

Unaudited Condensed Consolidated Interim Financial Statements
(Expressed in Canadian dollars)

Finavera Wind Energy Inc.

(Formerly Finavera Renewables Inc.)

Three and six months ended June 30, 2011 and 2010

FINAVERA WIND ENERGY INC.

(Formerly Finavera Renewables Inc.)

Unaudited Condensed Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

| | Note | June 30, 2011 | December 31, 2010 |
|--|---------|------------------|----------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | 5 | \$ 2,721,740 | \$ 171,792 |
| Restricted cash | | 42,010 | 53,718 |
| Receivables | | 255,988 | 416,042 |
| Prepaid expenses | | 5,005 | 38,187 |
| Other assets | 8 | - | 2,047,349 |
| | | 3,024,743 | 2,727,088 |
| Non-current assets: | | | |
| Property and equipment | 6 | 595,718 | 602,770 |
| Project development costs | 7 | 10,154,667 | 4,979,946 |
| Other assets | 8 | 117,627 | 99,781 |
| | | 10,868,012 | 5,682,497 |
| | | \$ 13,892,755 | \$ 8,409,585 |
| Liabilities and Shareholders' Equity (Deficiency) | | | |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | | \$ 2,984,521 | \$ 3,159,821 |
| Loans and borrowings | 15 | 5,667,866 | 2,247,335 |
| Flow-through share obligation | 9(a)(i) | 525,847 | - |
| | | 9,178,234 | 5,407,156 |
| Non-current liabilities: | | | |
| Loans and borrowings | 15 | 2,459,200 | 3,489,444 |
| | | 11,637,434 | 8,896,600 |
| Shareholders' equity (deficiency): | | | |
| Share capital | 9 | 33,679,094 | 30,076,925 |
| Warrants | 9(b) | - | 654,207 |
| Contributed surplus | 9(c) | 10,548,123 | 9,681,310 |
| Accumulated deficit | | (41,971,896) | (40,899,457) |
| | | 2,255,321 | (487,015) |
| | | \$ 13,892,755 | \$ 8,409,585 |

Nature of operations and going concern (note 2(a))

Contingencies and commitments (note 14)

Subsequent events (note 18)

See accompanying notes to unaudited condensed consolidated interim financial statements.

Approved on behalf of the Board:

Signed " Jason Bak"

Director

Signed " David Lamont"

Director

FINAVERA WIND ENERGY INC.

(Formerly Finavera Renewables Inc.)

Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss)
(Expressed in Canadian dollars)

| | Note | Three months ended | | Six months ended | |
|--|------|--------------------|-----------------|------------------|-----------------|
| | | 2011 | June 30 2010 | 2011 | June 30 2010 |
| Expenses: | | | | | |
| Depreciation of property and equipment | | \$ 20,071 | \$ 14,767 | \$ 33,959 | \$ 29,412 |
| Project development costs | 7 | 22 | 58,573 | 1,022 | 399,898 |
| Legal cost – Cloosh Valley project | 7 | - | 145,348 | - | 145,348 |
| Insurance and filing fees | | 35,384 | 33,282 | 69,482 | 75,455 |
| Marketing and advertising | | 26,401 | 12,128 | 71,260 | 19,100 |
| Office, rent and utilities | | 95,080 | 82,442 | 194,896 | 155,639 |
| Payroll and benefits | | 160,578 | 241,877 | 319,517 | 422,685 |
| Professional fees | | 54,831 | 75,562 | 108,929 | 145,054 |
| Stock-based compensation | 10 | 3,010 | 31,923 | 28,083 | 163,458 |
| Travel | | 9,419 | 17,482 | 46,249 | 29,391 |
| | | 404,796 | 713,384 | 873,397 | 1,585,440 |
| Loss before undernoted items | | (404,796) | (713,384) | (873,397) | (1,585,440) |
| Net finance income (costs): | | | | | |
| Financing fees and interest expense | | (61,765) | (79,335) | (155,182) | (158,282) |
| Foreign exchange gain (loss) | | (13,698) | 53,738 | (55,665) | 95,827 |
| Gain on foreign exchange option liability | | - | 16,288 | - | 56,672 |
| Interest income | | 9,704 | 74 | 11,805 | 161 |
| Gain on settlement of convertible debenture | | - | 134,444 | - | 160,929 |
| | | (65,759) | 125,209 | (199,042) | 155,307 |
| Loss from continuing operations | | (470,555) | (588,175) | (1,072,439) | (1,430,133) |
| Discontinued operations | 17 | - | 2,750,900 | - | 2,873,300 |
| Income (loss) and comprehensive income (loss) for the period | | \$ (470,555) | \$ 2,162,725 | \$ (1,072,439) | \$ 1,443,167 |
| Loss per share from continuing operations – basic and diluted | | \$ (0.01) | \$ (0.02) | \$ (0.03) | \$ (0.05) |
| Profit per share from discontinued operations – basic and diluted | | - | 0.09 | - | 0.10 |
| Profit (loss) per share – basic and diluted | | \$ (0.01) | \$ 0.07 | \$ (0.03) | \$ 0.05 |
| Weighted average number of common shares outstanding – basic and diluted | | 35,329,194 | 29,967,735 | 32,921,612 | 28,457,092 |

See accompanying notes to unaudited condensed consolidated interim financial statements.

FINAVERA WIND ENERGY INC.

(Formerly Finavera Renewables Inc.)

Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

(Expressed in Canadian dollars)

For the six months ended June 30, 2010

| | Note | Share capital | Warrants | Contributed surplus | Equity portion of convertible debenture | Accumulated deficit | Total shareholders' equity (deficiency) |
|--|------|---------------|--------------|---------------------|---|---------------------|---|
| Balance, January 1, 2010 | | \$ 26,615,670 | \$ 2,483,016 | \$ 7,436,784 | \$ 229,770 | \$ (42,300,261) | \$ (5,535,021) |
| Total comprehensive income for the period | | - | - | - | - | 1,443,167 | 1,443,167 |
| Transactions with owners, recorded directly in equity: | | | | | | | |
| Private placements, net of issuance costs | 9(a) | 704,551 | 26,686 | - | - | - | 731,237 |
| Shares issued on conversion of debenture | 16 | 1,201,984 | - | - | - | - | 1,201,984 |
| Equity portion of debt converted | | - | - | 229,770 | (229,770) | - | - |
| Exercise of options and warrants | | 1,305,000 | - | - | - | - | 1,305,000 |
| Fair value of exercised warrants | | 180,896 | (180,896) | - | - | - | - |
| Warrants expired | 9(b) | - | (259,725) | 259,725 | - | - | - |
| Stock-based compensation capitalized to project costs | | - | - | 2,777 | - | - | 2,777 |
| Stock-based compensation expense | | - | - | 163,458 | - | - | 163,458 |
| Total transactions with shareholders | | 3,392,431 | (413,935) | 655,730 | (229,770) | 1,443,167 | 4,847,623 |
| Balance, June 30, 2010 | | \$ 30,008,101 | \$ 2,069,081 | \$ 8,092,514 | \$ - | \$ (40,857,094) | \$ (687,398) |

See accompanying notes to unaudited condensed consolidated interim financial statements.

FINAVERA WIND ENERGY INC.

(Formerly Finavera Renewables Inc.)

Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity (Deficiency) (Continued)
(Expressed in Canadian dollars)

For the six months ended June 30, 2011

| | Note | Share capital | Warrants | Contributed surplus | Accumulated deficit | Total shareholders' equity (deficiency) |
|---|---------|------------------|------------|------------------------|------------------------|---|
| Balance, January 1, 2011 | | \$ 30,076,925 | \$ 654,207 | \$ 9,681,310 | \$ (40,899,457) | \$ (487,015) |
| Total comprehensive loss for the period | | - | - | - | (1,072,439) | (1,072,439) |
| Transactions with owners, recorded directly in equity: | | | | | | |
| Private placements, net of issuance costs and flow-through share obligation | 9(a)(i) | 3,593,292 | - | - | - | 3,593,292 |
| Fair value of issued broker options | 9(a)(i) | - | - | 158,311 | - | 158,311 |
| Exercise of options and warrants | | 5,500 | - | - | - | 5,500 |
| Fair value of exercised options | | 3,377 | - | (3,377) | - | - |
| Warrants expired | 9(b) | - | (654,207) | 654,207 | - | - |
| Stock-based compensation capitalized to project development costs | | - | - | 29,589 | - | 29,589 |
| Stock-based compensation expense | | - | - | 28,083 | - | 28,083 |
| Total transactions with shareholders | | 3,602,169 | (654,207) | 866,813 | - | 2,742,336 |
| Balance, June 30, 2011 | | \$ 33,679,094 | \$ - | \$ 10,548,123 | \$ (41,971,896) | \$ 2,255,321 |

See accompanying notes to unaudited condensed consolidated interim financial statements.

FINAVERA WIND ENERGY INC.

(Formerly Finavera Renewables Inc.)

