Consolidated Financial Statements
(Expressed in Canadian dollars)

Finavera Wind Energy Inc.

December 31, 2013 and 2012

KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Fax (604) 691-3031
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Finavera Wind Energy Inc.

We have audited the accompanying consolidated financial statements of Finavera Wind Energy Inc., which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, the consolidated statements of comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Finavera Wind Energy Inc. as at December 31, 2013 and December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 2(a) to the consolidated financial statements which describes that Finavera Wind Energy Inc. has a history of incurring losses, a significant working capital deficiency and will be required to raise additional capital or realize cash proceeds from the sale of its wind projects in order to meet its obligations and continue as a going concern. These conditions, along with other matters as set forth in note 2(a), indicate the existence of a material uncertainty that may cast significant doubt about Finavera Wind Energy Inc.'s ability to continue as a going concern.

KPMG LLP (Signed)

Chartered Accountants

April 30, 2014
Vancouver, Canada

FINAVERA WIND ENERGY INC.

Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	Note	December 31, 2013	December 31, 2012
Assets			
Current assets:			
Cash	5	$ 34,404	$ 817,845
Restricted cash	5	12,241	12,120
Receivables		8,051	31,538
Prepaid expenses		34,174	21,849
Other assets	8	1,750,000	1,250,000
		1,838,870	2,133,352
Non-current assets:			
Property and equipment	6	26,542	539,455
Project development costs and other assets held for sale	7	8,867,687	8,919,344
Other assets	8	159,501	719,701
Investment in Cloosh Valley Wind Project	9	613,247	292,550
		9,666,977	10,471,050
		$ 11,505,847	$ 12,604,402
Liabilities and Shareholders' Deficiency			
Current liabilities:			
Accounts payable and accrued liabilities		$ 3,452,611	$ 4,628,050
Loans and borrowings	16	18,974,923	15,767,082
Provisions	17	2,733,278	1,852,500
Flow-through share premium liability		-	20,249
		25,160,812	22,267,881
Non-current liabilities:			
Loans and borrowings	16	5,674,208	19,051
Provisions	17	258,828	252,543
		31,093,848	22,539,475
Shareholders' deficiency:			
Share capital	10	34,984,271	34,916,770
Contributed surplus		10,561,886	10,323,215
Warrants	10(d)	-	21,243
Accumulated deficit		(65,134,158)	(55,196,301)
		(19,588,001)	(9,935,073)
		$ 11,505,847	$ 12,604,402

Going concern (note 2(a))
Contingencies and commitments (note 15)
Subsequent events (notes 7, 8, 15, 16, 17 and 19)

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board:

Signed "Jason Bak" Director

Signed "David Lamont" Director

FINAVERA WIND ENERGY INC.

Consolidated Statements of Comprehensive Loss
For the years ended December 31, 2013 and 2012
(Expressed in Canadian dollars)

	Note	2013	2012
Operating expenses:			
Depreciation of property and equipment		$ 33,638	$ 41,666
Insurance and filing fees		117,964	122,268
Marketing and advertising		9,351	20,406
Office, rent and utilities		255,915	328,055
Payroll and benefits		990,579	790,505
Professional fees		455,807	497,482
Project costs	7	3,993,323	-
Stock-based compensation	11	220,243	-
Travel		52,449	24,683
Loss before undernoted item		(6,129,269)	(1,825,065)
Other expenses:			
Impairment of wind projects and wind monitoring equipment	6, 7	(459,022)	(8,496,232)
Other provisions	17	(680,000)	(377,500)
Loss on disposal of property, plant and equipment and other		(71,910)	(2,642)
		(1,210,932)	(8,876,374)
Net finance income (expense):			
Financing fees and interest expense		(2,506,370)	(815,839)
Interest and other income		18,847	30,297
Foreign exchange gain (loss)		(133,197)	13,856
Amortization of flow through premium		20,249	174,981
		(2,600,471)	(596,705)
Loss before income tax recovery		(9,940,672)	(11,298,144)
Deferred income tax recovery	10(d), 18	2,815	4,902
Loss and comprehensive loss for the year		$ (9,937,857)	$ (11,293,242)
Loss per share – basic and diluted		$ (0.25)	$ (0.30)
Weighted average number of common shares outstanding – basic and diluted		39,624,495	37,115,020

The accompanying notes are an integral part of these consolidated financial statements.

FINAVERA WIND ENERGY INC.

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

For the years ended December 31, 2013 and 2012

	Note	Share capital	Warrants	Contributed surplus	Accumulated deficit	Total shareholders' equity (deficiency)
Balance, December 31, 2011		$ 34,100,435	$ 36,993	$ 10,291,124	$ (43,903,059)	$ 525,493
Comprehensive loss for the year		-	-	-	(11,293,242)	(11,293,242)
Transactions with owners, recorded directly in equity:						
Private placement, net of issuance costs	10(a)(i)	177,193	-	-	-	177,193
Reallocation of fair value of private placement warrants		(21,243)	21,243	-	-	-
Conversion option		-	-	43,600	-	43,600
Note converted to shares		206,378	-	(43,600)	-	162,778
Fair value of warrants issued on loan	16(v)(ii)(b)	-	94,007	-	-	94,007
Shares issued on exercise of warrants		360,000	-	-	-	360,000
Fair value of warrants exercised		94,007	(94,007)	-	-	-
Warrants expired	10(d)	-	(36,993)	36,993	-	-
Tax effect of warrants expiry	10(d)	-	-	(4,902)	-	(4,902)
		816,335	(15,750)	32,091	(11,293,242)	(10,460,566)
Balance, December 31, 2012		$ 34,916,770	$ 21,243	$ 10,323,215	$ (55,196,301)	$ (9,935,073)
Comprehensive loss for the year		-	-	-	(9,937,857)	(9,937,857)
Transactions with owners, recorded directly in equity:						
Shares issued to settle debts	10(a)	67,501	-	-	-	67,501
Stock-based compensation expense	11	-	-	220,243	-	220,243
Warrants expired		-	(21,243)	21,243	-	-
Tax effect of warrants expiry	10(d)	-	-	(2,815)	-	(2,815)
		67,501	(21,243)	238,671	(9,937,857)	(9,652, 928)
Balance, December 31, 2013		$ 34,984,271	$ -	$ 10,561,886	$ (65,134,158)	$ (19,588,001)

The accompanying notes are an integral part of these consolidated financial statements.

FINAVERA WIND ENERGY INC.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)
For the years ended December 31, 2013 and 2012

	Note	2013	2012
Cash flows provided by (used in):			
Operating activities:			
Loss for the period		$ (9,937,857)	$ (11,293,242)
Items not affecting operating cash:			
Net finance expense		2,600,471	596,705
Project costs expensed		3,993,323	-
Other provisions		680,000	377,500
Depreciation		33,638	41,666
Loss on disposal of property, plant and equipment		71,910	2,642
Stock-based compensation		220,243	-
Deferred income tax recovery		(2,815)	(4,902)
Loss on write down of wind projects		459,022	8,496,232
		(1,882,065)	(1,783,399)
Changes in:			
Receivables		62,413	212,957
Prepaid expenses		(12,325)	(16,844)
Accounts payable and accrued liabilities		(844,189)	46,734
Net cash used in operating activities		(2,676,166)	(1,540,552)
Investing activities:			
Project development costs paid		(2,018,623)	(1,581,118)
Other assets	8 (i),(ii)	-	(102,975)
Interest received		4,959	30,297
Restricted cash		-	29,950
Investment in Cloosh Valley Wind Project	9	(330,540)	-
Net cash used in investing activities		(2,344,204)	(1,623,846)
Financing activities:			
Proceeds from loans and promissory note	16	5,281,224	2,980,000
Interest and financing fees paid		(194,295)	(93,053)
Loans repaid	16(vii)	(850,000)	(50,000)
Related party loans	16(vi)	-	225,000
Convertible note	10(c)	-	200,000
Proceeds from private placement of common shares	10(b)	-	179,460
Share issuance costs	10(b)	-	(2,267)
Proceeds from exercise of warrants	10(d)	-	360,000
Net cash provided by financing activities		4,236,929	3,799,140
Increase in cash		(783,441)	634,742
Cash, beginning of year		817,845	183,103
Cash, end of year		$ 34,404	$ 817,845

See note 12 for supplemental cash flow information

The accompanying notes are an integral part of these consolidated financial statements.

