

As filed with the Securities and Exchange Commission on October 23, 2006

Registration No. 333-

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM F-1
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Canadian Solar Inc.*(Exact name of registrant as specified in its charter)***Not Applicable***(Translation of Registrant's name into English)***Canada**
*(State or other jurisdiction of
incorporation or organization)***3674**
*(Primary Standard Industrial
Classification Code Number)***Not Applicable**
*(I.R.S. Employer
Identification Number)***Xin Zhuang Industry Park,
Changshu, Suzhou
Jiangsu 215562
People's Republic of China
(86-512) 6269-6010***(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)*

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New York, New York 10011
(212) 664-1666***(Name, address, including zip code, and telephone number, including area code, of agent for service)*

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(852) 2514-7600****Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement**If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ☐If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐ _____If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐ _____If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earliest effective registration statement for the same offering. ☐ _____If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. ☐ _____**CALCULATION OF REGISTRATION FEE**

Title of each class of securities to be registered (1)	Proposed maximum aggregate offering price (2)	Amount of registration fee (2)
Common shares with no par value	\$132,825,000	\$14,213

(1) Includes (i) common shares initially offered and sold outside the United States that may be resold from time to time in the United States either as part of their distribution or within 40 days after the later of the effective date of this registration statement and the date the shares are first bona fide offered to the public and (ii) common shares that may be purchased by the underwriters pursuant to an over-allotment option. These common shares are not being registered for the purposes of sales outside of the United States.

(2) Estimated solely for the purpose of determining the amount of registration fee in accordance with Rule 457(o) under the Securities Act of 1933.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to such Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. Neither we nor the selling shareholders may sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting any offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject To Completion, Dated October 23, 2006

PROSPECTUS

7,700,000 Common Shares



This is an initial public offering of common shares of Canadian Solar Inc. We are offering 6,300,000 common shares, and the selling shareholders identified in this prospectus are offering 1,400,000 common shares. We will not receive any of the proceeds from the common shares sold by the selling shareholders. Prior to this offering, there has been no public market for our common shares. The initial offering price of the common shares is expected to be between \$13.00 and \$15.00 per share.

We have applied to list our common shares on the Nasdaq Global Market under the symbol "CSIQ."

Investing in our common shares involves a high degree of risk. See "Risk Factors" beginning on page 10.

	<u>Price to Public</u>	<u>Underwriting Discounts and Commissions</u>	<u>Proceeds to Us</u>	<u>Proceeds to the Selling Shareholders</u>
Per common share	\$	\$	\$	\$
Total	\$	\$	\$	\$

The underwriters have an option to purchase up to 700,000 additional common shares from us and an aggregate of 455,000 additional common shares from the selling shareholders at the public offering price, less underwriting discounts and commissions, within 30 days from the date of this prospectus, to cover over-allotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Delivery of the common shares will be made on or about , 2006.

Deutsche Bank Securities
CIBC World Markets

Lehman Brothers
Piper Jaffray

The date of this prospectus is , 2006.



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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information that is different. This prospectus may only be used where it is legal to sell these securities. The information in this prospectus is accurate only as of the date of this prospectus.

Until _____, 2006 (the 25th day after the commencement of the offering), all dealers that buy, sell, or trade our common

shares, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

PROSPECTUS SUMMARY

You should read the following summary together with the entire prospectus, including the more detailed information regarding us, the common shares being sold in this offering, and our financial statements and related notes appearing elsewhere in this prospectus.

Unless the context otherwise requires, in this prospectus, “we,” “us,” “our company,” “our,” and “CSI” refer to Canadian Solar Inc. and its consolidated subsidiaries; “China” or “PRC” refers to the People’s Republic of China, excluding Taiwan, Hong Kong and Macau; “RMB” or “Renminbi” refers to the legal currency of China; “\$” or “U.S. dollars” refers to the legal currency of the United States; “C\$” refers to the legal currency of Canada; and “Euro” or “€” refers to the legal currency of the European Union.

Overview

We design, manufacture and sell solar module products that convert sunlight into electricity for a variety of uses. We are incorporated in Canada and conduct all of our manufacturing operations in China. Our products include a range of standard solar modules built to general specifications for use in a wide range of residential, commercial and industrial solar power generation systems. We also design and produce specialty solar modules and products based on our customers’ requirements. Specialty solar modules and products consist of customized modules that our customers incorporate into their own products, such as solar-powered bus stop lighting, and complete specialty products, such as solar-powered car battery chargers. Our products are sold primarily under our own brand name and also produced on an original equipment manufacturer, or OEM, basis for our customers. We also implement solar power development projects, primarily in conjunction with government organizations to provide solar power generation in rural areas of China.

We currently sell our products to customers located in various markets worldwide, including Germany, Spain, Canada, China and Japan. We currently sell our standard solar modules to distributors and system integrators. We sell our specialty solar modules and products directly to various manufacturers who either integrate these solar modules into their own products or sell and market them as part of their product portfolio.

Supply chain management is critical to the success of our business, particularly during the current industry-wide shortage of high-purity silicon. We proactively manage our supply chain, which consists of silicon feedstock, ingots, wafers and solar cells, to secure a cost-effective supply of solar cells, the key component of our solar module products. We do this primarily by directly sourcing silicon feedstock, which consists of high-purity silicon and reclaimable silicon. Under toll manufacturing arrangements, we provide the silicon feedstock to manufacturers of ingots, wafers and cells, which in turn convert these silicon raw materials ultimately into the solar cells that we use for our production of solar modules. We believe we were one of the first solar module companies to process reclaimable silicon, which consists primarily of broken wafers and scrap silicon, for reuse in the solar power supply chain.

We have grown rapidly since March 2002, when we sold our first solar module products. Our net revenues increased from \$4.1 million in 2003 to \$18.3 million in 2005, representing a compound annual growth rate, or CAGR, of 111.1%. Correspondingly, our net income increased from \$761,245 to \$3.8 million over the same period, representing a CAGR of 123.5%. Our net revenues increased from \$7.0 million for the six months ended June 30, 2005 to \$26.0 million over the same period in 2006. We sold 0.7 megawatts, or MW, 2.2 MW and 4.1 MW of our solar module products in 2003, 2004 and 2005, respectively. We sold 1.4 MW and 6.2 MW of our solar module products in the six months ended June 30, 2005 and 2006, respectively.

Industry Background

Solar power has recently emerged as one of the most rapidly growing renewable energy sources. Solar cells are fabricated from silicon wafers and convert sunlight into electricity through a process known as the photovoltaic effect. Solar modules, which are an array of interconnected solar cells encased in a weatherproof frame, are mounted in areas with direct exposure to the sun to generate electricity from sunlight. Solar power

systems, which are comprised of solar modules, related power electronics and other components, are used in residential, commercial and industrial applications and for customers who have no access to an electric utility grid.

According to Solarbuzz, an independent solar energy research firm, the global solar power market, as measured by annual solar system installations, increased from 345 MW in 2001 to 1,460 MW in 2005, representing a CAGR of 43.4%. During the same period, solar power industry revenues grew from approximately \$2.4 billion in 2001 to approximately \$9.8 billion in 2005, representing a CAGR of 42.2%. Solarbuzz projects that solar power industry revenues and solar system installations will reach \$18.6 billion and 3,250 MW, respectively, by 2010. According to Solarbuzz, worldwide installations of solar power systems are expected to grow at a CAGR of 17.4% from 2005 to 2010, led by shipments for on-grid applications, where solar power is used to supplement a customer's electricity purchased from the utility network. We believe growth in the near term will be constrained by the limited availability of high-purity silicon, but, according to Solarbuzz, is expected to accelerate after 2007.

We believe the following factors have driven and will continue to drive growth in the solar power industry:

- government incentives for solar power and other renewable energy sources;
- fossil fuel supply constraints and desire for energy security;
- growing awareness of the advantages of solar power, including its peak energy generation advantage, fuel risk advantage, scalability, reliability and environmentally friendly nature;
- advances in technologies making solar power more cost-efficient; and
- large market among underserved populations in rural areas of developing countries with little or no access to electricity.

Our Competitive Strengths

We believe that the following competitive strengths enable us to compete effectively and to capitalize on the rapid growth in the global solar power market:

- our ability to manage our supply chain, through sourcing of silicon feedstock, our silicon reclamation program and toll manufacturing arrangements, allows us to secure a cost-effective supply of solar cells;
- significant experience in the development and manufacture of high-margin specialty solar modules and products;
- flexible and low-cost manufacturing capability; and
- established senior management team with significant industry and international expertise.

Our Strategies

Our objective is to be a global leader in the development and manufacture of solar module products. We have developed the following strategies, based on our experience, to anticipate changes in the industry:

- pursue a balanced and diversified solar cell supply channel mix by entering into long-term cell supply contracts, toll manufacturing arrangements and in-house cell manufacturing;
- continue to proactively manage silicon raw material supply by securing long term silicon raw materials contracts, diversifying silicon supply sources and further developing and leveraging our silicon reclamation program;
- further diversify our geographic presence, customer base and product mix;

- enhance innovation and efficiency through R&D; and
- build a leading global brand.

Our Challenges

We believe that the following are some of the major challenges, risks and uncertainties that may materially affect us:

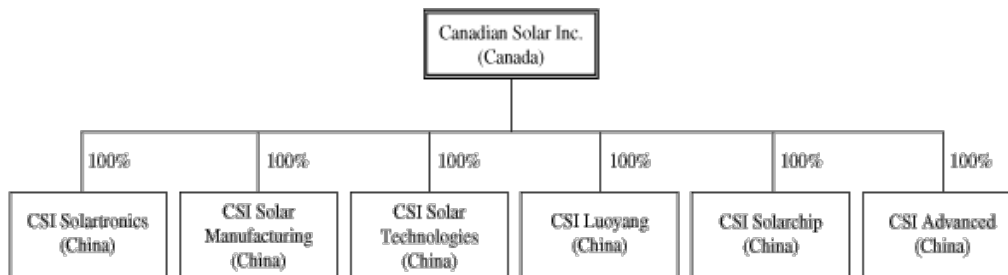
- our limited operating history may not serve as an adequate basis to judge our prospects and future results of operations;
- the current industry-wide shortage of high-purity silicon may constrain our revenue growth and decrease our margins and profitability;
- failure to secure a sufficient and cost-effective supply of solar cells could decrease our revenues and margins and prevent us from expanding as planned;
- the reduction or elimination of government subsidies and economic incentives for on-grid solar power applications could cause a reduction in demand for our products and decrease our revenues;
- we may not be able to compete successfully in our highly competitive market; and
- we may not be able to manage our expansion of operations effectively.

Corporate Structure

We were incorporated pursuant to the laws of the Province of Ontario in October 2001. We changed our jurisdiction by continuing under the Canadian federal corporate statute, the Canada Business Corporations Act, or CBCA, effective June 1, 2006. As a result, we are governed by the CBCA.

In November 2001, we established CSI Solartronics (Changshu) Co., Ltd., or CSI Solartronics, which is our wholly owned subsidiary located in Changshu, China. Through CSI Solartronics, we focus primarily on the production of specialty solar modules and products. In addition to CSI Solartronics, we also currently have five other wholly owned subsidiaries: (i) CSI Solar Manufacture Inc., or CSI Solar Manufacturing, located in Suzhou, China, which we incorporated in January 2005, through which we focus primarily on the production of standard solar modules; (ii) CSI Solar Technologies Inc., or CSI Solar Technologies, also located in Suzhou, China, which we incorporated in August 2003, through which we focus on solar module product development; (iii) CSI Central Solar Power Co., Ltd., or CSI Luoyang, in Luoyang, China, which we incorporated in February 2006, through which we intend to manufacture solar module products; (iv) CSI Solarchip International Co., Ltd, or CSI Solarchip, which we incorporated in June 2006, through which we intend to manufacture solar cells and solar modules; and (v) Changshu CSI Advanced Solar Inc., or CSI Advanced, which was incorporated in August 2006 and in which we plan to inject registered capital after this offering, through which we intend to manufacture solar modules.

The following diagram illustrates our corporate structure and the place of organization and affiliation of each of our subsidiaries as of the date of this prospectus.



Corporate Information

Our principal executive offices are located at Xin Zhuang Industry Park, Changshu, Suzhou, Jiangsu, 215562, People's Republic of China. Our telephone number at this address is (86-512) 6269-6010 and our fax number is (86-512) 5247-7589. Our mailing address in Canada is located at The Exchange Tower, Suite 1600, P.O. Box 480, 130 King Street West, Toronto, Ontario MSX 1J5. Our telephone number at this address is (1-416) 365-1110 and our fax number is (1-416) 365-1876.

You should direct all inquiries to us at the address and telephone number of our principal executive offices set forth above. Our website is www.csisolar.com. The information contained on our website does not form part of this prospectus. Our agent for service of process in the United States is CT Corporation System located at 111 Eighth Avenue, New York, New York 10011.

THE OFFERING

Price per Common Share	We currently estimate that the initial public offering price will be between \$13.00 and \$15.00 per share.
This Offering:	
Common Shares Offered by Us	6,300,000 common shares
Common Shares Offered by the Selling Shareholders	1,400,000 common shares
Total	7,700,000 common shares
Reserved Common Shares	At our request, the underwriters have reserved for sale, at the initial public offering price, up to an aggregate of 385,000 common shares to certain of our directors, officers, employees, business associates and related persons through a directed share program. These reserved common shares account for an aggregate of 5.0% of the common shares offered in the offering.
Common Shares Outstanding Immediately After This Offering	27,270,000 common shares (or 27,970,000 common shares if the underwriters exercise the over-allotment option in full).
Over-Allotment Option	We and the selling shareholders have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to an aggregate of 1,155,000 additional common shares at the initial public offering price listed on the cover page of this prospectus, less underwriting discounts and commissions, solely for the purpose of covering over-allotments.
Use of Proceeds	<p>We estimate that we will receive net proceeds for this offering of approximately \$77.4 million, (or \$86.5 million if the underwriters exercise the over-allotment option in full) after deducting the estimated underwriting discounts, commissions and estimated offering expenses payable by us, and assuming an initial public offering price of \$14.00 per common share, the midpoint of the estimated range of the initial public offering price. A \$1.00 increase (decrease) in the assumed initial public offering price of \$14.00 per common share would increase (decrease) the net proceeds to us from this offering by \$5.9 million, after deducting the estimated underwriting discounts and commissions and estimated aggregate offering expenses payable by us. We intend to use our net proceeds from this offering for the following purposes:</p> <ul style="list-style-type: none">• \$30.0 million to purchase or prepay for solar cells and silicon raw materials;• \$35.0 million for our expansion into solar cell manufacturing, including purchasing solar cell equipment and construction of our solar cell facilities, to support our core solar module business and for the expansion of our solar module manufacturing capabilities; and• remaining amount for other general corporate purposes. <p>We will not receive any of the proceeds from the sale of common shares by the selling shareholders.</p>

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Risk Factors	See "Risk Factors" and other information included in this prospectus for a discussion of the risks you should carefully consider before deciding to invest in our common shares.
Listing	We have applied for approval to have our common shares listed on the Nasdaq Global Market.
Proposed Nasdaq Global Market Symbol	"CSIQ"
Lock-up	We, the selling shareholders, our directors and executive officers and our other shareholders have agreed with the underwriters not to sell, transfer or dispose of any common shares or similar securities for a period of 180 days after the date of this prospectus. See "Underwriting."

Unless otherwise indicated, all information in this prospectus:

- assumes the issuance and sale of 6,300,000 common shares in this offering at an initial public offering price of \$14.00 per common share;
- reflects the share split: (i) in November 2005 of one to 5.668421; (ii) in July 2006 of one to 1.168130772; and (iii) in October 2006 of one to 2.33;
- does not include 566,190 restricted shares with restricted voting and dividend rights issued under our 2006 share incentive plan that are outstanding but not vested as of the date of this prospectus;
- does not include 1,337,700 common shares issuable upon the exercise of stock options issued under our 2006 share incentive plan that are outstanding as of date of this prospectus, with exercise prices ranging from \$2.12 to the initial public offering price per share and a weighted average exercise price of \$4.05 per share, assuming an initial public offering price of \$14.00 per share, the mid-point of the initial offering price range;
- does not include 426,041 additional common shares (including common shares with restricted voting and dividend rights) reserved for future grants under our 2006 share incentive plan as of the date of this prospectus; and
- assumes that the underwriters do not exercise their over-allotment option to purchase additional common shares.

SUMMARY FINANCIAL AND OPERATING DATA

The following summary consolidated statement of operations data for the years ended December 31, 2003, 2004 and 2005 and the six months ended June 30, 2006 and the summary consolidated balance sheet data as of December 31, 2003, 2004 and 2005 and as of June 30, 2006 have been derived from our audited financial statements included elsewhere in this prospectus. The following summary consolidated statement of operations data for the six months ended June 30, 2005 have been derived from our unaudited financial statements included elsewhere in this prospectus. You should read the summary consolidated financial data in conjunction with those financial statements and the accompanying notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Our consolidated financial statements are prepared and presented in accordance with United States generally accepted accounting principles, or U.S. GAAP. Our historical results do not necessarily indicate our results expected for any future periods.

	For the Year Ended December 31.			For the Six Months Ended June 30.	
	2003	2004	2005	2005	2006
	(in thousands of US\$, except share and per share data, operating data and percentages)				
Statement of operations data:					
Net revenues	\$ 4,113	\$ 9,685	\$ 18,324	\$ 6,982	\$ 26,041
Cost of revenues(1)	2,372	6,465	11,211	3,920	18,623
Gross profit	1,741	3,220	7,113	3,062	7,418
Operating expenses(1)					
— Selling expenses	39	269	158	67	529
— General and administrative expenses	1,039	1,069	1,708	762	1,750
— Research and development expenses(2)	20	41	16	8	44
Total operating expenses	1,098	1,379	1,882	837	2,323
Income from operations	643	1,841	5,231	2,225	5,095
Interest expenses	—	—	(239)	—	(1,635)
Loss on change in fair value of derivatives related to convertible notes	—	—	(316)	—	(6,997)
Loss on financial instruments related to convertible notes	—	—	(263)	—	(1,190)
Income tax expenses	(34)	(363)	(605)	(336)	111
Minority interests	(209)	—	—	—	—
Income (loss) before extraordinary gain	411	1,457	3,804	1,879	(4,564)
Extraordinary gain	351	—	—	—	—
Net income (loss)	\$ 761	\$ 1,457	\$ 3,804	\$ 1,879	\$ (4,564)
Earnings per share, basic and diluted					
— Extraordinary gain	\$ 0.02	—	—	—	—
— Net income	\$ 0.05	\$ 0.09	\$ 0.25	\$ 0.12	\$ (0.30)

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2003	2004	2005	2005	2006
	(in thousands of US\$, except share and per share data, operating data and percentages)				
Shares used in computation					
— Basic and diluted	15,427,995	15,427,995	15,427,995	15,427,995	15,427,995
Other financial data:					
Gross margin	42.3%	33.2%	38.8%	43.9%	28.5%
Operating margin	15.6%	19.0%	28.5%	31.9%	19.6%
Net margin	18.5%	15.0%	20.8%	26.9%	(17.5)%
Selected operating data:					
Products sold (in MW)					
— Standard solar modules	—	1.8	3.4	1.4	5.9
— Specialty solar modules and products	0.7	0.4	0.7	0.4	0.3
Total	0.7	2.2	4.1	1.8	6.2
Average selling price (in \$ per watt)					
— Standard solar modules	—	\$ 3.62	\$ 3.92	\$ 3.98	\$ 4.09
— Specialty solar modules and products	\$ 5.70	\$ 5.23	\$ 5.13	\$ 5.07	\$ 4.87

(1) Share-based compensation expenses are included in our cost of revenues and operating costs and expenses as follows:

	Year Ended December 31,				For the Six Months Ended June 30,	
	2002	2003	2004	2005	2005	2006
	(in thousands of US\$)					
Share-based compensation expenses included in:						
Cost of revenues	—	—	—	—	—	\$ 24
Selling expenses	—	—	—	—	—	229
General and administrative expenses	—	—	—	—	—	324
Research and development expenses	—	—	—	—	—	13

(2) We also conduct research and development activities in connection with our implementation of solar power development projects. These expenditures are included in our cost of revenues. See “Our Business — Solar Power Development Projects.”

The following table presents a summary of our balance sheet data as of December 31, 2003, 2004, 2005 and as of June 30, 2006 on an actual basis; and, as of June 30, 2006, on a pro forma basis to give effect to (1) the conversion of all of our outstanding convertible notes into 5,542,005 common shares that occurred on July 1, 2006 (after taking into account post-conversion share splits) and (2) the issuance and sale of the 6,300,000 common shares by us in this offering, assuming an initial public offering price of \$14.00 per share, the midpoint of the estimated range of the initial public offering price, after deducting estimated underwriting discounts, commissions and estimated offering expenses payable by us and assuming no exercise of the underwriters' over-allotment option.

	As of December 31,			As of	
	2003	2004	2005	June 30, 2006	
	Actual	Actual	Actual	Actual	Pro Forma ⁽¹⁾
	(in thousands of US\$)				
Balance Sheet Data:					
Cash and cash equivalents	\$1,879	\$2,059	\$ 6,280	\$ 10,682	\$ 88,880
Inventories	313	2,397	12,163	26,398	26,398
Accounts receivable, net	257	636	2,067	6,134	6,134
Advances to suppliers	81	370	4,740	9,115	9,115
Property, plant and equipment, net	244	453	932	1,239	1,239
Total assets	3,053	6,145	27,430	57,505	134,873
Short-term borrowing	—	—	1,300	14,298	14,298
Accounts payable	426	824	4,306	7,578	7,578
Advances from suppliers and customers	18	273	2,823	7,321	7,321
Income tax payable	119	407	914	659	659
Embedded derivatives related to convertible notes	—	—	3,679	1	—
Total current liabilities	1,201	2,756	15,367	32,885	32,884
Accrued warranty costs	79	167	341	590	590
Convertible notes	—	—	3,387	8,828	—
Financial instruments related to convertible notes	—	—	1,107	—	—
Total liabilities	1,541	3,184	20,463	43,923	33,761
Total shareholders' equity	1,512	2,961	6,967	13,582	101,112
Total liabilities and shareholders' equity	\$3,053	\$6,145	\$27,430	\$ 57,505	\$ 134,873

(1) A \$1.00 increase (decrease) in the assumed initial public offering price of \$14.00 per share would increase (decrease) each of the pro forma cash and cash equivalents, total shareholders' equity, and total liabilities and shareholders' equity by \$5.9 million.

RISK FACTORS

An investment in our common shares involves significant risks. You should carefully consider the risks described below before you decide to buy our common shares. If any of the following risks actually occurs, our business, prospects, financial condition and results of operations could be materially harmed, the trading price of our common shares could decline and you could lose all or part of your investment.

Risks Related to Our Company and Our Industry

Evaluating our business and prospects may be difficult because of our limited operating history.

There is limited historical information available about our company upon which you can base your evaluation of our business and prospects. We began business operations in October 2001 and shipped our first solar module products in March 2002. With the rapid growth of the solar power industry, we have experienced a high growth rate since our inception and, in particular, in 2004 and 2005 after we began to sell standard solar modules. As such our historical operating results may not provide a meaningful basis for evaluating our business, financial performance and prospects. We may not be able to achieve a similar growth rate in future periods and our business model at higher volumes is unproven. Accordingly, you should not rely on our results of operations for any prior periods as an indication of our future performance. You should consider our business and prospects in light of the risks, expenses and challenges that we will face as an early-stage company seeking to develop and manufacture new products in a rapidly growing market.

The current industry-wide shortage of high-purity silicon may constrain our revenue growth and decrease our margins and profitability.

We produce solar modules, which are an array of interconnected solar cells encased in a weatherproof package, and products that use solar modules. We do not currently produce solar cells ourselves but source them from other companies, either through direct purchases or toll manufacturing arrangements. High-purity silicon is an essential raw material in the production of solar cells and is also used in the semiconductor industry generally. There is currently an industry-wide shortage of high-purity silicon because of increased demand as a result of recent expansions of, and increased demand in, the solar power and semiconductor industries. The shortage of high-purity silicon has driven the overall increase in silicon feedstock prices. For example, according to a March 2006 report by Solarbuzz, the average long-term silicon feedstock contracted price increased from approximately \$28-32 per kilogram in 2004 to \$35-40 per kilogram in 2005, and is expected to increase to \$45-50 per kilogram in 2006. In addition, according to Solarbuzz, spot prices for silicon feedstock were generally \$60-80 per kilogram and reached in excess of \$100 per kilogram as of March 2006. The shortage of high-purity silicon has also resulted in a shortage of, and significant price increases for, solar cells. According to Solarbuzz, the average selling price of solar cells increased from approximately €1.65-1.75 per watt in 2004 depending on the size of the cell and the type of technology used to approximately €2.20 per watt in 2005. Based on our experience, we believe the average price of silicon feedstock and solar cells to continue to increase. Any further increase in the demand from the semiconductor industry will compound the shortage and price increases. The shortage of high-purity silicon has constrained our revenue growth in the past and may continue to do so. Increases in the prices of silicon feedstock and solar cells have in the past increased our production costs and may impact our cost of revenues and net income in the future. The production of high-purity silicon is capital intensive and adding additional capacity requires significant lead time. While we are aware that several new facilities for the manufacture of high-purity silicon are under construction, we do not believe that the supply shortage will be remedied in the near term. We expect that demand for high-purity silicon will continue to outstrip supply for the foreseeable future. Furthermore, if solar cells are not available to us at commercially viable prices, this could adversely affect our margins and operating results. This would have a material negative impact on our business and operating results.

If we are unable to secure an adequate and cost effective supply of solar cells or reclaimable silicon, our revenue, margins and profits could be adversely affected.

Solar cells are the most important component of solar module products. We engage in supply chain management to secure a sufficient and cost-effective supply of solar cells through our sourcing of silicon feedstock, toll manufacturing arrangements with suppliers of ingots, wafers and cells and direct purchases from solar cell suppliers. While we have been able to secure silicon to meet our production needs in the past, due to ongoing industry shortages of silicon feedstock and solar cells, we cannot assure you that we will be able to continue to successfully manage our supply chain and secure an adequate and cost-effective supply of solar cells. For example, we have entered into three long-term contracts with silicon raw material suppliers, but we cannot assure you that we will be able to obtain adequate supplies from them under these contracts or from other suppliers in sufficient quantities and at commercially viable prices in the future. Moreover, toll manufacturing arrangements may not be available to us in the future or at higher volumes, in particular as high-purity silicon becomes more readily available in the future, which could have an adverse effect on our margins and profitability. Moreover, if we are unable to procure an adequate supply of solar cells, either through direct purchasing or through toll manufacturing arrangements or if solar cells are not available to us at commercially viable prices, we may be unable to meet demand for our products and could lose our customers and market share, and our margins and revenues could decline.

In addition, while we have been able to generate cost savings in the past through our recycling of reclaimable silicon, we cannot assure you that we will be able to secure sufficient reclaimable silicon at higher volumes in the future as we believe there is a limited supply of reclaimable silicon available in the market. If we are unable to secure a sufficient supply of reclaimable silicon, we will not be able to take advantage of the cost savings we achieve through our reclamation program and our margins could decline.

Because the markets in which we compete are highly competitive and many of our competitors have greater resources than us, we may not be able to compete successfully and we may lose or be unable to gain market share.

We compete with a large number of competitors in the solar module market. These include international competitors such as BP Solar International Inc., or BP Solar, Sharp Solar Corporation, or Sharp Solar, SolarWorld AG, or SolarWorld, and competitors located in China such as Suntech Power Holdings Co., Ltd. or Suntech Power. We expect to face increasing competition in the future. Further, many of our competitors are developing and are currently producing products based on new solar power technologies that may ultimately have costs similar to, or lower than, our projected costs. For example, some of our competitors are developing or currently producing products based on alternative solar technologies, such as thin film photovoltaic materials, which they believe will ultimately cost the same as or less than crystalline silicon technologies, which we use. Solar modules produced using thin film materials, such as amorphous silicon and cadmium telluride, require significantly less silicon to produce than crystalline silicon solar modules, such as our products, and are less susceptible to increases in silicon costs. We may also face competition from semiconductor manufacturers, several of which have already announced plans to start production of solar modules. In addition, the entry barriers are relatively low in the solar module manufacturing business given the low capital requirements and relatively less technological complexity involved. Due to the scarcity of high-purity silicon, supply chain management and access to financing are key entry barriers at present. However, if high-purity silicon capacity increases, these barriers may no longer exist and many new competitors may enter into the industry resulting in rapid industry fragmentation and loss of our market share.

Many of our current and potential competitors have longer operating histories, greater name recognition, access to larger customer bases and resources and significantly greater economies of scale. In addition, our competitors may have stronger relationships or may enter into exclusive relationships with some of the key distributors or system integrators to whom we sell our products. As a result, they may be able to respond more quickly to changing customer demand or to devote greater resources to the development, promotion and sales of their products than we can. The sale of our solar module products generated 97.7% and 99.7% of our net revenues in 2005 and for the six months ended June 30, 2006, respectively. Our

competitors with more diversified product offerings may be better positioned to withstand a decline in the demand for solar power products. Some of our competitors have also become vertically integrated, from upstream silicon wafer manufacturing to solar power system integration. It is possible that new competitors or alliances among existing competitors could emerge and rapidly acquire significant market share, which would harm our business. If we fail to compete successfully, our business would suffer and we may lose or be unable to gain market share.

In the immediate future, we believe that the competitive arena will continue to, and increasingly be contested on securing silicon feedstock and forming strategic relationships to secure a supply of solar cells. Many of our competitors have greater access to silicon raw materials and cell supply, including stronger strategic relationships with leading global and domestic silicon feedstock suppliers, or have upstream silicon wafer and cell manufacturing capabilities. We believe that as the supply of high-purity silicon stabilizes, the key to competing successfully in the industry will shift to more traditional sales and marketing activities. We have conducted very limited advertising in the past and cannot assure you that we will be able to make that transition successfully. The greater name recognition of some of our competitors may make it difficult for us to compete if and when this transition occurs. In addition, the solar power market in general competes with other sources of renewable energy and conventional solar power generation. If prices for conventional and other renewable energy resources decline, or if these resources enjoy greater policy support than solar power, the solar power market could suffer.

The reduction or elimination of government subsidies and economic incentives for solar power could cause demand for our products and our revenues, profits and margins to decline.

We believe that the near-term growth of the market, particularly for on-grid applications, depends in large part on the availability and size of government subsidies and economic incentives. Because a substantial portion of our sales is made in the on-grid market, the reduction or elimination of government subsidies and economic incentives may adversely hinder the growth of this market or result in increased price competition, which could cause our revenues to decline.

Today, the cost of solar power substantially exceeds the cost of power provided by the electric utility grid in many locations. Governments around the world have used different policy initiatives to accelerate the development and adoption of solar power and other renewable energy sources. Renewable energy policies are in place in the European Union, most notably Germany and Spain, certain countries in Asia, and many of the states in Australia and the United States. Examples of customer-focused financial incentives include capital cost rebates, feed-in tariffs, tax credits and net metering and other incentives to end users, distributors, system integrators and manufacturers of solar power products to promote the use of solar power in both on-grid and off-grid applications and to reduce dependency on other forms of energy. These government economic incentives could be reduced or eliminated altogether. Reductions in, or eliminations of, government subsidies and economic incentives before the solar power industry reaches a scale of economy sufficient to be cost-effective in a non-subsidized market place could result in decreased demand for our products and decrease our revenues, profits and margins.

Existing regulations and policies and changes to these regulations and policies may present technical, regulatory and economic barriers to the purchase and use of solar power products, which may significantly reduce demand for our products.

The market for electricity generation products is heavily influenced by government regulations and policies concerning the electric utility industry, as well as policies promulgated by electric utilities. These regulations and policies often relate to electricity pricing and technical interconnection of customer-owned electricity generation. In a number of countries, these regulations and policies have been modified and may continue to be modified. Customer purchases of, or further investment in the research and development of, alternative energy sources, including solar power technology, could be deterred by these regulations and policies, which could result in a significant reduction in the potential demand for our products. For example, without a regulatory mandated exception for solar power systems, utility customers are often charged interconnection or standby fees for putting distributed power generation on the electric utility grid. These fees could increase the cost to our customers of using our solar module products and make them less desirable,

thereby harming our business, prospects, results of operations and financial condition. In addition, pricing regulations and policies may place limits on our ability to increase the price of our solar module products in response to increases in our solar cells and silicon raw materials costs.

We anticipate that our products and their installation will be subject to oversight and regulation in accordance with national and local regulations relating to building codes, safety, environmental protection, utility interconnection and metering and related matters. It is difficult to track the requirements of individual jurisdictions and design products to comply with the varying standards. For example, the European Union's Restriction of Hazardous Substances Directive, which took effect in July 2006, is a general directive. Each European Union member state will adopt its own enforcement and implementation policies using the directive as a guide. Therefore, there could be many different versions of this law that we will have to comply with to maintain or expand our sales in Europe. Any new government regulations or utility policies pertaining to our solar module products may result in significant additional expenses to us and, as a result, could cause a significant reduction in demand for our solar module products. In particular, any changes to existing regulations and policies or new regulations and policies in Germany could have a material adverse effect on our business and operating results. Sales to customers located in Germany accounted for 75.3% and 76.3% of our net revenues in 2005 and for the six months ended June 30, 2006, respectively, in part because of the availability and amounts of government subsidies and economic incentives in Germany.

The lack or unavailability of financing for on-grid and off-grid solar power applications could cause our sales to decline.

Our solar module products are used in both on-grid applications and off-grid applications. Off-grid applications are used where access to utility networks is not economical or physically feasible. In some developing countries, government agencies and the private sector have, from time to time, provided financing on preferential terms for rural electrification programs. We believe that the availability of financing programs could have a significant effect on the level of sales of solar modules for both on-grid and off-grid applications. If existing financing programs for on-grid and off-grid applications are eliminated or if financing programs are inaccessible or inadequate, the growth of the market for on-grid and off-grid applications may be materially and adversely affected, which could cause our sales to decline. In addition, a rise in interest rates could render existing financings more expensive and present an obstacle for potential financings that would otherwise spur the growth of the solar power industry, which could materially and adversely affect our business.

Our dependence on a limited number of solar cell and silicon raw material suppliers could prevent us from timely delivering our products to our customers in the required quantities, which could result in order cancellations and decreased revenues.

We purchase silicon raw materials and solar cells from a limited number of third-party suppliers. Our major suppliers of silicon raw materials include Kunical International Ltd., or Kunical International, of the United States and Luoyang Zhong Gui High Tech Co. Ltd., or Luoyang Zhong Gui, of China, which provide us specified minimum levels of silicon feedstock, Jiangxi Saiwei LDK Solar Energy High-Tech Limited, or LDK, which provides us specified minimum levels of solar wafers, Swiss Wafers AG, or Swiss Wafers, of Switzerland, which provides us specified minimum levels of solar cells and solar wafers. These suppliers may not be able to meet the specified minimum levels set forth in the contracts. We also have a limited number of suppliers from whom we either purchase directly or obtain solar cells through our toll manufacturing arrangements. If we fail to develop or maintain our relationships with these or our other suppliers, we may not be able to secure a supply of solar cells at cost-effective prices, or at all. If that were to occur, we may be unable to manufacture our products in a timely manner or our products may be manufactured only at a higher cost, and we could be prevented from delivering our products to our customers in the required quantities and at prices that are profitable. Problems of this kind could cause us to experience order cancellations and loss of market share and harm our reputation. The failure of a supplier to supply solar cells or silicon raw materials that meet our quality, quantity and cost requirements in a timely manner could impair our ability to manufacture our products or increase our costs, particularly if we are unable to obtain these

solar cells or silicon raw materials from alternative sources on a timely basis or on commercially reasonable terms. For example, in late 2005, one of our major suppliers of solar cells incurred serious fire damage at its facilities. This resulted in a significant reduction in the number of solar cells we were able to obtain during the succeeding five months, which in turn materially and adversely affected our net revenues for those months.

Our dependence on a limited number of customers and our lack of long-term contracts may cause significant fluctuations or declines in our revenues.

We currently sell a substantial portion of our solar module products to a limited number of customers, including distributors and system integrators, and various manufacturers who either integrate our products into their own products or sell them as part of their product portfolio. In 2005, our top five customers collectively accounted for approximately 68.2% of our net revenues. Bihler GmbH, or Bihler, and Sonn-en GmbH, or Sonn-en, contributed 36.8% and 14.0%, respectively, of our net revenues for the same time period. For the six months ended June 30, 2006, our top five customers collectively accounted for approximately 91.2% of our net revenues, and Iliotec Solar GmbH, or Iliotec, Schuco International KG, or Schuco, Instalaciones Pevafersa, or Pevafersa, and Bihler contributed 36.0%, 18.2%, 17.3% and 11.2%, respectively, of our net revenues for the same period. See “Business — Markets and Customers.” As is customary in the solar power industry, sales to our customers are typically made through non-exclusive, short-term arrangements. For example, our sales contracts with Bihler are typically for periods of three months and are in the forms of pro forma invoices and order confirmations. The delivery terms of these orders are ex-works, under which we fulfill our obligation to make delivery when we make the goods available to Bihler at our factory in China. We require Bihler to pay 20% to 30% of the purchase price as a prepayment for the goods covered by the pro forma invoice and require that the balance be paid by telex transfer in advance prior to each shipment. We anticipate that our dependence on a limited number of customers will continue for the foreseeable future. Consequently, any one of the following events may cause material fluctuations or declines in our revenues:

- reduction, delay or cancellation of orders from one or more of our significant customers;
- loss of one or more of our significant customers and our failure to identify additional or replacement customers; and
- failure of any of our significant customers to make timely payment for our products.

We may not be able to manage our expansion of operations effectively.

We commenced business operations in October 2001 and have grown rapidly since. We expect to continue to significantly expand our business to meet the growth in demand for our products, as well as to capture new market opportunities. To manage the potential growth of our operations, we will be required to improve our operational and financial systems and procedures and controls. Our rapid growth has strained our resources and made it difficult to maintain and update our internal procedures and controls as necessary to meet the expansion of our overall business. We must also increase production output, and expand, train and manage our growing employee base. Additionally, access to additional funds to support the expansion of our business may not always be available to us. Furthermore, our management will be required to maintain and expand our relationships with our customers, suppliers and other third parties.

We cannot assure you that our current and planned operations, personnel, systems and internal procedures and controls will be adequate to support our future growth. If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities, execute our business strategies or respond to competitive pressures.

If solar power technology is not suitable for widespread adoption, or sufficient demand for solar module products does not develop or takes longer to develop than we anticipate, our revenues may not continue to increase or may even decline, and we may be unable to sustain our profitability.

The solar power market is at a relatively early stage of development, and the extent of acceptance of solar module products is uncertain. Market data on the solar power industry are not as readily available as those for other more established industries where trends can be assessed more reliably from data gathered over a longer period of time. If solar power technology proves unsuitable for widespread adoption or if demand for solar module products fails to develop sufficiently, we may not be able to grow our business or generate sufficient revenues to sustain our profitability. In addition, demand for solar module products in our targeted markets, including Germany, Spain, the United States, Canada, China and Japan may not develop or may develop to a lesser extent than we anticipate. Many factors may affect the viability of widespread adoption of solar power technology and demand for solar module products, including:

- cost-effectiveness, performance and reliability of solar power products compared to conventional and other renewable energy sources and products;
- availability of government subsidies and incentives to support the development of the solar power industry;
- success of other alternative energy generation technologies, such as fuel cells, wind power, hydroelectric power and biomass;
- fluctuations in economic and market conditions that affect the viability of renewable energy sources, such as increases or decreases in the prices of oil and other fossil fuels; and
- deregulation of the electric power industry and broader energy industry.

Technological changes in the solar power industry could render our products uncompetitive or obsolete, which could reduce our market share and cause our revenues and profit to decline.

The solar power market is characterized by evolving technology standards that require improved features, such as more efficient and higher power output, improved aesthetics and smaller size. This requires us to develop new solar module products and enhancements for existing solar module products to keep pace with evolving industry standards and changing customer requirements. Technologies developed by others may prove more advantageous than ours for the commercialization of solar module products and may render our technology obsolete. Our failure to further refine our technology and develop and introduce new solar module products could cause our products to become uncompetitive or obsolete, which could reduce our market share and cause our revenues to decline. We will need to invest significant financial resources in research and development to maintain our market position, keep pace with technological advances in the solar power industry and effectively compete in the future.

If our future innovations fail to enable us to maintain or improve our competitive position, we may lose market share. If we are unable to successfully design, develop and introduce or bring to market competitive new solar module products, or enhance our existing solar module products, we may not be able to compete successfully. Competing solar power technologies may result in lower manufacturing costs or higher product performance than those expected from our solar module products. In addition, if we are unable to manage product transitions, our business and results of operations would be negatively affected.

Our business depends substantially on the continuing efforts of our executive officers, and our business may be severely disrupted if we lose their services.

Our future success depends substantially on the continued services of our executive officers, especially Dr. Shawn Qu, our chairman, president and chief executive officer, Bencheng Li, general manager of CSI Luoyang, Gregory Spanoudakis, our vice president of international sales and marketing, Robert Patterson, our vice president of corporate and product development and general manager of Canadian operations, and Bing Zhu, our chief financial officer. If one or more of our executive officers are unable or unwilling to continue in

their present positions, we may not be able to replace them readily, if at all. Therefore, our business may be severely disrupted, and we may incur additional expenses to recruit and retain new officers, in particular those with a significant mix of both international and China-based solar power industry experience as many of our current officers have. In addition, if any of our executives joins a competitor or forms a competing company, whether in violation of their agreements with us or otherwise, we may lose some of our customers.

We face risks associated with the marketing, distribution and sale of our solar module products internationally. If we are unable to effectively manage these risks, they could impair our ability to expand our business abroad.

In 2005 and for the six months ended June 30, 2006, we sold approximately 97.2% and 99.4%, respectively, of our products to customers located outside of China. The marketing, distribution and sale of our solar module products in the international markets expose us to a number of risks, including:

- fluctuations in the currency exchange rates of the Euro, U.S. dollar and RMB;
- difficulty in engaging and retaining distributors who are knowledgeable about and, can function effectively in, overseas markets;
- increased costs associated with maintaining marketing efforts in various countries;
- difficulty and cost relating to compliance with the different commercial and legal requirements of the overseas markets in which we offer our products;
- cultural, language and logistical barriers to working with customers in different countries; and
- trade barriers such as export requirements, tariffs, taxes and other restrictions and expenses, which could increase the prices of our products and make us less competitive in some countries.

Problems with product quality or product performance, including defects, in our products could damage our reputation, or result in a decrease in customers and revenue, unexpected expenses and loss of market share.

Our products may contain defects that are not detected until after they are shipped or are installed because we cannot test for all possible scenarios. These defects could cause us to incur significant costs, divert the attention of our personnel from product development efforts and significantly affect our customer relations and business reputation. If we deliver solar module products with errors or defects, or if there is a perception that our products contain errors or defects, our credibility and the market acceptance and sales of our solar module products could be harmed. In two instances in 2005, customers raised concerns about the stated versus actual performance output of some of our solar modules. We determined that both concerns resulted from differences in calibration methodologies and we resolved the issue with these customers. However, the corrective actions and procedures that we took may turn out to be inadequate to prevent further incidents of the same problem or to protect against future errors or defects. In addition, some of our ingot, wafer and cell suppliers with whom we have toll manufacturing arrangements have raised concerns about the quality and consistency of the silicon feedstock, in particular the reclaimable silicon that we recycle through our silicon reclamation program for re-use in the solar power industry, that we have provided to them for their ultimate conversion into solar cells. The use of reclaimed silicon in the solar power supply chain has an inherent risk as it is difficult to maintain the consistency and quality of reclaimed silicon at the same level as high-purity silicon. The successful use of reclaimed silicon requires extensive experience, know-how and additional quality control measures from both the provider of reclaimed silicon and the toll manufacturers. If we cannot successfully maintain the consistency and quality of the reclaimed silicon from our silicon reclamation program at an acceptable level, this may result in less efficient solar cells for our solar modules or in a lower conversion ratio of solar cells per ton of silicon feedstock that we provide, and may potentially delay and reduce our supply of solar cells. This may reduce or eliminate the cost advantages of recycling silicon through our silicon reclamation program. This could also cause problems with product quality or product performance, including defects in our products, and increase the cost of producing our products.

In addition, as we obtain the solar cells that we use in our products from third parties, either directly or through toll manufacturing arrangements, we have limited control over the quality of the solar cells we incorporate into our solar modules. Unlike solar modules, which are subject to certain uniform international standards, solar cells generally do not have uniform international standards, and it is often difficult to determine whether solar module product defects are a result of the solar cells or other components or reasons. We also rely on third party suppliers for other components that we use in our products, such as glass, frame and backing for our solar modules, and electronic components for our specialty solar modules and products. Furthermore, the solar cells and other components that we purchase from third party suppliers are typically sold to us without any, or with only limited, warranty. The possibility of future product failures could cause us to incur substantial expense to repair or replace defective products. Furthermore, widespread product failures may damage our market reputation, reduce our market share and cause our revenues to decline.

Since we cannot test our products for the duration of our standard warranty periods, we may be subject to unexpected warranty expense.

Our standard solar modules are typically sold with a two-year guarantee for defects in materials and workmanship and a 10-year and 25-year warranty against declines of more than 10.0% and 20.0%, respectively, of the initial minimum power generation capacity at the time of delivery. Our specialty solar modules and products are typically sold with a one-year guarantee against defects in materials and workmanship and may, depending on the characteristics of the product, contain a limited warranty of up to ten years, against declines of the minimum power generation capacity specified at the time of delivery. We believe our warranty periods are consistent with industry practice. Due to the long warranty period, we bear the risk of extensive warranty claims long after we have shipped our products and recognized revenue. We began selling specialty solar modules and products in 2002 and only began selling standard solar modules in 2004. Any increase in the defect rate of our products would cause us to increase the amount of warranty reserves and have a corresponding negative impact on our operating results. Although we conduct quality testing and inspection of our solar module products, our solar module products have not been and cannot be tested in an environment simulating the up to 25-year warranty periods. As a result, we may be subject to unexpected warranty expense and associated harm to our financial results as long as 25 years after the sale of our products.

Our future growth depends in part on our ability to make strategic acquisitions and investments and to establish and maintain strategic relationships, and our failure to do so could have a material adverse effect on our market penetration and revenue growth.

The solar power industry has only recently emerged as a high growth market and is currently experiencing shortages of its key component, high-purity silicon, due to rapid industry growth and demand. We believe it is critical that we continue to manage upstream silicon supply sources by, among other strategies, pursuing strategic acquisitions and investments in solar cell and silicon raw materials suppliers to secure a guaranteed supply and better control the specifications and quality of the materials delivered and fostering strategic relationships, particularly with silicon feedstock and solar cell suppliers. We cannot assure you, however, that we will be able to successfully make such strategic acquisitions and investments or establish strategic relationships with third parties that will prove to be effective for our business. Our inability in this regard could have a material adverse effect on our market penetration, our revenue growth and our profitability.

Strategic acquisitions, investments and relationships with third parties could subject us to a number of risks, including risks associated with sharing proprietary information and loss of control of operations that are material to our business. Moreover, strategic acquisitions, investments and relationships may be expensive to implement and subject us to the risk of non-performance by a counterparty, which may in turn lead to monetary losses that materially and adversely affect our business.

We may not succeed in developing a cost-effective solar cell manufacturing capability.

We plan to expand into areas further up the supply chain, including manufacturing solar cells to support our core solar module manufacturing business. We plan to complete our first solar cell production line in the first quarter of 2007 with commercial production targeted for the second quarter of 2007. We do not have any significant operating experience in this market and we will face significant challenges in the solar cell business. Manufacturing solar cells is a highly complex process and we may not be able to produce solar cells of sufficient quality to meet our solar module manufacturing standards. Minor deviations in the manufacturing process can cause substantial decreases in yield and in some cases cause production to be suspended or yield no output. We will need to make capital expenditures to purchase manufacturing equipment for solar cell production and will also need to make significant investments in research and development to keep pace with technological advances in solar power technology. The technologies, designs and customer preferences for solar cells change more rapidly, and solar cell product life cycles are shorter than those for solar modules. We may not be able to successfully address these new challenges. We will also face increased costs to comply with environmental laws and regulations. Any failure to successfully develop a cost-effective solar cell manufacturing capability may have a material adverse effect on our business and prospects.

In addition, although we intend to continue our toll manufacturing arrangements, if we engage in the large scale production of solar cells it may disrupt our existing relationships with solar cell suppliers. If solar cell suppliers discontinue or reduce the supply of solar cells to us, either through direct sales or through toll manufacturing arrangements, and we are not able to compensate for the loss or reduction with our own manufacturing of solar cells, our business and results of operations may be materially and adversely affected.

We may fail to successfully bring to market our new specialty solar modules and products, which may prevent us from achieving increased sales, margins and market share.

We expect to derive a greater portion of our revenues from sales of our new specialty solar modules and products and will increase our research and development expenses in connection with developing these products. If we fail to successfully develop our new specialty solar modules and products, we will likely be unable to recover the expenses that we will incur to develop these products and may be unable to increase our sales and market share and to increase our margins. Many of our new specialty solar modules and products have yet to receive market acceptance, and it is difficult to predict whether we will be successful in completing their development or whether they will be commercially successful. We may also need to develop new manufacturing processes that have yet to be tested and which may result in lower production output.

Our failure to protect our intellectual property rights in connection with new specialty solar modules and products may undermine our competitive position.

As we develop and bring to market new specialty solar modules and products, we may need to increase our expenses to protect our intellectual property and our failure to protect our intellectual property rights may undermine our competitive position. We currently use contractual arrangements with employees and trade secret protections to protect our intellectual property. Nevertheless, these afford only limited protection and the actions we take to protect our intellectual property rights as we develop new specialty solar modules and products may not be adequate. We currently only have one patent and two patent applications pending in China for products that makes up a relatively small percentage of our net revenues and one trademark application pending in China. Policing unauthorized use of proprietary technology can be difficult and expensive. Also, litigation, which can be costly and divert management attention, may be necessary to enforce our intellectual property rights, protect our trade secrets or determine the validity and scope of the proprietary rights of others.

We may be exposed to infringement, misappropriation or other claims by third parties, which, if determined adversely to us, could cause us to pay significant damage awards.

Our success depends on our ability to use and develop our technology and know-how and sell our solar module products without infringing the intellectual property or other rights of third parties. We do not have, and have not applied for, any patents for our proprietary technologies outside China, although we have sold, and expect to continue to sell, a substantial portion of our products outside China. The validity and scope of claims relating to solar power technology patents involve complex scientific, legal and factual questions and analysis and, therefore, may be highly uncertain. We may be subject to litigation involving claims of patent infringement or violation of intellectual property rights of third parties. In addition, we have not yet registered our trade name, “CSI,” outside of China, and our trademark application in China is still pending. As a result, we could be subject to trademark disputes and may not be able to police the unauthorized use of our trade name. The defense and prosecution of intellectual property suits, patent opposition proceedings and related legal and administrative proceedings can be both costly and time consuming and may significantly divert the efforts and resources of our technical and management personnel. An adverse determination in any such litigation or proceedings to which we may become a party could subject us to significant liability to third parties, require us to seek licenses from third parties, to pay ongoing royalties, or to redesign our products or subject us to injunctions prohibiting the manufacture and sale of our products or the use of our technologies. Protracted litigation could also result in our customers or potential customers deferring or limiting their purchase or use of our products until resolution of such litigation.

In addition, our competitors and other third parties may initiate legal proceedings against us or our employees that may strain our resources, divert our management attention and damage our reputation. For example, in March 2002, ICP Global Technologies Inc., or ICP Global, a manufacturer of solar power products, filed an action in the Superior Court of the Province of Quebec, Canada (Action No. 500-05 071241-028) against our vice president of international sales and marketing, Gregory Spanoudakis, and ATS Automation Tooling Systems Inc., or ATS. ICP Global subsequently amended the complaint to include us, our subsidiary, CSI Solartronics, and our chairman and chief executive officer, Dr. Shawn Qu, as defendants. The amended complaint contends that all of the defendants jointly engaged in unlawful conduct and unfair competition in directing a business opportunity away from ICP Global to us. Although there have been no meaningful discovery, court filings or communications from the plaintiff on this matter since early 2004, we cannot assure you that ICP Global will not move forward with this case or that the litigation will not be determined adversely to us. See “Our Business — Legal Proceedings” for more details. We also cannot assure you that similar proceedings will not occur in the future.

If we are unable to attract, train and retain technical personnel, our business may be materially and adversely affected.

Our future success depends, to a significant extent, on our ability to attract, train and retain technical personnel. Recruiting and retaining capable personnel, particularly those with expertise in the solar power industry, are vital to our success. There is substantial competition for qualified technical personnel, and there can be no assurance that we will be able to attract or retain our technical personnel. If we are unable to attract and retain qualified employees, our business may be materially and adversely affected.

Fluctuations in exchange rates could adversely affect our business.

Historically, a major portion of our sales were denominated in Euros, with the remainder in Renminbi and U.S. dollars. Since June 2005, substantially all of our sales contracts have been denominated in U.S. dollars. The major portion of our costs and expenses is denominated in U.S. dollars. We also incur a portion of our costs and expenses in Renminbi, primarily related to domestic sourcing of solar cells and silicon raw materials, toll manufacturing fees, labor costs and local overhead expenses. We also have loan arrangements with Chinese commercial banks that are denominated in Renminbi. Therefore, fluctuations in currency exchange rates could have a material adverse effect on our financial condition and results of operations. Fluctuations in exchange rates, particularly among the U.S. dollar, Renminbi and Euro, affect our gross and net profit margins and could result in fluctuations in foreign exchange and operating gains and

losses. We cannot predict the impact of future exchange rate fluctuations on our results of operations and we may incur net foreign currency losses in the future.