Unaudited Condensed Consolidated Statements of Cash Flows (Expressed in Canadian dollars)

| Note | Six months ended June 30, 2011 | Six months ended June 30, 2010 |
|--|---|---|
| Cash flows provided by (used in): | | |
| Operating activities: | | |
| (Loss) Income for the period | \$ (1,072,439) | \$ 1,443,167 |
| Items not affecting cash: | | |
| Income from discontinued operations | - | (2,873,300) |
| Depreciation | 33,959 | 29,412 |
| Stock-based compensation | 28,083 | 163,458 |
| Net finance costs | 199,042 | (155,307) |
| Interest received | 19,031 | 45 |
| Interest paid | (76,059) | (26,646) |
| Cash flow from discontinued operations | - | (647) |
| | (868,383) | (1,419,818) |
| Changes in non-cash working capital items: | | |
| Receivables | 141,023 | (14,337) |
| Prepaid expenses | 33,182 | (67,077) |
| Amount due from employee | - | 10,678 |
| Accounts payable and accrued liabilities | (364,456) | 569,625 |
| Net cash used in operating activities | (1,058,634) | (920,929) |
| Investing activities: | | |
| Project development costs | (4,350,665) | (838,110) |
| Security deposits | 8 2,047,349 | (2,332,388) |
| Other deposits | (17,846) | - |
| Purchase of property and equipment | (36,664) | (1,316) |
| Cash assets of subsidiary disposed of | - | (3,748) |
| Restricted cash | 11,708 | 44,017 |
| Net cash used in investing activities | (2,346,118) | (3,131,545) |
| Financing activities: | | |
| Issuance of share capital | 9(a)(i) and 10 4,709,083 | 2,048,970 |
| Share issuance costs | 9(a) (426,133) | (12,733) |
| Development loan | 15(iv) 2,171,750 | - |
| Loan repayment | 15(iii) (500,000) | (10,553) |
| Proceeds from loans | - | 2,318,180 |
| Net cash provided by financing activities | 5,954,700 | 4,343,864 |
| Increase in cash and cash equivalents | 2,549,948 | 291,390 |
| Cash and cash equivalents, beginning of period | 171,792 | 6,695 |
| Cash and cash equivalents, end of period | \$ 2,721,740 | \$ 290,085 |

See accompanying notes to unaudited condensed consolidated interim financial statements.

FINAVERA WIND ENERGY INC.

(Formerly Finavera Renewables Inc.)

Notes to Unaudited Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2011 and June 30, 2010
(Expressed in Canadian dollars)

1. Reporting entity:

Finavera Wind Energy Inc., formerly Finavera Renewables Inc. ("Finavera" or the "Company"), was created on December 15, 2006 by the reverse takeover of Finavera Renewables Limited, an Irish company. The Company's primary focus is the development of wind power projects in Canada and Ireland. As the Company is in the development phase, it has not generated any operating income. The Company has financed its operations through the sale of assets and issuances of debt and equity and will continue to do so until such time as one of its operations generates sufficient positive cash flows. On February 7, 2011, the Company changed its name to Finavera Wind Energy Inc., and consolidated its common shares on a ten (10) old shares for one (1) new share basis.

2. Basis of preparation:

(a) Going concern:

These condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company has incurred operating losses since inception and has no operating assets at this time. At June 30, 2011, the Company has a working capital deficiency of \$6,153,491, and has an accumulated deficit of \$41,971,896, which cast substantial doubt about the Company's ability to continue as a going concern.

However, during 2010, the Company was awarded 25 year Electricity Purchase Agreements ("EPAs") for four of its British Columbia wind projects totaling 301 Megawatts ("MW's") and, during the six month period ended June 30, 2011, agreed to indicative terms with a division of General Electric Company ("GE") for the equity funding of one of the projects. EPAs are the foundation upon which the Company's wind project development can proceed and are expected to provide 25 years of stable revenue at a defined price for all electricity produced.

In order to execute its business plan, management requires additional financing, and plans further debt and/or equity issuances. During the six month period ended June 30, 2011, the Company raised gross proceeds of \$4,703,583 from the issuance of flow-through common shares of which \$1,766,481 has been spent on non-qualifying expenditures. The Company will need to raise additional funds and take the steps necessary to comply with the flow-through share agreements. Failure to incur sufficient qualifying expenditures by December 31, 2012 would result in the Company being liable to investors for any additional taxes payable and penalties payable to Canada Revenue Agency (note 5). Also during the six month period ended June 30, 2011, the Company received \$2,171,750 from a subsidiary of GE as part of continued funding from a development loan (note 15). In 2010, the Company issued private placement units to raise \$742,420, received gross proceeds of \$1,365,000 upon exercise of warrants, arranged loans for gross cash proceeds of \$5,253,813, and received an installment from the sale of a majority interest in its Irish wind project of \$1,408,283. The majority of these funds were used for wind project development activities and to fulfill contractual obligations relating to the EPAs. There is no assurance that management will be able to complete further debt or equity financings, complete further asset sales, or utilize corporate structures such as joint ventures, and it may not be able to complete such transactions on terms acceptable to management.

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Notes to Unaudited Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2011 and June 30, 2010
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2. Basis of preparation (continued):

(a) Going concern (continued):

These condensed consolidated financial statements do not give effect to any adjustments that would be necessary to the carrying value of its assets and liabilities, its reported expenses, and the balance sheet classifications used, should the Company conclude that the going concern assumption is not appropriate. Such adjustments could be material. Management reassesses the validity of the going concern assumption on a periodic basis, and will record any necessary adjustments to its accounts if and when it concludes that the assumption is no longer valid.

(b) Statement of compliance:

These condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, and thus do not include all of the information required for full annual financial statements.

These are the Company's second condensed consolidated interim financial statements prepared for part of the period covered by the first International Financial Reporting Standards ("IFRS") annual financial statements and IFRS 1, *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"), has been applied as of the Company's transition date of January 1, 2010.

An explanation of how the transition to IFRS has affected the reported financial position and financial performance of the Company is explained in note 19 to these condensed consolidated interim financial statements, and in note 19 to the unaudited condensed consolidated interim financial statements for the three month period ended March 31, 2011. Those notes include reconciliations of equity and total comprehensive income for comparative periods as reported under Canadian GAAP to those reported for those periods under IFRSs.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 26, 2011.

(c) Basis of measurement:

These condensed consolidated interim financial statements have been prepared on the historical costs basis except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value; and
- financial instruments classified as at fair value through profit or loss are measured at fair value.

FINAVERA WIND ENERGY INC.

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Notes to Unaudited Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2011 and June 30, 2010
(Expressed in Canadian dollars)

2. Basis of preparation (continued):

(d) Functional and presentation currency:

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

(e) Use of estimates and judgements:

The preparation of the condensed consolidated interim financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting periods. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised and in any future periods affected.

Significant areas requiring the use of management estimates relate to the determination of future cash flows and probabilities in assessing net recoverable amounts and net realizable values for property and equipment and project development costs, the amount of asset retirement obligations, the useful lives of property, equipment and intangible assets for depreciation and amortization, the Company's ability to utilize tax losses and the rates at which those losses will be realized, and the calculations of fair value of stock-based compensation and the fair value of financial instruments for measurement and disclosure purposes.

(f) Comparative figures

Certain comparative figures have been reclassified to conform with the presentation adopted in the current period.

FINAVERA WIND ENERGY INC.

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Notes to Unaudited Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2011 and June 30, 2010
(Expressed in Canadian dollars)

3. Significant accounting policies:

The significant accounting policies that have been used in the preparation of these condensed consolidated interim financial statements are summarized in note 3 to the first interim condensed consolidated interim financial statements of the Company for the three month period ended March 31, 2011. Accordingly, these statements should be read in conjunction with the condensed consolidated interim financial statements for the period ended March 31, 2011.

New standards and interpretations yet to be adopted:

IFRS 9 - Financial Instruments

In November 2009, the IASB issued IFRS 9 - Financial Instruments, which is the first step in its project to replace IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 establishes the measurement and classification of financial assets. Under IFRS 9, financial assets are measured either at fair value through earnings or at amortized cost if certain conditions are met. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Company will apply this standard to its financial statements no later than January 1, 2013. The Company is currently evaluating the impact of IFRS 9 on its financial statements.

IFRS 10 – Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10 – Consolidated Financial Statements. The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Company will apply this standard to its financial statements no later than January 1, 2013. The Company is currently evaluating the impact of IFRS 10 on its financial statements.

IFRS 11 – Joint Arrangements

In May 2011, the IASB issued IFRS 11 – Joint Arrangements. IFRS 11 requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Company will apply this standard to its financial statements no later than January 1, 2013. The Company is currently evaluating the impact of IFRS 11 on its financial statements.

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3. Significant accounting policies (continued):

IFRS 12 – Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12 – Disclosure of Interests in Other Entities. The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Company will apply this standard to its financial statements no later than January 1, 2013. The Company is currently evaluating the impact of IFRS 12 on its financial statements.