1. Reporting entity:

Finavera Wind Energy Inc., ("Finavera" or the "Company") has been developing and selling wind power projects in Canada and Ireland. As the Company is in the development phase, it has not generated any operating income. The Company has financed its operations through issuances of debt and equity and the sale of assets. The Company trades on the TSX Venture Exchange ("TSX-V") under the symbol "FVR".

2. Basis of preparation:

(a) Going concern:

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company has incurred operating losses since inception and has no operating assets at this time. At December 31, 2013, the Company had a significant working capital deficiency of $23.3 million (December 31, 2012 - $20.1 million) and an accumulated deficit of $65.1 million (December 31, 2012 - $55.2 million).

Finavera's ability to continue as a going concern is dependent on the Company's ability to realize cash proceeds from the sale of its wind projects, including future payments based on construction financing being obtained by the purchasers for the wind projects sold, and its ability to raise funds through debt or equity arrangements to fulfill its present obligations.

On April 26, 2013 the Company signed a Purchase and Sale Agreement ("PSA") with Pattern Renewable Holdings Canada ULC ("Pattern") for the sale of the Company's Meikle and Tumbler Ridge Wind Energy Projects (the "Projects") (note 7) (the "Pattern Transaction"). Proceeds of $9.3 million on the closing of the Pattern Transaction on April 15, 2014 were fully applied against certain loans and borrowings from Pattern. In addition, payments of up to $17.1 million may be received if and when Pattern obtains construction financing for one or both of the projects. Any future proceeds will first be applied to repay any remaining loans and borrowings from Pattern, which at December 31, 2013 total $11.1 million (undiscounted) excluding the $9.3 million repaid on closing of the Pattern Transaction.

The Company also expects to receive in the second half of 2014 the balance of proceeds of €7 million from the 2010 sale to SSE Renewables (Ireland) Limited (a unit of SSE plc ("SSE")) of its 90% interest in the Cloosh Valley Wind Project (note 9) which is payable when SSE has financed the project. These proceeds must first be used to repay amounts borrowed pursuant to a Working Capital Facility from Pattern (note 16(ix)). In addition, the Company is currently investigating ways to optimize value from its remaining 10% interest in the project.

2. Basis of preparation (continued):

(a) Going concern (continued):

In connection with the Pattern Transaction, the Company entered into a Demand Credit Facility Agreement with Pattern for up to $2.5 million to fund certain operating costs with the advances being at the discretion of Pattern for approved expenditures. The Demand Credit Facility converted to a Working Capital Facility (the "Facility") upon receipt from BC Hydro of preliminary consent for the Pattern Transaction on August 29, 2013 and had a maturity date of December 31, 2013. On December 6, 2013, the Facility was amended to increase the amount available to $6.3 million and to extend the maturity date to when Pattern receives construction financing for the project(s). As at December 31, 2013, $4.5 million (excluding accrued interest) of the Facility was used. The facility was amended subsequent to year end to increase the total amount available to $9.0 million.

There are no guarantees that Pattern will obtain construction financing and therefore the Company may not receive any additional payments pursuant to the PSA. There is also no guarantee that the Company will receive additional payments from SSE, or that the Company will be able to successfully sell its 10% interest in the Cloosh Valley Wind Project. In addition, management may not be able to complete further debt or equity financings.

The conditions described above give rise to a material uncertainty that may cast significant doubt as to the Company's ability to continue as a going concern. These consolidated financial statements do not give effect to any adjustments that would be necessary to the carrying value of its assets and liabilities, its reported expenses, and the statement of financial position, and the classifications used, should the Company conclude that the going concern assumption is not appropriate. Such adjustments could be material. Management reassesses whether the use of the going concern assumption is appropriate on a regular basis, and will record any necessary adjustments to its accounts if and when it concludes that the going concern assumption is no longer appropriate.

(b) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These consolidated financial statements were authorized for issue by the Board of Directors on April 30, 2014.

(c) Basis of measurement:

These consolidated financial statements have been prepared on the historical cost basis.

(d) Functional and presentation currency:

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

2. Basis of preparation (continued):

(e) Use of estimates and judgements:

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

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

Significant areas requiring the use of judgement relate to the assessment of the Company's ability to continue as a going concern (note 2(a)) and the Company's ability to utilize tax losses and the rates at which those losses will be realized. Information about significant areas requiring the use of management estimates are included in the relevant notes for the following estimates: the determination of future cash flows and probabilities in assessing net recoverable amounts and net realizable values for property and equipment and project development costs (notes 6 and 7), the estimated amount of asset retirement obligations and other provisions for contingent liabilities (notes 15 and 17) and the calculation of the fair values of stock-based compensation, warrants and broker options (notes 10 and 11) and financial instruments for measurement and disclosure purposes (note 4).

3. Significant accounting policies:

The accounting policies that have been used in the preparation of these consolidated financial statements are summarized below. These accounting policies have been applied consistently by the Company and its subsidiaries to all periods presented in these consolidated financial statements.

(a) Basis of consolidation:

These consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

3. Significant accounting policies:

(b) Foreign currency:

(*i*) Foreign currency transactions:

Foreign currency transactions are translated into the respective functional currencies of the Company and its subsidiaries, using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate in effect at the financial statement date. Such exchange gains or losses arising from translation are recognized in profit and loss for the reporting period.

The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in the foreign currency translated at the exchange rate at the end of the period.

(*ii*) Translation of foreign operations for consolidation:

For purposes of consolidation, the assets and liabilities of foreign operations with functional currencies other than the Canadian dollar are translated to Canadian dollars using the rate of exchange in effect at the financial statement date. Revenue and expenses of the foreign operations are translated to Canadian dollars at exchange rates at the date of the transactions with the average exchange rate for the period being used for practical purposes. Foreign currency differences resulting from translation of the accounts of foreign operations are recognized directly in other comprehensive income and are accumulated in the translation reserve as a separate component of shareholders equity.

When a foreign operation is disposed of, the amount of the associated translation reserve is fully transferred to profit or loss.

(c) Financial instruments:

(*i*) Non-derivative financial assets and liabilities:

Non-derivative financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Loans, receivables and deposits are recognized on the date that they are originated.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

3. Significant accounting policies (continued):

(c) Financial instruments (continued):

(*i*) Non-derivative financial assets and liabilities (continued):

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company classifies non-derivative financial assets as Financial Assets at Fair Value Through Profit or Loss ("FVTPL"); held-to-maturity financial assets; loans and receivables; or available-for-sale financial assets, and classifies financial liabilities as FVTPL or as other financial liabilities.

Financial instruments at FVTPL:

A financial instrument is classified at FVTPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial instruments at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. The Company has no financial instruments classified or designated as FVTPL.

Held-to-maturity financial assets:

If the Company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. The Company has no financial assets classified as held-to-maturity.

Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash, restricted cash, receivables and deposits included in other assets.

Restricted cash is comprised of a term deposit plus accrued interest, pledged as collateral against certain of the Company's leased equipment as at December 31, 2013.

3. Significant accounting policies (continued):

(c) Financial instruments (continued):

(*i*) Non-derivative financial assets and liabilities (continued):

Available-for-sale financial assets:

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the previous categories. Subsequent to initial recognition, instruments with a determinable fair value are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognized in other comprehensive income. Where fair value is not determinable for unquoted equity instruments, the financial instrument is recorded at historical cost. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss. The Company's available-for-sale financial asset is comprised of its investment in the Cloosh Valley Wind Project which is recorded at historical cost.

Other liabilities:

The Company classifies non-derivative financial liabilities as other financial liabilities. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, these financial liabilities are measured at amortized cost using the effective interest rate method. Other financial liabilities comprise accounts payable and loans and borrowings.

(*ii*) Derivative financial instruments:

Derivatives, including embedded derivatives, for which the economic characteristics and risks are not closely related to those of the host contract, are recognized initially and subsequently at fair value with changes in fair values recognized in profit or loss. The Company has no derivatives or embedded derivatives.

(iii) Compound financial instruments:

Compound financial instruments are instruments that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. The Company has no compound financial instruments outstanding.

3. Significant accounting policies (continued):

(c) Financial instruments (continued):

(*iv*) Share capital:

Common shares:

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Flow-through common shares:

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. Recording these expenditures for accounting purposes gives rise to temporary taxable differences.

Upon issuance of flow-through shares, the quoted value of common shares is recorded as an increase in share capital. The difference (premium) between the amounts recognized in share capital and the amount paid by the investor is recognized as a flow-through share obligation and is reversed into earnings at the time the flow-through expenditures have been incurred and are renounced or expected to be renounced to the shareholder.

