines for the recognition, measurement, presentation and disclosure of research and development costs. There is no impact of this new standard on the Company's consolidated financial statements.

#### **4. MARKETABLE SECURITIES**

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 March 31, 2009. Unrealized changes to market value are adjusted to Other Comprehensive Income.

As of March 31, 2009 the marketable securities held by the Company were no longer listed on the TSX Venture Exchange. The Company has written down the value of the securities to zero.

#### **5. SECURITY DEPOSITS**

The Company has advanced \$47,689 (2008 - \$46,105) 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 \$59,000 (2008 - \$30,150) in project related security deposits.

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

For three months ended March 31, 2009

(Stated in Canadian Dollars)

---

### 6. INVESTMENTS

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

During the year ended December 31, 2005, the Company became the holder of a 49.5% limited partnership interest and a 25% equity interest in the general partner (which is also a 1% limited partner) in a newly formed, special purpose (State of Delaware, USA) limited partnership, Sea Breeze Pacific Juan de Fuca Cable, L.P. ("JDFC"). The original purpose of the partnership is to develop the Juan de Fuca Transmission Cable Project ("The Project"). The Project consists of the development of a 550 MW High Voltage Direct Current submarine transmission link spanning the Strait of Juan de Fuca connecting the City of Victoria on the southern tip of Vancouver Island, British Columbia, Canada to Port Angeles, Washington State, U.S.A. The Company and its joint venture partner Boundless Energy, LLC ("Boundless") 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 (the "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\$5,791,000) have been remitted to JDFC by US Power Fund, LP in tranches through March 31, 2009.

The loan bears 20% interest per annum, compounded annually. On March 31, 2009, the accumulated interest on the loan totalled US\$4,877,709 (2008 – US\$3,099,561). As per the amendment on June 29, 2008, the loan is automatically renewed for 90 days until, at the option of Energy Investors Funds, written notice is given to terminate the renewal period. The automatic renew process will terminate 45 days from the written notice.

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 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.

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 Straight of Georgia from a point near the City of Vancouver to Vancouver Island, British Columbia, Canada.

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

For three months ended March 31, 2009

(Stated in Canadian Dollars)

### 6. INVESTMENTS (Continued)

#### a) Investment in Juan De Fuca Cable Partnership (Continued)

The Company's jointly held subsidiary, Sea Breeze Pacific Regional Transmission System Inc. ("SBPRTS"), sold its right, title and interest in the project to the partnership for costs incurred as at the date of signing the agreement, December 16, 2005.

During the three months ended March 31, 2009, JDFC incurred \$1,161,021 of project related costs charged to operations, including \$468,446 (US\$370,815) of accrued interest related thereto. The Company accounts for its investment under the equity method and, accordingly, as its investment in the partnership is \$Nil as at March 31, 2009, Sea Breeze has not included its 49.75% proportional share of the loss of the partnership in its consolidated financial statements.

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

	<u>March 31, 2009</u>	<u>December 31, 2008</u>
<b>Balance Sheets</b>		
Cash	\$ 6,201	\$ 14,473
GST recoverable and deposits	5,299	7,059
<b>Current and Total Assets</b>	<u>\$ 11,500</u>	<u>\$ 21,532</u>
<b>Liabilities and Equity</b>	\$ 17,442,630	\$ 16,291,642
<b>Partners' Deficiency</b>	<u>(17,431,130)</u>	<u>(16,270,110)</u>
	<u>\$ 11,500</u>	<u>\$ 21,532</u>
	<b>THREE MONTHS ENDED</b>	
	<b>MARCH 31</b>	
	<u>2009</u>	<u>2008</u>
<b>Statements Of Loss</b>		
Project development costs	\$ 128,940	\$ 349,038
Interest expense	468,446	372,298
Foreign exchange	563,635	340,784
<b>Net Loss For The Period</b>	<u>\$ (1,161,021)</u>	<u>\$ (1,062,120)</u>

## SEA BREEZE POWER CORP.

### Notes to Consolidated Financial Statements

For three months ended March 31, 2009

(Stated in Canadian Dollars)

