

Finavera Renewables Inc. (FVR-V, \$0.40)

It Is Good Sailing With Wind and Tide

INITIATING COVERAGE: *SECTOR OUTPERFORM*
Target Price: \$0.80 *Risk: SPECULATIVE*

Investment Brief – We are initiating coverage of Finavera Renewables Inc. with a SECTOR OUTPERFORM rating and a one year target price of \$0.80 per share, implying a return of 100%. Our target is based on our probability-adjusted DCF model. Finavera Renewables is a development stage alternative energy company with several robust wind energy projects in Canada, Ireland and Germany. The Company is also testing its proprietary wave energy technology, the AquaBuOY and has received approvals to set up a wave energy test farm off the coast of Oregon.

- **Diversified wind portfolio represents 92% of our NAV** – Finavera has several robust wind energy projects in various stages of development. The Company has projects in Alberta, B.C. and Ireland and has also signed an MOU with respect to an acquisition opportunity in Germany. Finavera has additional projects in earlier stages of development in B.C. and Ireland.
- **Wave farms represent 8% of our NAV at only 10% probability** – The Company recently deployed a half scale prototype for testing offshore Oregon and has received a permit for wave resource testing off the west coast of Vancouver Island.
- **Wave technology upside ascribed no value, yet** – Finavera is currently testing its proprietary point absorber wave generator, the AquaBuOY. We feel that successful testing could move our valuation.
- **Experienced development team** – Finavera’s team couples personnel with experience in wind and wave energy development with management with significant wind development, financial and market experience.
- **Unique philosophy for North American developer** – Finavera’s management has experience in European wind energy and capital markets and is comfortable with spot market exposure and higher leverage than is normally found in North America.
- **Value could have many layers** – Our probability-adjusted DCF model results in a value of \$0.80 with conservative assumptions. Over 90% of our value comes from the various wind projects that Finavera is developing. The Company’s wave projects represent less than 10% of the value at a probability of 10%. We have conservatively ascribed no tangible value at this time to the wave technology.



EXECUTIVE SUMMARY

Target Price	\$0.80
Current Price	\$0.40
Return	100%
52-Week High / Low	\$0.91 / \$0.33
Estimated Treasury	\$4 million
Shares O/S	173.8 million (basic) 233.2 million (F/D)
Market Capitalization	\$69.5 million
Daily Volume	
(3-month average)	278,159
CEO	Jason Bak
Company Web Site	www.finavera.com

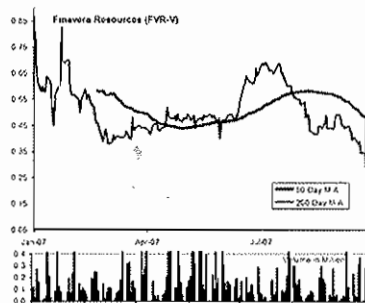
Revisions, Date of Record:

Target: Initiated Coverage 10/03/07
Rating: Initiated Coverage 10/03/07

Risk Profile	SPECULATIVE
Forecast Risk	MODERATE
Financial Risk	HIGH
Valuation Risk	HIGH

Industry – Alternative Energy

Company Profile – Finavera is a company with wind projects in Canada, Germany and Ireland and wave energy projects and technology.



Source: Bloomberg

It Is Good Sailing With Wind and Tide

- Diversified wind portfolio** – Finavera has several robust wind energy projects in various stages of development. Finavera recently signed a MOU to acquire a 20 MW wind project in Germany that is expected to be in commercial operations by December. The Company also has the two phase 150 MW Three Hills wind project in Alberta. Construction on Phase 1 is expected to begin in 2008. Finavera has four wind energy projects totalling 366 MW under development in the Peace Region of B.C. that are undergoing environmental assessments and will be bid into the BC Hydro Clean Power Call. The Company also has the promising 100 MW Cloosh Valley project in Ireland. Finavera has an additional 10 projects in earlier stages of development in B.C. and Ireland.
- Wave technology upside** – Finavera is currently testing its proprietary point absorber wave generator, the AquaBuOY. Several AquaBuOYs could be deployed together several miles offshore to create large wave farms that would transmit power to land through subsea cables. The Company recently deployed a half scale prototype for testing offshore Oregon and has received a permit for wave resource testing off the west coast of Vancouver Island.
- Experienced development team** – Finavera's team couples personnel with experience in wind and wave energy development with management with significant wind development, financial and market experience.
- Unique philosophy for North American developer** – Finavera's management has experience in European wind energy and capital markets. The Company expects to proceed with the Three Hills project without PPAs in place and is likely to use significant leverage with the project. This represents a unique philosophy in the North American industry where few sizeable projects proceed without PPAs in place and financing is approached more conservatively. The willingness of the Company to develop a project that will sell into the Alberta spot market adds to our assessment of risk.