When flow-through expenditures are incurred and renounced, or expected to be renounced, the Company records the tax effect as a charge to profit or loss and an increase to deferred income tax liabilities. To the extent that the Company has deferred income tax assets that were not recognized in previous years, a deferred income tax recovery is recorded in profit or loss.

(d) Property and equipment:

(*i*) Recognition and measurement:

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When major components of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

3. Significant accounting policies (continued):

(d) Property and equipment (continued):

(*i*) Recognition and measurement (continued):

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount, and are recognized within other income in profit or loss.

(*ii*) Subsequent costs:

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(*iii*) Depreciation:

Depreciation is recorded over the estimated useful lives of each material component of an item of property and equipment. Depreciation is based on the cost of an asset less its residual value. No depreciation is recognized for assets classified as held for sale.

Depreciation is recognized in profit or loss either on a straight-line basis or on a declining basis, depending on which method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative periods are as follows:

Asset	Basis	Rate
Computer and related equipment	Declining balance	30%
Office furniture and equipment	Declining balance	20%
Weather monitoring equipment	Declining balance	40%
Leasehold improvements	Straight-line	Over the term of the lease

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

3. Significant accounting policies (continued):

(e) Project development costs and intangible assets:

Development costs are charged as an expense in the period in which they are incurred unless they meet criteria for capitalization as intangible assets. Direct costs associated with the Company's wind projects are capitalized as an intangible asset if and when technical feasibility, economic viability, and availability of technical and financial resources to complete the development are demonstrated. The expenditures capitalized include the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets. Amounts are capitalized by project and will be amortized over the useful lives of the projects, upon commencement of commercial operations.

The recovery of project development costs requires the successful completion of the projects or the sale of project interests to a third party for net proceeds in excess of carrying value. The successful completion of the projects is dependent upon obtaining the necessary environmental approvals, permits and other licenses, obtaining the necessary project financing to complete construction of the projects, completion of memorandums of understanding with certain First Nations, and the long-term generation and sale of sufficient electricity on a profitable basis.

(f) Impairment:

(*i*) Loans and receivables:

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not otherwise consider, or indications that a debtor or issuer will enter bankruptcy.

The Company considers evidence of impairment for receivables and deposits at a specific asset level.

3. Significant accounting policies (continued):

(f) Impairment (continued):

(*i*) Loans and receivables (continued):

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and for receivables are reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, which include its property and equipment and project development costs, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or the CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

3. Significant accounting policies (continued):

(g) Employee benefits:

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(h) Share-based payment transactions:

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in contributed surplus, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service conditions at the vesting date.

(i) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(i) Asset retirement obligations:

The Company recognizes a provision for asset retirement obligations in the period in which it incurs a legal or constructive obligation associated with the acquisition, construction, development and/or normal use of its assets. The Company concurrently recognizes a corresponding increase in the carrying amount of the related asset which is amortized over the life of the asset.

(ii) Onerous contracts:

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

The Company does not have any material onerous contract provisions.

3. Significant accounting policies (continued):

(j) Lease payments:

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for in the period in which they are incurred.

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Company the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognized using the Company's incremental borrowing rate.

Lease revenue received for sub-leasing of premises is recognized on a monthly basis when amounts are received or receivable.

(k) Finance income and finance costs:

Finance income comprises interest income on funds invested and the amortization of flow through share premiums.

Finance costs comprise interest expense on loans and borrowings, unwinding of discounts on provisions and foreign exchange losses. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method. Borrowing costs for projects classified as held for sale are expensed as incurred.

Foreign currency gains and losses are reported on a net basis.

3. Significant accounting policies (continued):

(l) Income tax:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or if their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(m) Earnings per share:

The Company presents basic and diluted earnings (loss) per share (“EPS”) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise convertible notes, warrants, broker options and share options granted to employees.

3. Significant accounting policies (continued):

(n) Segment reporting:

Operating segments are based on the information about the components of the entity that management uses to make decisions about operating matters. The Company and its subsidiaries engage in one main business activity, hence operating segment information is not provided. Geographical segment information is provided by country of operations in note 14.

(o) New accounting standards adopted for the 2013 fiscal year:

IFRS 10 – Consolidated Financial Statements

IFRS 10 – Consolidated Financial Statements outlines the requirements for the preparation and presentation of consolidated financial statements, requiring entities to consolidate entities it controls. It defines control as requiring both the exposure or rights to variable returns, and the ability to affect those returns through power over an investee. It replaces the guidance and control provisions of IAS 27 Consolidated and separate financial statements and SIC 12 Consolidation - special purpose entities. Adoption of IFRS 10 did not impact the consolidated financial statements.

IFRS 11 – Joint Arrangements

IFRS 11 Joint Arrangements outlines the accounting by entities that jointly control an arrangement. Joint control requires unanimous consent of decisions under contractually agreed sharing of control. Arrangements subject to joint control are classified as either a Joint Venture (which provides the parties rights to the net assets and is accounted for using the equity method under IAS 28 - Investments in associates) or a Joint Operation (which provides the parties direct rights to the assets and obligations for liabilities, and is accounted for by recognizing its specific assets, liabilities, revenue and expenses, and its share of those amounts held jointly). The standard focuses on the sharing of rights and obligations, not on the legal structure of the arrangement, and it removes the option of using proportionate consolidation to account for an entity's interest in a joint venture. The Company has no joint arrangements and the adoption of IFRS 11 did not impact the consolidated financial statements.

3. Significant accounting policies (continued):

New accounting policies adopted for the 2013 fiscal year (continued):

IFRS 12 – Disclosure of Interest in Other Entities

IFRS 12 Disclosure of Interests in Other Entities is a disclosure standard requiring a wide range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated "structured entities". The standard requires 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. It requires disclosures about the significant judgments and assumptions in determining control and significant influence, and the nature of its interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Adoption of IFRS 12 did not impact the Company's consolidated financial position, cash flows or results from operations. All of its subsidiaries are 100% controlled by the Company. Disclosure related to the Company's 10% interest in the Cloosh Valley Wind Project is included in note 9.

IFRS 13 – Fair Value Measurement

IFRS 13 Fair Value Measurement explains how to measure fair value and what related disclosures to provide. It does not provide guidance on when to measure or re-measure fair value. The standard defines fair value on the basis of an 'exit price' notion and uses a 'fair value hierarchy', which results in a market-based, rather than entity-specific, measurement. The adoption of IFRS 13 did not impact the consolidated financial statements.

Amendments to IAS 19 Employee benefits

The amendments to IAS 19 change the measurement, presentation and disclosure related to defined benefit plans. The amendments also impact termination benefits, which would now be recognized at the earlier of when the entity recognizes costs for a restructuring within the scope of IAS 37 Provisions, and when the entity can no longer withdraw the offer of the termination benefits. The adoption of IFRS 19 did not impact the consolidated financial statements.

3. Significant accounting policies (continued):

(p) New accounting policies not yet adopted:

IFRS 9 - Financial Instruments

IFRS 9 - Financial Instruments (2009, 2010, 2013) will 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 profit or loss ("FVTPL")" (if the asset may be sold prior to maturity to realize fair value changes) or at "amortized cost" (if the asset is held primarily for its recurring cash flows comprising principal and interest). All other financial assets are measured at fair value. Financial liabilities are also measured either at FVTPL or at amortized cost, depending on certain conditions. The new standard also requires a single impairment model, provides guidance on the classification of liabilities and provides a new general hedge standard. The mandatory effective date has tentatively been set for January 1, 2018 but early adoption is permitted. The Company does not intend to early adopt this standard and is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

IFRIC 21- Levies

IFRIC 21- Levies, was issued by the IASB in May 2013 and provides guidance on when to recognize government levies. The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation. The new standard is effective for after the Company on January 1, 2014. The Company has determined that the adoption of this standard has no impact on the consolidated financial statements.

4. Financial instrument risk management:

Overview:

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

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. Financial instrument risk management strategies may expose the Company to further gains or losses, but serve to stabilize future cash flows, reduce the volatility of operating results, and increase overall financial strength.

Individual risks and the Company's approach to managing such risks are discussed as below:

4. Financial instrument risk management (continued):

Credit risk:

Credit risk is the risk that a counterparty to a financial asset will default, resulting in non-collectability and arises mainly from its cash, restricted cash, receivables and its deposits. The carrying amount of these assets (approximately $2.0 million) represents the Company's maximum exposure to credit risk. The Company's cash and restricted cash, including deposits related to letters of credit (note 8), is held with credit worthy Canadian financial institutions and the receivables are primarily related to recoverable sales taxes from the Government of Canada. The Company has assessed the credit risk of these instruments to be negligible. The Company did not have an allowance for doubtful accounts at December 31, 2013 or December 31, 2012 nor did it incur any material bad debt expenses in those years.

Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations. The Company is subject to liquidity risk from accounts payable and accrued liabilities and loans and borrowings. The Company currently has a significant working capital deficiency and has no credit facility with a financial institution (see note 2(a)). In 2013, the Company addressed this risk by arranging the financing with Pattern. The Company maintains regular communications with its creditors, and has on occasion borrowed funds from related parties and other third parties. Management has entered into agreements to sell all of its material assets to improve liquidity over the longer term future of the Company (note 7).

4. Financial instrument risk management (continued):

Liquidity risk (continued):

The following table represents the contractual cash flows including estimated interest payments, related to the financial liabilities of the Company:

December 31, 2013

	Carrying amount	Contractual cash flows	3 months or less	3-12 months	1-2 years
Accounts payable and accrued liabilities	$ 3,452,611	$ 3,452,611	$ 3,452,611	$ -	$ -
GE Payout (note 16 (iii))	10,638,289	10,812,092	-	9,260,621	1,551,471
Other secured loans (note 16 (ii)(vi)(vii)(viii)(ix)(x)	12,700,545	13,929,589	4,031,419	5,068,583	4,829,587
Other loan (note 16(i))	82,251	82,251	82,251	-	-
Promissory note (note 16 (v))	1,209,025	1,309,722	-	1,309,722	-
Finance lease obligations (note 16 (iv))	19,021	19,021	2,224	6,671	10,126
	$ 28,101,742	$ 29,605,286	$ 7,568,505	$ 15,645,597	$ 6,391,184

December 31, 2012

	Carrying amount	Contractual cash flows	3 months or less	3-12 months	1-2 years
Accounts payable and accrued liabilities	$ 4,628,050	$ 4,628,050	$ 4,628,050	$ -	$ -
Loans payable on demand or past due (note 16 (i)(ii)(vi)(vii)(viii))	5,346,121	5,346,121	5,346,121	-	-
GE Payout (note 16 (iii))	9,363,447	10,331,858	-	10,331,858	-
Promissory note (note 16 (v))	1,049,447	1,134,091	-	1,134,091	-
Finance lease obligations (note 16 (iv))	27,118	27,118	2,017	6,050	19,051
	$ 20,414,183	$ 21,467,238	$ 9,976,188	$ 11,471,999	$ 19,051

Market risk:

Market risk is the risk to the Company of adverse financial impacts due to changes in the fair value or future cash flows of financial instruments primarily as a result of fluctuations in interest rates and foreign exchange rates.

(*i*) Interest rate risk:

The Company's interest rate risk on loans and borrowings has been mitigated by fixing interest rates at the inception of the loans. At December 31, 2013 and 2012, the Company had no debt subject to floating interest rates.

The Company's interest income from cash and restricted cash is also subject to interest rate risk, but such risk is not considered material based on the balances on hand and the Company's expectation of interest rates in the foreseeable future.

4. Financial instrument risk management (continued):

Market risk (continued):

(ii) Currency risk:

The Company has United States dollar denominated loans payable and has accounts payable denominated in United States dollars and Euros, totaling approximately US$1,460,000 and €382,000 as at December 31, 2013, and is therefore subject to currency risk. The Company does not currently use any derivative instruments to reduce its exposure to fluctuations in foreign currency exchange rates. An increase (decrease) in the US dollar and Euro exchange rates relative to the Canadian dollar of 10% would increase (decrease) net loss by approximately $155,000 and $56,000, respectively.

(iii) Capital management:

The Company's capital is comprised of shareholders' equity and loans and borrowings. Finavera's overall objective has been to maintain sufficient capital to maintain the Company's ability to continue as a going concern and enable the Company to sell or develop its wind projects. The priority has been to utilize debt financing to minimize shareholder dilution, and then to issue equity securities as a means of raising capital. Market conditions impact the ability of the Company to maintain a balance between debt and equity. At December 31, 2013, the Company is not subject to any specific externally imposed capital requirements, a status that remains unchanged since the Company's start up. The Company's capital management strategy has not changed during 2013.

Fair values:

Financial instruments measured at fair value or for which fair value is disclosed are categorized within a three-tier fair value hierarchy, which prioritizes the inputs in measuring fair value of financial instruments, as follows:

- Level 1: quoted prices (unadjusted) in active markets or identical assets or liabilities;
- Level 2: valuation techniques using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at December 31, 2013 and 2012, the Company does not have any financial instruments measured at fair value. The fair values disclosed below for loans and borrowings are classified as level 2.

4. Financial instrument risk management (continued):

Fair values (continued):

The carrying values of the Company's cash, restricted cash, receivables, deposits, and accounts payable approximate their fair values because of their short term to maturity and/or the interest rates being charged. The fair value of the Company's loans and borrowings that are payable on demand, or that are past due, approximate their carrying value due to their short-term to maturity. The fair value of the Company's other loans and borrowings are not estimated to differ materially from the carrying value due to the terms to maturity, loan security and the interest rates being charged.

5. Cash:

	December 31, 2013	December 31, 2012
Operating funds	$ 34,404	$ 539,890
Flow-through funds	-	277,955
	$ 34,404	$ 817,845

The flow-through funds related to funds required to be spent on certain qualifying expenditures pursuant to the issuance of flow through shares in 2011.

The amounts in the preceding table exclude $12,241 (December 31, 2012 - $12,120) that is subject to restrictions under an equipment lease that is presented separately as restricted cash.

6. Property and equipment:

	Office furniture and equipment	Computer and related equipment	Leasehold improvement	Weather monitoring equipment	Total
Cost					
Balance at January 1, 2012	$ 146,476	$ 95,513	$ 53,143	$ 1,525,457	$ 1,820,589
Additions	-	-	-	-	-
Disposals	(8,513)	(16,635)	-	-	(25,148)
Asset retirement obligations	-	-	-	252,543	252,543
Balance at December 31, 2012	137,963	78,878	53,143	1,778,000	2,047,984
Additions	-	-	-	-	-
Disposals	(132,085)	(6,271)	(53,143)	-	(191,499)
Reclassified to assets held for sale	-	-	-	(1,778,000)	(1,778,000)
Balance at December 31, 2013	$ 5,878	$ 72,607	$ -	$ -	$ 78,485
Accumulated depreciation and impairments					
Balance at January 1, 2012	$ 63,840	$ 39,330	$ 7,015	$ 900,145	$ 1,010,330
Deprecation for the year	14,441	16,598	10,627	250,125	291,791
Impairment charges	-	-	-	220,365	220,365
Disposals	-	(13,957)	-	-	(13,957)
Balance at December 31, 2012	78,281	41,971	17,642	1,370,635	1,508,529
Depreciation for the period	11,937	11,072	10,629	-	33,638
Disposals	(87,115)	(4,203)	(28,271)	-	(119,589)
Reclassified to assets held for sale	-	-	-	(1,370,635)	(1,370,635)
Balance at December 31, 2013	$ 3,103	$ 48,840	$ -	$ -	$ 51,943
Carrying amounts					
At December 31, 2012	$ 59,682	$ 36,907	$ 35,501	$ 407,365	$ 539,455
At December 31, 2013	2,775	23,767	-	-	26,542

7. Project development costs and other assets held for sale:

The Company has been developing its Meikle, Tumbler Ridge, Bullmoose and Wildmare Projects (collectively the "BC Projects") in north-central British Columbia since 2005. During 2010, the Company was awarded 25 year Electricity Purchase Agreements ("EPAs") for each of its four wind projects by British Columbia Hydro and Power Authority ("BC Hydro"). EPAs provide a customer for all electricity produced, a defined price and the commercial foundation to move the projects towards construction and operation. The Company subsequently amended project nameplate capacities as permitted in the BC Hydro Clean Power Call, to a total of approximately 301 Megawatts ("MWs").

In July 2010, the Company entered into a Joint Development Agreement ("JDA") with GE Energy LLC ("GEE"). Under the terms of JDA, GEE provided Finavera with project development funding of $7.5 million (the "GE Advance") for the BC Projects. The advances were fully drawn including $2 million provided by GEE as letters of credit (note 16(iii). Pattern assumed all of the rights and obligations related to the GE Advance in 2012 by paying GEE the GE Advance including accrued interest up to the date of payment, for a total amount of $9.3 million (the "GE Payout"). Interest then accrued on the GE Payout funded by Pattern until BC Hydro provided preliminary consent to the Pattern Transaction on August 29, 2013. However, interest continued to accrue on the GEE letters of credit until the Pattern Transaction closed on April 15, 2014.

