

District of: Vancouver
Division No. 03 – Vancouver
Court No.
Estate No. 11-2203806, 11-2203807

IN THE SUPREME COURT OF BRITISH COLUMBIA
IN THE MATTER OF THE PROPOSAL OF SEA BREEZE POWER CORP. AND
SEA BREEZE ENERGY INC.

TRUSTEE'S REPORT ON THE PROPOSAL
ALVAREZ & MARSAL CANADA INC.

JANUARY 6, 2017

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1.0 INTRODUCTION

- 1.1 On December 30, 2016 (the “**Filing Date**”), Sea Breeze Power Corp. (“**Power**”) and its wholly owned subsidiary, Sea Breeze Energy Inc. (“**Energy**” and together with Power, the “**Companies**”) filed a joint proposal to their creditors (the “**Proposal**”) under Part III, Division I of the *Bankruptcy and Insolvency Act* (Canada) (the “**BIA**”) and Alvarez & Marsal Canada Inc. (“**A&M**” or the “**Trustee**”) was appointed as trustee under the Proposal.
- 1.2 A copy of the Proposal and other information with respect to these proceedings are available on the Trustee’s website at www.alvarezandmarsal.com/seabreeze.

2.0 PURPOSE OF REPORT

- 2.1 The purpose of this report (the “**Report**”) is to, among other things:
- a) provide stakeholders with information regarding the Companies’ background, financial position and the causes of their financial difficulties;
 - b) provide a summary of the Proposal;
 - c) assist those creditors entitled to vote on the Proposal (the “**Voting Creditors**”) in evaluating the Proposal, including providing an estimate of the comparative recoveries under the Proposal or in the event of a bankruptcy of the Companies;
 - d) describe the procedures for eligible creditors to file a proof of claim and vote on the Proposal; and
 - e) provide the Trustee’s recommendation in respect of the Proposal to the Voting Creditors.

3.0 TERMS OF REFERENCE

- 3.1 In preparing this report, A&M has necessarily relied upon unaudited financial and other information. Although this information has been subject to review, A&M has not conducted an audit or otherwise attempted to verify the information’s accuracy or completeness. Accordingly, A&M expresses no opinion and does not provide any other form of assurance on the accuracy and/or completeness of any information contained in this report, or otherwise used to prepare this report.
- 3.2 Certain of the information referred to in this report consists of financial forecasts and/or projections. An examination or review of financial forecasts and projections and procedures as outlined by the Chartered Professional Accountants of Canada has not been performed. Readers are cautioned that since financial forecasts and/or projections are based upon assumptions about future events and conditions that are not ascertainable, actual results will vary from those forecast and/or projected and the variations could be significant.

3.3 Unless otherwise stated, all monetary amounts contained in this Report are expressed in Canadian dollars.

4.0 BACKGROUND AND FINANCIAL POSITION

4.1 The Companies are based in Vancouver, British Columbia. Power is listed on the TSX Venture Exchange under the trading symbol TSXV:SBX. Together with their subsidiaries and affiliates, the Companies are engaged in the development of hydro-electric, wind power generation and transmission projects. A corporate organizational chart, which includes a list of all subsidiaries, is attached as Appendix "A".

4.2 The Board of Directors (the "**Directors**") of Power (the "**Board**") consists of five individuals who collectively own approximately 51% of the outstanding common shares of Power.

4.3 The Companies' projects are in their development stage and accordingly, the Companies have historically incurred losses on an annual basis. A summary of the Companies' operating results for the three years ended December 31, 2015 and nine months ended September 30, 2016 are summarized below.

Sea Breeze Power Corp. Historic Operating Results Summary (S000s)				
Year Ending	December 31, 2013	December 31, 2014	December 31, 2015	September 30, 2016 (Nine Months)
Royalty Income	\$ 57	\$ 414	\$ 393	\$ -
Royalty Termination Fee	-	-	-	3,322
Operating Expenses	(1,811)	(2,100)	(1,391)	(3,210)
Interest Expense	(1,566)	(1,559)	(1,624)	(458)
Gain on Sale of Assets	1,750	-	-	-
Other Expenses	(512)	(123)	(710)	(418)
Net Income	<u>\$ (2,082)</u>	<u>\$ (3,368)</u>	<u>\$ (3,332)</u>	<u>\$ (764)</u>

4.4 The Companies have financed their operations principally through equity financing and secured loans advanced by shareholders and/or the Directors or entities related to the Directors. The Companies also received a royalty termination fee of approximately \$3.3 million (net of transaction costs) during 2016 resulting from the sale of the Companies' interest in phase 1 of the Knob Hill Wind Farm, now known as the Cape Scott Wind Farm, located on Vancouver Island.