#### 6. INVESTMENTS (Continued)

##### a) Investment in Juan De Fuca Cable Partnership (Continued)

Statements of Cash Flows	THREE MONTHS ENDED MARCH 31	
	2009	2008
<b>Cash Provided By (Used In):</b>		
Net loss	\$ (1,161,021)	\$ (1,062,120)
Items not affecting cash	913,060	372,298
Changes of non-cash operating working capital items	40,010	576,444
<b>Operating Activities</b>	<b>(207,951)</b>	<b>(113,378)</b>
<b>Financing Activities</b>	<b>199,679</b>	<b>187,580</b>
<b>Investing Activities</b>	<b>-</b>	<b>-</b>
<b>(Decrease)/Increase In Cash</b>	<b>(8,272)</b>	<b>(74,202)</b>
<b>Cash, Beginning Of Period</b>	<b>14,473</b>	<b>145,448</b>
<b>Cash, End Of Period</b>	<b>\$ 6,201</b>	<b>\$ 71,246</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 March 31, 2009, the carrying value is \$1 (2008 - \$1).

#### 7. JOINT VENTURE

In May 2004, the Company incorporated Sea Breeze Pacific Regional Transmission System, Inc.; a company jointly owned and jointly operated by the Company (50%) and Boundless Energy LLC (50%). The parties signed a joint venture agreement and have agreed to jointly pursue specific merchant transmission opportunities. Summary financial information of the Company's 50% proportionate interest in the joint venture is as follows:

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

For three months ended March 31, 2009

(Stated in Canadian Dollars)

### 7. JOINT VENTURE (Continued)

<u>Balance Sheets</u>	<u>2009</u>	<u>2008</u>
Cash	\$ 2,013	\$ 6,384
Prepaid expenses	15,219	15,143
GST recoverable	1,643	1,622
Related party receivables	9,175	7,755
<b>Current Assets</b>	<b>28,049</b>	<b>30,904</b>
<b>Deposits</b>	<b>20,951</b>	<b>20,518</b>
<b>Capital Assets</b>	<b>766</b>	<b>821</b>
<b>Total Assets</b>	<b>\$ 49,766</b>	<b>\$ 52,243</b>
<b>Current Liabilities</b>	<b>22,859</b>	<b>21,139</b>
<b>Due to Affiliated Companies</b>	<b>586,191</b>	<b>579,151</b>
<b>Common Shares</b>	<b>100</b>	<b>100</b>
<b>Deficit</b>	<b>(559,383)</b>	<b>(548,147)</b>
<b>Total Liabilities And Equity</b>	<b>\$ 49,767</b>	<b>\$ 52,243</b>
<b>THREE MONTHS ENDED MARCH 31</b>		
<u>Statements of Operations</u>	<u>2009</u>	<u>2008</u>
Project related costs	12,801	11,014
Expenses	(1,565)	10,947
<b>Net Loss</b>	<b>\$ (11,236)</b>	<b>\$ (21,961)</b>
<b>THREE MONTHS ENDED MARCH 31</b>		
<u>Statements of Cash Flows</u>	<u>2009</u>	<u>2008</u>
Net loss	\$ (11,236)	\$ (21,961)
Items not affecting cash	55	76
Changes of non-cash operating working capital items	(229)	4,992
<b>Operating Activities</b>	<b>(11,410)</b>	<b>(16,893)</b>
<b>Financing Activities</b>	<b>7,039</b>	<b>13,215</b>
<b>Investing Activities</b>	<b>-</b>	<b>-</b>
<b>Increase (Decrease) In Cash</b>	<b>(4,371)</b>	<b>(3,678)</b>
<b>Cash, Beginning of Period</b>	<b>6,384</b>	<b>23,086</b>
<b>Cash, End of Period</b>	<b>\$ 2,013</b>	<b>\$ 19,408</b>

The Company funded 100% of the costs incurred up to March 31, 2009. As a result, the Company is entitled to a reimbursement of \$485,704 (2008 - \$418,378), which is Boundless Energy's 50% of the joint venture's costs. The Company has recorded an allowance for this amount as the recoverability is uncertain.

