

## INTRODUCTION

This Management Discussion and Analysis ("MD&A") of Finavera Wind Energy Inc. ("the Company" or "Finavera"), and its consolidated operations as at and for the three and six month periods ended June 30, 2011 and subsequent activity up to August 26, 2011 is in Canadian dollars unless otherwise stated. This MD&A should be read in conjunction with the Company's condensed consolidated interim financial statements for the three and six month periods ended June 30, 2011 prepared in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standards 34, *Interim Financial Reporting*, and the annual consolidated financial statements for the year ended December 31, 2010 prepared in accordance with Canadian generally accepted accounting principles ("CGAAP"). On January 1, 2011, the Company adopted IFRS for the current and future periods, and restated its comparative figures under IFRS. The current quarter's condensed consolidated interim financial statements include reconciliations from CGAAP to IFRS. The International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") are the regulatory bodies which issue IFRSs. References herein to "the Company" or "Finavera", shall, unless the context otherwise requires, mean "Finavera Wind Energy Inc." and any or all of its wholly owned subsidiaries and affiliates.

## NATURE OF THE BUSINESS

Finavera Wind Energy Inc. is in the business of developing wind energy projects. The primary focus is to develop the Company's current wind projects through partnerships and/or joint venture arrangements. The Company continues to execute transactions to facilitate ongoing development of these projects, leading towards construction and commercial operations. The Company's current projects are in the development stage and do not yet generate revenue. The Company has wind energy projects under development in British Columbia, Canada and in Ireland, offering total potential electricity generation of approximately 406 Megawatts ("MW"). The Company maintains its head office in Vancouver, Canada, and has an office in Dublin, Ireland.

The Company's common shares are listed for trading on the TSX Venture Exchange ("TSX-V") under the symbol "FVR". The Company has been listed on the TSX-V since January 4, 2007. On February 8, 2011, the Company completed a consolidation of its common shares on a basis of 1 (one) new share for 10 (ten) old shares, and changed its name from Finavera Renewables Inc. The trading symbol remains the same.

Factors affecting the financial viability of the Company's projects include the consistency of wind energy sources, proximity to infrastructure, ongoing maintenance costs, economic conditions, governmental regulations, the availability of tax or other incentives such as renewable energy credits, land tenure, use and development issues, environmental impact and protection laws and regulations, insurance, cost of capital, wind turbine pricing, construction costs and the prices offered or to be paid by purchasers of green energy. Additionally, project assumptions involve significant risks which careful evaluation, experience, knowledge and risk management may not, in some cases, eliminate. See "Risk Factors" in this MD&A for further details.

The Company holds four long term (25 year) Electricity Purchase Agreements ("EPAs"), issued by BC Hydro in March 2010, comprising a total nameplate capacity of 301 MW in respect of four separate wind energy projects under development in the Peace region of British Columbia (the "BC Projects"). The BC Projects have a combined estimated capital cost of \$800 million. BC Hydro is an S&P AAA rated utility, is the third largest electric utility in Canada and serves 1.8 million customers in an area covering the majority of British Columbia's population.

Additional information related to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com), and the Company's website at [www.finavera.com](http://www.finavera.com).

## **FORWARD LOOKING INFORMATION**

Certain information in this MD&A and in the Company's ongoing disclosure including its press releases, is based on the conclusions of management, and is considered to be forward-looking information which is often identified by such words as "anticipate", "budget", "plan", "should", "expect", "may", "believe", "potential", "intend" and other similar expressions. The Company cautions that due to risks and uncertainties, actual events may differ materially from current expectations, which are based on information available at the date of this report and for which management considers reasonable. With respect to the Company's operations, actual results may differ from current expectations due to economic conditions, known and unknown risks, new opportunities, competition, changing budget priorities of the Company and other factors.

## **CORPORATE OUTLOOK**

The Company is focused on developing its projects into operating assets. The receipt of four EPAs from BC Hydro in March 2010 for the Company's BC Projects, and the subsequent execution and regulatory approval of these contracts, is a significant milestone. The EPAs define a potential 25 year revenue stream for the Company.

To facilitate the ongoing development of the BC Projects, the Company entered into a project development agreement in July 2010 with GE Energy LLC ("GEE"), to provide project funding of up to \$7,500,000, which has been fully funded as of the date of this MD&A, and in the current period has agreed on indicative terms with GE Energy Financial Services ("EFS") to fund 100% of the project cash equity in the \$200 million, 77 MW Wildmare Wind Energy Project. Subject to the Company receiving an Environmental Assessment Certificate ("EAC") from the Province of BC, completion of the EFS equity funding, closing of the debt financing portion and other standard closing conditions, construction would then commence. The Company continues its development work on the other three BC Projects and is working towards similar debt and equity funding agreements for those projects.

In April 2011, the Company completed a private placement for gross proceeds of \$4,703,583 by way of a flow through common share private financing. The Company is required to spend those funds by December 2012 on qualifying Canadian renewable and conservation expenditures pursuant to the terms of the flow-through private placement. During the three month period ended June 30, 2011, \$1.8 million of the flow-through funds raised by the Company were spent on non-qualifying expenditures. The Company expects to raise additional funds and take the steps necessary in order to ensure that the qualifying expenditures are incurred according to the terms of 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 Company continues negotiations with current and potential project financing partners and expects to continue developing its projects and finance its operations into the foreseeable future. Finavera is also considering other strategies including private placements, loans, convertible instruments, joint ventures, asset sales, mergers and acquisitions.

The Company expects the global wind energy sector to continue growing at a high rate due to a number of factors, including higher long term global energy prices, increasing global demand for energy, improvements to wind turbine technologies, declining energy reserves and increasing cost of producing conventional and nonconventional oil, increased environmental concerns, and issues related to climate change. Management also considers such factors as greenhouse gas reduction initiatives, foreign and domestic market energy policies, and regulatory developments pertaining to the renewable energy industry. The Company also believes that renewable energy credits and "green" attributes of its wind energy projects will increase in value over time, as the world increases its focus on reducing carbon emissions.

The Company continues to meet project development milestones and is actively working to meet its project financing objectives and is therefore confident that the development of the projects will continue as planned. Over the past few years the Company's working capital has remained in a deficiency, and at June 30, 2011 the deficiency was \$6.2 million. Of the working capital deficiency at June 30, 2011, \$3.9 million represents the current portion of the project development financing from GEE which is payable at the date of financial close of specific projects. The settlement of the project development funding is expected to be funded by project financing at financial close.