4.5 The financial position of the Companies as at the Filing Date is summarized as follows:

Sea Breeze Power Corp. and Sea Breeze Energy Inc. Combined Balance Sheet Summary As at December 30, 2016 (S000s)	
	December 30, 2016
Assets	
Cash	\$ 243
Accounts receivable	6
Prepays and other deposits	218
Property, plant and equipment	6
Advances to and investments in subsidiaries	17,929
Total Assets	\$ 18,402
Liabilities	
Accounts payable and accrued liabilities	\$ 976
Intercompany loans	1,866
Secured loans and debentures	12,744
	15,586
Shareholders' Equity	2,816
Total Liabilities and Shareholders' Equity	\$ 18,402

- 4.6 The Companies have reported assets with a book value of \$18.4 million including:
- cash of approximately \$243,000;
 - accounts receivable of \$6,000 due from the Receiver General for a GST refund;
 - prepaid expenses and deposits of \$218,000;
 - property and equipment of \$6,000 comprised of a vehicle and other miscellaneous equipment; and
 - advances to and investments in subsidiaries of approximately \$17.9 million. The subsidiaries hold the following assets:
 - a parcel of land in Grand Forks, British Columbia (the “**Grand Forks Property**”) which the Companies estimate to have a value of approximately \$600,000;
 - 32 development projects and related assets (the “**Transaction Assets**”) that, subsequent to the Filing Date, are intended to be transferred pursuant to a Purchase and Sale and Proposal Support Agreement, to be entered into (the “**PSA**”). The Transaction Assets include four near-term wind development projects, 27 long-term wind and solar development projects and a proposed international electrical transmission cable between Vancouver Island, British Columbia, and Port Angeles, Washington (the “**Juan de Fuca Cable Project**”) that is being developed through a joint venture between Power and Boundless Energy, LLC. The PSA is described in further detail in Section 5.0; and
 - 19 other long-term development projects.

- 4.7 All of the assets of the Companies with the exception of the Transaction Assets are referred to as the “**Residual Assets**”.
- 4.8 The Companies reported the following liabilities as at the Filing Date:
- a) an amount owing to C. & A. Energy Services Ltd. (the “**Consultant**”) for unpaid consulting fees of \$99,000 (the “**Consultant’s Claim**”). On December 14, 2016, Power entered into an agreement with the Consultant to allow him an additional claim in the Proposal proceedings of \$58,000 (including GST) as consideration for continuing to provide services to the Companies to assist with the selling of the Residual Assets and agreeing to defer both pre-filing and post-filing amounts until funds are recovered from the Residual Assets and all accepted priority claims made in the Proposal proceedings have been paid in full. Accordingly, the Consultant is estimated to have an aggregate claim in the Proposal proceedings of \$157,000;
 - b) legal fees owing to one of the Companies’ legal counsel of \$92,000;
 - c) severance liabilities to employees which were estimated by management to total \$349,000 based on incurred and potential severance obligations less applicable working notice of termination periods;
 - d) unsecured claims of certain Directors totaling \$435,000 including \$425,000 owing to Gregory Hoffman, Chairman of the Board, who acquired the costs and interest claim of the Royalty Holders (as defined below) as part of an overall settlement of the Arbitration Award (as defined below), which is described further in section 8.0;
 - e) intercompany amounts owed to Powerhouse Electric Corp., a subsidiary of Power, of \$1.9 million; and
 - f) secured loans and debentures owing to eleven shareholders, the Directors and affiliated parties totaling approximately \$12.7 million.
- 4.9 A summary of the estimated claims against the Companies is as follows:

Sea Breeze Power Corp. and Sea Breeze Energy Inc.
Summary of Estimated Creditor Claims
As at December 30, 2016
(\$000s)

	Number of Claims	Amount of Claims
Consultant's Claim	1	\$ 157
Legal Fees	1	92
Employee and Contractor Severance	5	349
Unsecured Amounts due to Directors	5	435
Intercompany Claims	1	1,866
Secured Loans and Debentures	11	12,744
Total Claims	24	\$ 15,643

- 4.10 As a result of ongoing losses and an inability to raise further capital to fund operations, the Companies have filed the Proposal to effect a restructuring of Power and to facilitate an orderly liquidation of the Companies' assets for the benefit of the Companies' creditors.
- 4.11 A group of secured creditors consisting of entities related to certain of the Directors (the "**Secured Creditor Sponsors**") have committed to advance an additional approximately \$700,000 to fund the Proposal proceedings and certain ongoing costs that management of the Companies feels are necessary to preserve the value of the Companies' development assets during the pendency of the restructuring contemplated by the Proposal.
- 4.12 A copy of the cash flow statement and related assumptions prepared by management to set out the liquidity requirements of the Companies for the period ending February 10, 2017 is attached as Appendix "B".

5.0 PURCHASE AND SALE AND PROPOSAL SUPPORT AGREEMENT

- 5.1 The PSA concerns: (i) the acquisition by the Secured Creditor Sponsors, or their nominee, of the Transaction Assets in exchange for the reduction of the amounts owing by the Companies to the Secured Creditor Sponsors; and (ii) the agreement of the Secured Creditor Sponsors to support the Proposal.
- 5.2 Highlights of the draft PSA are as follows:
- a) for a purchase price of \$10.25 million: (i) Power will sell to the Secured Creditor Sponsors all of Power's shares in certain of its subsidiaries and any claims of Power against the subsidiaries; and (ii) the Companies, and potentially other affiliates and subsidiaries, will transfer certain power projects to the Secured Creditor Sponsors;

- b) the Secured Creditor Sponsors will not oppose or object to the Proposal or support the opposition or objections of any third party;
- c) Power will assign all of its rights and obligations under certain assigned agreements which include the Companies' head office and photocopier leases and the Royalty Agreement (as defined below);
- d) until such time that the Trustee makes a final distribution to creditors under the Proposal, the Secured Creditor Sponsors will continue to provide funding to the Companies to continue their operations and pursue the completion of the Proposal and realization of the Residual Assets;
- e) the Secured Creditor Sponsors will forbear from enforcing their security against the Residual Assets or any proceeds generated from the Residual Assets and agree that all proceeds from the Residual Assets will be distributed by the Trustee in accordance with the Proposal; and
- f) upon the final distribution of all proceeds of sale of the Residual Assets, the Secured Creditor Sponsors will provide releases to a number of parties including the Companies, the Companies' directors, officers, creditors, including without limitation creditors that receive distributions under the Proposal, advisors, affiliates, and subsidiaries and the Trustee from any and all claims arising from or in connection with the PSA, the Proposal or the sale of the Residual Assets.