IFRS 13 – Fair Value Measurement

In May 2011, the IASB issued IFRS 13 – Fair Value Measurement. The objective of IFRS 13 is to define fair value, set out in a single IFRS framework for measuring fair value, and establish disclosure requirements regarding fair value measurements. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Company will apply this standard to its financial statements no later than January 1, 2013. The Company is currently evaluating the impact of IFRS 13 on its financial statements.

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4. Financial instrument risk management:

Overview:

The Company is exposed to a number of risks arising from its use of financial instruments. The Company is or may be subject to certain risks including credit risk, liquidity risk, currency risk, and interest rate risk.

Financial instrument risk management strategies may expose the Company to further gains or losses, but serve to stabilize future cash flows, reduce the volatility of operating results, and increase overall financial strength.

Individual risks are discussed as follows:

Credit risk:

Credit risk is the risk that a counterparty to a financial asset will default, resulting in non-collectability and arises mainly from its cash and cash equivalents, restricted cash, receivables and security deposits. The carrying amount of these assets (approximately \$3.1 million) represents the Company's maximum exposure to credit risk. The cash and cash equivalents are held with banks and financial institutions, for which the Company has assessed the credit risk to be low. Receivables are primarily related to VAT and HST taxes which are refundable and for which the fair values are equal to the book values. The future sale of electrical power would introduce credit risk, but since such sales tend to be to a large utility or a governmental organization, which are very creditworthy, the risk assessed by management is minimal.

Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations. The Company is subject to liquidity risk from accounts payable and loans and borrowings, currently has a working capital deficiency, and has no credit facility with a financial institution. The Company has mitigated this risk by maintaining open communications with its creditors, arranging short-term settlement plans and loans, and raising equity through private placements. The Company has also previously utilized short-term loans from directors and officers to manage its liquidity risk. Management is discussing potential joint ventures and/or other project development arrangements to provide the funds necessary to maintain liquidity for the foreseeable future.

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4. Financial instrument risk management (continued):

Market risk:

Market risk is the risk to the Company of adverse financial impacts due to changes in the fair value or future cash flows of financial instruments as a result of fluctuations in interest rates, foreign exchange rates, and commodity prices. The Company is presently subject to fixed interest rates on its financial instruments which are denominated in Canadian and United States dollars and Euros. Accordingly, these risks are discussed below:

(i) Interest rate risk:

The Company had a convertible debenture payable and currently has loans payable, and is therefore subject to interest rate risk. This risk to date has been mitigated by locking interest rates at the inception of the loans, and not allowing the instruments to be subject to floating interest rates. At June 30, 2011, the Company had no debt subject to floating interest rates. Development of the Company's renewable energy projects could introduce significant debt financing, and interest rate risk mitigation may be achieved by entering into interest rate swap agreements in situations where the underlying debt is subject to floating rates.

The Company's interest income from cash, restricted cash and receivables is also subject to interest rate risk.

(ii) Currency risk:

The Company has a foreign subsidiary, a United States dollar denominated loan and other liabilities denominated in foreign currencies, and is therefore subject to currency risk. However, operations are in the development stage and currently there are no material foreign currency commitments. The Company does not currently use any derivative instruments to reduce its exposure to fluctuations in foreign currency exchange rates.

(iii) Commodity price risk:

The Company intends to develop its energy projects and upon commencement of commercial operations, its financial results would, in part, depend on the prices received for electric power production. Such prices are subject to commodity price risk, due to influences by the global oil market, and the decisions of utilities and governmental organizations which often set power prices. The use of "Power Purchase Agreements" or "Electricity Purchase Agreements" creates a long-term (25 years) pricing regime and is standard industry practice. The BC Hydro EPAs executed by the Company have pricing that is fixed except for inflation adjustments over their 25-year terms.

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4. Financial instrument risk management (continued):

(iii) Commodity price risk (continued):

Capital management:

The Company's capital is comprised of shareholders' equity and non-current loans and borrowings. Finavera's overall objective is to maintain sufficient capital to enable the Company to keep its project development timelines intact. The first priority is to maintain sufficient debt financing which minimizes shareholder dilution, and secondly, to issue equity securities as a means of raising capital. Market conditions impact the ability of the Company to maintain a balance between debt and equity. Upon reaching the financial close of a project, which is the point that construction begins, the Company will likely become subject to maintaining specific debt service ratios and other financial covenants pursuant to agreements with lenders and credit providers. At June 30, 2011, the Company is not subject to any specific externally imposed capital requirements, a status that remains unchanged since the Company's startup. The Company's capital management strategy has not changed during the six month period ended June 30, 2011.

5. Cash and cash equivalents:

| | June 30, 2011 | December 31, 2010 |
|--------------------|---------------------|----------------------|
| Operating funds | \$ 146,844 | \$ 171,792 |
| Flow-through funds | 2,574,896 | - |
| | <u>\$ 2,721,740</u> | <u>\$ 171,792</u> |

The Company is required to spend \$4.7 million by December 2012 on qualifying Canadian renewable and conservation expenditures pursuant to the terms of the flow-through share subscription agreements signed in March 2011 (note 9(a)(i)). To June 30, 2011, \$362,206 of qualifying expenditures has been paid and an additional \$820,691 of qualifying expenditures has been incurred, and was paid subsequent to June 30, 2011. During the three month period ended June 30, 2011, \$1,766,481 of the flow-through funds raised by the Company were spent on non-qualifying expenditures. The Company intends to raise additional funds and take the steps necessary in order to ensure that sufficient qualifying expenditures are incurred in compliance with the flow-through agreements. If the Company fails to incur sufficient qualifying expenditures, it will be liable to the investors for any additional taxes and penalties payable to Canada Revenue Agency.

The amounts in the preceding table exclude \$42,010 (December 31, 2010 - \$53,718) that is subject to restrictions under a credit card arrangement that is presented separately as restricted cash.

FINAVERA WIND ENERGY INC.

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Notes to Unaudited Condensed Consolidated Interim Financial Statements
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(Expressed in Canadian dollars)

6. Property and equipment:

| | June 30, 2011 | | |
|-----------------------------------|---------------------|-----------------------------|-------------------|
| | Cost | Accumulated amortization | Net |
| Leasehold improvements | \$ 72,143 | \$ 2,405 | \$ 69,738 |
| Office furniture and equipment | 114,578 | 59,940 | 54,638 |
| Weather monitoring equipment | 725,206 | 317,721 | 407,485 |
| Computer and electronic equipment | 92,531 | 28,674 | 63,857 |
| | <u>\$ 1,004,458</u> | <u>\$ 408,740</u> | <u>\$ 595,718</u> |

| | December 31, 2010 | | |
|-----------------------------------|----------------------|-----------------------------|-------------------|
| | Cost | Accumulated amortization | Net |
| Leasehold improvements | \$ 134,494 | \$ 123,048 | \$ 11,446 |
| Office furniture and equipment | 120,160 | 63,515 | 56,645 |
| Weather monitoring equipment | 719,500 | 215,851 | 503,649 |
| Computer and electronic equipment | 94,908 | 63,878 | 31,030 |
| | <u>\$ 1,069,062</u> | <u>\$ 466,292</u> | <u>\$ 602,770</u> |

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7. Project development costs:

Beginning April 1, 2010, the Company began capitalizing direct costs associated with its British Columbia Peace Region wind projects and has recorded project development costs as follows:

| | Bullmoose | Meikle | Tumbler Ridge | Wildmare | BC Wind Project Total |
|------------------------------------|------------|--------------|------------------|--------------|-----------------------------|
| Balance, January 1, 2010 | \$ - | \$ - | \$ - | \$ - | - |
| Additions: | | | | | |
| Amortization | 4,050 | 89,957 | 68,163 | 53,681 | 215,851 |
| Land dues, fees and permits | 2,853 | 20,299 | 38,000 | 47,136 | 108,288 |
| Environmental | 12,046 | 471,401 | 514,788 | 143,284 | 1,141,519 |
| Engineer and Owner's design | 232,492 | 290,418 | 633,563 | 955,678 | 2,112,151 |
| Project management and integration | 98,646 | 189,166 | 181,521 | 208,521 | 677,854 |
| Borrowing costs | 20,321 | 62,797 | 77,665 | 74,848 | 235,631 |
| First Nations | 95,177 | 127,256 | 133,645 | 132,574 | 488,652 |
| Balance, December 31, 2010 | 465,585 | 1,251,294 | 1,647,345 | 1,615,722 | 4,979,946 |
| Additions: | | | | | |
| Amortization | 2,020 | 42,110 | 32,561 | 25,181 | 101,872 |
| Land dues, fees and permits | 4,223 | 17,159 | 10,123 | 8,876 | 40,381 |
| Environmental | 3,350 | 169,790 | 104,643 | 148,110 | 425,893 |
| Engineer and Owner's design | (16,069) | 349,840 | 999,031 | 1,467,536 | 2,800,338 |
| Project management and integration | 71,459 | 181,148 | 340,767 | 354,886 | 948,260 |
| Borrowing costs | 89,521 | 246,251 | 225,832 | 224,476 | 786,080 |
| First Nations | 531 | 20,365 | 26,234 | 24,767 | 71,897 |
| Additions for the period | 155,035 | 1,026,663 | 1,739,191 | 2,253,832 | 5,174,721 |
| Balance, June 30, 2011 | \$ 620,620 | \$ 2,277,957 | \$ 3,386,536 | \$ 3,869,554 | \$ 10,154,667 |

The Company has expensed wind project costs during the six month period ended June 30, 2011 as follows:

| Six months ended June 30, 2011 | Canada Wind Projects | Total Six months ended June 30, 2011 |
|--------------------------------|----------------------------|---|
| Licenses and fees | \$ 1,022 | \$ 1,022 |

The Company did not expense any material wind project costs during the three month period ended June 30, 2011.

