

**Finavera Renewables Inc.**

(FVR-V: C\$0.35)

**MARKET OUTPERFORM, High Risk\***

12-month target price: C\$0.95

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[smahesh@dundeesecurities.com](mailto:smahesh@dundeesecurities.com)**Milestones On Track****Overview**

Since our initiating coverage report (see Initiating Coverage: Where There is Wind There is a Wave dated June 18, 2007) Finavera Renewables Inc. has progressed achieving key milestones on schedule. It has signed an MOU to acquire a 20 MW German wind farm, put AquaBuOY 2.0 into an oceanic test environment off the coast of Oregon, and is on track to develop the 75 MW Three Hills wind farm in Alberta and 100 MW Cloosh Valley wind farm in Ireland.

**German Wind Farm**

Finavera signed an MOU with a German wind farm developer to acquire one of its wind farms in north Germany. The transaction is expected to close in December 2007. The 20 MW wind farm project is expected to generate 38.6 GWh on average over the life of the project and has a feed-in-tariff agreement in place for €81.90 per MWh of power produced until 2027. The wind farm consists of 10 turbines of 2 MW capacity each. Six turbines have already been installed with the remaining expected to be installed and commissioned by December 2007.

This project will be the first cash flow generating asset in Finavera's portfolio. We expect the project to be accretive as soon as it comes online. Currently the project is 65% debt financed. Finavera is planning to take advantage of the favourable debt financing environment for renewable energy projects in Germany by leveraging up the project to the 80-85% debt level.

**Three Hills (Alberta)**

The 75 MW Three Hills Phase 1 project is on track. Finavera is currently negotiating a turbine supply agreement which we expect will be signed by end of September 2007 for turbine delivery by the middle of 2008. The grid connection to the site and installation of transformer at the site sub-station are also scheduled to be done by mid 2008. The wind mill tower construction at the site will commence in second half of 2008 with project completion and final commissioning to happen in Q1 or Q2 of 2009.

Recently, Alberta Electricity Systems Operator (AESO) decided to lift the year old 900 MW cap on the wind power capacity connected to the Alberta grid. The cap removal will come in effect starting at the end of 2007. This policy decision is a big plus for Finavera as it removes one of the major uncertainties in the future development of its 75 MW Phase II of the Three Hills project.

**Cloosh Valley**

Finavera submitted a new planning application for the 100 MW Cloosh Valley wind farm project (Ireland) in mid-August. The final decision is expected by mid-October after which Finavera can move to the next development phase. The initial application for grid connection by the Electricity Supply Board (ESB) was appealed to the Irish Planning Authority by the National Park and Wildlife Service due to placement of a substation. Also, the new federal government has been aggressively pursuing new reforms for environmental protection with a new push for the renewable energy.

A proposal for 110 KV transmission line has been submitted by another developer for a wind farm near Cloosh Valley. Two of the five proposed transmission line paths go right across the Cloosh Valley wind farm site. If one of these paths is selected for the final development, it would significantly reduce Cloosh Valley's grid connection costs.



**Figure 1: Finavera's Key Milestones**

Events	Product Test	Submission of planning application	AESO increases cap on wind power	Planning application approval	Grid connection permission	Construction contract Effective
<b>AquaBuOY (Oregon) Aug-Sep, 2007</b>						
Three Hills, Alberta (Phase I - 75 MW)						<b>2008</b>
Three Hills, Alberta (Phase II - 75 MW)		<b>2008</b>	<i>By end of 2008.</i>	<i>Early 2009</i>	<i>2009</i>	<i>2010</i>
Cloosh Valley, Ireland				<b>2007</b>	<i>Early 2008</i>	<i>2009</i>
Maghera, Ireland		<b>2008</b>		<i>Early 2009</i>	<i>2009</i>	<i>2010</i>

Source: Company Reports and Dundee Securities Corp.

**Peace Region (British Columbia)**

Finavera has more than 700 MW in pipeline for development in Peace Region and Cascade Region in BC. Finavera is planning to bid in 366 MW in the upcoming BC RFP. The bids are expected to be submitted by end of 2007. The company has hired Genivar to lead the engineering development of the Wildmare Wind Power Project (74 MW), Bullmoose Wind Power Project (112 MW), Tumbler Ridge Wind Power Project (100 MW), and Mount Clifford Wind Power Project (80 MW). Genivar will assist Finavera in the design and preparation of engineering drawings, construction management, and specifications for turbine installation and commissioning for several of these projects.