Value of the Transaction Assets

5.3 The Trustee has not undertaken an independent valuation of the Transaction Assets. However, the Companies commissioned a valuation report (the "**Valuation Report**") in respect of certain of the Transaction Assets prepared by EnerQuest Power Corp. ("**EnerQuest**") dated November 26, 2016 and management of the Companies has prepared a Valuation of the Transaction Assets for the Secured Creditor Sponsors dated November 28, 2016.

5.4 Highlights of the Valuation Report are as follows:

- a) the wind energy Transaction Assets have an equity value of approximately \$6.1 million based on the discounted cash flow equity value of the wind energy projects;
- b) the equity value is attributed as an indication of the projects' current value but does not necessarily mean that there is likely to be a cash transaction for this amount; and
- c) structuring a transaction to monetize the projects may involve a developer promoting a royalty or other form of deemed equity as opposed to a cash sale.

5.5 The Trustee has held discussions with EnerQuest to discuss the valuation methodologies used and related assumptions and nothing has come to the attention of the Trustee to suggest that the valuations are unreasonable.

5.6 The Juan de Fuca Cable Project was not included in the Valuation Report. The Companies have advised the Trustee that as the revenue generation structure of the project is still in a conceptual phase, significant capital investment will be required to advance the project, no near term market contract opportunities are foreseen and other necessary inputs for accurate and meaningful financial projections are outstanding, a valuation of the Juan de Fuca Cable Project has not been completed. The Companies attribute a value of \$2.1 million to the Juan de Fuca Cable Project based on the total amount invested by the Companies in the project to date.

6.0 SUMMARY OF THE PROPOSAL

6.1 The Proposal provides for the share capital of Power to be reorganized as follows:

- a) Power will issue a preference share (the “**Preference Share**”) to the Trustee, to be held in trust for the beneficiaries of the Proposal;
- b) except for the Preference Share, all existing shares and other securities of Power shall be cancelled and shall be of no further force or effect; and
- c) the Preference Share shall convert to a new common share (the “**New Common Share**”) which shall be held by the Trustee in trust for the benefit of the Proposal Beneficiaries (as subsequently defined).

6.2 Key commercial terms of the Proposal are summarized as follows:

- a) secured claims, post-filing claims, intercompany claims and the Consultant’s Claim will be unaffected by the Proposal, although intercompany claims will be deemed to have voted in favour of the Proposal;
- b) the fees and disbursements of the Trustee will be paid in priority to all proven claims of the priority creditors, the Consultant’s Claim and the Voting Creditors;
- c) priority claims for amounts due to Her Majesty the Queen in right of Canada or any province or the amounts which employees would be entitled to receive pursuant to subsection 136(1)(d) of the BIA if their employer had been bankrupt on the filing date shall be paid in their entirety as soon as reasonably practicable following the realization of the Residual Assets;

- d) the Trustee will hold the New Common Share of Power in trust and will be authorized to sell the Residual Assets, or any part of the them, and any proceeds generated by such sales will be distributed to the following parties (the “**Proposal Beneficiaries**”) as follows:
 - i. First, *pro rata* to the Priority Creditors (as defined in the Proposal) up to the maximum amount of each Priority Claim;
 - ii. Second, to the Consultant, for the full amount of the Consultant’s Claim;
 - iii. Third, *pro rata*, to the unsecured creditors up to the maximum amount of each unsecured creditor’s claim; and
 - iv. Fourth, the balance of any proceeds remaining will be paid *pro rata* to the Secured Creditor Sponsors.
- e) unsecured creditors with accepted claims (that are not unaffected claims) shall be Voting Creditors and shall be entitled to vote on the Proposal;
- f) all payments and distributions made by the Trustee to the Proposal Beneficiaries shall be made net of all applicable levies in accordance with the BIA and regulations thereto, including the levy imposed by the Office of the Superintendent of Bankruptcy; and
- g) the Proposal provides that Sections 95 to 101.1 of the BIA shall not apply with respect to this Proposal and the Companies.

6.3 The Proposal implementation date will be the day that the following conditions precedent to implementation of the proposal have been satisfied:

- a) the Proposal has been approved by the Requisite Majority (as subsequently defined) of Voting Creditors;
- b) an order approving the proposal (the “**Approval Order**”) has been issued, has not been stayed and there is no outstanding appeal therefrom;
- c) all documents and instruments contemplated by the Proposal have been executed and delivered; and
- d) the conditions precedent to implementation of the Proposal (as set out in the Proposal) have all been met.

7.0 STATEMENT OF ESTIMATED REALIZATIONS

7.1 A Statement of Estimated Realizations setting out the estimated recovery to creditors under the Proposal as well as comparative recoveries under a bankruptcy of the Companies is attached Appendix “C”. A summary of the Statement of Estimated Realizations is tabled below.