## SEA BREEZE POWER CORP.

### Notes to Consolidated Financial Statements

For three months ended March 31, 2009

(Stated in Canadian Dollars)

#### 8. PROPERTY AND EQUIPMENT

	March 31, 2009		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 115,556	\$ 89,275	\$ 26,281
Software	5,773	1,802	3,971
Automotive equipment	44,273	18,244	26,029
Office equipment	32,019	18,998	13,021
Field equipment	40,675	28,032	12,643
Land	125,560	-	125,560
	<u>\$ 363,856</u>	<u>\$ 156,351</u>	<u>\$ 207,505</u>

  

	December 31, 2008		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 117,219	\$ 86,634	\$ 30,585
Software	5,773	1,299	4,474
Automotive equipment	44,273	16,133	28,140
Office equipment	32,019	18,312	13,707
Field equipment	39,012	26,755	12,257
Land	125,560	-	125,560
	<u>\$ 363,856</u>	<u>\$ 149,133</u>	<u>\$ 214,723</u>

#### 9. PAYABLE TO RELATED PARTIES

	March 31, 2009	December 31, 2008
Loan payable to directors and companies controlled by directors with interest at 10% per annum, unsecured, due on demand.	\$ 3,259,172	\$ 2,465,206
Interest on loans payable to directors and companies controlled by directors, unsecured, due on demand	381,599	298,222
	<u>\$ 3,640,771</u>	<u>\$ 2,763,428</u>

## SEA BREEZE POWER CORP.

### Notes to Consolidated Financial Statements

For three months ended March 31, 2009

(Stated in Canadian Dollars)

---

#### 10. RELATED PARTY TRANSACTIONS

All related party transactions and amounts owing are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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

a) Consulting Fees

During the three months ended March 31, 2009, the Company incurred \$19,800 (2008 - \$19,800) in consulting fees to a company controlled by a director of the Company. Further, the Company incurred \$19,800 (2008 - \$19,800) for consulting services to an officer of the Company. Included in accounts payable and accrued liabilities is \$10,844 (2008 - \$10,844) owing to such an officer of the Company.

b) Interest Payable

As at March 31, 2009, accrued convertible debenture interest payable in shares included \$1,040,731 (December 31, 2008 - \$854,726) owing to directors or companies controlled by directors.

c) Fees Charged to Partnership

During the three months ended March 31, 2009, the Company charged the JDFC partnership \$71,133 (2008 - \$82,134) for travel, wages and consulting fees related to the JDF transmission project.

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

For three months ended March 31, 2009

(Stated in Canadian Dollars)

### 11. CONVERTIBLE DEBENTURES

	<u>March 31, 2009</u>	<u>December 31, 2008</u>
Convertible debentures	\$ 6,210,589	\$ 6,210,589
Conversions during the year	-	-
Equity portion of convertible debentures	<u>(2,202,408)</u>	<u>(2,202,408)</u>
	4,008,181	4,008,181
Interest accretion	<u>532,694</u>	<u>430,436</u>
	<u>\$ 4,540,875</u>	<u>\$ 4,438,617</u>

- a) 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 March 31, 2009, accumulated interest payable was \$237,534 (2008 - \$Nil) resulting in a possible 1,862,857 (2008 - Nil) common shares issuable in payment thereof. The amount has been recorded as a commitment to issue shares within the Shareholders' Deficiency 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 March 31, 2009, accumulated interest payable was \$430,521 (2008 - \$160,520) resulting in a possible 2,166,948 (2008 - 502,274) common shares issuable in payment thereof. The amount has been recorded as a commitment to issue shares within the Shareholders' Deficiency 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

For three months ended March 31, 2009

(Stated in Canadian Dollars)

---

#### 11. CONVERTIBLE DEBENTURES (Continued)

- c) On March 9, 2007 the Company issued convertible debentures in the amount of \$1,483,524 (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 March 31, 2009, accumulated interest payable was \$384,308 (US\$304,692) (2008 - \$158,532) resulting in a possible 1,575,985 (2008 - 470,834) common shares issuable in payment thereof. The amount has been recorded as a commitment to issue shares within the Shareholders' Deficiency 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 were due and payable on May 7, 2008. The debentures were 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 had 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 was 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

For three months ended March 31, 2009

(Stated in Canadian Dollars)

### 12. 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 March 31, 2009, 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>
220,588 *1)	\$0.91	April 23, 2009

\*1) exercisable at US\$0.75, subsequently expired unexercised

A summary of changes in the Company's warrants for the three months ended March 31, 2009 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
Granted	2,696,623	0.41
Exercised	(1,815,668)	0.15
Expired	(6,159,100)	0.63
Balance, December 31, 2008	220,588	\$ 0.91
Granted	-	-
Exercised	-	-
Expired	-	-
Balance, March 31, 2009	<u>220,588</u>	<u>\$ 0.91</u>

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

For three months ended March 31, 2009

(Stated in Canadian Dollars)

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

- c) At March 31, 2009, 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.