Pursuant to the PSA dated April 26, 2013 and its subsequent amendments, the Company agreed to sell its Meikle and Tumbler Ridge Wind Energy Projects to Pattern for total compensation of up to $26.4 million. On closing of the Pattern Transaction on April 15, 2014, an amount of $9.3 million was paid by Pattern and was fully applied against the principal portion of the GE Payout owing to Pattern. The Company, Pattern and BC Hydro also executed agreements for the assignment of the 184 MW Meikle EPA from Finavera to Pattern and Pattern replaced the Company's BC Hydro performance and interconnection security with their own security in respect of the projects purchased. Accordingly, the project development cost and certain related assets have been classified as held for sale as at December 31, 2013 and recognized at their estimated fair value less cost to sell.

Pursuant to a Development Loan Facility, Pattern has been undertaking and financing project development activities on the Projects on behalf of the Company since April 26, 2013. Upon the closing of construction financing by Pattern, the first $2.0 million of project development costs are not repayable to Pattern. Costs incurred in excess of $2.0 million will be deducted from any additional payment to be received when Pattern secures construction financing. The Development Budget included in the PSA indicates an additional $2.9 million in development costs are expected to be incurred subsequent to December 31, 2013 up to the date Pattern expects to secure construction financing.

Under the terms of the PSA and its amendments, when Pattern closes the project's construction financing, the Company is to receive an additional payment of up to $17.1 million based on the final financed megawatt capacity of the project(s). The additional payment will first be applied to any outstanding loans and borrowings from Pattern including accrued interest.

7. Project development costs and other assets held for sale (continued):

At December 31, 2013, the total loans and borrowings received from Pattern and accrued interest to be offset against the $17.1 million future sale proceeds is as follows:

Development Loan Facility (16(viii))	$ 4,829,587
Working Capital Facility (16(ix))	4,678,889
Accrued interest on GE Payout	1,551,471
	$ 11,059,947

The Company's Wildmare and Bullmoose wind projects were not part of the projects acquired. However, pursuant to the PSA, Pattern has an option to acquire these projects for 2 years from the date of closing of the Pattern transaction for $100,000 per MW.

At December 31, 2012, the Company determined that indicators of impairment existed with respect to the recoverability of amounts capitalized to project development costs for the Company's Wildmare and Bullmoose Wind Energy Projects. The Company concluded that there was impairment in the value of these two projects and all deferred project development and equipment costs were written down as at December 31, 2012. Included in the impairment charge were provisions of $1,050,000 for the estimated costs BC Hydro incurred in respect of Wildmare interconnection work, and $175,000 and $250,000 for estimated BC Hydro charges pursuant to the Bullmoose and Wildmare EPAs respectively. The total 2012 project impairment charge was comprised of the following:

	Wildmare Project	Bullmoose Project	Total
Project development costs	$ 7,064,396	$ 1,211,471	$ 8,275,867
Met tower equipment (note 6)	220,365	-	220,365
Total amounts written down	$ 7,284,761	$ 1,211,471	$ 8,496,232

During the year ended December 31, 2013, the Company recognized a further impairment charge of $459,022 primarily related to weather monitoring equipment.

7. Project development costs and other assets held for sale (continued):

A summary of the carrying value of the project development costs and other assets held for sale is as follows:

	Meikle Project	Tumbler Ridge Project	Bullmoose Project	Wildmare Project	BC Projects Total
Balance, January 1, 2011	$ 2,728,748	$ 3,880,395	$ 707,366	$ 4,141,239	$ 11,457,748
Depreciation	97,430	69,437	-	83,258	250,125
Land dues, fees and permits	2,595	36,549	-	16,609	55,753
Environmental	2,875	105,775	285	245,983	354,918
Engineering	9,523	4,158	175,228	1,305,211	1,494,120
Project management and integration	177,056	423,186	85,770	644,511	1,330,523
Borrowing costs	640,000	581,355	236,022	607,416	2,064,793
First Nations	80,093	80,169	6,800	20,169	187,231
Additions for the year	1,009,572	1,300,629	504,105	2,923,157	5,737,463
Impairment charges	-	-	(1,211,471)	(7,064,396)	(8,275,867)
Balance, December 31, 2012	3,738,320	5,181,024	-	-	8,919,344
Carrying value of weather monitoring equipment transferred from property and equipment	224,677	182,688	-	-	407,365
Impairment charges	(224,677)	(234,345)	-	-	(459,022)
Balance, December 31, 2013	$ 3,738,320	$ 5,129,367	$ -	$ -	$ 8,867,687

7. Project development costs (continued):

In 2013, the Company expensed all costs related to the Meikle and Tumbler Ridge projects in excess of $8.9 million, being the estimated fair value less costs to sell. The fair value was determined with reference to the expected consideration to be received from Pattern on closing of the Pattern Transaction which includes settlement of loans and borrowings and the assumption by Pattern of the asset retirement obligations associated with the sold projects. In addition, the Company also expensed project costs related to its Bullmoose and Wildmare projects. Although those projects were written off in 2012, the Company is retaining its licenses and permits and wind site data continues to be collected.

The costs expensed on the Company's BC projects during the year ended December 31, 2013 are as follows:

	Meikle	Tumbler Ridge	Bullmoose	Wildmare	Other	Total
Engineering	$ 1,544,408	$ 10,182	$ -	$ 3,515	$ -	$ 1,558,105
Environmental	173,152	180,282	3,464	4,455	-	361,353
First Nations payments	494,414	47,870	20,000	45,200	-	607,484
Land dues, fees and permits	164	58,797	1,500	2,907	3,467	66,835
Project insurance	15,235	9,650	9,650	9,650	-	44,185
Project management and integration	421,623	172,363	28,010	46,327		668,323
Expenses recovery	-	-	-	(63,943)	-	(63,943)
Legal/Accounting and professional fees	475,981	275,000	-	-	-	750,981
Total	$3,124,977	$754,144	$ 62,624	$ 48,111	$ 3,467	$3,993,323

Cascades Wind Project, British Columbia, Canada

The Company received an Investigative License of Occupation ("ILoO") in 2012, valid until August 1, 2016, from the Province of British Columbia, for an area located in the Cascades Mountain region of south-central British Columbia, which replaced an Investigative Use Permit ("IUP") previously held by the Company. Cumulative costs incurred on the project are less than $50,000. The ILoO allows the Company to install weather monitoring equipment and conduct field work in relation to wind energy in the region. No costs have been capitalized to project development costs with respect to this project.

8. Other assets:

This balance is comprised of the following items:

	December 31, 2013	December 31, 2012
Deposits related to letters of credit (i)	$ 1,750,000	$ 1,750,000
BC License of Occupation security deposits (ii)	146,000	146,000
Office lease deposit	13,501	73,701
	1,909,501	1,969,701
Less current portion	(1,750,000)	(1,250,000)
	$ 159,501	$ 719,701

(i) The Company has had $1,750,000 of funds on deposit with a financial institution since 2011 to support letters of credit issued by the institution in favour of BC Hydro as security for the Company's commitments under its Standard Generator Interconnection Agreements ("SGIAs"). The Company cannot access these deposits as long as the letters of credit remain in place. When the Pattern Transaction closed in April 2014, the deposits of $1.75 million were released and used to settle certain related provisions (note 17(i) and 17(ii) with the balance used to repay a portion of the Working Capital Facility.

(ii) The Company has funds on deposit for a General Area License of Occupation, issued by the BC Ministry of Forests, Lands, and Natural Resource Operations. The funds were being held in a non-interest bearing trust by the Provincial Treasury until the expiry of the term of the tenure on May 27, 2017. Subsequent to December 31, 2013, $125,000 was released and used to repay a portion of the Working Capital Facility.

9. Investment in Cloosh Valley Wind Project:

The Company has a 10% interest in the Cloosh Valley Wind Project (the "Cloosh Valley Project"), a 105 MW late stage development project in County Galway, Ireland, with a position in the Irish transmission connection queue in Ireland. In 2011, the project received full planning permission with construction financing for the project now expected in the second half of 2014. At such time, the Company is to receive €7.14 million as further described below.