Sea Breeze Power Corp. and Sea Breeze Energy Inc.
Statement of Estimated Realizations Summary
As at December 30, 2016

	Proposal			Bankruptcy		
	Claim Amounts	Estimated Recovery	Estimated Recovery (%)	Claim Amounts	Estimated Recovery	Estimated Recovery (%)
Assets Available for Realization						
Cash		\$ 243			\$ 243	
Interest in Powerhouse Developments Inc. (Real Property)		600			600	
Interest in Other Subsidiaries		10,250			8,200	
Estimated net cost of Proposal Proceedings		(200)			(200)	
Total Estimated Realization		10,893			8,843	
Secured Claims		(10,250)			(12,744)	
Surplus/(Shortfall) to Secured Creditors		\$ 643			\$ (3,901)	
Estimated Recovery to Unsecured Creditors						
Priority Creditors	\$ -	\$ -	N/A	\$ -	\$ -	N/A
Consultant's Claim	157	157	100%	157	-	0%
Voting Unsecured Creditors	876	486	56%	876	-	0%
Unsecured Portion of Secured Claims	2,494	-	0%	3,901	-	0%
Total Estimated Recovery to Unsecured Creditors	\$ 3,527	\$ 643	18%	\$ 4,934	\$ -	0%

- 7.2 The estimated value of the "Interest in Other Subsidiaries" under the proposal scenario is \$10.25 million based on the purchase price in the PSA and under the bankruptcy scenario it is \$8.2 million based on the valuation reports described in Section 5.3.
- 7.3 We are advised that all of the Companies' assets are subject to the security of the Secured Creditor Sponsors. As the estimated value of the Companies' assets is less than the amount owed to the Secured Creditor Sponsors, it is likely that in the event of a bankruptcy there would be a shortfall to the Secured Creditor Sponsors and no recovery to unsecured creditors.
- 7.4 The estimated recoveries to unsecured creditors under the Proposal are the result of the Secured Creditor Sponsors' willingness to forego enforcement of their loans, fund the Companies during the Proposal proceedings and subordinate the unsecured portion of their claims.
- 7.5 The Statement of Estimated Realization is based on the assumption that the Residual Assets, other than the Grand Forks Property, do not have any net realization value. However, the potential monetization of Companies' remaining development projects and tax attributes may result in additional recoveries to unsecured creditors including the unsecured portion of secured claims.

- 7.6 The Trustee has not commissioned an independent legal review of the validity and enforceability of the security held the Secured Creditor Sponsors. However, it is noted that in a bankruptcy scenario, if all of the security of the Secured Creditor Sponsors was invalid and/or unenforceable, the estimated recovery to Voting Creditors (including the unsecured claims of the Secured Creditor Sponsors) would be approximately 64% assuming that \$8.2 million could be realized from the Transaction Assets in a bankruptcy scenario.

8.0 CONDUCT OF THE COMPANIES

- 8.1 The Trustee has performed limited review and had limited discussions with management of the Companies regarding any preferences or transfers at undervalue that may have occurred prior to the Filing Date. The Companies disclosed one transaction with respect to a payment to Royalty Holders that warrants additional disclosure.

Payment to Royalty Holders

- 8.2 Energy is party to an agreement (the “**Royalty Agreement**”) with the vendors of certain project (the “**Royalty Holders**”) which provides for the payment of royalties to the Royalty Holders in the event Energy realizes any net profits from the sale, lease, license or other disposition of any of the properties subject to the agreement (the “**Royalty Properties**”).
- 8.3 The Royalty Agreement further provides that if Energy receives any funds on account of or as the proceeds of sale of power from the Royalty Properties or the sale of any of the Royalty Properties, Energy will receive the Royalty Holders’ share of the funds in trust for the Royalty Holders.
- 8.4 Beginning on or around June 9, 2011, Energy received funds in relation to the sale of some of the Royalty Properties (the “**Monetized Royalty Properties**”). Energy did not believe that there were any “Net Profits” generated, and hence no money was payable to the Royalty Holders. The Vendors disagreed and commenced arbitration.
- 8.5 On September 9, 2016, an independent arbitrator issued an award in favour of the Royal Holders (the “**Arbitration Award**”) finding that approximately \$854,000 (the “**Trust Amount**”) of the funds received by Energy from the sale of the Monetized Royalty Properties was to be held in trust for and paid over to the Royalty Holders. The Royalty Holders were also awarded costs of \$403,000.
- 8.6 In or around January 15, 2016, Energy received additional funds of approximately \$3.5 million from the sale of the Monetized Royalty Properties (the “**Energy Funds**”). At the time, Power had

USD accounts that it did not want to draw on as it did not want to incur the cost of the foreign exchange. Accordingly, the Companies determined that: (i) Power would use the Energy Funds paid to Energy to fund operations and repay some debt; and (ii) at all times, Power and Energy would ensure that the total funds available to Energy to satisfy the potential claim of the Vendors would be available from a combination of the Energy Funds and the Power USD funds. Any “trust” funds taken from Energy’s account would, if necessary, be replaced with funds from Power’s USD account.