The Company remains engaged with its creditors in light of the objective of meeting specific development milestones. Based on third party proposals, the Company is confident that its wind projects have fair values exceeding its working capital deficiency. Should sufficient future debt or equity financing not be available, the Company expects that it would be able to sell assets, in a reasonable time period, the proceeds of which would eliminate the working capital deficiency and provide funds for continued operations. Accordingly, the accompanying financial statements for the period ended June 30, 2011 are prepared under the assumption of a going concern.

Future Milestones related to the development of the BC Projects are:

- Receipt of Environmental Assessment Certificates ("EACs") for the Tumbler Ridge and Wildmare Projects – 4th Quarter 2011; and the Meikle Project – 2<sup>nd</sup> Quarter 2012
- Completion of Turbine Supply Selection Process for the Tumbler Ridge and Wildmare Projects – 3<sup>rd</sup> Quarter 2011
- Completion of Design, Build Construction Contracting Process for the Tumbler Ridge and Wildmare Projects – 3rd Quarter 2011
- Financial Close for Wildmare and Tumbler Ridge Projects – 1<sup>st</sup> Quarter 2012
- Partial Notice To Proceed for Wildmare and Tumbler Ridge Construction – 1<sup>st</sup> Quarter 2012

## **CORPORATE HIGHLIGHTS**

- On August 26, 2011, the BC Environmental Assessment Office ("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.

- On August 16, 2011, the Company submitted an Environmental Assessment Certificate Application (“EAC application”) to the province of BC for the Meikle Wind Energy Project, a BC Peace Region project with a nameplate capacity of 117 MW.
- On June 24, 2011, the Company and BC Hydro signed a Standard Generator Interconnection Agreement (“SGIA”) for the 77 MW Wildmare Wind Energy Project, which carried over the rights and obligations of the Early Engineering and Procurement Agreement (“EEPA”) signed in May 2011 for the same project.
- On May 17, 2011, the Company and BC Hydro signed an SGIA for the 47 MW Tumbler Ridge Wind Energy Project.
- On April 18, 2011, the Company issued an additional 425,532 flow-through common shares (“FTS”) at a price of \$0.94 per share for additional gross proceeds of \$400,000. The agents earned cash commissions of 7% and were granted brokers options to purchase 29,778 common shares at a price of \$0.94 per share for two years. The shares were subject to a four month hold period that expired on August 18, 2011. The proceeds from the sale of FTS are being used for the continued development of the Company’s portfolio of wind projects in British Columbia.
- On March 29, 2011, the Company announced it had closed the first tranche of a brokered private placement, raising gross proceeds of \$4,303,583 by issuing 4,578,280 FTS at \$0.94 per share. The agents earned a cash commission of 7% on the funds they raised and were granted brokers options to purchase 320,479 common shares of the Company at \$0.94 per share for a two year period. All securities issued in connection with the offering were subject to a hold period which expired on July 30, 2011. The proceeds from the sale of FTS are being used for the continued development of the Company’s portfolio of wind projects in British Columbia.
- On February 15, 2011, the Company announced that a unit of GE agreed on the indicative terms in relation to an equity investment in the Company’s 77 MW Wildmare Wind Energy project in the British Columbia Peace River Region. Under the terms, the GE entity would fund 100% of the project equity cash requirements and, based on current financial information, it is estimated that the Company would retain an approximate 30% economic interest to be finalized at financial close of the project, currently anticipated to be in Q1 2012. The two companies would jointly arrange debt financing and retain a third-party engineering firm to oversee construction of the project following financial close. 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.
- On February 7, 2011, the Company announced it had received the approval of the TSX Venture Exchange regarding the consolidation of its issued common shares on the basis of ten old shares for one new share. On a post-consolidated basis, there were 30,407,764 common shares issued and outstanding at the time of the consolidation. The Company also announced that it had changed its name to Finavera Wind Energy Inc.

## PROJECT UPDATES

### *Peace Region Wind Projects, British Columbia, Canada, 301 MW*

The Company is developing four wind energy projects in the Peace Region of British Columbia, Canada. The wind data supporting the BC Projects is comprised of approximately four years of wind and climatic data from twelve meteorological towers that the Company currently has in operation. Two additional towers lie in areas outside of the four Peace Region Projects. Turbine suitability studies, wind analyses, and civil, electrical, mechanical, and communications designs and contractor cost estimates have been prepared for each project and incorporated into the proposals to BC Hydro under the 2008 Clean Power Call.

On March 11, 2010, the Company announced that its four BC Projects, comprising a total nameplate capacity of 301 MW, submitted to BC Hydro in November 2008 under its 2008 Clean Power Call, had been accepted by BC Hydro for the award of long term (25 year) EPAs. On April 28<sup>th</sup>, 2010, the Company announced the execution of these four EPAs with BC Hydro. The four projects have an estimated capital cost of \$800 million and the Company is continuing to evaluate a number of various options for project development financing. Revised project nameplate capacities (totalling 301 MW) and expected completion dates are as follows:

<u>Project</u>	<u>Output</u>	<u>Expected Completion</u>
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 with BC Hydro provide each project with a stable 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. The projects provide an optimal mix of attractive firm energy pricing combined with accurate and realistic capital costs. Finavera has agreed to commercial operation dates that are planned to provide appropriate time and capacity to construct the BC Projects on schedule and on budget. As at June 30, 2011, the Company has incurred direct cumulative costs, including the posting of certain deposits, totalling \$15.7 million on the BC Projects, comprised of \$10.6 million capitalized costs including project equipment, and \$5.1 million expensed. The Company began capitalizing its BC project costs on April 1, 2010.

Applications for EACs for the Wildmare and Tumbler Ridge Projects were accepted by the Environmental Assessment Office for Application Review on April 1, 2010, and the EAC for the Meikle Project was submitted in August 2011. During the period to date, the Company has completed additional field environmental studies on the Wildmare, Meikle, and Tumbler Ridge projects. The projects are not expected to result in any significant impacts for the biophysical, social, heritage, economic and health components assessed for these Applications. The final decision on impacts will be determined by the BC Ministry of Environment and the BC Ministry of Energy and will be reflected in a decision to issue EACs to the Company for the projects.