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7. Project development costs (continued):

| Six months ended June 30, 2010 | | | | Total | |
|---|----------------------------|-----------------------------|---|-------|--------------------------------------|
| | Canada Wind Projects | Ireland Wind Projects | Project Origination and Investigation | | Six months ended June 30, 2010 |
| Consulting and wages | \$ 123,694 | \$ 64,538 | \$ 54,519 | \$ | 242,751 |
| Engineering and professional fees | 3,951 | 131,398 | - | | 135,349 |
| Environmental assessment and data collection | 9,244 | - | - | | 9,244 |
| Licenses and fees | 6,500 | 5,538 | - | | 12,038 |
| Insurance | - | 470 | - | | 470 |
| Travel | - | 46 | - | | 46 |
| | \$ 143,389 | \$ 201,990 | \$ 54,519 | \$ | 399,898 |

| Three months ended June 30, 2010 | | | | Total | |
|---|----------------------------|-----------------------------|---|-------|--|
| | Canada Wind Projects | Ireland Wind Projects | Project Origination and Investigation | | Three months ended June 30, 2010 |
| Consulting and wages | \$ - | \$ 23,893 | \$ 25,507 | \$ | 49,400 |
| Engineering and professional fees | 3,802 | 1,973 | - | | 5,775 |
| Environmental assessment and data collection | 153 | - | - | | 153 |
| Licenses and fees | 500 | 2,745 | - | | 3,245 |
| | \$ 4,455 | \$ 28,611 | \$ 25,507 | \$ | 58,573 |

The Company's wind projects and activities comprise the following:

Peace Region Wind Projects, British Columbia, Canada

On March 11, 2010, the Company announced that its four wind projects (the "BC Projects"), comprising a total potential nameplate capacity of 293 megawatts ("MW"), submitted to BC Hydro and Power Authority ("BC Hydro") in November 2008 under its 2008 Clean Power Call, had been accepted by BC Hydro for award of long-term Electricity Purchase Agreements ("EPAs"). The Company subsequently amended project nameplate capacities as permitted in the Clean Power Call, to a total of approximately 301 MW's.

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7. Project development costs (continued):

Peace Region Wind Projects, British Columbia, Canada (continued)

The BC Projects are estimated to have a total capital cost of approximately \$800 million. Expected completion dates and capacities are as follows:

| Project | Nameplate capacity | Expected completion |
|-----------------------------------|--------------------|---------------------|
| Tumbler Ridge Wind Energy Project | 47 MW | 2012 |
| Wildmare Wind Energy Project | 77 MW | 2013 |
| Meikle Wind Energy Project | 117 MW | 2013 |
| Bullmoose Wind Energy Project | 60 MW | 2015 |

The EPAs from BC Hydro provide a revenue stream for 25 years, with a defined price for all electricity produced, and provide the commercial foundation to move the projects towards construction and operation.

In July 2010, the Company announced it had entered into a project development agreement with GE Energy LLC ("GEE"), a business unit of GE. Under the terms of the Joint Development Agreement ("JDA"), GEE provided Finavera with project development funding of \$7,500,000 for the BC Projects (note 15 (iv)).

In February 2011, the Company and GE Canada Asset Financing Holding Company ("GECAP"), another business unit of GE, agreed on the indicative terms of an equity investment in the Company's \$200 million 77 MW Wildmare Wind Energy Project that the Company plans to build in British Columbia's Peace River Region. The parties are working to convert the indicative terms into a binding agreement under which GECAP, subject to satisfaction of conditions precedent, would provide cash equity for the project. Finavera would provide the non-cash equity, including the energy contract, permits, and development work to date, and serve as managing partner. Based on current financial information, it is estimated that Finavera would retain an approximate 30% economic interest to be finalized at financial close for the project. The two companies would jointly arrange debt financing and retain a third-party engineering firm to oversee construction of the project. Execution of the equity investment agreement is subject to customary corporate and regulatory approvals, completion of ongoing due diligence, satisfactory documentation, and approval by each company's Board of Directors.

The Company and GE entities are continuing to work closely to advance Finavera's three other British Columbia Wind Projects, including the 47 MW Tumbler Ridge, 117 MW Meikle, and 60 MW Bullmoose Wind Energy Projects.

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7. Project development costs (continued):

Peace Region Wind Projects, British Columbia, Canada (continued)

The Company had previously signed a non-binding Memorandum of Understanding (“MOU”) in 2008 with GECAF, with respect to the development of the BC Projects. Subject to the Company receiving an award of an Electricity Purchase Agreement from BC Hydro (received), and a number of other conditions including corporate and regulatory approvals, GECAF has the exclusive right to arrange debt and equity financing for the projects, which have an estimated combined capital cost of \$800 million. It is expected this MOU would be superseded by the executed equity investment agreements referenced above.

The BC Projects have been entered into the B.C. Environmental Assessment process. Under the Reviewable Projects Regulations of the B.C. Environmental Assessment Act, a new power facility, including wind generation, with a capacity equal to or greater than 50 MW, is considered a Reviewable Project under the Act. The Terms of Reference for the Wildmare, Tumbler Ridge, and Meikle Projects were approved by the B.C. Environmental Assessment Office (“EAO”) on November 21, 2008. Applications for Environmental Assessment Certificates (“EACs”) for the Wildmare and Tumbler Ridge Projects were submitted in December 2010. The Wildmare and Tumbler Ridge Projects passed the screening stage on March 4, 2011 and entered the Application Review stage on April 1, 2011. The Application Review stage must be completed in a maximum of 180 days. After the Application Review stage is complete, they will be considered by the Ministers for an Environmental Assessment Certificate (maximum 45 days). Without an EAC, an application for project approval and granting of Crown land tenure by the Ministry of Agriculture and Lands would be rejected (see note 18(c)).

The EAC Application for the Meikle Project was submitted on August 16, 2011 (note 18(a)). The EAC application for Bullmoose is expected to be submitted in 2012.

As at June 30, 2011, the Company has incurred direct cumulative costs of \$15.7 million on its BC Peace Region Projects, of which \$10.2 million is capitalized in project development costs, \$0.4 million is equipment and \$5.1 million has been expensed. The Company began capitalizing its costs on these projects on April 1, 2010.

Cloosh Valley Wind Project, County Galway, Ireland

The Company's Cloosh Valley Wind Project is a 105 MW late stage development project with a position in the Irish transmission connection queue, a Feed-in-Tariff regime that controls the electricity market price, late stage permitting and planning, and land access under negotiation.

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7. Wind Project development costs (continued):

Cloosh Valley Wind Project, County Galway, Ireland (continued)

On August 25, 2010, the Company signed a series of agreements for the co-development of the 105 MW Cloosh Valley Wind Project in County Galway, Ireland. The Company has signed an agreement with SSE Renewables (Ireland) Limited, the Republic of Ireland renewables development division of Scottish and Southern Energy ("SSE", a UK energy company), to sell a 90% majority interest in its wholly owned Gate 3 grid connection from Eirgrid to SSE for €8.4 million. The €8.4 million consideration is payable in staged payments, of which €1.26 million was received upon closing. The remaining consideration is subject to certain conditions which have not yet been met, and will be recorded as revenue in future periods once the recognition criteria have been met. During the three and six months ended June 30, 2010, the Company accrued and expensed \$145,348 of legal costs associated with the Cloosh Valley Wind Project transaction.

Finavera Renewables Limited has also signed a Co-Development Agreement ("CDA") with SSE and Coillte, the state owned commercial forestry and renewable energy company, to jointly develop the Cloosh Valley project. Coillte is the landowner at the project site and has been a development partner on the project since 2009. Finavera will retain a 10% equity interest in the project and will participate proportionately in all project development costs and activities.