Product liability claims against us could result in adverse publicity and potentially significant monetary damages.

As with other solar module product manufacturers, we are exposed to risks associated with product liability claims if the use of our solar module products results in injury. Since our products generate electricity, it is possible that users could be injured or killed by our products as a result of product malfunctions, defects, improper installation or other causes. We only shipped our first products in March 2002 and, because of our limited operating history, we cannot predict whether product liability claims will be brought against us in the future or the effect of any resulting negative publicity on our business. Although we carry limited product liability insurance, we may not have adequate resources to satisfy a judgment if a successful claim is brought against us. The successful assertion of product liability claims against us could result in potentially significant monetary damages and require us to make significant payments. Even if the product liability claims against us are determined in our favor, we may suffer significant damage to our reputation.

Our quarterly operating results may fluctuate from period to period in the future.

Our quarterly operating results may fluctuate from period to period based on the seasonality of consumer spending and industry demand for solar power products. In addition, purchases of solar products tends to decrease during the winter months in our key markets, such as Germany, due to adverse weather conditions that can complicate the installation of solar power systems. As a result, you may not be able to rely on period to period comparisons of our operating results as an indication of our future performance. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview" for factors that are likely to cause our operating results to fluctuate.

Our founder, Dr. Shawn Qu, will have a substantial influence over our company and his interests may not be aligned with the interests of our other shareholders.

Dr. Shawn Qu, our founder, chairman and chief executive officer, currently beneficially owns 65.20% of our outstanding share capital and will beneficially own approximately 50.14% of our outstanding share capital upon completion of this offering. As such, Dr. Qu has, and will continue to have, substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our common shares. These actions may be taken even if they are opposed by our other shareholders, including those who purchase shares in this offering.

Compliance with environmental regulations can be expensive, and noncompliance with these regulations may result in adverse publicity and potentially significant monetary damages, fines and suspensions of our business operations.

We are required to comply with all national and local regulations regarding protection of the environment. We believe that our manufacturing processes do not generate any material levels of noise, waste water, gaseous wastes and other industrial wastes and that we are in compliance with present environmental protection requirements and have all necessary environmental permits to conduct our business as it is presently conducted. However, if more stringent regulations are adopted in the future, the costs of compliance with these new regulations could be substantial. For example, we increased our expenditures to comply with the European Union's Restriction of Hazardous Substances Directive, which took effect in July 2006, by reducing the amount of lead and other restricted substances used in our solar module products. Furthermore, we may need to comply with the European Union's Waste Electrical and Electronic Equipment Directive if we begin to sell specialty solar modules and products to customers located in Europe or if our customers

located in other markets demand that our products be compliant. In addition, as we expand our silicon reclamation program and research and development activities and expand into solar cell manufacturing, we may begin to generate material levels of noise, waste water, gaseous wastes and other industrial wastes. If we fail to comply with present or future environmental regulations, we may be required to pay substantial fines, suspend production or cease operations. Any failure by us to control the use of, or to restrict adequately the discharge of, hazardous substances could subject us to potentially significant monetary damages and fines or suspensions of our business operations.

We may not be successful in establishing our brand names among all consumers in important markets and the products we sell under our brand name may compete with the products we manufacture on an OEM basis for our customers.

We sell our products primarily under our own brand name and also on an OEM basis for our customers. In certain markets our brand may not be as prominent as other more established solar power vendors, and there can be no assurance that the "CSI" brand name or any of our potential future brand names, will gain acceptance among customers. Moreover, because the range of products we sell under our own brands and those we manufacture for our customers may be substantially similar, there can be no assurance that, currently or in the future, there will be no direct or indirect competition between products sold under the CSI brand, or any of our potential other future brands, and products we manufacture on an OEM basis. This could negatively affect our relationship with these customers.

If we grant employee share options, restricted shares or other share-based compensation in the future, our net income could be adversely affected.

We adopted a share incentive plan in 2006. As of the date of this prospectus, we have issued 1,337,770 share options and 566,190 restricted shares under our share incentive plan. In December 2004, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards, or SFAS, No. 123R, "Share-Based Payment." This statement, which became effective in our first quarter of 2006, will prescribe how we account for share-based compensation, and may have an adverse or negative impact on our results of operations or the price of our common shares. SFAS No. 123R requires us to recognize share-based compensation as compensation expense in the statement of operations based on the fair value of equity awards on the date of the grant, with the compensation expense recognized over the period in which the recipient is required to provide service in exchange for the equity award. This statement also requires us to adopt a fair value-based method for measuring the compensation expense related to share-based compensation. The additional expenses associated with share-based compensation may reduce the attractiveness of issuing share options or restricted shares under our share incentive plan. However, if we do not grant share options or restricted shares, or reduce the number of share options or restricted shares that we grant, we may not be able to attract and retain key personnel. If we grant more share options or restricted shares to attract and retain key personnel, the expenses associated with share-based compensation may adversely affect our net income.

There have been historical deficiencies with our internal controls and there remain areas of our internal and disclosure controls that require improvement. If we fail to maintain an effective system of internal controls, we may be unable to accurately report our financial results or prevent fraud, and investor confidence and the market price of our common shares may be adversely impacted.

When our auditors audited our financial statements as of and for the period ended December 31, 2005, they observed a number of deficiencies in our internal controls. These deficiencies included a lack of detail in our documented accounting policies, insufficient functionality of certain of our IT systems, and a limitation of tax, financial reporting, and accounting resources that could impact our financial reporting in accordance with accounting principles generally accepted in the U.S. These deficiencies in the design and operation of our internal controls could adversely affect our ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. These historical deficiencies included several errors made by our accounting staff initially in preparing our 2005 financial statements. For

example, we had used assumptions in calculating the fair values of our convertible notes and the related derivatives and freestanding financial instruments that were inappropriate under U.S. GAAP and subsequently we had to revise the allocation of the proceeds from the issuance of the convertible notes. We also uncovered a record-keeping error with one of our foreign currency bank accounts, which resulted in an incorrect credit to our exchange gains/ losses. In addition, we did not properly apply U.S. GAAP in calculating the gain on an acquisition that we made in 2003, which resulted in an overstatement of extraordinary item by \$93,446.

Following the identification of these deficiencies, we undertook remedial steps to address these deficiencies, including hiring additional staff, training our new and existing staff and installing new or improving current IT systems. In particular, we hired a financial controller, a manager of internal audit, a manager of financial control and an accounting manager. We continue to take additional steps to improve our internal controls and disclosure controls. If we are unable to implement solutions to deficiencies in our existing internal and disclosure controls and procedures, or if we fail to maintain an effective system of internal and disclosure controls in the future we may be unable to accurately report our financial results or prevent fraud and investor confidence and the market price of our common shares may be adversely impacted.

Risks Related to Doing Business in China

Uncertainties with respect to the Chinese legal system could have a material adverse effect on us.

We conduct substantially all of our manufacturing operations through our subsidiaries in China. These subsidiaries are generally subject to laws and regulations applicable to foreign investment in China and, in particular, laws applicable to wholly foreign-owned enterprises. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

Fluctuation in the value of the Renminbi may have a material adverse effect on your investment.

The change in value of the Renminbi against the U.S. dollar, Euro and other currencies is affected by, among other things, changes in China's political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 4.5% appreciation of Renminbi against the U.S. dollar between July 21, 2005 and October 20, 2006. While the international reaction to the Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against the U.S. dollar. As a portion of our costs and expenses is denominated in Renminbi, the revaluation in July 2005 and potential future revaluation has and could further increase our costs in U.S. dollar terms. In addition, as we rely entirely on dividends paid to us by our operating subsidiaries in China, any significant revaluation of the Renminbi may have a material adverse effect on our revenues and financial condition, and the value of, and any dividends payable on, our common shares. For example, to the extent that we need to convert U.S. dollars we receive from this offering into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our common shares or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us.

Restrictions on currency exchange may limit our ability to receive and use our revenues effectively.

Certain portions of our revenue and expenses are denominated in Renminbi. If our revenues denominated in Renminbi increase or expenses denominated in Renminbi decrease in the future, we may need to convert a portion of our revenues into other currencies to meet our foreign currency obligations, including, among others, payment of dividends declared, if any, in respect of our common shares. Under China's existing foreign exchange regulations, our PRC subsidiaries are able to pay dividends in foreign currencies, without prior approval from the State Administration of Foreign Exchange, or SAFE, by complying with certain procedural requirements. However, we cannot assure you that the PRC government will not take further measures in the future to restrict access to foreign currencies for current account transactions.

Foreign exchange transactions by our PRC subsidiaries under most capital accounts continue to be subject to significant foreign exchange controls and require the approval of PRC governmental authorities. In particular, if we finance our PRC subsidiaries by means of additional capital contributions, these capital contributions must be approved by certain government authorities including the Ministry of Commerce or its local counterparts. These limitations could affect the ability of our PRC subsidiaries to obtain foreign exchange through equity financing.

Our business benefits from certain PRC government incentives. Expiration of, or changes to, these incentives could have a material adverse effect on our operating results.

Under current PRC laws and regulations, a foreign invested enterprise, or FIE, in China is typically subject to enterprise income tax, or EIT, at the rate of 30% on taxable income, and local income tax at the rate of 3% on taxable income. The PRC government has provided various incentives to FIEs, such as each of our PRC subsidiaries, to encourage the development of foreign investments. Such incentives include reduced tax rates and other measures. FIEs that are determined by PRC tax authorities to be manufacturing companies with authorized terms of operation more than ten years, are eligible for: (i) a two-year exemption from EIT from their first profitable year; and (ii) a reduced EIT of 50% for the succeeding three years. CSI Solartronics is entitled to a preferential EIT rate of 24%, as it is a manufacturing enterprise located in a coastal economic development zone in Changshu. CSI Solartronics's first profitable year was 2002 and it is currently paying an EIT rate of 12% until the end of 2006. CSI Solar Manufacturing is entitled to a preferential EIT rate of 15%. CSI Solar Manufacturing's first profitable year was 2005 and it is exempt from EIT until 2006. It will be subject to an EIT rate of 7.5% from 2007 until 2009. CSI Solar Technologies, CSI Luoyang, CSI Solarchip and CSI Advanced have not made a profit and have therefore not applied for preferential tax treatment. If these subsidiaries turn profitable, they will apply for preferential tax rates and tax holidays. As these tax benefits expire, the effective tax rate of our PRC subsidiaries may increase significantly, and any increase of their EIT rates in the future could have a material adverse effect on our financial condition and results of operations.

There may be some uncertainty surrounding a recently adopted PRC regulation that requires certain offshore listings to be approved by the China Securities Regulatory Commission.

On August 8, 2006, six PRC regulatory agencies, including the China Securities Regulatory Commission, or CSRC, promulgated a regulation that took effect on September 8, 2006. This regulation, among other things, requires offshore special purpose vehicles, or SPVs, formed for listing purposes through acquisitions of PRC domestic companies and controlled by Chinese domestic companies or PRC individuals to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange. On September 21, 2006, the CSRC published on its official website a notice specifying the documents and materials that are required to be submitted for obtaining CSRC approval. We believe, based on the advice of Chen & Co., our PRC counsel, that this regulation does not apply to us and that CSRC approval is not required because we are not an SPV covered by the new regulation as we are owned and controlled by non-PRC individual and entities, and all our PRC subsidiaries are foreign-funded and have been incorporated through our direct investment instead of acquisition. However, since the regulation has only recently been adopted, there may be some uncertainty as to how this regulation will be interpreted or implemented. If the CSRC or other PRC regulatory body subsequently determines that we need to obtain the CSRC's approval for

this offering, we may face sanctions by the CSRC or other PRC regulatory agencies. In such event, these regulatory agencies may impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, delay or restrict the repatriation of the proceeds from this offering into the PRC, or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our common shares. The CSRC or other PRC regulatory agencies may also take actions requiring us, or making it advisable to us, to halt this offering before settlement and delivery of the common shares offered by this prospectus.

We face risks related to health epidemics and other outbreaks.

Our business could be adversely affected by the effects of avian flu or another epidemic or outbreak. In 2005 and 2006, there have been reports on the occurrences of avian flu in various parts of China, including a few confirmed human cases and deaths. Any prolonged recurrence of avian flu or other adverse public health developments in China may have a material adverse effect on our business operations. These could include our ability to travel or ship our products outside of China, as well as temporary closure of our manufacturing facilities. Such closures or travel or shipment restrictions would severely disrupt our business operations and adversely affect our results of operations. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of avian flu or any other epidemic.

Risks Related to This Offering

There has been no public market for our common shares prior to this offering, and you may not be able to resell our common shares at or above the price you paid, or at all.

Prior to this initial public offering, there has been no public market for our common shares. Our common shares have been approved for listing on the Nasdaq Global Market. If an active trading market for our common shares does not develop after this offering, the market price and liquidity of our common shares will be materially and adversely affected. The initial public offering price for our common shares is determined by negotiations between us and the underwriters and may bear no relationship to the market price for our common shares after this initial public offering. We cannot assure you that an active trading market for our common shares will develop or that the market price of our common shares will not decline below the initial public offering price.

The market price for our common shares may be volatile.

The market price for our common shares is likely to be highly volatile and subject to wide fluctuations in response to factors including the following:

- announcements of technological or competitive developments;
- regulatory developments in our target markets affecting us, our customers or our competitors;
- actual or anticipated fluctuations in our quarterly operating results;
- changes in financial estimates by securities research analysts;
- changes in the economic performance or market valuations of other solar power companies;
- addition or departure of our executive officers and key research personnel;
- announcements regarding patent litigation or the issuance of patents to us or our competitors;
- fluctuations in the exchange rates between the U.S. dollar, the Euro and RMB;
- release or expiry of lock-up or other transfer restrictions on our outstanding common shares; and
- sales or perceived sales of additional common shares.

In addition, the securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also have a material adverse effect on the market price of our common shares.

Because the initial public offering price is substantially higher than our net tangible book value per share, you will incur immediate and substantial dilution.

If you purchase our common shares in this offering, you will pay more for the common shares than the amount paid by our existing shareholders for their common shares on a per share basis. As a result, you will experience immediate and substantial dilution of approximately \$10.29 per share (assuming no exercise by the underwriters of options to acquire additional common shares), representing the difference between our net tangible book value per share as of December 31, 2005, after giving effect to this offering and the midpoint of the estimated range of the initial public offering price of \$14.00 per share. In addition, you may experience further dilution to the extent that our common shares are issued upon the exercise of share options.

Substantial future sales or perceived sales of our common shares in the public market could cause the price of our common shares to decline.

Sales of our common shares in the public market after this offering, or the perception that these sales could occur, could cause the market price of our common shares to decline. Upon completion of this offering, we will have 27,270,000 common shares outstanding. All common shares sold in this offering will be freely transferable without restriction or additional registration under the Securities Act of 1933, as amended. The remaining common shares outstanding after this offering will be available for sale, upon the expiration of the 180-day lock-up period beginning from the date of this prospectus and subject to volume, holding period and other restrictions as applicable under Rule 144 and Rule 701 under the Securities Act. Any or all of these shares (other than those held by certain option holders) may be released prior to expiration of the lock-up period at the discretion of the joint lead underwriters. To the extent shares are released before the expiration of the lock-up period and these shares are sold into the market, the market price of our common shares could decline.

Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to you in the United States unless we register the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

Our articles of continuance contain anti-takeover provisions that could adversely affect the rights of holders of our common shares.

We intend to adopt an amendment to our articles of continuance that will become effective immediately upon the closing of this offering. We intend to include certain provisions in our amended articles of continuance that would limit the ability of others to acquire control of our company, and deprive our shareholders of the opportunity to sell their shares at a premium over the prevailing market price by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transactions.

We intend to include the following provisions in our amended articles of continuance that may have the effect of delaying or preventing a change of control of our company:

- Our board of directors has the authority, without approval by the shareholders, to issue an unlimited number of preferred shares in one or more series. Our board of directors may establish the number of shares to be included in each such series and may fix the designations, preferences, powers and other rights of the shares of a series of preferred shares.
- Our board of directors shall fix and may change the number of directors within the minimum and maximum number of directors provided for in our articles. Our board of directors may appoint one or more additional directors, who shall hold office for a term expiring no later than the close of the next annual meeting of shareholders, subject to the limitation that the total number of directors so appointed may not exceed one-third of the number of directors elected at the previous annual meeting of shareholders.

You may have difficulty enforcing judgments obtained against us.

We are a corporation organized under the laws of Canada and substantially all of our assets are located outside of the United States. Substantially all of our current operations are conducted in the PRC. In addition, most of our directors and officers, as well as the expert named in this prospectus, are nationals and residents of countries other than the United States. A substantial portion of the assets of these persons are located outside the United States. As a result, it may be difficult for you to effect service of process within the United States upon these persons. It may also be difficult for you to enforce in U.S. courts judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors, most of whom are not residents in the United States and the substantial majority of whose assets are located outside of the United States. In addition, we have been advised by our Canadian counsel that a monetary judgment of a U.S. court predicated solely upon the civil liability provisions of U.S. federal securities laws would likely be enforceable in Canada if the U.S. court in which the judgment was obtained had a basis for jurisdiction in the matter that was recognized by a Canadian court for such purposes. We cannot assure you that this will be the case. It is unlikely that an action could be brought in Canada in the first instance for civil liability under U.S. federal securities laws. There is uncertainty as to whether the courts of the PRC would recognize or enforce judgments of U.S. courts against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state. In addition, it is uncertain whether such PRC courts would be competent to hear original actions brought in the PRC against us or such persons predicated upon the securities laws of the United States or any state. See "Enforceability of Civil Liabilities."

We may be classified as a passive foreign investment company, which could result in adverse U.S. federal income tax consequences to U.S. holders of our common shares.

Based on, among other things, the price of our common shares in this offering and the expected price of our common shares following this offering, we do not expect to be considered a "passive foreign investment company," or PFIC, for U.S. federal income tax purposes for our current taxable year ending December 31, 2006, and we expect to operate in such a manner so as not to become a PFIC in future taxable years. However, we must make a separate determination each year as to whether we are a PFIC (after the close of each taxable year). Accordingly, we cannot assure you that we will not be a PFIC for our current taxable year ending December 31, 2006 or any future taxable year. A non-U.S. corporation will be considered a PFIC for any taxable year if either (1) at least 75% of its gross income is passive income or (2) at least 50% of the value of its assets is attributable to assets that produce or are held for the production of passive income. The market value of our assets may be determined in large part by the market price of our common shares, which is likely to fluctuate after this offering (and may fluctuate considerably given that market prices of technology companies have been especially volatile). In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the cash we raise in this offering. If we were treated as a PFIC for any taxable year during which a U.S. person held a common share, certain adverse U.S. federal

income tax consequences could apply to such U.S. person. See “Taxation — United States Federal Taxation — Passive Foreign Investment Company.”

We will incur increased costs as a result of being a public company.

As a public company, we will incur a significantly higher level of legal, accounting and other expenses than we did as a private company. In addition, the Sarbanes-Oxley Act of 2002, as well as new rules subsequently implemented by the Securities and Exchange Commission, or the SEC, and the Nasdaq Global Market, have required changes in corporate governance practices of public companies. We expect these new rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly. We are currently evaluating and monitoring developments with respect to these new rules, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains many forward-looking statements that reflect our current expectations and views of future events. The forward-looking statements are contained principally in the sections entitled “Prospectus Summary,” “Risk Factors,” “Use of Proceeds,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Our Business.” Known and unknown risks, uncertainties and other factors, may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. See “Risk Factors” for a discussion of some risk factors that may affect our business and results of operations. These risks are not exhaustive. Other sections of this prospectus may include additional factors that could adversely impact our business and financial performance. Moreover, because we operate in an emerging and evolving industry, new risk factors may emerge from time to time. It is not possible for our management to predict all risk factors, nor can we assess the impact of these factors on our business or the extent to which any factor, or combination of factors, may cause actual result to differ materially from those expressed or implied in any forward-looking statement.

In some cases, the forward-looking statements can be identified by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “potential,” “continue,” “is/are likely to” or other similar expressions. We have based the forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, among other things, statements relating to:

- our expectations regarding the worldwide demand for electricity and the market for solar power;
- our beliefs regarding lack of infrastructure reliability and long-term fossil fuel supply constraints;
- our beliefs regarding the inability of traditional fossil fuel-based generation technologies to meet the demand for electricity;
- our beliefs regarding the importance of environmentally friendly power generation;
- our expectations regarding governmental support for the deployment of solar power;
- our beliefs regarding the future shortage or availability of the supply of high-purity silicon;
- our beliefs regarding the acceleration of adoption of solar power technologies;
- our beliefs regarding the competitiveness of our solar module products;
- our expectations with respect to increased revenue growth and our ability to achieve profitability resulting from our supply chain management;
- our beliefs regarding the effects of environmental regulation;
- our beliefs regarding the changing competitive arena in the solar power industry;
- our future business development, results of operations and financial condition; and
- competition from other manufacturers of solar power products and conventional energy suppliers.

This prospectus also contains data related to the solar power market in several countries. These market data, including market data from Solarbuzz, include projections that are based on a number of assumptions. The solar power market may not grow at the rates projected by the market data, or at all. The failure of the market to grow at the projected rates may materially and adversely affect our business and the market price of our common shares. In addition, the rapidly changing nature of the solar power market subjects any projections or estimates relating to the growth prospects or future condition of our market to significant uncertainties. If any one or more of the assumptions underlying the market data proves to be incorrect, actual

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results may differ from the projections based on these assumptions. You should not place undue reliance on these forward-looking statements.

The forward-looking statements made in this prospectus relate only to events or information as of the date on which the statements are made in this prospectus. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this prospectus and the documents that we referenced in this prospectus and have filed as exhibits to the registration statement, of which this prospectus is a part, completely and with the understanding that our actual future results may be materially different from what we expect.

USE OF PROCEEDS

We estimate that we will receive net proceeds for this offering of approximately \$77.4 million, (or \$86.5 million if the underwriters exercise the over-allotment option in full) after deducting the estimated underwriting discounts, commissions and estimated offering expenses payable by us, and assuming an initial public offering price of \$14.00 per common share, the midpoint of the estimated range of the initial public offering price. A \$1.00 increase (decrease) in the assumed initial public offering price of \$14.00 per common share would increase (decrease) the net proceeds to us from this offering by \$5.9 million, after deducting the estimated underwriting discounts and commissions and estimated aggregate offering expenses payable by us.

We intend to use the net proceeds we receive from this offering for the following purposes:

- approximately \$30.0 million to purchase or prepay for solar cells and silicon raw materials;
- approximately \$35.0 million for our expansion into solar cell manufacturing, including purchasing solar cell equipment and construction of our solar cell facilities, to support our core solar module business and for the expansion of our solar module manufacturing capabilities; and
- the remaining amount for other general corporate purposes.

We have not yet determined all of our anticipated expenditures and therefore cannot estimate the amounts to be used for each of the purposes discussed above. The amounts and timing of any expenditure will vary depending on the amount of cash generated by our operations, competitive and technological developments and the rate of growth, if any, of our business. Accordingly, our management will have significant discretion in the allocation of the net proceeds we will receive for this offering. Depending on future events and other changes in the business climate, we may determine at a later time to use the net proceeds for different purposes. Pending their use, we intend to place our net proceeds in short-term bank deposits.

We will not receive any of the proceeds from the sale of common shares by the selling shareholders.

CAPITALIZATION

The following table sets forth our capitalization, as of June 30, 2006:

- on an actual basis; and
- on a pro forma basis to give effect to (1) the conversion of all of our outstanding convertible notes into 5,542,005 common shares (after taking into account post-conversion share splits) that occurred on July 1, 2006 and (2) the issuance and sale of the 6,300,000 common shares by us in this offering, assuming an initial public offering price of \$14.00 per share, the midpoint of the estimated range of the initial public offering price, after deducting underwriting discounts, commissions and estimated offering expenses payable by us and assuming no exercise of the underwriters' over-allotment option.

You should read this table together with our financial statements and the related notes included elsewhere in this prospectus and the information under "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	As of June 30, 2006	
	Actual	Pro Forma
Convertible notes	\$ 8,827,567	—
Financial instruments related to convertible notes	—	—
Embedded derivatives related to convertible notes	1,000	—
Shareholders' equity		
Common shares, no par value: unlimited authorized shares; 15,427,995 shares issued and outstanding(1)(2)(3)	210,843	\$ 87,741,062
Additional paid-in capital	11,005,094	11,005,094
Retained earnings	2,083,236	2,083,236
Accumulated other comprehensive income	282,657	282,657
Total shareholders' equity(2)	13,581,830	101,112,049
Total capitalization(2)	\$ 22,410,397	\$ 101,112,049

- (1) Excludes 566,190 restricted shares and 1,337,700 common shares issuable upon the exercise of options that are outstanding, and not exercisable until after 60 days, as of the date of this prospectus and 426,041 common shares reserved for future issuance under our 2006 share incentive plan.
- (2) A \$1.00 increase (decrease) in the assumed initial public offering price of \$14.00 per share would increase (decrease) each of the pro forma additional common shares, total shareholders' equity and total capitalization by \$5.9 million.
- (3) The proforma amount also includes \$1,333,648 of deferred tax liabilities associated with the convertible notes. The deferred tax liabilities represent a component of the carrying value of the convertible notes upon conversion.

DILUTION

If you invest in our common shares, your interest will be diluted to the extent of the difference between the initial public offering price per common share and our net tangible book value per share after this offering. Dilution results from the fact that the initial public offering price per common share is substantially in excess of the book value per common share attributable to the existing shareholders for our presently outstanding common shares.

Our net tangible book value as of June 30, 2006 was approximately \$23.7 million, or \$1.13 per common share, after taking into account all share splits that occurred after June 30, 2006 and after giving effect to the conversion of conversion notes into 5,542,005 common shares on July 1, 2006. Net tangible book value represents the amount of our total consolidated tangible assets, minus the amount of our total consolidated liabilities. Without taking into account any other changes in such net tangible book value after June 30, 2006, other than to give effect to (i) the conversion of all of the convertible notes on July 1, 2006 into 5,542,005 common shares, and (ii) our sale of common shares in this offering at the assumed initial public offering price of \$14.00 per share, the midpoint of the estimated range of the initial public offering price, and after deduction of underwriters discounts and commissions and estimated offering expenses of this offering payable by us, our adjusted net tangible book value per common share as of June 30, 2006 would have increased to \$101.0 million or \$3.71 per common share. This represents an immediate increase in net tangible book value of \$2.58 per common share, to the existing shareholders, and an immediate dilution in net tangible book value of \$10.29 per share to investors purchasing common shares in this offering. The following table illustrates such per share dilution:

Estimated initial public offering price per common share	\$	14.00
Net tangible book value per common share as of June 30, 2006	\$	0.88
Pro forma net tangible book value per common share after giving effect to conversion of convertible notes	\$	1.13
Increase in net tangible book value per common share attributable to this offering	\$	2.58
Pro forma net tangible book value per common share after giving effect to the conversion of convertible notes and this offering	\$	3.71
Pro forma amount of dilution in net tangible book value per common share to new investors in this offering after giving effect to the conversion of convertible notes	\$	10.29

A \$1.00 increase (decrease) in the assumed public offering price of \$14.00 per common share would increase (decrease) our pro forma net tangible book value after giving effect to the conversion of the convertible notes and this offering by \$5.9 million, the pro forma net tangible book value per common share after giving effect to the conversion of the convertible notes and this offering by \$0.21 per common share and the pro forma amount of dilution in net tangible book value per common share to new investors in this offering by \$0.79 per common share, assuming no change to the number of common shares offered by us as set forth on the cover page of this prospectus, and after deducting underwriting discounts and commissions and other offering expenses. The pro forma information discussed above is illustrative only. Our net tangible book value following the completion of this offering is subject to adjustment based on the actual initial public offering price of our common shares and other terms of this offering determined at pricing.

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The following table summarizes, on a pro forma basis as of June 30, 2006, the differences between existing shareholders and the new investors with respect to the number of common shares purchased from us, the total consideration paid and the average price per common share paid before deducting the underwriting discounts and commissions and estimated offering expenses. The total number of common shares in the following table does not include common shares issuable upon the exercise of the over-allotment option granted to the underwriters. The information in the following table is illustrative only and the total consideration paid and the average price per common share for new investors is subject to adjustment based on the actual initial public offering price of our common shares and other terms of this offering determined at pricing.

	Common Shares Purchased		Total Consideration		Average Price Per Common Share
	Number	Percent	Amount	Percent	
Existing shareholders	20,970,000	77%	\$ 10,373,058	12%	\$ 0.49
New investors	6,300,000	23%	77,368,004	88%	12.28
Total	27,270,000	100%	\$ 87,741,062	100%	\$ 3.22

A \$1.00 increase (decrease) in the assumed initial public offering price of \$14.00 per common share would increase (decrease) total consideration paid by new investors, total consideration paid by all shareholders and the average price per common share paid by all shareholders by \$5.9 million, \$5.9 million and \$0.93, respectively, assuming no change in the number of common shares sold by us as set forth on the cover page of this prospectus and without deducting underwriting discounts and commissions and other offering expenses.

The discussion and tables above assume no exercise of any outstanding share options. As of June 30, 2006, there were 970,795 common shares issuable upon exercise of outstanding share options at an exercise price of \$2.12 and \$4.29 per share, respectively, and in July and August we granted additional options exercisable into 366,975 common shares at exercise prices of \$4.29, \$11.20 and \$14.00 per share. If all of these options had been exercised on June 30, 2006, after giving effect to the conversion of the convertible notes and this offering, our net tangible book value would have been approximately \$106.5 million, or \$3.72 per common share, and the dilution in net tangible book value to new investors would have been \$10.28 per common share. In addition, the dilution to new investors will be \$10.06 per common share, if the underwriters exercise their option to purchase additional common shares in full.

DIVIDEND POLICY

We have never declared or paid any dividends, nor do we have any present plan to pay any cash dividends on our common shares in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

Our board of directors has complete discretion on whether to pay dividends. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant. Cash dividends on our common shares, if any, will be paid in U.S. dollars.

EXCHANGE RATE INFORMATION

Our business is primarily conducted in China and a portion of our expenses are denominated in RMB. Periodic reports made to shareholders will be expressed in U.S. dollars using the then current exchange rates. The conversion of RMB into U.S. dollars in this prospectus is based on the noon buying rate in The City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from RMB to U.S. dollars and from U.S. dollars to RMB in this prospectus were made at a rate of RMB8.0702 to \$1.00, the noon buying rate in effect as of December 31, 2005. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, the rates stated below, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. On October 20, 2006, the noon buying rate was RMB 7.9028 to \$1.00.

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated.

Period	Period End	Noon Buying Rate		
		Average	Low	High
		(RMB per \$1.00)		
2001	8.2766	8.2772	8.2709	8.2786
2002	8.2800	8.2772	8.2700	8.2800
2003	8.2767	8.2771	8.2765	8.2800
2004	8.2765	8.2768	8.2764	8.2774
2005	8.0702	8.1826	8.0702	8.2765
2006				
March	8.0167	8.0350	8.0167	8.0505
April	8.0165	8.0143	8.0040	8.0248
May	8.0165	8.0133	8.0005	8.0300
June	7.9943	8.0042	7.9943	8.0225
July	7.9690	7.9897	7.9690	8.0018
August	7.9538	7.9722	7.9712	8.0000
September	7.9040	7.9334	7.8965	7.9533
October (through October 20, 2006)	7.9028	7.9072	7.9000	7.9168

ENFORCEABILITY OF CIVIL LIABILITIES

We were incorporated as an Ontario corporation in October 2001 and were continued as a Canadian corporation under the CBCA in June 2006.

WeirFoulds LLP, our Canadian counsel, has advised us that a monetary judgment of a U.S. court predicated solely upon the civil liability provisions of U.S. federal securities laws would likely be enforceable in Canada if the U.S. court in which the judgment was obtained had a basis for jurisdiction in the matter that was recognized by a Canadian court for such purposes. We cannot assure you that this will be the case. It is unlikely that an action could be brought in Canada in the first instance for civil liability under the U.S. federal securities laws.

We have appointed CT Corporation System as our agent to receive service of process with respect to any action brought against us in the United States District Court for the Southern District of New York under the federal securities laws of the United States or of any state in the United States or any action brought against us in the Supreme Court of the State of New York in the County of New York under the securities laws of the State of New York.

Our constituent documents do not contain provisions requiring that disputes, including those arising under the securities laws of the United States, between us, our officers, directors and shareholders, be arbitrated.

Substantially all of our current operations are conducted in China, and substantially all of our assets are located in China. A majority of our directors and officers are nationals or residents of jurisdictions other than the United States and a substantial portion of their assets are located outside the United States. As a result, it may be difficult for a shareholder to effect service of process within the United States upon us or such persons, or to enforce against us or them judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States.

Chen & Co. Law Firm, our counsel as to PRC law, has advised us that there is uncertainty as to whether the courts of the PRC would:

- recognize or enforce judgments of United States courts obtained against us or our directors or officers predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States; or
- entertain original actions brought in each respective jurisdiction against us or our directors or officers predicated upon the securities laws of the United States or any state in the United States.

Chen & Co. Law Firm has advised us further that the recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedures Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based either on treaties between the PRC and the country where the judgment is made or on reciprocity between jurisdictions. China does not have any treaties or other arrangements that provide for the reciprocal recognition and enforcement of foreign judgments with the United States or Canada. As a result, it is generally difficult to recognize and enforce in China a judgment rendered by a court in either of these two jurisdictions.

RECENT DEVELOPMENTS

The following is an estimate of our selected preliminary unaudited financial results for the three months ended September 30, 2006. Our financial statements for the three months ended September 30, 2006 have not been audited or reviewed as of the date of this prospectus. As a result, our preliminary unaudited financial results set forth below may be subject to change. Neither our independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the financial information.

We estimate:

- net revenues for the three months ended September 30, 2006 to be in the range from \$17.4 million to \$17.8 million;
- gross profit for the three months ended September 30, 2006 to be in the range from \$4.3 million to \$4.9 million;
- share-based compensation expenses for the three months ended September 30, 2006 to be approximately \$2.9 million; and
- net income for the three months ended September 30, 2006 to be in the range from \$0.2 million to \$0.4 million.

Based on these preliminary numbers, revenues for the three months ended September 30, 2006 increased 0.9% to 3.2% from the prior quarter ended June 30, 2006 and 284.1% to 292.9% from the quarter ended September 30, 2005. We achieved these results following a strong quarter ended June 30, 2006, in which revenues increased 96.2% from the prior quarter ended March 30, 2006.

Given the preliminary nature of our estimates, our actual net revenues, gross profit, share-based compensation expenses and net income may be materially different from our current expectations. For additional information regarding the various risks and uncertainties inherent in estimates of this type, see "Forward-Looking Statements." In addition, we cannot assure you that our results for the three months ended September 30, 2006 will be indicative of our results for the full year or future quarterly periods. Please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus for information regarding trends and other factors that may influence our results of operations.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

The following selected statement of operations data for the years ended December 31, 2003, 2004 and 2005 and for the six months ended June 30, 2006 and the balance sheet data as of December 31, 2003, 2004 and 2005 and as of June 30, 2006 have been derived from our audited consolidated financial statements, which have been audited by Deloitte Touche Tohmatsu CPA, Ltd., an independent registered public accounting firm. The report of Deloitte Touche Tohmatsu CPA, Ltd. on those financial statements is included elsewhere in this prospectus. The following selected consolidated statement of operations data for the six months ended June 30, 2005 have been derived from our unaudited financial statements included elsewhere in this prospectus. The selected financial data should be read in conjunction with, and are qualified in their entirety by reference to, our audited financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus.

The audited financial statements are prepared and presented in accordance with U.S. GAAP. Our selected consolidated statement of operations data for the year ended December 31, 2002 and our consolidated balance sheet data as of December 31, 2002 have been derived from our unaudited consolidated financial statements which are not included in this prospectus, but which have been prepared on the same basis as our audited consolidated financial statements. Our historical results do not necessarily indicate results expected for any future periods. Although we were incorporated in October 2001, our operation in 2001 was

immaterial. As a result, the financial data for the year ended December 31, 2001 are not meaningful, and thus have not been included in this section or elsewhere in the prospectus.

	Year Ended December 31,				For the Six Months Ended	
	2002	2003	2004	2005	2005	2006
	(in thousands of US\$, except share and per share data, and operating data and percentages)					
Statement of operations data:						
Net revenues	\$ 4,042	\$ 4,113	\$ 9,685	\$ 18,324	\$ 6,982	\$ 26,041
Cost of revenues(1)	2,628	2,372	6,465	11,211	3,920	18,623
Gross profit	1,414	1,741	3,220	7,113	3,062	7,418
Operating expenses(1)						
— Selling expenses	81	39	269	158	67	529
— General and administrative expenses	405	1,039	1,069	1,708	762	1,750
— Research and development expenses (2)	7	20	41	16	8	44
Total operating expenses	493	1,098	1,379	1,882	837	2,323
Income from operations	921	643	1,841	5,231	2,225	5,095
Interest expenses	—	—	—	(239)	—	(1,635)
Interest income	—	1	11	21	4	53
Loss on change in fair value of derivatives related to convertible notes	—	—	—	(316)	—	(6,997)
Loss on financial instruments related to convertible notes	—	—	—	(263)	—	(1,190)
Other — net	(—)(3)	10	(32)	(25)	(14)	(1)
Income tax expense	(81)	(34)	(363)	(605)	(336)	111
Minority interests	(215)	(209)	—	—	—	—
Income/(loss) before extraordinary gain	625	411	1,457	3,804	1,879	(4,564)
Extraordinary gain	—	350	—	—	—	—
Net income/(loss)	\$ 625	\$ 761	\$ 1,457	\$ 3,804	\$ 1,879	\$ (4,564)
Earnings per share, basic and diluted						
— Extraordinary gain	—	\$ 0.02	—	—	—	—
— Net income	\$ 0.04	\$ 0.05	\$ 0.09	\$ 0.25	\$ 0.12	\$ (0.30)
Shares used in computation						
Basic and diluted	15,427,995	15,427,995	15,427,995	15,427,995	15,427,995	15,427,995
Other financial data:						
Gross margin	35.0%	42.3%	33.2%	38.8%	43.9%	28.5%
Operating margin	22.8%	15.6%	19.0%	28.5%	31.9%	19.6%
Net margin	15.5%	18.5%	15.0%	20.8%	26.9%	(17.5)%

	Year Ended December 31,				For the Six Months Ended June 30,	
	2002	2003	2004	2005	2005	2006
	(in thousands of US\$, except share and per share data, and operating data and percentages)					
Selected operating data:						
Products sold (in MW)						
— Standard solar modules	—	—	1.8	3.4	1.4	5.9
— Specialty solar modules and products	0.7	0.7	0.4	0.7	0.4	0.3
Total	0.7	0.7	2.2	4.1	1.8	6.2
Average selling price (in \$ per watt)						
— Standard solar modules	—	—	\$ 3.62	\$ 3.92	\$ 3.98	\$ 4.09
— Specialty solar modules and products	\$ 5.36	\$ 5.70	\$ 5.23	\$ 5.13	\$ 5.07	\$ 4.87

(1) Share-based compensation expenses are included in our cost of revenues and operating costs and expenses as follows:

	Year Ended December 31,				For the Six Months Ended	
	2002	2003	2004	2005	June 30,	
					2005	2006
	(in thousands of US\$)					
Share-based compensation expenses included in:						
Cost of revenues	—	—	—	—	—	\$ 24
Selling expenses	—	—	—	—	—	229
General and administrative expenses	—	—	—	—	—	324
Research and development expenses	—	—	—	—	—	13

(2) We also conduct research and development activities in connection with our implementation of solar power development projects. These expenditures are included in our cost of revenues. See “Our Business — Solar Power Development Projects.”

(3) Less than one thousand.

	As of December 31,				As of June 30,
	2002	2003	2004	2005	2006
	(in thousands of US\$)				
Balance Sheet Data:					
Cash and cash equivalents	\$ 596	\$1,879	\$ 2,059	\$ 6,280	\$ 10,682
Inventories	312	313	2,397	12,163	26,398
Accounts receivable, net	1,047	257	636	2,067	6,134
Advances to suppliers	3	81	370	4,740	9,115
Property, plant and equipment, net	291	244	453	932	1,239
Total assets	2,476	3,053	6,145	27,430	57,505
Short-term borrowings	—	—	—	1,300	14,298
Accounts payable	488	426	824	4,306	7,578
Advances from suppliers and customers	113	18	273	2,823	7,321
Income tax payable	92	119	407	914	659
Embedded derivatives related to convertible notes	—	—	—	3,679	1
Total current liabilities	831	1,201	2,756	15,367	32,885
Accrued warranty costs	39	79	167	341	590
Convertible notes	—	—	—	3,387	8,828
Financial instruments related to convertible notes	—	—	—	1,107	—
Total liabilities	1,131	1,541	3,184	20,463	43,923
Total shareholders' equity	779	1,512	2,961	6,967	13,582
Total liabilities and shareholders' equity	\$2,476	\$3,053	\$ 6,145	\$27,430	\$ 57,505

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the section entitled "Selected Consolidated Financial and Operating Data" and our consolidated financial statements and the related notes included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this prospectus.

Overview

We design, manufacture and sell solar module products that convert sunlight into electricity for a variety of uses. We are incorporated in Canada and conduct all of our manufacturing operations in China. Our products include a range of standard solar modules built to general specifications for use in a wide range of residential, commercial and industrial solar power generation systems. We also design and produce specialty solar modules and products based on our customers' requirements. Specialty solar modules and products consist of customized modules that our customers incorporate into their own products, such as solar-powered bus stop lighting, and complete specialty products, such as solar-powered car battery chargers. Our products are sold primarily under our own brand name and also produced on an OEM basis for our customers. We also implement solar power development projects, primarily in conjunction with government organizations to provide solar power generation in rural areas of China.

We have grown rapidly since March 2002, when we sold our first solar module products. Our net revenues increased from \$4.1 million in 2003 to \$18.3 million in 2005, representing a CAGR of 111.1%. Correspondingly, our net income increased from \$761,245 to \$3.8 million over the same period, representing a CAGR of 123.5%. Our net revenues increased from \$7.0 million for the six months ended June 30, 2005 to \$26.0 million over the same period in 2006. We sold 0.7 MW, 2.2 MW and 4.1 MW of our solar module products in 2003, 2004 and 2005, respectively. We sold 1.4 MW and 6.2 MW of our solar module products in the six months ended June 30, 2005 and 2006, respectively.

The most significant factors that affect our financial performance and results of operations are:

- availability and price of solar cells and silicon raw materials;
- industry demand;
- government subsidies; and
- product mix and pricing.

Availability and Price of Solar Cells and Silicon Raw Materials. We produce solar modules, which are an array of interconnected solar cells encased in a weatherproof frame, and products that use solar modules. Solar cells are the most important component for making solar modules. There is presently a shortage of solar cells as a result of a shortage of high-purity silicon caused primarily by the recent expansion of, and increased demand in, the solar power and semiconductor industries. The shortage of high-purity silicon has also contributed to significant price increases for solar cells. For example, according to Solarbuzz, the average long term silicon feedstock contracted price increased from approximately \$28-32 per kilogram in 2004 to \$35-40 per kilogram in 2005, and is expected to increase to \$45-50 per kilogram in 2006. In addition, according to Solarbuzz, spot prices for silicon feedstock were generally \$60-80 per kilogram and reached in excess of \$100 per kilogram as of March 2006. According to Solarbuzz, the average selling price of solar cells increased from approximately €1.65-1.75 per watt in 2004, depending on the size of the cell and the type of technology used, to approximately €2.20 per watt in 2005. Based on our experience, we believe that the average prices of high-purity silicon and solar cells will continue to increase for the foreseeable future until the industry-wide high-purity silicon shortage eases. Any increase in demand from the semiconductor industry will compound the shortage. Increases in the prices of high-purity silicon and solar cells have in the past increased our production costs and may continue to impact our cost of

revenues and net income in the future. In addition, we have experienced late delivery and supply shortages, which have affected our production.

Beginning in early 2005, we began managing our supply chain through toll manufacturing arrangements and our silicon reclamation program to secure a cost-effective supply of solar cells. This has allowed us to mitigate the effects of the industry-wide shortage of high-purity silicon, while reducing margin pressure. Currently, we secure our supply of solar cells primarily through our sourcing of silicon raw materials and toll manufacturing arrangements with suppliers of ingots, wafers and cells. We also purchase a limited amount of solar cells directly from our solar cell suppliers. In the past, we have been able to achieve cost savings through our toll manufacturing arrangements primarily because of our silicon reclamation processes. However, as the supply of high-purity silicon becomes more readily available in the future, toll manufacturing arrangements may not be available to us at higher or similar volumes, which could have an adverse effect on our margins and profitability.

We believe our current silicon raw material supply agreements and toll manufacturing arrangements will enable us to secure solar cells sufficient for a major portion of our estimated 2006 and a portion of our estimated 2007 production output. However, as we grow our business and as high-purity silicon becomes more readily available, we plan to diversify our cell supply channel mix to ensure flexibility in adapting to the future changes in the supply of and demand for solar cells. We plan to enter into long-term supply contracts and commence in-house manufacture of solar cells. We plan to complete our first solar cell production line in the first quarter of 2007 with commercial production targeted for the second quarter of 2007. Despite our plans to have a balanced and diversified solar cell supply channel mix, we cannot assure you that we will be able to secure sufficient quantities of solar cells and silicon raw materials to grow our revenues as planned or that we will be able to successfully develop a cost-effective solar cell manufacturing capability. See “Risk Factors — Risks Related to Our Company and Our Industry — The current industry wide shortage of high-purity silicon may constrain our revenue growth and decrease our gross margins and profitability” and “— We may not succeed in developing a cost-effective solar cell manufacturing capability.”

Given the current state of the industry, suppliers of solar cells and silicon raw materials typically require customers to make prepayments well in advance of their shipment. While we also typically require our customers to make prepayments, there is typically a lag between the time of our prepayment for solar cells and silicon raw materials and the time that our customers make prepayments to us. As a result, the purchase of solar cells and silicon feedstock, and other silicon raw materials through toll manufacturing arrangements, has required, and will continue to require, us to make significant working capital commitments beyond that generated from our cash flows from operations to support our estimated production output.

Industry and Seasonal Demand. Our business and revenue growth depends on demand for solar power. Although solar power technology has been used for several decades, the solar power market has grown significantly in the past several years. According to Solarbuzz, the global solar power market, as measured by annual solar system installations, increased from 345 MW in 2001 to 1,460 MW in 2005, representing a CAGR of 43.4%. During the same period, solar power industry revenues grew from approximately \$2.4 billion in 2001 to approximately \$9.8 billion in 2005, representing a CAGR of 42.2%. Solarbuzz projects that solar power industry revenues and solar system installations will reach \$18.6 billion and 3,250 MW by 2010, respectively. Worldwide installations of solar power systems are expected to grow at an annual rate of 17.4% to 2010, led by on-grid shipments, according to Solarbuzz. We believe growth in the near term will be constrained by the limited availability of high-purity silicon, but is expected to accelerate after 2007. See “Business — Our Industry” for a more detailed discussion on the factors driving the growth of the solar power industry and the challenges that it faces. In addition, we believe that industry demand may be affected by seasonality. Demand tends to be lower in the first quarter than in the subsequent three quarters, primarily because of adverse weather conditions in our key markets, such as Germany, that complicate the installation of solar power systems.

Government Subsidies. We believe that the near-term growth of the market for on-grid applications depends in large part on the availability and size of government subsidies and economic incentives. Today, the cost of implementing and operating a solar power system substantially exceeds the cost of purchasing

power provided by the electric utility grid in many locations. As a result, federal, state and local governmental bodies in many countries, most notably Germany, Spain, the United States, Japan and China, have provided subsidies and economic incentives to reduce dependency on conventional sources of energy. These have come in the form of rebates, tax credits and other incentives to end users, distributors, system integrators and manufacturers of solar power products, to promote the use of solar energy in on-grid and, to a lesser extent, off-grid applications. The demand for our solar module products, in particular our standard solar modules, is affected significantly by these government subsidies and economic incentives. Any reductions or eliminations in government subsidies and economic incentives could reduce demand for our products and affect our revenues.

Product Mix and Pricing. We began selling our solar module products in March 2002 and all of our net revenues in 2002 and 2003 were generated from sales of specialty solar modules and products. We did not begin selling standard solar modules until 2004. By the end of 2004, the sale of standard solar modules represented 72.5% of our net revenues for the year. That percentage increased to 76.9% and 93.5% in 2005 and for the six months ended June 30, 2006, respectively. Our specialty solar modules and products generally generate higher margins compared with those generated by our standard solar modules, primarily because of the higher average selling price. We are able to charge a higher average selling price because of the greater complexity of design, the higher labor cost to design and manufacture specialty solar modules and products and the cost, if any, of purchasing additional components to complete the product. For example, the average selling price per watt of our standard solar modules was \$3.92 for the year ended December 31, 2005, as compared to \$5.13 per watt for our specialty solar modules and products over that same time period. While we expect sales of standard solar modules to drive our net revenues in the near future, we expect to increase sales of both our standard solar modules and our specialty solar modules and products going forward.

Our standard solar modules are priced based on the number of watts of electricity they can generate as well as overall demand in the solar power industry. We price our standard solar modules based on the prevailing market price at the time we enter into sales contracts with our customers, taking into account the size of the contract, the strength and history of our relationship with each customer and our solar cells and silicon raw materials costs. Over the past few years, the average selling prices for standard solar modules have risen year-to-year across the industry primarily because of high demand. Correspondingly, the average selling price of our standard solar module products increased from \$3.62 per watt in 2004 to \$3.92 per watt in 2005, and from \$3.98 per watt for the six months ended June 30, 2005 to \$4.09 per watt for the six months ended June 30, 2006. We generally enter into short-term sales contracts of approximately three months in term with our customers under which we are obligated to sell our products at set prices during the term of the contract. Given the strong industry demand for standard solar modules and increases in average selling prices per watt over recent years, the short-term nature of our contracts has allowed us to benefit from price increases. As demand and prices stabilize, we have begun, and will continue, to enter into longer-term sales contracts to help reduce our exposure to risks from decreases in standard solar module prices generally.

The price for our specialty solar modules and products is determined on a product-by-product basis, taking into account the complexity of design, direct labor costs in designing and manufacturing the product and the cost of purchasing additional components, if any, to complete the product. Specialty solar modules and products have shorter product life cycles, and product designs and customer preferences change more rapidly for specialty solar modules and products than for standard solar modules. As a result, the prices that we charge for these products are not directly comparable from year to year because our customers typically order these products for limited time periods. When a customer order ends, we may not be able to replace the customer order with orders for similarly-sized and -priced solar modules from that same customer or other customers. In addition, because we have a relatively small number of customers of specialty solar modules and products, sales of these products are susceptible to significant fluctuations. We sold 0.7 MW, 0.4 MW, 0.7 MW and 0.3 MW of these products in 2003, 2004, 2005 and for the six months ended June 30, 2006, respectively.

Overview of Financial Results

We evaluate our business using a variety of key financial measures.

Net Revenues

We generate revenues primarily from the sale of solar module products, consisting of standard solar modules and specialty solar modules and products. Solar module products accounted for 97.5%, 92.3%, 97.7% and 99.7% of our net revenues in 2003, 2004, 2005 and for the six months ended June 30, 2006, respectively. We also generate revenues from the implementation of solar power development projects, primarily in conjunction with government organizations, to provide solar power generation in rural areas of China. To date, these have consisted of government-related assistance packages. Factors affecting our net revenues include average selling prices per watt, unit volume shipped, product demand and product mix. Our net revenues are net of business tax, value-added tax and returns and exchanges.

A small number of customers have historically accounted for a major portion of our net revenues. In 2004, 2005 and for the six months ended June 30, 2006, our top five customers during those periods collectively accounted for approximately 64.0%, 62.1% and 91.2% of our net revenues, and sales to our largest customer accounted for 16.3%, 36.8% and 36.0%, respectively. Our largest customers have changed from year to year, primarily because of the short product life cycles of our specialty solar modules and products and our recent entry into the standard solar module business. We did not make any sales in 2004 to our largest customer in 2005, which is a distributor of our standard solar modules. Changes in our product mix and strategic marketing decisions have also resulted in changes in our market concentration from year to year. The following table sets forth certain information relating to our total net revenues derived from our customers categorized by their geographic location for the periods indicated:

Region	Year Ended December 31,						For the Six Months Ended June 30,			
	2003		2004		2005		2005		2006	
	Total Net Revenues	%	Total Net Revenues	%	Total Net Revenues	%	Total Net Revenues	%	Total Net Revenues	%
(in thousands of US\$, except percentages)										
Europe										
Germany	\$ 20	0.5%	\$ 6,499	67.1%	\$ 13,801	75.3%	\$ 4,121	59.0%	\$ 19,859	76.3%
Spain	—	—	85	0.8	445	2.4	455	6.4	4,496	17.3
Others	—	—	42	0.4	1,018	5.6	—	—	—	—
Europe Total	\$ 20	0.5	\$ 6,625	68.4	\$ 15,264	83.3	\$ 4,566	65.4	\$ 24,354	93.6
China	271	6.6	109	1.1	504	2.8	259	3.7	169	0.6
North America	3,798	92.3	2,853	29.5	2,556	13.9	2,157	30.9	1,456	5.6
Others	25	0.6	97	1.0	—(1)	0.0	—	—	62	0.2
Total net revenues	\$ 4,113	100.0%	\$ 9,685	100.0%	\$ 18,324	100.0%	\$ 6,982	100.0%	\$ 26,041	100.0%

(1) Less than a thousand.