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 EAC (maximum 45 days). On August 26, 2011, the EAO advised the Company that the 180 day application review stage was on hold, subject to the Company providing additional information, for both the Wildmare and Tumbler Ridge Wind Energy Projects. The Company expects an approximate one month delay in the EA review process but the projects' development timelines and COD dates remain unaffected. The Company had previously finalized the Terms of Reference with the EAO, having worked with the EAO since early 2007. Terms of Reference identify the assessment work required by the permitting authority to complete the Environmental Impact Assessment.

The following studies have been carried out in support of the Terms of Reference submission with no 'fatal flaws' being identified:

- Watercourse, water quality and water use reporting.
- Winter ungulate (caribou) studies, winter wildlife tracking, spring raptor stand watch survey, spring migratory bird radar studies, breeding bird studies and audio-visual surveys.
- Rare plant surveys, ecosystem mapping, visual landscape inventory and archaeological overview assessments.

The BC Projects lie within the lands of Treaty 8 First Nations. The relevant signatories of the Treaty 8 First Nations, as identified under Section 11 of the British Columbia Environmental Assessment Act, for the projects, include the Saulteau First Nations, West Moberly First Nations, Halfway River First Nations, the McLeod Lake Indian Band and the Doig River First Nations. These Nations are all located within the south-western part of the Treaty 8 lands.

On September 17, 2010, the Company signed a Memorandum of Understanding ("MOU") with the Halfway River First Nation. In return for their consent and support of Finavera's wind projects, the Halfway River First Nation will benefit through training, employment, business opportunities and financial participation in the project. On August 24, 2011, the McLeod Lake First Nations agreed to general terms with Finavera with respect to a draft MOU based on developing a long-term business relationship. The Company is also negotiating a Memorandum of Understanding with three of the other First Nations, which would cover financial compensation issues, a communications protocol and a relationship protocol. The fifth Nation is currently deciding how they would like to proceed with Finavera with the intent to create some form of formal agreements that best serves the community and Finavera. Finavera commits to providing clean, renewable energy that brings benefits to First Nations and all British Columbians in a manner that respects Aboriginal and Treaty rights and minimizes environmental impacts.

The Company has a dedicated First Nations specialist on staff and is committed to creating a long term partnership with all identified First Nations throughout the life of the proposed projects. Finavera has been involved with the First Nations throughout the development process, using communication and engagement strategies including in-person and conference meetings, open houses in the local communities, media advertising and newsletters. The Company continues to invest significant resources into developing long term business relationships with the five relevant Treaty 8 First Nations with the intent to create value-for-value outcomes for the First Nations communities and for Finavera.

The following summarizes the BC projects:

- *Wildmare Wind Energy Project*

Wildmare is currently planned to consist of approximately 33 wind turbine generators with a re-engineered capacity of approximately 77.4 MW. It is located 5 km northwest of Chetwynd, BC, within the Treaty 8 First Nations territory, and is accessible mainly by existing roads. Interconnection is planned at a nearby 230 kV transmission line. Subject to obtaining the appropriate environmental and government approvals and permits, construction of the project is expected to begin in 2012 with commercial operations commencing at the end of 2013. At the date of this report, the Company is negotiating binding agreements with respect to 100% of the cash equity required for the construction of 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, currently anticipated to be in Q1 2012. The two companies would jointly arrange debt financing and retain a third-party engineering firm to oversee construction of the project. Execution of these agreements is subject to customary corporate and regulatory approvals, completion of ongoing due diligence, satisfactory documentation and approval by each company's Board of Directors.

- *Tumbler Ridge Wind Energy Project*

Tumbler Ridge is currently planned to consist of 30 wind turbine generators with a re-engineered capacity of 47.2 MW, increased from 45.0 MW, using 1.5 and 1.6 MW GE Turbines. The project area is located approximately 10 km from the community of Tumbler Ridge, within the Treaty 8 First Nations territory. The area is already accessed via existing roads. Interconnection is planned at the nearest 230 kV transmission line located within the proposed turbine array. Subject to obtaining the appropriate environmental and government approvals and permits and project financing, construction of the project is expected to begin in early 2012, with commercial operations commencing at the end of 2012.

- *Meikle Wind Energy Project*

Meikle is planned to consist of approximately 55 wind turbine generators with an installed capacity of approximately 117.0 MW. It is located approximately 20 km from Tumbler Ridge, within Treaty 8 First Nations territory and adjacent to Highway 29 which connects Tumbler Ridge to the town of Chetwynd to its north. It is accessible mainly by existing roads, subject to minor upgrades. Interconnection is planned at the nearest 230 kV transmission line which runs through the eastern side of the project. Subject to obtaining the appropriate environmental and government approvals and permits and project financing, construction is expected to begin in late 2012, and commercial operations would commence at the end of 2013.

- *Bullmoose Wind Project*

Bullmoose consists of two distinct ridgelines, and is planned to consist of approximately 20 wind turbine generators with an installed capacity of approximately 60.0 MW, based on 3 MW per turbine. At its closest point, the Project is approximately 18 km from Tumbler Ridge, and is also within Treaty 8 First Nations territory. It is accessible mainly by existing roads, and new roads are required to access the ridgelines. Interconnection is planned at a nearby 230 kV transmission line, immediately adjacent to the north-west boundary of the project. Subject to obtaining the appropriate environmental and government approvals and permits and project financing, construction is expected to begin in late 2014 with commercial operations commencing at the end of 2015.

***Cloosh Valley Wind Project, County Galway, Ireland, 105 MW***

The Company's Cloosh Valley Wind Project is expected to have a capacity of 105 MW. It has 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. On August 25th, 2010 the Company sold a majority interest of the project to Scottish & Southern Energy (SSE) for €8.4 million, payable in stages, when certain conditions have been met, such as financial close. To date, the Company has received €1,260,000 with the balance receivable when and if conditions are met.

The Company signed a Co-Development Agreement ("CDA") with SSE and Coillte, the state owned Irish commercial forestry and renewable energy company, to jointly develop the project. Coillte is the landowner at the project site and has been a development partner on the project with Finavera since 2009. Finavera will retain a 10% equity interest in the project entity and will participate in all project development functions and activities, and will be responsible for funding its development costs according to its 10% interest.