**Figure 2: Finavera's Wind Projects**

Location	Total Potential Capacity (MW)	Permit status	Grid connection	PPA status	Construction Start	Commercial (Post Commissioning)
Three Hills, AB - Phase 1 Ghost Pine	75	applied	AESO approved	Alberta Pool	2008	2009
Three Hills, AB - Phase 2 Lone Pine	75	none	none	Alberta Pool	2010 (target)	2011 (target)
Cloosh Valley, Ireland	100	applied	applied	REFIT (feed-in tariff)	2009 (target)	2010 (target)
Maghehra, Ireland	75	none	applied	REFIT (feed-in tariff)	2010 (target)	2011 (target)
Peace Region, BC - Wildmare, Bullmoose, Tumbler Ridge, Mount Clifford	366	applied	none	none	2009-12 (target)	2012-13 (target)
Cascades Region, BC -	334	none	none	none	no target	no target
Nine sites under development						

Source: Company Reports



### AquaBuOY

Wave energy device, AquaBuOY 2.0, was successfully deployed and commissioned two and a half miles off the coast of Newport, Oregon as scheduled. The test device has a potential to deliver 250 kW of hydraulic power. Finavera will test and analyze the performance of the AquaBuOY's components and monitor its hydraulic power output for the next six weeks. The test device costs approximately two million dollars with mooring alone costing over two hundred and fifty thousand. Apart from other cost optimization measures, the next iteration of the AquaBuOY design will focus on the performance optimization and cost of energy reduction. The company plans to design and construct the AquaBuOY 3.0 for deployment in 2008, and that next design iteration may be producing electricity on a test basis. The target is to have a one MW plant ready by 2010.

The Governor Office of Oregon has been very supportive of the renewable energy development companies in Oregon which has been helpful in obtaining all the necessary environmental and regulatory permits for the AquaBuOY. We expect AquaBuOY to attract a lot of press coverage going forward, thereby raising the profile of wave energy development.

Finavera recently received an Investigative Use Permit (IUP) for a wave energy project off the west coast of Vancouver Island in BC. The permit grants Finavera the right to conduct resource and environmental studies to determine the feasibility of a wave energy project. Finavera will be putting in a wave measurement device (a 1.5 meter diameter buoy) to collect wave height and period data, which will help in determining the final power generation potential of the site. The project would have an initial potential generating capacity of 5MW which can be expanded up to 100MW.

**RATING:** We are maintaining our rating of **MARKET OUTPERFORM** with 12-month target price of **C\$0.95** on Finavera Renewables Inc. Our target price is based on sum of the parts of the various wind projects. The Three Hills project and Ireland projects are valued at C\$0.63 (average of DCF and EV/EBITDA valuation). The 700 MW BC wind project pipeline and all the wave projects have been valued at C\$0.33 based on a relative comparison basis. We have not ascribed much value to Finavera's wave projects or its AquaBuOY technology at this time, due to the early stage nature of the technology.

**Figure 3: EV/EBITDA Wind Power Valuation**

Valuation	C\$000	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Three Hills, Alberta (Phase 1)		0	(5,500)	43,563	105,485	161,549	164,939	168,400	171,932	175,538	179,218	182,974	186,808
Three Hills, Alberta (Phase 2)		0	0	0	0	0	0	0	142,830	82,677	51,699	35,382	26,460
Cloosh Valley, Ireland		0	0	0	61,794	137,883	216,120	220,902	225,787	230,777	235,873	241,079	246,396
Maghera, Ireland		0	0	0	0	3,716	71,522	151,930	155,388	158,921	162,531	166,219	169,988
Project Total		0	(5,500)	43,563	167,278	303,148	452,581	541,232	695,936	647,911	629,320	625,653	629,652
Corporate O/H x11	11	(17,600)	(29,172)	(29,755)	(30,351)	(30,958)	(31,577)	(32,208)	(32,852)	(33,509)	(34,180)	(34,863)	(35,561)
Total Debt		0	0	(36,000)	(131,560)	(273,240)	(359,280)	(345,480)	(330,440)	(315,400)	(300,360)	(285,320)	(270,280)
Corporate Cash		(3,600)	3,336	1,779	4,684	1,522	2,086	20,079	39,286	54,972	71,367	89,212	108,764
Corporate Total		(21,200)	(31,336)	(20,413)	10,052	473	63,810	183,623	371,930	353,974	366,148	394,682	432,575
Shares Outstanding		140,400	172,319	202,780	242,911	307,671	350,989	350,989	350,989	350,989	350,989	350,989	350,989
Per Share (C\$)	Current Price \$ 0.35 \$ Always Canadian dollars	(0.15) \$	(0.18) \$	(0.10) \$	0.04 \$	0.00 \$	0.18 \$	0.52 \$	1.06 \$	1.01 \$	1.04 \$	1.12 \$	1.23 \$
CAGR					-56%	-76%	-18%	1%	12%	10%			
Price Target		\$ 0.49	\$ 0.49	\$ 0.50	\$ 0.51								