On February 25, 2008, the Company granted 3,578,542 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.

During the three months ended March 31, 2009, the Company charged \$134,516 in stock based compensation expense to operations. 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:

	<u>2008</u>	<u>2007</u>
Risk free interest rate	3.12% - 3.57%	4.19%
Expected Life	4.5 - 5 years	5 years
Expected volatility	108% - 114%	126%
Expected dividend yield	-	-
Weighted average of fair value of options granted	\$0.24 - \$0.33	\$0.36

The following table summarizes information about fixed stock options outstanding at March 31, 2009:

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
\$ 0.31-0.42	8,593,198	2.92 years	\$ 0.37	7,453,529	\$ 0.38

## SEA BREEZE POWER CORP.

### Notes to Consolidated Financial Statements

For three months ended March 31, 2009

(Stated in Canadian Dollars)

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

A summary of changes in the Company's fixed stock option plan for the three months ended March 31, 2009 is as follows:

	OPTIONS OUTSTANDING	
	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Balance, December 31, 2007	12,539,095	\$ 0.51
Granted	3,578,542	0.31
Exercised	(20,000)	0.35
Cancelled	<u>(7,154,439)</u>	0.62
Balance, December 31, 2008	8,943,198	\$ 0.36
Granted	-	-
Exercised	-	-
Cancelled	<u>(350,000)</u>	0.38
Balance, March 31, 2009	<u>8,593,198</u>	<u>\$ 0.38</u>

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

#### 13. SPECIAL WARRANTS

On April 16, 2003 the Company acquired 100% of the shares of Sea Breeze Energy Inc. ("SBEI"), 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 SBEI 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.

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. The exercise price of the special warrants is \$0.15 per share.

## SEA BREEZE POWER CORP.

### Notes to Consolidated Financial Statements

For three months ended March 31, 2009

(Stated in Canadian Dollars)

#### 13. 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, 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.

A summary of changes in the Company's special warrants is as follows:

	ISSUED	CONTINGENTLY ISSUABLE	TOTAL
Consideration for SBEI	3,500,000	500,000	4,000,000
Exercised in 2005	(250,000)	-	(250,000)
Exercised in 2006	(631,000)	-	(631,000)
Exercised in 2007	(803,333)	-	(803,333)
Exercised in 2008	(1,815,667)	-	(1,815,667)
Expired in 2008	-	(500,000)	(500,000)
Balance, December 31, 2008	-	-	-

The balance of 500,000 unexercised warrants expired on April 16, 2008.

#### 14. PROJECT DEVELOPMENT COSTS

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

	THREE MONTHS ENDED MARCH 31	
	2009	2008
Hydroelectric projects	\$ 21,890	\$ 40,280
Wind farm projects	123,740	177,833
Transmission projects	220,000	293,943
Total project related expenses for the period	\$ 365,630	\$ 512,056

Cumulative project costs incurred since the projects' inception amounted to \$16,705,323 (2008 - \$14,263,948).

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

For three months ended March 31, 2009

(Stated in Canadian Dollars)

### 14. PROJECT DEVELOPMENT COSTS (Continued)

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

	THREE MONTHS ENDED MARCH 31	
	2009	2008
<b>Cascade</b>	<b>\$ 21,890</b>	<b>\$ 40,280</b>
<b>Cumulative hydro project costs</b>	<b>\$ 6,135,030</b>	<b>\$ 5,884,133</b>