***Cascades Project, BC, Canada***

The Company holds an Investigative Use Permit ("IUP") in the Cascades Mountain region of south-central BC. The permit allows the Company access to the site for purposes of investigating the wind resource. Due to the development activities of the Peace Region wind projects, the Cascades work plan has been delayed. The outlook for the remainder of 2011 is to commence preliminary engineering and bird and mammal studies of the area. The Company also continues to assess other potential applications for IUPs in different regions of the province.

***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.

## REVIEW OF FINANCIAL RESULTS

### Selected Annual Information

The following table provides a brief summary of the Company's consolidated financial operations. For more detailed information, refer to the audited consolidated financial statements for the applicable years. The changeover to IFRS has not materially affected the annual results, which have been restated for the year ended December 31, 2010.

	Year Ended December 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007
	(IFRS)	(CGAAP)	(CGAAP)	(CGAAP)
Total revenues	\$ -	\$ -	\$ -	\$ -
Operating expenses	(2,883,953)	(4,019,985)	(7,557,127)	(20,869,755)
Net income (loss)	1,400,804	(3,333,262)	(9,125,720)	(20,563,514)
Loss from continuing operations	(1,472,496)	(4,810,340)	(9,125,720)	(20,563,514)
Basic and diluted income (loss) per share	0.05	(0.14)	(0.45)	(1.19)
Basic and diluted loss per share from continuing operations	(0.05)	(0.20)	(0.45)	(1.19)
Total assets	8,409,585	536,302	1,911,393	5,501,180
Total long-term liabilities	3,489,444	-	391,907	-
Cash dividends	-	-	-	-

### Results of Annual Operations

The Company has, during the past five years, acquired wind energy assets, achieved a public listing, initiated early stage development, and executed four 25 year EPAs for 301 MW of power capacity in the Province of BC, Canada. In 2010 the Company had net income of \$1,400,804 mainly due to the sale of assets which resulted in gains that exceeded the operating expenses for the year. The operating expenses, net of stock based compensation and project development costs, were \$2,182,000 in 2010, \$2,079,000 in 2009 and \$3,944,000 in 2008. The general administrative overhead has remained consistent since the Company curtailed its US operations around the end of 2008.

Total project activity in 2010 was much higher than in 2009. The Company incurred total project costs in 2010 of \$5,952,849, comprised of \$5,483,595 capitalized on the balance sheet and \$469,254 which was expensed, compared to total project costs of \$1,441,777 in 2009, all of which was expensed as incurred. On April 1, 2010 the Company began capitalizing its BC Projects costs, having met capitalization criteria.

### SUMMARY OF QUARTERLY RESULTS

The following table represents selected unaudited consolidated interim financial information for each of the Company's past eight quarters. All income and loss per share figures presented in the table have been adjusted to reflect the consolidation of the Company's shares in February 2011.

FINAVERA WIND ENERGY INC.  
(formerly Finavera Renewables Inc.)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2011

	Three Month Period Ended June 30, 2011	Three Month Period Ended March 31, 2011	Three Month Period Ended December 31, 2010	Three Month Period Ended September 30, 2010
	(IFRS)	(IFRS)	(IFRS)	(IFRS)
	\$	\$	\$	\$
Revenue	-	-	-	-
Operating expenses	(404,796)	(468,601)	(682,295)	(616,218)
Net income (loss)	(470,555)	(601,884)	(550,196)	507,833
Income (loss) per share	(0.01)	(0.02)	(0.01)	0.02
Income (loss) per diluted share	(0.01)	(0.02)	(0.01)	0.02

	Three Month Period Ended June 30, 2010	Three Month Period Ended March 31, 2010	Three Month Period Ended December 31, 2009	Three Month Period Ended September 30, 2009
	(IFRS)	(IFRS)	(CGAAP)	(CGAAP)
	\$	\$	\$	\$
Revenue	-	-	-	-
Operating expenses	(713,384)	(872,056)	(404,696)	(927,686)
Net income (loss)	2,162,725	(719,558)	(740,831)	238,190
Income (loss) per share	0.07	(0.03)	(0.03)	0.01
Income (loss) per diluted share	0.07	(0.03)	(0.03)	0.01

### Results of Quarterly Operations

On January 1, 2011, the Company adopted International Financial Reporting Standards (“IFRS”) and restated its comparative figures from January 1, 2010 onwards, as if IFRS had already been adopted. This allows the current results of operations, as prepared under IFRS, to be compared to prior periods. The IFRS conversion process and summary of major issues is included later in this MD&A under “Changes in Accounting Policies Including Initial Adoption”.

The transition to IFRS required two adjusting entries to the comparative figures. The first was a reallocation of the cumulative translation adjustment of \$5,464, formerly on the balance sheet under equity, which was offset against the opening deficit at January 1, 2010. The second adjustment was to adjust the accounting for the Company’s 2006 private placement of flow through shares, in the amount of \$512,778. The difference was added back to share capital and was charged to deficit. Full details are provided in the changes in accounting policies section in the Company’s previous MD&A for the three month period ended March 31 2011.

The impact on the financial statements of these adjustments was entirely within the shareholders’ equity section of the balance sheet. There were no changes to the reporting of assets and liabilities, and no changes to net operating results or cash flows. In addition, IFRS is not expected to impact executive compensation and is expected to have a negligible effect on the Company’s results of operations in the future. The application of IFRS to flow through share accounting gives rise to the only significant accounting difference at this time.

***Second quarter 2011 compared to Second quarter 2010***

A net loss of \$470,555 was recorded during the quarter ended June 30, 2011 compared to net income of \$2,162,725 for the comparative period in 2010, which included income from discontinued operations of \$2,750,900, primarily arising from a gain recorded on the disposition of the subsidiary of \$3,030,069. The current period loss from continuing operations is accordingly \$117,620 lower than the loss from continuing operations for the three month period ended June 30, 2010 of \$588,175. Operating expenses of \$404,796 (2010 - \$713,384) made up the majority of the loss from continuing operations. The reduction of \$308,588 consisted mainly of lower project development costs and legal costs associated with the sale of the majority interest in the Cloosh Valley Wind Project, which totalled \$22 in the current period and \$203,921 in the comparative period in 2010. The reduction is the result of the non-recurring legal cost and the start of capitalizing BC Projects expenses on April 1, 2010. The other significant variance in operating costs was in payroll and benefits, which at \$160,578 (2010 - \$241,877), was \$81,299 lower than in the comparative period and stock based compensation expense, which at \$3,010 (2010 - \$31,923) was \$28,913 lower than in the comparative period. This was a result of the fact that more payroll costs were capitalized to project costs during the current period as more employee time was focused on development activities at the Company's BC Wind Projects than in the comparative period.