Cost of Revenues

Our cost of revenues consists primarily of the costs of:

- solar cells;
- other materials for the production of solar modules such as glass, aluminum frame and polymer backing;
- production labor, including salaries and benefits for manufacturing personnel;
- warranty costs;

- since the second quarter of 2006, share-based compensation expenses for options and restricted shares granted to our manufacturing employees and suppliers; and
- other materials, such as electronic components, used for the production of our specialty solar modules and products.

Solar cells make up the major portion of our cost of revenues. We purchase some of our solar cells directly from cell suppliers. The costs of solar cells that we directly purchase are the price that we pay to our suppliers. The substantial majority of our solar cells are obtained through toll manufacturing arrangements through which we source and provide silicon feedstock to suppliers of ingots, wafers and cells. These suppliers ultimately convert these silicon raw materials into the solar cells that we use for our production of solar modules. The costs of solar cells that we obtain through these toll manufacturing arrangements comprise of: (i) the costs of purchasing the silicon feedstock; (ii) labor costs incurred in inventory management; (iii) labor costs incurred in sorting the reclaimable silicon as part of our silicon reclamation program; and (iv) tolling fees charged by our suppliers under the tolling arrangements. The payments we make to our suppliers for the solar cells and the payment our suppliers make to us for the silicon feedstock that we source are generally settled separately. We do not include payments we receive for providing silicon feedstock as part of these toll manufacturing arrangements in our net revenues.

Our cost of revenues also includes warranty costs. We accrue 1.0% of our net revenues as warranty costs at the time revenues are recognized. Our standard solar modules are typically sold with a two-year guarantee for defects in materials and workmanship and a 10-year and 25-year warranty against declines of more than 10.0% and 20.0%, respectively, of the initial minimum power generation capacity at the time of delivery. Our specialty solar modules and products are typically sold with a one-year guarantee against defects and may, depending on the characteristics of the product, contain a limited warranty of up to ten years, against declines of the minimum power generation capacity specified at the time of delivery. We have not had any warranty claims to date. Our cost of revenues have historically increased as we increased our net revenues. We expect cost of revenues to increase as we increase our production volume.

Gross Profit/ Gross Margin

Our gross profit is affected by a number of factors, including the average selling prices for our products, product mix and our ability to cost-effectively manage our supply chain.

Our gross margin decreased from 42.3% in 2003 to 33.2% in 2004, primarily as a result of the change in product mix focus from specialty solar modules and products to standard solar modules in 2004 and the rising cost of solar cells due to high industry demand for solar power and shortages of silicon raw materials. Our specialty solar modules and products generally have higher margins compared to our standard solar modules. The primary reason for this is the higher average selling price per watt that we are generally able to charge for our specialty solar modules and products due to their more complex design.

Our gross margin increased from 33.2% in 2004 to 38.8% in 2005 as we initiated our supply chain management strategy in 2005. Our gross margin decreased from 43.9% for the six months ended June 30, 2005 to 28.5% for the six months ended June 30, 2006, primarily as a result of our changing product mix as we completed one of our large specialty solar module product contracts in mid-2005. Specialty solar modules and products, which tend to have higher margins than our standard solar modules, accounted for 31.6% and 6.0% of our net revenues for the six months ended June 30, 2005 and 2006, respectively. The decrease in gross margin is also attributable to the higher costs of solar cells in the six months ended June 30, 2006 and the substantial completion of one of our CIDA projects in mid-2005. A major component of our supply chain management involves the purchase of reclaimable silicon and processing it for reuse at a lower cost. This provides a significant cost advantage over the purchase of high-purity silicon. Our ability to select cost-effective suppliers for solar cells also provides us with cost savings. The successful use of reclaimed silicon requires extensive experience, know-how and additional quality control measures from both the provider of reclaimed silicon and the toll manufacturers. We must continue to maintain the consistency and quality of the reclaimed silicon from our silicon reclamation program at an acceptable level in order to continue receiving the cost advantages of recycling silicon through our silicon reclamation program.

We believe that we will face some margin compression in the sale of standard solar modules as high-purity silicon prices increase and as average selling prices stabilize and possibly decrease in the future. However, we expect this to be offset to a certain degree by increasing economies of scale and cost savings through the continued development and use of our silicon reclamation program and as we commence in-house manufacturing of solar cells. Expansion of our specialty solar modules and product business will be a driver of our gross margins in the future.

Operating Expenses

Our operating expenses include selling expenses, general and administrative expenses and research and development expenses. Our operating expenses have decreased in recent years as a percentage of our net revenues primarily due to economies of scale that we have achieved in connection with our revenue growth. We expect this trend to continue as our net revenues grow in the future.

Selling Expenses

Selling expenses consist primarily of salaries, sales commissions for sales and marketing personnel, advertising, promotional and other sales and marketing expenses. Since the second quarter of 2006, selling expenses have included share-based compensation expenses for options and restricted shares granted to our sales and marketing personnel. We have incurred only limited selling expenses to date as we have relied primarily on sales of standard solar modules in 2004, 2005 and for the first six months ended June 30, 2006, which have become increasingly commoditized. As we expand our business, we will increase our sales and marketing efforts and target companies in selected industry sectors. We expect our selling expenses to increase in the near term as we increase our sales efforts, hire additional sales personnel, target more markets and initiate additional marketing programs to reach our goal of building a leading global brand. However, assuming our net revenues increase at the rate we expect, over time we anticipate that our selling expenses will decrease as a percentage of our net revenues.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and benefits for our administrative and finance personnel, consulting and professional service fees, government and administration fees, exchange gain or loss, insurance fees and provisions for bad debt. Since the second quarter of 2006, our general and administrative expenses have included share-based compensation expenses for options and restricted shares granted to our general and administrative personnel, directors and consultants. We expect our general and administrative expense to increase as we hire additional personnel, upgrade our information technology infrastructure and incur expenses necessary to fund the anticipated growth of our business. We also expect general and administrative expenses to increase to support our operations as a public company, including compliance-related costs. However, assuming our net revenues increase at the rate we expect, over time we anticipate that our general and administrative expenses will decrease as a percentage of our net revenues.

Research and Development Expenses

Research and development expenses consist primarily of costs of raw materials used in our research and development activities, salaries and benefits for research and development personnel and prototype and equipment costs related to the design, development, testing and enhancement of our products and silicon reclamation program. Since the second quarter of 2006, our research and development activities have included share-based compensation expenses for options and restricted shares granted to our research and development employees. We expense our research and development costs as incurred. To date, our research and development expenses have been minor. A significant portion of our research and development activities have been in connection with our implementation of solar power development projects, primarily in conjunction with government organizations to provide solar power generation in rural areas of China. We have recorded the expenditures in connection with these solar power development projects in our cost of revenues.

We expect to devote more efforts to research and development and expect that our research and development expenses will increase in the near future as we hire additional research and development personnel, expand and promote innovation in our specialty solar modules and products portfolio, devote more resources towards using new technologies in our silicon reclamation program and expand into solar cell manufacturing. We will also continue to devote efforts to ensure that our products comply with the European Union's Restriction of Hazardous Substances Directive, which took effect in July 2006, by reducing the amount of lead and other restricted substances used in our solar module products.

Share-based Compensation Expenses

We adopted our 2006 share incentive plan effective March 2006 and have granted a total of 574,150 options to purchase our common shares and 243,000 restricted shares as of September 15, 2006. For a description of the options and restricted shares granted, including the exercise prices and vesting periods, see "Management — 2006 Share Incentive Plan." Under SFAS No. 123R, we are required to recognize share-based compensation as compensation expense in our statement of operations based on the fair value of equity awards on the date of the grant, with the compensation expense recognized over the period in which the recipient is required to provide service in exchange for the equity award. This statement also requires us to adopt a fair value-based method for measuring the compensation expense related to share-based compensation. For options granted to employees, we have recorded a compensation charge for the fair value of the options at the grant date. We then amortize share-based compensation expense over the vesting periods of the related options.

We have used Black-Scholes option pricing model to assess the fair value of our options. We used the Black-Scholes option pricing model to determine the fair value of our options. This option-pricing model requires the input of highly subjective assumptions, including the option's expected life, estimated forfeitures and the price volatility of the underlying stock. We grant our restricted shares at their fair value which generally represents the fair value of an unrestricted share less a discount calculated based on the length of time the share is restricted.

We estimate our forfeitures based on past employee retention rates, our expectations of future retention rates, and we will prospectively revise our forfeiture rates based on actual history. Our share option and restricted share compensation charges may change based on changes to our actual forfeitures. In addition, a portion of the options were granted with exercise prices either at the price of this initial public offering or at 80% of the initial public offering price. As we did not know the actual offering price at the date of grant, we have estimated the expense based on our best estimate of that initial public offering price. Under U.S. GAAP, we are required to update those assumptions, and the related expenses, until the initial public offering occurs and the fair values are ultimately known.

For the first six months ended June 30, 2006, we recorded share-based compensation expenses of approximately \$589,698. We have categorized these share-based compensation expenses in our (i) cost of revenues; (ii) selling expenses; (iii) general and administrative expenses; and (iv) research and development expenses, depending on the job functions of grantees to whom we granted the options or restricted shares. For the six months ended June 30, 2006, we recorded share-based compensation expenses of approximately \$24,166, \$229,007, \$323,844 and \$12,681 for each of those line items, respectively.

Assuming no change in the estimated forfeiture rates, our total share-based compensation expenses for future periods in respect of the equity awards that we have granted to date is as follows:

Period	US\$
Three Months Ended September 30, 2006	2,904,488
Three Months Ended December 31, 2006	2,686,865
Year Ended December 31, 2007	8,283,309
Year Ended December 31, 2008	5,262,893
Year Ended December 31, 2009	4,245,135
Year Ended December 31, 2010	1,304,467

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Given the preliminary nature of our estimates, our actual share-based compensation expenses may be materially different from our current expectations. In addition to the subjective assumptions and estimates discussed above, see “Forward-Looking Statements” for information regarding the various risks and uncertainties inherent in estimates of this type.

In determining the fair value of our common shares, we considered the guidance prescribed by the AICPA Audit and Accounting Practice Aid “*Valuation of Privately-Held-Company Equity Securities Issued as Compensation*”, or the Practice Aid. Specifically, paragraph 16 of the Practice Aid indicates a hierarchy in deciding on the type of valuation to perform and the valuation specialist to use. We have followed the “level A” recommendation of the Practice Aid by establishing the fair value of the common shares as of various dates in 2005 and 2006 in contemporaneous valuations by an independent valuation firm American Appraisal China Limited, or American Appraisal.

The following table shows the grant date and terms of share options and restricted shares granted to our employees, directors and other individuals from May 30, 2006 until September 2006 and the fair value of our common shares as of the date of each grant without taking into account any post-grant share splits.

Grant Date	Type of Awards	Amount of Common Shares Underlying the Awards	Exercise Price (\$/share)	Fair Value of Common Shares (\$/share)	Shares Used in Calculation*
May 30, 2006	Options(1)	339,500	\$ 4.94	\$ 38.21 ⁽⁶⁾	5,811,421
May 30, 2006	Options(1)	55,150	10.00	38.21 ⁽⁶⁾	5,811,421
May 30, 2006	Restricted Shares (2)	143,000	Nil	38.21 ⁽⁶⁾	5,811,421
June 30, 2006	Options(1)	22,000	10.00	39.07 ⁽⁷⁾	5,861,421
June 30, 2006	Restricted Shares (2)	50,000	Nil	39.07 ⁽⁷⁾	5,861,421
July 17, 2006	Options(1)	47,500	10.00	32.82 ⁽⁸⁾	9,193,000
July 28, 2006	Options(1)	20,000	10.00	32.89 ⁽⁹⁾	9,243,000
July 28, 2006	Restricted Shares (2)	50,000	Nil	32.89 ⁽⁹⁾	9,243,000
August 8, 2006	Options(3)	60,000	— ⁽⁴⁾	32.89 ⁽⁹⁾	9,243,000
August 8, 2006	Options(1)	25,000	— ⁽⁵⁾	32.89 ⁽⁹⁾	9,243,000
August 31, 2006	Options(1)	5,000	— ⁽⁵⁾	35.84 ⁽¹⁰⁾	9,243,000

(1) Vest over a four-year period.

(2) Vest over a two-year period.

(3) Granted to independent directors, vesting either (i) immediately upon the date of grant or (ii) in two equal installments, the first upon the date of grant and the second upon the first year anniversary of the grant date so long as the director remains in service.

(4) Exercise price for 40,000 of these options will be the initial public offering price of the common shares as stated on the front cover of the prospectus, and for 20,000 options will be \$10.00.

(5) Exercise price will be 80% of the initial public offering price of the common shares as stated on the front cover of the prospectus.

(6) Based on the valuation as of May 31, 2006 by the independent appraiser.

(7) Based on the valuation as of June 30, 2006 by the independent appraiser.

(8) Based on the valuation as of July 17, 2006 by the independent appraiser.

(9) Based on the valuation as of July 28, 2006 by the independent appraiser.

(10) Based on the valuation as of August 31, 2006 by the independent appraiser.

* Shares used in calculation include common shares outstanding as of such date and all restricted shares granted as of such date. On July 1, 2006, all of our outstanding convertible notes were converted into common shares and we implemented a 1 for 1.16830772 share split that applied to all outstanding common shares but not the options or restricted shares. On October 2006, we implemented a 1 for 2.33 share split. See “Description of Share Capital — History of Securities Issuances.”

Determining the fair value of our common shares requires making complex and subjective judgments regarding projected financial and operating results, our unique business risks, the liquidity of our shares and our operating history and prospects at the time of grant. American Appraisal used a combination of the income approach and the guideline company approach to assess the fair value of our common shares. For the income approach, American Appraisal utilized a weighted discounted cash flow, or DCF, analysis based on our projected cash flows through 2010 in different scenarios. The cash flow projections were formulated to take into consideration the nature of our company, our relatively limited operating history, the growth of our operations and the business risks facing our company. Under the guideline company approach, American Appraisal analyzed the financial ratios and market price data of comparable companies. Nine comparable companies were selected primarily based on the nature of the business, the geographical location and the consideration of other market participants. The nine companies selected are primarily engaged in the solar power industry. American Appraisal determined market multiples of the guideline companies based on the latest available financial information, then adjusted those market multiples to take into account our growth and business risks. The market multiple was then applied to our performance indicators and discounted to reflect the lack of marketability.

In addition to business specific assumptions, American Appraisal relied on the following major assumptions in calculating the fair values of our common shares, including:

- Weight of income and guideline company multiples: American Appraisal assigned 60% weight to the income approach and 40% weight to the guideline company multiples approach because we had achieved better visibility of future earnings at the time, which made the income approach more meaningful.
- Weighted average costs of capital, or WACC: WACC of 17-18% was used. This was the combined result of the changes in risk-free rate, industry average beta, and our company-specific risk premium that reflects the risk associated with achieving projections at various stages of development.
- Capital market valuation multiples: American Appraisal obtained and assessed updated capital market valuation data of nine comparable companies.
- Lack of Marketability Discount, or LOMD: American Appraisal quantified the LOMD by the option-pricing method. This model considered the size of our company, the volatility factor of comparable companies in the solar power sector and the expected time to this initial public offering. In addition, the floatation cost and comparable restricted stock studies were also considered. The LOMD applied gradually decreased from 16% in November 2005 to 6% in June 2006 as the expected initial public offering date approached.

The increase in the fair value of our common shares since November 30, 2005, the date we issued convertible notes with a conversion price of \$4.94 per share, is primarily attributable to increased projections of our future revenues and net income. Since November 30, 2005, we had achieved various milestones that increased the likelihood that we would obtain the necessary funding and resources to meet future financial projections. These milestones include:

- consistent quarterly revenue growth in 2005, including increased total revenues in 2005 of almost twice that achieved in 2004;
- our rapid and substantial expansion in sales and production of module products from 2.2 MW in 2004 to 4.1 MW in 2005, evidencing the viability of our business strategy and execution capability;
- further quarter-on-quarter growth in revenues from \$6.8 million for the three months ended December 31, 2005 to \$8.8 million for the three months ended March 31, 2006, despite historical seasonality effects during the first quarter of each year;
- revenues in the first half of 2006 that exceeded total revenues in the full year 2005 by 45%, as well as significant quarter-on-quarter growth from \$8.8 million for the three months ended March 31, 2006 to \$17.3 million for the three months ended June 30, 2006;

- production output on a megawatt basis in the first half of 2006 that exceeded production for the full year 2005;
- receipt of third-party guaranteed loans of RMB 105 million (\$10.5 million) used to secure raw materials and fund construction of our new solar cell manufacturing facility; and
- finalization of several large supply agreements in 2006 to support our production expansion plans, including a five-year wafer contract with LDK, and several financing facilities, including a \$3.3 million working capital facility.

In determining the fair value of its common shares, we have considered the guidance prescribed by the AICPA Audit and Accounting Practice Aid *“Valuation of Privately-Held-Company Equity Securities Issued as Compensation”*, or the Practice Aid, which provides that the value of a private enterprise during the period culminating in a successful initial public offering may increase significantly. Increases in enterprise value may be attributed partly to (a) changes in the amount and relative timing of future net cash flows (estimated and actual) as the enterprise successfully executes its business plan and responds to risks and opportunities in the market, and (b) a reduction in the risk associated with achieving projected results (or, from another perspective, narrowing the range of possible future results and increasing the likelihood of achieving desired results). In addition, the marketability provided by the offering itself increases enterprise value, because, among other things, it allows the enterprise access to the public capital markets. Moreover, macroeconomic factors also may affect the extent to which an enterprise’s value changes during the period culminating in its successful initial public offering. As our preparation for this offering progressed through 2006, the likelihood that we would benefit from an initial public offering and achieve a public market valuation also increased. Accordingly, we believe that the approach the independent appraiser has taken to value the common shares is appropriate and follows the recommendation set forth in the Practice Aid.

Interest Expenses

Interest expenses consist primarily of interest expenses with respect to our short-term loans and the accrued interest and non-cash charges on the convertible notes that we issued to HSBC HAV2 (III) Limited, or HSBC, and JAFCO Asia Technology Fund II, or JAFCO, which reference includes any affiliate to which it transferred shares issued upon conversion of the notes. HSBC and JAFCO are entitled to receive cash interest at 2% per annum. If the notes mature without being converted, HSBC and JAFCO are entitled to receive a premium at redemption equal to 10% per annum on the principal amount of the notes from their issue date to redemption. Discounts against the debt portion of the convertible notes were amortized over the maturity of the convertible notes using the straight-line method, which is not materially different from the effective interest rate method. We accrued non-cash charges in connection with the premium at redemption equal to 10% per annum on the principal amount of the notes from their issue date to redemption assuming the convertible notes had matured without being converted and amortization of discounts against the debt portion. Our non-cash charges of \$134,666 and \$706,320 in 2005 and for the six months ended June 30, 2006, respectively, consisted primarily of the amortization of discount on debt and the charges we incurred in connection with this premium.

Loss on Change in Fair Value of Derivatives

Loss on change in fair value of derivatives is associated with the convertible notes that we issued to HSBC and JAFCO. Prior to March 2006, at any time after the occurrence of a predefined event of default upon written demand from the note holders, the note holders were entitled to receive a premium of the higher of 12% per annum internal rate of return to the note holders or a market value-based return assuming full conversion of all convertible notes. Since the market value-based return created a net settlement provision, we were required to bifurcate the compound embedded derivatives and record them as derivatives or derivative financial instruments, which are stated at fair value on the issuance date and each financial reporting period thereafter. Changes in fair value of the compound embedded derivatives were recorded in profits and losses as non-cash charges. The fair value of the convertible notes, excluding the compound embedded derivative liabilities, were determined with reference to a valuation conducted by American Appraisal. These non-cash

charges amounted to \$316,000 and \$7.0 million in 2005 and for the six months ended June 30, 2006, respectively. In March 2006, this feature was eliminated such that an event of default entitles the note holders to receive a premium of 18% per annum internal rate of return to the note holders, effectively removing the net settlement provision. As a result, from March 2006, we no longer incur this charge.

Loss on Financial Instruments Related to Convertible Notes

In addition to the compound embedded derivatives which arose as part of the issuance of our convertible notes, our convertible notes also included freestanding financial instrument liabilities associated with the obligation to issue the second tranche of convertible notes to the investors and the investor's option to subscribe for a third tranche of convertible notes. These financial instruments do not meet the definition of derivative instruments under US GAAP. However, the investors' option to subscribe to the third tranche of convertible notes represents our written option which was required to be marked to market on the date of issuance and each financial reporting period thereafter. The changes in the fair value of the marked to market financial instrument was reported in profits and losses as a non-cash charge. These non-cash charges amounted to \$263,089 in 2005 and \$1.2 million for the six months ended June 30, 2006, all of which was incurred during the first quarter of 2006. We issued the second tranche convertible notes together with the convertible notes pursuant to the investors' option in March 2006. As a result, from March 2006, we no longer incur this charge.

Income Tax Expense

We recognize deferred tax assets and liabilities for temporary differences between financial statement and income tax bases of assets and liabilities. Valuation allowances are provided against deferred tax assets when management cannot conclude that it is more likely than not that some portion or all of the deferred tax asset will be realized.

We are incorporated in Canada and are subject to Canadian federal and provincial corporate income taxes. As a Canadian controlled private corporation, we enjoy preferential tax rates for active business income carried on in Canada up to an annual limit. We will no longer be eligible for these preferential tax rates upon the listing of our common shares on the Nasdaq Global Market.

Under current PRC laws and regulations, an FIE in China is typically subject to EIT, at the rate of 30% on taxable income, and local income tax at the rate of 3% on taxable income. The PRC government has provided various incentives to FIEs, such as each of our PRC subsidiaries, to encourage the development of foreign investments. Such incentives include reduced tax rates and other measures. FIEs that are determined by PRC tax authorities to be manufacturing companies with authorized terms of operation of more than ten years, are eligible for: (i) a two-year exemption from EIT from their first profitable year; and (ii) a reduced EIT of 50% for the succeeding three years. CSI Solartronics is entitled to a preferential EIT rate of 24%, as it is a manufacturing enterprise located in a coastal economic development zone in Changshu. CSI Solartronic's first profitable year was 2002 and it is currently paying an EIT rate of 12% until the end of 2006. CSI Solar Manufacturing is entitled to a preferential EIT rate of 15%. CSI Solar Manufacturing's first profitable year was 2005 and it is exempt from EIT until 2006. It will be subject to a tax rate of 7.5% from 2007 until 2009. CSI Solar Technologies, CSI Luoyang, CSI Solarchip and CSI Advanced have not yet made a profit and have therefore not applied for preferential tax treatment. If these subsidiaries turn profitable, they will apply for preferential tax rates and tax holidays.

As these tax benefits expire, the effective tax rate of our PRC subsidiaries may increase significantly.

Extraordinary gain

In December 2003, we acquired the remaining 31.9% interests in CSI Changshu, in which we initially held 68.1% prior to the transaction. The acquisitions were recorded using the purchase method of accounting. The acquired assets and liabilities were recorded at their fair value at the date of acquisition. An excess of fair value of acquired net assets over cost resulted because the fair value of the consideration paid in the form of cash and products was less than the fair value of the acquired net assets. We recognized an extraordinary

gain as a result of this excess excluding (i) the amounts allocated as a pro rata reduction that otherwise would have been assigned to all of the acquired assets, except for financial assets other than investments, which are accounted for by the equity method, (ii) assets to be disposed of by sale, (iii) deferred tax assets, (iv) prepaid assets relating to pension or other postretirement benefit plans (v) and any other current assets.

Minority interests

Prior to our acquisitions of the remaining interests in CSI Changhsu, we recognized minority interests in 2003 to account for the 31.9% interests held by the other shareholders in CSI Changhsu.

Critical Accounting Policies

We prepare financial statements in accordance with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect (i) the reported amounts of our assets and liabilities, (ii) the disclosure of our contingent assets and liabilities at the end of each fiscal period and (iii) the reported amounts of revenues and expenses during each fiscal period. We continually evaluate these estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and reasonable assumptions, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates. Some of our accounting policies require a higher degree of judgment than others in their application.

When reviewing our financial statements, you should consider (i) our selection of critical accounting policies, (ii) the judgment and other uncertainties affecting the application of such policies, (iii) the sensitivity of reported results to changes in conditions and assumptions. We believe the following accounting policies involve the most significant judgment and estimates used in the preparation of our financial statements.

Revenue Recognition

We record sales of our solar module products when the products are delivered and title has passed to our customers. We only recognize revenues when prices to the seller are fixed or determinable and collection is reasonably assured. We also recognize revenues from reimbursements of shipping and handling costs of products sold to customers. Our sales contracts typically contain our customary product warranties but do not contain post-shipment obligations or any return or credit provisions. A majority of our contracts provide that products are shipped under the term of free on board, or FOB, ex-works, or cost, insurance and freight, or CIF. Under FOB, we fulfill our obligation to make delivery when the goods have passed over the ship's rail at the named port of shipment. From that point on, the customer has to bear all costs and risks of loss or damage to the goods. Under ex-works, we fulfill our obligation to make delivery when we have made the goods available at our premises to the customer. The customer bears all costs and risks involved in transporting the goods from our premises to their desired destination. Under CIF, we must pay the costs, marine insurance and freight necessary to bring the goods to the named port of destination but the risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time the goods have been delivered on board the vessel, is transferred to the customer when the goods pass the ship's rail at the port of shipment. Most of our sales require that customers prepay before delivery has occurred. We record these prepayments as advances from customers until delivery is made. Our sales contracts typically contain our customary product warranties but do not contain any post-shipment obligations nor any return or credit provisions.

We also generate revenues from our implementation of solar power development projects, consisting primarily of government related assistance packages for our demonstration, promotion and feasibility projects and studies. The revenue is recognized when the projects are provided and accepted by the customers.

Warranty Cost

It is customary in our business and industry to warrant or guarantee the performance of our solar module products at certain levels of conversion efficiency for extended periods. Our standard solar modules are typically sold with a two-year guarantee for defects in materials and workmanship and a 10-year and 25-year warranty against declines of more than 10.0% and 20.0%, respectively, of the initial minimum power generation capacity at the time of delivery. Our specialty solar modules and products are typically sold with a one-year guarantee against defects in materials and workmanship and may, depending on the characteristics of the product, contain a limited warranty of up to ten years, against declines of the minimum power generation capacity specified at the time of delivery. We therefore maintain warranty reserves (recorded as accrued warranty costs) to cover potential liabilities that could arise from these guarantees and warranties. We accrue 1.0% of our net revenues as warranty costs at the time revenues are recognized and include that amount in our cost of revenues. Due to limited warranty claims to date, we accrue the estimated costs of warranties based primarily on an assessment of our competitors' accrual history. Through our relationships with, and management's experience working at, other solar power companies and on the basis of publicly available information regarding other solar power companies' accrued warranty costs, we believe that accruing 1.0% of our net revenues as warranty costs is within the range of industry practice and is consistent with industry-standard accelerated testing, which assists us in estimating the long-term reliability of solar modules, estimates of failure rates from our quality review and other assumptions that we believe to be reasonable under the circumstances. However, although we conduct quality testing and inspection of our solar module products, our solar module products have not been and cannot be tested in an environment simulating the up to 25-year warranty periods. We have not experienced any material warranty claims to date in connection with declines of the power generation capacity of our solar modules. As is typical in the industry, however, we have experienced some claims concerning other defects or workmanship. We will prospectively revise our actual rate to the extent that actual warranty costs differ from the estimates.

Impairment of Long-lived Assets

We evaluate our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When these events occur, we measure impairment by comparing the carrying amount of the assets to future undiscounted net cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, we will recognize an impairment loss based on the fair value of the assets.

Allowance for Doubtful Accounts

We conduct credit evaluations of customers and generally do not require collateral or other security from our customers. We establish an allowance for doubtful accounts primarily based upon the age of the receivables and factors surrounding the credit risk of specific customers. With respect to advances to suppliers, our suppliers are primarily suppliers of solar cells and silicon raw materials. We perform ongoing credit evaluations of our suppliers' financial conditions. We generally do not require collateral or security against advances to suppliers. However, we maintain a reserve for potential credit losses.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the weighted average method. Cost of inventories consists of costs of direct materials, such as solar cells, glass, aluminum frame and polymer backing and other components, and where applicable, direct labor costs, tolling costs and any overhead that we incur in bringing the inventories to their present location and condition.

Adjustments are recorded to write down the cost of obsolete and excess inventory to the estimated market value based on historical and forecast demand.

We outsource portions of our manufacturing process, including converting silicon into ingots, cutting ingots into wafers, and converting wafers into solar cells, to various third-party manufacturers. These

outsourcing arrangements may or may not include transfer of title of the raw material inventory (silicon, ingots or wafers) to the third-party manufacturers. Such raw materials are recorded as raw materials inventory when purchased from suppliers.

For those outsourcing arrangements in which the title is not transferred, we maintain such inventory on our balance sheet as raw materials inventory while it is in physical possession of the third-party manufacturer. Upon receipt of the processed inventory, it is reclassified to work-in-process inventory and a processing fee is paid to the third-party manufacturer.

For those outsourcing arrangements, which are characterized as sales, in which title (including risk of loss) transfer to the third-party manufacturer, we are constructively obligated, through raw materials sales contracts and processed inventory purchase contracts which have been entered into simultaneously with the third-party manufacturers, to repurchase the inventory once processed. In this case, the raw material inventory remains classified as raw material inventory while in physical possession of the third-party manufacturer and cash is received, which is classified as advances from suppliers and customers on the balance sheet and not as revenue or deferred revenue. Cash payments for outsourcing arrangements, which require prepayment for repurchase of the processed inventory are classified as advances to suppliers on the balance sheet. There is no right of offset for these arrangements and accordingly, advances from suppliers and customers and advances to suppliers remain on the balance sheet until the processed inventory is repurchased. We do not recognize revenue until finished solar modules are delivered and title has passed to our customers.

Fair value of derivative and freestanding financial instruments

Valuations for derivative and freestanding financial instruments are typically based on the following hierarchy: (i) prices quoted on an organized market, (ii) prices obtained from other external sources such as brokers or over the counter third parties and (iii) valuation models and other techniques usually applied by market participants. Because our convertible notes and common shares were not publicly traded, we had relied solely on valuation models in determining these values.

We used a binomial model to value the conversion option and early redemption put option. The binomial model requires the input of assumptions, some of which are subjectively determined, such as the fair values of the common shares and the underlying notes, life of the option, the risk free interest rate over the period of the option, a standard derivation of expected volatility, and expected dividend yields. We determined the fair value of the underlying common shares based on valuations by American Appraisal. For a more detailed discussion on the assumptions involved in determining the fair value of our common shares, see “— Overview of Financial Results — Share-based Compensation Expenses.”

In determining the fair value of the freestanding note option, we used the Black-Scholes option pricing model. The option-pricing model requires the input of assumptions, some of which are subjectively determined, such as the fair value of the underlying convertible note, the exercise price of the option, the life of the option, the risk free rate over the period of the option, and a standard derivation of expected volatility.

In determining the fair value of the freestanding forward instrument, we used the fair value of the convertible note less the subscription price and interest forgone by not exercising the forward, discounted for the expected time the forward would be outstanding.

Changes to any of the assumptions used in the valuation model could materially impact the valuation results. A more detailed discussion on fair value calculations is reflected in Note 2(q) and Note 8 to our consolidated financial statements.

Income Taxes

Deferred income taxes are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, net operating loss carry forwards and credits by applying enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in our opinion, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current income taxes are provided for in accordance with the laws of the

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relevant taxing authorities. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on the characteristics of the underlying assets and liabilities.

Results of Operations

The following table sets forth a summary, for the periods indicated, of our consolidated results of operations and each item expressed as a percentage of our total net revenues. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	Years Ended December 31,						For the Six Months Ended June 30,			
	2003		2004		2005		2005		2006	
	(in thousands of US\$, except percentages)									
Net revenues:										
— Solar modules	\$ 4,008	97.5%	\$ 8,941	92.3%	\$ 17,895	97.7%	\$ 6,554	93.9%	\$ 25,973	99.7%
— Others	105	2.5	744	7.7	429	2.3	428	6.1	68	0.3
Total net revenues	4,113	100.0%	9,685	100.0%	18,324	100.0%	6,982	100.0%	26,041	100.0%
Cost of revenues(1)										
— Solar modules	2,253	54.8	5,894	60.9	10,885	59.4	3,595	51.5	18,555	71.2
— Others	119	2.9	571	5.9	326	1.8	325	4.6	68	0.3
Total cost of revenues	2,372	57.7	6,465	66.8	11,211	61.2	3,920	56.1	18,623	71.5
Gross profit	1,741	42.3	3,220	33.2	7,113	38.8	3,062	43.9	7,418	28.5
Operating expenses(1)										
— Selling expenses	39	0.9	269	2.8	158	0.9	67	1.0	529	2.0
— General and administrative expenses	1,039	25.3	1,069	11.0	1,708	9.3	762	10.9	1,750	6.7
— Research and development expenses(2)	20	0.5	41	0.4	16	0.1	8	0.1	44	0.2
Total operating expenses	1,098	26.7	1,379	14.2	1,882	10.3	837	12.0	2,323	8.9
Income from operations	643	15.6	1,840	19.0	5,231	28.5	2,225	31.9	5,095	19.6
Interest expenses	—	—	—	—	(239)	(1.3)	—	—	(1,635)	(6.3)
Interest income	1	0.0	11	0.1	21	0.1	4	—	53	0.2
Loss on change in fair value of derivatives related to convertible notes	—	—	—	—	(316)	(1.7)	—	—	(6,997)	(26.8)
Loss on financial instruments relating to convertible bonds	—	—	—	—	(263)	(1.4)	—	—	(1,190)	(45.6)
Other gain/(loss) — net	10	0.3	(31)	(0.4)	(25)	(0.1)	(14)	(0.2)	(1)	—
Income before taxes	654	15.9	1,820	18.7	4,409	24.1	2,215	31.7	(4,675)	(17.9)
Income tax expense	(34)	(0.8)	(363)	(3.7)	(605)	(3.3)	(336)	(4.8)	111	0.4
Minority interests	(209)	(5.1)	—	—	—	—	—	—	—	—
Income/(loss) before extraordinary gain	411	10.0	1,457	15.0	3,804	20.8	1,879	26.9	(4,564)	(17.5)
Extraordinary gain	350	8.5	—	—	—	—	—	—	—	—
Net income/(loss)	\$ 761	18.5%	\$ 1,457	15.0%	\$ 3,804	20.8%	\$ 1,879	26.9%	\$ (4,564)	(17.5)%

(1) Share-based compensation expenses are included in our cost of revenues and operating costs and expenses as follows:

	Year Ended December 31,				For the six months Ended June 30,	
	2002	2003	2004	2005	2005	2006
	(in thousands of US\$)					
Share-based compensation expenses included in:						
Cost of revenues	—	—	—	—	—	\$ 24
Selling expenses	—	—	—	—	—	229
General and administrative expenses	—	—	—	—	—	324
Research and development expenses	—	—	—	—	—	13

- (2) We also conduct research and development activities in connection with our implementation of solar power development projects. These expenditures are included in our cost of revenues. See “Our Business — Solar Power Development Projects.”

Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005

Net Revenues. Our total net revenues increased significantly from \$7.0 million for the six months ended June 30, 2005 to \$26.0 million for the six months ended June 30, 2006. The increase was due primarily to a significant increase in net revenues generated from the sale of our solar module products from \$6.6 million for the six months ended June 30, 2005 to \$26.0 million for the six months ended June 30, 2006, which as a percentage of total revenues also increased from 93.9% to 99.7%. There was a significant decrease in other net revenues generated from our implementation of solar power development projects from \$428,417 for the six months ended June 30, 2005 to \$67,834 for the six months ended June 30, 2006, primarily due to our substantial completion of the remaining milestones in the “Solar Electrification for Western China” project in 2005. The volume of our solar module products sold increased from 1.4 MW for the six months ended June 30, 2005 to 6.2 MW for the six months ended June 30, 2006. Among our solar module product categories, the increase was driven primarily by sales of our standard solar modules. Net revenues from the sale of standard solar modules increased from \$3.9 million for the six months ended June 30, 2005 to \$24.4 million for the six months ended June 30, 2006 with an increase in volume from 1.0 MW for the six months ended June 30, 2005 to 5.9 MW for the six months ended June 30, 2006. Net revenues from the sale of specialty solar modules and products decreased from \$2.2 million for the six months ended June 30, 2005 to \$1.6 million for the six months ended June 30, 2006 with a decrease in volume from 0.4 MW to 0.3 MW for the six months ended June 30, 2006. This decrease was primarily as a result of the completion of one of our large specialty solar module product contracts in mid-2005.

The significant increase in the volume of our products sold was driven primarily by a significant increase in market demand for our standard solar modules, in particular in Germany and Spain. The average selling price of our standard solar modules rose from \$3.98 per watt for the six months ended June 30, 2005 to \$4.09 per watt for the six months ended June 30, 2006. The average selling price of our specialty solar modules and products decreased from \$5.07 per watt for the six months ended June 30, 2005 to \$4.87 per watt for the six months ended June 30, 2006, primarily due to a change in the product mix of our specialty solar modules as one of our large specialty solar module contracts ended in mid-2005 and, as a result, a larger percentage of the specialty solar modules and products that we sold in the six months ended June 30, 2006 consisted of smaller-sized modules sold to Chinese domestic customers that were less complex and commanded a lower average selling price per watt. The prices that we charge for specialty solar modules and products are not directly comparable from period to period nor between different products. See “— Product Mix and Pricing.”

Cost of Revenues. Our cost of revenues increased significantly from \$3.9 million for the six months ended June 30, 2005 to \$18.6 million for the six months ended June 30, 2006. The increase in our cost of revenues was due primarily to a significant increase in the quantity of solar cells needed to produce an increased output of our standard solar modules and the rising prices of silicon feedstock and solar cells arising from the industry-wide shortage of high-purity silicon. As a percentage of our total net revenues, cost of revenues increased from 56.1% for the six months ended June 30, 2005 to 71.5% for the six months ended June 30, 2006, primarily as a result of our changing product mix. The sale of specialty solar modules and products, which tend to have lower cost of revenues than standard solar modules, decreased as a percentage of our net revenues from 31.6% to 6.0% for the six months ended June 30, 2005 and 2006, respectively.

Gross Profit. As a result of the foregoing, our gross profit increased significantly from \$3.1 million for the six months ended June 30, 2005 to \$7.4 million for the six months ended June 30, 2006. Our gross margin decreased from 43.9% for the six months ended June 30, 2005 to 28.5% for the six months ended June 30, 2006.

Operating Expenses. Our operating expenses increased by 177.5% from \$836,690 for the six months ended June 30, 2005 to \$2.3 million for the six months ended June 30, 2006. The increase in our operating

expenses was due primarily to an increase in our general and administrative expenses and selling expenses. Operating expenses as a percentage of our total net revenue decreased from 12.0% for the six months ended June 30, 2005 to 8.9% for the six months ended June 30, 2006.

Selling Expenses. Our selling expenses increased significantly from \$67,135 for the six months ended June 30, 2005 to \$528,544 for the six months ended June 30, 2006. Selling expenses as a percentage of our total net revenues doubled from 1.0% for the six months ended June 30, 2005 to 2.0% for the six months ended June 30, 2006. The increase in our selling expenses was due primarily to (i) share-based compensation expenses that we incurred in connection with our grant of share options and restricted shares to sales and marketing personnel in the six months ended June 30, 2006, and (ii) an increase in salaries and benefits as we hired additional sales personnel to handle our increased sales volume. The increase was also due to an increase in advertising expenses as we further promoted our products, in particular in Europe, and to an increase in freight charges for samples and customs and clearance charges.

General and Administrative Expenses. Our general and administrative expenses increased by 129.7% from \$761,465 for the six months ended June 30, 2005 to \$1.8 million for the six months ended June 30, 2006, primarily due to (i) the share-based compensation expenses that we incurred in connection with our grant of share options and restricted shares to general and administrative employees in the six months ended June 30, 2006, and (ii) increases in salaries and benefits for our administrative and finance personnel as we hired additional personnel in connection with the growth of our business. As a percentage of our total net revenues, general and administrative expenses decreased from 10.9% for the six months ended June 30, 2005 to 6.7% for the six months ended June 30, 2006, primarily as a result of the greater economies of scale that we achieved in the six months ended June 30, 2006.

Research and Development Expenses. Our research and development expenses increased significantly from \$8,090 for the six months ended June 30, 2005 to \$44,440 for the six months ended June 30, 2006.

Interest Expenses. We incurred interest expenses of approximately \$1.6 million for the six months ended June 30, 2006 compared to none for the six months ended June 30, 2005. The interest expenses were in connection with (i) the convertible notes that we sold to HSBC and JAFCO in November 2005 and March 2006 and which were outstanding in the six months ended June 30, 2006, (ii) the \$1.3 million loan that we borrowed from ATS in September 2005 and which remains outstanding, (iii) interest payable for our short-term borrowings, and (iv) non-cash amortization of discount on debts in relation to the convertible notes issued to HSBC and JAFCO.

Loss on Change in Fair Value of Derivatives Related to Convertible Notes. We recorded a charge of \$7.0 million for the six months ended June 30, 2006 compared to nil for the six months ended June 30, 2005 for the loss on change in fair value of derivatives related to convertible notes. After amending the terms of our convertible notes in March 2006, we no longer incur this charge.

Loss on Financial Instruments Related to Convertible Notes. We recorded a non-cash charge of \$1.2 million for the six months ended June 30, 2006 compared to nil for the six months ended June 30, 2005. After issuing the second tranche convertible notes together with convertible notes issued pursuant to the investors' option in March 2006, we no longer incur this charge.

Income Tax Expense. Our income tax expense was \$336,315 for the six months ended June 30, 2005, as compared to a gain of \$110,568 for the six months ended June 30, 2006, in part due to the tax benefit from an increase in accrued warranty costs, which were recorded as deferred tax assets under U.S. GAAP.

Net Income/ Loss. As a result of the cumulative effect of the above factors, we recorded net income of \$1.9 million for the six months ended June 30, 2005, as compared to a \$4.6 million net loss for the six months ended June 30, 2006.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Net Revenues. Our total net revenues increased significantly from \$9.7 million in 2004 to \$18.3 million in 2005. The increase was due primarily to a significant increase in net revenues generated from the sale of solar module products from \$8.9 million in 2004 to \$17.9 million in 2005. This was offset in part by a decrease in other net revenues generated from our implementation of solar power development projects from \$743,601 in 2004 to \$428,417 in 2005. The volume of our solar module products sold increased from 2.2 MW in 2004 to 4.1 MW in 2005. Among our solar module product categories, the increase was driven primarily by sales of our standard solar modules. Net revenues from the sale of standard solar modules increased from \$6.5 million in 2004 to \$13.7 million in 2005 with an increase in volume from 1.8 MW in 2004 to 3.4 MW in 2005. Net revenues from the sale of specialty solar modules and products increased to a lesser extent from \$2.3 million in 2004 to \$3.7 million in 2005 with an increase in volume from 0.4 MW to 0.7 MW in 2005.

The significant increase in the volume of our products sold was driven primarily by a significant increase in market demand for our standard solar modules, in particular in Germany and elsewhere in Europe. The average selling price of our standard solar modules rose from \$3.62 per watt in 2004 to \$3.92 per watt in 2005. The average selling price of our specialty solar modules and products decreased from \$5.23 per watt in 2004 to \$5.13 per watt in 2005. The decrease was primarily due to a change in our product mix from 2004 to 2005 as the orders on one of our specialty solar modules and products from 2004 ended in mid-2005. In addition, a larger percentage of the specialty solar modules and products that we sold in 2005 consisted of smaller-sized modules sold to Chinese domestic customers that were less complex and commanded a lower average selling price per watt. The prices that we charge for specialty solar modules and products are not directly comparable from period to period nor between different products. See “— Product Mix and Pricing.”

Cost of Revenues. Our cost of revenues increased significantly from \$6.5 million in 2004 to \$11.2 million in 2005. The increase in our cost of revenues was due primarily to a significant increase in our expenditures on silicon feedstock and solar cells. This was caused by a significant increase in the quantity of solar cells needed to produce an increased output of our standard solar modules and the rising prices of silicon feedstock and solar cells due to the industry-wide shortage of high-purity silicon. As a percentage of our total net revenues, however, cost of revenues decreased from 66.8% in 2004 to 61.2% in 2005 primarily because of the cost savings we achieved largely through our silicon reclamation program in 2005, which allowed us to purchase more lower-cost reclaimable silicon for use in our toll manufacturing arrangements with ingot, wafer and cell suppliers. The decrease was also due in part to the economies of scale achieved through an increase in our production volume.

Gross Profit. As a result of the foregoing, our gross profit increased significantly from \$3.2 million in 2004 to \$7.1 million in 2005. Our gross margin increased from 33.2% in 2004 to 38.8% in 2005.

Operating Expenses. Our operating expenses increased by 36.5% from \$1.4 million in 2004 to \$1.9 million in 2005. Operating expenses as a percentage of our total net revenue decreased from 14.2% in 2004 to 10.3% in 2005. The increase in our operating expenses was due primarily to an increase in our general and administrative expenses, offset by decreases in our selling expenses and research and development expenses.

Selling Expenses. Our selling expenses decreased by 41.4% from \$268,994 in 2004 to \$157,763 in 2005. Selling expenses as a percentage of our total net revenues, decreased from 2.8% in 2004 to 0.9% in 2005. The decrease in our selling expenses was due primarily to a significant decrease in sales commissions. In 2005 we negotiated a reduction of our cash sales commissions with our sales and marketing personnel. We intend to prospectively tie a portion of sales commissions related to future product sales by granting either options to purchase our common shares or by granting restricted shares. The decrease was offset in part by an increase in salaries and benefits as we hired additional sales personnel to handle our increased sales volume.

General and Administrative Expenses. Our general and administrative expenses increased by 59.7% from \$1.1 million in 2004 to \$1.7 million in 2005. The increase in our general and administrative expenses

was due primarily to increases in salaries and benefits for our administrative and finance personnel as we hired additional personnel in connection with the growth of our business. The increase was also due to foreign exchange losses as a result of the fluctuations of the Euro, which was the currency that most of our sales contracts were denominated in prior to mid-2005, against the U.S. dollar. However, general and administrative expenses as a percentage of our total net revenues decreased from 11.0% in 2004 to 9.3% in 2005, primarily as a result of the greater economies of scale we achieved in 2005.

Research and Development Expenses. Our research and development expenses decreased by 59.7% from \$40,623 in 2004 to \$16,381 in 2005.

Interest Expenses. We incurred interest expenses of approximately \$239,225 in 2005 compared to none in 2004. Our interest expenses in 2005 were primarily attributable to the non-cash charges that we accrued in connection with the convertible notes that we issued to HSBC and JAFECO in November 2005 and, to a lesser extent, to interest on short-term borrowings.

Loss on Change in Fair Value of Derivatives Related to Convertible Notes. We recorded a charge of \$316,000 in 2005 compared to none in 2004. The loss on change in fair value of derivatives related to convertible notes was recorded in connection with an increase in the option value of the convertible notes that we issued to HSBC and JAFECO in November 2005.

Loss on Financial Instruments Related to Convertible Notes. We recorded a non-cash charge of \$263,089 in 2005 compared to none in 2004.

Income Tax Expense. Our income tax expense increased by 66.8% from \$362,882 in 2004 to \$605,402 in 2005, primarily because of increased profitability, offset by the tax benefit from an increase in accrued warranty costs, which were recorded as deferred tax assets under U.S. GAAP.

Net Income. As a result of the cumulative effect of the above factors, net income increased significantly from \$1.5 million in 2004 to \$3.8 million in 2005. Our net margin increased from 15.0% in 2004 to 20.8% in 2005.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Net Revenues. Our total net revenues increased significantly from \$4.1 million in 2003 to \$9.7 million in 2004. The increase was due primarily to a significant increase in net revenues generated from the sale of solar module products from \$4.0 million in 2003 to \$8.9 million in 2004. Other net revenues generated from our implementation of solar power development projects also increased significantly from \$104,743 in 2003 to \$743,601 in 2004 due to our achieving milestones in our "Solar Electrification for Western China" project. The volume of our solar module products sold increased from 0.7 MW in 2003 to 2.2 MW in 2004. We generated net revenues from the sale of standard solar modules of \$6.5 million with a volume of 1.8 MW in 2004, although we did not begin to sell standard solar modules until the second half of 2004. The increase in the volume of our solar module products sold was offset in part by a decrease in sales of specialty solar modules and products. Net revenues from the sale of specialty solar modules and products decreased from \$4.0 million in 2003 to \$2.3 million in 2004 with a decrease in volume from 0.7 MW to 0.4 MW due primarily to the completion of our contract with a major customer.

We began to sell standard solar modules in the second half of 2004 to meet rising industry demand for that product and in connection with the growth of the on-grid market, particularly in Germany. The average selling price per watt of our standard solar modules was \$3.62 in 2004. The average selling price of our specialty solar modules and products decreased from \$5.70 per watt in 2003 to \$5.23 per watt in 2004, due primarily to a change in our product mix from 2003 to 2004 as the orders on one of our specialty solar modules and products that we sold in 2003 and the first half of 2004 ended in the second half of 2004. In 2004, a larger percentage of our specialty solar modules and products consisted of smaller-sized modules to Chinese domestic customers that were less complex and commanded a lower average selling price per watt. The prices that we charge for specialty solar modules and products are not directly comparable from period to period nor between different products. See "— Product Mix and Pricing."

Cost of Revenues. Our cost of revenues increased significantly from \$2.4 million in 2003 to \$6.5 million in 2004. The increase in our cost of revenues was due primarily to a significant increase in our expenditures on solar cells and other materials necessary for the production of standard solar modules. As we began selling standard solar modules in the second half of 2004, we began to purchase a greater number of solar cells to meet demand for that product. As a percentage of our total net revenues, our cost of revenues increased from 57.6% in 2003 to 66.8% in 2004. Sales of standard solar modules, which were approximately 67.0% of our net revenues in 2004 as compared to none in 2003, tend to have lower gross margins than our specialty solar modules and product. "See — Gross Profit/ Gross Margin."

Gross Profit. As a result of the foregoing, our gross profit increased significantly from \$1.7 million in 2003 to \$3.2 million in 2004. Our gross margin decreased from 42.3% in 2003 to 33.2% in 2004.

Operating Expenses. Our operating expenses increased by 25.6% from \$1.1 million in 2003 to \$1.4 million in 2004. Operating expenses as a percentage of our total net revenues decreased from 26.7% in 2003 to 14.2% in 2004. The increase in our operating expenses was due primarily to a significant increase in selling expenses and to a lesser extent an increase in general and administrative expenses and research and development expenses.

Selling Expenses. Our selling expenses increased significantly from \$38,792 in 2003 to \$268,994 in 2004. Selling expenses as a percentage of our total net revenues, increased from 0.9% in 2003 to 2.8% in 2004. The increase in our selling expenses was due primarily to an increase in sales commissions paid to sales staff and salaries and benefits as we hired additional sales personnel to handle our increased sales volume and target markets in Europe for the sale of our standard solar modules.

General and Administrative Expenses. Our general and administrative expenses increased by 2.9% from \$1.0 million in 2003 to \$1.1 million in 2004. The increase in our general and administrative expenses was due primarily to increases in salaries and benefits for our administrative and finance personnel as we hired additional personnel in connection with the growth of our business. The increase was also due to an increase in government and administration fees. The increase was offset in part by foreign exchange gains as a result of the fluctuations of the Euro and to a decrease in provisions for bad debt as we typically require prepayments for the sale of our standard solar module products. However, general and administrative expenses as a percentage of our total net revenues, decreased from 25.3% in 2003 to 11.0% in 2004, primarily as a result of the greater economies of scale we achieved in 2004 through the mass production of our standard solar modules.

Research and Development Expenses. Our research and development expenses increased from \$19,780 in 2003 to \$40,623 in 2004.

Extraordinary Gain. We recorded \$350,601 extraordinary gain in 2003 compared to none in 2004.

Income Tax Expense. Our income tax expense increased from \$33,560 in 2003 to \$362,882 in 2004, primarily because of: (i) higher taxable income; and (ii) the expiration of a two year exemption from EIT at the end of 2003 and the initiation of a 12% preferential EIT rate for CSI Solartronics beginning in 2004. See "Overview of Financial Results — Income Tax Expense."

Minority Interest. We recorded \$209,802 in 2003 for minority interests in connection with the interests in CSI Changshu that we did not hold prior to our acquisitions of such interests in December 2003, compared to none in 2004.

Net Income. As a result of the cumulative effect of the above factors, net income increased by 91.4% from \$0.8 million in 2003 to \$1.5 million in 2004. Our net margin decreased from 18.5% in 2003 to 15.0% in 2004.

Selected Quarterly Results of Operations

The following table presents our unaudited consolidated selected quarterly results of operations for the eight quarters ended June 30, 2006. You should read the following table in conjunction with our audited consolidated financial statements and related notes contained elsewhere in this prospectus. We have prepared the unaudited consolidated financial information on the same basis as our audited consolidated financial statements. The unaudited consolidated financial information includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results for the quarters presented.