On August 25, 2010, the Company, which held a 100% interest in the Cloosh Valley Project, signed an agreement with SSE to sell a 90% interest in the Cloosh Valley Project to SSE for €8.4 million of which €1.26 million was received upon execution of the agreements with the remaining consideration payable subject primarily to the closing of Cloosh Valley Project construction financing.

Finavera also signed a Co-Development Agreement with SSE and Coillte, the Irish state owned commercial forestry and renewable energy company, to jointly develop the Cloosh Valley Project. Coillte is the landowner at the Cloosh Valley Project site and has been a development partner on the Cloosh Valley Project since 2009. Finavera retains a 10% equity interest in the Cloosh Valley Project and participates proportionately in all project development costs and activities.

Effective from the date of sale in 2010, the Company has capitalized its share of project development costs billed. During the year ended December 31, 2013, the Company paid its share of 2012 project costs of €77,197 which had not been paid in 2012 as well as €163,197 related to 2013 project costs (combined total of $330,540).

Additional amounts totaling €44,089 ($64,612) in respect of unpaid 2013 project costs are payable by the Company. Should the Company default on its obligation to pay its share of the costs or chooses not to continue to make its contributions, SSE has the option of either a) charging interest at 10% on the outstanding amount, or b) subject to a 30 day notice period, buying out the Company's remaining 10% interest for €2.1 million, payable at financial close.

10. Share Capital and other components of equity (continued):

Share capital:

Authorized: Unlimited number of common shares with no par value; and

100 Redeemable Preferred shares

Issued: 39,726,649 common shares

	Number of shares	Amount
Issued and outstanding common shares as at December 31, 2011	36,400,476	$ 34,100,435
Private placement financing – net of cash share issuance costs	535,700	177,193
Reallocation of fair value of private placement warrants	-	(21,243)
Warrants exercised	2,000,000	360,000
Fair value of warrants excised	-	94,007
Conversion of convertible promissory note	469,040	206,378
Issued and outstanding common shares as at December 31, 2012	39,405,216	$ 34,916,770
Shares for debt settlements	321,433	67,501
Issued and outstanding common shares as at December 31, 2013	39,726,649	$ 34,984,271

(a) Shares issued to settle debt

On April 26, 2013, the Company issued 321,433 shares at a price of $0.21 per share to extinguish outstanding debt of $67,501.

(b) Private placement

In April 2012, the Company raised gross proceeds of $179,460 through a private placement of 535,700 units at a price of $0.335 per unit. Each unit consisted of one common share and one common share purchase warrant exercisable at $0.50 per share until April 17, 2013. Issuance costs of $2,267 were incurred. The fair value of the warrants was estimated to be $21,243.

For the purposes of valuing the warrants and broker's or agent's compensation options issued in connection with private placements, the Company used the Black-Scholes pricing model with the following assumptions:

	Year ended December 31, 2012
Average risk-free interest rate	1.31%
Expected life of warrant (in years)	1.00
Average volatility	72.8%
Dividend yield	Nil%

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

(c) Conversion of convertible promissory note:

On May 29, 2012, the Company issued 469,040 common shares pursuant to the conversion of a $200,000 convertible promissory note that was issued in February 2012.

(d) Warrants:

The value of warrants in the statements of financial position reflect the fair value of outstanding warrants as determined using the Black-Scholes pricing model, adjusted for the proportionate allocation of the private placement issue costs.

The following schedule shows changes in the warrants during 2013 and 2012:

	Year ended December 31, 2013		Year ended December 31, 2012	
	Number of warrants	Amount	Number of warrants	Amount
Balance, beginning of year	535,700	$ 21,243	491,700	$ 36,993
Private placement warrants issued (note 10(a)(i))	-	-	535,700	21,243
Warrants issued for loan (note 16(vii))	-	-	2,000,000	94,007
Warrants exercised	-	-	(2,000,000)	(94,007)
Warrants expired	(535,700)	(21,243)	(491,700)	(36,993)
Balance, end of year	-	$ -	535,700	$ 21,243

During the year ended December 31, 2013, a total of 535,700 warrants expired (2012 – 491,700) and their fair value of $21,243 (2012 - $36,993) was transferred to contributed surplus. The tax effect of the expiration of the warrants has been recorded as an adjustment to contributed surplus of $2,815 (2012- $4,902) during the year ended December 31, 2013.

11. Share-based payment:

The Company has a common share Stock Option Plan (equity-settled).

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

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

On January 21, 2013, the Company replaced 2,154,560 outstanding options with a weighted average exercise price of $0.96 with 1,783,800 stock options exercisable at $0.205 per share for a five-year period. The incremental fair value of these options was $216,610 which was expensed in 2013 as all replacement options were fully vested on the grant date.

On March 27, 2013, 20,000 stock options were granted to a consultant, exercisable at $0.205 per share for a five-year period. The fair value of these options was $3,633.

At December 31, 2013, there were 1,621,700 stock options outstanding, all of which are vested and exercisable. Details of the status of the Company's stock options as at December 31, 2013 and the changes during the past two fiscal years are as follows:

	Number of options	Weighted average exercise price
Outstanding, January 1, 2012	2,646,168	$ 0.99
Forfeited	(265,000)	1.00
Expired	(226,608)	1.28
Outstanding, December 31, 2012	2,154,560	$ 0.96
Cancelled	(2,336,660)	0.96
Granted	1,803,800	0.205
Outstanding, December 31, 2013	1,621,700	$ 0.205

11. Share-based payment (continued):

The following table summarizes the outstanding and exercisable stock options at December 31, 2013:

Expiry date	Number of options vested and exercisable	Number of options outstanding	Weighted average exercise price	Weighted remaining contractual life (in years)
January 21, 2018	1,601,700	1,601,700	$ 0.205	4.06
March 27, 2018	20,000	20,000	$ 0.205	4.24
	1,621,700	1,621,700	$ 0.205	4.06

During the year ended December 31, 2013, the Company recognized stock-based compensation expense of $220,243 (2012 - $nil).

The following assumptions were used for the valuation of the stock options granted under the Stock Option Plan:

	Year ended December 31, 2013
Average risk-free interest rate	1.48%
Expected life of option (in years)	5.00
Average volatility	112.39%
Dividend yield	Nil%

12. Supplemental cash flow information:

	Year ended December 31, 2013	Year ended December 31, 2012
Investing and financing non-cash transactions:		
Increase in accounts payable and accrued liabilities related to project development costs	$ -	$ 448,988
Project development costs incurred by Pattern and added to loans and borrowings	2,947,515	-
Shares issued to extinguish debt	67,501	-
Shares issued to redeem convertible note	-	206,378
Loan warrants included in finance cost	-	94,007
Additions to property and equipment for asset retirement obligations	-	252,543
Private placement warrants – fair value on issue	-	21,243

13. Related party transactions:

These financial statements include transactions during the period with related parties as follows:

(a) Amounts owing to related parties as at December 31, 2013 are $42,760 (December 31, 2012 - $60,189) in respect of expenses incurred in current and prior years to directors, former directors, and companies controlled by former directors. These amounts are included in accounts payable and accrued liabilities in the statement of financial position and are non-interest bearing.

(b) At December 31, 2013, secured loans and accrued interest due to related parties was $331,391 (December 31, 2012 – $264,825). The loans bear interest at 22% per annum, and were payable on demand as to $50,000 plus interest by July 31, 2012 and $175,000 plus interest by April 12, 2013 (Note 16(vi)). Demand notices have not been received.

(c) During 2013, officers received a total of 82,775 shares for debt owing of $17,383, as part of a larger shares for debt settlement (note 10(a)).

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

In addition to their salaries, the Company also provides non-cash benefits to directors and executive officers, including share based compensation (note 11).

Compensation paid to key management personnel including the Chief Executive Officer, President, Chief Financial Officer, Vice President of Wind Energy and Vice President of Finance, Vice President of Corporate Development and the Board of Directors is set out below:

	2013	2012
Wages and benefits	$ 994,873	$ 984,597
Other remuneration	23,000	-
Share-based compensation	86,906	-
	$ 1,104,779	$ 984,597

14. Segmented information:

The Company and its subsidiaries engage in one main business activity, hence operating segment information is not provided. Geographic information about the Company's operations is as follows::

	Ireland	Canada	Total
As at and for the year ended December 31, 2013:			
Segment total assets	$617,888	$10,887,959	$11,505,847
Non-current assets	613,247	9,053,730	9,666,977
Loss from operations for 2013	(85,393)	(9,852,464)	(9,937,857)
As at and for the year ended December 31, 2012:			
Segment total assets	$306,820	$12,297,582	$12,604,402
Non-current assets	292,550	10,178,500	10,471,050
Loss from operations for 2012	(33,679)	(11,259,563)	(11,293,242)

15. Contingencies and commitments:

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

2014	$ 238,299
2015	237,177
2016	76,886

In December 2013, the Company signed a sublease agreement with a third party which substantially covers the remaining office lease obligations.