The remaining difference in the loss from continuing operations was net finance income (costs), which went from income of \$125,209 in 2010 to an expense of \$65,759 in the current period, a decrease of \$190,968. The majority of the difference is the result of a gain on settlement of a convertible debenture of recorded during the three month period ended June 30, 2010 of \$134,444. The remainder of the finance income/cost difference was the result of changes to net interest expense and foreign exchange gain/loss, which cumulatively was a cost of \$65,759 during the period (2010 - \$9,235), an increase of \$56,524.

***Second quarter 2011 compared to first quarter 2011***

In the second quarter of 2011, the net loss of \$470,555 was \$131,329 lower than the net loss recorded in the first quarter of 2011 ("Q1 2011") of \$601,884. Operating costs for the second quarter declined to \$404,796 (Q1 2011 - \$468,601), a reduction of \$63,805. The balances which make up the majority of this difference were marketing and advertising costs of \$26,401 (Q1 2011 - \$44,859), a reduction of \$18,458; stock-based compensation of \$3,010 (Q1 2011 - \$25,073), a reduction of \$22,063; and travel of \$9,419 (Q1 2011 - \$36,830), a reduction of \$27,411. This reduction in operating costs was the result of cost control measures achieved by management during the period.

The other component of the net loss for the period was finance costs, of which the Company recorded \$65,759 (Q1 2011 - \$133,283), a reduction of \$67,254. The majority of this difference was the result of a decrease in financing fees and interest expense of \$31,652, from \$93,417 in Q1 2011 to \$61,765 in the current quarter, and a reduction in the foreign exchange loss of \$28,269, from \$41,967 in Q1 2011 to \$13,698 in the current quarter. These items tend to fluctuate from quarter to quarter in response to changing exchange rates and loan balances, letter of credit fees and their timing, and whether they are project related or corporate in nature, and thus these differences are not unexpected.

***Six month period ended June 30, 2011 compared to six month period ended June 30, 2010***

The loss for the six month period ended June 30, 2011 was \$1,072,439 compared to net income for the six month period ended June 30, 2010 of \$1,433,167. Discontinued operations contributed \$nil (2010 - \$2,873,300) to net income. The loss from continuing operations in the comparative period was \$1,430,133, which is \$357,694 higher than the current period. The Company incurred operating expenses during the six month period ended June 30, 2011 of \$873,397 (2010 - \$1,585,440), a reduction of \$712,043 as compared to the same period in the preceding year. The majority of the reduction was in project development costs which for the current period were \$1,022 (2010 - \$399,898), a reduction of \$398,876 and in payroll costs, which were \$319,517 (2010 - \$422,685), a reduction of \$103,168. The reason for these reductions is due to the fact that the Company began capitalizing its project costs April 1, 2010 and thus the comparative period operating expenses include project development and payroll costs associated with the BC Projects for the three months ended March 31, 2010. Other significant reductions in operating expenses included a reduction of \$135,375 in stock based compensation expense and \$145,348 in legal costs related to the Cloosh Valley Wind Project which were only incurred in the comparative period. This reduction in stock based compensation expenses from \$163,458 in the comparative period to \$28,083 in the current period was due to a higher amount of stock options previously granted vesting in the comparative period than in the current period and a higher amount of stock based compensation expense being capitalized to project development costs. Partially offsetting these reductions was a net increase of \$72,150 or 21%, in the current period, in respect of marketing and advertising, office, rent and utilities, professional fees and travel expense as compared to the same period in the preceding year. These increases are the result of the general expansion of project development activities which require a greater level of overhead support.

The Company incurred finance costs of \$199,042 during the current period, compared with net finance income of \$155,307 in 2010, a difference of \$354,349. This difference is primarily the result of gain on settlement of convertible debenture of \$160,929 in the comparative period, and a foreign exchange loss of \$55,665 as compared with foreign exchange related gains of \$152,499 in 2010.

**LIQUIDITY**

The continuance of operations and the development of the Company's projects in the short term require ongoing financial support from shareholders, investors and creditors. The Company continues negotiations with current and potential financing partners and expects that it will be able to raise the funds necessary to maintain its project development timelines and finance its operations into the foreseeable future.

In the past couple years these activities have funded the Company as follows: In the current year, the Company received a project development loan of \$2.1 million and raised gross proceeds of \$4.7 million from a flow-through private placement, specifically for qualifying expenditures on the Company's BC wind projects. Of this amount, \$1.8 million has been spent on non-qualifying expenditures. The Company will need to and expects to raise additional funds and take the steps necessary to comply with the flow-through agreements. If the Company fails to incur sufficient qualifying expenditures, it would be liable to the investors for any additional taxes payable and penalties payable to the Canadian Revenue Agency (see note 5 of the accompanying financial statements). In 2010, a Joint Development Agreement was completed which provided funding of up to \$7.5 million. At the date of this report, the full amount of the loan has been utilized, which includes \$2.0 million provided by a letter of credit. In mid-2010 the Company also received \$2.0 million from a significant shareholder pursuant to two separate loans of \$0.5 million and \$1.5 million. The Company has since repaid the \$0.5 million loan and has received a demand notice for the repayment of the remaining principal and accrued interest. The Company is negotiating to defer the payment until such time as funds would permit, which is expected later in 2011. The actions taken by the Company in 2010 and 2011 have provided the funds necessary for the Company to meet its project development timeline, although the Company continues to have a working capital deficiency.

The Company has other alternatives to provide liquidity, such as short term demand loans, monetization of non-core assets, improving the flow of receivables and the diligent management and engagement of its trade creditors through transparent disclosure and regular communications. It is management's belief that the Company could sell wind project assets, in a reasonable time frame, to mitigate any material cash flow crisis should it arise.

The current working capital deficiency of the Company, as of the date of this report, is approximately \$6.2 million, compared to a deficiency of \$2.7 million at the end of 2010. The decrease in working capital of \$3.5 million is primarily the result of an increase in the current portion of the Company's loans and borrowings from \$2.3 million at December 31, 2010 to \$5.7 million at June 30, 2011.