- 8.7 After the issuance of the Arbitration Award on September 9, 2016, Energy and Power paid the Trust Amount to their legal counsel, Fasken Martineau DuMoulin LLP (“FMD”), in anticipation of paying the funds over to the Royalty Holders. Of the amount paid to FMD, approximately \$350,000 came from the Energy Funds and the balance was provided by from Power’s USD account.
- 8.8 Pursuant to a settlement agreement dated December 7, 2016, Energy agreed to, and did, transfer to counsel for the Royalty Holders the \$854,000 being held by FMD. The Royalty Holders, in turn, executed a release in favour of Energy and Power and agreed not to oppose the Companies’ anticipated restructuring process. The Royalty Holders concurrently entered into an assignment agreement with Gregory Hoffman, Chairman of Board of Directors of Power, whereby Mr. Hoffman acquired the Vendors’ costs claim as well as their interest claim on the award in the aggregate amount of \$425,000.
- 8.9 The Trustee has not obtained an independent legal opinion with respect to the nature of the transaction in a bankruptcy context. However, it is noted that should the transaction be successfully pursued as a preference by a Licensed Insolvency Trustee of Energy, based on the estimated realization values of the Companies’ assets, all recoveries would likely be recovered for the benefit of the Secured Creditor Sponsors.

9.0 PREVIOUS BUSINESS DEALINGS WITH THE COMPANIES

- 9.1 A&M was engaged by Power as a financial advisor on October 31, 2016 to assist in preparation of the materials necessary for filing the Proposal. The Trustee has no known conflict of interest with the Companies.

10.0 REMUNERATION OF THE TRUSTEE

- 10.1 A&M will receive fees based on time spent by its employees at its standard hourly rates and will be reimbursed for any disbursements incurred in connection with the Proposal. All fees and disbursements will be billed on a periodic basis and are payable upon receipt.

10.2 Power has provided the Trustee with a retainer deposit of \$50,000 to guarantee the fees and disbursements incurred by the Trustee with respect to administration of the Proposal. Funds for the deposit were advanced to Power by the Secured Creditor Sponsors for the purposes of providing a retainer to the Trustee.

11.0 CREDITOR MEETING TO VOTE ON THE PROPOSAL

11.1 The creditor meeting to vote on the Proposal (the “**Creditor Meeting**”) shall be held at 10:00 a.m. on Wednesday, January 18, 2017 at 2900 – 550 Burrard Street, Vancouver, British Columbia.

11.2 The Official Receiver, or a nominee thereof, shall decide all matters relating to the conduct of the Creditor Meeting.

11.3 The only persons entitled to attend the Creditor Meeting are as follows:

- a) the Voting Creditors including the holders of their proxies and their legal counsel, if any;
- b) the officers, directors, auditors, advisors and legal counsel of the Companies;
- c) such representatives of the Trustee as the Trustee may appoint in its discretion; and
- d) such scrutineers as may be duly appointed by the chair of the Creditor Meeting.

11.4 Voting at the Creditor Meeting is to be conducted as follows:

- a) each Voting Creditor will be entitled to vote the full amount of its proven claim, in person or by proxy or voting letter;
- b) unsecured creditors are only entitled to vote at the Creditor Meeting if they have filed their Proof of Claim with the Trustee prior to commencement of the Creditor Meeting; and
- c) in order for the Proposal to be approved, it must receive the affirmative vote of a majority in number and two-thirds the value of the Voting Creditors who are present at the Creditor Meeting, whether in person, by proxy or by voting letter (the “**Required Majority**”).

11.5 At the Creditor Meeting, the Voting Creditors may appoint one or more, but not exceeding five, inspectors (the “**Inspectors**”) which shall have the following powers:

- a) the power to waive any defaults in the performance of any provision of the Proposal;
- b) the power to approve interim and final statements of receipts and disbursements of the Trustee, including the power to approve proposed distributions and reasonable fees and disbursements of the Trustee;
- c) the power to advise the Trustee in respect of such matters as may be referred to the Inspectors by the Trustee; and

- d) the power to advise the Trustee concerning any dispute that may arise to the validity of a Proof of Claim filed by the claimant.
- 11.6 In the event no Inspectors are appointed, the Trustee shall be entitled to take advances toward its charges for service rendered pursuant to the Proposal from the funds paid to the Trustee by the Secured Creditor Sponsors with all advances subject to taxation by the Court at the completion of the Proposal.
- 11.7 In the event that the Proposal is approved by the Required Majority, the Companies will thereafter seek the Approval Order. The Approval Order, among other things:
- a) approves the Proposal and all actions and transactions set out therein;
 - b) approves the alteration to the articles of Power by adding Article 26 thereto pursuant to section 257 of the British Columbia *Business Corporations Act*;
 - c) approves the PSA and purchase and sale transaction and upon completion of the sale transaction, vests certain of the Transaction Assets in the Secured Creditor Sponsors, or their nominee, free and clear of any claims;
 - d) approves the assignment of Sea Breeze's rights and obligations under the assigned agreements identified in the PSA to the Secured Creditor Sponsors, or their nominee, effective at the completion of the purchase and sale transaction;
 - e) vests the Preference Share in the Trustee, to be held for the benefit of the Proposal Beneficiaries, effective as at the Proposal Implementation Date and in accordance with the terms of the Proposal;
 - f) approves the cancellation of the existing shares and securities of Power and approves the conversion of the Preference Share to a New Common Share, to be held in trust for the benefit of the Proposal Beneficiaries; and
 - g) authorizes the Trustee to sell the Residual Assets, or any part thereof, and pay the proceeds from such realization to the Proposal Beneficiaries in accordance with the terms of this Proposal.
- 11.8 In the event the Required Majority does not vote in favour of the Proposal, the Companies will automatically be deemed to have made an assignment in bankruptcy, and the creditors can elect to retain the Trustee as trustee in bankruptcy or may substitute an alternative Licensed Insolvency Trustee.