(b) In May 2013, the Company received a judgment from a lawsuit that arose after the acquisition in 2007 of the Three Hills Wind Projects ("Three Hills"), comprised of the Ghost Pine and Lone Pine Wind Projects in Alberta, Canada. The suit went to trial in Alberta in February 2013. The Court dismissed the plaintiff's claim that Finavera misused confidential information, breached any contract with the plaintiff, misappropriated a business opportunity, and that the plaintiff has a proprietary interest in the wind project. The Court only found that the plaintiff was entitled to be reimbursed for services it provided in the amount of $600,000 and pre-judgment interest. In November 2013, the Court also found that the plaintiff's legal costs would be fully satisfied by $75,000 that was paid into Court by the Company in 2012. In November 2013, the plaintiff appealed the judgment. The Company is currently considering its legal options and has recorded a provision of $600,000 ($300,000 of which was recognized in each of 2012 and 2013) and $81,935 of accrued interest.

During 2008, the Company sold its Ghost Pine Wind Project and $1,000,000 of the proceeds was held back pending resolution of the legal action described above. The amount of the holdback to be released is dependent upon the resolution of the above litigation matters and will be reduced by the cumulative amount of legal fees incurred by the purchaser. Based on currently available information, the legal costs incurred to date have significantly reduced the amount of the holdback, if any, that the Company expects to receive on settlement. In addition, the Company may be liable for additional legal costs. The timing and additional cost of settling the dispute cannot be reasonably estimated, and accordingly, the net additional proceeds or any costs associated with its collection have not been recorded.

15. Contingencies and commitments (continued):

(c) For its BC projects, the Company is obligated to post security to BC Hydro, by way of cash or letters of credit from a financial institution, for Performance Security (pursuant to the terms of the EPAs), and Interconnection Security (pursuant to the terms of the SGIAs). Performance Security is required to maintain the EPA's in good standing. Interconnection Security is posted to secure expenditures by BC Hydro that they incur in order to construct BC Hydro owned interconnection facilities.

In 2011, the Company and its partners provided performance security as set out in the EPA's, in the amount of $2.0 million. The Company also provided Interconnection Security of $1.75 million, fully supported by cash deposits lodged with the Company's bank. Subsequent to December 31, 2013, the Pattern Transaction closed and all letters of credit were returned to the bank by BC Hydro for cancellation, thus ending the Company's obligations in this regard.

(d) In 2010, the Company entered into an agreement with an independent exclusive financial advisor in respect of a process to secure a strategic partner to provide the equity necessary to advance any or all of the Company's wind projects in BC. The financial advisor will be paid a fee of $550,000 upon closing of such a financial transaction.

(e) In June 2012, the Company received a Notice of Claim filed in B.C. Supreme Court by a project consultant, in the amount of $914,855. The Company filed a Response to Civil Claim on June 20, 2012. The claimed amount was fully accrued as at December 31, 2012, and has been included in accounts payable since the date incurred. In 2013, the Company entered into an agreement with the project consultant and Pattern whereby Pattern would pay $900,000 against the amount owing. Pattern paid $400,000 on signing the agreement and the remaining $500,000 in 2014. Payments by Pattern to the project consultant as at December 31, 2013 of $400,000 have been included in Development Loan Facility as described in note 16(viii).

(f) On May 9, 2013, the Company received a claim, filed in the High Court of Ireland, from a lender who provided a $1.5 million loan to the Company in 2010 (note 16(ii)). The lender is seeking repayment of the loan and accrued interest, has alleged that he has a claim to the Company's interest in Cloosh Valley Project and has obtained an injunction restraining Finavera, and the Company's subsidiary Finavera Renewables Ireland Limited from reducing their Irish assets below the amount owed to the lender, plus interest and legal costs, up to a maximum figure of $3.0 million.

The Company's assets in Ireland include the Company's 10% interest in the Cloosh Valley Project and the rights to payments totaling €7.14 payable by SSE on closing of construction financing for the Cloosh Valley Project. The matter was heard in the High Court in Ireland on September 18, 2013, and the injunction was upheld. The Company is negotiating with both SSE and the Plaintiff in order to find an acceptable settlement. As a result of extensive legal proceedings, the Company has booked a provision of $380,000 for legal costs expected in relation to this matter.

16. **Loans and borrowings:**

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

The balance including accrued interest is comprised of:

	December 31, 2013	December 31, 2012
Loan (*i*)	$ 82,251	$ 77,437
Secured shareholder loan (*ii*)	2,309,009	2,042,327
GE Payout (*iii*)	10,638,289	9,363,447
Finance lease obligation *(iv)*	19,021	27,118
Promissory Note *(v)*	1,209,025	1,049,447
Loans from related parties (*vi*)	331,391	264,825
Secured loans*(vii)*	80,000	949,888
Development Loan Facility*(viii)*	4,286,414	1,006,849
Working Capital Facility*(ix)*	4,678,889	-
Demand loans (*x*)	1,014,842	1,004,795
	24,649,131	15,786,133
Less: current portion	(18,974,923)	(15,767,082)
	$ 5,674,208	$ 19,051

(i) The Company guaranteed a loan from a third party to a former subsidiary in the amount of US$65,000 on October 12, 2007. Interest began accruing after three years, on October 12, 2010, at a rate of 8.5% per annum. The loan is unsecured and payable on demand.

(ii) On April 8, 2010, the Company received a $1,500,000 development loan from one of its shareholders. The loan had a one year term with an annual interest rate of 12% and is secured against the Company's 10% interest in the Cloosh Valley Wind Project until such time as the loan is repaid. Proceeds were used primarily to fund the performance guarantees required by BC Hydro pursuant to the EPA's awarded to the Company. The shareholder filed a claim for payment in May 2013 at the High Court in Ireland (note 15 (f)).

(iii) On July 21, 2010, the Company entered into the JDA pursuant to which GEE provided the Company with project development funding of up to $7.5 million for the BC Projects which was fully drawn in 2010 and 2011. The funding accrued interest at 25% per annum for cash advances, and 20% per annum for any guarantees or letters of credit provided by GEE. Early in 2011, GEE issued letters of credit in support of the BC Projects totaling $2 million which remain in place as at December 31, 2013. In consideration for the funding, the Company granted GEE security with respect to the BC Projects. GEE continues to hold certain turbine supply rights for the BC Projects. On December 19, 2012, Pattern assumed GEE's rights and obligations under the JDA by paying out the balance of all amounts owing under the JDA (the "GE Payout").

16. Loans and borrowings (continued):

The total amount owing to Pattern under the GE Payout at December 31, 2013 is $10,812,092 (December 31, 2012 - $9,363,447), comprised of $9,260,621 of principal and $1,551,471 of accrued interest (December 31, 2012 - $9,260,621 of principal and $102,826 of accrued interest). Effective on August 29, 2013, the receipt of preliminary approval for the Pattern Transaction from BC Hydro triggered the immediate termination of further interest obligations on the GE Payout pursuant to the PSA. Interest on the letters of credit to December 31, 2013 of $420,955 due to GEE (December 31, 2012 - $14,478) continued to accrue until the Pattern Transaction closed in April 2014 at which time the letters of credit were replaced by Pattern and Pattern paid the accrued interest due to GEE, increasing the Development Loan balance (note 16(viii)). The accrued interest on the letters of credit is included in accounts payable and accrued liabilities at December 31, 2013.

(iv) The Company is subject to two lease agreements for office equipment. The leases qualify as financing leases and as such a finance lease obligation of $19,021 has been recorded with the current portion of the liability as at December 31, 2013 being $8,895, and the long term portion being $10,126.

(v) The Company executed a Settlement Agreement in November 2011 and issued a promissory note of US$925,000 (the "Promissory Note") to a creditor of a former subsidiary in order to address all outstanding issues between the parties. The Promissory Note was payable with interest at 10% per annum, on the earlier of March 31, 2014 or the date on which construction financing for the Cloosh Valley Wind Project is secured. On March 31, 2014 the promissory note was amended to increase the interest rate to 12% and extend the maturity date to the earlier of October 31, 2014 or five business days after the Company receives proceeds from the amount due from SSE (note 9).