	Three Months Ended							
	September 30, 2004	December 31, 2004	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005	March 31, 2006	June 30, 2006
	(in thousands of US\$)							
Consolidated Statement of Operations Data								
Net revenues	\$ 3,085	\$ 5,303	\$ 3,131	\$ 3,851	\$ 4,530	\$ 6,812	\$ 8,791	\$ 17,250
Cost of revenues	(2,057)	(3,646)	(1,778)	(2,142)	(2,784)	(4,506)	(6,319)	(12,304) (1)
Gross profit	1,028	1,657	1,353	1,709	1,746	2,306	2,472	4,946
Operating expenses								
Selling expenses	(87)	(77)	(35)	(32)	(33)	(58)	(125)	(404)(2)
General and administrative expenses	(264)	(470)	(362)	(400)	(465)	(481)	(396)	(1,354) (3)
Research and development expenses	—	—	(8)	—	(2)	(7)	(27)	(17)(4)
Total operating expenses	(351)	(547)	(405)	(432)	(500)	(546)	(548)	(1,775)
Income from operations	677	1,110	948	1,277	1,246	1,760	1,924	3,171
Interest expenses	—	—	—	—	—	(239)	(754)	(881)
Interest income	3	4	2	2	4	13	19	34
Loss on change in fair value of derivatives related to convertible notes	—	—	—	—	—	(316)	(6,997)	—
Loss on financial instruments related to convertible notes	—	—	—	—	—	(263)	(1,190)	—
Other — net	—	3	(10)	(4)	(7)	(4)	6	(7)
Income before taxes	680	1,117	940	1,275	1,243	951	(6,992)	2,317
Income tax expense	(160)	(198)	(183)	(153)	(6)	(263)	(72)	183
Net income/(loss)	\$ 520	\$ 919	\$ 757	\$ 1,122	\$ 1,237	\$ 688	\$ (7,064)	\$ 2,500

- (1) Cost of revenues for the three months ended June 30, 2006 includes \$24,166 share-based compensation expenses for options and restricted shares granted to our manufacturing personnel.
- (2) Selling expenses for the three months ended June 30, 2006 includes \$229,007 share-based compensation expenses for options and restricted shares granted to our sales and marketing personnel.
- (3) General and administrative expenses for the three months ended June 30, 2006 includes \$323,844 share-based compensation expenses for options and restricted shares granted to our general and administrative personnel.
- (4) Research and development expenses for the six months ended June 30, 2006 includes \$12,681 share-based compensation expenses for options and restricted shares granted to our research and development personnel.

As we have a limited operating history, most of our growth has occurred during the most recent quarters and our quarterly results have fluctuated, our operating results for any quarter are not necessarily

indicative of results of any future quarters or for a full year. See “Risk Factors — Risks Related to Our Company and Our Industry — Evaluating our business and prospects may be difficult because of our limited operating history” and “— Our quarterly results may fluctuate from period to period in the future.”

Liquidity and Capital Resources

Cash Flows and Working Capital

To date, we have financed our operations primarily through cash flows from operations, short-term borrowings, convertible note issuances, as well as equity contributions by our shareholders. As of December 31, 2005 and June 30, 2006, we had \$6.3 million and \$10.7 million in cash and cash equivalents, respectively, and \$1.3 million and \$14.3 million in outstanding short-term borrowings, respectively. Our cash and cash equivalents primarily consist of cash on hand, demand deposits and liquid investments with original maturities of three months or less that are placed with banks and other financial institutions. Our short-term borrowings outstanding as of December 31, 2005 bore an average interest rate of 7.0% and as of June 30, 2006 bore interest rates ranging from 5.94% to 7.0%. These borrowings do not have fixed repayment schedules. We did not have any outstanding long-term borrowings as of December 31, 2004. As of December 31, 2005, we had \$8.1 million of convertible notes outstanding. These convertible notes were issued in November 2005 to HSBC and JAFCO. These notes bear cash interest at the rate of 2.0% per annum, payable quarterly in arrears. In March 2006, we issued additional convertible notes in the aggregate amount of \$3.65 million to HSBC and JAFCO with substantially the same terms. Therefore, as of June 30, 2006, we had \$11.75 million convertible notes outstanding. All of these convertible notes were converted into our common shares in July 2006. See “Related Party Transactions — Issuance, Sale and Conversion of Convertible Notes.”

We have significant working capital commitments because our suppliers of solar cells and silicon raw materials require us to make prepayments in advance of their shipment. Our suppliers typically require us to make prepayments in cash of 20% to 30% of the purchase price and require us to pay the balance of the purchase price by letters of credit or additional cash payments prior to delivery. Due to the industry-wide shortage of high-purity silicon, working capital and access to financings to allow for the purchase of silicon feedstock are critical to growing our business. Advances to suppliers increased significantly from \$370,257 as of December 31, 2004 to \$4.7 million as of December 31, 2005 and further to \$9.1 million as of June 30, 2006. While we also require our customers to make prepayments, there is typically a lag between the time of our prepayment for solar cells and silicon raw materials and the time that our customers make prepayments to us. Accordingly, our cash flow from operations was negative for 2005 compared to positive in 2004 and negative for the six months ended June 30, 2005 and 2006.

We expect that accounts receivable and inventories, two of the principal components of our current assets, will continue to increase as our net revenues increase. We require prepayments in cash of 20% to 30% of the purchase price from our customers, and require many of them to pay the balance of the purchase price by letters of credit prior to delivery. These prepayments are recorded as our current liabilities under advances from suppliers and customers, and amounted to \$273,231 as of December 31, 2004, \$2.8 million as of December 31, 2005 and \$7.3 million as of June 30, 2006. Until the letters of credit are drawn in accordance with their terms, the balance purchase price is recorded as accounts receivable. Inventories have also increased significantly due to our toll manufacturing arrangements. We do not record the silicon feedstock and other silicon raw materials that we source and provide to toll manufacturers in our net revenues. We account for the silicon feedstock as consigned inventory and for payments received from our toll manufacturers as advances from suppliers and customers. Because of the prepayment and the letters of credit payment requirements that we impose on our customers, our allowance for doubtful accounts has not been significant. Allowance for doubtful accounts was \$117,685 in 2004 and 2005, relating to the same customer, and nil for the six months ended June 30, 2006.

The following table sets forth a summary of our cash flows for the periods indicated:

	Year Ended December 31,			Six Months Ended June 30,	
	2003	2004	2005	2005	2006
	(in thousands of US\$)				
Net cash provided by (used in) operating activities	\$1,752	\$ 440	\$(4,670)	\$(1,178)	\$ (10,146)
Net cash used in investing activities	(441)	(252)	(646)	(58)	(1,159)
Net cash provided by financing activities	—	—	9,330	—	15,478
Net increase (decrease) in cash and cash equivalents	1,283	180	4,221	(1,254)	4,402
Cash and cash equivalents at the beginning of the year	596	1,879	2,059	2,059	6,280
Cash and cash equivalents at the end of the year	\$1,879	\$2,059	\$ 6,280	\$ 805	\$ 10,682

Operating Activities

Net cash used in operating activities increased from \$1.2 million for the six months ended June 30, 2005 to \$10.1 million for the six months ended June 30, 2006, primarily due to significant increases in our inventories, our advances to suppliers as well as accounts receivable at the end of the six months ended June 30, 2006. The increase was also due to our net income of \$1.9 million in the first half of 2005 compared to net loss of \$4.6 million in the first half of 2006. Our cash outflow was partially offset by the increases in our accounts payable as well as advances from suppliers and customers. Net cash used in operating activities in 2005 was \$4.7 million, compared to net cash provided by operating activities in 2004 of \$439,550. The change from cash inflow to cash outflow in 2005 was mainly a result of a significant increase in the level of our inventories (particularly silicon feedstock) due to the increase in our toll manufacturing arrangements in 2005, advances to suppliers and accounts receivable at the end of 2005 compared to the end of 2004. This was partially offset by a higher net income in 2005 and a significant increase in accounts payable as at the end of 2005 compared to the end of 2004. Net cash provided by operating activities decreased from \$1.8 million in 2003 to \$439,550 in 2004. The decrease was due primarily to a significant increase in inventories, accounts receivable and advances to suppliers at the end of 2004 compared to the end of 2003. The decrease was also due to the minority interest that we recorded in 2003, as compared to none in 2004. The decrease was offset in part by a higher net income in 2004 and a significant increase in accounts payable, income tax payable, other tax payable and advances from suppliers at the end of 2004 compared to the end of 2003.

Investing Activities

Net cash used in investing activities increased from \$58,369 for the six months ended June 30, 2005 to \$1.1 million for the six months ended June 30, 2006, primarily due to a \$647,431 incurrence of restricted cash attributable to issuances of bank acceptance notes payable and a significant increase in our purchase of property, plant and equipment for the expansion of our assembly lines for the increased production of our solar module products. Net cash used in investing activities increased from \$252,249 in 2004 to \$645,997 in 2005, primarily as a result of an increase in our purchase of property, plant and equipment for our silicon reclamation program and the expansion of our assembly lines for the production of solar module products. Net cash used in investing activities decreased from \$441,499 in 2003 to \$252,249 in 2004, primarily as a result of the \$331,006 cash amount that we paid for the acquisition of equity interests in CSI Solartronics from our prior Chinese joint venture partners. The decrease was offset in part by a significant increase in our purchase of property, plant and equipment for the expansion of our assembly lines for the production of solar module products and as we began selling standard solar modules.

Financing Activities

Net cash provided by financing activities was \$15.5 million for the six months ended June 30, 2006, as compared to nil for the six months ended June 30, 2005, primarily due to the net proceeds received from \$13.0 million in short-term borrowings and a \$3.65 million issuance of convertible notes to HSBC and JAFECO in March 2006, partially offset by the incurrence of issuance costs in connection with the convertible notes and this offering. Net cash provided by financing activities amounted to \$9.3 million in 2005, representing the net proceeds received from a \$1.3 million short-term borrowing and a \$8.1 million convertible note issuance. We did not raise any funds through financing activities in 2004 or 2003.

We believe that our current cash and cash equivalents, anticipated cash flow from operations and proceeds from this offering will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditures for at least the next 12 months. We may, however, require additional cash due to changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our existing cash is insufficient to meet our requirements, we may seek to sell additional equity securities, debt securities or borrow from lending institutions. We cannot assure you that financing will be available in the amounts we need or on terms acceptable to us, if at all. The sale of additional equity securities, including convertible debt securities, would dilute our shareholders. The incurrence of debt would divert cash for working capital and capital expenditures to service debt obligations and could result in operating and financial covenants that restrict our operations and our ability to pay dividends to our shareholders. If we are unable to obtain additional equity or debt financing as required, our business operations and prospects may suffer.

Capital Expenditures

We made capital expenditures of \$414,918, \$253,570, \$560,793 and \$511,853 in 2003, 2004, 2005 and for the six months ended June 30, 2006 respectively. In the past, our capital expenditures were used primarily to purchase equipment for our silicon reclamation program and for the expansion of our assembly lines for the production of solar modules. Our capital expenditures in 2006 have been and will be used primarily to purchase manufacturing equipment for the expansion of our solar module assembly lines and for the establishment of a solar cell plant.

Contractual Obligations and Commercial Commitments

The following table sets forth our contractual obligations and commercial commitments as of December 31, 2005:

	Payment Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
	(in thousands of US\$)				
Long-term debt obligations	\$ 8,100 ⁽¹⁾	—	\$ 8,100 ⁽¹⁾	—	—
Interest related to long-term debt ⁽²⁾	\$ 2,916	\$ 162	\$ 2,754	—	—
Short-term debt obligations	\$ 1,300	\$ 1,300	—	—	—
Interest related to short-term debt ⁽³⁾	\$ 91	\$ 91	—	—	—
Capital (finance) lease obligations	—	—	—	—	—
Operating lease obligations	\$ 354	\$ 162	\$ 192	—	—
Purchase obligations ⁽⁴⁾	\$ 10,178	\$ 2,744	\$ 3,717	\$ 3,717	—
Other long-term liabilities reflected on the company's balance sheet	\$ 341	—	—	—	\$ 341
Total	\$23,280	\$4,459	\$14,763	\$3,717	\$ 341

(1) Convertible notes issued to HSBC and JAFECO in November 2005.

(2) Interest includes cash interest of 2% per annum payable every three months and a premium of 10% per annum payable if the convertible notes are not converted to common shares at maturity.

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- (3) Interest is derived using 7% interest per annum.
- (4) Include commitments to purchase production equipment in the amount of \$114,599 and commitments to purchase solar cells and silicon raw materials in the amount of \$10.1 million.

Other than the contractual obligations and commercial commitments set forth above, we did not have any other long-term debt obligations, operating lease obligations, purchase obligations or other long-term liabilities as of December 31, 2005. In March 2006, we issued an aggregate of \$3.65 million convertible notes to HSBC and JAFCO in a second tranche subscription under the subscription agreement. The first tranche and second tranche notes of both HSBC and JAFCO were converted into our common shares in July 2006.

We have entered into a total of nine loan agreements with commercial banks in China for working capital purposes in 2006. Each of these loans has been fully drawn, and does not contain any specific renewal terms. The following table summarizes the material terms of the loans.

Date of Agreements	Amount	Term	Interest Rate	Guarantee
April 2006	RMB20 million (\$2.5 million)	Six months (1)	5.94% per annum	By third parties (2)
April 2006	RMB25 million (\$3.125 million)	One year	6.435% per annum	By third parties (2)
April 2006	\$500,000	One year	6.025% per annum	None
June 2006	RMB5 million (\$0.625 million)	One year	6.435% per annum	By third parties (2)
June 2006	\$2.49 million	Six months	1.0% over six-month LIBOR	By third party(3)
June 2006	\$3.75 million	One year	6.461% per annum	By third party(3)
August 2006	\$3.3 million	Three months	6.40188% per annum	By CSI Solartronics(4)
September 2006	RMB20 million (\$2.5 million)	Six months	6.138% per annum	By third party(5)
September 2006	\$2.99 million	Three months	5.89%	By third party(3)

- (1) We are in the process of repaying this loan, which will expire in October 2006, and entering into a renewal contract with this same bank on similar terms.
- (2) Guaranteed by Changshu Municipal Industry State Owned Assets Operation and Investment Company and Changshu City Xinzhuang County Assets Operation and Investment Company. These guarantors, which have no other relationship with us, are state- or collectively-owned companies that seek to promote the development of and investment in the local community.
- (3) Guaranteed by Suzhou New District Economic Development Group Corporation, which has no other relationship with us. We pay a fee of 1.0% of the loan facility amount per annum for the guarantee and have pledged security interests over all of the current assets of CSI Solar Manufacturing and CSI Solartronics and 51% equity interests in these two companies held by us to secure the guarantee. Dr. Shawn Qu, our chairman and chief executive officer, has also provided a counter-guarantee for the guarantee.
- (4) CSI Solartronics entered into a maximum guarantee agreement with this commercial bank, under which CSI Solartronics agreed to provide a guarantee of up to RMB 26.4 million (\$3.3 million) for short-term borrowings of CSI Solar Manufacturing incurred during a six-month period commencing from August 7, 2006.
- (5) Changshu Municipal Industry State Owned Assets Operation and Investment Company, as the guarantor, entered into a maximum guarantee agreement with this commercial bank, under which the guarantor

agreed to provide a guarantee of up to RMB20.0 million (\$2.5 million) for short-term borrowings of CSI Solartronics incurred during the one-year period commencing from September 7, 2006.

The loan agreements contain customary restrictive covenants, including restrictions on change of business operations, mergers, creating security interests over assets and disposal of material assets, and impose customary notice obligations upon a material negative change. If we are late in repaying principal or interest or we do not use the proceeds for working capital purposes, we will be subject to default interest rates. The loan repayments will be accelerated upon the suspension of our business operations, material negative changes to security and the occurrence of other events of default. As of the date of this prospectus, we are in compliance with the covenants in these loan agreements.

In addition, in August 2004, we entered into a revolving facility loan agreement in the amount of C\$500,000 with the Royal Bank of Canada for working capital purposes. This loan facility was guaranteed by our chairman and chief executive officer, Dr. Shawn Qu. As of December 31, 2005 and June 30, 2006, we did not have any outstanding obligation under this facility.

In implementing our plans to expand our solar module assembly capacity, we registered Changshu CSI Advanced Solar Inc., or CSI Advanced, as a wholly owned subsidiary in Changshu, China in August 2006. We plan to invest \$16.8 million in CSI Advanced as registered capital with cash from our operations and proceeds from this offering. PRC rules require us to reduce the amount of the planned registered capital if we do not invest that amount within two years of the date the business license for CSI Advanced was issued.

Off-balance Sheet Commitments and Arrangements

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or that engages in leasing, hedging or research and development services with us.

Restricted Net Assets

Our PRC subsidiaries are required under PRC laws and regulations to make appropriations from net income as determined under accounting principles generally accepted in the PRC, or PRC GAAP, to non-distributable reserves which include a general reserve and a staff welfare and bonus reserve. The general reserve is required to be made at not less than 10% of the profit after tax as determined under PRC GAAP. The staff welfare and bonus reserve is determined by our board of directors. The general reserve is used to offset future extraordinary losses. Our PRC subsidiaries may, upon a resolution of the board of directors, convert the general reserve into capital. The staff welfare and bonus reserve is used for the collective welfare of the employees of the PRC subsidiaries. These reserves represent appropriations of the retained earnings determined under PRC law. In addition to the general reserve, our PRC subsidiaries are required to obtain approval from the local government authorities prior to distributing any registered share capital. Accordingly, both the appropriations to general reserve and the registered share capital of the our PRC subsidiaries are considered as restricted net assets. These restricted net assets amounted to \$770,116, \$851,516, \$4.6 million and \$7.8 million at December 31, 2003, 2004, 2005 and June 30, 2006, respectively.

Inflation

Since our inception, inflation in China has not materially impacted our results of operations. According to the National Bureau of Statistics of China, the change of consumer price index in China was 1.2%, 3.9% and 1.8% in 2003, 2004 and 2005, respectively.

Market Risks

Foreign Exchange Risk

Our financial statements are expressed in the U.S. dollar, which is our functional currency. Until June 2005, a major portion of our sales were denominated in Euros, with the remainder in U.S. dollars and Renminbi. The major portion of our costs and expenses is denominated in U.S. dollars. Since June 2005, substantially all of our sales have been denominated in U.S. dollars. We also incur a portion of our costs and expenses in Renminbi, primarily related to domestic sourcing of solar cells and silicon raw materials, toll manufacturing fees, labor costs and local overhead expenses. We also have loan arrangements with Chinese commercial banks that are denominated in Renminbi. Therefore, fluctuations in currency exchange rates could have an impact on our financial stability. Fluctuations in exchange rates, particularly among the U.S. dollar and Renminbi, affect our gross and net profit margins and could result in foreign exchange and operating losses. Our exposure to foreign exchange risk primarily relates to currency gains or losses resulting from timing differences between signing of sales contracts and settling of these contracts. We recorded net foreign currency loss of \$8,721 in 2003, gain of \$230,960 in 2004, loss of \$106,059 in 2005 and loss of \$76,162 for the six months ended June 30, 2006.

Interest Rate Risk

Our exposure to interest rate risk primarily relates to interest expenses incurred by our short-term and long-term borrowings, as well as interest income generated by excess cash invested in demand deposits and liquid investments with original maturities of three months or less. Such interest-earning instruments carry a degree of interest rate risk. We have not used any derivative financial instruments to manage our interest rate risk exposure. We have not been exposed nor do we anticipate being exposed to material risks due to changes in interest rates. However, our future interest expense may increase due to changes in market interest rates.

Recent Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board, or FASB, issued SFAS No. 151, "Inventory Costs — an amendment of ARB No. 43, Chapter 4." SFAS No. 151 clarifies the accounting that requires abnormal amounts of idle facility expenses, freight, handling costs, and spoilage costs to be recognized as current-period charges. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 will be effective for inventory costs incurred in fiscal period beginning on or after June 15, 2005. We do not anticipate that the adoption of this statement will have a material effect on our financial position, cash flow or results of operations.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets — an amendment of APB Opinion No. 29," or SFAS 153, which amends Accounting Principles Board Opinion No. 29, "Accounting for Nonmonetary Transactions" to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS 153 is effective for nonmonetary assets exchanges occurring in fiscal periods beginning after June 15, 2005. We do not anticipate that the adoption of this statement will have a material effect on our financial position, cash flow or results of operations.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections," or SFAS 154, which replaces Accounting Principles Board Opinions No. 20 "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements — An Amendment of APB Opinion No. 28." SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We do not anticipate that the adoption of this statement will have a material effect on our financial position, cash flow or results of operations.

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, or SFAS 123R. SFAS 123R eliminates the alternative of applying the intrinsic value measurement provisions of APB 25 to stock compensation awards issued to employees. Rather, SFAS 123R requires enterprises to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award, known as the requisite service period (usually the vesting period).

In March 2005, the FASB issued FASB Interpretation No., or FIN 47, "Accounting for Conditional Assets Retirement Obligations, an interpretation of SFAS No. 143." FIN 47 clarifies that an entity is required to recognize a liability for legal obligation to perform an asset retirement activity if the fair value can be reasonably estimated even though the timing and/or method of settlement are conditional on a future event. FIN 47 is required to be adopted for annual reporting periods ending after December 15, 2005. We do not anticipate that the adoption of this statement will have a material effect on our financial position, cash flow or results of operations.

In September 2005 the FASB approved EITF Issue 05-07, Accounting for Modifications to Conversion Options Embedded in Debt Securities and Related Issues, or EITF 05-07. EITF 05-07 requires the change in the fair value of an embedded conversion option upon modification be included in the analysis under EITF Issue 96-16, Debtor's Accounting for a Modification or Exchange of Debt Instruments, to determine whether a modification or extinguishment has occurred and that the changes to the fair value of a conversion option affects the interest expense on the associated debt instrument following a modification. Therefore, the change in fair value of the conversion option should be recognized upon the modification as a discount or premium associated with the debt, and an increase or decrease in additional paid-in capital. EITF Issue 05-07 is effective for all debt modifications in annual or interim periods beginning after December 31, 2005. The adoption of EITF 05-07 did not have an impact on our financial position and results of operations.

In June 2006 the FASB released Interpretation No. 48, Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109, or FIN 48, which proscribes a recognition threshold and a measurement attribute for tax positions taken, or expected to be taken, in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006, with early adoption encouraged if the enterprise has not yet issued financial statements for fiscal years or interim periods in the period this Interpretation is adopted. We do not anticipate that the adoption of this statement will have a material effect on our financial position, cash flow or results of operations.

OUR BUSINESS

Overview

We design, manufacture and sell solar module products that convert sunlight into electricity for a variety of uses. We are incorporated in Canada and conduct all of our manufacturing operations in China. Our products include a range of standard solar modules built to general specifications for use in a wide range of residential, commercial and industrial solar power generation systems. We also design and produce specialty solar modules and products based on our customers' requirements. Specialty solar modules and products consist of customized modules that our customers incorporate into their own products, such as solar-powered bus stop lighting, and complete specialty products, such as solar-powered car battery chargers. Our products are sold primarily under our own brand name and also produced on an OEM basis for our customers. We also implement solar power development projects, primarily in conjunction with government organizations to provide solar power generation in rural areas of China.

We currently sell our products to customers located in various markets worldwide, including Germany, Spain, Canada, China and Japan. We currently sell our standard solar modules to distributors and system integrators. We sell our specialty solar modules and products directly to various manufacturers who either integrate these solar modules into their own products or sell and market them as part of their product portfolio.

Supply chain management is critical to the success of our business, particularly during the current industry-wide shortage of high-purity silicon. We proactively manage our supply chain, which consists of silicon feedstock, ingots, wafers and solar cells, to secure a cost-effective supply of solar cells, the key component of our solar module products. We do this primarily by directly sourcing silicon feedstock, which consists of high-purity silicon and reclaimable silicon. Under toll manufacturing arrangements, we provide the silicon feedstock to manufacturers of ingots, wafers and cells, which in turn convert these silicon raw materials ultimately into the solar cells that we use for our production of solar modules. We believe we were one of the first solar module companies to process reclaimable silicon, which consists primarily of broken wafers and scrap silicon, for reuse in the solar power supply chain. Today, we believe we operate a large-scale and cost-efficient silicon reclamation program. We believe that the substantial industry and international experience of our management team has helped us foster strategic relationships with suppliers throughout the solar power industry value chain. We also take advantage of our flexible and low-cost manufacturing capability in China to lower our operating costs.

We have grown rapidly since March 2002, when we sold our first solar module products. Our net revenues increased from \$4.1 million in 2003 to \$18.3 million in 2005, representing a CAGR of 111.1%. Correspondingly, our net income increased from \$761,245 to \$3.8 million over the same period, representing a CAGR of 123.5%. Our net revenues increased from \$7.0 million for the first six months ended June 30, 2005 to \$26.0 million over the same period in 2006. We sold 0.7 MW, 2.2 MW and 4.1 MW of our solar module products in 2003, 2004 and 2005, respectively. We sold 1.4 MW and 6.2 MW of our solar module products for the first six months ended June 30, 2005 and 2006, respectively.

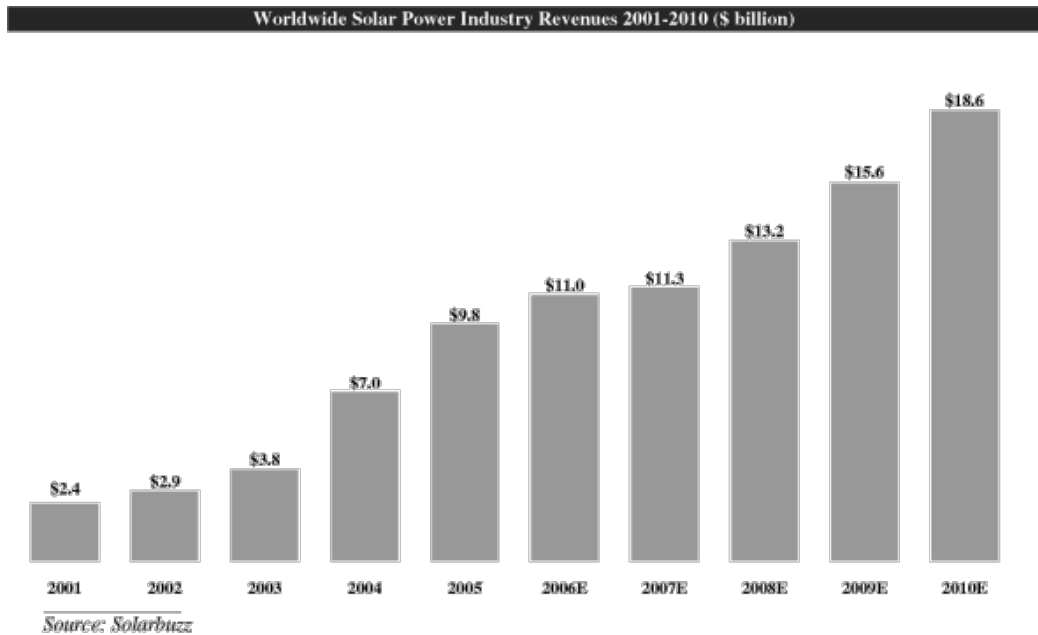
Our Industry

Solar power has recently emerged as one of the most rapidly growing renewable energy sources. Solar cells are fabricated from silicon wafers and convert sunlight into electricity through a process known as the photovoltaic effect. Solar modules, which are an array of interconnected solar cells encased in a weatherproof frame, are mounted in areas with direct exposure to the sun to generate electricity from sunlight.

Solar power systems, which are made up of solar modules, related power electronics and other components, are used in residential, commercial and industrial applications in both on-grid and off-grid applications. The market for on-grid applications, where solar power is used to supplement a customer's electricity purchased from a utility network, represents the largest and fastest growing segment of the market. Off-grid applications, where access to utility networks is not economical or physically feasible, offer additional opportunities for the use of solar power. Off-grid applications include road signs and call boxes,

communications support along remote pipelines and telecommunications lines and rural residential electricity generation applications. They also include car battery chargers, light emitting diode, or LED, lighting and power generation for a wide range of consumer applications such as radios, watches and toys. According to Solarbuzz, in 2005 on-grid applications accounted for 1,262 MW of total solar power system installations, compared to 198 MW for off-grid applications.

Although solar power technology has been used for several decades, the solar power market has grown significantly in the past several years. According to Solarbuzz, the global solar power market, as measured by annual solar power system installations, increased from 345 MW in 2001 to 1,460 MW in 2005, representing a CAGR of 43.4%. During the same period, solar power industry revenues grew from approximately \$2.4 billion in 2001 to approximately \$9.8 billion in 2005, representing a CAGR of 42.2%. Solarbuzz projects that solar power industry revenues and solar power system installations will reach \$18.6 billion and 3,250 MW, respectively, by 2010. Worldwide installations of solar power systems are expected to grow at a CAGR of 17.4% from 2005 to 2010, driven largely by on-grid shipments, according to Solarbuzz. Growth in the near term will be constrained by the limited availability of high-purity silicon, but, according to Solarbuzz, is expected to accelerate after 2007.



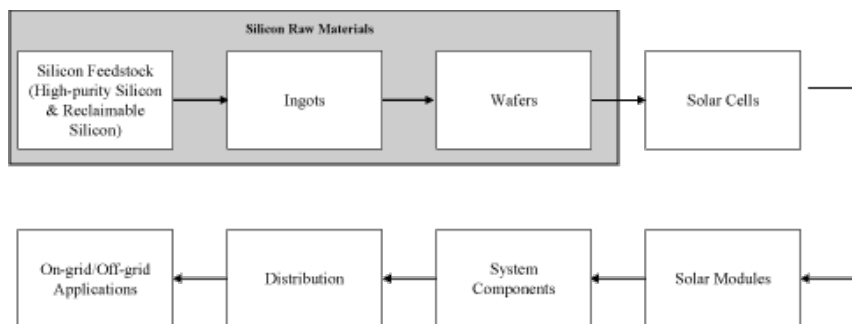
Industry growth has been particularly strong in jurisdictions where governments offer incentives for solar power installation. Germany, Spain, the United States, China and Japan, among others, offer, or previously offered, substantial incentives through either direct subsidies for solar installation or feed-in tariff subsidies for the electricity delivered to the utility grid from solar power installations. Demand for solar power has also been driven by increasing prices for petroleum and increasing environmental concerns over the use of fossil fuels.

The Solar Power Industry Value Chain

There are various technologies used in the solar power industry, including crystalline silicon technology and thin film technologies, such as amorphous silicon and cadmium telluride. Our products use crystalline silicon technology, which is the technology on which approximately 94% of solar power products are based according to Solarbuzz. Crystalline silicon technology is considered to be efficient, stable and low in toxicity. At present, the efficiency of crystalline solar cells ranges from 12% to 19%, half to two-thirds the

theoretical maximum, according to Solarbuzz. Products based on alternative solar technologies such as thin film photovoltaic materials may have costs similar to, or lower than, the projected costs of products based on crystalline silicon technology. For example, solar modules produced using thin film materials, such as amorphous silicon and cadmium telluride, are generally less efficient, with conversion efficiencies ranging from 5% to 10% according to Solarbuzz, but require significantly less silicon to produce than crystalline silicon solar modules, such as our products, and are less susceptible to increases in silicon costs.

For crystalline silicon technology, the solar power industry value chain starts with the processing of quartz sand to produce metallurgical-grade silicon. This material is further purified into high-purity silicon, which along with reclaimable silicon comprises silicon feedstock. This silicon feedstock is then melted and either grown into mono-crystalline ingots or cast into multi-crystalline ingots. These silicon ingots are then cut, shaped and sliced into wafers, which are manufactured into solar cells. The solar cells are interconnected to form solar modules, which, together with system components, are distributed by wholesalers and resellers ultimately for on-grid and off-grid systems. Solar modules can also be integrated into other products to power a variety of industrial and consumer applications.



Key Growth Drivers

We believe the following factors have driven and will continue to drive growth in the solar power industry:

Government Incentives for Solar Power and Other Renewable Energy Sources

Increasing environmental concerns and climate change risks associated with fossil fuel-based power generation are creating political momentum and pressure to implement greenhouse gas reduction strategies. Many countries have agreed to reduce emissions of carbon dioxide and other gases through international treaties such as the Kyoto Protocol. In addition, national and regional air pollution regulations also restrict the release of carbon dioxide and other gases. Solar power and other renewable sources, such as fuel cells, wind power and hydro-electric power, help address these environmental concerns.

Governments around the world have used different policy initiatives to accelerate the development and adoption of solar power and other renewable energy sources. Renewable energy policies are in place in the European Union, certain countries in Asia, and many of the states in Australia and the United States. Examples of customer-focused financial incentives include capital cost rebates, feed-in tariffs, tax credits and net metering. Capital cost rebates provide money to customers based on the size of a customer's solar power system. Feed-in tariffs require utilities to pay customers for solar power system generation based on kilowatt-hours produced, at a rate generally guaranteed for a period of time. Under net metering, power generated by the solar power system in excess of a consumer's power consumption will spin the existing home or business electricity meter backwards by such excess amount, effectively reducing the customers' electricity bill.

Fossil Fuel Supply Constraints and Desire for Energy Security

Worldwide demand for electricity is expected to increase from 14.8 trillion kilowatt hours in 2003 to 30.1 trillion kilowatt hours by 2030, according to the United States Department of Energy's International Energy Outlook. The International Energy Agency, or IEA, estimates that approximately 80% of the world's electricity is generated from fossil fuels such as coal, oil and natural gas. Limited fossil fuel supply and escalating electricity consumption are driving up wholesale electricity prices, resulting in higher electricity costs for consumers and highlighting the need to develop alternative technologies for reliable and sustainable electricity generation.

Furthermore, governments are trying to reduce their dependence on foreign sources of energy because of the potential political and economic instability in the major oil and gas producing regions of the world. In 2003, over 60.0% of the energy used in Germany and over 80.0% of the energy used in Italy, Spain, Japan and Korea, was imported, according to the IEA. That figure was 29.0% for the United States. Expanding the domestic portion, and particularly the renewable resources portion of the overall electricity generation portfolio, is a key element of many governments' strategies to increase energy security.

Growing Awareness of the Advantages of Solar Power

Solar power has several advantages over both conventional and other forms of renewable energy:

- *Peak Energy Generation Advantage.* Solar power is well-suited to match peak energy needs as maximum sunlight hours generally correspond to peak demand periods when electricity prices are at their highest, as compared to other renewable resources that generally do not align power generation with peak demand periods.
- *Fuel Risk Advantage.* Unlike fossil and nuclear fuels, solar power has no fuel price volatility or delivery risk. Although the amount and timing of sunlight vary over a day, season and year, a properly sized, configured and designed system can be highly reliable while providing a long-term, fixed-price supply of electricity.
- *Modularity.* Solar power products can be deployed in many different sizes and configurations to meet the specific needs of the customer.
- *Reliability.* With no moving parts or regular required maintenance, solar power systems are among the most reliable forms of electricity generation. Accelerated aging tests have shown that solar modules can operate for 30 years or more without the need for major maintenance other than the occasional cleaning of the solar module surface.
- *Environmental Advantage.* Solar power is one of the cleanest electric generation resources, capable of generating electricity without air or water emissions, noise, vibration, habitat impact or waste generation.

Advances in Technologies Making Solar Power More Cost-Efficient

Recent advancements in technology are making it more cost-effective to use solar power in off-grid products. For example, the brightness of LEDs has increased significantly in recent years while the voltage required to power, and the cost to produce, LEDs has significantly decreased. This has allowed for the cost-effective combination of low voltage LEDs with re-chargeable solar-powered battery systems. The synergies between LED lighting and solar power are resulting in new product applications such as LED lighting for roadway, railway, marine, transit, aviation and other outdoor applications. Off-grid products have also evolved to include solar-powered bus stop signs and solar-powered oil and gas well monitoring equipments.

Similarly, technological advances in consumer electronics products, such as the increased use and decreasing costs of flash memory and other low-power storage devices, have reduced the amount of power required to operate handheld and other small devices. Consumer solar power applications have expanded beyond traditional simple solar-powered calculators, radios, watches and toys to more sophisticated products such as mobile phones and laptops.

Large Market Among Underserved Populations in Rural Areas of Developing Countries with Little or No Access to Electricity

We believe solar power is also gaining importance as a source of off-grid electricity for homes and small businesses in rural areas of developing countries with little or no grid infrastructure. According to the United Nations Commission on Sustainable Development, there are approximately 1.6 billion people in the world today without any source of electrical power. Such populations generally have modest electrical needs that do not justify the construction of power plants or the installation of electric grid extensions, and solar power systems have been or are being placed in off-grid communities in various countries in Asia, including China and India, Latin America and Africa.

While the application of solar power for rural electrification has been possible for years, we believe interest by private companies and government agencies in the use of solar power systems to provide off-grid electricity to underprovided areas is creating additional markets and distribution channels for solar power products in developing countries. Historically, this effort was primarily financed by international development agencies and environment protection funds, for example the World Bank, the United Nations, the Global Environment Fund and the Canadian International Development Agency. While these agencies and funds remain important sources of support for the solar power development projects in developing countries, we believe self-sustainable markets are emerging in countries, such as China, where economic development has increased consumer purchasing power and the market for off-grid solar power systems and products.

Challenges Facing the Solar Power Industry

The solar power industry faces the following key challenges:

- *Shortages and Costs of High-purity Silicon.* There is currently an industry-wide shortage of high-purity silicon, an essential raw material in the solar power supply chain. Given the demand and supply imbalance, supply chain management is a critical element for the continued growth of the solar power industry and for controlling silicon raw material and solar cell supply and costs.
- *High Cost to Customers.* The current cost to implement and operate a solar power system may be economically unattractive to consumers compared to the cost of retail electricity from a utility network. While government programs and consumer preference have accelerated the use of solar power for on-grid applications, product costs remain one of the impediments to growth. To provide an economically attractive alternative to conventional electricity network power, the solar power industry must continually reduce manufacturing and installation costs and find ways to make the use of solar power cost-efficient over time without government subsidies.
- *Broadening Solar Power Usage in Off-Grid Applications.* The recent growth of the solar power market has been limited primarily to the on-grid market. Advances in solar power technologies and other consumer electronics technologies that result in the expansion of off-grid applications will be important to promoting market awareness and acceptance of the everyday usefulness of solar power in consumer products. Without increased market awareness and acceptance, sales to end-users may continue to consist substantially of standard solar modules, which are becoming increasingly commoditized, and the market for specialty solar modules and products, which typically command higher margins, may not expand.

Our Competitive Strengths

We believe that the following competitive strengths enable us to compete effectively and to capitalize on the rapid growth of the global solar power market:

Our ability to manage our supply chain allows us to secure a cost-effective supply of solar cells

We proactively manage our supply chain to secure a cost-effective supply of solar cells. This has allowed us to mitigate the effects of industry-wide shortages of high-purity silicon, while reducing margin pressure. Our proactive management of the supply chain has two major components:

- ***Sourcing of silicon raw materials and toll manufacturing arrangements.*** We maintain strong relationships with both international and domestic suppliers of silicon raw materials. We believe our close relationships with local silicon raw materials suppliers provide us with various advantages including the ability to lock-in supplies of raw materials, quicker time-to-market of our products due to faster access to silicon raw materials and lower shipping costs because of the closer proximity to our facilities. We have entered into a five-year supply agreement with Luoyang Zhong Gui, a high-purity silicon supplier in China, which provides us a specified minimum level of high-purity silicon. We have also entered into a 10-year supply agreement with Kunical International in the U.S., which provides us specified minimum levels of reclaimable silicon and other silicon raw materials and grants us priority over any of Kunical's excess monthly silicon feedstock supply. We also have entered into a four-year supply agreement with LDK, a silicon wafer supplier in China, which provides us with a specified level of silicon wafers. We have also entered into a 27-month agreement with Swiss Wafers for specified quantities of solar cells and solar wafers. We believe these silicon raw materials agreements will enable us to secure solar cells sufficient for a major portion of our estimated 2006 production output and a portion of our estimated 2007 production output.

We use these silicon raw materials to enter into toll manufacturing arrangements with key suppliers. Our toll manufacturers of solar wafers include LDK in China, Green Energy Technology Inc. in Taiwan, Swiss Wafers AG in Switzerland and Deutsche Solar, a subsidiary of SolarWorld AG in Germany. For solar cells, our toll manufacturers are Motech Industries Inc. and DelSolar Co., Ltd. in Taiwan, and SolarWorld AG.
- ***Silicon reclamation program.*** We believe that we were one of the first solar module companies to employ silicon reclaiming techniques to process reclaimable silicon for the sourcing of solar cells. Our management team also has strong experience in the silicon industry, including direct experience in silicon reclamation, and we intend to continue expanding our management capabilities in silicon reclamation. We believe that this early-mover advantage and management experience has allowed us to build a large-scale and cost-efficient silicon reclamation program. Our reclamation program, coupled with our toll manufacturing arrangements, gives us a cost-effective supply of solar cells, which allows us to lower our cost of revenues and increase gross margins for our solar module sales. We began our silicon reclamation program in 2005, which primarily drove the increase in our gross margins from 33.2% in 2004 to 38.8% in 2005 and in our net margins from 15.0% in 2004 to 20.8% in 2005.

Significant experience in the development and manufacture of high-margin specialty solar modules and products

We entered the solar module business in March 2002 by developing and manufacturing specialty solar modules and products. These products generally generate higher margins compared with those generated by our standard solar modules, primarily because of the higher average selling price that we are able to charge for the greater complexity of design. We believe this will continue in the near future. Our portfolio of specialty solar modules and products includes customized solar modules for Carmanah Technologies Corp., or Carmanah Technologies, used to power their lighting products for London bus stops, and complete specialty

products such as car battery chargers for Volkswagen and Audi. We believe our extensive experience in this business, coupled with our strength in product development, provides us with various competitive advantages. This includes quicker time-to-market, which we believe is a critical factor for succeeding in this rapidly evolving market. Expansion of our specialty solar modules and products business is expected to continue to be a longer-term driver of our margins in the future.

Flexible and low-cost manufacturing capability

We manufacture all of our products at our facilities in China. We believe our access to low-cost, skilled labor and our semi-automated manufacturing model provide us with competitive advantages by minimizing our operating costs, increasing our flexibility to meet demand and reducing our capital expenditure. Furthermore, costs associated with land, production equipment, facilities and utilities tend to be lower in China than in developed countries. One of our manufacturing facilities is situated in the export processing zone of Suzhou, China, where the raw materials used for the manufacture of our products that we export are not subject to import VAT and customs duties.

We have designed our manufacturing processes to include a mix of manual and automated production methods that reduce our capital investment and allow us to modify our production output in a timely and cost-effective manner. We believe that our semi-automated manufacturing model provides greater flexibility and is less costly than the fully automated processes often utilized in developed countries. We have also been able to reduce our capital expenditure by procuring in most instances locally designed and manufactured equipment as an alternative to more costly imported machinery.

Experienced senior management team with significant industry expertise and international background

We have an experienced senior management team that has successfully led our operations and increased our revenues and profits through rapid organic growth. Our team has significant international and domestic experience both in the solar power and semiconductor industries, which we believe gives us a deep understanding of the needs and preferences of international and domestic customers and suppliers. Dr. Shawn Qu, our founder, chairman and chief executive officer, has been instrumental in helping us achieve our rapid growth. He has over ten years of experience in the solar power industry across North America, Europe and Asia. Prior to founding our company, Dr. Qu held various managerial positions with leading energy companies such as Photowatt International S.A., or Photowatt, and ATS and also worked at Ontario Power Generation Corp. While at Photowatt, and its parent company ATS, he developed extensive experience managing silicon feedstock supply sourcing. Bencheng Li, the general manager of CSI Luoyang, has nearly 35 years of direct silicon manufacturing experience in China. His experience includes three years as chairman of Luoyang Silicon Crystal Corp, which is the parent company of Luoyang Zhong Gui, and eight years as the general manager of E-Mei Semiconductor Factory. Luoyang Zhong Gui and E-Mei Semiconductor Factory are two of our suppliers of high-purity silicon. Our vice president of international sales and marketing, Gregory Spanoudakis, has over 17 years of international experience in the semiconductor and solar power industries. Robert Patterson, our vice president of corporate and product development and general manager of Canadian operations, has over 25 years of experience working at technology companies with senior roles ranging from procurement to business development, including eight years of solar power industry experience.

We believe that the depth and breadth of our international experience, coupled with our extensive China experience, provide us with significant competitive advantages over other companies in the solar power industry.

Our Strategies

Our objective is to be a global leader in the development and manufacture of solar module products. We intend to implement the following strategies, which we have developed based on our experience, to anticipate changes in the industry:

Pursue a balanced and diversified solar cell supply channel mix

To improve the stability of our supply of solar cells, which we believe is critical to the continued success of our business, we intend to pursue a diversified supply channel strategy. As we grow our business, we believe having multiple sources of solar cells will allow us to successfully adapt to future changes in supply of and demand for solar cells. Our diversified supply strategy will consist of:

- ***Long-term cell supply contracts.*** We are presently in discussions with cell suppliers to secure long-term supply contracts with prepayments. We intend to source a portion of our solar cell requirements through long-term contracts in order to limit our risk from any future price increases and supply shortages.
- ***Toll manufacturing arrangements.*** Our toll manufacturing arrangements have allowed us to take advantage of excess wafer and cell manufacturing capacity in the industry to secure solar wafers and cells at reasonable cost by sourcing our own silicon raw materials. As the supply of high-purity silicon becomes more readily available in the future, toll manufacturing arrangements may not be available to us at higher or similar volumes. However, we believe that toll manufacturing arrangements will continue to be an important component of the solar power supply chain, in particular through the processing and use of reclaimable silicon which will maintain at a discount price compared to the cost of high-purity silicon. As such, we intend to continue to utilize toll manufacturing arrangements so long as it remains a cost-effective means of managing our solar cell supply.
- ***In-house cell manufacturing.*** We plan to complete our first solar cell production line in the first quarter of 2007 with commercial production targeted for the second quarter of 2007. We have completed a feasibility evaluation, have begun planning for a new solar cell plant in Suzhou and have purchased all of the key manufacturing equipment for our first solar cell line. We apply stringent criteria in selecting our vendors, including the requirement that they demonstrate at least two successful implementations of the same equipment for well-known solar cell manufacturers in Asia. After we successfully implement our first solar cell line, we plan to expand our capacity and currently intend to operate four solar cell manufacturing lines at our new solar cell plant by December 2007. Manufacturing solar cells will help us to reduce our reliance on third-party cell suppliers and improve the stability of our solar cell supply. In-house manufacturing will also give us the opportunity to reduce our costs and production lead-times. Additionally, in-house cell manufacturing will enable us to provide our OEM customers with “one-stop shop” manufacturing capability.

Continue to proactively manage silicon raw material supply.

To ensure that we have adequate and reliable supply of silicon raw materials to support toll manufacturing arrangements and in-house cell manufacturing, we believe that it is critical for us to continue to proactively source silicon feedstock, particularly during this period of industry-wide shortage. We intend to do this by focusing on the following areas:

- ***Securing long term silicon raw materials contracts.*** We intend to continue to engage in long-term silicon raw materials supply contracts with leading international and domestic suppliers. Presently, we have ten-year and five-year supply agreements with Kunical International and Luoyang Zhong Gui, respectively, for specified quantities of silicon feedstock. We also have a four-year agreement with LDK Solar Hi-Tech Co., Ltd. for specified quantities of solar wafers. We also have a 27-month agreement with Swiss Wafers

for specified quantities of solar cells and solar wafers. We plan to further expand our existing relationships with these suppliers while simultaneously exploring opportunities to engage in additional long-term supply relationships with other silicon raw materials suppliers.

- *Diversify silicon supply sources.* As our business expands, we intend to develop a diversified supply of silicon raw materials from a network of suppliers. We will seek to limit our dependence on any single supplier or single raw material component by sourcing high-purity silicon, reclaimed silicon, ingots, wafers and cells from various companies. We will also seek to vary the length and terms of our agreements with our suppliers to minimize negative exposure to changes in material prices.
- *Further develop and leverage our silicon reclamation program.* Our silicon reclamation program has been a major provider of our silicon feedstock requirements and we plan to continue to expand and leverage this program so long as it remains cost effective to do so. In particular, we will use new technologies to convert multiple forms of reclaimable silicon material for processing through our toll manufacturing arrangements and to improve the yield of our reclaiming processes.

Further diversify our geographic presence, customer base and product mix

In order to continue to grow our sales of standard solar modules and to reduce our exposure to any particular market segment, we intend to broaden our geographic presence, customer base and product mix. While Germany is expected to continue to be our largest market, we plan to expand our business in established solar markets such as Japan and emerging solar markets such as Spain, the United States and China. We plan to expand into the U.S. market in anticipation of the expansion of the solar power market in the near term due to recent government incentives in key states such as California. See “— Markets and Customers.” We plan to expand our sales network by establishing sales offices in Europe and the U.S. dedicated to regional sales. We will also attempt to increase our sales in China where we expect the solar power market to grow rapidly in response to recent legislation and policies encouraging the use of alternative and renewable energy sources. We believe that our significant management expertise, in-depth knowledge of the local market and ability to use our domestic strategic alliances will enable us to benefit from the anticipated growth in China.

We will also continue to diversify our customer base and further increase sales of specialty solar modules and products. For our customized modules, we will continue to focus on the automotive industry and identify key market segments with significant potential growth, such as the LED lighting and telecommunications industries. We also plan to substantially increase sales of complete specialty products. We intend to achieve this by entering into cooperative agreements with major international companies. For example, we recently signed a non-binding letter of agreement with Carmanah Technologies, a leading producer of solar LED products, to cooperate in the development of a wide range of solar powered LED specialty products. This will allow us to broaden our product range rapidly while leveraging the sales capabilities of our customers.

Enhance innovation and efficiency through R&D

Our senior management, led by Dr. Qu, our founder, chairman and chief executive officer, Mr. Genmao Chen, our director of research and development, Dr. Lingjun Zhang, our technical director, and Mr. Chengbai Zhou, our chief engineer for solar modules, all have extensive experience in the solar power industry. We plan to devote more resources to research and development to enhance our product development capability for both standard modules and specialty solar modules and products. In particular, by improving our product development capabilities for specialty solar modules and products, we believe that we will be well-positioned for the expected growth in this area of the solar power market. We will also focus our research and development efforts on improving our manufacturing processes and supply chain management. While our current semi-automated manufacturing model requires low capital expenditure and allows for flexibility in our production processes, we will continually upgrade our manufacturing processes to enhance

our operating and cost efficiency. We will continue to devote efforts to ensure that our products comply with the European Union's Restriction of Hazardous Substances Directive, which took effect in July 2006, by reducing the amount of lead and other restricted substances used in our solar module products. We also plan to dedicate more resources towards using new technologies in our silicon reclamation program. As we expand into solar cell manufacturing, we plan to continually invest in the development of process technologies to maximize the conversion efficiencies of our solar cells.

Build a leading global brand

We believe establishing strong brand-name recognition is important to reach our potential customers, both at the distributor and end-user level, and to expand our sales. In addition to our plans to expand our sales force, we intend to undertake a long term marketing program with both near-term and longer-term focuses to increase the recognition and value of the CSI brand. In the near term, we intend to focus our efforts on expanding our presence throughout the solar power supply and product chain to strengthen our customer and supplier relationships and to enhance our competitive position in the solar power industry. Over the longer term, we intend to extend our marketing efforts to end-users to generate greater consumer recognition of and demand for our products. We intend to position ourselves as an innovative provider of high performance and superior quality solar modules, with a cost-efficient manufacturing base, strong technical resources and an emphasis on strict quality control.

Our Products

We currently design, develop, manufacture and sell solar module products, which consist of standard solar modules and specialty solar modules and products.

Standard Solar Modules

Our standard solar modules are an array of interconnected solar cells encased in a weatherproof frame. We produce a wide variety of standard solar modules, currently ranging from 0.2 W to 300 W in power and using multi-crystalline and mono-crystalline solar cells. These products are built to general specifications for a wide range of residential, commercial and industrial solar power generation systems. Our standard solar modules are designed to be durable under harsh weather conditions and easy to transport and install. We primarily sell our standard solar modules under our own "CSI" brand and also on an OEM basis branded with our customers' names.

Specialty Solar Modules and Products

We collaborate with our customers to design and manufacture specialty solar modules and products based on our customers' specifications and requirements. Our specialty solar modules and products consist of:

- customized solar modules; and
- complete specialty products.

Our customized solar modules are solar modules that we design and manufacture for customers who incorporate our customized solar modules as a component of their own products. For example, we manufacture a customized array of six solar modules assembled onto a curved canopy for a customer who incorporates it into its bus stop shelter products. We design and manufacture our complete specialty products, which combine our solar modules with various electronic components that we purchase from third party suppliers. Presently, this has consisted primarily of car battery chargers for automotive customers.

Our specialty solar modules and products have been used primarily in the automotive sector. We focus on this and other industries, such as the LED lighting and telecommunications sectors, that have off-grid applications that can be powered by solar power. In the future, we intend to increasingly focus on the LED lighting industry. As LED technology advancements continue to create higher quality lighting with less power at increasingly economical prices, we believe that solar power will become a major power source in the LED lighting industry. In addition to specialty solar modules and products used in bus stop signs and our car

battery chargers, we have also produced security sensors, signaling systems and mobile phone chargers in the past. We will continue to work closely with our customers to design and develop specialty solar modules and products that meet their specific requirements. We expect sales of these products, which typically have higher margins than our standard solar modules, to increase significantly as we go forward.