12.0 TRUSTEE'S RECOMMENDATION

- 12.1 The Proposal, should it be approved by the Required Majority of Voting Creditors and the Court, provides the Voting Creditors with a recovery in excess of what is estimated to be recovered in a bankruptcy of the Companies. Accordingly, the Trustee recommends that the Voting Creditors vote to approve the Proposal.

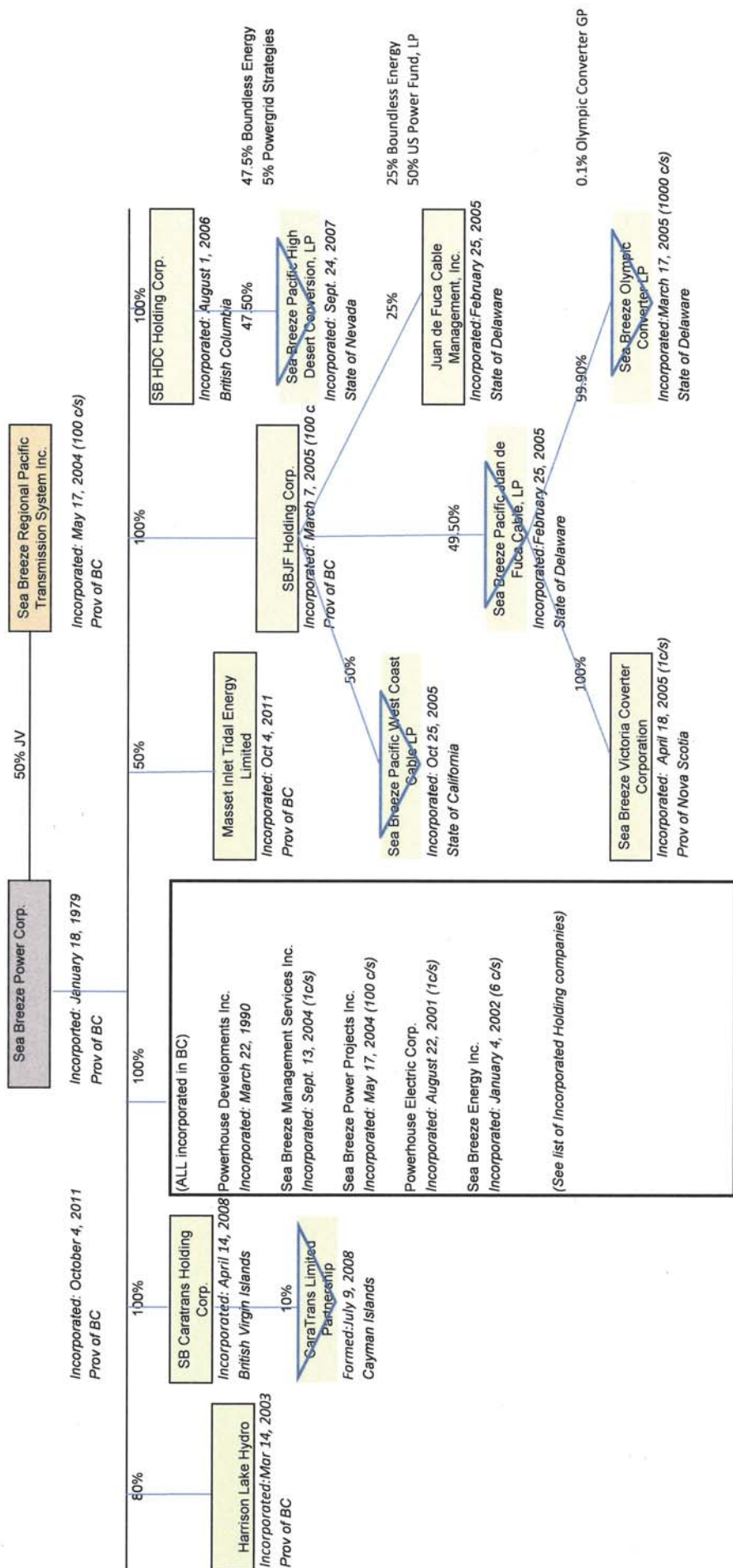
Alvarez & Marsal Canada Inc.,
in its capacity as Proposal Trustee of
Sea Breeze Power Corp. and Sea Breeze Energy Inc.