(vi) During the year ended December 31, 2012, the Company received loans of $225,000 from directors which are secured by the Company's present and after-acquired personal property, subordinate to the security granted under the JDA which was assumed by Pattern. The loans bear interest at 22% per annum and were payable on demand as to $50,000 by July 31, 2012 and $175,000 plus interest by April 12, 2013. Subsequent to December 31, 2013 and pursuant to the PSA, Pattern repaid the loans and accrued interest and such amounts were added to the Working Capital Facility (note 16 (ix)).

(vii) The Company received a secured loan of $130,000 on March 31, 2012, bearing interest at 22% per annum and payable on demand. Security consists of security over the Company's present and after-acquired personal property, subordinate to the secured loan noted in note 16(viii) below, and to the security under the JDA which was assumed by Pattern. During 2012, $50,000 was paid back to the lender. The interest on the loan is paid monthly and at December 31, 2013, the principal owing is $80,000. Subsequent to December 31, 2013 and pursuant to the PSA, Pattern repaid the loan and the amount was added to the Working Capital Facility (note 16 (ix)).

16. Loans and borrowings (continued):

The Company received a secured loan of $850,000 in June 2012, originally due on June 28, 2013, bearing interest at 7% per annum and secured over all the Company's present and after-acquired personal property, including the Company's shares and units of the Company's project entities, subordinate to the security granted under the JDA which was assumed by Pattern. A total of 2,000,000 common share purchase warrants were issued to the lender, with each warrant exercisable at $0.18 per common share for 12 months from the date of closing of the loan. The Black-Scholes fair value of the warrants was $94,007 and the cost of these warrants was recognized as interest expense. During the year ended December 31, 2012, the lender exercised all warrants for gross proceeds of $360,000. The Company repaid the loan in full in December 2013 by drawing on the Pattern Working Capital Facility (Note 16 (ix).

(viii) In December 2012, the Company received a secured development loan from Pattern of $1,000,000 as an advance for an exclusivity arrangement regarding the potential sale to Pattern of the Company's BC Projects, with interest of 10% per annum. Security consists of a lien over the Company's assets and assets of the project entities. Upon signing the PSA, the loan was rolled into a Development Loan Facility intended to cover project costs incurred up to the date Pattern secures project financing. During 2013, total such development costs of $3,705,764 were incurred resulting in an increase to the principal balance of the loan. Interest accrued until August 29, 2013 when the receipt of preliminary approval for the Pattern Transaction from BC Hydro triggered the immediate termination of further interest on the facility pursuant to the PSA. Amounts drawn on the loan facility were initially recognized at their fair value determined using a 10% discount rate and the period over which the loans are expected to be outstanding. Subsequently the loans are recognized at their amortized cost, which at December 31, 2013 was $4,286,414.

(ix) In connection with the Pattern Transaction, the Company entered into a Demand Credit Facility Agreement with Pattern for up to $2.5 million to fund certain operating costs with the advances being at the discretion of Pattern for approved expenditures. It converted to a Working Capital Facility (the "Facility") upon receipt from BC Hydro of preliminary consent for the Pattern Transaction on August 29, 2013, with a maturity date of December 31, 2013. On December 6, 2013, the Facility was amended to increase the amount available to $6.3 million, and to extend the maturity date to when Pattern receives construction financing for the project(s). In addition, if the Company receives the additional payment from SSE when financing is secured by SSE for the Cloosh Valley Wind Project, such amount is required to be used first to repay amounts outstanding under the Facility. As at December 31, 2013, $4,545,120 of the Facility was used. Interest of $133,769 was accrued at December 31, 2013 for a total balance due of $4,678,889. Subsequent to December 31, 2013, the maximum available amount was increased to $9.0 million. The Facility bears interest at 10% per annum.

16. Loans and borrowings (continued):

(x) During 2012, the Company issued an unsecured promissory note for $1,000,000 bearing interest at 1.0% per annum that was payable on September 30, 2012. No demand for payment has been received.

17. Provisions:

The Company has recognized the following provisions at December 31, 2013:

	December 31, 2013	December 31, 2012
Interconnection provisions(*i*)	$ 1,161,166	$ 1,050,000
EPA provisions (*ii*)	432,677	425,000
Asset retirement obligations (*iii*)	258,828	252,543
Other provisions (*iv*)	1,139,435	377,500
	2,992,106	2,105,043
Less: current portion	(2,733,278)	(1,852,500)
	$ 258,828	$ 252,543

(i) In the event of an EPA being cancelled or terminated, BC Hydro will charge its cumulative costs incurred on interconnection work to the Company. The provision at December 31, 2013 reflects the amount expected to be billed by BC Hydro for the cancellation of the Bullmoose and Wildmare EPAs. Subsequent to December 31, 2013, upon closing the PSA, Pattern paid the costs in respect of the Tumbler Ridge and Wildmare projects and such amounts were added to the Working Capital Facility.

(ii) In the event of an EPA being cancelled or terminated, BC Hydro will also charge its cumulative costs incurred on EPA work to the Company. The provision at December 31, 2013 reflects the amount subsequently to be billed by BC Hydro. Subsequent to December 31, 2013, upon closing the PSA, Pattern paid the costs in respect of the Bullmoose and Wildmare projects and such amounts were added to the Working Capital Facility. As Pattern purchased Tumbler Ridge and Meikle projects, no amounts were owing to BC Hydro in respect of those two projects.

(iii) At December 31, 2013, the Company recorded an asset retirement obligation associated with the future decommissioning of weather monitoring equipment. The asset retirement obligation has been determined based on estimated future costs of approximately $260,000, a discount rate of 1.2% to 1.6% based on benchmark bond rates per the Bank of Canada, and a time period to decommissioning ranging from 1 year to 4 years.

(iv) During the year ended December 31, 2013, the Company has recorded additional provisions of $381,935 in respect of a legal judgment (note 15(b)) including $81,935 accrued interest. The Company also booked a provision of $380,000 for additional legal costs expected in relation to a legal matter (note 15(f)). At December 31, 2012, total provisions of $377,500 were recognized in the statement of comprehensive loss.

18. Income taxes:

The provision for income taxes differs from the expected amount calculated by applying the combined Federal and Provincial corporate income tax rates to the Company's loss before taxes. This difference results from the following items:

	2013	2012
Loss before tax	$(9,940,672)	$(11,298,144)
Statutory tax rate	25.75%	25.0%
Income before recovery computed at statutory rates	(2,559,723)	(2,824,536)
Change in estimate of tax losses	(429,553)	(5,049)
Permanent differences arising from non-deductible (taxable items)	(59,106)	35,562
Foreign tax rate differential and tax rate changes	(205,135)	-
Exploration expenditures renounced net of flow-through premium	(5,214)	344,014
Recognition of previous unrecognized losses carried forward	(2,815)	(4,902)
Change in deferral tax assets not recognized	3,250,700	2,442,058
Other	8,031	7,951
Income tax recovery	$ (2,815)	$ (4,902)

The components of the deferred income tax assets and liabilities, as at December 31, 2013 and 2012, are as follows:

	2013	2012
Future income tax assets		
Non-capital loss carry-forwards	$ 186,414	$ 300,569
Property and equipment	-	63,969
Deferred income tax liabilities		
Loans and borrowings	(186,414)	(364,538)
Net deferred income tax assets	$ -	$ -

18. Income taxes (continued):

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	December 31, 2013	December 31, 2012
Non-capital losses carried forward	$ 36,564,096	$ 29,906,888
Capital loss carry forwards	888,123	880,248
Project development costs and property and equipment	4,284,426	-
Provisions	2,914,606	2,027,543
Other deductible temporary differences	1,823,074	1,979,166
	$ 46,474,325	$ 34,793,845

These tax assets have not been recognized as the Company has no history of earning profits or taxable income. Accordingly, the Company concluded that it was not probable that the benefits associated with these tax assets would be realized.

The Company has non-capital losses of approximately $37,281,071 that may be carried forward to apply against future years' income. These losses expire as follows.

No expiry	$	3,549,180
2033		5,186,779
2032		5,140,225
2031		6,858,491
2030		3,987,056
2029		1,746,720
2028		5,561,269
2027		3,854,388
2026		619,262
2025		632,568
2014		145,133
	$	37,281,071

19. Subsequent events:

In addition to the subsequent events disclosed in notes 7, 8, 15, 16 and 17, on March 31, 2014, the Company granted 2,460,000 options to certain directors and officers, exercisable for a period of five years at a price of $0.085 per common share.