Valuation – Our target price of \$0.80 is based on a probability-adjusted discounted cash flow model. We feel it important to point out that this valuation incorporates only a 10% probability of success of the wave energy projects and assigns no value to the AquaBuOY technology.

Catalysts – We see two near-term catalysts– a success in the BC Hydro Clean Power Call and positive test results for the AquaBuOY 2.0. We feel that positive movement on either the wind or wave front could garner the Company further attention and begin to move the stock.

Investment Thesis

We feel that Finavera is a company that has been overlooked by the market. While the Company has received attention for its AquaBuOY, we feel that Finavera's wind projects alone, particularly those in B.C., justify a higher valuation than the Company is receiving in the market. Finavera's exposure to European wind projects in Ireland and Germany that would fall under feed-in-tariff pricing is another positive.

While the near to mid term for Finavera is about wind, the Company's AquaBuOY technology is at a relatively advanced stage of development and provides the potential for considerable upside over a longer time horizon. If the technology proves up, the Company would be one of the first wave energy technology companies to achieve commercialization, allowing not only for its own wave energy projects, but also manufacturing or licensing revenues as the enormous potential of wave energy is developed globally.

We feel that, at present, Finavera's value lies primarily in its robust wind projects. We have assigned only a 10% probability to the success of the wave projects and no value to the AquaBuOY technology, although that could change with successful testing.

We worry about Finavera's willingness to proceed with the Alberta projects on a merchant basis, particularly if the projects are heavily levered. Exposure to uncertain capacity factors can be hard enough – problems at Creststreet's Mount Copper project serves as an example. **Our bullish view on Finavera is somewhat tempered by the possibility of exposure to the Alberta spot market. We find the exposure to extremely volatile pricing on top of potential operational risks concerning, particularly as the Alberta projects are likely to be Finavera's first significant sources of cash flow.**

Canadian Wind Projects – NAV of \$0.45/share

Finavera has a wind project in the Three Hills region of Alberta with two 75 MW phases, Ghost Pine and Lone Pine. The first phase of the project was in the queue for transmission ahead of the AESO's self imposed 900 MW wind cap. The Company has conducted wind studies and estimates a 31.3% capacity factor for Ghost Pine and 32.7% for Lone Pine. Construction on Ghost Pine is expected to begin in 2008 with commercial operations in 2009. Finavera has no PPA in place for the project, but still plans to go ahead with the project and sell power into the Alberta spot market. The Lone Pine phase is not likely to proceed until late 2009 with commercial operations expected in late 2010 or early 2011. The Company has engaged Genivar for engineering work on the Ghost Pine phase, which is currently undergoing environmental assessment and permitting work. **We are concerned by the project's planned exposure to the Alberta spot market. While numerous industry observers believe that prices could escalate substantially over the near term, we feel that there is substantial risk for an unproven project that is highly leveraged to be at the whims of one of the most volatile markets in the world. We also feel that financing risk is elevated without a PPA in place.**

Figure 19: Finavera's Canadian Wind Projects



Source: Company Presentation

The Three Hills project was purchased from Penn West Petroleum in March, 2007 for \$3.35 million. Finavera has been sued by the owner previous to Penn West, claiming the project as a constructive trust. While Finavera argues that the claim has no merit, the entire project would become the property of the plaintiff were the action successful. **We feel that it is highly unlikely that the plaintiff's action will be successful, but investors should be aware of the cost involved if it is.**

Finavera has four wind projects in the Peace River Region of B.C. In aggregate, the four projects have generating capacity of 366 MW. The projects have anemometers on site and average wind speeds for the sites range from 7 m/s – 10 m/s, pointing to strong resources. The projects have been entered into the B.C. environmental assessment process and Finavera has engaged Genivar to assist with the project. Finavera plans to submit the projects in the BC Hydro Clean Power Call. **We like the Peace River region prospects, if for no other reason than they are in B.C. We feel that Finavera has strong wind resources here and has a good chance of success in the upcoming BC Hydro Clean Power Call. Successful projects are likely to receive very strong pricing and will not be subject to the merchant risk of the Three Hills project.**

Finavera has an additional nine wind projects in the Cascades region of B.C. The potential capacity of these projects is likely upwards of 400 MW, but limited wind monitoring has been conducted at these sites. These projects will not be bid into the upcoming BC Hydro Clean Power Call.