Per: Todd Martin
Senior Vice President


Per: Tom Powell
Vice President

APPENDIX A

SEA BREEZE POWER CORP. STRUCTURE



SEA BREEZE POWER CORP. HOLDING COMPANIES

NAME	INCORPORATION DATE	PROVINCE
Knob Hill Holding Corp.	July 29, 2008	BC
SB Peace Holding (01) Corp.	January 14, 2009	BC
SB Peace Holding (02) Corp.	January 14, 2009	BC
SB Peace Holding (03) Corp.	January 14, 2009	BC
SB Peace Holding (04) Corp.	December 1, 2010	BC
SB Peace Holding (05) Corp.	December 1, 2010	BC
SB Peace Holding (06) Corp.	December 1, 2010	BC
SB Peace Holding (07) Corp.	December 1, 2010	BC
SB Central Holding (01) Corp.	February 25, 2011	BC
SB Central Holding (02) Corp.	November 16, 2011	BC
SB Central Holding (04) Corp.	March 30, 2012	BC
SB Central Holding (05) Corp.	March 30, 2012	BC
SB Okanagan Holding (01) Corp.	April 9, 2009	BC
SB Okanagan Holding (02) Corp.	May 25, 2011	BC
SB Okanagan Holding (03) Corp.	May 25, 2011	BC
SB Okanagan Holding (04) Corp.	August 22, 2012	BC
SB Okanagan Holding (05) Corp.	August 22, 2012	BC
SB Okanagan Holding (08) Corp.	January 2, 2013	BC
SB Central Coast Holding (01) Corp.	January 13, 2012	BC
SB Central Coast Holding (02) Corp.	January 13, 2012	BC
SB Windy Ridge Holding Corp.	April 25, 2012	BC
SB Gods Pocket Holding Corp.	April 25, 2012	BC
SB Franklin Ridge Holding Corp.	April 25, 2012	BC
SB Great Bear & Wolverine Holding Corp.	April 25, 2012	BC
SB Kitimat Holding Corp.	March 28, 2012	BC
SB Shushartie Holding Corp.	May 11, 2012	BC
SB Nimpkish Holding Corp.	May 11, 2012	BC
SB Hushamu & Pemberton Holding Corp.	May 11, 2012	BC
Sea Breeze Goodspeed Holding Corp.	May 2, 2012	BC
SB Prince Rupert Holding Corp.	April 10, 2012	BC
SB Fernie Holding Corp.	August 22, 2012	BC
SB Level Mountain Holding Corp.	August 25, 2012	BC
SB Hedley Holding Corp.	September 6, 2013	BC
Sea Breeze Terrance Holding Corp.	October 31, 2012	BC
Sea Breeze Yukon Projects Inc.	July 12, 2012	YUKON
Sea Breeze Microgrid Systems Inc.	October 18, 2012	YUKON
Sea Breeze Energy Storage Inc.	March 6, 2013	BC
Powerhouse Energy Inc.	January 3, 2014	BC
SB Lemont Holding Corp.	March 14, 2014	BC

APPENDIX B

Sea Breeze Power Corp. and Sea Breeze Energy Inc.
Combined Cash Flow Statement (Note 1)
For the 7 Week Period Ending February 10, 2017
(\$'000s)

	Week 1 30-Dec-16	Week 2 6-Jan-17	Week 3 13-Jan-17	Week 4 20-Jan-17	Week 5 27-Jan-17	Week 6 3-Feb-17	Week 7 10-Feb-17	Week 1 to Week 7 Total	Notes
Receipts									
Advances from Secured Creditor Sponsors	\$ -	\$ 90	\$ 442	\$ 125	\$ -	\$ 45	\$ -	\$ 702	2
Other receipts	-	52	-	-	-	-	-	52	3
Total Receipts	-	142	442	125	-	45	-	754	
Disbursements									
Payroll, Benefits & Payroll Taxes	35	-	27	-	7	31	-	100	4
Office Rent	-	6	-	-	-	6	-	13	5
Professional Fees	50	110	25	125	-	45	-	355	6
Other Operating Disbursements	-	27	1	1	0	-	1	30	7
Disbursements to subsidiaries	-	117	77	152	77	2	-	425	8
Contingency	\$	5	5	5	5	5	-	30	
Total Disbursements	90	265	135	283	90	89	1	952	
Net Cash Flow	(90)	(123)	307	(158)	(90)	(44)	(1)	(198)	
Opening Cash Balance	242	152	29	336	178	88	45	242	
Ending Cash Balance	\$ 152	\$ 29	\$ 336	\$ 178	\$ 88	\$ 45	\$ 44	\$ 44	

Notes

Refer to attached list of notes and assumptions.



Sea Breeze Power Corp. and Sea Breeze Energy Inc.
Per Resja Campmans, President and CEO



Alvarez & Marsal Canada Inc., Proposal Trustee
Per Todd M. Martin, Senior Vice President

Sea Breeze Power Corp.
Cash Flow Statement
For the 7 Week Period Ending February 10, 2017
(\$000s)

	Week 1 30-Dec-16	Week 2 6-Jan-17	Week 3 13-Jan-17	Week 4 20-Jan-17	Week 5 27-Jan-17	Week 6 3-Feb-17	Week 7 10-Feb-17	Week 1 to Week 7 Total
Receipts								
Advances from Secured Creditor Sponsors	\$ -	\$ 90	\$ 442	\$ 125	\$ -	\$ 45	\$ -	\$ 702
Other receipts	-	52	-	-	-	-	-	52
Total Receipts	-	142	442	125	-	45	-	754
Disbursements								
Payroll, Benefits & Payroll Taxes	35	-	27	-	7	31	-	100
Office Rent	-	6	-	-	-	6	-	13
Professional Fees	50	110	25	125	-	45	-	355
Other Operating Disbursements	-	27	1	1	0	-	1	30
Disbursements to Sea Breeze Energy Inc.	-	117	77	152	77	2	-	425
Contingency	5	5	5	5	5	5	-	30
Total Disbursements	90	265	135	283	90	89	1	952
Net Cash Flow	(90)	(123)	307	(158)	(90)	(44)	(1)	(198)
Opening Cash Balance	239	148	25	332	175	85	41	239
Ending Cash Balance	\$ 148	\$ 25	\$ 332	\$ 175	\$ 85	\$ 41	\$ 40	\$ 40

Sea Breeze Energy Inc.
Cash Flow Statement
For the 7 Week Period Ending February 10, 2017
(\$000s)