Cascades and other Wind Projects, British Columbia, Canada

The Company previously held three Investigative Use Permits ("IUPs"), issued by the Province of British Columbia, in the Cascades Mountain region of south-central British Columbia. Management has assessed these projects and short-listed one project for further development, and allowed two of the IUP's to lapse. Cumulative costs incurred on these projects are less than \$50,000. The Company renewed the IUP for the Cascades' Prospect Creek Project. Additionally, a Licence of Occupation has been secured to permit the installation of wind data collection equipment in the region. The Company also continues to assess other potential applications for IUP's in different areas of British Columbia.

Project Origination and Investigation

Current investigation activities are focused on early-stage wind project Greenfield site assessments in eastern Canadian Provinces and the Western United States, and any costs are expensed as incurred.

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8. Other assets:

This balance is comprised of the following assets:

| | June 30, 2011 | December 31, 2010 |
|--|-------------------|----------------------|
| B.C. Hydro Performance security deposits | \$ - | \$ 2,047,349 |
| BC License of Occupation security deposits | 21,000 | 21,000 |
| Office lease deposits | 94,976 | 78,781 |
| Other deposits | 1,651 | - |
| | <u>117,627</u> | <u>2,147,130</u> |
| Less: current portion | - | (2,047,349) |
| | <u>\$ 117,627</u> | <u>\$ 99,781</u> |

During the six months ended June 30, 2011, the performance security deposit was refunded to the Company in conjunction with GEE issuing a letter of credit to BC Hydro in satisfaction of the security deposit requirement. The GEE guarantees are subject to a fee charged to the Company of 20% per annum until they are released. Refer to note 15(iv).

9. Capital and other components of equity:

Share capital and contributed surplus:

Authorized:

Unlimited number of common voting shares without par value

Issued:

35,417,076 common shares

| | Number of shares | Amount |
|--|---------------------|----------------------|
| Issued and outstanding common shares as at January 1, 2010 | 259,851,165 | \$ 26,615,670 |
| Private placement financings – net of cash share issuance costs | 12,848,400 | 731,235 |
| Reallocation of fair value of private placement warrants | - | (26,686) |
| Shares issued on conversion of debenture (note 15) | 17,728,260 | 1,201,984 |
| Warrants exercised | 13,650,000 | 1,365,000 |
| Reallocation of fair value of exercised warrants | - | 189,722 |
| Issued and outstanding common shares as at December 31, 2010 | <u>304,077,825</u> | <u>30,076,925</u> |
| Share consolidation, on a 1 new share for 10 old share basis | (273,670,061) | - |
| | 30,407,764 | 30,076,925 |
| Options exercised | 5,500 | 5,500 |
| Reallocation of fair value of exercised options | - | 3,377 |
| Issuance of flow-through shares (net of share issuance costs and flow-through share obligation recorded) | 5,003,812 | 3,593,292 |
| Issued and outstanding common shares as at June 30, 2011 | <u>35,417,076</u> | <u>\$ 33,679,094</u> |

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9. Capital and other components of equity (continued):

(a) Private placements:

The Company has raised funds through the issuance of shares or units comprised of shares and warrants. For the purposes of valuing the warrants, and for valuing compensation options issued in connection with private placements pursuant to the Black-Scholes pricing model, the following assumptions were used:

| | Six months ended June 30, 2011 | Year ended December 31, 2010 |
|-------------------------------------|--------------------------------------|------------------------------------|
| Average risk-free interest rate | 1.64%-1.74% | 1.42% |
| Expected life of warrant (in years) | 1.00 | 0.67 |
| Average volatility | 127% - 128% | 139% |
| Dividend yield | Nil% | Nil% |

- (i) On April 18, 2011, the Company closed a private placement of flow through common shares. A total of 5,003,812 flow-through shares were issued at \$0.94 per share for gross proceeds of \$4,703,583, and cash issue costs including brokers' commissions of 7% totaling \$426,133 were paid. In connection with the offering, the selling agents received the compensation options entitling them to purchase 350,257 common shares of the Company. The compensation options are exercisable at a price of \$0.94 per share until April 17, 2013. The fair value of these options is \$158,311, which has also been recorded as an issuance cost. All securities issued in connection with the offering were subject to a hold period which expired in stages ending on August 19, 2011.

The gross proceeds of the flow-through financing must be used to incur Canadian renewable and conservation expenses which qualify as Canadian exploration expenditures under the Income Tax Act (Canada) and the tax benefits of such expenditures will be renounced to the investors. The Company has recorded a flow-through share obligation of \$525,847 at June 30, 2011, representing the premium paid by the investors for the future tax deductions.

- (ii) On April 8, 2010, the Company completed a non-brokered private placement of 10,000,000 pre-consolidation shares at a price of \$0.06 per share for total proceeds of \$600,000. No warrants were issued in respect of the private placement. Issue costs of \$5,450 were incurred.
- (iii) On March 18, 2010, the Company completed a non-brokered private placement of 2,848,400 pre-consolidation units at a price of \$0.05 per unit for total proceeds of \$142,420. Issuance costs of \$5,733 were incurred. Each unit is comprised of one pre-consolidation common share and one-half share purchase warrant, with each full warrant exercisable at \$0.10 (pre-consolidation) per share for a one year period. The fair value of the 1,424,200 pre-consolidation warrants was \$26,686 as calculated under the Black-Scholes option pricing model.

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9. Capital and other components of equity (continued):

(b) Warrants:

The value of warrants on the balance sheets reflect the fair value of outstanding warrants as determined by the Black-Scholes option pricing model, adjusted for the proportionate allocation of the private placement issue costs.

During the six months ended June 30, 2011, 842,420 warrants expired and their fair value of \$654,207 was transferred to contributed surplus.

At June 30, 2011, the Company had no warrants outstanding, as follows:

| | 2011 | | 2010 | |
|-----------------------------------|--------------------|------------|--------------------|--------------|
| | Number of warrants | Amount | Number of warrants | Amount |
| Balance, January 1 | 842,420 | \$ 654,207 | 5,994,625 | \$ 2,483,016 |
| Private placement warrants issued | - | - | 142,420 | 26,686 |
| Exercised | - | - | (1,305,000) | (180,896) |
| Expired | (842,420) | (654,207) | (812,625) | (259,725) |
| Balance, June 30 | - | \$ - | 4,019,420 | \$ 2,069,081 |

(c) Contributed surplus:

| | 2011 | | 2010 | |
|---|------|------------|------|-----------|
| Balance, January 1 | \$ | 9,681,310 | \$ | 7,436,784 |
| Stock-based compensation – amounts vested | | 57,672 | | 166,235 |
| Expiry of warrants | | 654,207 | | 259,725 |
| Flow-through broker options commissions | | 158,311 | | - |
| Options exercised | | (3,377) | | - |
| Equity portion of debt converted | | - | | 229,770 |
| Balance, June 30 | \$ | 10,548,123 | \$ | 8,092,514 |

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10. Share-based payment:

The Company has a common share Stock Option Plan (equity-settled) as follows:

The Board of Directors of the Company may from time to time, at its discretion, and in accordance with the requirements of the TSX-V, grant to directors, officers and technical consultants to the Company, non-transferable options to purchase common shares, exercisable for a period of up to five years from the date of grant. There are no vesting requirements pursuant to the stock option plan. The Board may, however, add such provisions at its discretion on a grant-by-grant basis.

The Board of Directors have resolved that the Stock Option Plan authorize the directors to grant options up to a maximum of 10% of the number of common shares issued and outstanding at the time of grant. The "rolling" stock option plan has been in effect since the Company was listed on the TSX Venture Exchange.

At June 30, 2011, there were 2,431,168 stock options outstanding, of which 2,418,668 were vested and exercisable. During the six months ended June 30, 2011 5,500 (2010- nil) stock options were exercised for total proceeds of \$5,500. Details of the status of the Company's stock options as at June 30, 2011 and the changes during the past fiscal year are as follows:

| | Number of options | | Weighted average exercise price |
|--------------------------------|-------------------|----|---------------------------------|
| Outstanding, January 1, 2010 | 2,386,410 | \$ | 1.10 |
| Cancelled | (56,608) | | 2.60 |
| Granted | 355,000 | | 1.00 |
| Forfeited | (255,634) | | 1.00 |
| Outstanding, December 31, 2010 | 2,429,168 | | 1.00 |
| Exercised | (5,500) | | 1.00 |
| Granted | 50,000 | | 0.94 |
| Forfeited | (42,500) | | 1.00 |
| Outstanding, June 30, 2011 | 2,431,168 | \$ | 1.00 |

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10. Share-based payment (continued):

The following table summarizes information concerning outstanding and exercisable options at June 30, 2011:

| Expiry date | Number of options vested and exercisable | Number of options outstanding | Weighted average exercise price | Weighted remaining contractual life (in years) |
|--------------------|--|-------------------------------|---------------------------------|--|
| September 29, 2011 | 7,500 | 10,000 | \$ 1.00 | 0.25 |
| December 21, 2011 | 10,000 | 20,000 | 1.00 | 0.48 |
| January 23, 2013 | 25,000 | 25,000 | 2.10 | 1.57 |
| June 10, 2013 | 35,000 | 35,000 | 2.05 | 1.95 |
| June 22, 2014 | 1,116,060 | 1,116,060 | 1.00 | 2.98 |
| July 10, 2014 | 56,608 | 56,608 | 1.00 | 3.03 |
| July 30, 2014 | 800,000 | 800,000 | 1.00 | 3.08 |
| September 1, 2014 | 11,000 | 11,000 | 1.00 | 3.18 |
| June 30, 2015 | 10,000 | 10,000 | 1.00 | 4.00 |
| August 17, 2015 | 242,500 | 242,500 | 1.00 | 4.13 |
| August 27, 2015 | 50,000 | 50,000 | 1.00 | 4.16 |
| October 27, 2015 | 5,000 | 5,000 | 1.00 | 4.33 |
| February 14, 2016 | 20,000 | 20,000 | 1.00 | 4.63 |
| March 14, 2016 | 30,000 | 30,000 | 0.90 | 4.71 |
| | 2,418,668 | 2,431,168 | \$ 1.03 | 3.15 |

The weighted average exercise price of the options that are exercisable at June 30, 2011 is \$1.03.