European Wind Projects – NAV of \$0.28/share

The Company also has two wind projects in Ireland, Cloosh Valley and Maghera. The 100 MW Cloosh Valley project is much further advanced than the 75 MW Maghera project. The Cloosh Valley site is 25km NW of Galway City, County Galway. The wind resource shows very good potential with wind speeds averaging 8.9m/s, at a hub height of 65m and a capacity factor of 37.5%. Another positive attribute of the site is that the Electricity Supply Board plans to construct a 110kV line through the site. The Irish government has planning guidelines in place to alleviate hurdles that wind farm developers typically face, such as environmental impact assessment and planning approval. Finavera believes the project will be commercial by 2010.

Figure 20: Finavera's Irish Wind Projects



Source: Company Presentation

The 75 MW Maghera project is located in County Clare, Ireland. Again, the wind resource is very promising with a resource assessment identifying average wind speeds of 8.4 m/s, at a hub height of 65m and a capacity factor of 34.1%. The Company plans to engage a consultant to deal with environmental assessment and permitting requirements. The site has numerous available interconnection options with available capacity. The Company believes it may be able to achieve commercial operations by 2011.

Both projects would receive a 15 year PPA under Ireland's Renewable Energy Feed-In Tarff (ReFIT) program if their applications were successful. All wind

projects over 5 MW are be subject to a reference price of €57.00/MWh and inflation adjustments indexed from 2007 plus a reimbursement fee equal to 15% of the reference price for all power generated. In total, this equates to roughly C\$95/MWh. **The PPA prices in Ireland are not extremely high relative to other European countries, but prices at these levels make the projects more than feasible given the very promising capacity factors that have been cited.**

On August 1, 2007, Finavera announced that it had signed an MOU to acquire a 20 MW wind project in Germany, subject to the completion of a PSA and due diligence. The project is under construction and is expected to be commissioned in December 2007. A 20 year feed-in tariff power sales agreement is in place with a price of €81.90/MWh, or nearly C\$120/MWh. The project only has a capacity factor of 22.0%, but depending on the final purchase price, the project may still have strong economics given the robust pricing of the feed-in tariff. Senior debt financing has already been arranged with a major German lender.

We believe that Finavera's exposure to European wind development is positive. European governments and banks have been extremely supportive of renewable energy and we expect this to continue. We feel that beyond the financial rewards that may accrue to the Company from its European ventures, exposure to a leading edge renewable energy market like Germany can do nothing but benefit the Company in its endeavours in Canada.

AquaBuOY – Conservatively excluded from NAV

The AquaBuOY is a point absorber wave energy device that converts the energy of the vertical motion of waves into electricity. The AquaBuOY is made up of the buoy, the acceleration tube, the piston and the hose pumps. The buoy itself is similar to navigational buoys and its job is to float along the surface of the water and to house the turbine and other components. The acceleration tube is a vertical, hollow cylinder that is rigidly mounted under the body of the buoy. Positioned at the midpoint of the acceleration tube is the piston, a broad, neutrally buoyant disk. The hose pump, which is the proprietary "heart" of the device, is a steel reinforced rubber hose which is attached to the top of the piston.

When the buoy is at rest, the piston rests in the middle of the acceleration tube. When the buoy is in motion, the piston moves inside the acceleration tube, which extends and compresses the hose pump. As a hose pump compresses, its internal volume decreases, pressurizing the water inside it. This pressurized water is fed into a turbine which drives a generator. Electricity from the AquaBuOY is then transmitted to shore with a subsea cable.