Solar Power Development Projects

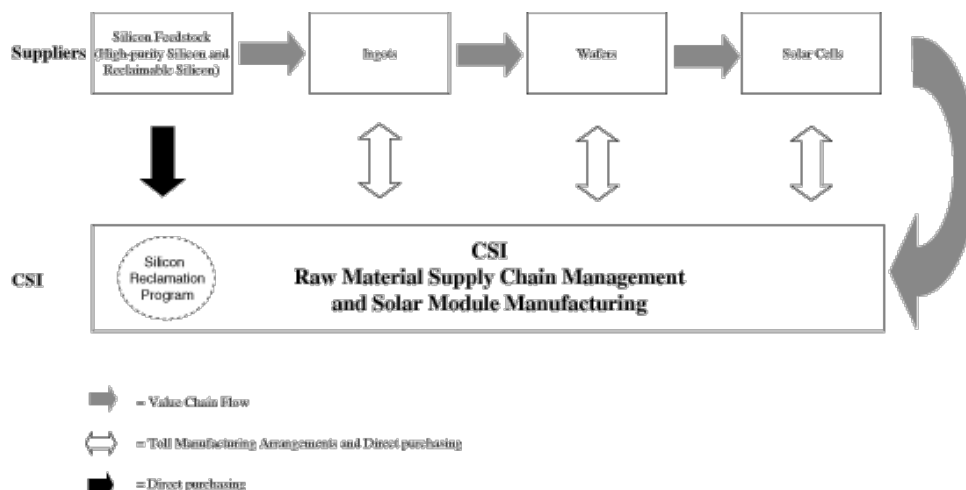
We also implement solar power development projects, primarily in conjunction with government organizations, to provide solar power generation in rural areas of China. In conjunction with the Canadian International Development Agency, or CIDA, we implemented a C\$1.8 million “Solar Electrification for Western China” project between 2002 and June 2005. As part of this project, we installed many demonstration projects and conducted three solar power forums in Beijing, Xining and Suzhou. We also have two CIDA projects in progress: (i) a C\$301,000 project to further promote solar power manufacturing in China, which we were awarded in August 2005, and (ii) a C\$125,000 project to explore the feasibility of solar power plants of 1 MW or greater in China, which we were awarded in January 2006. In connection with the latter project, we are in discussions with several potential partners to develop a large-scale solar power plant in Suzhou, Jiangsu province.

To date, our solar power development projects have consisted of government-related assistance packages. Going forward, we will continue to secure and implement large-scale solar power development projects in conjunction with CIDA, the World Bank, the Asian Development Bank, and other organizations, and we will explore more commercial transactions, which are becoming more prevalent.

Supply Chain Management

Our business depends on our ability to obtain solar cells. There is presently a shortage of solar cells as a result of a shortage of high-purity silicon due to the rapid growth of and demand for solar power. Beginning in early 2005, we began managing our supply chain to secure a reliable and cost-effective supply of solar cells. This has allowed us to mitigate the effects of the industry-wide shortage of high-purity silicon, while reducing margin pressure. We secure our supply of solar cells primarily through our sourcing of silicon raw materials and toll manufacturing arrangements with suppliers of ingots, wafers and cells and through the direct purchase of cells. We minimize costs and reduce margin pressure primarily through our silicon reclamation program.

The following chart illustrates our management of the solar power supply chain:



Silicon Raw Materials

Silicon feedstock, which consists of high-purity silicon and reclaimable silicon, is the building block of the entire solar power supply chain. The major portion of the silicon feedstock that we source is reclaimable silicon.

We have entered into a five-year supply agreement with Luoyang Zhong Gui in China from 2006 to 2010. This agreement provides us specified minimum levels of high-purity silicon. We have entered into a 10-year supply agreement with Kunical International from 2006 to 2015. This agreement provides us specified minimum levels of reclaimable silicon and other silicon raw materials and grants us priority over any of Kunical International's excess monthly silicon feedstock supply. We also have a four-year agreement with LDK from 2007 to 2010 for specified quantities of solar wafers. We also have a 27-month agreement with Swiss Wafers for specified quantities of solar cells and solar wafers.

We believe these silicon raw materials agreements will, through toll manufacturing arrangements, enable us to secure solar cells sufficient for a major portion of our estimated 2006 production output and a portion of our estimated 2007 production output. In anticipation of increased demand for solar power products, we are currently in discussions with other China-based suppliers to secure additional silicon feedstock supply. We recently incorporated CSI Luoyang to give us better access to major silicon feedstock suppliers located in Luoyang.

Silicon Reclamation Program

We believe that we were one of the first solar module companies to process reclaimable silicon to ultimately produce solar cells. We believe that this early-mover advantage has allowed us to build one of the largest and most cost-efficient silicon reclamation programs in the world today. We recycle the reclaimable silicon that we source and process it through our reclaiming facilities for reuse in the solar supply chain. Our processes recycle silicon from pot scraps, broken or unused silicon wafers, and the top and tail discarded portions of silicon ingots. Our factories in Suzhou and Changshu include reclamation workshops where our employees sort the reclaimable silicon into reprocessing categories. We believe that our access to relatively inexpensive labor in China for this process that involves a substantial amount of labor gives us a significant competitive advantage compared to international solar module manufacturers.

Our silicon reclamation program, coupled with our toll manufacturing arrangements, gives us a cost-effective supply of solar cells, which allows us to lower the cost of revenue and increase the gross margins for our solar module sales. We began our silicon reclamation program in 2005, which primarily drove the increase in our gross margins from 33.2% in 2004 to 38.8% in 2005 and in our net margins from 15.0% in 2004 to 20.8% in 2005. We are continually researching ways to improve our yields in converting reclaimable silicon and to process other types of scrap silicon.

Toll Manufacturing Arrangements

We primarily engage in toll manufacturing arrangements to source solar cells. Manufacturers of ingots, wafers and cells are facing over-capacity due to shortages of high-purity silicon and are looking for ways to obtain silicon feedstock. Through our toll manufacturing arrangements, we provide the silicon feedstock in return for ingots, wafers and cells.

Solar Wafers. Our key suppliers of solar wafers through these toll manufacturing arrangements include LDK in China, Green Energy Technology Inc., Swiss Wafers AG and Deutsche Solar, a subsidiary of SolarWorld AG.

Solar Cells. Our key suppliers of solar cells include Motech Industries Inc., Del Solar Co., Ltd., and SolarWorld AG.

Direct Solar Cell Purchasing and Expansion into Solar Cell Manufacturing

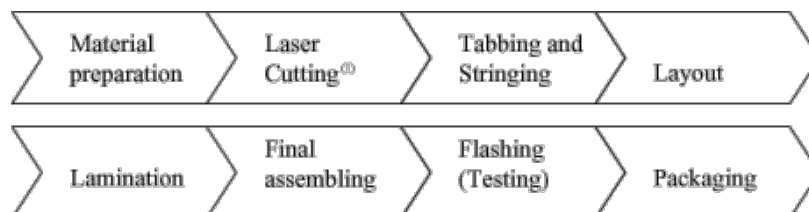
In addition to toll manufacturing arrangements that we have with our solar cell suppliers, we directly purchase or have purchased solar cells from some of the above-listed solar cell suppliers and Q-Cells AG and Sharp Solar.

We intend to continue our toll manufacturing arrangements for our supply of solar cells. As we grow our business, we will seek to diversify our cell supply channel mix to ensure flexibility in adapting to future changes in the supply of, and demand for, solar cells. Additionally, we have completed a feasibility evaluation for a new solar cell plant in Suzhou. We plan to complete our first solar cell production line in the first quarter of 2007 with commercial production targeted for the second quarter of 2007. We apply stringent criteria in selecting our vendors, including the requirement that they demonstrate at least two successful implementations of the same equipment for well-known solar cell manufacturers in Asia.

Manufacturing

We assemble our solar modules by interconnecting multiple solar cells through taping and stringing into a desired electrical configuration. The interconnected cells are laid out, laminated in a vacuum, cured by heating and then packaged in a protective light-weight anodized aluminum frame. Our solar modules are sealed and weatherproofed and are able to withstand high levels of ultraviolet radiation, moisture and extreme temperatures.

The diagram below illustrates our solar module manufacturing process:



(1) Laser cutting is only necessary for smaller-sized modules.

We work closely with our customers during the design and manufacture of our specialty solar modules and products. For our customized modules, we collaborate with the customer to make certain that our product is compatible for incorporation into that customer's product. For our complete specialty products, we work with the customer and typically provide sample products to the customer for testing before the product is manufactured on a larger scale.

We selectively use automation to enhance the quality and consistency of our finished products and to improve efficiency in our manufacturing processes. Key equipment in our manufacturing process includes automatic laminators, simulators and solar cell testers. The current design of our assembly lines gives us flexibility to adjust the ratio of manufacturing equipment to skilled labor for quality and efficiency control. We use manufacturing equipment purchased primarily from Chinese solar power equipment suppliers. The location of our manufacturing operations in China gives us the advantage of proximity to these Chinese manufacturers, who typically sell solar power manufacturing equipment at more competitive prices compared to similar machinery offered by international solar power equipment manufacturers. We source critical testing equipment from international manufacturers. The manufacturing of solar module products remains a labor intensive process, and we leverage China's competitive labor costs by using labor in our manufacturing process when it proves to be more efficient and cost-effective than using equipment.

Since we began selling our solar module products in March 2002, we have increased our annual production capacity from 2 MW to 35.5 MW as of April 2006. By the end of 2007, we aim to have a production capacity of 100 MW. The nature of our flexible manufacturing process allows us to increase capacity at low cost within a short period of time to ramp up production for increased demand for standard solar modules or for new solar module products as necessary. We may not, however, use our production facilities to full capacity. Overall production output depends in part on the product mix and sizes of the solar modules produced by each laminator and is affected by the timing of customer orders and requested completion dates. Our production output is also constrained by the availability of solar cells and silicon raw materials and demand for our solar module products. Although there is a gap between our production capacity and production output, it is important for manufacturers of solar module products to maintain additional production capacity to handle surges in customer demand and quick changes in the product mix and timing of completion demanded by customers. Due to the relatively inexpensive cost of solar module manufacturing equipment, it is generally cost-efficient to maintain additional production capacity.

Our manufacturing facilities can be easily reset, allowing us to quickly ramp up production for increased orders or new solar module products as necessary. We currently operate our manufacturing lines in two factories in China and typically operate these lines 16 hours a day by rotating shifts of employees to operate the lines. We currently produce a higher volume of standard solar modules in our factory located in Suzhou and manufacture most of our specialty solar modules and products, which tend to be lower volume, at our Changshu facilities. Our employees are trained to work on different types of solar module products. This gives us the flexibility to quickly increase our manufacturing capacity and lines with additional employees in order to meet increases in demand.

Quality Control and Certifications

Our quality control was set up according to the quality system requirements of ISO 9001:2000 and ISO:TS 16949 standards. The latter originated from QS 9000 and VDA quality systems and is now the world-wide quality system standard for the automotive industry. Our quality systems are reviewed and certified by TUV Rheinland Group, a leading international service company that documents the safety and quality of products, systems and services. Our quality control focuses on incoming inspection through which we ensure the quality of the components and raw materials that we source from third parties and includes the use of simulators and solar cell testers. We focus on in-process quality control by examining our manufacturing processes and on output quality control by inspecting finished products and conducting reliability and other tests.

We have obtained IEC 61215 and TUV Class II safety European standards for sales in Europe. We are in the process of obtaining ETL/UL certification in the United States and certifications in Canada for sales of

standard solar modules to enhance our sales capability in North America. We recently received confirmation that our solar modules comply with the requirements of CAN ORD-UL 1703 and UL 1703, and we expect to receive full certification for standard solar module sales in North America in 2006.

Markets and Customers

We currently sell our standard solar modules primarily to distributors and system integrators. Our distributor customers include companies that are exclusive solar power distributors, engineering and design firms that include our standard solar modules in their system installations. Our system integrator customers typically design and sell complete, integrated systems that include our standard solar modules along with other system components. We sell our specialty solar modules and products to various manufacturers who either integrate these products into their own products or sell and market them as part of their product portfolio. In 2005, approximately 80% of our solar module product net revenues consisted of standard solar module sales. The remaining approximately 20% were from sales of specialty solar modules and products. Our standard solar module customers include leading solar power distributors and system integrators such as Bihler, Iliotec and Maass. Our specialty solar modules and products customers include automotive customers such as Audi for whom we make car battery chargers, and various manufacturers, such as Carmanah Technologies, who incorporate our customized modules in their bus stop, road lighting and marine lighting products.

A small number of customers have historically accounted for a majority of our net revenues. For the year ended December 31, 2005, our top five customers collectively accounted for approximately 68.2% of our net revenues. Bihler and Sonn-en contributed 36.8% and 14.2%, respectively, of our net revenues for the same time period. For the six months ended June 30, 2006, our top five customers collectively accounted for approximately 91.2% of our net revenues, and Iliotec, Schuco, Pevafersa, and Bihler contributed 36.0%, 18.2%, 17.3% and 11.2%, respectively, of our net revenues for the same time period.

The following table sets forth certain information relating to our total net revenues derived from our customers categorized by their geographic location for the periods indicated:

Region	Year Ended December 31,						For the Six Months Ended			
	2003		2004		2005		June 30,		2006	
	Total Net Revenues	%	Total Net Revenues	%	Total Net Revenues	%	Total Net Revenues	%	Total Net Revenues	%
(in thousands of US\$, except percentages)										
Europe										
Germany	\$ 20	0.5%	\$ 6,499	67.1%	\$ 13,801	75.3%	\$ 4,121	59.0%	\$ 19,859	76.3%
Spain	—	—	85	0.8	445	2.4	455	6.4	4,496	17.3
Others	—	—	42	0.4	1,018	5.6	—	—	—	—
Europe Total	\$ 20	0.5	6,625	68.4	15,264	83.3	4,566	65.4	24,354	93.6
China	271	6.6	109	1.1	504	2.8	259	3.7	169	0.6
North America	3,798	92.3	2,853	29.5	2,556	13.9	2,157	30.9	1,456	5.6
Others	25	0.6	97	1.0	—(1)	0.0	—	—	62	0.2
Total net revenues	\$ 4,113	100.0%	\$ 9,685	100.0%	\$ 18,324	100.0%	\$ 6,982	100.0%	\$ 26,041	100.0%

(1) Less than a thousand.

As we expand our manufacturing capacity and enhance our brand name, we anticipate developing additional customer relationships in other markets and geographic regions to decrease our market concentration and dependence. In 2006 and in the near future, we have aimed, and will continue to aim, to increase our sales to customers located in several markets such as Germany, Spain, China, the United States, Canada and Japan. These solar power markets have been significantly influenced by past and current government subsidies and incentives, or, in the case of Canada, by intended future government subsidies and incentives. While we expect to expand our markets, we expect that Germany will continue to remain our major market in the near future.

- *Germany.* The renewable energy laws in Germany require electricity transmission grid operators to connect various renewable energy sources to their electricity transmission grids and to purchase all electricity generated by such sources at guaranteed feed-in tariffs. Additional regulatory support measures include investment cost subsidies, low-interest loans and tax relief to end users of renewable energy. Germany's renewable energy policy has had a strong solar power focus, which contributed to Germany surpassing Japan as the leading solar power market in terms of annual megawatt additions in 2004. According to Solarbuzz, Germany grew 53% to 837 MW or 57% of the world's total solar power production in 2005. Germany's feed-in tariff remains one of the highest in the world. We primarily sell rooftop end-market applications of sizes less than 100 Kwh. According to Solarbuzz, the feed-in tariffs for rooftop applications less than 30 Kwh and between 30 Kwh and 100 Kwh was €0.5453 and €0.5187 per Kwh, respectively, in 2005. Our major customers located in Germany are Bihler, Iliotec and Maass.
- *Spain.* In Spain, the incentive regime includes a national net metering program and favorable interest loans, and the actual feed-in tariff for solar power energy is fully guaranteed for 25 years and guaranteed at 80% subsequently. According to Solarbuzz, the feed-in tariff for applications less than 100 Kwh was €0.42 per Kwh in 2005. We currently have an OEM agreement with Isofoton and have recently signed a distribution agreement with Instakciones Pevafersa SL to sell our products in Spain.
- *China.* China passed the Renewable Energy Law in February 28, 2005, which went into effect on January 1, 2006. The Renewable Energy Law authorizes relevant authorities to set favorable prices for the purchase of on-grid solar power-generated electricity, and provides other financial incentives for the development of renewable energy projects. In January 2006, China's National Development and Reform Commission further promulgated two implementation rules of the Renewable Energy Law, and other implementation rules are expected in the future.

China finances its off-grid solar installations through the now completed township program and the current village program. The current five-year plan from 2006 to 2010 is targeted to provide electricity to 29,000 villages, mainly in Western China. The Ministry of Construction has recently promulgated directives encouraging the development and use of solar power energy in both urban and rural areas. Various local authorities have also introduced initiatives to encourage the adoption of renewable energy including solar power energy. Furthermore, in October 2005, the Shanghai municipal government endorsed the "100,000 M2 Project", the goal of which is to install solar energy heating systems onto 100,000 M2 rooftops in Shanghai in the coming years.

We believe that we will be well-positioned to take advantage of growth opportunities in the Chinese solar power energy market, which is one of the fastest growing markets for solar power. In April 2006, we began to purchase a limited amount of solar cells from Sharp Solar for our solar module sales in China.
- *United States.* There are now six states that offer significant incentives, with California offering the most preferential incentives. In January 2006, the California Public Utilities Commission enacted the California Solar Initiative, a \$2.9 billion program that will subsidize solar power systems by \$2.80 per watt. Due to excessive demand, this subsidy has been reduced to the current \$2.50 per watt. Combined with federal tax credits for solar power usage, the subsidy may account for as much as 50% of the cost of a solar power system. The program will last from 2007 to 2017 and is expected to dramatically increase the use of solar power for on-grid applications in California.
- *Canada.* In March 2006, the province of Ontario, Canada's largest province, announced a solar power subsidy, by which a fixed price of C\$0.42 per Kwh is offered for solar power transferred to the electrical grid starting in the fall of 2006. The program will last 20 years

and is expected to substantially increase the market for solar power in Ontario. We are working with Carmanah Technologies Inc. in the manufacturing and marketing of solar modules. To support their growth and strategies, much of this will target the Canadian market in general.

- *Japan.* According to Solarbuzz, incentive programs in Japan have led to the installation of more than 200,000 residential solar power systems since the introduction of the programs. Japan is planning to install five GW of generation capacity by 2010. The Japanese government has implemented a series of incentive programs, including the “Solar Power 2030 Roadmap” designed to generate up to 100 GW of solar power electricity by 2030, as well as provide government subsidies for research and development. Solar power energy is becoming increasingly competitive and self-sustained in Japan, and the Japanese government is in the process of completely phasing out direct subsidies to end users of solar power by 2006. Historically, the Japanese solar power market has been relatively closed to non-Japanese solar power players. There have been signs, however, that this market is beginning to open up to international players. In early 2006, we began to sell solar modules on an OEM basis to a leading solar module company in Japan.

Sales and Marketing

Standard Solar Modules

We market and sell our standard solar module products worldwide through a direct sales force. We have direct sales personnel or representatives that cover our markets in Europe, North America and Asia. Our marketing programs include conferences and technology seminars, sales training, trade show exhibitions, public relations and advertising. We sell our products primarily under two types of arrangements, supply contracts and OEM manufacturing arrangements.

- *Sales contracts.* We enter into short-term sales contracts with most of our customers and deliver standard solar modules according to a pre-agreed monthly schedule. Currently, our sales contracts are typically for three months and require our customers to pay 20.0% to 30.0% of the total contract price in advance of delivery as a down payment. We also typically require the payment of the balance contract price by letters of credit or telex money transfers prior to shipping. Our customers typically provide one month purchase order forecasts. As demand and prices stabilize, we plan to enter into longer-term sales contracts to help reduce our exposure to risks from decreases in standard solar module prices generally.
- *OEM manufacturing arrangements.* We obtain solar cell supplies from our OEM customers, and sell to them all of the products we manufacture with those solar cells. Our customers then sell the solar module products under their own brands.

Specialty Solar Modules and Products

In addition to the above efforts, we target our sales and marketing efforts of our specialty solar modules and products at companies in selected industry sectors, including the automotive, telecommunications and LED lighting sectors. As standard solar modules increasingly become commoditized and technology advancements allow for greater usage of solar power in off-grid applications, we will continue to expand our sales and marketing focus on our specialty solar modules and products and capabilities. Our sales and marketing team works with our specialty solar modules and products development team to make certain that we take the changing customer preferences and demands into account in our product development and that our sales and marketing team is able to effectively communicate to customers our product development changes and innovations. To further enhance this communication we will enter into cooperative agreements with our customers to share solar power technical and management expertise in our respective areas of expertise. For example, we entered into a cooperative agreement with Carmanah Technologies in April 2006 to supply solar modules and special value add for some of Carmanah's lighting products. We intend to establish additional relationships in other market sectors as the specialty solar modules and products market

expands. By jointly developing these products with leading companies in our targeted industry sectors, we will be able to leverage the sales and marketing capabilities of our partners to rapidly build our product portfolio.

Solar Power Development Projects

To date, our solar power development projects have consisted of government grants. Going forward, we will continue to secure and implement large-scale solar power development projects in conjunction with CIDA, the World Bank, the Asian Development Bank, and other government and non-governmental organizations. We will also explore more commercial solar power development projects, which are becoming more prevalent. We seek to participate in a mix of solar power development projects that provide us a continuous, steady source of revenues. These projects will also allow our personnel to further develop project management skills. In addition, we also provide solar power forums, demonstration projects and presentations as part of these solar power development projects, because we believe they generate significant goodwill and publicity for us.

Customer Support and Service

We provide customers with after-sales support, including product return and warranty services. Our standard solar modules are typically sold with a two-year guarantee for defects in materials and workmanship and a 10-year and 25-year warranty against declines of more than 10.0% and 20.0%, respectively, of the initial minimum power generation capacity at the time of delivery. Our specialty solar modules and products are typically sold with a one-year guarantee against defects in materials and workmanship and may, depending on the characteristics of the product, contain a limited warranty of up to ten years, against declines of the minimum power generation capacity specified at the time of delivery.

Research and Development

As of June 30, 2006, we had nine research and product development employees. We currently have approximately twenty technical and engineering employees. Historically, our research and development efforts have focused on reducing manufacturing costs and designing and developing new and efficient specialty solar modules and products to meet customer requirements. Most of our efforts have focused on the manufacturing process and improving efficiencies. We have also focused on designing and improving our silicon reclamation program and improving the yields on recycling reclaimable silicon for reuse in the solar power supply chain. Our research and development team works closely with our manufacturing team, our suppliers and our customers.

Our senior management, led by Dr. Qu, our founder, chairman and chief executive officer, Mr. Genmao Chen, our director of research and development, Dr. Lingjun Zhang, our technical director, and Mr. Chengbai Zhou, our chief engineer for solar modules, all have extensive experience in the solar power industry. We have also established collaborative research and development relationships with a number of universities and research institutes, including the University of Toronto in Canada, Tsinghua University in China and Suzhou University of China.

Going forward, we will focus on the following research and development initiatives, which, among other projects, we believe will contribute to our competitiveness:

Silicon reclamation technologies: We will seek to improve our technologies and know-how to increase the efficiency of our silicon reclamation program, including increasing the yields on our recovery of scrap silicon. We are developing new technologies and designing equipment for refining certain scrap silicon materials and expanding on the type of materials that can be utilized to manufacture solar cells.

Solar module manufacturing technologies. We intend to focus on developing state-of-the-art testing and diagnostic techniques that improve solar module production yield and efficiency. We are also studying light transmission and reflection technologies inside the solar module to find ways to increase the light absorption of solar cells for the purpose of improving power output.

Product development of specialty solar modules and products. We will seek to improve our product development capabilities for specialty solar modules and products to position ourselves for the expected growth in this area of the solar power market.

Solar cell manufacturing. As we expand into solar cell manufacturing, we plan to invest in the development of process technologies to increase the conversion efficiencies of our solar cells.

New module technologies. We will focus on a series of mid-to-long-term research projects to develop concentrator technologies, high-efficiency cells and next generation solar cells. We will conduct these research projects using both our internal resources and through our collaborative relationships with universities and research institutes.

Competition

The market for solar module products is competitive and continually evolving. We expect to face increased competition, which may result in price reductions, reduced margins or loss of market share. We compete with international companies such as BP Solar, Sharp Solar and SolarWorld and companies located in China such as Suntech Power Holdings Co., Ltd. Many of our competitors have a stronger market position than ours and have larger resources and name recognition than we have. While crystalline technology currently accounts for 94% of the solar power market, many of our competitors are developing or currently producing products based on alternative solar technologies such as thin film photovoltaic materials that may ultimately have costs similar to, or lower than, our projected costs. For example, solar modules produced using thin film materials, such as amorphous silicon and cadmium telluride, are generally less efficient, with conversion efficiencies ranging from 5% to 10% according to Solarbuzz, but require significantly less silicon to produce than crystalline silicon solar modules, such as our products, and are less susceptible to increases in silicon costs. Some of our competitors have also become vertically integrated, from upstream silicon wafer manufacturing to solar system integration. We may also face competition from semiconductor manufacturers, several of which have already announced their intention to start production of solar modules. In addition, the solar power market in general competes with other sources of renewable and alternative energy and conventional power generation. If we fail to compete successfully, we may be unable to expand our customer base and our business will suffer. We believe that the key competitive factors in the market for solar module products include:

- supply chain management;
- strength of supplier relationships;
- manufacturing efficiency;
- power efficiency and performance;
- price;
- customer relationships and distribution channels;
- brand name and reputation; and
- aesthetic appearance of solar module products.

In the immediate future, because of the growing demand for solar module products and the shortage of high-purity silicon, we believe that the ability to compete in our industry will continue to depend on the ability to effectively manage the supply chain and form strategic relationships. Consolidation of the segments of the solar power supply chain is already occurring and is expected to continue in the near future. We believe that as the supply of high-purity silicon stabilizes, the key to competing successfully will shift to more traditional sales and marketing activities. We believe that the strong relationships that we are building now with both suppliers and customers will support us in that new competitive environment when the time arrives.

Intellectual Property

We have applied to register our trade name, “CSI,” in China, and we are seeking registration of this mark and others in a number of foreign jurisdictions where we conduct business. We currently have one patent and two patent applications pending in China for solar-powered car battery chargers and marine lights. We currently use a combination of contractual arrangements with employees and trade secret protections to establish and protect our proprietary rights. As we expand our specialty solar modules and products portfolio and enter into solar cell manufacturing in the future, we will increase our efforts to develop and protect our intellectual property.

Environmental Regulation

We believe we have obtained all environmental permits necessary to conduct our business. We have conducted environmental studies in conjunction with our solar power development projects to assess and reduce the environmental impact of our facilities. We believe that our manufacturing processes do not generate any material levels of noise, waste water, gaseous wastes and other industrial wastes and believe that our manufacturing processes are environmentally friendly. We will also continue to devote efforts to ensure that our products comply with the European Union’s Restriction of Hazardous Substances Directive, which takes effect in July 2006, by reducing the amount of lead and other restricted substances used in our solar module products. Our operations are subject to regulation and periodic monitoring by local environmental protection authorities. If we fail to comply with present or future environmental laws and regulations, we could be subject to fines, suspension of production or a cessation of operations.

Employees

As of December 31, 2003, 2004 and 2005, we had 89, 183 and 196 full-time employees. As of June 30, 2006, we had 264 full-time employees. The following table sets forth the number of our employees categorized by our areas of operations and as a percentage of our workforce as of June 30, 2006.

	Number of Employees	Percentage of Total
Manufacturing	178	67.4%
General and administrative	53	20.1
Research and development	9	3.4
Sales and marketing	24	9.1
Total	264	100.0%

As of June 30, 2006, 259 of our employees were located in our two factories in Suzhou and in Changshu, three of our employees were located in our new manufacturing plant in Luoyang and two of our employees were based in Canada. Our employees are not covered by any collective bargaining agreement. We also have contract employees to meet increased demand for our products as required. As of December 31, 2005 and June 30, 2006, we had 52 and 264 contract employees, respectively. We consider our relations with our employees to be good. From time to time, we also employ part-time employees and independent contractors to support our manufacturing, research and development and sales and marketing activities. We plan to hire additional employees as we expand.

Insurance

We maintain property insurance policies with reputable insurance companies for covering our equipment, facilities, buildings and their improvements, office furniture and inventory. These insurance policies cover losses due to fire, floods and other natural disasters. Insurance coverage for our fixed assets in China amounted to approximately \$1.2 million as of June 30, 2006. We also maintain product liability insurance with an aggregate coverage amount of approximately \$4.3 million, which covers general commercial and product liability. We are in the process of purchasing key-man life insurance for our chairman and chief executive officer, Dr. Shawn Qu. We do not maintain business interruption insurance or insurance relating to marine, air and inland transit risks for the export of our products. We consider our

insurance coverage to be adequate. However, significant damage to any of our manufacturing facilities, whether as a result of fire or other causes, could have a material adverse effect on our results of operation. We paid an aggregate of approximately \$50,000 in insurance premiums for 2006 coverage.

Facilities

We have manufacturing facilities and offices in Suzhou that occupy approximately 6,050 square meters under a lease that will expire in March 2008. We have the right to renew the lease on three-months' prior written notice if the terms we offer are not less favorable than terms offered by other prospective tenants. We also rent offices with an aggregate of approximately 40 square meters in Suzhou for our research and development and certain administrative personnel under a lease expiring in September 2008. In Changshu, we rent our facilities of approximately 4,500 square meters under a three-year lease expiring in September 2007. CSI Luoyang has applied for the land use rights certificate for a piece of land of approximately 5,000 square meters. We plan to begin operations in our Luoyang facility in the first quarter of 2007. CSI Solarchip has applied for the land use rights certificate for a piece of land of approximately 66,667 square meters. We intend to build a solar cell facility in Suzhou and plan to complete our first solar cell line in the first quarter of 2007. We believe our current facilities and our planned facilities will meet our future needs and are consistent with our business plans.

Legal and Administrative Proceedings

In March 2002, ICP Global, a manufacturer of solar power products, filed an action in the Superior Court of the Province of Quebec, Canada (Action No. 500-05 071241-028) against our vice president of international sales and marketing, Gregory Spanoudakis, and ATS. ICP Global contends that Mr. Spanoudakis, who was previously employed by ICP Global, misappropriated its proprietary and commercial business opportunity to sell solar-powered car battery chargers to a prospective customer, Volkswagen Mexico, by directing that opportunity to its competitor ATS. In August 2003, ICP Global amended its complaint to include us, our subsidiary CSI Solartronics and our chairman and chief executive officer, Dr. Shawn Qu, as defendants. The amended complaint contends that all of the defendants jointly engaged in unlawful conduct and unfair competition in directing that business opportunity away from ICP Global to us, as purportedly evidenced by our selling of car battery chargers to Volkswagen Mexico. ICP Global claims damages consisting of an accounting of all profits obtained by the defendants as a result of any misappropriated business opportunity. In its amended complaint, ICP Global claims that the business opportunity could have represented sales of up to \$3.0 million.

Although the parties have conducted some basic and minimal discovery, there has been no meaningful discovery, court filings or communications from the plaintiff on this matter since early 2004. We will continue to defend our rights vigorously if ICP Global decides to move forward with this action. Furthermore, we believe that the outcome of the action, even if adversely determined, will not have a material adverse effect on our business or results of operations.

MANAGEMENT

Directors and Executive Officers

The following table sets forth information regarding our directors and executive officers as of the date of this prospectus.

Name	Age	Position/ Title
Shawn (Xiaohua) Qu	42	Chairman, President and Chief Executive Officer
Bing Zhu	41	Director, Chief Financial Officer
Arthur Chien	45	Independent Director
Robert McDermott	65	Independent Director
Lars-Eric Johansson	60	Independent Director
Gregory Spanoudakis	49	Vice President — International Sales and Marketing
Robert Patterson	59	Vice President — Corporate and Product Development, General Manager — Canadian Operations
Brian Lu	41	General Manager — China Operations
Bencheng Li	65	General Manager of CSI Luoyang
Chengbai Zhou	59	Chief Engineer of CSI Solartronics
Xiaohu Wang	50	Deputy General Manager, Commerce and Purchasing of CSI Solartronics
Shanglin Shi	52	Deputy General Manager, China Operation
Lingjun Zhang	40	Technical Director of CSI Solar Technologies
Guoxin Zhang	54	Deputy General Manager, Manufacturing of CSI Solar Manufacturing
Genmao Chen	44	Director of Research and Development

Directors

Dr. Shawn (Xiaohua) Qu has served as our chairman, president and chief executive officer since founding our company in October 2001. Prior to joining us, Dr. Qu worked at ATS from 1998 to 2001, where he performed various responsibilities at ATS and at its subsidiaries in the solar power business, Matrix and Photowatt International S.A. including acting as product engineer, director for silicon procurement, director for solar product strategic planning and business development and technical vice president (Asia Pacific) of Photowatt International S.A.. From 1996 to 1998, Dr. Qu was a research scientist at Ontario Power Generation Corp. (formerly Ontario Hydro), where he worked as a process leader in the development of Spherical Solartm technology, a next-generation solar technology. Prior to joining Ontario Hydro, Dr. Qu was a post-doctorate research fellow at the University of Toronto focusing on semiconductor optical devices and solar cells. He has published research articles in academic journals such as IEEE Quantum Electronics, Applied Physics Letter and Physical Review. Dr. Qu received a Ph.D. degree in material science from the University of Toronto in 1995, an M.Sc. degree in physics from University of Manitoba in 1990 and a B.Sc. in applied physics from Tsinghua University (Beijing, China) in 1986.

Mr. Bing Zhu was appointed our chief financial officer in May 2006. Before that, he was our financial controller and acting chief financial officer since March 2005. Prior to joining us, Mr. Zhu was a commercial banking relationship account manager at Royal Bank of Canada. From May 1996 to June 2000, Mr. Zhu worked as the Shanghai chief representative of Raytheon Corporation and was in charge of market development for its commercial electronics, engineering & construction and commercial aircraft divisions in China. From 1993 to 1996, he was a corporate banking account manager for Banque Indosuez. His customers included the China operations of European- and North American- based multi-national companies as well as B- and H- share Chinese public companies. From 1986 to 1992, Mr. Zhu was an accountant and then a

finance manager in a Chinese state-owned enterprise in Hangzhou, China. Mr. Zhu received his bachelor's degree in business management in 1986 from Zhejiang University of Technology in China, and his MBA degree in 1993 from China Europe International Business School (previously known as China-Europe Management Institute).

Mr. Arthur Chien became a director of our company in December 2005. Mr. Chien currently is the managing director of Beijing Yinke Investment Consulting Co. Ltd., which provides financial consulting services and has own investment projects as well. Previously, Mr. Chien was the chief financial officer of China Grand Enterprises Inc. for almost 5 years. That company is a diversified investment holding company based in Beijing, China. Mr. Chien has also worked in the finance, investment and management positions in several companies in China, Canada and Belgium including his appointment in 1995 as the assistant financial controller of the steel cord division of Bekaert Group in Belgium. In 1996, Mr. Chien took the position of chief financial officer of Bekaert China which operated five joint ventures in China. Mr. Chien graduated from the University of Science and Technology of China with a bachelor of science degree in 1982. He also obtained a master's degree in economics from the University of Western Ontario, London, Ontario, Canada in 1989.

Mr. Robert McDermott became an independent director of our company in August 2006. Mr. McDermott is a partner with McMillan Binch Mendelsohn LLP, a business and commercial law firm based in Canada. He joined the firm in 1971 and practices business law with an emphasis on mergers and acquisitions, corporate governance, mining, securities and corporate finance, involving both Canadian and cross-border transactions. Mr. McDermott advises boards and special committees of public companies in Canada on corporate governance matters as well. From 1997 to 2001, he was a director and senior officer and a member of the audit committee of Boliden Limited, a mining company listed on the Toronto and Stockholm stock exchanges. Recent engagements involve serving as an advisor to the special committees of public companies in Canada involving an acquisition, reorganization forming a REIT and corporate governance matters. Mr. McDermott is a member of the Canadian Bar Association, Canada Tax Foundation, International Bar Association and Rocky Mountain Mineral Law Institute. He has been admitted to the Ontario Bar in Canada since 1968. Mr. McDermott received his juris doctor degree from the University of Toronto and a bachelor's of arts degree from the University of Western Ontario.

Mr. Lars-Eric Johansson became an independent director of our company in August 2006. Mr. Johansson has worked in finance and controls positions for more than thirty years in Sweden and Canada. Since May 2004, he has been an executive vice president and the chief financial officer of Kinross Gold Corporation, a Toronto Stock Exchange-listed gold mining company. During the period between June 2002 and November 2003, Mr. Johansson was an executive vice president and chief financial officer of Noranda Inc. Mr. Johansson was last serving as a special advisor at Noranda Inc. until May 2004. From 1989 to May 2002, he was the chief financial officer of Falconbridge Limited, a mining and metals company in Canada dually listed on the New York Stock Exchange and the Toronto Stock Exchange, and the surviving company in its merger with Noranda Inc. in 2005. Mr. Johansson is a lead director and the chairperson of the audit committee and corporate governance committee of Aber Diamond Corporation, a precious stones mining company dually listed on the Nasdaq and the Toronto Stock Exchange. He has also chaired the audit committee of Golden Star Resources Ltd., a gold and silver mining company dually listed on the Toronto Stock Exchange and American Stock Exchange, since July 2006. He is also a director of Tiberon Minerals Ltd. and Novicor Inc., both listed companies on the Toronto Stock Exchange. Mr. Johansson holds an MBA, with a major in finance and accounting, from Gothenburg School of Economics in Sweden.

Executive Officers

Mr. Gregory Spanoudakis has been our vice president — international sales and marketing since January 2002. Mr. Spanoudakis has been involved in the semiconductor and solar power industries for the past 18 years, the last 6 years of which have been in the solar power industry. He was a senior executive with Future Electronics, one of the world's largest distributors of semiconductor components, where he headed the international division and the export development program from November 1988 to May 1999. Mr. Spanoudakis attended The University of Essex, in Colchester, England and the Sir George William

University (now Concordia University) in Montreal, Canada graduating with a bachelor's degree in business in 1981. In 1987, he received his MBA degree with a focus on international business development from Concordia University in Montreal, Canada.

Mr. Robert Patterson has served as our vice president of corporate and product development since January 2006. Previously, Mr. Patterson served as our general manager — Canada since 2002. Mr. Patterson managed the Solar Bi-Lateral project: Solar Electrification for Western China with the Canadian International Development Agency from May 2002 to June 2005. Before joining us, from 1999, Mr. Patterson was the vice president of business development and the manager of the Alberta branch of Soltek Solar, now Carmanah Technologies, Canada's largest solar energy company. From 1992 to 1999, Mr. Patterson was a senior vice president at several start-up communication companies including Westronic Inc., Network Innovations and TD Communications plus also managed his own consulting company, S & B Consulting Services, specializing in marketing and business development for high tech companies. From 1980 to 1988, Mr. Patterson held managerial positions at Nortel Networks for materials management, product development and marketing and business development. Mr. Patterson is a certified professional engineer in Alberta, Canada. In Canada, he received his MBA degree from The University of Western Ontario (Ivey) in London, Ontario in 1973, and his bachelor's degree in chemical engineering from Queen's University in Kingston, Ontario in 1970.

Mr. Brian Lu has been our general manager — China operations since December 2004. Prior to joining us, Mr. Lu worked at McKinsey & Company as a senior specialist in its operation strategy and effectiveness department from January 2003 to December 2004. Prior to that, Mr. Lu worked as the regional production control and logistics manager and lean manufacturing manager for Delphi Packard Electric Systems in Asia from 1997 to 2002. Prior to that, Mr. Lu worked at Lucent Technologies as a quality manager in its China Business Unit. Mr. Lu is also a Six Sigma Black Belt. Mr. Lu received his MBA degree from the Business School of Tsinghua University, China in 2001. He also received his M.S. degree in 1989 and B.S. degree in mechanical engineering in 1986 from Tsinghua University, China.

Mr. Bencheng Li is the general manager of CSI Luoyang. He joined us in June 2003. Mr. Li was the chairman of Luoyang Single Crystalline Silicon Ltd. from 1996 to 2000, and the chairman of Sino-American MCL Electronic Materials Ltd from 1995 to 2000. From July 1998 to April 2003, Mr. Li was the general manager of China Shijia Semiconductor Materials Corporation, a semiconductor and solar silicon materials manufacturing company in China. In July 1967, Mr. Li received his bachelor's degree in radiochemistry from Tsing Hua University in Beijing, China.

Mr. Chengbai Zhou is the chief engineer of CSI Solartronics. He joined us in 2001. Mr. Zhou is a committee member of China's Photovoltaic Institute. From 1969 to 2001, he was the head of the Wuhan Changjiang Power Plant's solar research group and later became the deputy director of its research institute. Mr. Zhou has been involved with various projects related to solar power for many years. From 1969 to 1972, Mr. Zhou was involved in the design and manufacture of solar modules for China's satellite project. From 1985 to 1996, he participated in the design and manufacture of over 40 solar power systems commissioned by the Ministry of Telecommunication. Mr. Zhou graduated from Wuhan Industry Institute, China in 1969.

Mr. Xiaohu Wang joined us in 2002, initially as the manager in charge of imports and exports, procurement, quality and operations. Since 2004, Mr. Wang has been deputy general manager of commerce of CSI Solartronics, responsible for planning and procurement of all silicon material. From May 1989 to January 2001, Mr. Wang was the branch manager of the International Development Group Ltd of Hunan Province where he was responsible for the import and export of mineral, hardware, textile and chemical products. Mr. Wang was also involved in that company's restructuring from state ownership to shareholder ownership. From 1996, Xiaohu was involved in the import and export of silicon material and silicon cells. In 1982, Mr. Wang graduated from Nanjing University of Aeronautics and Astronautics with a bachelor of science degree.

Mr. Shanglin Shi has served as deputy general manager, China operations, since August 2006. Previously, he served as deputy general manager, corporate development of CSI Solar Manufacturing since February 2006. Prior to joining us, Mr. Shi co-founded Xian Jiayang Photovoltaic Co., Ltd., where he worked

from 2002 to 2005 before leading its merger with BP Solar. From 1990 to 2002, he helped to set up Sijia Semi-conductor Material Company in China. He served in various management positions at Sijia's wholly owned subsidiaries: Emei Semiconductor Material Company, Luoyang Mono-silicon Material Company and Huashan Semiconductor Material Company before becoming its deputy general manager. Mr. Shi studied Industrial Economics at Chongqing University, China and graduated in 1977.

Dr. Lingjun Zhang has served as the technical director of CSI Solar Technologies since January 2005 before which he served as the operations and vice general manager of CSI Solartronics from June 2003. From 1999 to 2003 Dr. Zhang was the operations manager of Shanghai Siliconix Electronics Co., a subsidiary of Vishay, one of the biggest passive components suppliers in the world. Dr. Zhang served as the production manager of Shanghai Temic Telefunken Semiconductor Company from January 1997 to May 1999. In 1986 Dr. Zhang received his bachelor of science degree in applied physics from Tsinghua University, China. In 1992 Dr. Zhang received his Ph.D. degree in semiconductor physics from the Shanghai Technical Physics Institute of the Chinese Academy of Sciences.

Mr. Guoxin Zhang joined us in July 2004 as deputy general manager of manufacturing of CSI Solar Manufacturing in Changshu and CSI Solar Manufacturing in Suzhou. In 2001, Mr. Zhang was a consultant in the development and establishment of CSI Solartronics. From November 2001 to July 2006, he was a director and a board member of CSI Solartronics. Mr. Zhang was the general manager of Minhang Huayuan Enterprises Inc. from 1989 to 2004 after participating in restructuring it from a state enterprise to a privately owned company in 1989. Previously, Mr. Zhang worked at the Shanghai Power Generation Plant from 1967 to 1989. He was its deputy manager of administration from 1978 to 1989.

Mr. Genmao Chen joined us in July 2006 as director of research and development. Mr. Chen has over ten years of experience in semiconductor material growth and process. Prior to joining us, Mr. Chen was a scientist and senior engineer at two companies in Silicon Valley, namely Filtronic Solid State Inc., and American Xtal Technology Inc. At Filtronic (formerly Litton Solid State Subsystems Inc.), a compound semiconductor IC manufacturing company, Mr. Chen served as an Epi growth and characterization scientist, primarily responsible for developing RF and optoelectronic devices, from July 2000 to September 2002. At American Xtal., a manufacturer of semiconductor substrates and optoelectronics devices, he served as a senior engineer of process and technical support, primarily responsible for process design and integration, as well as customer technical support, from October 2002 to August 2004. In addition, he was the chief technology officer at Jingtuo Optoelectronics Co., Ltd., a LED and IC company from September 2004 to April 2006. Mr. Chen was a research assistant at Energenius Center for Advanced Nanotechnology in the University of Toronto during the period between January 1996 and July 2000. Mr. Chen received his B.Sc. degree in physics from Jilin University in China and an M.A.Sc. degree in materials science from the University of Toronto in Canada, where he was also a candidate to the Ph.D. degree in materials science.

Duties of Directors

Under our governing statute, our directors have a duty of loyalty to act honestly and in good faith with a view to our best interests. Our directors also have a duty to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. A shareholder has the right to seek damages if a duty owed by our directors is breached. The functions and powers of our board of directors include, among others:

- convening shareholders' annual general meetings and reporting its work to shareholders at such meetings;
- declaring dividends and distributions;
- appointing officers and determining the term of office of officers;
- exercising the borrowing powers of our company and mortgaging the property of our company; and
- approving the issuance of shares.

Terms of Directors and Executive Officers

Our officers are appointed by and serve at the discretion of the board of directors. Our directors are not subject to a term of office and hold office until such time as their successors are elected or they are removed from office by ordinary shareholders' resolution.

Committees of the Board of Directors

Our board of directors have established an audit committee, a compensation committee and a corporate governance and nominating committee.

Audit Committee

Our audit committee initially consists of Messrs. Lars-Eric Johansson, Robert McDermott and Arthur Chien, and is chaired by Mr. Johansson, an independent director with accounting and financial management expertise as required by Nasdaq Global Market corporate governance rules. Each of Messrs. Johansson, McDermott and Chien satisfies the "independence" requirements of the Nasdaq Global Market corporate governance rules and is financially literate as required by the Nasdaq Global Market rules. The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- selecting our independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by our independent auditors;
- reviewing with our independent auditors any audit problems or difficulties and management's response;
- reviewing and approving all proposed related-party transactions, as defined in Item 404 of Regulation S-K under the Securities Act;
- discussing the annual audited financial statements with management and our independent auditors;
- reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of material control deficiencies;
- annually reviewing and reassessing the adequacy of our audit committee charter;
- such other matters that are specifically delegated to our audit committee by our board of directors from time to time;
- meeting separately and periodically with management and our internal and independent auditors; and
- reporting regularly to the full board of directors.

Compensation Committee

Our compensation committee initially consists of Messrs. Lars-Eric Johansson, Robert McDermott and Arthur Chien, each of whom satisfies the "independence" requirements of the Nasdaq Global Market corporate governance rules and is chaired by Mr. Chien. Our compensation committee assists the board in reviewing and approving the compensation structure of our directors and executive officers, including all forms of compensation to be provided to our directors and executive officers. Members of the compensation committee are not prohibited from direct involvement in determining their own compensation. Our chief

executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

- approving and overseeing the compensation package for our executive officers;
- reviewing and making recommendations to the board with respect to the compensation of our directors;
- reviewing and approving corporate goals and objectives relevant to the compensation of our chief executive officer, evaluating the performance of our chief executive officer in light of those goals and objectives, and setting the compensation level of our chief executive officer based on this evaluation; and
- reviewing periodically and making recommendations to the board regarding any long-term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, employee pension and welfare benefit plans.

Corporate Governance and Nominating Committee

Our corporate governance and nominating committee initially consists of Lars-Eric Johansson, Robert McDermott and Arthur Chien, each of whom satisfies the “independence” requirements of the Nasdaq Global Market corporate governance rules, and is chaired by Mr. McDermott. The corporate governance and nominating committee assists the board of directors in identifying individuals qualified to become our directors and in determining the composition of the board and its committees. The corporate governance and nominating committee is responsible for, among other things:

- identifying and recommending to the board nominees for election or re-election to the board, or for appointment to fill any vacancy;
- reviewing annually with the board the current composition of the board in light of the characteristics of independence, age, skills, experience and availability of service to us;
- identifying and recommending to the board the directors to serve as members of the board’s committees;
- advising the board periodically with respect to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any corrective action to be taken; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

Interested Transactions

A director of the corporation who is a party to a material contract or transaction or proposed material contract or transaction with the corporation or is a director or officer of, or has a material interest in, any person who is party to such a contract or transaction is required to disclose in writing or request to have entered into the minutes of meetings of directors the nature and extent of his or her interest. A director may vote in respect of such contract or transaction only if the contract or transaction is: (i) one relating primarily to the remuneration as our director, officer, employee or agent; (ii) one for indemnity or insurance in favor of directors and officers; or (iii) one with an affiliate.

Remuneration and Borrowing

The directors may determine remuneration to be paid to the directors. The compensation committee will assist the directors in reviewing and approving the compensation structure for the directors. The directors may exercise all the powers of the company to borrow money and to mortgage or charge its undertaking,

property and uncalled capital, and to issue debentures or other securities whether outright or as security for any debt obligations of our company or of any third party.

Qualification

There is no shareholding qualification for directors.

Employment Agreements

We have entered into employment agreements with each of our executive officers. Under our employment agreement with Dr. Qu, our chief executive officer and controlling shareholder, Dr. Qu is employed until December 31, 2008, after which time he may terminate his employment with us on three months' prior written notice. Under our employment agreement with Mr. Gregory Spanoudakis, he may terminate his employment with us at any time on three months' prior notice. We may terminate either or both of these two employment agreements without cause upon the payment of a severance payment equal to one month of the officer's base salary for every year of employment with us (up to a maximum of 12 months) together with any unpaid compensation accrued up to the date of the termination.

Apart from these two employment agreements, all of our other employment agreements with our executive officers have a term of three years, ending in 2008 to 2009, except for our employment agreement with Shanglin Shi, which has a term of one year. Under these other employment agreements, either we or the employee may terminate the employment on one month's prior notice to the other with cause, except that (i) we have the right to terminate the employment of Messrs. Robert Patterson, Bing Zhu, Brian Lu and Genmao Chen for cause at any time without notice; and (ii) the right of each of Messrs. Robert Patterson, Bing Zhu, Brian Lu and Genmao Chen to terminate with cause is limited to material reductions in his authority, duties and responsibilities or a material reduction in his annual salary before the next annual salary review. Furthermore, we may terminate the employment at any time without cause upon one month to three-months' advance written notice to the executive officer. If we terminate the employment without cause, the executive officer will be entitled to a severance payment equal to three to four months of his then-current base salary. We may terminate each of the agreements for cause, at any time, without notice or remuneration, for certain acts of the employee, including but not limited to a conviction or plea of guilty to a felony, negligence or dishonesty to our detriment and failure to perform agreed duties after a reasonable opportunity to cure the failure.

Each executive officer has agreed to hold, both during and after the employment agreement expires or is earlier terminated, in strict confidence and not to use, except as required in the performance of his duties in connection with the employment, any confidential information, technical data, trade secrets and know-how of our company or the confidential information of any third party, including our affiliated entities and our subsidiaries, received by us. The executive officers have also agreed to disclose in confidence to us all inventions, designs and trade secrets which they conceive, develop or reduce to practice and to assign all right, title and interest in them to us. In addition, each executive officer has agreed to be bound by non-competition restrictions set forth in his or her employment agreement. Specifically, each executive officer has agreed not to, while employed by us and for a period of one to three years following the termination or expiration of the employment agreement, (i) approach our clients, customers or contacts or other persons or entities introduced to the executive officer for the purpose of doing business with such person or entities, and will not interfere with the business relationship between us and such persons and/or entities; (ii) assume employment with or provide services as a director for any of our competitors, or engage, whether as principal, partner, licensor or otherwise, in any business which is in direct or indirect competition with our business; (iii) seek, directly or indirectly, to solicit the services of any of our employees who is employed by us at the date of the executive officer's termination, or in the year preceding such termination; or (iv) use a name including any word used by our company or our affiliates, or the Chinese or English equivalent or any similar word, in relation to any trade, business or company. Under our employment agreements with our executive officers, for purposes of the non-compete clause described above, a "competitor" of our company is defined as an entity in China or such other territories where we carry on our business. In the case of our agreements with Mr. Robert Patterson, Mr. Bing Zhu and Mr. Brian Lu, the definition of "competitor" is

further limited in that it does not include an entity that generates 10% or less of its revenues from solar power products and services similar to those provided by us, except that if an executive officer is employed by, or provides services as a director or otherwise to, a subsidiary or divisional business of such an entity, such subsidiary or divisional business shall be deemed a “competitor” if it generates more than 10% of its revenues from solar power products and services similar to those provided by us.

Compensation of Directors and Executive Officers

In 2005, the aggregate cash compensation paid to our executive officers, including all the directors, was approximately \$493,477.

2006 Share Incentive Plan

We have adopted a share incentive plan, or 2006 Plan, effective in March 2006, to attract and retain the best available personnel for positions of substantial responsibility, provide additional incentives to employees, directors and consultants and promote the success of our business. The maximum aggregate number of common shares which may be issued pursuant to all awards (including options) is 2,330,000 shares, plus for awards other than incentive option shares, an annual increase to be added on the first business day of each calendar year beginning in 2007 equal to the lesser of (x) one percent (1%) of the number of common shares outstanding as of such date, or (y) a lesser number of common shares determined by the board or a designated committee.

The following table summarizes, as of the date of this prospectus, the outstanding options granted under our 2006 plan to several of our directors and executive officers and to other individuals as a group. The options granted in May 2006 vest over a four-year period beginning in March 2006. Unless otherwise noted, all other options granted vest over a four-year period beginning from the date of grant.