The Company must either execute on its plans to complete financing(s) or complete another form of strategic transaction, such as sale of assets or partial assets, joint ventures or mergers, in order to ensure its continued viability. Management expects that the EPAs from BC Hydro executed by the Company, and the expected completion of an agreement for the equity funding of the Wildmare Project will significantly help the Company in this regard.

## **CAPITAL RESOURCES**

The Company's primary capital management objective is to minimize shareholder dilution through the use of debt financing. Building wind farms requires significant capital. This capital typically involves equity and debt financing and may involve joint venture or other partnership structures. Capital management is therefore an issue relating to the financing of the Company's overhead and project development. Capital required for construction activities, estimated to be approximately 80% of a project's capital cost, is expected to be financed through a syndication of debt with the balance of project funds provided by an equity partner.

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") as of the date of this report, as follows:

FINAVERA WIND ENERGY INC.  
(formerly Finavera Renewables Inc.)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2011

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2011	\$ 3.7 million
2012	\$ 18.5 million
2013	\$ 2.1 million
2014	\$ 2.0 million
2015	\$ 0.9 million

As projects reach financial close, these payments would likely become the responsibility of the project entities. Consequently, the only payments expected to be directly paid by the Company (or a financial partner) are \$5.2 million in 2011 (of which \$1.5 million has been paid to date) and \$3.8 million in 2012.

In the longer term, the Company's ability to continue its operations, develop its projects, and realize assets at their carrying values obviously remains dependent upon obtaining sufficient financing through debt and equity offerings, and managing its resources, until it can generate revenues to cover operating costs. While the Company has had success in raising private placement funds and loans in the past, there is no assurance it can continue to do so.

#### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company currently does not have any off-balance sheet arrangements.

#### **RELATED PARTY TRANSACTIONS**

The consolidated financial statements for the six months ended June 30, 2011 include transactions with related parties as follows:

- a) Professional fees include \$8,725 (2010 - \$23,338) to a company with a former director and an officer in common, for provision of specific professional services.
- b) Amounts owing to related parties as at June 30, 2011 were \$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.

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.

#### **INVESTOR RELATIONS**

The Company entered into investor relations agreements in 2010 with Canadian-based Pinnacle Capital Markets Ltd. The first agreement was dated September 22, 2010, and provided a fee of \$4,000 per month for three months plus 10,000 stock options exercisable at \$1.00 per share for one year. On December 22, 2010, the contract was extended for six months to June 22, 2011, at a monthly fee of \$5,000 and an additional 20,000 stock options exercisable at \$1.00 per share for one year. Both option grants are subject to standard vesting provisions for investor relations consultants, which vest over a one-year period.

## **PROPOSED TRANSACTIONS**

There are currently no proposed transactions involving asset acquisitions or dispositions that have been approved or likely to be approved by the Company or its Board of Directors, other than those discussed in this report.

## **CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**

### **Transition to International Financial Reporting Standards (IFRS)**

Canadian publicly listed enterprises were required to adopt IFRS in replacement of Canadian generally accepted accounting principles ("CGAAP") for fiscal years beginning on or after January 1, 2011. Due to the requirement to present comparative financial information, the effective transition date was January 1, 2010. The Company's interim financial statements are presented in accordance with IFRS and the comparative amounts have been restated to reflect the adoption of IFRS as of the transition date. Much of the following disclosure was presented in the Company's Q1 MD&A, but is repeated here due to the relevance of the significant changes in accounting policies as a result of transitioning to IFRS.

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 adoption of IFRS 10 is not expected to have a significant impact on the Company's consolidated financial statements.

#### **IFRS 11 – Joint Arrangements**

In May 2011, the IASB issued IFRS 11 – Joint Arrangements. IFRS 11 requires a venturer 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.

#### 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.

#### **Summary of Finavera's IFRS conversion process:**

The conversion to IFRS required the Company to consider its impact on the Company's accounting policies, information technology processes and financial reporting systems, including internal controls over financial reporting, data systems and disclosure controls and procedures and the Company's accounting for contractual agreements, debt covenants and compensation arrangements.

The Company utilized an IFRS changeover plan to assist in changing from previous CGAAP to IFRS. The Company identified key accounting and reporting differences, and reviewed all IFRS policies and compared them to CGAAP. Numerous disclosure changes were noted but few adjustments were actually required to be made to the opening financial position. Those adjustments are detailed below. The Company followed IFRS 1, *First Time Adoption of International Financial Reporting Standards*, and considered various exemptions and transitional provisions, which are also detailed below.

The Company's recent MD&As discussed the planned Phases of the IFRS transition, which are summarized as follows:

##### *Phase 1 – Impact Assessment*

The impact assessment was comprised of a diagnostic of the major differences between current Canadian GAAP and IFRS that were expected to impact the company's financial statements. This diagnostic considered all IFRSs, identified and ranked the key IFRS-to-CGAAP differences applicable to the Company, and assessed the potential impact to the financial statements, note disclosures and exemptions available on transition.

##### *Phase 2 - Planning & solution development*

Planning & solution development required detailed analysis of each of the key IFRS conversion issues identified. The analysis was completed during the first quarter of 2011 as expected.

*Phase 3 - Implementation*

Activities included implementing the required changes to accounting and operational information systems, recording the necessary adjustments, assessing and implementing accounting policies. This phase was completed during the first quarter of 2011, as expected.

Following implementation, each subsidiary of Finavera accounts for its activities under IFRS and all IFRS adjustments were pushed down to the relevant entities.

The Company also considered whether IFRS would impact its non-accounting business operations. It assessed the impact of IFRS on existing information technology systems and no significant impacts were noted. The Company assessed the impact of IFRS on its internal controls. It was determined that the controls ensured that all relevant IFRSs were reviewed during the transition process. No material changes were noted to the Company's business process controls. With respect to its internal controls over financial reporting ("ICFR"), the general accounting and management controls were assessed as being sufficient to facilitate IFRS compliance and as a consequence, no significant changes to ICFR were required.

With respect to business activities and key performance metrics, management assessed the impact of the IFRS transition project on its financial arrangements, including those with lenders. The transition did not significantly impact any of the Company's business arrangements and it was determined that none of the current or historic debt and financing agreements are affected by the transition to IFRS.