Figure 21: AquaBuOY

The AquaBuOY will likely have a nameplate generating capacity of 250 kW and wave farms will be scalable from a few AquaBuOYs for distributed generation to several hundred to tie into power grids. Capital costs are expected to be in the neighbourhood of \$1.5 million / installed MW meaning it could be very competitive with wind energy depending on capacity factors. Finavera is currently estimating capacity factors in the range of 20%-25%, but the Company is optimistic that the current testing of the AquaBuOY 2.0 prototype off the coast of Oregon will prove up higher numbers. Like wind, capacity factors will be site dependant as the period and amplitude of the waves will affect the performance of the AquaBuOY.



Source: Company Website

The AquaBuOY has been designed to withstand the abuse of the ocean. It maximizes power output during typical wave conditions, shutting down when wave conditions become extreme. This avoids overbuilding the internal mechanisms of the device to cope with the enormous stress of storm forces which would add to the cost and complexity of the devices. The AquaBuOY uses simple components that have been in use for decades allowing the sourcing of local suppliers, construction, and maintenance. With proper maintenance, systems are expected to last upwards of 20 years.

Given the early state of wave energy development, there are several different technologies vying to come out as the clear leader. If the current tests of the AquaBuOY 2.0 are successful, it would put Finavera's technology in the top tier in the current state of the world. Several different competitors are in varying stages of developing point absorber technology and it seems likely that point absorber technology may well come out on top. Aside from Finavera, Ocean Power Technologies (PowerBuoy), Wavebob Ltd. (Wavebob) and AWS Ocean Energy (Archimedes Wave Swing) are all developing point absorber wave technology. Serious competitors that are not employing point absorber technology, but are also at relatively advanced stages of development, include the Wave Dragon and Ocean Power Delivery's Pelamis device. All of Finavera's serious competitors in this arena are private, with the exception of Ocean Power Technologies. While we do not see a clear winner among the technologies, we do not see any detractors when comparing AquaBuOY to peer technologies.

Wave Energy Projects – NAV of \$0.06/share at only 10% probability

Finavera has a number of wave energy projects in development that could utilize the AquaBuOY, but even if the AquaBuOY is not successfully commercialized competing technologies that are commercialized could be used to develop these projects. The most advanced of Finavera's projects are off the west coast of North America.

Figure 22: Finavera's North American Wave Projects



Source: Company Presentation

Makah Bay, off the coast of Washington, is held out by Finavera to be one of America's most advanced wave energy projects. The project would consist of four 250 kW AquaBuOYs in the ocean with onshore facilities located on Makah Indian Nation land. In November 2006, Finavera filed a FERC application to construct the project. An environmental document was completed in October 2006 including environmental, oceanographic and biological studies concluding that there would be no significant environmental impact. Makah Bay is the first project to receive a PPA from a public utility, and is in the final stage of FERC licensing. The Company expects to receive full permitting to deploy a 1 MW demonstration project later this year.

Finavera's most promising wave energy development project over the mid-term is the Coos County project. The Company is planning a 100 MW wave park approximately 2-3 miles off the coast of Oregon. On April 30, 2007, Finavera announced that it had received a three year Preliminary Permit from FERC to conduct studies in a 5.5 square mile area surrounding the impact of the proposed

project. Finavera will use the studies and stakeholder consultations to micro site the project and in its FERC application for a project operating license.

The Ucluelet project is off the west coast of Vancouver Island, B.C. The project is initially targeted for 5 MW with a possible expansion up to 100 MW. The Ucluelet project could become the first offshore wave energy project in Canada. On August 13, 2007 Finavera announced it had received a two year Investigative Use Permit from the province of B.C. for the wave energy project allowing the Company to conduct resource and environmental studies. The resource studies will use a wave measurement device to collect wave height and period data. An assessment of economics, local transmission, power capacity and other local infrastructure, including port access, will also be conducted.

Finavera is developing a commercial power project in Figueira de Foz, Portugal. Initial plans call for a 2 MW demonstration project followed by a possible expansion to 100 MW. The project has support from Portugal's largest power utility. Finavera is in negotiations for a €1.3 million grant from the European Commission for this project.

Finavera is also developing a 20 MW project in Western Cape, South Africa. The Company is currently assessing permit requirements and conducting a site assessment considering infrastructure, wave resource, and environmental characteristics of the location. The project is part of a commitment made by Finavera under the Clinton Global Initiative.