During the three and six months ended June 30, 2011, the Company recognized stock-based compensation expense of \$3,010 and \$28,083 respectively (June 30, 2010 - \$31,923 and \$163,458).

During the six months ended June 30, 2011, the Company capitalized \$29,589 (year ended December 31, 2010 - \$116,425) of stock based compensation costs to project development costs.

The Company granted the following stock options under the Stock Option Plan, during the six months ended June 30, 2011:

- On February 14, 2011, 20,000 stock options were granted to an employee, exercisable at \$1.00 per share for a five-year period. The fair value of these options was \$16,996.
- On March 14, 2011, a total of 30,000 stock options were granted to an employee and a consultant, exercisable at \$0.90 per share for a five-year period. The fair value of these options was \$18,896.

In addition to the options noted in the table above, the Company has also issued 350,257 compensation options in connection with the April 18, 2011 private placement (note 9(a)(i)), all of which are outstanding and exercisable at June 30, 2011.

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10. Share-based payment (continued):

During the three and six months ended June 30, 2010, 10,000 stock options were issued to employees, exercisable at \$1.00 per share for a five-year period. The fair value of these options was \$5,553.

The following assumptions were used for the valuation of these stock options:

| | Six months ended June 30, 2011 | Six months ended June 30, 2010 |
|------------------------------------|-----------------------------------|-----------------------------------|
| Average risk-free interest rate | 1.60% - 1.73% | 1.44% |
| Expected life of option (in years) | 1-2.5 | 2.5 |
| Average volatility | 128% - 135% | 136% |
| Dividend yield | Nil% | Nil% |

11. Supplementary cash flow information:

| | Six months ended June 30, 2011 | Six months ended June 30, 2010 |
|--|--------------------------------------|--------------------------------------|
| Investing and financing non-cash transactions: | | |
| Shares issued to redeem convertible debenture | \$ - | \$ 1,201,984 |

12. Related party transactions:

These financial statements include transactions during the six months ended June 30, 2011 period with related parties as follows:

- Professional fees include \$8,725 (June 30, 2010 – \$23,338) to a company with a former director and an officer in common, for provision of specific professional services.
- Amounts owing to related parties as at June 30, 2011 are \$70,498 (December 31, 2010 - \$103,150) in respect of expenses incurred in current and prior periods to directors and officers, former directors, and companies with current or former directors in common. These amounts are included in accounts payable and accrued liabilities in the statement of financial position and are non-interest bearing.

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12. Related party transactions (continued):

- (c) All transactions with related parties have occurred in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed upon by the related parties.

In addition to their salaries, the Company also provides non-cash benefits to directors and executive officers, including share based compensation (note 10).

Key management personnel compensation is comprised of:

| | Three months ended June 30 | | Six months ended June 30 | |
|--------------------------|-------------------------------|------------|-----------------------------|------------|
| | 2011 | 2010 | 2011 | 2010 |
| Salaries and benefits | \$ 173,112 | \$ 158,634 | \$ 321,329 | \$ 305,847 |
| Share-based compensation | 6,726 | 29,147 | 16,442 | 160,682 |
| | \$ 179,838 | \$ 187,781 | \$ 337,771 | \$ 466,529 |

13. Segmented information:

The Company's wind projects and its operating results are reported by the country in which the projects are located:

| | Ireland | Canada | Total |
|--|------------|---------------|---------------|
| As at June 30, 2011: | | | |
| Segment assets | \$ 147,025 | \$ 13,745,730 | \$ 13,892,755 |
| Property and equipment | - | 595,718 | 595,718 |
| For periods ended June 30, 2011: | | | |
| Loss from continuing operations for the three months ended June 30, 2011 | 6,673 | (477,228) | (470,555) |
| Loss from continuing operations for the six months ended June 30, 2011 | 7,935 | (1,080,374) | (1,072,439) |
| As at December 31, 2010: | | | |
| Segment assets | 141,913 | 8,267,672 | 8,409,585 |
| Property and equipment | - | 602,770 | 602,770 |
| For periods ended June 30, 2010: | | | |
| Loss from continuing operations for the three months ended June 30, 2010 | 931,359 | (1,519,534) | (588,175) |
| Loss from continuing operations for the six months ended June 30, 2010 | 785,354 | (2,215,487) | (1,430,133) |

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14. Contingencies and commitments:

- (a) The Company is subject to payments under various equipment leases and an office lease agreement with the following commitments remaining over the next five years:

| | | |
|----------------|----|---------|
| Remaining 2011 | \$ | 126,582 |
| 2012 | | 242,664 |
| 2013 | | 235,164 |
| 2014 | | 234,264 |
| 2015 | | 231,564 |
| Thereafter | | 76,886 |

- (b) The Company continues to contest a lawsuit that arose after the acquisition of the Three Hills Wind Projects. The Company considers the suit to be without merit. Settlement costs cannot be estimated, nor can an estimate be made of the period of time to resolve the suit.
- (c) The Company is obligated to post security to BC Hydro with respect to performance security under the terms of the EPA's and interconnection security under the terms of the Standard Generator Interconnection Agreement ("SGIA"). These security amounts will be in the form of credit posted (through a financial institution) only upon completion of a number of project milestones and development agreements. Posting of this security over the next five years is expected to be as follows:

| | | |
|----------------|----|--------------|
| Remaining 2011 | \$ | 3.7 million |
| 2012 | | 18.5 million |
| 2013 | | 2.1 million |
| 2014 | | 2.0 million |
| 2015 | | 0.9 million |
| Thereafter | | nil |

As the projects reach financial close, the payments are expected to be made through project entities as part of the expected non-recourse project financing. As a result, the only payments expected to be directly paid by the Company, or an equity partner, are \$3.7 million in 2011 and \$3.8 million in 2012.

- (d) The Company could be subject to a legal action in respect of certain debts of a subsidiary which was disposed of during the year ended December 31, 2010 (note 17). The former subsidiary owes a creditor approximately \$2.5 million and the acquirer has accepted full responsibility for the outstanding obligation. No amounts are accrued in the financial statements at June 30, 2011.

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15. Loans and borrowings:

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortized cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, refer to note 4.

The balance including accrued interest is comprised of:

| | June 30, 2011 | December 31, 2010 |
|-------------------------------|------------------|----------------------|
| Loan (i) | \$ 68,380 | \$ 65,703 |
| Secured loan (ii) | 1,732,767 | 1,642,998 |
| Unsecured loan (iii) | - | 538,634 |
| Development funding loan (iv) | 6,288,085 | 3,489,444 |
| Finance lease obligation (v) | 37,834 | - |
| | 8,127,066 | 5,736,779 |
| Less: current portion | (5,667,866) | (2,247,335) |
| | \$ 2,459,200 | \$ 3,489,444 |

- (i) The Company received a loan from a third party in the amount of US\$65,000 on October 12, 2007. Interest began accruing after three years on October 12, 2010, at a rate of 8.5% per annum. The loan is unsecured and payable on demand.
- (ii) On April 8, 2010, the Company received a \$1,500,000 development loan from one of its shareholders. The loan has a one year term with an annual interest rate of 12% and is secured against the 10% interest in the Company's Cloosh Valley Wind project until such time as the loan is repaid. The Company agreed to issue 7,000,000 pre-consolidation warrants with each warrant exercisable at \$0.10 (pre-consolidation) for one year, but at the date of the preparation of these financial statements, final regulatory approval for the loan warrants remains outstanding. Proceeds were used primarily to fund the performance guarantees required by BC Hydro pursuant to the EPAs awarded to the Company. As of August 24, 2011, the loan and accrued interest remain outstanding. The Company has received a demand for repayment and is attempting to negotiate an extension.
- (iii) On May 26, 2010, the Company received a \$500,000 unsecured loan from one of its shareholders. The loan had a one year term and bore interest at 12% per annum. The Company agreed to issue 2,900,000 pre-consolidation share purchase warrants to the lender, exercisable at \$0.10 per share (pre-consolidation) for one year. The warrants were not issued due to a lack of regulatory approval. Proceeds were used for working capital purposes. During the three month period ended June 30, 2011, the Company paid back the loan in its entirety and all accrued interest, for a total of \$567,890.