*Phase 4 - Post implementation review*

The Company completed its changeover plan through to IFRS implementation, but will continue post-implementation to continuously monitor changes to IFRS that may impact upon future financial reporting periods.

The standard-setting bodies that determine IFRS have significant ongoing projects that could impact the IFRS accounting policies that the Company has selected. The impact of any new IFRS standards or interpretations will be evaluated as they are drafted and published.

**Impact of IFRS Transition**

The notes to the Company's condensed consolidated interim financial statements for the period ended June 30, 2011 provide detailed reconciliations and explanations of differences between its previous CGAAP financial reporting and its current financial reporting under IFRS. The notes to the condensed consolidated interim financial statements for the period ended March 31, 2011 also describe the accounting policy decisions, and choices under IFRS 1, *First-Time Adoption of International Financial Reporting Standards*. As a result of the policy choices selected by the Company and the accounting changes required under IFRS, certain differences have arisen which impact upon the condensed consolidated interim financial statements. A summary discussion of the most significant differences is provided below:

i) Results of Applying IFRS 1 Exemptions

IFRS 1 offers a first time adopter of IFRS the ability to reset the Cumulative Translation Adjustment ("CTA") account, an equity account, to Nil, as at the date of transition. The balance previously in the financial statements of Finavera was \$5,464, which represented cumulative foreign exchange translation differences prior to 2007. The Company elected to use this exemption, which had the effect of offsetting the balance against the opening deficit at January 1, 2010, thus eliminating the CTA account.

IFRS 1 allows companies to elect not to restate a business combination completed before the date of transition. This exemption enables entities to avoid recalculating historical fair values which may not now be available. In respect of the Company's acquisitions prior to the RTO and the RTO transaction itself, the Company elected not to restate its prior business combinations. Therefore, no IFRS adjustment was required.

A Company can elect not to apply IFRS in respect of share based payments, for vested options, as at the date of transition. In general, the vesting of options under IFRS may be calculated differently than under CGAAP. The Company has applied this exemption and as such has not assessed differences related to options that were fully vested prior to January 1, 2010. For unvested options at the date of the transition, there were no material differences identified.

ii) Key IFRS Adjustment

Other than the IFRS adjustment identified above, the only other material difference identified related to the accounting for historic flow through share issuances.

*Flow Through Share Accounting*

Flow-through share financing is a subject that was specifically addressed under CGAAP but has no equivalent guidance under IFRS. As such, the Company has elected to adopt a policy by which the premium paid for flow-through shares in excess of the market value of common shares with no flow-through feature is credited to a deferred liability account and included in income at the time the qualifying expenditures are made and renounced.

At the date of transition, the Company had no flow-through financings where the expenditures had not yet been incurred and renounced to the investors. Thus no deferred liability was required to be recorded at the date of transition. However in December 2006 the Company issued flow through shares and management has compared the historic accounting for these flow-through shares as recorded by the Company under Canadian GAAP to the accounting required under IFRS and identified a classification difference between share capital and accumulated deficit. The impact of this difference was to increase share capital and increase accumulated deficit by \$512,778 at January 1, 2010.

*Translation of Foreign Operations*

Under CGAAP, all the Company's subsidiaries were integrated foreign operations. Therefore, monetary items were translated at year-end rates and non-monetary items were translated at 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 Renewables Limited ("Finavera Ireland"), which uses 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 is no material currency translation differences to record in other comprehensive income in either the three and six month periods 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, notwithstanding the completion of the sale of the Cloosh Valley Wind Project.

## **CRITICAL ACCOUNTING ESTIMATES**

### *Use of estimates*

The preparation of financial statements in conformity with IFRS, and previously Canadian GAAP, requires management to make estimates and assumptions that affect 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 period. Estimates are based upon historical experience and various other assumptions that are believed to be reasonable under the circumstances. These estimates are evaluated on an ongoing basis and form the basis for making judgments regarding the carrying values of assets and liabilities and the reported amount of expenses. Actual results could differ from those estimates. Significant estimates are required in the determination of future cash flows and probabilities in assessing net recoverable amounts and net realizable values, the amount of asset retirement obligations, the useful lives for depreciation and amortization, the Company's ability to utilize tax losses and the rates at which those losses will be realized, calculation of fair value for stock-based compensation and fair value of financial instruments for disclosure purposes.

### *Project development costs*

The Company capitalizes direct costs associated with the development of its British Columbia Peace Region wind projects. If directly attributable costs associated with the development of any projects meet certain criteria as intangible assets, the costs are capitalized to the specific project and amortized over the useful lives of the projects, upon commencement of commercial operations. The criteria that the Company must demonstrate are: i) the technical feasibility of the project; ii) its intention to complete the project and use or sell it; iii) its ability to use or sell the project; iv) how the project will generate probable future economic benefits; v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the project; and vi) its ability to measure reliably the expenditures attributable to the project during its development. If costs no longer meet these six criteria, the costs are expensed and an impairment charge may be taken on the deferred balance.

The recovery of development costs is dependent upon the successful completion, or sale, of the wind projects, which itself is dependent on a number of factors including but not limited to First Nations Agreements, Environmental Assessments Certificates, executed EPAs and completion of project financing.

### *Stock-based compensation*

The Company grants stock options to directors, employees and consultants of the Company as an element of compensation. The cost of the service received as consideration is measured based on an estimate of fair value at the date of grant. The grant-date fair value is recognized as compensation expense over the related service period with a corresponding increase in contributed surplus. On exercise of stock options, consideration received together with the compensation expense previously recorded to contributed surplus is credited to share capital. The Company uses either the Black-Scholes option pricing model or the fair value of the goods or services received to estimate the fair value of each stock option.

### *Deferred Income Taxes*

The Company follows the liability method of accounting for income taxes. Under this method of tax allocation, deferred income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of the assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes. Deferred income tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the substantive enactment date. Any deferred income tax asset is reduced by a valuation allowance to the extent that is more likely than not that some portion or all of the asset will not be realized.

## **RISK FACTORS**

The development of wind energy projects is subject to numerous risks, both known and unknown, any of which could significantly impact the Company's financial position and results of operations. Key business, development and operational risks are described below.

### *Regulatory and Political Risks*

The development of wind energy projects and their future operations are subject to changes in regulatory (federal, provincial and municipal) guidelines pertaining to the renewable energy industry. Changes in Canadian and provincial political leadership may present the risk of changes to regulations and regulatory support for green energy and/or wind energy specifically.