We feel that Finavera's wave energy projects offer some tangible value at the moment, but feel that the AquaBuOY technology itself offers tremendous value upside should it be successful. If the AquaBuOY can be quickly and successfully commercialized, Finavera could become a global leader in an industry still in its infancy – in 1979 Vestas began producing wind turbines with only 60 employees and today is the global leader in the space with over 13,000 employees. The ultimate global potential of wave energy could also make Finavera an attractive acquisition candidate if early commercialization efforts are successful.

Capitalization

Finavera currently has no debt and has cash and liquid investments of approximately \$4 million. We believe that the Company will need to raise money fairly soon to continue to fund the development of its wind and wave projects and the advancement of its AquaBuOY technology. **We believe that the Company is likely to need minimal equity if and when it closes the purchase of the German wind project as the cost of the project should not be significant and lending is already in place. We do, however, believe that a substantial raise will be necessary if the Alberta, B.C. or Irish projects are to move ahead.**

Valuation

Our target price of \$0.80 is based on a probability-adjusted discounted cash flow model. We feel it important to point out that this valuation incorporates only a 10% probability of success of the wave energy projects and assigns no value to the AquaBuOY technology. Both pieces are risky but present significant upside. Key model assumptions are shown below.

Table 5: Probability-adjusted DCF Assumptions and NPV/Share

	Ownership	Probability	Potential Critical Path Date	Commision Date	Capacity (MW)	Capacity Factor	Annual Generation (GWh)	NPV / Share
Ghost Pine	100%	80%	2008	2009	75	30%	197	\$0.10
Lone Pine	100%	70%	2009	2011	75	30%	197	\$0.08
Peace River	100%	30%	2008	2010	366	30%	962	\$0.27
Cloosh Valley	100%	60%	2008	2010	100	34%	298	\$0.17
Maghera	100%	40%	2009	2011	75	34%	223	\$0.07
Germany	100%	90%	2007	2008	20	22%	39	\$0.04
Wave Energy	100%	10%	?	2015	300	25%	657	\$0.06
								\$0.80

We have assumed a levelized Electricity Purchase Agreement price of \$88.00/MWh from BC Hydro for all BC projects. We note that BC Hydro uses a complex formula in calculating the levelized price and that the actual prices paid are much higher than the “headline” number disclosed as the levelized price. A levelized price of \$88.00/MWh for a 20 year PPA actually equates to \$105.65 in year 1 and escalates at 0.5% annually. We have assumed an Alberta Power Pool price of \$75.00 for 2009 with escalating prices and have assumed that the German and Irish projects receive prices in line with current feed-in tariffs. We have assumed that wave energy projects would receive \$100.00/MWh in 2015 and prices would escalate.

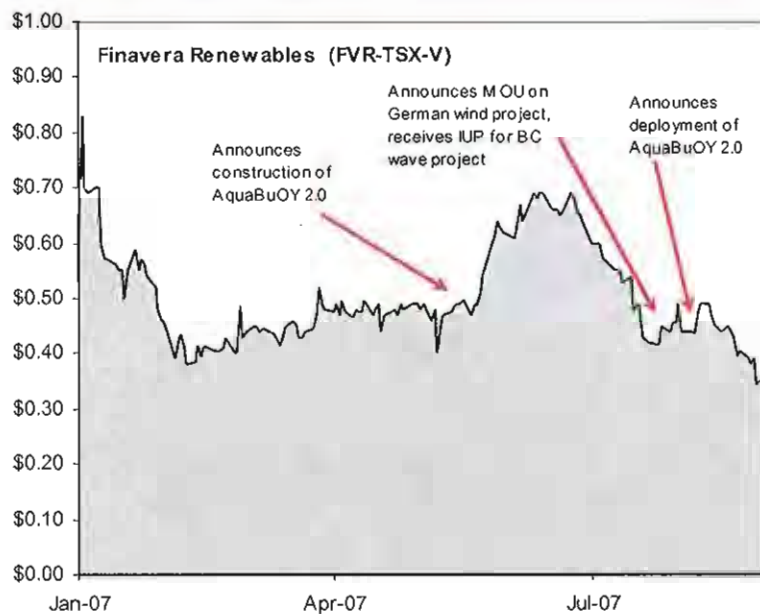
We have assumed capital costs ranging from \$2.0 - \$2.2 million per installed MW of wind capacity and \$1.5 million per installed MW of wave capacity. We have assumed projects will be financed with 65% to 75% debt in Canada and Ireland, respectively, with a 20 year term and an interest rate of 6.0%. We have assumed the German project will be financed with 70% debt over 20 years at a rate of 5.0%. We have discounted all cash flow to equity streams at 10%.