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

	THREE MONTHS ENDED MARCH 31	
	2009	2008
Vancouver Island	\$ 61,387	\$ 86,782
Central Coast Region	7,113	14,146
Peace Region	30,819	38,266
Okanagan	24,421	31,891
Other projects under preparation	-	6,748
Total project related expenses for the period	<b>\$ 123,740</b>	<b>\$ 177,833</b>
<b>Cumulative wind farm project costs</b>	<b>\$ 6,771,957</b>	<b>\$ 5,628,611</b>

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

	THREE MONTHS ENDED MARCH 31	
	2009	2008
Transmission projects	\$ 220,000	\$ 293,943
<b>Cumulative transmission project costs</b>	<b>\$ 3,798,336</b>	<b>\$ 2,751,204</b>

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

For three months ended March 31, 2009

(Stated in Canadian Dollars)

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

During the year ended December 31, 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;
- iii) issued 20,000 common shares pursuant to the exercise of stock options at strike price of \$0.35.

### 16. INCOME TAXES

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

	<u>2008</u>	<u>2007</u>
Statutory tax rate	31%	34%
Expected income tax recovery	\$ (2,064,000)	\$ (2,131,000)
Non-deductible differences	1,132,000	1,529,000
Future income tax expense resulting from change in tax rate	1,183,000	-
Unrecognized tax losses and change in valuation allowance	(251,000)	602,000
Income tax provision	<u>\$ -</u>	<u>\$ -</u>

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

	<u>2008</u>	<u>2007</u>
Project development costs	\$ 3,289,000	\$ 3,819,000
Operating losses	3,097,000	3,291,000
	6,386,000	7,110,000
Less: Valuation allowance	(6,386,000)	(7,110,000)
Future tax asset (liability) recognized	<u>\$ -</u>	<u>\$ -</u>

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

For three months ended March 31, 2009

(Stated in Canadian Dollars)

---

### 16. INCOME TAXES (Continued)

As at December 31, 2008, the Company has capital losses of \$137,000 and non-capital losses totalling \$11,775,000 which expire from 2009 to 2028 as follows:

2009	\$	462,000
2010	\$	1,274,000
2014	\$	1,427,000
2015	\$	1,852,000
2026	\$	1,989,000
2027	\$	1,764,000
2028	\$	3,007,000

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

### 17. FINANCIAL INSTRUMENTS

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

The Company's financial instruments consist of cash, accounts receivable, deposits, accounts payable and accrued liabilities, convertible debentures 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 11 are all convertible at the option of the holders into common shares of the Company and are issued with interest payable at rates less than normal market rates under similar conditions without the conversion feature.

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

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**

For three months ended March 31, 2009

(Stated in Canadian Dollars)

---

#### **17. 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.

#### **18. CAPITAL MANAGEMENT**

When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the development of the Company's projects. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management team to sustain the future development of the business.

The Company's projects are in the development stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new projects if it feels there is sufficient economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate.

There were no changes in the Company's approach to capital management during the three months ended March 31, 2009. The Company is not subject to externally imposed capital requirements.

# SEA BREEZE POWER CORP.

## Notes to Consolidated Financial Statements

For three months ended March 31, 2009

(Stated in Canadian Dollars)

---

### 19. COMMITMENTS

The Company subleases an office premises in Vancouver, Canada. The office lease commenced on October 1, 2008 and ends September 30, 2013. The Company has an option for early termination of the lease after 24 months with written notice to the landlord. The future minimum lease payments are as follows:

2009	\$	175,500
2010	\$	234,000
2011	\$	234,000
2012	\$	234,000
2013	\$	175,500

### 20. SEGMENTED INFORMATION

The Company's activities are in the power generation and transmission industry. As at March 31, 2009, 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 Olympic Converter, LP.

### 21. SUBSEQUENT EVENTS

Subsequent to March 31, 2009, the Company:

- Granted 7,075,983 stock options exercisable at \$0.20 per share, for a term of five years, to employees, consultants and directors of the Company. This transaction is subject to regulatory approval.
- Negotiated convertible debentures in the aggregate of \$3,700,000. The debentures have a two year term and are convertible into units of the Company at \$0.20 per unit. Each unit consists of one common share and one share purchase warrant entitling the holder to purchase one common share at \$0.20 per share. Interest on the debentures is calculated at 12% per annum.
- 220,588 warrants with exercise price of USD\$0.75, expired on April 23, 2009.