Source: Company Reports, Dundee Securities Corporation Estimates



**Figure 4: DCF Wind Power Valuation**

DCF Valuation	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Three Hills, Alberta (Phase 1)	\$ 0.19	\$ 0.21	\$ 0.22	\$ 0.18	\$ 0.17	\$ 0.18	\$ 0.19	\$ 0.19	\$ 0.19	\$ 0.19	\$ 0.19	\$ 0.20
Three Hills, Alberta (Phase 2)	\$ 0.22	\$ 0.21	\$ 0.19	\$ 0.19	\$ 0.19	\$ 0.21	\$ 0.23	\$ 0.23	\$ 0.23	\$ 0.23	\$ 0.23	\$ 0.24
Cloosh Valley, Ireland	\$ 0.18	\$ 0.18	\$ 0.22	\$ 0.26	\$ 0.25	\$ 0.26	\$ 0.27	\$ 0.29	\$ 0.30	\$ 0.31	\$ 0.31	\$ 0.33
Maghera, Ireland	\$ 0.30	\$ 0.28	\$ 0.26	\$ 0.25	\$ 0.30	\$ 0.33	\$ 0.34	\$ 0.36	\$ 0.38	\$ 0.39	\$ 0.41	
Corporate (Overheads)		(\$0.18)	(\$0.16)	(\$0.13)	(\$0.10)	(\$0.09)	(\$0.09)	(\$0.09)	(\$0.09)	(\$0.09)	(\$0.10)	(\$0.10)
<b>Price Target</b>	<b>\$ 0.70</b>	<b>\$ 0.71</b>	<b>\$ 0.76</b>	<b>\$ 0.78</b>	<b>\$ 0.82</b>	<b>\$ 0.89</b>	<b>\$ 0.93</b>	<b>\$ 0.97</b>	<b>\$ 1.00</b>	<b>\$ 1.04</b>	<b>\$ 1.07</b>	

Source: Company Reports, Dundee Securities Corporation Estimates

**Figure 5: Valuing Wave Power And BC Wind Power**

Finavera Shares Outstanding (2007 end) 172,319

Wave Valuation	Market Cap ('000)	Cash ('000)	Debt ('000)	Enterprise Value ('000)
Ocean Power Tech (N:OPTT)	154,000	118,000	-	36,000

BC Wind Project Valuation	Market Capitalization ('000)	Cash ('000)	Debt ('000)	Enterprise Value ('000)	Proposed Project Pipeline (MW)	EV/MW ('000)
Shear Wind (TSXV:SWX)	15,340	1,633	-	13,707	600	22.85
Naikun Wind (TSXV:NKW)	51,300	7,687	-	43,613	1750	24.92
<i>Average</i>						23.88
Finavera's BC Project Pipeline	16,718				700	23.88

BC Project Valuation per share 0.10

Finavera's Wave Technology per share - C\$ 0.23

**Net Valuation \$ 0.33**

Source: Company Reports, Dundee Securities Corporations Estimates



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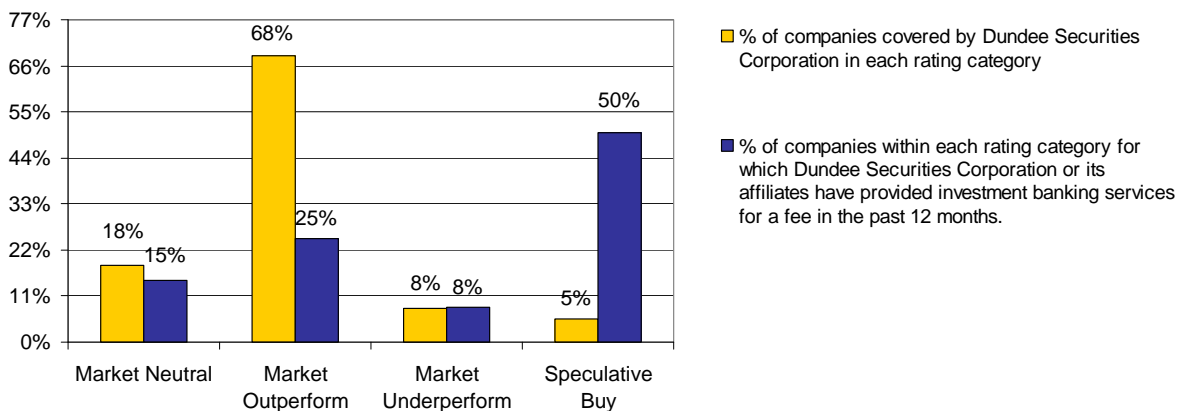
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