Name	Common shares Underlying Options Granted	Exercise Price (US\$/Share)	Date of Grant	Date of Expiration
Gregory Spanoudakis	116,500	\$ 2.12	May 30, 2006	May 29, 2016
Bing Zhu	116,500	2.12	May 30, 2006	May 29, 2016
Xiaohu Wang	89,705	2.12	May 30, 2006	May 29, 2016
Brian Lu	83,880	2.12	May 30, 2006	May 29, 2016
Lingjun Zhang	75,725	2.12	May 30, 2006	May 29, 2016
Guoxin Zhang	69,900	2.12	May 30, 2006	May 29, 2016
Robert Patterson	64,075	2.12	May 30, 2006	May 29, 2016
Bencheng Li	64,075	2.12	May 30, 2006	May 29, 2016
Chengbai Zhou	64,075	2.12	May 30, 2006	May 29, 2016
Shanglin Shi	46,600	2.12	May 30, 2006	May 29, 2016
Genmao Chen	64,075	4.29	July 17, 2006	July 16, 2016
Arthur Chien	46,600 ⁽¹⁾	4.29	August 8, 2006	August 7, 2016
Robert McDermott	46,600 ⁽²⁾	— ⁽³⁾	August 8, 2006	August 7, 2016
Lars-Eric Johansson	46,600 ⁽²⁾	— ⁽³⁾	August 8, 2006	August 7, 2016
Twenty-nine individuals as a group	128,500 ⁽⁴⁾	4.29	May 30, 2006	May 29, 2016
Two individuals as a group	51,260 ⁽⁴⁾	4.29	June 30, 2006	June 29, 2016
One individual	46,600 ⁽⁴⁾	4.29	July 17, 2006	July 16, 2016
Hanbing Zhang	46,600 ⁽⁴⁾⁽⁵⁾	4.29	July 28, 2006	July 27, 2016
One individual	58,250 ⁽⁴⁾	— ⁽⁶⁾	August 8, 2006	August 7, 2016
Three individuals as a group	11,650 ⁽⁴⁾	— ⁽⁶⁾	August 31, 2006	August 30, 2016

(1) Vest in two equal installments, the first upon the date of grant and the second upon the first year anniversary of the grant date so long as the director remains in service.

(2) All vest upon the date of grant.

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- (3) Exercise price will be the initial public offering price of the common shares as stated on the front cover of this prospectus.
- (4) Each holding less than 1% of our total outstanding voting securities.
- (5) The wife of Dr. Qu, our chairman, president and chief executive officer.
- (6) Exercise price will be 80% of the initial public offering price of the common shares as stated on the front cover of this prospectus.

We have also agreed to grant each of our independent directors, Arthur Chien, Robert McDermott and Lars-Eric Johansson, options to purchase 10,000 of our common shares immediately after each annual shareholder meeting at an exercise price equal to the average of the trading price of our common shares for the 20 trading days ending on such date. These options vest immediately.

The following table summarizes, as of the date of this prospectus, the restricted shares granted under our 2006 plan to several of our directors and executive officers and to other individuals as a group. The restricted shares granted in May 2006 vest over a two-year period beginning in March 2006. The vesting period for all other restricted shares are indicated in the notes below.

Name	Restricted Shares Granted	Date of Grant	Date of Expiration
Gregory Spanoudakis	233,000	May 30, 2006	May 29, 2016
Chengbai Zhou	23,300	May 30, 2006	May 29, 2016
Bencheng Li	23,300	May 30, 2006	May 29, 2016
Xiaohu Wang	18,640	May 30, 2006	May 29, 2016
Robert Patterson	11,650	May 30, 2006	May 29, 2016
Eight individuals as a group	23,300 ⁽¹⁾	May 30, 2006	May 29, 2016
One individual	116,500 ⁽¹⁾⁽²⁾	June 30, 2006	June 29, 2016
Hanbing Zhang	116,500 ⁽³⁾⁽⁴⁾	July 28, 2006	July 27, 2016

- (1) Each holding less than 1% of our total outstanding voting securities.
- (2) Vest over a two-year period from the date of grant.
- (3) The wife of Dr. Qu, our chairman, president and chief executive officer.
- (4) Vest over a four-year period from the date of grant

The following paragraphs describe the principal terms of our 2006 plan.

Types of Awards. We may grant the following types of awards under our 2006 plan:

- options to purchase our common shares; and
- restricted shares, which are non-transferable common shares without voting or dividend rights, subject to forfeiture upon termination of a grantee's employment or service.

Plan Administration. Our board of directors, or a committee designated by our board of directors, will administer the plan. However, with respect to awards made to our non-employee directors, the entire board of directors will administer the plan. The committee or the full board of directors, as appropriate, will determine the provisions and terms and conditions of each award grant.

Award Agreement. Awards granted are evidenced by an award agreement that sets forth the terms, conditions and limitations for each award. In addition, the award agreement also specifies whether the option constitutes an incentive share option or a non-qualifying stock option.

Eligibility. We may grant awards to employees, directors and consultants of our company or any of our related entities, which include our subsidiaries or any entities in which we hold a substantial ownership interest. However, we may grant options that are intended to qualify as incentive share options only to our employees.

Acceleration of Awards upon Corporate Transactions. The outstanding awards will accelerate upon occurrence of a change-of-control corporate transaction where the successor entity does not assume our outstanding awards. In such event, each outstanding award will become fully vested and immediately exercisable, and the transfer restrictions on the awards will be released and the repurchase or forfeiture rights will terminate immediately before the date of the change-of-control transaction.

Exercise Price and Term of Awards. In general, the plan administrator determines the exercise price of an option and sets forth the price in the award agreement. The exercise price may be a fixed or variable price related to the fair market value of our common shares. If we grant an incentive share option to an employee who, at the time of that grant, owns shares representing more than 10% of the voting power of all classes of our share capital, the exercise price cannot be less than 110% of the fair market value of our common shares on the date of that grant and the share option is exercisable for no more than five years from the date of that grant.

The term of each award shall be stated in the award agreement. The term of an award shall not exceed 10 years from the date of the grant.

Vesting Schedule. In general, the plan administrator determines, or the award agreement specifies, the vesting schedule.

PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth information with respect to the beneficial ownership of our common shares as of the date of this prospectus, by:

- each of our directors and executive officers;
- each person known to us to own beneficially more than 5.0% of our common shares; and
- each selling shareholder.

The calculations in the table below assume there are 20,970,000 common shares outstanding as of the date of this prospectus and 27,270,000 common shares outstanding immediately after the closing of this offering, assuming the underwriters do not exercise their over-allotment option.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days, including through the exercise of any option, warrant or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.

	Common shares Beneficially Owned Prior to This Offering		Common shares Being Sold in This Offering		Shares Beneficially Owned After This Offering ⁽¹⁾	
	Number	%	Number	%	Number	%
Directors and Executive Officers:						
Shawn (Xiaohua) Qu(2)	13,672,263	65.20%	—	—	13,672,263	50.14%
Arthur Chien(3)	23,300	0.11%	—	—	23,300	0.09%
Robert McDermott(4)	46,600	0.22%	—	—	46,600	0.17%
Lars-Eric Johansson(5)	46,600	0.22%	—	—	46,600	0.17%
Gregory Spanoudakis	—	—	—	—	—	—
Bing Zhu	—	—	—	—	—	—
Xiaohu Wang	—	—	—	—	—	—
Bencheng Li	—	—	—	—	—	—
Chengbai Zhou	—	—	—	—	—	—
Brian Lu	—	—	—	—	—	—
Robert Patterson	—	—	—	—	—	—
Lingjun Zhang	—	—	—	—	—	—
Guoxin Zhang	—	—	—	—	—	—
Shanglin Shi	—	—	—	—	—	—
Genmao Chen	—	—	—	—	—	—
All directors and executive officers as a group	13,788,763	65.39%	—	—	13,788,763	50.35%
Principal and Selling Shareholders:						
HSBC HAV2 (III) Limited(6)	3,583,692	17.09%	923,404	4.40%	2,660,288	9.76%
ATS Automation Tooling Systems Inc.(7)	1,864,398	8.89%	—	—	1,864,398	6.84%
JAFCO Asia Technology Fund II (Barbados) Limited(8)	1,849,647	8.82%	476,596	2.27%	1,373,051	5.04%

(1) Assumes no exercise of the underwriters' over-allotment option and no other change to the number of common shares offered by the selling shareholders and us as set forth on the cover page of this prospectus.

(2) Dr. Qu's business address is Xin Zhuang Industry Park, Changshu, Jiangsu 215562, People's Republic of China.

(3) Represents 23,300 common shares issuable upon exercise of options within 60 days of the date of this prospectus held by Mr. Chien. Mr Chien's business address is c/o Canadian Solar Inc., Xin Zhuang Industry Park, Changshu, Jiangsu 215562, People's Republic of China.

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- (4) Represents 46,600 common shares issuable upon exercise of options within 60 days of the date of this prospectus held by Mr. McDermott. Mr McDermott's business address is c/o Canadian Solar Inc., Xin Zhuang Industry Park, Changshu, Jiangsu 215562, People's Republic of China.
- (5) Represents 46,600 common shares issuable upon exercise of options within 60 days of the date of this prospectus held by Mr. Johansson. Mr Johansson's business address is c/o Canadian Solar Inc., Xin Zhuang Industry Park, Changshu, Jiangsu 215562, People's Republic of China.
- (6) HSBC HAV2 (III) Limited, a Barbados company, is a wholly-owned subsidiary of The HSBC Asian Ventures Fund 2 Limited (HAV2). The investment manager of HAV2 is a subsidiary of HSBC Holdings plc, the holding company of The HSBC Group which is listed on The Stock Exchange of Hong Kong Limited, London Stock Exchange plc, New York Stock Exchange and Societe des Bourses Francaises. The registered address for HAV2 (III) is RBTT Trust Corporation, CGI Tower Warrens, St. Michael, Barbados.
- (7) ATS Automation Tooling Systems Inc. is a company incorporated in Ontario, Canada. The registered address of ATS is 250 Royal Oak Road, Cambridge, Ontario N3H 4R6, Canada. ATS is a public company listed on the Toronto Stock Exchange.
- (8) JAFCO Asia Technology Fund II (Barbados) Limited is a company incorporated in Barbados and is a wholly-owned subsidiary of JAFCO. The shares held by JAFCO Asia Technology Fund II (Barbados) Limited were transferred from JAFCO, which acquired them through the conversion of the convertible notes. JAFCO is an exempted company organized and existing under the laws of the Cayman Islands and is wholly owned by JAFCO Asia Technology Fund II L.P., a limited partnership established in the Cayman Islands. JAFCO Asia Technology Holdings II Limited, a Cayman Islands company and a wholly-owned subsidiary of JAFCO Investment (Asia Pacific) Ltd., is the sole general partner of JAFCO Asia Technology Fund II L.P. and controls the voting and investment power over the shares owned by JATF2. JAFCO Investment (Asia Pacific) Ltd. is wholly-owned by JAFCO Co., Ltd., a public company listed on the Tokyo Stock Exchange." The address for JAFCO Asia Technology Fund II (Barbados) Limited is c/o JAFCO Investment (Asia Pacific) Limited, 6 Battery Road, #42-01, Singapore 0499909.

As of the date of this prospectus, none of our outstanding common shares are held by record holders in the United States.

None of our shareholders has different voting rights from other shareholders after the closing of this offering. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

RELATED PARTY TRANSACTIONS

Unless otherwise indicated, the share numbers in this section do not take into account any post-transaction share splits.

Issuance, Sale and Conversion of Convertible Notes

In November 2005, we issued convertible notes in the aggregate principal amount of \$8.1 million to HSBC HAV2 (III) Limited, or HSBC, and JAFCO Asia Technology Fund II, or JAFCO, pursuant to a subscription agreement. In March 2006, we issued HSBC and JAFCO convertible notes in the aggregate principal amount of \$3.65 million in March 2006 as part of a second tranche subscription and HSBC's and JAFCO's option to purchase additional convertible notes under the subscription agreement. The notes were repayable (i) on the third anniversary of their issuance date or (ii) upon the occurrence of an event of default. The notes were convertible into our common shares at the option of the note holders at any time. The notes were automatically convertible into our common shares at the then effective conversion price upon written approval by note holders holding more than 75% of the aggregate principal amount of convertible notes subscribed for by HSBC and JAFCO or upon the completion of this offering. The subscription agreement provided that our board of directors would consist of up to seven directors including one director nominated by each of the two investors. Two directors appointed one each by HSBC and JAFCO served on our board of directors from December 2005 to August 2006. They resigned in August 2006 after HSBC and JAFCO converted their convertible notes into our common shares in July 2006.

Additionally, HSBC and JAFCO agreed in the subscription agreement and convertible notes that Dr. Qu was entitled to all of our retained earnings as of February 28, 2006. In the event that our board of directors declared a dividend or distribution on our common shares prior to an initial public offering or the redemption of all of the convertible notes, we were required to make payments to HSBC and JAFCO at the same time based on their pro rata share of such payments in respect of earnings accumulated after February 28, 2006 (on an as-converted basis).

Conversion of Convertible Notes and Put Option Agreement

On July 1, 2006, HSBC and JAFCO provided notices to convert all of the outstanding convertible notes into our common shares. On that same day, all of the outstanding convertible notes were converted at a conversion price of approximately \$5.77 per share. Immediately after the conversion, the Company's outstanding common shares were immediately split on a 1 for 1.16830772 basis. Common shares issuable pursuant to the Share Incentive Plan or issuable upon the exercise of outstanding awards under the Share Incentive Plan were not affected by this share split. In connection with HSBC's and JAFCO's optional conversion of the convertible notes, Dr. Qu, our chief executive officer and controlling shareholder, entered into a put option agreement with HSBC and JAFCO whereby he granted to each of HSBC and JAFCO an option to require him to purchase all of the common shares held by HSBC and JAFCO immediately after the conversion and share split at the same conversion price of the convertible notes. Each of HSBC and JAFCO may exercise its put option: (i) at any time between March 31, 2007 to April 10, 2007 if the Company has not completed a qualified IPO, such as this offering, on or before March 31, 2007; or (ii) upon the occurrence and continuance of an event of default. In connection with the put option agreement, Dr. Qu entered into share pledging agreements with HSBC and JAFCO under which he pledged 1,912,766 and 987,234 of our common shares to HSBC and JAFCO, respectively, as continuing collateral security for his obligations under the put option agreement.

Retained Earnings

Upon the conversion of the convertible notes into our common shares, HSBC and JAFCO acknowledged and agreed that Dr. Qu's right to our retained earnings as of February 28, 2006 under the convertible notes would remain in effect. In July 2006, HSBC, JAFCO and Dr. Qu agreed that all of the rights and obligations of the parties with respect to our retained earnings as of February 28, 2006 were fully satisfied and discharged upon the completion of the following actions in July 2006: (i) the transfer to Dr. Qu

of 30,761 and 15,877 common shares from HSBC and JAFCO, respectively; and (ii) the issuance under our Share Incentive Plan of (a) 50,000 restricted shares and (b) options to purchase 20,000 common shares at an exercise price of US\$10.00 per Common Share, both with vesting periods of four years from the date of grant, to Ms. Hanbing Zhang the wife of Dr. Qu.

Investment Agreement

In connection with our issuance and sale of convertible notes, we entered into an investment agreement, dated November 30, 2005, with HSBC, JAFCO and our founder, Dr. Qu. Under the investment agreement, HSBC and JAFCO have been granted certain rights, including with respect to any proposed share transfers by Dr. Qu, including the right of first refusal to purchase such shares and the right of co-sale to sell their shares alongside the proposed share transfer. In addition, they have preemptive rights with respect to any issuance of new securities by us with certain exceptions. These rights do not apply to this offering, and the Investment Agreement will terminate automatically upon the completion of this offering.

In October 2006, ATS entered into a joinder agreement to the investment agreement with us, Dr. Qu, HSBC and JAFCO. Under the joinder agreement, ATS was granted certain rights, including with respect to any proposed share transfers by Dr. Qu, including the right of first refusal to purchase such shares and the right of co-sale to sell its shares alongside the proposed share transfer. In addition, ATS has preemptive rights with respect to any issuance of new securities by us with certain exceptions. These rights do not apply to this offering, and the joinder agreement will terminate along with the investment agreement automatically upon the completion of this offering. ATS was also granted observer status on the board of directors, which will terminate upon the completion of this offering, and would have had the right to appoint a director to serve on our board of directors if (x) this offering were not completed by March 31, 2007, and (y) HSBC were no longer our shareholder.

Registration Rights Agreements

We have granted HSBC and JAFCO customary registration rights, including demand and piggyback registration rights and Form F-3 registration rights. For a detailed description of the registration rights, see "Description of Share Capital — Registration Rights." The registration rights of HSBC and JAFCO will remain in effect after the completion of this offering.

We have also granted ATS customary registration rights, including demand and piggyback registration rights and Form F-3 registration rights. For a detailed description of the registration rights, see "Description of Share Capital — Registration Rights." The registration rights of ATS will remain in effect after the completion of this offering.

Consultancy Agreements

Prior to December 2005, we paid Dr. Qu, our chairman and chief executive officer, compensation for his services in the form of consultancy fees, on a quarterly basis, to a consulting company owned by him. The consultancy agreement was non-written and provided for consultancy fees to be paid to Dr. Qu in return for the project consulting, general management and technology services that he provided to us. We terminated the consulting agreement with Dr. Qu in November 2005. In 2003, 2004 and 2005, we paid consulting fees to Dr. Qu's consulting company in the amount of \$79,172, \$152,430 and \$172,298, respectively. As of December 31, 2005 and June 30, 2006, the consulting fees due to Dr. Qu were \$184,643 and \$192,689, respectively.

In addition, we paid consultancy fees pursuant to a non-written agreement, on a monthly basis, to a consulting company owned by Robert Patterson, our vice president of corporate and products development and general manager of Canadian operations, prior to his joining us as an officer in January 2006. Under the agreement, Mr. Patterson provided project consulting services to us, in particular in connection with our large-scale CIDA projects, for 40 hours per month with a minimum retainer of C\$2,000 per month. For additional work beyond the initial period and minimum retainer, Mr. Patterson was paid on an hourly basis. We terminated the consulting agreement with Mr. Patterson in December 2005. In 2003, 2004 and 2005, we

paid consulting fees to Mr. Patterson's consulting company in the amount of \$48,054, \$29,624 and \$60,495. As of December 31, 2005, the consulting fees due to Mr. Patterson were \$33,460. We paid all outstanding amounts in the first quarter of 2006.

Shareholder Loans

Dr. Shawn Qu, our chief executive officer and controlling shareholder, made loans to us from time to time. These loans are unsecured, interest free and have no fixed repayment term. As of December 31, 2004, 2005 and June 30, 2006, such loans amounted to \$141,359, \$213,062 and \$107,882, respectively. No such loans were outstanding as of December 31, 2003.

Guarantees and Share Pledges

As required under the subscription agreement, Dr. Qu guaranteed the performance of our obligations in connection with the convertible notes issued to HSBC and JAFCO. Dr. Qu also entered into share pledge agreements whereby he agreed to mortgage, charge and assign by way of a first legal mortgage 755,789 common shares to HSBC and 377,895 common shares to JAFCO as a continuing security for the due and punctual performance and observance by us of our obligations under the subscription agreement. The share pledges were irrevocably and unconditionally released by HSBC and JAFCO in March 2006 in connection with the second tranche subscription and per the terms of the subscription agreement.

In September 2005, Dr. Qu guaranteed the performance of our obligations in connection with a \$1.3 million promissory note that we issued to ATS in September 2005. He also entered into a share pledge agreement with ATS whereby he pledged 200,000 common shares to ATS as security for our performance of our obligations under this promissory note. The ATS promissory note is secured and interest-bearing pursuant to the underlying security agreement between us and ATS. The sum of the principal, together with interest calculated semi-annually at the interest rate published from time to time by a major Canadian chartered bank, is repayable on demand. The outstanding balances of the loan as of December 31, 2005 and June 30, 2006 were, \$1.3 million and \$1.3 million, respectively. Interest of \$21,726 and \$49,919 was paid or payable for 2005 and the first six months of 2006, respectively.

In August 2004, Dr. Shawn Qu provided a guarantee for a C\$500,000 revolving loan facility given by the Royal Bank of Canada to us for working capital purposes. As of December 31, 2005 and June 30, 2006, we did not have any outstanding obligation under this facility.

Employment Agreements

See "Management — Employment Agreements."

Equity Incentive Plan

See "Management — 2006 Equity Incentive Plan."

CHINESE GOVERNMENT REGULATIONS

This section sets forth a summary of the most significant regulations or requirements that affect our business activities in China or our shareholders' right to receive dividends and other distributions from us.

Renewable Energy Law and Other Government Directives

In February 2005, China enacted its Renewable Energy Law, which became effective on January 1, 2006. The Renewable Energy Law sets forth policies to encourage the development and use of solar energy and other non-fossil energy. The renewable energy law sets forth the national policy to encourage and support the use of solar and other renewable energy and the use of on-grid generation. It also authorizes the relevant pricing authorities to set favorable prices for the purchase of electricity generated by solar and other renewable power generation systems.

The law also sets forth the national policy to encourage the installation and use of solar energy water-heating system, solar energy heating and cooling system, solar photovoltaic system and other solar energy utilization systems. It also provides financial incentives, such as national funding, preferential loans and tax preferences for the development of renewable energy projects. In January 2006, China's National Development and Reform Commission promulgated two implementation directives of the Renewable Energy Law. These directives set forth specific measures in setting prices for electricity generated by solar and other renewable power generation systems and in sharing additional expenses occurred. The directives further allocate the administrative and supervisory authorities among different government agencies at the national and provincial levels and stipulate responsibilities of electricity grid companies and power generation companies with respect to the implementation of the renewable energy law.

China's Ministry of Construction also issued a directive in June 2005, which seeks to expand the use of solar energy in residential and commercial buildings and encourages the increased application of solar energy in different townships. In addition, China's State Council promulgated a directive in July 2005, which sets forth specific measures to conserve energy resources.

Environmental Regulations

We believe that our manufacturing processes do not generate any material levels of noise, waste water, gaseous wastes and other industrial wastes and believe that our manufacturing processes are environmentally benign. We are subject to a variety of governmental regulations related to the storage, use and disposal of hazardous materials. The major environmental regulations applicable to us include the Environmental Protection Law of the PRC, the Law of PRC on the Prevention and Control of Water Pollution, Implementation Rules of the Law of PRC on the Prevention and Control of Water Pollution, the Law of PRC on the Prevention and Control of Air Pollution, the Law of PRC on the Prevention and Control of Solid Waste Pollution, and the Law of PRC on the Prevention and Control of Noise Pollution.

Restriction on Foreign Businesses

The principal regulation governing foreign ownership of solar power businesses in the PRC is the Foreign Investment Industrial Guidance Catalogue (effective as of January 1, 2005). Under the regulation, the solar power business belongs to permitted foreign investment industry.

Tax

PRC enterprise income tax is calculated based on taxable income determined under PRC accounting principles. In accordance with "Income Tax of China for Enterprises with Foreign Investment and Foreign Enterprises," or the Income Tax Law, and the related implementing rules, foreign invested enterprises incorporated in the PRC are generally subject to an enterprise income tax at the rate of 30% on taxable income and local income tax at the rate of 3% of taxable income. The Income Tax Law and the related implementing rules provide certain favorable tax treatments to foreign invested enterprises such as a two-year exemption from enterprise income tax for their first two profitable years of operation and thereafter a 50% tax

deduction for the subsequent three years for manufacturing companies with operation terms of more than ten years.

Pursuant to the Provisional Regulation of China on Value Added Tax and their implementing rules, all entities and individuals that are engaged in the sale of goods, the provision of repairs and replacement services and the importation of goods in China are generally required to pay VAT at a rate of 17.0% of the gross sales proceeds received, less any deductible VAT already paid or borne by the taxpayer. Further, when exporting goods, the exporter is entitled to a portion of or all the refund of VAT that it has already paid or borne. Our imported raw materials that are used for manufacturing export products and are deposited in bonded warehouses are exempt from import VAT.

Foreign Currency Exchange

Foreign currency exchange regulation in China is primarily governed by the following rules:

- Foreign Currency Administration Rules (1996), as amended, or the Exchange Rules; and
- Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996), or the Administration Rules;

Currently, the Renminbi is convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions. Conversion of Renminbi for most capital account items, such as direct investment, security investment and repatriation of investment, however, is still subject to the approval of the PRC State Administration of Foreign Exchange, or SAFE.

Under the Administration Rules, foreign-invested enterprises may buy, sell and/or remit foreign currencies only at those banks authorized to conduct foreign exchange business after providing valid commercial documents and, in the case of most capital account item transactions, obtaining approval from the SAFE. Capital investments by foreign-invested enterprises outside of China are also subject to limitations, which include approvals by the Ministry of Commerce, the SAFE and the State Reform and Development Commission.

Dividend Distribution

The principal regulations governing distribution of dividends paid by wholly foreign owned enterprises include:

- Wholly Foreign Owned Enterprise Law (1986), as amended; and
- Wholly Foreign Owned Enterprise Law Implementation Rules (1990), as amended.

Under these regulations, foreign-invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign owned enterprise in China is required to set aside at least 10.0% of their after-tax profit based on PRC accounting standards each year to its general reserves until the accumulative amount of such reserves reach 50.0% of its registered capital. These reserves are not distributable as cash dividends. The board of directors of a foreign-invested enterprise has the discretion to allocate a portion of its after-tax profits to staff welfare and bonus funds, which may not be distributed to equity owners except in the event of liquidation.

DESCRIPTION OF SHARE CAPITAL

We are a Canadian corporation, and our affairs are governed by our articles of incorporation, as amended from time to time, bylaws as effective from time to time, and the *Canada Business Corporations Act*, which is referred to as the CBCA below.

As of the date of this prospectus, our authorized share capital consists of an unlimited number of common shares. As of the date of this prospectus, 20,970,000 common shares were issued and outstanding.

The following summary description of our share capital does not purport to be complete and is qualified in its entirety by reference to our articles of continuance as amended and the amended bylaws that we intend to adopt effective upon the completion of this offering. If you would like more information on our common shares, you should review our articles and bylaws, which we have filed as an exhibit to the registration statement that includes this prospectus, and the CBCA.

Common Shares

General

All of our common shares are fully paid and non-assessable. Certificates representing our common shares are issued in registered form. There are no limitations on the rights of shareholders who are not residents of Canada to hold and vote common shares.

Dividends

Holders of our common shares are entitled to receive, from funds legally available therefor, dividends when and as declared by the board of directors. The CBCA restricts the directors' ability to declare, and our ability to pay, dividends by requiring that certain solvency tests be satisfied at the time of such declaration and payment. See "— Shareholders' Rights — Sources of Dividends."

Voting Rights

Each common share is entitled to one vote on all matters upon which the common shares are entitled to vote.

Liquidation

With respect to a distribution of assets in the event of our liquidation, dissolution or winding-up, whether voluntary or involuntary, or any other distribution of our assets for the purposes of winding up our affairs, assets available for distribution among the holders of common shares shall be distributed among the holders of the common shares on a pro rata basis.

Variations of Rights of Shares

All or any of the rights attached to our common shares, or any other class of shares duly authorized may, subject to the provisions of the CBCA, be varied either with the unanimous written consent of the holders of the issued shares of that class or by a special resolution passed at a meeting of the holders of the shares of that class.

Preferred Shares

After the closing of this offering, our board of directors will have the authority, without shareholder approval, to issue an unlimited number of preferred shares in one or more series. Our board of directors may establish the number of shares to be included in each such series and may set the designations, preferences, powers and other rights of the shares of a series of preferred shares. While the issuance of preferred shares provides us with flexibility in connection with possible acquisitions or other corporate purposes, it could, among other things, have the effect of delaying, deferring or preventing a change of control transaction and

could adversely affect the market price of our common shares. We have no current plan to issue any preferred shares.

Transfer Agent and Registrar

The Bank of New York is the transfer agent and registrar for our common shares. The Bank of New York's address is 101 Barclay Street (11E), New York, New York 10286.

Shareholders' Rights

The CBCA and our articles of continuance and bylaws govern us and our relations with our shareholders. The following is a summary of certain rights of holders of our common shares under the CBCA. This summary is not intended to be complete and is qualified in its entirety by reference to our articles of continuance and bylaws.

Stated Objects or Purposes

Our articles of continuance do not contain any stated objects or purposes and do not place any limitations on the business that we may carry on.

Shareholder Meetings

We must hold an annual meeting of our shareholders at least once every year at a time and place determined by our board of directors, provided that the meeting must not be held later than 15 months after the preceding annual meeting or later than six months after the end of our preceding financial year. A meeting of our shareholders may be held at a place within Canada determined by our directors or, if determined by our directors, in New York, New York, United States of America, Los Angeles, California, United States of America, London, England, the Hong Kong Special Administrative Region of The People's Republic of China or Shanghai, The People's Republic of China.

Voting at any meeting of shareholders is by show of hands unless a poll or ballot is demanded. A poll or ballot may be demanded by the chairman of our board of directors or by any shareholder present in person or by proxy.

A special resolution is a resolution passed by not less than two-thirds of the votes cast by the shareholders entitled to vote on the resolution at a meeting at which a quorum is present. An ordinary resolution is a resolution passed by not less than a simple majority of the votes cast by the shareholders entitled to vote on the resolution at a meeting at which a quorum is present.

Notice of Meeting of Shareholders

Our bylaws provide that written notice stating the place, day and time of a shareholder meeting and the purpose for which the meeting is called, shall be delivered not less than 21 days nor more than 60 days before the date of the meeting.

Quorum

Under the CBCA, unless a corporation's bylaws provide otherwise, a quorum is present at a meeting of the shareholders, irrespective of the number of shareholders actually present at the meeting, if the holders of a majority of the shares entitled to vote at the meeting are present in person or represented by proxy. Our bylaws provide that a quorum shall be at least two shareholders entitled to vote at the meeting represented in person or by proxy and holding at least one-third of our total issued and outstanding common shares.

Record Date for Notice of Meeting of Shareholders

The directors may fix in advance a date as the record date for the determination of shareholders entitled to receive notice of a meeting of shareholders, but such record date shall not precede by more than

60 days or by less than 21 days the date on which the meeting is to be held. If no record date is fixed, the record date for the determination of shareholders entitled to receive notice of a meeting of shareholders shall be at the close of business on the day immediately preceding the day on which the notice is given or, if no notice is given, the day on which the meeting is held. If a record date is fixed, notice thereof shall be given, not less than seven days before the date so fixed by newspaper advertisement in the manner provided by the CBCA and by written notice to each stock exchange in Canada on which our shares are listed for trading.

Ability to Requisition Special Meetings of the Shareholders

The CBCA provides that the holders of not less than five percent of the issued shares of a corporation that carry the right to vote at a meeting sought to be held may give notice to the directors requiring them to call a meeting.

Shareholder Proposals

A shareholder entitled to vote at a meeting of shareholders who has held common shares with a fair market value of at least C\$2,000 for at least six months may submit to the corporation notice of a proposal and discuss at the meeting any matter in respect of which the shareholder would have been entitled to submit a proposal. A proposal may include nominations for the election of directors if the proposal is signed by one or more holders of shares representing in the aggregate not less than five percent of the shares entitled to vote at the meeting to which the proposal is to be presented. This requirement does not preclude nominations being made at a meeting of shareholders. The proposal must be submitted to the corporation at least 90 days before the anniversary date of the notice of meeting that was sent to shareholders in connection with the last annual meeting.

Vote Required for Extraordinary Transactions

Under the CBCA, certain extraordinary corporate actions are required to be approved by special resolution. Such extraordinary corporate actions include:

- amendments to articles;
- arrangements;
- amalgamations other than amalgamations involving a holding body corporate, one or more wholly owned subsidiaries and/or one or more sister corporations;
- continuances under the laws of another jurisdiction;
- voluntary dissolutions; and
- sales, leases or exchanges of all or substantially all the property of a corporation other than in the ordinary course of business.

Related Party Transactions

The CBCA does not prohibit related party transactions.

Dissent Rights

The CBCA provides that shareholders of a corporation are entitled to exercise dissent rights and demand payment of the fair value of their shares in certain circumstances. For this purpose, there is no distinction between listed and unlisted shares. Dissent rights exist when a corporation resolves to:

- amalgamate with a corporation other than a holding body corporate, one or more wholly owned subsidiaries and/or one or more sister corporations;
- amend the corporation's articles of incorporation to add, change or remove any provisions restricting the issue, transfer or ownership of shares;

- amend the corporation's articles to add, change or remove any restriction upon the business or businesses that the corporation may carry on;
- continue under the laws of another jurisdiction;
- sell, lease or exchange of all or substantially all the property of the corporation other than in the ordinary course of business; or
- carry out a going-private or squeeze-out transaction.

In addition, a court order in connection with an arrangement proposed by the corporation may permit shareholders to dissent if the arrangement is adopted.

However, a shareholder is not entitled to dissent if an amendment to the articles of incorporation is effected by a court order approving a reorganization or by a court order made in connection with an action for an oppression remedy.

Action by Written Consent

Under the CBCA, shareholders can take action by written resolution and without a meeting only if all shareholders sign the written resolution.

Directors

Number of Directors and Election

Under the CBCA the number of directors of a corporation must be specified in the corporation's articles. The articles may provide for a minimum and maximum number of directors.

Our articles of incorporation provide that the number of directors will not be less than three or more than ten. Our board of directors currently consists of five directors.

Shareholders of a corporation governed by the CBCA elect directors by ordinary resolution at each annual meeting of shareholders at which such an election is required.

Director Qualifications

Under the CBCA, at least 25% of the directors must be Canadian residents. A director must not be:

- under eighteen years of age;
- adjudicated as mentally unsound;
- a person that is not an individual; or
- a person who has the status of a bankrupt.

Removal of Directors; Staggered Term

Under the CBCA, a corporation's shareholders may remove any director before the expiration of his or her term of office and may elect any qualified person in such director's stead for the remainder of such term by ordinary resolution.

Under the CBCA, directors may be elected for a term expiring not later than the third annual meeting of shareholders following the election. If no term is specified, a director's term expires at the next annual meeting of shareholders. A director may be nominated for re-election to the board of directors at the end of the director's term.

Vacancies on the Board of Directors

Under the CBCA, vacancies that exist on the board of directors, except a vacancy resulting from an increase in the number or the minimum or maximum number of directors or a failure to elect the number or

minimum number of directors provided for in the articles, may be filled by the board if the remaining directors constitute a quorum. In the absence of a quorum, the remaining directors shall call a meeting of shareholders to fill the vacancy.

Limitation of Personal Liability of Directors and Officers

Under the CBCA, in exercising their powers and discharging their duties, directors and officers must act honestly and in good faith with a view to the best interests of the corporation and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. No provision in the corporation's articles, bylaws, resolutions or contracts can relieve a director or officer from the duty to act in accordance with the CBCA or relieve a director from liability for a breach thereof. However, a director will not be liable for breaching his or her duty to act in accordance with the CBCA if the director relied in good faith on:

- financial statements represented to him by an officer or in a written report of the auditor to present fairly the financial position of the corporation in accordance with generally accepted accounting principles; or
- a report of a person whose profession lends credibility to a statement made by such person.

Indemnification of Directors and Officers

Under the CBCA and pursuant to our bylaws, we may indemnify any present or former director or officer or an individual who acts or acted at our request as a director or officer, or an individual acting in a similar capacity, of another entity, against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by such individual in respect of any civil, criminal, administrative, investigative or other proceeding in which the individual is involved because of that association with the corporation or other entity. In order to qualify for indemnification such director or officers must:

- have acted honestly and in good faith with a view to the best interests of the corporation; and
- in the case of a criminal or administrative action or proceeding enforced by a monetary penalty, have had reasonable grounds for believing that his or her conduct was lawful.

Indemnification will be provided to an eligible director or officer who meets both these tests and was substantially successful on the merits in his or her defense of the action.

A director or officer is entitled to indemnification from us as a matter of right if he or she is not judged by the court or other competent authority to have committed any fault or omitted to do anything that the individual ought to have done and fulfilled the conditions set forth above.

Sources of Dividends

Dividends may be declared at the discretion of the board of directors. Under the CBCA, the directors may not declare, and we may not pay, pay dividends if there are reasonable grounds for believing that (i) we are, or would after such payment be unable to pay our liabilities as they become due or (ii) the realizable value of our assets would be less than the aggregate of our liabilities and of our stated capital of all classes of shares.

Amendments to the Bylaws

The directors may by resolution make, amend or repeal any bylaw unless the articles or bylaws provide otherwise. Our articles and bylaws do not restrict the power of our directors to make, amend or repeal bylaws. When the directors make, amend or repeal a bylaw, they are required under the CBCA to submit the change to the shareholders at the next meeting of shareholders. Shareholders may confirm, reject or amend the bylaw, amendment or repeal by ordinary resolution.

Interested Directors Transactions

Under the CBCA, if a director or officer has a material interest in a material contract or transaction, the director generally may not vote on any resolution to approve the contract or transaction, but the contract is not void or voidable by reason only of the relationship if such interest is disclosed in accordance with the requirements set out in the CBCA, the contract is approved by the other directors or by the shareholders and the contract was fair and reasonable to the corporation at the time it was approved.

Where a director or officer has an interest in a material contract or transaction or a proposed material contract or transaction that, in the ordinary course of the corporation's business, would not require approval by the directors or shareholders, the interested director or officer shall disclose in writing to the corporation or request to have entered in the minutes of meetings of directors, the nature and the extent of the interest forthwith after the director or officer becomes aware of the contract or transaction or proposed contract or transaction.

Committees

Under the CBCA, directors of a corporation may appoint from their number a committee of directors and delegate to such committee certain powers of the directors.

Derivative Actions

Under the CBCA, a complainant (as defined below) may apply to the court for leave to bring an action in the name of and on behalf of a corporation or any of its subsidiaries, or to intervene in an existing action to which such body corporate is a party for the purpose of prosecuting, defending or discontinuing the action. A complainant includes a present or former shareholder, a present or former officer or director of the corporation or any of its affiliates, or any other person who in the discretion of the court is a proper person to make such an application. Under the CBCA, no action may be brought and no intervention in an action may be made unless the complainant has given 14 days' notice to the directors of the corporation or its subsidiary of the complainant's intention to apply to the court. The court must be satisfied that:

- the complainant is acting in good faith; and
- it appears to be in the interests of the corporation or its subsidiary that the action be brought, prosecuted, defended or discontinued.

Under the CBCA, the court in a derivative action may make any order it thinks fit, including orders pertaining to the conduct of the action, the making of payments to former and present shareholders and payment of reasonable legal fees incurred by the complainant.

Oppression Remedy

The CBCA provides an oppression remedy that enables a court to make any order it thinks fit to rectify the matters complained of, if the court is satisfied upon application of a complainant (as defined below) that:

- any act or omission of the corporation or any of its affiliates effects a result;
- the business or affairs of the corporation or any of its affiliates are or have been conducted in a manner; or
- the powers of the directors of the corporation or any of its affiliates are or have been exercised in a manner,

that is oppressive or unfairly prejudicial to or that unfairly disregards the interests of any security holder, creditor, director or officer of the corporation.

A complainant for this purpose includes a present or former shareholder, a present or former officer or director of the corporation or any of its affiliates, the Director appointed under the CBCA and any other person who in the discretion of the court is a proper person to make such an application.

The exercise of the court's jurisdiction does not depend on a finding of a breach of such legal and equitable rights. Furthermore, the court may order a corporation to pay the interim costs of a complainant seeking an oppression remedy, but the complainant may be held accountable for such interim costs on final disposition of the complaint.

Inspection of Books and Records

Under the CBCA, shareholders and the creditors of the corporation and, their personal representatives may examine, free of charge during normal business hours:

- the articles, bylaws and all amendments thereto, of the corporation;
- the minutes and resolutions of shareholders;
- copies of all notices of directors filed under the CBCA; and
- the securities register of the corporation.

All shareholders of the corporation may request a copy of the articles, bylaws and all amendments thereto free of charge.

Exchange Controls

Canada has no system of exchange controls. There are no Canadian restrictions on the repatriation of capital or earnings of a Canadian public company to non-resident investors. There are no laws of Canada or exchange restrictions affecting the remittance of dividends or similar payments to non-resident holders of our common shares, except as described under "Taxation — Material Canadian Income Tax Considerations."

History of Securities Issuances

The following is a summary of our securities issuances during the past three years.

Common Shares

In October 2001, we issued 1,000,000 common shares to our founder, chairman, president and chief executive officer, Dr. Shawn Qu. In November 2005, we subdivided our shares such that the 1,000,000 common shares then outstanding became 5,668,421 common shares. In July 2006, in connection with the conversion of convertible notes held by HSBC and JAFCO described under "— Convertible Notes" below, we further subdivided our shares on a one to 1.168130772 basis. Immediately after the share split, Dr. Qu held 6,621,457 common shares. In October 2006, we further subdivided our shares on a one to 2.33 basis.

Convertible Notes

In November 2005, we issued convertible notes in the aggregate principal amount of \$8.1 million to HSBC and JAFCO pursuant to a subscription agreement. We issued HSBC and JAFCO convertible notes in the aggregate principal amount of \$3.65 million in March 2006 as part of a second tranche subscription and HSBC's and JAFCO's option to purchase additional convertible notes under the subscription agreement. The notes were repayable (i) on the third anniversary of their issuance date or (ii) upon the occurrence of an event of default, whichever occurs earlier. The notes were convertible into our common shares at the option of the note holders at any time. The notes were automatically convertible into our common shares at the then effective conversion price upon written approval by note holders holding more than 75% of the aggregate principal amount of convertible notes subscribed for by HSBC and JAFCO or upon the completion of this offering. The first tranche and second tranche notes of both HSBC and JAFCO were converted into our

common shares in July 2006. After the conversion and an immediate one to 1.168130772 share split in connection therewith, HSBC and JAFCO held 1,568,826 and 809,717 common shares respectively.

Registration Rights

We have granted registration rights to HSBC and JAFCO in connection with their subscription for the notes in November 2005. Set forth below is a description of the registration rights granted to HSBC and JAFCO.

Demand Registration Rights. At any time commencing six months after this offering, holders of at least 25% of the registrable securities have the right to demand that we file a registration statement covering the offer and sale of their securities. However, we are not obligated to effect any such demand registration if we have within the twelve month period preceding the demand already effected two or more demand registrations or Form F-3 or S-3 registrations. We have the right to defer the filing of a registration statement for up to 120 days if our board of directors determines in good faith that there is a valid business reason to delay the filing. We are not obligated to effect such demand registrations on more than three occasions.

Form F-3 Registration Rights. Upon our becoming eligible to use Form F-3 or S-3, holders of at least 75% of the registrable securities have the right to request that we file a registration statement under Form F-3 or S-3 if the aggregate amount of securities to be sold under the registration statement is not less than \$1.0 million. Such requests for registrations are not counted as demand registrations.

Piggyback Registration Rights. If we propose to file a registration statement with respect to an offering for our own account or for the account of any person that is not a holder of registrable securities, we must offer holders of registrable securities the opportunity to include their securities in the registration statement, other than pursuant to a registration statement on Form F-4, S-4 or S-8, or a registration statement in connection with any demand or Form F-3 registration initiated by the holder(s) of registrable securities. Such requests for registrations are not counted as demand registrations.

Expenses of Registration. We will pay all expenses relating to any demand, piggyback or Form F-3 registration, except that holders of registrable securities shall bear the expense of any underwriting discounts or commission relating to registration and sale of their shares.

In October 2006, we also granted registration rights to ATS. The registration rights granted to ATS are substantially similar as that granted to HSBC and JAFCO as described above, except that we are not obligated to effect a demand registration of ATS on more than two occasions.

SHARES ELIGIBLE FOR FUTURE SALE

The common shares being offered in this offering represent approximately 28.24% of our common shares in issue. All of the common shares sold in this offering will be freely transferable by persons other than our “affiliates” without restriction or further registration under the Securities Act. Sales or perceived sales of substantial amounts of our common shares in the public market could adversely affect prevailing market prices of our common shares. Prior to this offering, there has been no public market for our common shares, and while application has been made for the common shares to be listed on the Nasdaq Global Market, we cannot assure you that a regular trading market for our common shares will develop.

Lock-up Agreements

Each of the selling shareholders, our directors, executive officers and our other existing shareholders has agreed, subject to some exceptions, not to transfer or dispose of, directly or indirectly, any of our common shares, or any securities convertible into or exchangeable or exercisable for our common shares, for a period of 180 days after the date this prospectus becomes effective. After the expiration of the 180-day period, the common shares held by the selling shareholders, our directors, executive officers or certain of our other existing shareholders may be sold subject to the restrictions under Rule 144 under the Securities Act or by means of registered public offerings.

The 180-day restricted period is subject to adjustment under certain circumstances. If (1) during the last 17 days of the 180-day restricted period, we issue an earnings release or material news or a material event relating to us occurs; or (2) prior to the expiration of the 180-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 180-day period, the restrictions will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event, unless, with respect to the restricted period applicable to us, the selling shareholders, directors and executive officers and the other shareholders of our company, such extension is waived by the representatives on behalf of the underwriters. See “Underwriting.”

Rule 144

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this prospectus, a person who has beneficially owned “restricted securities” for at least one year would be entitled to sell in the United States, within any three-month period, a number of shares that is not more than the greater of:

- 1.0% of the number of our common shares then outstanding which will equal approximately 272,700 common shares immediately after this offering; or
- the average weekly reported trading volume of our common shares on the Nasdaq Global Market during the four calendar weeks proceeding the date on which a notice of the sale on Form 144 is filed with the SEC by such person.

Sales under Rule 144 are also subject to manner-of-sale provisions, notice requirements and the availability of current public information about us. However, these shares would remain subject to lock-up arrangements and would only become eligible for sale when the lock-up period expires. Persons who are not our affiliates may be exempt from these restrictions under Rule 144(k) discussed below.

Rule 144(k)

Under Rule 144(k), a person who is not deemed to have been our affiliate at any time during the three months preceding a sale, and who has beneficially owned the common shares proposed to be sold for at least two years from the later of the date these shares were acquired from us or from our affiliate, including the holding period of any prior owner other than an affiliate, is entitled to sell those shares in the United States immediately following this offering without complying with the manner-of-sale, public information, volume limitation or notice provisions of Rule 144. However, these shares would remain subject to lock-up arrangements and would only become eligible for sale when the lock-up period expires.

Rule 701

Beginning 90 days after the date of this prospectus, persons other than affiliates who purchased common shares under a written compensatory plan or contract may be entitled to sell such shares in the United States in reliance on Rule 701. Rule 701 permits affiliates to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144. Rule 701 further provides that non-affiliates may sell these shares in reliance on Rule 144 subject only to its manner-of-sale requirements. However, the Rule 701 shares would remain subject to lock-up arrangements and would only become eligible for sale when the lock-up period expires.

Registration Rights

Upon completion of this offering, certain holders of our common shares or their transferees will be entitled to request that we register their shares under the Securities Act, following the expiration of the lock-up agreements described above. See “Description of Share Capital — Registration Rights.”

TAXATION

The following summary of the material Canadian and United States federal tax consequences of an investment in our common shares is based upon laws and relevant interpretations thereof in effect as of the date of this prospectus, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in our common shares, such as the tax consequences under U.S., state, local and other tax laws. To the extent that the discussion relates to matters of Canadian tax law, it represents the opinion of WeirFoulds LLP, our Canadian counsel.

Material Canadian Federal Tax Considerations

General

The following summary is of the material Canadian federal tax implications applicable to a holder (a "US Holder") who acquires common shares of CSI (the "Common Shares") pursuant to this offering and who, at all relevant times, for purposes of the Income Tax Act (Canada) (the "Canadian Tax Act") (i) has not been, is not and will not be resident (or deemed resident) in Canada at any time while such US Holder has held or holds the Common Shares; (ii) holds the Common Shares as capital property; (iii) deals at arm's length with and is not affiliated with CSI; (iv) does not use or hold, and is not deemed to use or hold, the Common Shares in the course of carrying on a business in Canada; (v) did not acquire the Common Shares in respect of, in the course of or by virtue of employment with our company; (vi) is not a financial institution, specified financial institution, partnership or trust as defined in the Canadian Tax Act; (vii) is a resident of the United States for purposes of the Canada-United States Income Tax Convention (1980), as amended (the "Convention"); and (viii) has not, does not and will not have a fixed base or permanent establishment in Canada within the meaning of the Convention at any time while such US Holder has held or holds the Common Shares. Special rules, which are not addressed in this summary, may apply to a US Holder that is a "registered non-resident insurer" or "authorized foreign bank", as defined in the Canadian Tax Act, carrying on business in Canada and elsewhere.

The current published policy of the Canada Revenue Agency (the "CRA") is that certain entities (including most limited liability companies) that are treated as being fiscally transparent for United States federal income tax purposes will not qualify as residents of the United States for purposes of the Convention.

This summary is based on the current provisions of the Canadian Tax Act, and the regulations thereunder, the Convention, and counsel's understanding of the published administrative practices and policies of the CRA, all in effect as of the date of this Prospectus. This summary takes into account all specific proposals to amend the Canadian Tax Act or the regulations thereunder publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date of this prospectus. No assurances can be given that such proposed amendments will be enacted in the form proposed, or at all. This summary is not exhaustive of all potential Canadian federal tax consequences to a US Holder and does not take into account or anticipate any other changes in law or administrative practices, whether by judicial, governmental or legislative action or decision, nor does it take into account provincial, territorial or foreign tax legislation or considerations, which may differ from the Canadian federal tax considerations described herein.

TAX MATTERS ARE VERY COMPLICATED AND THE CANADIAN FEDERAL TAX CONSEQUENCES OF PURCHASING, OWNING AND DISPOSING OF COMMON SHARES WILL DEPEND ON THE SHAREHOLDER'S PARTICULAR SITUATION. THIS SUMMARY IS NOT INTENDED TO BE A COMPLETE ANALYSIS OF OR DESCRIPTION OF ALL POTENTIAL CANADIAN FEDERAL TAX CONSEQUENCES, AND SHOULD NOT BE CONSTRUED TO BE, LEGAL, BUSINESS OR TAX ADVICE DIRECTED AT ANY PARTICULAR PROSPECTIVE PURCHASER OF COMMON SHARES. ACCORDINGLY, PROSPECTIVE PURCHASERS OF COMMON SHARES SHOULD CONSULT THEIR OWN TAX ADVISORS FOR ADVICE WITH RESPECT TO THE CANADIAN FEDERAL TAX CONSEQUENCES TO THEM OF AN INVESTMENT IN COMMON SHARES BASED ON THEIR PARTICULAR CIRCUMSTANCES.

Dividends

Amounts paid or credited, or deemed under the Canadian Tax Act to be paid or credited as, on account or in lieu of payment of, or in satisfaction of, dividends to a US Holder that is a beneficial owner of Common Shares will be subject to Canadian non-resident withholding tax at the reduced rate of 15% under the Convention. This rate is further reduced to 5% in the case of a US Holder that is a beneficial owner of Common Shares and is a company for purposes of the Convention that owns at least 10% of the voting shares of CSI at the time the dividend is paid or deemed to be paid. Under the Convention, dividends paid or credited to certain religious, scientific, literary, educational or charitable organizations and certain pension organizations that are resident in the United States and that have complied with certain administrative procedures may be exempt from Canadian withholding tax.

Disposition of Our Common Shares

A US Holder will not be subject to tax under the Canadian Tax Act in respect of any capital gain realized on the disposition or deemed disposition of the Common Shares unless, at the time of disposition, the Common Shares constitute “taxable Canadian property” of the US Holder for the purposes of the Canadian Tax Act. The Common Shares will not constitute “taxable Canadian property” to a US Holder provided that (i) the Common Shares are, at the time of disposition, listed on a prescribed stock exchange for purposes of the Canadian Tax Act (which currently includes Nasdaq); and (ii) at no time during the 60-month period immediately preceding the disposition of the Common Shares did the US Holder, persons with whom the US Holder did not deal at arm’s length, or the US Holder together with such persons, own 25% or more of the issued shares of any class or series of the capital stock of CSI. Provided the Common Shares are listed on Nasdaq or another prescribed stock exchange at the time of a disposition thereof, the preclearance provisions of the Canadian Tax Act will not apply to the disposition.

Pursuant to the Convention, even if the Common Shares constitute “taxable Canadian property” of a particular US Holder, any capital gain realized on the disposition of the Common Shares by the US Holder generally will be exempt from tax under the Canadian Tax Act, unless, at the time of disposition, the Common Shares derive their value principally from real property situated in Canada within the meaning of the Convention.

United States Federal Taxation

The following discussion describes the material U.S. federal income and estate tax consequences to U.S. Holders (defined below) under present law of an investment in our common shares. This summary applies only to investors that hold our common shares as capital assets and that have the U.S. dollar as their functional currency. This discussion is based on the tax laws of the United States as in effect on the date of this prospectus and on U.S. Treasury regulations in effect or, in some cases, proposed, as of the date of this prospectus, as well as judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below.

The following discussion does not deal with the tax consequences to any particular investor or to persons in special tax situations such as:

- banks;
- certain financial institutions;
- insurance companies;
- broker dealers;
- U.S. expatriates
- traders that elect to mark to market;
- tax-exempt entities;

- persons liable for alternative minimum tax;
- persons holding a common share as part of a straddle, hedging, conversion or integrated transaction;
- persons that actually or constructively own 10.0% or more of our voting stock;
- persons who acquired common shares pursuant to the exercise of any employee share option or otherwise as consideration; or
- persons holding common shares through partnerships or other pass-through entities.