We believe that our target is conservative and that significant upside exists for Finavera’s stock. We feel that the Peace River projects represent near term upside and feel that the wave projects and AquaBuOY present huge long term growth potential for the Finavera. While Finavera’s wave energy exposure represents huge upside, we feel that investors should realize that the Company’s wind projects alone could support a higher valuation than it is currently receiving in the market.

Catalysts

We see two near-term catalysts for Finavera – a successful bid in the BC Hydro Clean Power Call and positive test results for the AquaBuOY 2.0. While we feel that the majority of the attention that Finavera is receiving is due to the AquaBuOY, we feel that positive movement on either the wind or wave front could garner the Company further attention and begin to move the stock. If Finavera is successful on either front, one could expect the same strong reaction that Canadian Hydro Developers had to their success in numerous bids. We also feel that due to the attention that the AquaBuOY has received, any test results that are perceived negatively by the market could put downward pressure on the stock.

Figure 23: Finavera's Share Price Performance



Risks

Overall risk for Finavera is high due to the amount of uncertainty surrounding both its wind and its wave projects. Forecast risk is moderate as the timeline for construction and operation of all phases extend past our forecast window. Financial risk is high as Finavera will need additional debt and equity financing to move into construction for all of its projects and we feel that its decision to proceed with the Alberta projects without PPAs may increase financing risk. Valuation risk is high as we feel that Finavera's stock price is overexposed in the market to success of the AquaBuOY. Political risk is moderate as the Company operates in stable nations, but will be exposed to lengthy permitting processes, particularly with regard to U.S. wave energy projects.

Management

Jason Bak, CEO and Founder

In 2003 Jason was the co-founder and CEO of Finavera Ltd. which was subsequently split into Finavera Renewables and Finavera Gas. He is the former VP, Corporate Development for Tournigan Gold Corporation and head of Corporate Affairs for Strongbow Resources Inc. Jason has a Bachelor of Science in Applied Physics from Simon Fraser University.

Bertan Atalay, COO

Bertan joined Finavera Renewables in February 2006 from Northland Power Inc. As the Director of Business Development, he was responsible for organizing a pipeline of 3,000MW of wind power project opportunities. Prior to Northland, Bertan was the Northern European Business Development Director of Shell WindEnergy where he was responsible for the commercial management of acquisitions and divestments and generation of new business. Bertan is qualified as a civil engineer with a Master of Applied Science from the University of Toronto, and a MBA in finance from the University of British Columbia, Vancouver. He is also an exchange scholar of the London Business School.

Jo Sidell, Senior VP, Asset Management

Jo is the former Asset Manager for Shell WindEnergy, and was responsible for the commercial asset management of a global operational portfolio of 740MW. Previously, she has held wind asset management positions with Cinergy Corp. (now Duke Energy) and PowerGen plc (now Eon UK) and a development manager role with Renewable Energy Systems of UK (RES). She holds a BSc Hons in Urban Land Economics and is a former member of the Royal Institution of Chartered Surveyors.

Denis Letourneau, VP Engineering, Ocean Energy

Denis is responsible for the technical commercialization of the AquaBuOY. He started his career as an Engineering Officer onboard Navy ships and later supervised construction and commissioning. As VP, Operation and Maintenance for Independent Power Producers in Canada, he supervised the construction and operation of over 100 MW of renewable energy power plants (mini-hydro, biomass, biogas, and wind plants). Denis is the former Ocean Energy Program Manager for AeroVironment.

Jon S. Lever, CFO

Jon is Chartered Management Accountant responsible for Finavera's financial reporting, and is involved with corporate governance and regulatory compliance matters. Jon began his career with the Touche & Ross. He has been involved with several resource companies, including roles as CFO of Tournigan Gold Corp. and Wealth Minerals Ltd. He is also the current CFO and director of Sunorca Development Corp, a CNQ listed company.