### *Permitting*

Finavera has incurred and will continue to incur costs to obtain licenses and permits, such as environmental, water extraction, and licences to cut trees and other approvals necessary to develop its projects. If Finavera is unsuccessful in obtaining a license, permit or other approval for activities such as construction, waste extraction, tree felling, work camps and road modification, this could have a material adverse effect on the development of the company's projects.

### *Crown Land Tenure*

Crown Land policies support multiple uses. Developers may propose subsurface or surface use which Crown permitting authorities may deem compatible with the Company's wind projects. These uses may later prove to be incompatible or require mitigation. Current guidance is ambiguous regarding precedence and process of resolution. Existing tenure holders (such as logging, coal extraction, oil and gas development and operations) use of access routes and peak traffic loads may periodically exceed the route capacity. This could cause delay in the Company's wind project construction schedule which would delay the commencement of operations.

### *First Nations*

The Company's BC wind projects are located on Crown land in the BC Peace Region, within Treaty 8 territory. The Company's inability to complete agreements with area First Nations could result in delays to the development of the Company's BC projects. The Company has however, committed to First Nations consultations throughout the project development process and will continue to do so through the Environmental Assessment application process, construction and operation of Finavera's wind energy projects.

### *Financing*

The Company has obligations to fulfill certain capital requirements associated with developing its wind projects. While monetary loans will help the Company develop its projects, loans obtained by the Company may increase the level of financial risk to the Company. If the Company does not or is not able to comply with any debt covenants, lenders may demand repayment and enforce their security against the Company's assets. At the date of this report, the Company was negotiating to extend the repayment of a loan of \$1.5 million for which a demand notice was received.

The Company is required to spend \$4.7 million by December 2012 on qualifying Canadian renewable and conservation expenditures pursuant to the terms of flow-through share subscription agreements. The Company has spent approximately \$1.8 million of the flow-through funds raised in 2011 on non-qualifying expenditures and thus the Company will need to and expects to raise additional funds and take the steps necessary to comply with flow-through share agreements. If the Company fails to incur sufficient qualifying expenditures, it will be liable to the investors for any additional taxes payable and penalties payable to the Canadian Revenue Agency.

The Company may also need to raise additional capital through the issuance of equity, to develop its wind projects. The Company's ability to raise capital for this purpose will depend, in part, upon conditions in the capital markets at the time and its historical business performance. The Company cannot be certain that it will be able to raise additional equity capital which could delay the project development schedule.

### *Operations of Facilities*

Possible flaws in the manufacture of wind turbines and design errors unknown to the Company may result in unexpected repair costs and loss of production. Further, mechanical failure may occur after the Company's warranty periods expire.

The Company's revenues will be affected by the ability of its facilities to generate the maximum amount of electricity, which can be sold to BC Hydro. If a facility delivers less than the minimum contracted levels of electricity to BC Hydro under the EPA terms and conditions, penalty payments may be imposed, impacting the projects profitability.

Further, the Company's power generation facilities may be subject to damage (directly or indirectly) due to wear and tear, equipment failures, terrorism or unpredictable natural disasters such as floods, fires, high winds, landslides, avalanches or earthquakes.

#### *Public Transmission Systems*

The Company's ability to sell electricity is reliant upon the interconnection of its wind projects with transmission grids. If the Company is not able to connect a project to a transmission grid, if there is a failure of existing transmission facilities or if there is a lack of adequate transmission capacity this could result in delays to the development of the Company's BC projects.

#### *Wind Resource*

While wind power is a viable source of electricity, wind is a naturally variable resource. As such, the level of electricity production from wind projects is also variable. This may adversely affect the Company's operating results should the wind volatility be higher than expected. The strength and consistency of the wind resource at the Company's wind project sites may vary from the Company's projected wind energy modeling. Although the Company relies on historical data for its predictions of weather patterns, such patterns could change and remain unforeseeable. If the collected data does not reflect a viable estimate of current and future wind activity this may adversely affect the Company's profitability.

#### *Contractual Risks*

If Finavera and its development partners are unable to meet the obligations and conditions required under EPAs, the Company's projects could be delayed.

#### *Reliability of Turbine Equipment*

Although there is no guarantee that turbines selected by the Company will be able to withstand all weather conditions, turbines selected by the Company are warranted as suitable per climate and weather conditions. However, the longevity of the turbines is unpredictable. Further, any equipment breakdown after expiry of the applicable warranty period and outside the terms of the full service agreement will increase the expenses of the Company's projects.

#### *Reliance upon Suppliers*

The wind turbines for the Company's projects will be acquired from a small group of global manufacturers. If the turbine suppliers are not able to fulfill their contractual obligations, such as delivery and commissioning schedules, this may have an adverse effect on the delivery and commission schedule with consequent delay of commercial operations or may affect the long term operation of the Company's projects.

### *Insurance Coverage*

The Company has insurance coverage for material insurable risks, providing the coverage expected of a prudent owner/operator of similar facilities and projects. This insurance coverage is subject to prudent guidelines for deductibles, limits and exclusions. The Company cannot guarantee that insurance will be obtained or will cover all potential situations.

## **CONTROLS, PROCEDURES AND CERTIFICATIONS**

Management is committed to delivering timely and accurate disclosure of all material information. Disclosure controls and procedures ensure that reporting requirements are satisfied and that material information is disclosed in a timely manner. Due to the limitation on the ability of the officers to design and implement cost-effective policies for disclosure controls and procedures and internal control over financial reporting, the officers are not making representations that such controls and procedures would identify and allow for reporting material information on a timely basis, nor are they representing that such procedures are in place that provide reasonable assurance regarding the reliability of financial reporting. However, as permitted for TSX Venture issuers, the CEO and CFO individually have certified that after reviewing the quarterly financial statements and respective accompanying MD&A of the Company, there are no material misstatements or omissions, and the filing materially presents the financial position and results of operations and cash flows for the three and six month periods ended June 30, 2011, and all material subsequent activity up to August 26, 2011.

## **OUTSTANDING SHARE DATA**

As of the date of this report, August 26, 2011, the Company had the following outstanding securities:

Common shares- issued and outstanding	35,417,076
Stock options (including unvested options)	2,431,168
Brokers compensation options	350,257
Total fully diluted shares outstanding	38,198,501