PROSPECTIVE PURCHASERS ARE URGED TO CONSULT THEIR TAX ADVISORS ABOUT THE APPLICATION OF THE U.S. FEDERAL TAX RULES TO THEIR PARTICULAR CIRCUMSTANCES AS WELL AS THE STATE AND LOCAL AND FOREIGN TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF COMMON SHARES.

The discussion below of the U.S. federal income tax consequences to “U.S. Holders” will apply if you are a beneficial owner of common shares and you are, for U.S. federal income tax purposes,

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) organized under the laws of the United States, any State or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- a trust that (1) is subject to the supervision of a court within the United States and the control of one or more U.S. persons or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If you are a partner in partnership or other entity taxable as a partnership that holds common shares, your tax treatment will depend on your status and the activities of the partnership.

Taxation of Dividends and Other Distributions on the Common shares

Subject to the passive foreign investment company rules discussed below, the gross amount of all our distributions to you with respect to the common shares (including any Canadian Taxes withheld therefrom) will be included in your gross income as foreign source ordinary dividend income on the date of receipt by you, but only to the extent that the distribution is paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). To the extent that the amount of the distribution exceeds our current and accumulated earnings and profits, it will be treated first as a tax-free return of your tax basis in your common shares, and to the extent the amount of the distribution exceeds your tax basis, the excess will be taxed as capital gain. We do not intend to calculate our earnings and profits under U.S. federal income tax principles. Therefore, a U.S. Holder should expect that a distribution will be treated as a dividend. The dividends will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other U.S. corporations.

With respect to non-corporate U.S. Holders including individual U.S. Holders, for taxable years beginning before January 1, 2011, dividends may constitute “qualified dividend income” that is taxed at the lower applicable capital gains rate provided that (1) the common shares are readily tradable on an established securities market in the United States, (2) we are not a passive foreign investment company (as discussed below) for either our taxable year in which the dividend was paid or the preceding taxable year, (3) certain holding period requirements are met and (4) you are not under an obligation to make related payments with respect to positions in substantially similar or related property. Under Internal Revenue Service authority, common shares are considered for the purpose of clause (1) above to be readily tradable on an established securities market in the United States if they are listed on the Nasdaq Global Market, as our common shares

are expected to be. You should consult your tax advisors regarding the availability of the lower rate for dividends paid with respect to our common shares.

Subject to certain limitations, Canadian taxes withheld from a distribution will be eligible for credit against your U.S. federal income tax liability. If a refund of the tax withheld is available to you under the laws of Canada or under the Canada-United States Income Tax Convention (1980), the amount of tax withheld that is refundable will not be eligible for such credit against your U.S. federal income tax liability (and will not be eligible for the deduction against your U.S. federal taxable income). If the dividends are qualified dividend income (as discussed above), the amount of the dividend taken into account for purposes of calculating the foreign tax credit limitation will in general be limited to the gross amount of the dividend, multiplied by the reduced rate divided by the highest rate of tax normally applicable to dividends. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by us with respect to common shares should constitute "passive income." For taxable years beginning after December 31, 2006, dividends distributed by us with respect to common shares generally will constitute "passive category income" but could, in the case of certain U.S. Holders, constitute "general category income." The rules relating to the determination of the U.S. foreign tax credit are complex and U.S. Holders should consult their tax advisors to determine whether and to what extent a credit would be available. If you do not elect to claim a foreign tax credit with respect to any foreign taxes for a given taxable year, you may instead claim an itemized deduction for all foreign taxes paid in that taxable year.

Taxation of Disposition of Shares

Subject to the passive foreign investment company rules discussed below, you will recognize taxable gain or loss on any sale, exchange or other taxable disposition of a common share equal to the difference between the amount realized for the common share and your tax basis in the common share. The gain or loss will be capital gain or loss. If you are a non-corporate U.S. Holder, including an individual U.S. Holder, who has held the common share for more than one year, you will be eligible for reduced tax rates. The deductibility of capital losses is subject to limitations. Any such gain or loss that you recognize will be treated as U.S. source income or loss for foreign tax credit limitation purposes, subject to certain exceptions and limitations.

Passive Foreign Investment Company

We do not expect to be a passive foreign investment company ("PFIC"), for U.S. federal income tax purposes for our current taxable year ending December 31, 2006, and we expect to operate in such a manner so as not to become a PFIC in future taxable years. Our expectation for our current taxable year is based in part on our estimates of the value of our assets as determined based on the price of our common shares in this offering and the expected price of our common shares following the offering. However, our actual PFIC status for any taxable year will not be determinable until the close of such year, and, accordingly, there is no guarantee that we will not be a PFIC for the current taxable year or any future taxable year. A non-U.S. corporation is considered to be a PFIC for any taxable year if either:

- at least 75% of its gross income is passive income (the "income test"), or
- at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income (the "asset test").

We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, more than 25% (by value) of the stock.

We must make a separate determination each year as to whether we are a PFIC. As a result, our PFIC status may change. In particular, because the total value of our assets for purposes of the asset test will be calculated using the market price of our common shares (assuming that we are a publicly traded corporation

for purposes of the applicable PFIC rules), our PFIC status will depend in large part on the market price of our common shares which is likely to fluctuate after the offering (and may fluctuate considerably given that market prices of technology companies have been especially volatile). Accordingly, fluctuations in the market price of our common shares may result in our being a PFIC for any year. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the cash we raise in this offering. If we are a PFIC for any year during which you hold common shares, we will continue to be treated as a PFIC for all succeeding years during which you hold common shares unless we cease to be a PFIC and you take certain action to purge the PFIC taint with respect to your common shares. In particular, if we cease to be a PFIC, you may avoid some of the adverse effects of the PFIC regime by making a deemed sale election with respect to the common shares.

If we are a PFIC for any taxable year during which you hold common shares, you will be subject to special tax rules with respect to any “excess distribution” that you receive and any gain you realize from a sale or other disposition (including a pledge) of the common shares, unless you make a “mark-to-market” election as discussed below. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for the common shares will be treated as an excess distribution. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the common shares,
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we became a PFIC, will be treated as ordinary income, and
- the amount allocated to each other year will be subject to the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to years prior to the year of disposition or “excess distribution” cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of the common shares cannot be treated as capital, even if you hold the common shares as capital assets.

We do not intend to prepare or provide the information that would enable you to make a qualified electing fund election.

Alternatively, a U.S. Holder of “marketable stock” (as defined below) in a PFIC may make a mark-to-market election with respect to shares of a PFIC to elect out of the tax treatment discussed above. If you make a valid mark-to-market election for the common shares, you will include in income each year an amount equal to the excess, if any, of the fair market value of the common shares as of the close of your taxable year over your adjusted basis in such common shares. You are allowed a deduction for the excess, if any, of the adjusted basis of the common shares over their fair market value as of the close of the taxable year. However, deductions are allowable only to the extent of any net mark-to-market gains on the common shares included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as gain on the actual sale or other disposition of the common shares, are treated as ordinary income. Ordinary loss treatment also applies to the deductible portion of any mark-to-market loss on the common shares, as well as to any loss realized on the actual sale or disposition of the common shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such common shares. Your basis in the common shares will be adjusted to reflect any such income or loss amounts. If you make such an election, the tax rules that ordinarily apply to distributions by corporations that are not PFICs would apply to distributions by us, except that the lower applicable gains rate would not apply.

The mark-to-market election is available only for “marketable stock,” which is stock that is traded in other than de minimis quantities on at least 15 days during each calendar quarter on a qualified exchange, including the Nasdaq Global Market, or other market, as defined in applicable U.S. Treasury regulations. We expect that our common shares will be listed on the Nasdaq Global Market and, consequently, if you are a holder of common shares the mark-to-market election would be available to you were we to be a PFIC.

If you hold common shares in any year in which we are a PFIC, you will be required to file Internal Revenue Service Form 8621 regarding distributions received on the common shares and any gain realized on the disposition of the common shares.

You are urged to consult your tax advisor regarding the application of the PFIC rules to your investment in common shares.

Estate Tax

An individual shareholder or resident of the United States for U.S. federal estate tax purposes will have the value of the common shares held by such holder included in his or her gross estate for U.S. federal estate tax purposes. An individual holder who actually pays estate tax with respect to the common shares will, however, be entitled to credit the amount of such tax against his or her U.S. federal tax liability, subject to a number of conditions and limitations.

Information Reporting and Backup Withholding

Dividend payments with respect to common shares and proceeds from the sale, exchange or redemption of common shares may be subject to information reporting to the Internal Revenue Service and possible U.S. backup withholding at a current rate of 28%. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status may provide such certification on Internal Revenue Service Form W-9. U.S. Holders should consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information.

UNDERWRITING

General

Under the underwriting agreement, which is filed as an exhibit to the registration statement relating to this prospectus, each of the underwriters named below, for whom Deutsche Bank Securities Inc. and Lehman Brothers Inc. are acting as representatives, has severally agreed to purchase from us and the selling shareholders the number of common shares shown opposite its name below:

Underwriter	Number of Common Shares
Deutsche Bank Securities Inc.	
Lehman Brothers Inc.	
CIBC World Markets Corp.	
Piper Jaffray & Co.	
Total	_____

The underwriting agreement provides that the underwriters' obligations to purchase common shares depend on the satisfaction of the conditions contained in the underwriting agreement, including:

- the obligation to purchase all of the common shares hereby (other than those common shares covered by the option to purchase additional shares as described below), if any of the common shares are purchased;
- the representations and warranties made by us and the selling shareholders to the underwriters are true;
- there is no material change in the financial markets; and
- we deliver customary closing documents to the underwriters.

Option to Purchase Additional Shares

We and the selling shareholders have granted to the underwriters an option to purchase up to 1,155,000 additional common shares, exercisable in the event the underwriters sell more than 7,700,000 common shares in connection with this offering, at the public offering price less the underwriting discount shown on the cover page of this prospectus. The underwriters may exercise this option at any time, and from time to time, until 30 days after the date of the underwriting agreement. To the extent the underwriters exercise this option, each underwriter will be committed, so long as the conditions of the underwriting agreement are satisfied, to purchase a number of additional common shares proportionate to that underwriter's initial commitment as indicated in the preceding table, and we and the selling shareholders will be obligated to sell the additional common shares to the underwriters.

Commissions and Expenses

The following table summarizes the underwriting discounts and commissions that we and the selling shareholders will pay to the underwriters. The amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares. The underwriting fee is the difference between the public offering price and the amount the underwriters pay to purchase the common shares from us and the selling shareholders.

	Per Common Share	Total	
		No Exercise	Full Exercise
Paid by us	US\$	US\$	US\$
Paid by selling shareholders	US\$	US\$	US\$

The representatives have advised us that the underwriters propose to offer the common shares directly to the public at the public offering price presented on the cover page of this prospectus and to selected dealers, who may include the underwriters, at the public offering price less a selling concession not in excess of \$ _____ per common share. After the offering, the representatives may change the offering price and other selling terms.

Lock-up Agreements

We, the selling shareholders, all of our directors and executive officers, and the other shareholders of our company have agreed that, without the prior written consent of Deutsche Bank Securities Inc. and Lehman Brothers Inc., other than the common shares sold in this offering, we and they will not, directly or indirectly, (1) offer for sale, sell, pledge or otherwise dispose of (or enter into any transaction or device that is designed to, or could be expected to, result in the disposition by any person at any time in the future of) any of our common shares (including without limitation, common shares that may be deemed to be beneficially owned by such persons in accordance with the rules and regulations of the Securities and Exchange Commission and common shares that may be issued upon exercise of any options or warrants) or securities convertible into or exercisable or exchangeable for any of our common shares, (2) enter into any swap or other derivative transaction that transfers to another, in whole or in part, any of the economic consequences of ownership of our common shares, (3) make any demand for or exercise any right or file or cause to be filed a registration statement, including any amendments thereto, with respect to the registration of any of our common shares or securities convertible, exercisable or exchangeable into our common shares or any of our other securities or (4) publicly disclose the intention to do any of the foregoing for a period of 180 days from the date of this prospectus. The foregoing restrictions will not apply to any of the common shares to be sold in this offering. In addition, in respect of ATS, the foregoing restrictions will not apply to (i) transfers to ATS's affiliates or to Photowatt Technologies Inc. or its affiliates, (ii) any of our common shares acquired in the open market or (iii) participation in any tender offer involving our common shares.

The 180-day restricted period described in the preceding paragraph will be extended if (i) during the last 17 days of the 180-day restricted period, we issue an earnings release or material news or a material event relating to us occurs or (ii) prior to the expiration of the 180-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 180-day period, in which case the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release, the announcement of the material news or the occurrence of a material event, unless such extension is waived by Deutsche Bank Securities Inc. and Lehman Brothers Inc.

Deutsche Bank Securities Inc. and Lehman Brothers Inc., in their sole discretion, may release the common shares and other securities subject to the lock-up agreements described above in whole or in part at any time with or without notice. When determining whether or not to release the common shares or other securities from the lock-up agreements, Deutsche Bank Securities Inc. and Lehman Brothers Inc. will consider, among other factors, the holder's reasons for requesting the release, the number of common shares or other securities for which the release is being requested and market conditions at the time.

Offering Price Determination

Prior to this offering, there has been no public market for our common shares. The initial public offering price will be negotiated between the representatives and us and the selling shareholders. In determining the initial public offering price of our common shares, the representatives will consider:

- the history and prospects for the industry in which we compete;
- our financial information;
- the ability of our management and our business potential and earning prospects;
- the prevailing securities markets at the time of this offering; and

- the recent market prices of, and the demand for, publicly traded shares of generally comparable companies.

Indemnification

We and the selling shareholders have agreed to indemnify the underwriters against liabilities relating to the offering, including liabilities under the Securities Act and liabilities incurred in connection with the directed share program referred to below, and to contribute to payments that the underwriters may be required to make for these liabilities.

Stabilization, Short Positions and Penalty Bids

The representatives may engage in stabilizing transactions, short sales and purchases to cover positions created by short sales, and penalty bids or purchases for the purpose of pegging, fixing or maintaining the price of our common shares, in accordance with Regulation M under the Exchange Act of 1934:

- Stabilizing transactions permit bids to purchase common shares so long as the stabilizing bids do not exceed a specified maximum.
- A short position involves a sale by the underwriters of common in excess of the number of common shares the underwriters are obligated to purchase in the offering, which creates the syndicate short position. This short position may be either a covered short position or a naked short position. In a covered short position, the number of common shares involved in the sales made by the underwriters in excess of the numbers of common shares they are obligated to purchase is not greater than the number of common shares that they may purchase by exercising their option to purchase additional shares. In a naked short position, the number of common shares involved is greater than the number of common shares in their option to purchase additional shares. The underwriters may close out any short position by either exercising their option to purchase additional shares and/or purchasing common shares in the open market. In determining the source of common shares to close out the short position, the underwriters will consider, among other things, the price of common shares available for purchase in the open market as compared to the price at which they may purchase common shares through their option to purchase additional shares. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the common shares in the open market after pricing that could adversely affect investors who purchase in the offering.
- Syndicate covering transactions involve purchases of our common shares in the open market after the distribution has been completed in order to cover syndicate short positions.
- Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the common shares originally sold by the syndicate member are purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common shares or preventing or retarding a decline in the market price of our common shares. As a result, the price of common shares may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the Nasdaq Global Market or otherwise and, if commenced, may be discontinued at any time.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our common shares. In addition, neither we nor any of the underwriters make any representation that the representatives will engage in these stabilizing transactions or that any transaction, once commenced, will not be discontinued without notice.

Stamp Taxes

If you purchase the common shares offered in this prospectus, you may be required to pay stamp taxes and other charges under the laws and practices of the country of purchase, in addition to the offering price listed on the cover page of this prospectus.

Directed Share Program

At our request, the underwriters have reserved for sale at the initial public offering price up to 385,000 common shares offered hereby for officers, directors, employees and certain other persons associated with us. The number of common shares available for sale to the general public will be reduced to the extent such persons purchase such reserved common shares. Any reserved common shares not so purchased will be offered by the underwriters to the general public on the same basis as the other common shares offered hereby.

Electronic Distribution

A prospectus in electronic format may be made available on the Internet sites or through other online services maintained by one or more of the underwriters and/or selling group members participating in this offering, or by their affiliates. In those cases, prospective investors may view offering terms online and, depending upon the particular underwriter or selling group member, prospective investors may be allowed to place orders online. The underwriters may agree with us to allocate a specific number of common shares for sale to online brokerage account holders. Any such allocation for online distributions will be made by the representatives on the same basis as other allocations.

Other than the prospectus in electronic format, the information or any underwriter's website and any information contained in any other web site maintained by an underwriter or selling group member is not part of this prospectus or the registration statement of which this prospectus forms a part, has not been approved and/or endorsed by us or any underwriter or selling group member in its capacity as underwriter or selling group member and should not be relied on by investors in deciding whether to purchase any common shares.

Nasdaq Global Market

We have applied to list our common shares on the Nasdaq Global Market under the symbol "CSIQ."

Discretionary Sales

The underwriters have informed us that they do not intend to confirm sales to accounts over which they exercise discretionary authority in excess of 5% of the total number of common shares offered by them.

Relationships

The underwriters have performed and may in the future perform investment banking and advisory services for us from time to time for which they have received or may in the future receive customary fees and expenses. The underwriters may, from time to time, engage in transactions with or perform services for us in the ordinary course of their business.

Foreign Securities Laws Restrictions

The common shares have not been and will not be qualified for sale to the public under applicable Canadian securities laws. The common shares may not be offered or sold, and the underwriters have agreed not to offer or sell the common shares, directly or indirectly, in Canada or to or for the benefit of any person in Canada, except in compliance with applicable Canadian securities laws. Any resale of the common shares in Canada, or to or by residents of Canada, must be made in accordance with, or pursuant to an exemption from, the registration and prospectus requirements of applicable Canadian securities laws and will be subject to restrictions on resale under these laws.

Prior to the expiry of a period of six months from the closing date of this offering, no common shares may be offered or sold, as the case may be, to persons in the United Kingdom, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, as amended, or the Regulations. Any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000, or FSMA) received in connection with the issue or sale of any common shares may only be communicated or caused to be communicated in circumstances in which section 21(1) of the FSMA, does not apply to us. All applicable provisions of the Regulations and of the FSMA with respect to anything done in relation to the common shares in, from or otherwise involving the United Kingdom must be complied with.

The common shares have not been and will not be registered under the Securities and Exchange Law of Japan and may not be offered or sold, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan or to, or for the account or benefit of, any person for reoffering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan, except (1) pursuant to an exemption from the registration requirements of, or otherwise in compliance with, the Securities and Exchange Law of Japan and (2) in compliance with any other relevant laws and regulations of Japan.

The common shares may not be offered or sold, and will not be offered or sold in Hong Kong, by means of any document, other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong. No advertisement, invitation or document relating to the common shares, whether in Hong Kong or elsewhere, may be issued, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the common shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the common shares may not be circulated or distributed, nor may the common shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the Securities and Futures Act or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive, with effect from and including the date on which the Prospectus Directive is implemented in that Member State the underwriters have not made and may not make an offer of common shares to the public in that Member State, except that the underwriters may, with effect from and including such date, make an offer of common shares to the public in that Member State:

- at any time to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

- at any time in any other circumstances which do not require the publication by us of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of the above, the expression an “offer of common shares to the public” in relation to any common shares in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the common shares to be offered so as to enable an investor to decide to purchase or subscribe the common shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in that Member State.

Any common shares that are offered, as part of their initial distribution or by way of re-offering, in The Netherlands shall, in order to comply with the Netherlands Securities Market Supervision Act 1995, only be offered, and such an offer shall only be announced in writing (whether electronically or otherwise), to individuals or legal entities in The Netherlands who or which trade or invest in securities in the conduct of a business or profession (which includes banks, securities intermediaries (including dealers and brokers), insurance companies, pension funds, collective investment institutions, central governments, large international and supranational organizations, other institutional investors and other parties, including treasury departments of commercial enterprises, which as an ancillary activity regularly invest in securities) (together, “Professional Investors”), provided that in the offer and in any documents or advertisements in which a forthcoming offering of common shares is publicly announced (whether electronically or otherwise) it is stated that such offer is and will be exclusively made to such Professional Investors.

The offering of the common shares has not been registered with the Commissione Nazionale per le Società e la Borsa or “CONSOB,” in accordance with Italian securities legislation. Accordingly, the common shares may not be offered, sold or delivered, and copies of this prospectus or any other document relating to the common shares may not be distributed in Italy except to Professional Investors, as defined in Art. 31.2 of CONSOB Regulation no. 11522 of July 1, 1998, as amended, pursuant to Art. 30.2 and Art. 100 of Legislative Decree no. 58 of February 24, 1998 (or the Finance Law) or in any other circumstance where an express exemption to comply with the solicitation restrictions provided by the Finance Law or CONSOB Regulation no. 11971 of May 14, 1999, as amended (or the Issuers Regulation) applies, including those provided for under Art. 100 of the Finance Law and Art. 33 of the Issuers Regulation, and, provided, however, that any such offer, sale, or delivery of the common shares or distribution of copies of this prospectus or any other document relating to the common shares in Italy must (i) be made in accordance with all applicable Italian laws and regulations, (ii) be made in compliance with Article 129 of Legislative Decree no. 385 of September 1, 1993, as amended (or the Banking Law Consolidated Act) and the implementing guidelines of the Bank of Italy (Istruzioni di Vigilanza per le banche) pursuant to which the issue, trading or placement of securities in the Republic of Italy is subject to prior notification to the Bank of Italy, unless an exemption applies depending, inter alia, on the amount of the issue and the characteristics of the securities, (iii) be conducted in accordance with any relevant limitations or procedural requirements the Bank of Italy or CONSOB may impose upon the offer or sale of the securities, and (iv) be made only by (a) banks, investment firms or financial companies enrolled in the special register provided for in Article 107 of the Banking Law Consolidated Act, to the extent duly authorized to engage in the placement and/or underwriting of financial instruments in Italy in accordance with the Banking Law Consolidated Act and the relevant implementing regulations; or by (b) foreign banks or financial institutions (the controlling shareholding of which is owned by one or more banks located in the same EU Member State) authorized to place and distribute securities in the Republic of Italy pursuant to Articles 15, 16 and 18 of the Banking Law Consolidated Act, in each case acting in compliance with every applicable law and regulation.

This prospectus does not constitute a public offer of the common shares, whether by way of sale or subscription, in the People's Republic of China. The common shares may not be offered or sold, directly or indirectly, in the People's Republic of China. For the purposes of this paragraph, the People's Republic of China excludes Hong Kong, Macau and Taiwan.

No action may be taken in any jurisdiction other than the United States that would permit a public offering of the common shares or the possession, circulation or distribution of this prospectus in any jurisdiction where action for that purpose is required. The common shares may not be offered or sold, directly or indirectly, and neither this prospectus nor any other offering material or advertisements in connection with the common shares may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

EXPENSES RELATED TO THIS OFFERING

Set forth below is an itemization of the total expenses, excluding underwriting discounts and commissions, which are expected to be incurred in connection with the offer and sale of common shares by us and the selling shareholders. With the exception of the SEC registration fee and the National Association of Securities Dealers, Inc. filing fee, all amounts are estimates.

SEC registration fee	\$ 14,213
Nasdaq Global Market listing fee	100,000
National Association of Securities Dealers, Inc. filing fee	13,783
Printing and engraving expenses	210,000
Legal fees and expenses	1,600,000
Accounting fees and expenses	1,660,000
Tax advisory fees	310,000
Miscellaneous	750,000
Total	\$4,657,996

LEGAL MATTERS

Certain legal matters as to the United States federal and New York law in connection with this offering will be passed upon for us by Latham & Watkins LLP. Certain legal matters as to the United States federal and New York law in connection with this offering will be passed upon for the underwriters by Simpson Thacher & Bartlett LLP. The validity of the common shares offered in this offering and certain other legal matters as to Canadian law will be passed upon for us by WeirFoulds LLP. Certain legal matters as to Canadian law will be passed upon for the underwriters by Davies Ward Phillips & Vineberg LLP. Legal matters as to PRC law will be passed upon for us by Chen & Co. Law Firm and for the underwriters by Haiwen & Partners. Latham & Watkins LLP may rely upon WeirFoulds LLP with respect to matters governed by Canadian law and Chen & Co. Law Firm with respect to matters governed by PRC law. Simpson Thacher & Bartlett LLP may rely upon Davies Ward Phillips & Vineberg LLP with respect to matters governed by Canadian law and Haiwen & Partners with respect to matters governed by PRC law.

EXPERTS

The financial statements as of December 31, 2005, 2004 and 2003 and June 30, 2006, and for each of the three years in the period ended December 31, 2005 and for the six month period ended June 30, 2006, included in this prospectus and the related financial statement schedules included elsewhere in the registration statement have been audited by Deloitte Touche Tohmatsu CPA Ltd., an independent registered public accounting firm, as stated in their reports appearing herein, and have been so included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

The offices of Deloitte Touche Tohmatsu CPA Ltd. are located at 30/F Bund Center, 222 Yan An Road East, Shanghai 200002, People's Republic of China.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form F-1, including relevant exhibits and schedules under the Securities Act with respect to the common shares, to be sold in this offering. This prospectus, which constitutes a part of the registration statement, does not contain all of the information contained in the registration statement. You should read the registration statement and its exhibits and schedules for further information with respect to us and our common shares.

Immediately upon completion of this offering, we will become subject to periodic reporting and other informational requirements of the Exchange Act as applicable to foreign private issuers. Accordingly, we will be required to file reports, including annual reports on Form 20-F, and other information with the SEC. All information filed with the SEC can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You can request copies of these documents upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms. Additional information may also be obtained over the Internet at the SEC's website at www.sec.gov.

As a foreign private issuer, we are exempt under the Exchange Act from, among other things, the rules prescribing the furnishing and content of proxy statements, and our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we will not be required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we intend to publish our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP.

CANADIAN SOLAR INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder of
Canadian Solar Inc.:

We have audited the accompanying consolidated balance sheets of Canadian Solar Inc. and its subsidiaries (the "Company") as of December 31, 2003, 2004 and 2005 and June 30, 2006, and the related consolidated statements of operations, stockholder's equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2005, and the six-month period ended June 30, 2006, and related financial schedule included in Schedule 1. These financial statements and related financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and related financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2003, 2004 and 2005 and June 30, 2006 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 and the six-month period ended June 30, 2006 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all respects, the information set forth therein.

/s/ Deloitte Touche Tohmatsu CPA Ltd.

Shanghai, China

October 23, 2006

CANADIAN SOLAR INC.

CONSOLIDATED BALANCE SHEETS (In U.S. dollars)

	<u>December 31, 2003</u>	<u>December 31, 2004</u>	<u>December 31, 2005</u>	<u>June 30, 2006</u>	<u>June 30, 2006</u> (Pro Forma) (unaudited) (note 2)
	\$	\$	\$	\$	\$
ASSETS					
Current assets:					
Cash and cash equivalents	1,879,083	2,058,679	6,279,795	10,681,975	
Restricted cash	26,581	26,581	111,785	759,216	
Accounts receivable, net of allowance for doubtful accounts of \$93,178, \$117,685, \$117,685 and \$Nil on December 31, 2003, December 31, 2004, December 31, 2005 and June 30, 2006	257,114	635,679	2,067,162	6,134,414	
Inventories	312,960	2,397,477	12,162,588	26,398,480	
Value added tax recoverable	142,312	21,602	814,808	1,272,415	
Advances to suppliers	80,827	370,257	4,739,592	9,114,504	
Other current assets	76,118	95,279	163,178	428,848	
Deferred tax assets	19,573	55,200	93,932	404,352	
Total current assets	2,794,568	5,660,754	26,432,840	55,194,204	
Property, plant and equipment, net	243,560	453,044	931,958	1,238,785	
Intangible assets	—	—	—	30,892	
Deferred Listing expenses	—	—	—	830,061	
Deferred tax assets (non-current)	15,349	31,194	65,219	211,255	
TOTAL ASSETS	<u>3,053,477</u>	<u>6,144,992</u>	<u>27,430,017</u>	<u>57,505,197</u>	
LIABILITIES AND STOCKHOLDER'S EQUITY					
Current liabilities:					
Short-term borrowing	—	—	1,300,000	14,298,023	14,298,023
Accounts payable	426,461	823,645	4,305,911	7,577,848	7,577,848
Other payable	398,268	302,421	891,859	779,874	779,874
Advances from suppliers and customers	17,602	273,231	2,822,917	7,320,585	7,320,585
Accrued payroll and welfare	24,769	147,726	199,128	250,215	250,215
Income tax payable	118,926	407,358	913,962	659,160	659,160
Other tax payable	122,100	493,853	551,690	822,666	822,666
Amounts due to related parties	93,043	189,423	431,164	300,571	300,571
Deferred tax liabilities	—	55,716	59,383	5,339	5,339
Embedded derivatives related to convertible notes	—	—	3,679,000	1,000	—
Other current liabilities	—	62,665	212,149	869,547	869,547
Total current liabilities	1,201,169	2,756,038	15,367,163	32,884,828	32,883,828
Accrued warranty costs	78,896	166,581	341,032	590,277	590,277
Convertible notes	—	—	3,386,671	8,827,567	—
Financial instruments related to convertible notes	—	—	1,107,084	—	—
Other non-current liabilities (Note 13)	260,987	260,987	260,987	260,987	260,987
Deferred tax liabilities (non-current)	—	—	—	1,359,708	26,060
Total liabilities	1,541,052	3,183,606	20,462,937	43,923,367	33,761,152
Commitments and contingencies (Note 13)					
Common shares — no par value: unlimited authorized shares, 15,427,995 shares issued and outstanding, as of December 31, 2003, 2004 and 2005 and June 30, 2006; 20,970,000 shares issued and outstanding on a pro forma basis, as of December 31, 2005 and June 30, 2006	210,843	210,843	210,843	210,843	10,373,058
Additional paid-in capital	—	—	—	11,005,094	11,005,094
Retained earnings	1,386,548	2,843,214	6,647,167	2,083,236	2,083,236
Accumulated other comprehensive income (loss)	(84,966)	(92,671)	109,070	282,657	282,657
Total stockholder's equity	1,512,425	2,961,386	6,967,080	13,581,830	23,744,045
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	<u>3,053,477</u>	<u>6,144,992</u>	<u>27,430,017</u>	<u>57,505,197</u>	<u>57,505,197</u>

See notes to financial statements.

CANADIAN SOLAR INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In U.S. dollars)

	Year ended December 31, 2003	Year ended December 31, 2004	Year ended December 31, 2005	Six months ended June 30, 2005	Six months ended June 30, 2006
	\$	\$	\$	\$ (Unaudited)	\$
Net revenues:					
Products	4,008,432	8,941,219	17,895,383	6,553,658	25,973,221
Others	104,743	743,601	428,417	428,417	67,834
Total net revenues	4,113,175	9,684,820	18,323,800	6,982,075	26,041,055
Cost of revenues:					
Products	2,252,571	5,893,669	10,885,165	3,594,770	18,555,530
Others	119,743	571,522	325,713	325,713	67,834
Total cost of revenues	2,372,314	6,465,191	11,210,878	3,920,483	18,623,364
Gross profit	1,740,861	3,219,629	7,112,922	3,061,592	7,417,691
Selling expenses	38,792	268,994	157,763	67,135	528,544
General and administrative expenses	1,039,022	1,069,470	1,707,674	761,465	1,750,199
Research and development expenses	19,780	40,623	16,381	8,090	44,440
Total operating expenses	1,097,594	1,379,087	1,881,818	836,690	2,323,183
Income from operations	643,267	1,840,542	5,231,104	2,224,902	5,094,508
Interest expenses	—	—	(239,225)	—	(1,634,598)
Interest income	1,087	11,201	21,721	4,559	53,151
Loss on change in fair value of derivatives	—	—	(316,000)	—	(6,997,000)
Loss on financial instruments related to convertible notes	—	—	(263,089)	—	(1,189,500)
Other — net	9,652	(32,195)	(25,156)	(14,116)	(1,060)
Income before taxes	654,006	1,819,548	4,409,355	2,215,345	(4,674,499)
Income tax expense	(33,560)	(362,882)	(605,402)	(336,315)	110,568
Minority interests	(209,802)	—	—	—	—
Income/(Loss) before extraordinary gain	410,644	1,456,666	3,803,953	1,879,030	(4,563,931)
Extraordinary gain	350,601	—	—	—	—
Net income/(Loss)	761,245	1,456,666	3,803,953	1,879,030	(4,563,931)
Earnings/(Loss) per share — Basic and diluted					
Extraordinary gain	\$ 0.02	—	—	—	—
Net income/(Loss)	\$ 0.05	\$ 0.09	\$ 0.25	\$ 0.12	\$ (0.30)
Shares used in computation:					
Basic and diluted	15,427,995	15,427,995	15,427,995	15,427,995	15,427,995
Pro forma earnings/(Loss) per share on an as converted basis (unaudited): (note 2)					
Basic and diluted			\$ 0.24		\$ (0.23)
Shares used in computation on an as converted basis (unaudited): (note 2)					
Basic and diluted			15,746,366		20,109,221

See notes to financial statements.

CANADIAN SOLAR INC.
**CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY
AND COMPREHENSIVE INCOME**
(In U.S. dollars)

	Common Shares		Additional paid in capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholder's Equity	Total Comprehensive Income
	Number	\$	\$	\$	\$	\$	\$
Balance at December 31, 2002	15,427,995	210,843	—	625,303	(57,275)	778,871	
Net income	—	—	761,245	—	—	761,245	761,245
Foreign currency translation adjustments	—	—	—	—	(27,691)	(27,691)	(27,691)
Balance at December 31, 2003	15,427,995	210,843	—	1,386,548	(84,966)	1,512,425	733,554
Net income	—	—	1,456,666	—	—	1,456,666	1,456,666
Foreign currency translation adjustments	—	—	—	—	(7,705)	(7,705)	(7,705)
Balance at December 31, 2004	15,427,995	210,843	—	2,843,214	(92,671)	2,961,386	1,448,961
Net income	—	—	—	3,803,953	—	3,803,953	3,803,953
Foreign currency translation adjustments	—	—	—	—	201,741	201,741	201,741
Balance at December 31, 2005	15,427,995	210,843	—	6,647,167	109,070	6,967,080	4,005,694
Net loss	—	—	—	(4,563,931)	—	(4,563,931)	(4,563,931)
De-recognition of conversion option derivative liability	—	—	10,415,396	—	—	10,415,396	10,415,396
Share-based compensation	—	—	589,698	—	—	589,698	589,698
Foreign currency translation adjustments	—	—	—	—	173,587	173,587	173,587
Balance at June 30, 2006	<u>15,427,995</u>	<u>210,843</u>	<u>11,005,094</u>	<u>2,083,236</u>	<u>282,657</u>	<u>13,581,830</u>	<u>6,614,750</u>

See notes to financial statements.

CANADIAN SOLAR INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In U.S. dollars)

	Years Ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
	\$	\$	\$	\$ (Unaudited)	\$
Operating activities:					
Net income	761,245	1,456,666	3,803,953	1,879,030	(4,563,931)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Minority interest	209,802	—	—	—	—
Depreciation and amortization	37,754	42,137	81,879	34,452	174,134
Gain on acquisition of equity interest	(350,601)	—	—	—	—
Deferred taxes	(24,367)	4,244	(67,877)	(2,562)	(629,422)
Loss on disposal of property, plant and equipment	—	628	—	—	—
Allowance for doubtful debts	93,178	24,507	—	—	1,698
Allowance for inventories obsolescence	—	258,855	—	—	—
Loss on fair value change of derivatives	—	—	316,000	—	6,997,000
Loss on financial instruments related to convertible notes	—	—	263,089	—	1,189,500
Amortization of discount on debt	—	—	134,666	—	706,320
Share-based compensation expense	—	—	—	—	589,698
Changes in operating assets and liabilities:					
Inventories	(821)	(2,343,372)	(9,771,728)	(3,414,019)	(14,235,892)
Accounts receivable	696,317	(403,072)	(1,431,483)	(194,183)	(3,899,200)
Value added tax recoverable	25,286	120,710	(793,206)	(397,467)	(457,607)
Advances to suppliers	(77,755)	(289,430)	(4,369,335)	(1,206,910)	(4,494,295)
Other current assets	(27,226)	(19,161)	(67,899)	(106,846)	(265,670)
Accounts payable	(61,774)	397,184	3,482,266	782,779	3,172,672
Other payable	333,178	(95,847)	18,122	(85,125)	227,603
Advances from suppliers and customers	(94,969)	255,629	2,549,686	1,103,130	4,497,668
Accrued payroll and welfare	(3,516)	122,957	51,402	(30,490)	51,087
Amounts due to related parties	81,201	96,380	241,741	122,753	(130,593)
Accrued warranty costs	39,932	87,685	174,451	70,561	249,245
Other current liabilities	(1,727)	62,665	149,484	56,213	657,398
Income tax payable	27,194	288,432	506,604	275,383	(254,802)
Other tax payable	90,100	371,753	57,837	(64,806)	270,976
Net cash provided (used in) by operating activities	1,752,431	439,550	(4,670,348)	(1,178,107)	(10,146,413)
Investing activities:					
Increase in restricted cash	(26,581)	—	(85,204)	—	(647,431)
Purchases of property, plant and equipment	(83,912)	(253,570)	(560,793)	(58,369)	(511,853)
Proceeds from disposal of property, plant and equipment	—	1,321	—	—	—
Cash paid for acquisition of equity interest	(331,006)	—	—	—	—
Net cash used in investing activities	(441,499)	(252,249)	(645,997)	(58,369)	(1,159,284)
Financing activities:					
Net proceeds from short-term borrowings	—	—	1,300,000	—	12,998,023
Proceeds from issuance of convertible notes	—	—	8,100,000	—	3,650,000
Issuance cost paid	—	—	(69,685)	—	(1,169,649)
Net cash provided by financing activities	—	—	9,330,315	—	15,478,374
Effect of exchange rate changes	(27,696)	(7,705)	207,146	(17,273)	229,503
Net increase in cash and cash equivalents	1,283,236	179,596	4,221,116	(1,253,749)	4,402,180
Cash and cash equivalents at the beginning of the year	595,847	1,879,083	2,058,679	2,058,679	6,279,795
Cash and cash equivalents at the end of the year	1,879,083	2,058,679	6,279,795	804,930	10,681,975
Supplemental disclosure of cash flow information:					
Interest paid	—	—	(3,349)	—	(124,711)
Income taxes paid	(30,732)	(70,205)	(166,674)	(24,430)	(773,656)
Supplemental schedule of non-cash financing activities:					
Issuance cost included in other payable	—	—	571,315	—	201,727

See notes to financial statements.

CANADIAN SOLAR INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005 AND THE
SIX-MONTH PERIODS ENDED JUNE 30, 2005 (UNAUDITED) AND 2006
(In U.S. dollars)**

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Canadian Solar Inc. ("CSI") was incorporated in Canada under the laws of the province of Ontario, Canada on October 22, 2001 and was continued under the federal laws of Canada in June 2006.

CSI and its subsidiaries (collectively, the "Company") are principally engaged in the design, development, manufacturing and marketing of solar power products for global markets. During the periods covered by the consolidated financial statements, substantially all of the Company's business was conducted through both CSI and operating subsidiaries established in the PRC, CSI Solartronics (Changshu) Co., Ltd. ("CSI Changshu"), CSI Solar Technologies Inc., CSI Solar Manufacture Inc. ("CSI Manufacture"), CSI Solarchip International Co., Ltd. ("CSI Solarchip") and CSI Solar Power Central Ltd., ("CSI Luoyang"), in each of which CSI holds 100% interest.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

(a) Basis of presentation

The financial statements of the Company have been prepared in accordance with the accounting principles generally accepted in the United States of America ("US GAAP").

(b) Basis of Consolidation

The consolidated financial statements include the financial statements of CSI and its majority-owned subsidiaries. All significant intercompany transactions and balances are eliminated on consolidation.

(c) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates reflected in the Company's financial statements include allowance for doubtful debts, allowance for inventory obsolescence, accrual for warranty, valuation of deferred tax assets, and useful lives of property, plant and equipment.

(d) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and demand deposits, which are unrestricted as to withdrawal and use, and which have maturities of three months or less when purchased.

Restricted cash represented bank deposits for import and export transactions through China Customs and for bank acceptances notes.

(e) Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the weighted average method. Cost comprises direct materials and where applicable, direct labor costs, tolling costs and those overheads that have been incurred in bringing the inventories to their present location and condition.

Adjustments are recorded to write down the cost of obsolete and excess inventory to the estimated market value based on historical and forecast demand.

The Company outsources portions of its manufacturing process, including converting silicon into ingots, cutting ingots into wafers, and converting wafers into solar cells, to various third-party manufacturers. These outsourcing arrangements may or may not include transfer of title of the raw material inventory (silicon, ingots or wafers) to the third-party manufacturers. Such raw materials are recorded as raw materials inventory when purchased from suppliers. For those outsourcing arrangements in which title is not transferred, the Company maintains such inventory on the Company's balance sheet as raw materials inventory while it is in physical possession of the third-party manufacturer. Upon receipt of the processed inventory, it is reclassified to work-in-process inventory and a processing fee is paid to the third-party manufacturer. For those outsourcing arrangements, which are characterized as sales, in which title (including risk of loss) does transfer to the third-party manufacturer, the Company is constructively obligated, through raw materials sales agreements and processed inventory purchase agreements which have been entered into simultaneously with the third-party manufacturer, to repurchase the inventory once processed. In this case, the raw material inventory remains classified as raw material inventory while in the physical possession of the third-party manufacturer and cash is received which is classified as "advances from suppliers and customers" on the balance sheet and not as revenue or deferred revenue. Cash payments for outsourcing arrangements which require prepayment for repurchase of the processed inventory is classified as "advances to suppliers" on the balance sheet. There is no right of offset for these arrangements and accordingly, "advances from suppliers and customers" and "advances to suppliers" remain on the balance sheet until the processed inventory is repurchased.

(f) Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are provided on a straight-line basis over the following estimated useful lives:

Leasehold improvements	Over the shorter of the lease term or their estimated useful lives
Plant and machinery	10 years
Furniture, fixtures and equipment	5 years
Motor vehicles	5 years

Cost incurred in constructing new facilities, including progress payment and other costs relating to the construction, are capitalized and transferred to property, plant and equipment on completion and depreciation commences from that time.

(g) Impairment of long-lived assets

The Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When these events occur, the Company measures impairment by comparing the carrying amount of the assets to future undiscounted net cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Company would recognize an impairment loss based on the fair value of the assets.

(h) Income taxes

Deferred income taxes are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, net operating loss carry forwards and credits by applying enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current income taxes are provided for in accordance with the laws of the relevant taxing authorities. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on the characteristics of the underlying assets and liabilities.

(i) Revenue recognition

Sales of modules are recorded when products are delivered and title has passed to the customers. The Company only recognizes revenues when prices to the seller are fixed or determinable, and collectibility is reasonably assured. Revenues also include reimbursements of shipping and handling costs of products sold to customers. Sales agreements typically contain the customary product warranties but do not contain any post-shipment obligations nor any return or credit provisions.

A majority of the Company's contracts provide that products are shipped under the term of free on board ("FOB"), Ex-works, or cost, insurance and freight ("CIF"). Under FOB, the Company fulfils its obligation to deliver when the goods have passed over the ship's rail at the named port of shipment. The customer has to bear all costs and risks of loss or damage to the goods from that point. Under Ex-works, the Company fulfils its obligation to deliver when it has made the goods available at its premises to the customer. The customer bears all costs and risks involved in taking the goods from the Company's premises to the desired destination. Under CIF, the Company must pay the costs, marine insurance and freight necessary to bring the goods to the named port of destination but the risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time the goods have been delivered on board the vessel, is transferred to the customer when the goods pass the ship's rail in the port of shipment. Most of the Company's sales require that customers prepay before delivery has occurred. Such prepayments are recorded as advances from customers until delivery is made. The sales agreements usually contain the Company's customary product warranties but do not contain any post-shipment obligations nor any return or credit provisions.

The Company also generates revenues from its implementation of solar development projects, consisting primarily of government-related assistance packages for its demonstration, promotion and feasibility projects and studies. The revenue is recognized when the projects are provided and accepted by the customers.

(j) Cost of revenue

Cost of revenue from modules includes production and indirect costs such as shipping and handling costs for products sold. Cost of revenue from solar development projects mainly includes labor costs and material costs associated with the projects.

(k) Research and development

Research and development costs are expensed when incurred.

(l) Advertising expenses

Advertising expenses are charged to the income statements in the period incurred. The Company incurred advertising expenses amounting to \$nil, \$nil, \$6,034 and \$25,337 for the years ended December 31, 2003, 2004, 2005 and six-month period ended June 30, 2006, respectively.

(m) Warranty cost

The Company's solar modules and products are typically sold with up to a two-year guarantee for defects in materials and workmanship and 10-year and 25-year warranties against specified declines in the initial minimum power generation capacity at the time of delivery. The Company has the right to repair or replace solar modules, at its option and based on the specific nature of the defect claims under a warranty claim, under the terms of the warranty policy. We maintain warranty reserves to cover potential liabilities that could arise under these guarantees and warranties. Due to limited warranty claims to date, we accrue the estimated costs of warranties based on an assessment of our competitors' accrual history, industry-standard accelerated testing, estimates of failure rates from our quality review, and other assumptions that we believe to be reasonable under the circumstances. The Company currently accrues the equivalent of 1% of solar module sales revenues as warranty reserves to cover the guarantees and warranties. Actual warranty costs are

accumulated and charged against the accrued warranty liability. To the extent that accrual warranty costs differ from the estimates, the Company will prospectively revise its accrual rate.

(n) Foreign currency translation

The United States dollar ("U.S. dollar"), the currency in which substantial amount of the Company's transactions are denominated, is used as the functional and reporting currency of CSI. Monetary assets and liabilities denominated in currencies other than the U.S. dollar are translated into U.S. dollar at the rates of exchange ruling at the balance sheet date. Transactions in currencies other than the U.S. dollar during the year are converted into the U.S. dollar at the applicable rates of exchange prevailing on the day transactions occurred. Transaction gains and losses are recognized in the statements of income. The aggregated amount of exchange gain (loss) is \$(8,721), \$230,960 and \$(106,059) and \$(76,162) for the years ended December 31, 2003, 2004, 2005 and six-month period ended June 30, 2006, respectively.

The financial records of certain of the Company's subsidiaries are maintained in local currencies other than the U.S. dollar, such as Renminbi ("RMB"), which are their functional currencies. Assets and liabilities are translated at the exchange rates at the balance sheet date, equity accounts are translated at historical exchange rates and revenues, expenses, gains and losses are translated using the average rate for the year. Translation adjustments are reported as foreign currency translation adjustment and are shown as a separate component of other comprehensive income (loss) in the statement of stockholder's equity.

(o) Foreign currency risk

The RMB is not a freely convertible currency. The PRC State Administration for Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of RMB into foreign currencies. The value of the RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China foreign exchange trading system market. The Company's cash and cash equivalents and restricted cash dominated in RMB amounted to \$156,776, \$173,205, \$644,753 and \$1,459,454 at December 31, 2003, 2004, 2005 and June 30, 2006, respectively.

(p) Concentration of credit risk

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable and advance to suppliers. The Company places its cash and cash equivalents with reputable financial institutions.

The Company conducts credit evaluations of customers and generally does not require collateral or other security from its customers. The Company establishes an allowance for doubtful accounts primarily based upon the age of the receivables and factors surrounding the credit risk of specific customers. With respect to advances to suppliers, such suppliers are primarily suppliers of raw materials. The Company performs ongoing credit evaluations of its suppliers' financial conditions. The Company generally does not require collateral or the security against advance to suppliers, however, it maintains reserve for potential credit losses and such losses have historically been within management's expectation.

(q) Fair value of derivatives and financial instruments

The carrying amounts of trade receivables, trade payables, short-term borrowings and accrued payroll and welfare approximate their fair values due to the short-term maturity of these instruments.

Because the Company's convertible notes and common stock are not publicly traded the Company has relied solely on valuation models in determining these values. The valuation models include assumptions regarding discount rates, market multiples, lack of marketability discounts, and other assumptions that are highly subjective and judgmental. Changes to any of the assumptions used in the valuation model could materially impact the valuation results.

(r) Beneficial conversion feature

When the Company issues debt or equity which is convertible into common stock at a discount from the common stock market or fair value price at the date the debt or equity is issued, a beneficial conversion feature for the difference between the fair value price and the conversion price multiplied by the number of shares issuable upon conversion is recognized. The beneficial conversion feature is presented as a discount to the related debt or equity, with an offsetting amount increasing additional paid-in capital. The discount resulting from recording a beneficial conversion option is accreted for the date of issuance to the stated redemption date of the convertible instrument.

(s) Extraordinary gain

From March 2002 to December 2003, the Company held 68.1% interests of CSI Changshu and two Chinese companies held 31.9% interests. The Company bought out this minority interests of 31.9% in CSI Changshu at the end of 2003. The acquisitions were recorded using the purchase method of accounting and, accordingly, the acquired assets and liabilities were recorded at their fair value at the date of acquisition. Since the fair value of the consideration of \$331,006 in form of cash and products is less than the fair value of the acquired net assets, an excess fair value of acquired net assets over cost is derived. That excess is allocated as a pro rata reduction of the amounts that otherwise would have been assigned to all of the acquired assets except financial assets other than investments accounted for by the equity method, assets to be disposed of by sale, deferred tax assets, prepaid assets relating to pension or other postretirement benefit plans, and any other current assets. Any remaining excess is recognized as an extraordinary gain.

(t) Earnings per Share

Basic income per share is computed by dividing income attributable to holders of common shares by the weighted average number of common shares outstanding during the year. Diluted income per common share reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares.

(u) Recently issued accounting pronouncements

In November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 151, "Inventory Costs — an amendment of ARB No. 43, Chapter 4". SFAS No. 151 clarifies the accounting that requires abnormal amounts of idle facility expenses, freight, handling costs, and spoilage costs to be recognized as current-period charges. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 will be effective for inventory costs incurred in fiscal period beginning on or after June 15, 2005. The Company does not anticipate that the adoption of this statement will have a material effect on the Company's financial position, cash flow or results of operations.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets — an amendment of APB Opinion No. 29" ("SFAS 153"), which amends Accounting Principles Board Opinion No. 29, "Accounting for Nonmonetary Transactions" to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS 153 is effective for nonmonetary assets exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not anticipate that the adoption of this statement will have a material effect on the Company's financial position, cash flow or results of operations.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS 154") which replaces Accounting Principles Board Opinions No. 20 "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements — An Amendment of APB Opinion No. 28." SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after

December 15, 2005. The Company does not anticipate that the adoption of this statement will have a material effect on the Company's financial position, cash flow or results of operations.

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment ("SFAS 123R"). SFAS 123R eliminates the alternative of applying the intrinsic value measurement provisions of APB 25 to stock compensation awards issued to employees. Rather, SFAS 123R requires enterprises to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award, known as the requisite service period (usually the vesting period). As of December 31, 2005 no stock options had been issued.

In March 2005, the FASB issued FASB Interpretation No. ("FIN") 47, "Accounting for Conditional Assets Retirement Obligations, an interpretation of SFAS No. 143". FIN 47 clarifies that an entity is required to recognize a liability for legal obligation to perform an asset retirement activity if the fair value can be reasonably estimated even though the timing and/or method of settlement are conditional on a future event. FIN 47 is required to be adopted for annual reporting periods ending after December 15, 2005. The Company does not anticipate that the adoption of this statement will have a material effect on the Company's financial position, cash flow or results of operations.

In September 2005 the FASB approved EITF Issue 05-07, "Accounting for Modifications to Conversion Options Embedded in Debt Securities and Related Issues" ("EITF 05-07"). EITF 05-07 requires the change in the fair value of an embedded conversion option upon modification be included in the analysis under EITF Issue 96-16, "Debtor's Accounting for a Modification or Exchange of Debt Instruments," to determine whether a modification or extinguishment has occurred and that the changes to the fair value of a conversion option affects the interest expense on the associated debt instrument following a modification. Therefore, the change in fair value of the conversion option should be recognized upon the modification as a discount or premium associated with the debt, and an increase or decrease in additional paid-in capital. EITF Issue 05-07 is effective for all debt modifications in annual or interim periods beginning after December 31, 2005. The adoption of EITF 05-07 did not have an impact on the Company's financial position and results of operations.

In June 2006 the FASB released Interpretation No. 48, Accounting for Uncertainty in Income Taxes-an Interpretation of FASB Statement No. 109, ('FIN 48') which proscribes a recognition threshold and a measurement attribute for tax positions taken, or expected to be taken, in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006, with early adoption encouraged if the enterprise has not yet issued financial statements for fiscal years or interim periods in the period this Interpretation is adopted. The Company does not anticipate that the adoption of this statement will have a material effect on the Company's financial position, cash flow or results of operations.

(v) Pro Forma Information

The pro forma unaudited balance sheet information as of June 30, 2006 assumes the conversion upon completion of the initial public offering of all convertible notes outstanding as of June 30, 2006 into common shares.

(v) Pro Forma Earnings Per Share

The pro forma unaudited basic and diluted earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding for the period plus the number of common shares resulting from the assumed conversion upon completion of the initial public offering of all convertible notes outstanding.

(w) Stock-based compensation

The Company grants stock options to its employees and certain non-employees. The Company records stock-based compensation for services rendered using the Black-Scholes option pricing model.