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15. Loans and borrowings (continued):

- (iv) On July 21, 2010, the Company entered into a Joint Development Agreement (“JDA”) with GEE for GEE to provide the Company with project development funding of up to \$7.5 million for the BC wind projects. The \$7.5 million in available funding is reduced by any guarantees and letters of credit provided by GEE in association with the BC Projects. As at June 30, 2011, GEE has issued letters of credit in support of the BC Projects totalling \$2,032,388 (note 8). The development funding will be repaid at each respective project’s financial close, which are anticipated to occur between 2012 to 2015.

During the six months ended June 30, 2011, \$2,171,750 (2010 - nil) was received by the Company in respect of the JDA and interest and letter of credit fees totalling of \$786,080 (2010 - nil) was accrued and capitalized to the applicable development projects. The total amount borrowed under the JDA at June 30, 2011 is comprised of \$5,433,419 of principal and \$854,666 of accrued interest (December 31, 2010 - \$3,253,813 and \$235,631, respectively). Interest on amounts drawn is charged at a rate of 25% per annum. In consideration, the Company has entered into a specific Security Agreement with GEE, granting GEE security with respect to the BC Projects. The Company has recorded \$3,859,138 as a current liability in the statement of financial position based on the estimated dates of financial close for the Wildmare and Tumbler Ridge projects.

As at June 30, 2011, \$34,193 remained available under the JDA.

- (v) The Company entered into two lease agreements for office equipment during the three month period ended June 30, 2011. The leases qualify as financing leases and as such a finance lease obligation of \$37,834 has been recorded with the current portion of the liability being \$7,581.

16. Convertible debenture:

On April 17, 2008, the Company announced an agreement with Trafalgar Capital Specialized Investment Fund FIS, for an unsecured convertible debenture of up to \$10 million for 24 months, subject to a stated interest rate of 10%, a funding commitment fee of 5% and a finder’s fee of 2% of the amounts drawn, and a redemption premium of 12.5% of each amount redeemed. Financing fees include debenture interest, redemption premium and accretion premium, a commitment fee and a finder’s fee. On April 21, 2008, \$2 million of the convertible debenture was drawn. By May 2010 the debt was fully settled through the issuance of shares.

The debenture was funded in Canadian dollars but specified that the lender be compensated for any unfavourable movements in the Euro/Canadian dollars exchange rate. Accordingly, the Company recognized a foreign exchange option derivative at fair value at the inception of the debenture. At each reporting period, the derivative was remeasured to fair value and recorded on the balance sheet, and the gain or loss on remeasurement was recorded in the statement of operations. During the three and six months ended June 30, 2010, a gain on the foreign exchange option of \$16,288 and \$56,672 was recorded.

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16. Convertible debenture (continued):

The convertible debenture had a face value at inception of \$2,000,000 which was segregated into debt, equity, and the embedded foreign exchange option based on fair value calculations at inception. Subsequently, the liability component of the convertible debenture was measured at amortized cost using the effective interest method. At the inception of the convertible debenture, the Company determined the fair value of the embedded foreign exchange option to be a liability of \$343,970. The debt component was initially determined to be \$1,426,260 and the holder's conversion option was initially determined to be \$229,770, which was recorded in equity.

For the three and six months ended June 30, 2010, the Company recognized \$13,244 and \$103,907 in finance expense related to the convertible debenture.

During the six months ended June 30, 2010, the Company issued a total of 17,728,260 pre-consolidation shares with a value at \$1,201,984 and fully settled the debenture, recording a gain on settlement of \$160,929. All interest pursuant to the original agreement was paid under the revised payment schedule.

17. Discontinued operations:

On June 30, 2010, the Company disposed of a 100% owned subsidiary, Finavera Renewables Ocean Energy Limited ("FVR OE"), for proceeds of \$1 and recorded a gain on disposition of \$3,030,069. The purchaser of FVR OE issued the Company an \$800,000 convertible promissory note (the "Promissory Note"), to be paid to the Company in cash or convertible in whole or in part, into no more than five percent (5%) of the issued and outstanding shares of the purchaser on a fully diluted basis, up to the date of maturity of June 30, 2011. Due to uncertainty regarding the payment of the note, the amount was not included in the gain calculation nor was a receivable recorded. In addition, the purchaser agreed to issue to the Company ten percent (10%) of its issued and outstanding shares at the time of a public listing of the purchaser. To date, there has been no listing or issuance of shares by the purchaser nor has any repayment been made on the Promissory Note. Due to technological and financial uncertainties, and the purchaser's likelihood for a future public listing, the additional share consideration has not been recorded and will only be recognized in the period if and when recognition criteria is met.

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17. Discontinued operations (continued):

Since the operations of the subsidiary represented a separate business division, being the development of ocean energy technology, its disposal has been treated as a discontinued operation. The Company's income from discontinued operations for the three and six month periods ended June 30, 2010 are summarized as follows:

| | Three-months ended June 30, 2010 | Six-months ended June 30, 2010 |
|-------------------------------------|---|---|
| Operating expenses: | | |
| Administration | \$ (153) | \$ (647) |
| Financing fees and interest expense | (136,212) | (136,271) |
| Unrealized foreign exchange loss | (142,804) | (19,851) |
| Gain on sale of subsidiary | 3,030,069 | 3,030,069 |
| Income from discontinued operations | \$ 2,750,900 | \$ 2,873,300 |

18. Subsequent events:

- (a) On August 16, 2011, the Company announced it had submitted the Environmental Assessment Application for its 117 MW Meikle Wind Energy Project in BC. The application included detailed description of the project, summaries of the studies conducted to access baseline conditions, and an extensive analysis of potential direct and cumulative impacts relating to the construction and operation of the project.
- (b) On August 23, 2011, the Company announced it had reached an agreement in principal to terms on a Memorandum of Understanding ("MOU") with the McLeod Lake Indian Band related to the development of the Company's four wind projects in the Peace Region of BC. In return for their consent and support of the BC Projects, Finavera will support the McLeod Lake Indian Band through training, employment, business opportunities and financial support with respect to the projects under development.
- (c) On August 26, 2011, the EAO advised the Company that additional information was required for both the Wildmare and Tumbler Ridge Wind Energy Projects in respect of the Environmental Assessment Reviews currently underway for both projects. The Company expects an approximate one month delay in the EA review process but the projects' development timelines and COD dates remain unaffected.

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19. Explanation of transition to IFRS:

As stated in note 2(b), these are the Company's second condensed consolidated interim financial statements prepared in accordance with IAS 34.

The accounting policies set out in note 3 of the Company's condensed consolidated interim financial statements for the three months ended March 31, 2011 have been consistently applied in preparing the condensed consolidated interim financial statements for the three and six months ended June 30, 2011, the comparative periods ended June 30, 2010 and the year ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Company's date of transition).

Adjustments on transition to IFRS:

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's financial position and financial performance is set out in the following tables and the accompanying notes thereto. Reconciliation of the consolidated IFRS statements of financial position at January 1, 2010 and December 31, 2010 and the consolidated statement of comprehensive income for the year ended December 31, 2010 can be found in the Company's condensed consolidated interim financial statements for the three months ended March 31, 2011.

There were no differences identified with respect to cash flows from operating, investing, or financing activities as a result of the transition to IFRS.

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19. Explanation of transition to IFRS (continued):

Reconciliation of Condensed Consolidated Statement of Financial Position at June 30, 2010:

| | Note | Canadian GAAP | Effect of translation to IFRS | IFRS |
|---|-------------|---------------------|-------------------------------------|---------------------|
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | | \$ 298,085 | \$ - | \$ 298,085 |
| Restricted cash | | 23,718 | - | 23,718 |
| Receivables | | 132,796 | - | 132,796 |
| Due from employee | | - | - | - |
| Prepaid expenses | | 123,406 | - | 123,406 |
| Total current assets | | 578,005 | - | 578,005 |
| Non-current assets: | | | | |
| Property and equipment | | 147,506 | - | 147,506 |
| Other assets | | 2,432,169 | - | 2,432,169 |
| Wind project development cost | | 840,887 | - | 840,887 |
| Total non-current assets | | 3,420,562 | - | 3,420,562 |
| Total assets | | \$ 3,998,567 | \$ - | \$ 3,998,567 |
| Liabilities and Shareholders' Deficiency | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued liabilities | | \$ 1,921,863 | \$ - | \$ 1,921,863 |
| Loans and borrowings | | 2,488,819 | - | 2,488,819 |
| Loans due to related parties | | 275,283 | - | 275,283 |
| Total current liabilities | | 4,685,965 | - | 4,685,965 |
| Shareholders' deficiency: | | | | |
| Share capital | (b) | 29,495,323 | 512,778 | 30,008,101 |
| Warrants | | 2,069,081 | - | 2,069,081 |
| Contributed surplus | | 8,092,514 | - | 8,092,514 |
| Accumulated other comprehensive income | (a)(ii) | 5,464 | (5,464) | - |
| Accumulated deficit | (a)(ii),(b) | (40,349,780) | (507,314) | (40,857,094) |
| Total shareholders' deficiency | | (687,398) | - | (687,398) |
| Total liabilities and shareholders' deficiency | | \$ 3,998,567 | \$ - | \$ 3,998,567 |