	Week 1 30-Dec-16	Week 2 6-Jan-17	Week 3 13-Jan-17	Week 4 20-Jan-17	Week 5 27-Jan-17	Week 6 3-Feb-17	Week 7 10-Feb-17	Week 1 to Week 7 Total
Receipts								
Advances from Sea Breeze Power Corp.	\$ -	\$ 117	\$ 77	\$ 152	\$ 77	\$ 2	\$ -	\$ 425
Total Receipts	-	117	77	152	77	2	-	425
Disbursements								
Disbursements to subsidiaries	-	117	77	152	77	2	-	425
Total Disbursements	-	117	77	152	77	2	-	425
Net Cash Flow	-	-	-	-	-	-	-	-
Opening Cash Balance	4	4	4	4	4	4	4	4
Ending Cash Balance	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4

PC

**Sea Breeze Power Corp. and Sea Breeze Energy Inc.
Combined Cash Flow Statement
Notes and Assumptions**

1. The purpose of this cash flow statement (the "Cash Flow Statement") is to set out the liquidity requirements of Sea Breeze Power Corp. and Sea Breeze Energy Inc. (together, the "Companies") during the proceedings under Division 1 of the *Bankruptcy and Insolvency Act* (Canada) (the "BIA Proceedings"). Week 1 is a partial week commencing on December 29, 2016. The Cash Flow Statement does not reflect any payments that may be made to creditors in respect of the proposal filed by the Companies on December 29, 2016. The Cash Flow Statement should be read in conjunction with the Trustee's Report on the Cash Flow Statement dated December 29, 2016.
2. Advances from Secured Creditor Sponsors are secured loans which certain secured creditors have agreed to advance to the Companies in order to fund operations and preserve the value of certain of the Companies' assets during the BIA Proceedings.
3. Other receipts include a GST refund and funding from a financial sponsor of the Companies' Juan de Fuca Cable Project to cover the costs of one of the Companies' employees.
4. Payroll, benefits and payroll taxes are assumed to be consistent with current rates. Employee source deduction remittances are forecast to remain current during the BIA Proceedings.
5. Office rent is for the Companies' head office located at Suite 3023 - 595 Burrard St., Vancouver, British Columbia.
6. Professional fees have been forecast based on the estimated costs of professional service firms relating to the BIA Proceedings including Alvarez & Marsal Canada Inc. as proposal trustee and Fasken Martineau DuMoulin LLP as legal advisor to the Companies.
7. Other operating disbursements include general and administrative expenses and have been forecast based on past historical financial information and anticipated future events.
8. Disbursements to subsidiaries are for amounts forecast to be paid to subsidiaries of the Companies in order to fund development costs that management of the Companies feels are necessary to preserve the value of the Companies' development projects. The costs relate primarily to First Nations consultations, environmental reviews and related consulting fees.

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APPENDIX C

Sea Breeze Power Corp. and Sea Breeze Energy Inc.
Statement of Estimated Realizations
As at December 30, 2016

	Proposal			Bankruptcy			Notes
	Claim Amounts	Estimated Recovery	Estimated Recovery (%)	Claim Amounts	Estimated Recovery	Estimated Recovery (%)	
Assets Available for Realization							
Cash		\$ 243			\$ 243		
Interest in Powerhouse Developments Inc. (Real Property)		600			600		1
Interest in Other Subsidiaries		10,250			8,200		2
Estimated net cost of Proposal Proceedings		(200)			(200)		3
Total Estimated Realization		10,893			8,843		
Secured Claims		(10,250)			(12,744)		
Surplus/(Shortfall) to Secured Creditors		\$ 643			\$ (3,901)		
Estimated Recovery to Unsecured Creditors							
Priority Creditors	\$ -	\$ -	N/A	\$ -	\$ -	N/A	
Consultant's Claim	157	157	100%	157	-	0%	4
Voting Unsecured Creditors	876	486	55%	876	-	0%	
Unsecured Portion of Secured Claims	2,494	-	0%	3,901	-	0%	5
Total Estimated Recovery to Unsecured Creditors	\$ 3,527	\$ 643	18%	\$ 4,934	\$ -	0%	

Notes

- 1 Net proceeds from the assets of Powerhouse Developments Inc. are based on the Companies' estimated value of the a parcel of land located in Grand Forks, British Columbia.
- 2 Under the Proposal, the Secured Creditor Sponsors will purchase certain of the Companies' development projects for consideration of a reduction in the secured loans and convertible debentures of \$10.3 million. Under a bankruptcy, the development projects are estimated to result in a recovery of \$8.2 million which is based on a valuation report on certain of the Transaction Assets prepared by EnerQuest Power Corp. dated November 26, 2016 that value the wind energy projects at \$6.1 million and the total amount invested in the Juan de Fuca Cable Project to date of \$2.1 million. It is assumed that there will be no recoveries in respect of the Companies' other development projects and/or tax attributes.
- 3 The cash flow statement filed by the Companies in the Proposal proceedings forecasts cash outflows (net of Secured Creditor Sponsor advances) of approximately \$200,000 during the 7 week period ending February 10, 2017.
- 4 Under the proposal scenario, the claim for the consultant (C&A Energy Services Ltd.) is paid in priority to other unsecured creditors as partial consideration for assistance with monetizing the Companies' residual assets.
- 5 Under the proposal scenario, the unsecured portion of the Secured Creditor Sponsors' claims are subordinated to the other unsecured creditor claims.