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19. Explanation of transition to IFRS (continued):

Reconciliation of Condensed Consolidated Statement of Comprehensive Income for the six month period ended June 30, 2010:

| | Note | Previous GAAP | Effect of translation to IFRS and reclassifications | IFRS |
|--|------|------------------|--|------------------|
| Expenses: | | | | |
| Depreciation of property and equipment | | \$ 29,412 | \$ - | \$ 29,412 |
| Project development costs | | 399,898 | - | 399,898 |
| Legal costs – Cloosh Valley project | | 145,348 | - | 145,348 |
| Insurance and filing fees | (c) | - | 75,455 | 75,455 |
| Marketing and advertising | | 19,100 | - | 19,100 |
| Office and administration | (c) | 231,094 | (75,455) | 155,639 |
| Payroll and benefits | | 422,685 | - | 422,685 |
| Professional fees | | 145,054 | - | 145,054 |
| Stock-based compensation | | 163,458 | - | 163,458 |
| Travel | | 29,391 | - | 29,391 |
| Total expenses | | 1,585,440 | - | 1,585,440 |
| | | | | |
| Loss before undernoted items | | (1,585,440) | - | (1,585,440) |
| Net finance income: | | | | |
| Financing fees and interest | | (158,121) | (161) | (158,282) |
| Foreign exchange gain | | 95,827 | - | 95,827 |
| Gain on foreign exchange option liability | | 56,672 | - | 56,672 |
| Interest income | | - | 161 | 161 |
| Gain on settlement of convertible debenture | | 160,929 | - | 160,929 |
| | | 155,307 | - | 155,307 |
| | | | | |
| Loss from continuing operations | | (1,430,133) | - | (1,430,133) |
| | | | | |
| Income from discontinued operations | | 2,873,300 | - | 2,873,300 |
| | | | | |
| Loss and comprehensive loss for the period | | \$ 1,443,167 | \$ - | \$ 1,443,167 |
| | | | | |
| Loss per share from continuing operations – basic and diluted | | \$ (0.05) | \$ - | \$ (0.05) |
| | | | | |
| Loss per share from discontinued operations – basic and diluted | | \$ 0.10 | \$ - | \$ 0.10 |
| | | | | |
| Loss per share – basic and diluted | | \$ 0.05 | \$ - | \$ 0.05 |
| | | | | |
| Weighted average number of common shares outstanding – basic and diluted | | 28,457,092 | - | 28,457,092 |

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19. Explanation of transition to IFRS (continued):

Reconciliation of Condensed Consolidated Statement of Comprehensive Income for the three month period ended June 30, 2010:

| | Note | Previous GAAP | Effect of translation to IFRS and reclassifications | IFRS |
|---|------|---------------------|--|---------------------|
| Expenses: | | | | |
| Depreciation of property and equipment | | \$ 14,767 | \$ - | \$ 14,767 |
| Project development costs | | 58,573 | - | 58,573 |
| Legal costs – Cloosh Valley project | | 145,348 | - | 145,348 |
| Insurance and filing fees | (c) | - | 33,282 | 33,282 |
| Marketing and advertising | | 12,128 | - | 12,128 |
| Office and administration | (c) | 115,724 | (115,724) | - |
| Office, rent and utilities | (c) | - | 82,442 | 85,442 |
| Payroll and benefits | | 241,877 | - | 241,877 |
| Professional fees | | 75,562 | - | 75,562 |
| Stock-based compensation | | 31,923 | - | 31,923 |
| Travel | | 17,482 | - | 17,482 |
| Total expenses | | 713,384 | - | 713,384 |
| Loss before undernoted items | | (713,384) | - | (713,384) |
| Net finance income: | | | | |
| Financing fees and interest | | (79,335) | - | (79,335) |
| Gain on foreign exchange option liability | | 16,288 | - | 16,288 |
| Foreign exchange gain | | 53,738 | - | 53,738 |
| Interest income | | 74 | - | 74 |
| Gain on settlement of convertible debenture | | 134,444 | - | 134,444 |
| | | 125,209 | - | 125,209 |
| Loss from continuing operations | | (588,175) | - | (588,175) |
| Income from discontinued operations | | 2,750,900 | - | 2,750,900 |
| Income and comprehensive income for the year | | \$ 2,162,725 | \$ - | \$ 2,162,725 |
| Loss per share from continuing operations – basic and diluted | | | | |
| | | \$ (0.02) | \$ - | \$ (0.02) |
| Loss per share from discontinued operations – basic and diluted | | | | |
| | | \$ 0.09 | \$ - | \$ 0.09 |
| Loss per share – basic and diluted | | \$ 0.07 | \$ - | \$ 0.07 |
| Weighted average number of common shares outstanding – basic and diluted | | | | |
| | | 29,967,735 | - | 29,967,735 |

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19. Explanation of transition to IFRS (continued):

Notes to the reconciliation of net assets:

(a) IFRS 1, *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"):

IFRS 1 generally requires first-time adopters to retrospectively apply all effective IFRS standards and interpretations in effect as at the reporting date. IFRS 1 also provides for certain optional exemptions and certain mandatory exceptions to this general principle. The Company has made the following elections under IFRS 1:

- (i) The Company has elected under IFRS 1 not to apply IFRS 3, *Business Combinations* ("IFRS 3") retrospectively to business combinations that occurred prior to January 1, 2010 (the date of transition to IFRS). Accordingly, the Company has continued with the same accounting treatment of previous business combinations under Canadian GAAP.
- (ii) The Company has elected under IFRS 1 not to apply IAS 21, *The Effects of Changes in Foreign Exchange Rates*, to the cumulative translation differences that arose prior to the date of transition to IFRS. The cumulative translation differences that existed for foreign subsidiaries at the date of transition to IFRS have been deemed to be nil and the amount recorded at January 1, 2010 under Canadian GAAP was transferred to accumulated deficit. Gains or losses on a subsequent disposal of foreign operations will exclude translation differences that arose before the date of transition to IFRS.

The effect of this election is to decrease accumulated other comprehensive income and reduce accumulated deficit by \$5,464 at January 1, 2010, June 30, 2010, and December 31, 2010 as compared to amounts reported under previous Canadian GAAP.

- (iii) The Company has elected under IFRS 1 to not apply IFRS 2, *Share-based Payments*, to share purchase options that were granted on or before November 7, 2002 or to options that were granted subsequent to November 7, 2002 and vested before the date of transition to IFRS. Accordingly the Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010.

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19. Explanation of transition to IFRS (continued):

Notes to the reconciliation of net assets (continued):

- (b) In 2006 the Company issued common shares pursuant to a private placement of flow-through shares. Under previous Canadian GAAP the full proceeds received from the issuance of the flow-through shares was recorded to share capital and a share issuance expense related to the deferred tax liability was recorded at the time the eligible expenditures were renounced to investors. Under IFRS, the premium paid for the flow-through shares in excess of the market value of common shares with no flow-through feature is credited to a deferred liability account. As eligible expenditures are incurred, the deferred gain is amortized into earnings for the period and a deferred tax liability is recorded as the expenditures are renounced to investors. The impact arising from the transition to IFRS resulted in an increase to share capital and deficit of \$512,778.
- (c) Management has elected to present the consolidated statement of comprehensive income or loss according to the nature view. Certain amounts have been reclassified to conform with the nature view presentation.
- (d) Under Canadian GAAP, all the Company's subsidiaries were integrated foreign operations. Therefore, monetary items were translated at year-end rates and non-monetary items were translated as average rates with all foreign currency gains and losses recognized in profit or loss. IFRS requires that the functional currency of each subsidiary of the Company be determined separately.

It was determined that, as at the Transition Date, the Canadian dollar was the functional currency of all subsidiaries except Finavera Ireland, which has the Euro as its functional currency. As noted above, in accordance with the IFRS 1 optional exemptions, the Company has elected to transfer any foreign currency translation differences, recognized as a separate component of shareholders' equity, to accumulated deficit on the transition date. Given the amounts and nature of the balances in Finavera Ireland and its relative inactivity since the date of transition, there are no material currency translation differences to record in other comprehensive income in either the three or six-month period ended June 30, 2011 or the comparative periods presented. The Company considers monetary items receivable from or payable to Finavera Ireland to be in substance part of the net investment in the Irish subsidiary as settlement is neither planned nor likely in the foreseeable future.