3. INVENTORIES

Inventories consist of the following:

	At December 31,			At June 30
	2003	2004	2005	2006
	\$	\$	\$	\$
Raw materials	234,564	1,639,907	9,938,165	20,254,176
Work-in-process	65,147	197,560	778,742	1,665,392
Finished goods	13,249	560,010	1,445,681	4,478,912
	<u>312,960</u>	<u>2,397,477</u>	<u>12,162,588</u>	<u>26,398,480</u>

The Company made allowance for obsolete inventories in the aggregate amount of \$nil, \$258,855, \$nil and \$nil during the years ended December 31, 2003, 2004, 2005 and the six-month period ended June 30, 2006, respectively.

4. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLE

The Company made allowance for doubtful debts in the aggregate amount of \$93,178, \$24,507, nil and nil during the years ended December 31, 2003, 2004, 2005 and the six-month period ended June 30, 2006, respectively.

5. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consist of the following:

	At December 31,			At June 30,
	2003	2004	2005	2006
	\$	\$	\$	\$
Leasehold improvements	396	396	122,724	166,319
Plant and machinery	229,110	299,799	728,796	986,843
Furniture, fixtures and equipment	42,542	80,795	116,554	176,142
Motor vehicles	22,746	59,110	60,831	149,106
Total	294,794	440,100	1,028,905	1,478,410
Less: Accumulated depreciation	58,240	99,769	181,648	355,782
Construction in process	7,006	112,713	84,701	116,157
Property, plant and equipment, net	<u>243,560</u>	<u>453,044</u>	<u>931,958</u>	<u>1,238,785</u>

Depreciation expense was \$37,754, \$42,137, \$81,879 and \$174,134 for the years ended December 31, 2003, 2004, 2005 and the six-month period ended June 30, 2006, respectively.

6. SHORT-TERM BORROWING

The short-term borrowings outstanding as of June 30, 2006 bore an average interest rate from 5.94% to 7% per annum, respectively. These loans are borrowed from various financial institutions and represent the maximum amount of each facility. These loans do not contain any financial covenants. The borrowings have up to one year terms and expire at various times throughout the year. These facilities contain no specific renewal terms. The short-term borrowings of \$1,300,000 from ATS Automation Tooling Systems Inc. as of June 30, 2006 were guaranteed by Dr. Xiaohua Qu, who has pledged 20% of his equity ownership interest in the Company. The remaining amounts were guaranteed by third party guarantors, in return for which the

Company accrued service charges of \$62,534 for the six-month period ended June 30, 2006, for the provision of the guarantee.

7. ACCRUED WARRANTY COSTS

The Company's warranty activity is summarized below:

	At December 31,			At June 30,
	2003	2004	2005	2006
	\$	\$	\$	\$
Beginning balance	38,964	78,896	166,581	341,032
Warranty provision	39,932	87,685	174,451	249,245
Warranty costs incurred	—	—	—	—
Ending balance	<u>78,896</u>	<u>166,581</u>	<u>341,032</u>	<u>590,277</u>

8. CONVERTIBLE NOTES

On November 30, 2005, the Company signed a subscription agreement with a group of third-party investors to issue two tranches of convertible notes. The first tranche of notes with a principal value of \$8,100,000 was issued on November 30, 2005. The second tranche of notes with a principal value of \$3,650,000 was issued on March 30, 2006.

The terms of the convertible notes are described as follows:

Maturity date. The convertible notes mature on November 30, 2008.

Interest. The note holders are entitled to receive interest at 2% per annum on the principal outstanding, in four equal quarterly installments in arrears.

If the Company fails to pay any principal or interest amounts, or other payments in respect of the notes, when due, or if the convertible notes are not converted in full into common shares on the date requested by the note holders, the convertible notes shall bear an extraordinary interest, compounded at a rate of twelve percent (12%) per annum for any amounts of overdue principal, interest or other payment under the convertible notes.

If the Company has not completed a qualified initial public offering (defined as (i) an offering size of not less than \$30,000,000, (ii) total market capitalization of not less than \$120,000,000, and (iii) public float of not less than twenty-five percent (25%) of the enlarged share capital) prior to maturity of the convertible notes, the Company must pay an interest premium of ten percent (10%) per annum in respect of principal, paid and unpaid interest, unpaid dividends, and extraordinary interest.

The Company is recognizing interest expense using the effective interest method for the 2% per annum quarterly payments and 10% per annum due at the maturity date in the event that a qualified initial public offering has not occurred.

Withholding Taxes All payments in respect of the note will be made without withholding or deduction of or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the government of Hong Kong, Canada or any authority therein or thereof having power to tax unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law.

Dividends. The stockholder as of the issue date is entitled to all audited retained earnings as of 28 February 2006. The Company shall not declare or pay any dividend before the completion of a qualified initial public offering or redemption of all convertible notes, except with the prior written consent of all holders of the outstanding convertible notes.

Conversion. The notes are convertible into 5,542,005 common shares at a conversion rate of \$2.12 per share. The fair value of the Company's common stock on November 30, 2005 was \$2.43 per share.

The notes are convertible (i) at any time after the date of issuance of such notes upon obtaining written consents from the note holders requesting conversion to common shares, and (ii) automatically upon the consummation of a qualified initial public offering. The conversion rate is subject to standard anti-dilutive adjustments and is also subject to adjustment in the event that (i) the Company's audited profit after tax for the twelve month period ended February 28, 2006 is less than certain predefined amounts, (ii) the Company's number of shares issued or issuable on a fully diluted basis is different from a predefined quantity at conversion, or (iii) the Company issues equity securities at a price below the conversion price then in effect. At November 30, 2005 the Company was required to bifurcate the conversion feature pursuant to FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133").

Redemption. If the Company experiences an event of default under the subscription agreement (including but not limited to a change of control of the Company) prior to maturity and upon written demand from the note holders (referred to as "early redemption right"), the Company must pay the greater of (i) an interest premium of twelve percent (12%) per annum in respect of principal, paid and unpaid interest, unpaid dividends, and extraordinary interest, or (ii) the fair value of the Company's common shares that would be held by the note holders on an if-converted basis. The Company was required to bifurcate the early redemption right pursuant to FASB 133.

Liquidation preference. The convertible notes are senior to any common shareholder claims in the event of liquidation.

Registration Rights Agreement. Anytime 6 months after a successful IPO, upon the demand by at least 25% of the holders of the Company's common shares related to the convertible notes, the Company must initiate a registration statement to register the shares held by the previous note holders. The Company must initiate such a registration statement within 120 days of the demand by the shareholders. The registration rights agreement contains no penalties in the event the Company is unable to initiate such a registration statement in the period prescribed.

The \$8,100,000 purchase price of convertible notes issued on November 30, 2005 was reduced by issuance costs of \$641,000. The Company allocated \$3,363,000 of the net proceeds of \$7,459,000 to the compound embedded derivative liability which was comprised of the bifurcated conversion feature and the early redemption right, \$843,996 to the freestanding financial instruments liability associated with the obligation to issue the second tranche of convertible debt to the investors and the investors' option to subscribe for a third tranche of convertible debt, and \$3,252,004 to the convertible debt. The resulting discount on the convertible debt is being amortized over the three year term using the straight-line method which approximates the effective interest rate method.

As of December 31, 2005, the fair values of the convertible debt, compound embedded derivative liability, the freestanding financial instrument liability were \$11,595,000, \$3,679,000, and \$1,606,500, respectively. Changes in the fair value of the compound embedded derivative and the freestanding option, which is classified within the freestanding financial liability, are recognized at each reporting date and are classified as loss on change in value of derivatives in the statements of operations.

Subsequent to the November 30, 2005 issuance the Company and the note holders amended the terms of the note agreement as follows:

- On March 30, 2006, the Company and the note holders executed a supplemental agreement amending certain provisions related to events of default prior to conversion or maturity (as defined in the subscription agreement). The original terms required that, in the event of default, the Company pay the note holders the greater of a 12% interest premium or the fair value of the common stock underlying the convertible notes on an if-converted basis. The terms of the supplemental agreement state that in an event of default the Company must pay an interest premium of 18%. The terms of the original agreement created a provision which allowed for potential net settlement of the Company's common shares, and accordingly, prior to the supplemental agreement, the Company was required to bifurcate the conversion option from the host debt instrument as it met the test of a derivative instrument. Since the

supplemental agreement removed the net settlement provision the Company was no longer required to bifurcate the conversion option. Accordingly, on March 30, 2006, the Company derecognized the embedded derivative liability related to the conversion option. Because the early redemption put option continues to meet the definition of a derivative instrument after the March 30, 2006 modification, the early redemption option continues to be recorded by the Company as a derivative liability and reported at its fair value with changes in its fair value recognized in the statements of operations. The early redemption option was valued by an independent valuation using the Black-Scholes option pricing model.

- In addition to revising the provisions related to events of default, the March 30, 2006 supplemental agreement revised the original subscription agreement to revise the profit after tax computation to exclude all costs and charges related to the issuance of the convertible notes, including all costs and charges related to the recording of the derivative and freestanding financial instruments associated with the convertible notes, including changes to their fair values. The supplemental agreement effectively requires that the Company achieve a profit after tax of \$6 million for the 12-month period ended February 28, 2006, reduced by the amount of all costs and charges related to the issuance of the convertible notes and related derivative and freestanding financial instruments.

Additionally, the supplemental agreement revised the requirement under the original subscription agreement that the Company deliver to the note holders audited financial statements for the year ended December 31, 2004 of profit after tax of \$1 million, and the eight-month period ended August 31, 2005 of profit after tax of \$4.5 million, under IFRS and delivered to the note holders by January 31, 2006. The supplement agreement changed the date of delivery of the audited financial statements to April 30, 2006.

- On June 9, 2006, the Company and the note holders executed a supplemental agreement removing the provision that would have given the note holders an adjustment on the conversion price in the event the Company's profit after tax for the 12-month period ended February 28, 2006 was less than the amount discussed above.

Details of the carrying value of the convertible notes as of December 31, 2005 and June 30, 2006 are as follows:

	Year Ended December 31, 2005	Period ended June 30, 2006
	\$	\$
Proceeds from issuance of convertible notes	8,100,000	11,750,000
Discount on debt	(4,713,329)	(2,922,433)
Convertible notes	3,386,671	8,827,567
Financial instruments related to convertible notes	1,107,084	—
Fair value of conversion option	3,654,000	—
Fair value of early redemption option	25,000	1,000
Fair value of derivatives related to convertible notes	3,679,000	1,000

Discounts against the debt portion of convertible notes were amortized over the maturity period using the straight-line method which approximates the effective interest rate method. The change in fair value of the derivative liabilities of \$316,000 and loss on financial instrument of \$263,089 was charged to profit and loss for the year ended December 31, 2005. The change in fair value of the derivative liabilities of \$6,997,000 and loss on financial instrument of \$1,189,500 was charged to profit and loss for the six-month period ended June 30, 2006.

The fair value of the convertible notes was \$71,472,000 at June 30, 2006, which included the fair value of the embedded conversion option.

9. COMMON SHARES

On October 22, 2001, the Company originally issued 1,000,000 common shares to sole stockholder, Dr. Xiaohua Qu.

10. RESTRICTED NET ASSETS

As stipulated by the relevant laws and regulations applicable to China's foreign investment enterprise, the Company's PRC subsidiaries are required to make appropriations from net income as determined under accounting principles generally accepted in the PRC ("PRC GAAP") to non distributable reserves which include a general reserve, an enterprise expansion reserve and a staff welfare and bonus reserve. Wholly-owned PRC subsidiaries are not required to make appropriations to the enterprise expansion reserve but appropriations to the general reserve are required to be made at not less than 10% of the profit after tax as determined under PRC GAAP. The staff welfare and bonus reserve is determined by the board of directors.

The general reserve is used to offset future extraordinary losses. The subsidiaries may, upon a resolution passed by the stockholder, convert the general reserve into capital. The staff welfare and bonus reserve is used for the collective welfare of the employee of the subsidiaries. The enterprise expansion reserve is for the expansion of the subsidiaries' operations and can be converted to capital subject to approval by the relevant authorities. These reserves represent appropriations of the retained earnings determined in accordance with Chinese law.

In addition to the general reserve, the Company's PRC subsidiaries are required to obtain approval from the local PRC government prior to distributing any registered share capital. Accordingly, both the appropriations to general reserve and the registered share capital of the Company's PRC subsidiaries are considered as restricted net assets of \$770,116, \$851,516, \$4,598,861 and \$7,824,160 at December 31, 2003, 2004, 2005 and June 30, 2006, respectively.

11. INCOME TAX EXPENSE

The provision for income taxes is comprised of the following:

	Year Ended December 31,			Period ended June 30,	
	2003	2004	2005	2005	2006
	\$	\$	\$	(Unaudited)	\$
Current Tax					
Canada	57,927	147,999	142,666	106,926	191,166
Other	—	210,639	530,613	192,887	327,683
	57,927	358,638	673,279	299,813	518,853
Deferred Tax					
Canada	(24,047)	(20,631)	(10,507)	(11,991)	(320,402)
Other	(320)	24,875	(57,370)	48,493	(309,019)
	(24,367)	4,244	(67,877)	36,502	(629,421)
Income tax expense	<u>33,560</u>	<u>362,882</u>	<u>605,402</u>	<u>336,315</u>	<u>(110,568)</u>

The Company was incorporated in Ontario, Canada and is subject to both federal and Ontario provincial corporate income tax.

The major operating subsidiaries, CSI Changshu and CSI Manufacture, are governed by the Income Tax Law of PRC Concerning Foreign Investment and Foreign Enterprises and various local income tax regulations (the "Income Tax Laws"). Pursuant to the PRC income tax law, foreign-invested manufacturing enterprises are subject to income tax at statutory rate of 33% (30% of state income tax plus 3% local income tax) on PRC taxable income.

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CSI Changshu is entitled to a preferential tax rate of 27% (24% of state income tax plus 3% local income tax) as it is located in Changshu Coastal Economic Open-up Area. CSI Manufacture is entitled to a preferential tax rate of 15% as it is located in Suzhou New & Hi-tech District Export Processing Zone.

Foreign-invested manufacturing enterprises are entitled to tax exemption from the state income tax for its first two profitable years of operation, after taking into account any tax losses brought forward from prior years, and a 50% tax deduction for the succeeding three years thereafter. Local income tax is fully exempted during the whole tax holiday. As a result, CSI Changshu was exempted from income tax for the two years ended December 31, 2003 and its applicable income tax rate is 12% for the three years ending December 31, 2006 and CSI Manufacture was exempted from income tax for the two years ended December 31, 2006 and its applicable income tax rate is 7.5% for the three years ending December 31, 2009.

The principal components of the deferred income tax assets/ liabilities are as follows:

	At December 31,			At June 30,
	2003	2004	2005	2006
	\$	\$	\$	
Deferred tax assets:				
Accrued warranty costs	14,426	30,661	62,640	207,829
Accrued salary expenses	1,799	1,799	1,799	4,249
Bad debt provision	17,350	21,913	21,913	—
Inventory obsolescence	—	31,063	31,856	22,035
Start-up costs	1,347	922	1,732	1,528
Depreciation	—	36	1,284	2,351
Withholding tax	—	—	—	70,069
Unrealized profit	—	—	37,927	307,546
Total deferred tax assets	34,922	86,394	159,151	615,607
Analysis as:				
Current	19,573	55,200	93,932	404,352
Non-current	15,349	31,194	65,219	211,255
	34,922	86,394	159,151	615,607
Deferred tax liabilities:				
Unrealized loss	—	55,716	38,828	5,339
Convertible notes	—	—	—	1,333,648
Issuance cost	—	—	20,555	26,060
Total deferred tax liabilities	—	55,716	59,383	1,365,047
Analysis as:				
Current	—	55,716	59,383	5,339
Non-current	—	—	—	1,359,708
	—	55,716	59,383	1,365,047

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Reconciliation between the provision for income tax computed by applying Canadian federal and provincial statutory tax rates to income before income taxes and the actual provision for income taxes is as follows:

	Year Ended December 31,			Six Months Ended June 30,	
	2003	2004	2005	2005	2006
				(Unaudited)	
Combined federal and provincial income tax rate	37%	36%	36%	36%	(36%)
Expenses/(income) not deductible/(taxable) for tax purpose	(8%)	7%	8%	3%	87%
Tax exemption and tax relief granted to the Company (Note)	(19%)	(14%)	(22%)	(11%)	(33%)
Income not subject to tax	—	—	—	—	2%
Effect of different tax rate of subsidiary operation in other jurisdiction	(6%)	(7%)	(11%)	(11%)	(18%)
Others	(1%)	(2%)	3%	(2%)	—
	<u>3%</u>	<u>20%</u>	<u>14%</u>	<u>15%</u>	<u>(2%)</u>

Note: The aggregate amount and per share effect of the tax holiday are as follows:

	Year Ended December 31,			Six Months Ended June 30,	
	2003	2004	2005	2005	2006
				\$	
				(Unaudited)	
The aggregate dollar effect	<u>\$ 185,407</u>	<u>\$ 255,249</u>	<u>\$ 953,804</u>	<u>235,097</u>	<u>1,536,440</u>
Per share effect — basic and diluted	<u>0.01</u>	<u>0.02</u>	<u>0.06</u>	<u>0.02</u>	<u>0.10</u>

12. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted income per share for the periods indicated:

	Year ended December 31,			Period ended June 30,	
	2003	2004	2005	2005 (Unaudited)	2006
Income (loss) available to common stockholder	\$ 761,245	\$ 1,456,666	\$ 3,803,953	\$ 1,879,030	(\$ 4,563,931)
Weighted average number of common shares for the Calculation of basic and diluted income per share	15,427,995	15,427,995	15,427,995	15,427,995	15,427,995
Basic and diluted income per share	<u>\$ 0.05</u>	<u>\$ 0.09</u>	<u>\$ 0.25</u>	<u>\$ 0.12</u>	<u>\$ (0.30)</u>
Shares used in computing pro forma per share amounts on an as converted basis (unaudited):					
Basic and diluted			<u>15,746,366</u>		<u>20,109,221</u>
Pro forma earnings per share on an as converted basis (unaudited): basic and diluted			<u>\$ 0.24</u>		<u>\$ (0.23)</u>

The Company has not included approximately 319,210 potentially dilutive shares related to the convertible notes as the inclusion would be anti-dilutive for the year ended December 31, 2005.

The Company has not included approximately 4,681,226 potentially dilutive shares related to the convertible notes as the inclusion would be anti-dilutive for the six month period ended June 30, 2006.

13. RELATED PARTY BALANCES AND TRANSACTIONS

Related party balances:

The amount due to related party includes loan payable to Dr. Xiaohua Qu, a director and stockholder, who has beneficial interest in the Company, and consulting fee payable to consulting companies owned by key management personnel.

The amount is unsecured, interest free and has no fixed repayment term.

Related party transactions:

During the years ended December 31, 2003, 2004, 2005 and six-month period ended June 30, 2006, the Company paid consulting fee to consulting companies owned by key management personnel in amount of \$79,172, \$182,054, \$232,793 and nil, respectively.

14. COMMITMENTS AND CONTINGENCIES

a) Operating lease commitments

The Company has operating lease agreements principally for its office properties in the PRC. Such leases have remaining terms ranging from 12 to 24 months and are renewable upon negotiation. Rental expense was \$10,439, \$32,315, \$129,269 and \$99,054 for the years ended December 31, 2003, 2004, 2005, and six-month period ended June 30, 2006 respectively.

Future minimum lease payments under non-cancelable operating lease agreements at June 30, 2006 were as follows:

December 31	\$
2006	184,790
2007	48,234
2008	—
2009	—
Total	233,024

b) Commitments

As of December 31, 2003, 2004 and 2005 and June 30, 2006, commitments outstanding for the purchase of property, plant and equipment approximated \$6,162, \$18,259, \$114,599 and \$164,408, respectively. The Company has entered into several purchase agreements with certain suppliers whereby the Company is committed to purchase a minimum amount of raw materials all to be used in the manufacture of its products. As of December 31, 2003, 2004, 2005 and June 30, 2006, future minimum purchases remaining under the agreements approximated nil, \$121,114, \$10,064,362 and \$10,005,503 respectively.

15. SEGMENT INFORMATION

The Company primarily operates in a single reportable business segment that includes the design, development, and manufacture of solar power products. "Other" represents the Company's activities in developing solar development projects which do not meet the criteria necessary to be presented as a reportable segment nor for aggregation with the Company's solar power products segment.

	Year Ended December 31, 2003		
	Solar power products	Other	Total
	\$	\$	\$
Revenues from external customers	4,008,432	104,743	4,113,175
Cost of revenue	2,252,571	119,743	2,372,314
Interest income	1,087	—	1,087
Interest expenses	—	—	—
Segment profit (loss)	781,694	(20,449)	761,245
Segment assets	3,053,477	—	3,053,477
Expenditure for segment assets	83,912	—	83,912

	Year Ended December 31, 2004		
	Solar power products	Other	Total
	\$	\$	\$
Revenues from external customers	8,941,219	743,601	9,684,820
Cost of revenue	5,893,669	571,522	6,465,191
Interest income	11,201	—	11,201
Interest expenses	—	—	—
Segment profit	1,346,535	110,131	1,456,666
Segment assets	6,144,992	—	6,144,992
Expenditure for segment assets	253,570	—	253,570

Year Ended December 31, 2005			
	Solar power products	Other	Total
	\$	\$	\$
Revenues from external customers	17,895,383	428,417	18,323,800
Cost of revenue	10,885,165	325,713	11,210,878
Interest income	21,721	—	21,721
Interest expenses	239,225	—	239,225
Segment profit	3,738,222	65,731	3,803,953
Segment assets	27,099,319	330,698	27,430,017
Expenditure for segment assets	560,793	—	560,793

Six-month Period ended June 30, 2005			
(Unaudited)			
	Solar power products	Other	Total
	\$	\$	\$
Revenues from external customers	6,553,658	428,417	6,982,075
Cost of revenue	3,594,770	325,713	3,920,483
Interest income	4,559	—	4,559
Interest expenses	—	—	—
Segment profit	1,813,299	65,731	1,879,030
Segment assets	9,944,132	330,698	10,274,830
Expenditure for segment assets	58,369	—	58,369

Six-month Period ended June 30, 2006			
	Solar power products	Other	Total
	\$	\$	\$
Revenues from external customers	25,973,221	67,834	26,041,055
Cost of revenue	18,555,530	67,834	18,623,364
Interest income	53,151	—	53,151
Interest expenses	1,634,598	—	1,634,598
Segment profit	4,563,931	—	4,563,931
Segment assets	57,505,197	—	57,505,197
Expenditure for segment assets	511,853	—	511,853

The following table summarizes the Company's net revenues generated from different geographic locations:

	Year Ended December 31,			Six-month Period ended June 30,	
	2003	2004	2005	2005	2006
	\$	\$	\$	\$ (Unaudited)	\$
Europe:					
— Germany	19,570	6,498,524	13,800,581	4,121,228	19,858,876
— Others	—	126,701	1,462,718	445,014	4,495,515
Europe Total	19,570	6,625,225	15,263,299	4,566,242	24,354,391
China	271,358	109,074	504,410	258,842	168,936
North America	3,797,723	2,853,078	2,555,805	2,156,991	1,455,655
Others	24,524	97,443	286	—	62,073
Total net revenues	<u>4,113,175</u>	<u>9,684,820</u>	<u>18,323,800</u>	<u>6,982,075</u>	<u>26,041,055</u>

Substantially all of the Company's long-lived assets are located in the PRC.

16. MAJOR CUSTOMERS

Details of the customers accounting for 10% or more of total net sales are as follows:

	Year Ended December 31,			Six-month Period ended June 30,	
	2003	2004	2005	2005	2006
	\$	\$	\$	(Unaudited)	\$
Company A	3,692,980	1,580,832	1,473,048	1,473,048	—
Company B	—	1,297,996	2,556,653	1,770,977	—
Company C	—	1,080,225	115,602	—	4,726,243
Company D	—	1,244,693	—	—	—
Company E	—	992,853	618,315	481,025	—
Company F	—	—	6,739,649	770,168	2,909,417
Company G	—	—	—	—	9,368,548
Company H	—	—	—	—	4,495,515

The accounts receivable from the 3 customers with the largest receivable balances represents 90%, 9%, 1% of the balance of the account at December 31, 2003, 36%, 34%, 24% of the balance of the account at December 31, 2004, 35%, 30%, 10% of the balance of the account at December 31, 2005 and 34%, 25%, 14% of the balance of the account at June 30, 2006, respectively.

17. EMPLOYEE BENEFIT PLANS

Employees of the Company located in the PRC are covered by the retirement schemes defined by local practice and regulations, which are essentially defined contribution schemes. The calculation of contributions for these eligible employees is based on 19% of the applicable payroll cost. The expense paid by the Company to these defined contributions schemes was \$27,747, \$29,681 and \$52,284 and \$16,855 for the years ended December 31, 2003, 2004, 2005 and six-month period ended June 30, 2006, respectively.

In addition, the Company is required by law to contribute approximately 9%, 8%, 2% and 2% of applicable salaries for medical insurance benefits, housing funds, unemployment and other statutory benefits. The PRC government is directly responsible for the payments of the benefits to these employees. The amounts contributed for medical insurance benefits were \$11,826, \$14,546, \$25,480 and \$7,984 for the years ended December 31, 2003, 2004, 2005 and six-month period ended June 30, 2006, respectively. The amounts contributed for housing funds were \$9,662, \$13,077, \$22,402 and \$9,666 for the years ended December 31, 2003, 2004, 2005 and six-month period ended June 30, 2006, respectively. The amounts contributed for unemployment benefit were \$2,577, \$3,233, \$5,662 and \$1,774 for the years ended December 31, 2003, 2004, 2005 and six-month period ended June 30, 2006, respectively. The amounts contributed for other benefits were \$1,924, \$6,735, \$4,578 and \$1,774 for the years ended December 31, 2003, 2004, 2005 and six-month period ended June 30, 2006, respectively.

18. SHARE OPTIONS

On May 30, 2006, the Board of Directors approved the adoption of a share incentive plan to provide additional incentives to employees, directors and external consultants. The maximum aggregate number of shares which may be issued pursuant to all awards (including options) is 2,330,000 shares, plus for awards other than incentive option shares, an annual increase to be added on the first business day of each calendar year beginning in 2007 equal to the lesser of one percent (1%) of the number of common shares outstanding as of such date, or a lesser number of common shares determined by the board of directors or a committee designated by the board. The share incentive plan will expire on, and no awards may be granted after March 15, 2016. Under the terms of the Option Plan, options are generally granted at the fair market value of the Company's ordinary shares and expire 10 years from the date of grant. No options were exercised during the six-month period ended June 30, 2006.

Options to Employees

The Company granted 966,135 and 51,260, share options to our directors, executive officers and to other individuals in May 2006 and June 2006, respectively. The options were granted at exercise prices of \$2.12 and \$4.29 per share and vest over four year periods. The ordinary shares that underlie the options that were granted on May 30, 2006 are restricted as to the later of (i) two years from the date of grant, or (ii) 180 days after the Company successfully completes an initial public offering. The fair value of the options at the date of grant resulted in total compensation expense of approximately \$12.9 million. The compensation expense will be amortized over the four year vesting period. During the six-month period ended June 30, 2006, approximately \$322,229 was amortized as compensation expenses.

A summary of the option activity is as follows:

	Number of options	Weighted average exercise price
Options outstanding at January 1, 2006	—	
Granted	1,017,395	\$ 2.50
Exercised	—	—
Cancelled	(46,600)	2.12
Options outstanding at June 30, 2006	970,795	\$ 2.52

The weighted average fair value of options granted during the year ended June 30, 2006 was \$14.

The following table summarizes information with respect to share options outstanding at June 30, 2006:

Grant Date	Options outstanding			Options exercisable	
	Number Outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
May 30, 2006	919,535	10 years	\$ 2.42	—	\$ —
June 30, 2006	51,260	10 years	\$ 4.29	—	\$ —

The following table summarizes information regarding options issued within twelve months prior to June 30, 2006:

Grant Date	Number of Options Issued	Fair value of ordinary shares	Exercise Price	Intrinsic value	Type of valuation
May 30, 2006	791,035	\$ 16.40	\$ 2.12	\$ 14.28	*
May 30, 2006	128,500	\$ 16.40	\$ 4.29	\$ 12.11	*
June 30, 2006	51,260	\$ 16.77	\$ 4.29	\$ 12.48	*

* The fair value was determined on a contemporaneous valuation by a third part valuation specialist.

The following assumptions were used in the Black-Scholes option pricing model:

	2006
Average risk-free rate of return	5.54%
Weighted average expected option life	6.25 years
Volatility rate	69%
Dividend yield	—

Restricted shares to Employees and Non-employees

The Company granted 333,190 and 116,500, restricted shares to directors, executive officers and others in May 2006 and June 2006 respectively. The restricted shares were granted at nominal value and vest over two years. The fair value of the Company's ordinary share at the date of grant resulted in total compensation

expense of approximately \$7.0 million. The compensation expense will be amortized over the vesting periods. During the six-month period ended June 30, 2006, approximately \$267,469 was amortized as compensation expenses.

19. SUBSEQUENT EVENTS

Subsequent to June 30, 2006, the following events occurred:

- a) The Company registered Changshu CSI Advanced Solar Inc., a 100% owned subsidiary, in Changshu, China ("CSI Advanced"). The Company plans to invest US\$16.8 million as registered capital within two years. The planned total amount of investment in CSI Advanced, including loans, is US\$29.98 million. CSI Advanced will be principally engaged in manufacturing and sales of solar power products. CSI Advanced has yet to commence operation.
- b) Convertible notes

On July 1, 2006, the Company and the note holders executed a supplemental agreement amending the following provisions:

Interest The note shall bear interest from the issuance date at the rate of 12% per annum on the principal amount of the note outstanding. Such interest shall be payable as follows: (i) 2% per annum shall be payable in cash by four equal quarterly installments in arrears, and (ii) 10% per annum shall be payable in a balloon payment as at the date of conversion or redemption as the case may be.

Withholding Taxes No withholding taxes shall be payable by the Company in respect of any amounts deemed under the Canadian income tax laws to constitute interest paid upon conversion of the note.

Conversion The conversion price per common share shall be adjusted to be US\$2.476637 upon the full conversion of all notes of an aggregate principal amount of \$11,750,000.

Share split Immediately following the full conversion of all notes, the outstanding common shares owned by Dr. Xiaohua Qu and the note holders will be split on a 1.168130772 for 1 basis such that the aggregate shareholding of the note holders in the Company following the share split shall be 26.43%.

Conversion

On July 1, 2006, the notes of an aggregate principal amount of \$11,750,000 were converted into 2,036,196 common shares.

Put option agreement related to convertible notes

On July 1, 2006, Dr. Xiaohua Qu, the sole shareholder prior to conversion of the notes entered into a put option agreement with the note holders to grant the note holders an option to sell back all the common shares from conversion of the notes to Dr. Xiaohua Qu at the principal amount of the notes of \$11,750,000. The put option is exercisable from time to time in whole or in part (i) at any time from 31 March 2007 (inclusive) to 10 April 2007 (inclusive) in the event that the Company has not completed a Qualified IPO on or before 31 March 2007 or (ii) at any time after the occurrence and during the continuance of an event of default. On July 1st, 2006, Dr. Xiaohua Qu, stockholder of the Company, pledged 6,757,000 shares in favor of the note holders.

Share split subsequent to conversion

On July 11, 2006, the Board of Directors approved the share split on a 1.168130772 for 1 basis for the shares owned by Dr. Xiaohua Qu and the note holders. On October 19, 2006, the Board of Directors approved the share split on a 2.33 for 1 basis for 9,000,000 shares owned by Dr. Xiaohua Qu and the note holders. After the share split, 15,427,995 shares are owned by

Dr. Xiaohua Qu, 5,542,005 are owned by the note holders. All share information relating to common shares of the Company in the accompanying financial statements have been adjusted retroactively.

Share transfer agreement subsequent to conversion

When the note holders converted all of their convertible notes into the Company's common shares on July 1, 2006, they acknowledged and agreed that Dr. Xiaohua Qu's right to the Company's retained earnings as of February 28, 2006 under the dividend provision of the convertible notes would remain in effect. The note holders and Dr. Xiaohua Qu agreed to give effect to Dr. Xiaohua Qu's right by:

- (i) the transfer to Dr. Xiaohua Qu of 108,667 common shares from the note holders; and
- (ii) the issue under the Company's stock-based compensation plan of (a) 116,500 restricted shares, and (b) options to purchase 46,600 common shares at an exercise price of \$4.29 per common share, both with vesting periods of four years, to Hanbing Zhang, who is the wife of Dr. Xiaohua Qu.

c) Share-based compensation plan to employees and non-employees

The Company granted 157,275 and 209,700 share options to our directors, executive officers and to other individuals in July 2006 and August 2006, respectively.

Among these share options, 203,875 were granted at exercise prices of \$4.29 per share, 93,200 were granted at exercise prices of the initial public offering price, and 69,900 were granted at exercise prices of 80% of initial public offering price.

Among these share options, 46,600 vest in two equal installments, the first upon the date of grant and the second upon the first year anniversary of the grant date so long as the director remain in service, 93,200 vest upon date of grant, 227,175 vest over four year periods.

The Company granted 116,500, restricted shares to directors, executive officers and others in July 2006. The restricted shares were granted at nominal value and generally vest over periods of four years based on the specific terms of the grants.

d) Chinese Bank Credit Financing

On August 14, 2006 CSI Manufacture executed an agreement with Industrial and Commercial Bank of China for a working capital loan of up to USD3.3 million. The facility has a term of three months and bears interest at 6.4% per annum. The facility contains no specific repayment or renewal terms and was guaranteed by CSI Changshu.

On September 6, 2006 CSI Changshu executed an agreement with Industrial and Commercial Bank of China for a working capital loan of RMB20 million (US\$2.5 million) with a term of six months and annual interest rate of 6.138% per annum. The loan was guaranteed by a third party guarantor.

On September 20, 2006, CSI Manufacture drew down US\$2.99 million through a credit facility with China Everbright Bank. The drawdown is due on December 19, 2006, with an annual interest rate of 5.89%.

e) Share transfer

On October 3, 2006, Dr. Qu transferred 800,171 common shares to ATS Automation Tooling Systems Inc.

Additional Information — Financial Statements Schedule 1

Canadian Solar Inc.

These financial statements have been prepared in conformity with accounting principles generally accepted in the United States.

Financial information of parent company

Balance Sheets (In U.S. dollars)

	December 31,			June 30,
	2003	2004	2005	2006
	\$	\$	\$	\$
ASSETS				
Current assets:				
Cash and cash equivalents	1,373,133	1,864,632	4,527,193	2,513,617
Accounts receivable, net of allowance for doubtful accounts of \$93,178, \$117,685 and \$117,685 and \$Nil on December 31, 2003, December 31, 2004, December 31, 2005 and June 30, 2006	257,114	635,679	1,934,758	5,528,550
Inventories	5,173	186,116	1,864,056	5,576,748
Advances to suppliers	15,037	246,006	2,830,270	2,525,416
Amount due from related parties	486,550	6,017,940	9,959,259	21,176,776
Other current assets	27,459	23,378	68,470	75,645
Deferred tax assets	19,149	23,712	23,712	74,319
Total current assets	2,183,615	8,997,463	21,207,718	37,471,071
Investment in subsidiaries	1,560,144	3,147,985	11,354,112	19,691,331
Deferred listing expenses				830,061
Deferred tax assets (non-current)	13,950	30,018	61,080	205,406
TOTAL ASSETS	3,757,709	12,175,466	32,622,910	58,197,869
LIABILITIES AND STOCKHOLDER'S EQUITY				
Current liabilities:				
Short-term borrowing	—	—	1,300,000	1,300,000
Accounts payable	333,733	577,269	3,388,425	1,099,230
Other payable	47,304	301,729	876,583	675,113
Advances from suppliers and customers	16,750	201,141	2,445,903	4,084,835
Accrued payroll and welfare	24,769	30,395	40,957	24,244
Income tax payable	118,926	203,083	317,164	409,668
Other tax payable	122,100	208,600	287,095	459,148
Amounts due to related parties	1,245,795	7,206,996	8,005,223	24,784,360
Deferred tax liabilities	—	—	20,555	5,339
Embedded Derivatives related to convertible notes	—	—	3,679,000	1,000
Other current liabilities	—	62,665	212,149	754,758
Total current liabilities	1,909,377	8,791,878	20,573,054	33,597,695
Accrued warranty costs	74,920	161,215	328,034	570,082
Convertible notes	—	—	3,386,671	8,827,567
Financial instruments related to convertible notes	—	—	1,107,084	—
Other non-current liabilities (Note 13)	260,987	260,987	260,987	260,987
Deferred tax liabilities (non-current)	—	—	—	1,359,708

	December 31,			June 30,
	2003	2004	2005	2006
	\$	\$	\$	\$
Total liabilities	2,245,284	9,214,080	25,655,830	44,616,039
Commitments and contingencies (Note 13)				
Common shares - no par value: unlimited authorized shares, 15,427,995 shares issued and outstanding, as of December 31, 2003, 2004 and 2005 and June 30, 2006	210,843	210,843	210,843	210,843
Additional paid-in capital	—	—	—	11,005,094
Retained earnings	1,386,548	2,843,214	6,647,167	2,083,236
Accumulated other comprehensive income (loss)	(84,966)	(92,671)	109,070	282,657
Total stockholder's equity	1,512,425	2,961,386	6,967,080	13,581,830
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	3,757,709	12,175,466	32,622,910	58,197,869

Financial information of parent company

Statements of Operations (In U.S. dollars)

	Years Ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
	\$	\$	\$	\$ (Unaudited)	\$
Net revenues:					
Products	5,282,048	15,585,017	28,695,764	10,621,977	51,789,456
Others	104,743	743,601	428,417	23,971	16,767
Total net revenues	5,386,791	16,328,618	29,124,181	10,645,948	51,806,223
Cost of revenues:					
Products	4,507,205	14,466,642	27,804,922	9,414,920	50,105,024
Others	119,134	743,601	428,417	23,971	16,767
Total cost of revenues	4,626,339	15,210,243	28,233,339	9,438,891	50,121,791
Gross profit	760,452	1,118,375	890,842	1,207,057	1,684,432
Selling expenses	24,873	235,845	3,600	—	387,010
General and administrative expenses	710,731	669,553	888,283	464,068	821,528
Total operating expenses	735,604	905,398	891,883	464,068	1,208,538
Income from operations	24,848	212,977	(1,041)	742,989	475,894
Interest expenses	—	—	(239,225)	—	(1,553,721)
Interest income	537	10,544	17,634	3,914	45,369
Loss on change in fair value of derivatives	—	—	(316,000)	—	(6,997,000)
Loss on financial instruments related to convertible notes	—	—	(263,089)	—	(1,189,500)
Other-net	1,177	—	—	(38,795)	209
Income (loss) before taxes	26,562	223,521	(801,721)	708,108	(9,218,749)
Income tax expenses	(33,879)	(127,367)	(132,159)	(158,678)	166,927
Equity in earnings of subsidiaries	417,961	1,360,512	4,737,833	1,329,600	4,487,891
Income before extraordinary gain	410,644	1,456,666	3,803,953	1,879,030	(4,563,931)
Extraordinary gain	350,601	—	—	—	—
Net income	761,245	1,456,666	3,803,953	1,879,030	(4,563,931)
Earnings per share — Basic and diluted					
Extraordinary gain	\$ 0.02	\$ —	\$ —	—	—
Net income	\$ 0.05	\$ 0.09	\$ 0.25	\$ 0.12	(\$ 0.30)
Shares used in computation:					
Basic and diluted	15,427,995	15,427,995	15,427,995	15,427,995	15,427,995

Financial information of parent company

Statements of Stockholder's Equity and Comprehensive Income (In U.S. dollars)

	Common Shares		Addition paid in capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholder's Equity	Total Comprehensive Income
	Number	\$					
Balance at		\$	\$	\$	\$	\$	\$
December 31, 2002	15,427,995	210,843	—	625,303	(57,275)	778,871	
Net income	—	—	—	761,245	—	761,245	761,245
Foreign currency translation adjustments	—	—	—	—	(27,691)	(27,691)	(27,691)
Balance at							
December 31, 2003	15,427,995	210,843	—	1,386,548	(84,966)	1,512,425	733,554
Net income	—	—	—	1,456,666	—	1,456,666	1,456,666
Foreign currency translation adjustments	—	—	—	—	(7,705)	(7,705)	(7,705)
Balance at							
December 31, 2004	15,427,995	210,843	—	2,843,214	(92,671)	2,961,386	1,448,961
Net income	—	—	—	3,803,953	—	3,803,953	3,803,953
Foreign currency translation adjustments	—	—	—	—	201,741	201,741	201,741
Balance at							
December 31, 2005	15,427,995	210,843	—	6,647,167	109,070	6,967,080	4,005,694
Net loss		—		(4,563,931)	—	(4,563,931)	(4,563,931)
Additional paid-in capital		—	11,005,094	—	—	11,005,094	11,005,094
Foreign currency translation adjustments		—	—	—	173,587	173,587	173,587
Balance at June 30, 2006	<u>15,427,995</u>	<u>210,843</u>	<u>11,005,094</u>	<u>2,083,236</u>	<u>282,657</u>	<u>13,581,830</u>	<u>6,614,750</u>

Financial information of parent company

Statements of Cash Flows (In U.S. dollars)

	Years Ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
	\$	\$	\$	\$ (Unaudited)	\$
Operating activities:					
Net income (loss)	761,245	1,456,666	3,803,953	1,879,030	(4,563,931)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Deferred taxes	(24,053)	(20,631)	(10,507)	101,597	(358,093)
Allowance for doubtful debts	93,178	24,507	—	—	1,698
Loss on fair value change of derivatives	—	—	316,000	—	6,997,000
Loss on financial instruments related to convertible notes	—	—	263,089	—	1,189,500
Amortization of discount on debt	—	—	134,666	—	706,320
Gain on acquisition of equity interest	(350,601)	—	—	—	—
Equity in earnings of subsidiaries	(417,961)	(1,360,511)	(4,737,835)	(1,329,600)	(4,487,891)
Changes in operating assets and liabilities:				—	589,698
Inventories	(5,173)	(180,943)	(1,677,940)	(1,071,161)	(3,712,692)
Accounts receivable	696,319	(403,072)	(1,299,079)	(167,556)	(3,428,792)
Amounts due from related parties	28,896	(5,531,390)	(3,941,319)	(1,898,048)	(11,217,517)
Advances to suppliers	(15,037)	(230,969)	(2,584,264)	(757,549)	185,471
Other current assets	(15,359)	4,081	(45,092)	(12,257)	(7,175)
Accounts payable	(41,336)	243,536	2,811,156	198,217	(2,263,855)
Other payable	(7,724)	254,425	3,538	(130,903)	138,119
Advances from suppliers and customers	16,750	184,391	2,244,762	725,941	1,638,932
Accrued payroll and welfare	3,882	5,626	10,562	(7,112)	(16,713)
Amounts due to related parties	202,515	5,961,201	798,227	2,545,641	16,779,137
Accrued warranty costs	37,269	86,295	166,819	64,400	242,048
Other current liabilities	—	62,665	149,484	56,215	542,608
Income tax payable	27,194	84,157	114,081	139,249	92,504
Other tax payable	118,900	86,500	78,495	—	172,053
Net cash provided by (used in) operating activities	1,108,904	726,534	(3,401,204)	336,104	(781,571)
Investing activities:					
Investment in subsidiaries	(102,412)	(227,329)	(3,468,291)	(1,547,449)	(3,849,328)
Net cash used in investing activities	(102,412)	(227,329)	(3,468,291)	(1,547,449)	(3,849,328)
Financing activities:					
Net proceeds from short-term borrowings	—	—	1,300,000	—	—
Proceeds from issuance of convertible notes	—	—	8,100,000	—	3,650,000
Issuance cost paid	—	—	(69,685)	—	(1,169,649)
Net cash provided by financing activities	—	—	9,330,315	—	2,480,351
Effect of exchange rate changes	(27,989)	(7,706)	201,741	(17,273)	136,972

	Years Ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
	\$	\$	\$	\$	\$
				(Unaudited)	
Net increase in cash and cash equivalents	978,503	491,499	2,662,561	(1,228,618)	(2,013,576)
Cash and cash equivalents at the beginning of the year	394,630	1,373,133	1,864,632	1,864,632	4,527,193
Cash and cash equivalents at the end of the year	<u>1,373,133</u>	<u>1,864,632</u>	<u>4,527,193</u>	<u>636,014</u>	<u>2,513,617</u>
Supplemental disclosure of cash flow information:					
Interest paid	—	—	3,349	—	(56,479)
Income taxes paid	<u>(30,732)</u>	<u>(63,841)</u>	<u>(28,584)</u>	<u>—</u>	<u>(98,662)</u>
Supplemental schedule of non-cash financing activities:					
Issuance cost included in other payable	<u>—</u>	<u>—</u>	<u>571,315</u>	<u>—</u>	<u>201,727</u>



7,700,000 Common Shares



PROSPECTUS

Deutsche Bank Securities
CIBC World Markets

Lehman Brothers
Piper Jaffray

, 2006

**CONFIDENTIAL TREATMENT REQUESTED BY CANADIAN SOLAR INC.
PART II**

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 6. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Under the CBCA, we may indemnify a present or former director or officer or a person who acts or acted at our request as a director or officer or an individual acting in a similar capacity, of another corporation or entity of which we are or were a shareholder or creditor, and his or her heirs and legal representatives, against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by him or her in respect of any civil, criminal, administrative, investigative or other proceeding in which the individual is involved because of that association with the corporation or other entity, provided that the director or officer acted honestly and in good faith with a view to the best interests of the corporation or other entity and, in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, had reasonable grounds for believing that his or her conduct was lawful. Such indemnification may be made in connection with a derivative action only with court approval. A director or officer is entitled to indemnification from us as a matter of right if he or she is not judged by the court or other competent authority to have committed any fault or omitted to do anything that the individual ought to have done and fulfilled the conditions set forth above.

Our bylaws provide that we shall indemnify our officers and directors to the extent permitted by the CBCA.

Our directors and officers are covered by directors' and officers' insurance policies.

Reference is made to Item 9 for our undertakings with respect to indemnification for liabilities arising under the Securities Act.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling us under the foregoing provisions, we have been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

ITEM 7. RECENT SALES OF UNREGISTERED SECURITIES.

During the past three years, we have issued the following securities (including options to acquire our common shares). We believe that each of the following issuances was exempt from registration under the

**CONFIDENTIAL TREATMENT REQUESTED BY CANADIAN SOLAR INC.
PART II**

INFORMATION NOT REQUIRED IN PROSPECTUS — (Continued)

Securities Act in reliance on Regulation S under the Securities Act or under Section 4(2) of the Securities Act regarding transactions not involving a public offering.

Purchaser	Date of Sale or Issuance	Number of Securities	Consideration in U.S. dollars	Underwriting Discount and Commission
Shawn Qu	October 2001	1,000,000 common shares	\$100	N/A
HSBC HAV2 (III) Limited	November 2005	Convertible note of \$5.4 million	\$5.4 million	N/A
JAFCO Asia Technology Fund II	November 2005	Convertible note of \$2.7 million	\$2.7 million	N/A
HSBC HAV2 (III) Limited	March 2006	Convertible Note of \$2.35 million	\$2.35 million	N/A
JAFCO Asia Technology Fund II	March 2006	Convertible Note of \$1.3 million	\$1.3 million	N/A
HSBC HAV2 (III) Limited	July 2006	1,343,022.577 common shares	Conversion of convertible notes	N/A
JAFCO Asia Technology Fund II	July 2006	693,173.247 common shares	Conversion of convertible notes	N/A

See "Management — 2006 Share Incentive Plan" for a list of all options and restricted shares granted by the Company.

ITEM 8. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

- (a) Exhibits — See Exhibit Index on page II-5
- (b) Financial Statement Schedules

ITEM 9. UNDERTAKINGS.

The undersigned registrant hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreements, certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant under the provisions described in Item 6, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

**CONFIDENTIAL TREATMENT REQUESTED BY CANADIAN SOLAR INC.
PART II**

INFORMATION NOT REQUIRED IN PROSPECTUS — (Continued)

The undersigned Registrant hereby undertakes that:

(1) For the purpose of determining liability under the Securities Act of 1933 to any purchaser, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(2) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities: The undersigned Registrant undertakes that in a primary offering of securities of the undersigned Registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned Registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

- (i) Any preliminary prospectus or prospectus of the undersigned Registrant relating to the offering required to be filed pursuant to Rule 424;
- (ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned Registrant or used or referred to by the undersigned Registrant;
- (iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned Registrant or its securities provided by or on behalf of the undersigned Registrant; and
- (iv) Any other communication that is an offer in the offering made by the undersigned Registrant to the purchaser.

**CONFIDENTIAL TREATMENT REQUESTED BY CANADIAN SOLAR INC.
PART II**

INFORMATION NOT REQUIRED IN PROSPECTUS — (Continued)

SIGNATURES

Pursuant to the requirements of the Securities Act, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-1 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Jiangsu, People's Republic of China, on October 23, 2006.

CANADIAN SOLAR INC.

By: /s/ Shawn Qu

Name: Shawn Qu

Title: Chairman, President and
Chief Executive Officer

POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints each of Shawn Qu and Bing Zhu his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any or all amendments (including post-effective amendments) to this registration statement and any and all related registration statement pursuant to Rule 462(b) of the Securities Act, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the SEC, hereby ratifying and confirming all that said attorney-in-fact and agent, or its substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act, this registration statement has been signed by the following persons in the capacities and on October 23, 2006.

<u>Signature</u>	<u>Title</u>
<u>/s/ Shawn Qu</u> Name: Shawn Qu	Chairman/ President/ Chief Executive Officer (principal executive officer)
<u>/s/ Bing Zhu</u> Name: Bing Zhu	Director/ Chief Financial Officer (principal financial and accounting officer)
<u>/s/ Lars-Eric Johansson</u> Name: Lars-Eric Johansson	Director
<u>/s/ Robert McDermott</u> Name: Robert McDermott	Director
<u>/s/ Arthur Chien</u> Name: Arthur Chien	Director
<u>/s/ Donald J. Puglisi</u> Name: Managing Director Title: Puglisi & Associates	Authorized U.S. Representative

**CONFIDENTIAL TREATMENT REQUESTED BY CANADIAN SOLAR INC.
PART II**

INFORMATION NOT REQUIRED IN PROSPECTUS — (Continued)

CANADIAN SOLAR INC.

EXHIBIT INDEX

Exhibit Number	Description of Document
1.1*	Form of Underwriting Agreement
3.1†	Articles of Continuance and Bylaws of the Registrant, as currently in effect
3.2†	Form of (Post IPO) Amended and Restated Articles of Continuance and Bylaws of the Registrant
4.1†	Subscription Agreement, dated November 16, 2005, in respect of the issue of notes convertible into common shares in the capital of Canadian Solar Inc., as amended by Supplemental Agreements, dated February 28, 2006, March 29, 2006, June 9, 2006 and July 1, 2006
4.2†	Investment Agreement, dated November 30, 2005, among the Registrant and the parties named therein
4.3†	Registration Rights Agreement, dated November 30, 2005, among the Registrant and other parties named therein
4.4†	Registration Rights Agreement, dated October 3, 2006, between the Registrant and ATS.
4.5†	Joinder Agreement, dated October 3, 2006, among the Registrant, Shawn Qu, ATS, HSBC HAV 2, (III) Limited, JAFCO Asia Technology Fund II (Barbados) Limited.
4.6†	Amended and Restated Certificates for the Convertible Notes and the Conditions, for the US\$5,400,000 and US\$2,700,000 Convertible Notes due November 30, 2008 issued by the Registrant to HSBC HAV2 (III) Limited and JAFCO Asia Technology Fund II, respectively.
4.7†	Amended and Restated Certificates for the Convertible Notes and the Conditions, for the US\$2,350,000 and US\$1,300,000 Convertible Notes due March 30, 2009 issued by the Registrant to HSBC HAV2 (III) Limited and JAFCO Asia Technology Fund II, respectively.
4.8†	Conversion Notices, each dated July 1, 2006, Regarding Conversion of Convertible Notes into Common Shares in the Capital of the Registrant.
4.9†	Put Option Agreement among Dr. Shawn Qu, HSBC HAV (III) Limited and JAFCO Asia Technology Fund II, dated July 1, 2006, as amended by the Supplemental Put Option Agreement, among Dr. Shawn Qu, HSBC HAV (III) Limited, JAFCO Asia Technology Fund II and JAFCO Asia Technology Fund II (Barbados) Limited, dated July 28, 2006.
4.10†	Letter Agreement among HSBC HAV2 (III) Limited, JAFCO Asia Technology Fund II, Dr. Shawn Qu and the Registrant Regarding Retained Earnings of the Registrant, dated July 28, 2006.
4.11*	Registrant's Specimen Certificate for Common Shares
5.1*	Opinion of WeirFoulds LLP regarding the validity of the common shares being registered
5.2†	Opinion of Chen & Co. regarding applicability of certain PRC regulations.
8.1*	Opinion of Latham & Watkins LLP regarding certain U.S. tax matters
8.2*	Opinion of WeirFoulds LLP regarding certain Canadian tax matters
10.1†	2006 Share Incentive Plan, including forms of Restricted Shares Award Agreement and Share Option Agreement
10.2†	Employment Agreement between the Registrant and the Chief Executive Officer of the Registrant
10.3†	Form of Employment Agreement between Registrant and any other Executive Officer of the Registrant
10.4†	Strategic Partnership Agreement and Performance Reward Plan (2005), dated November 1, 2005, between Kunical International Group, Ltd. and the Registrant, as amended by the letter agreement dated August 25, 2006
10.5†	English translation of Polycrystalline Silicon Supply Agreement, dated September 12, 2005, between the Registrant and Luoyang Zhong Gui High Tech Co., Ltd.

**CONFIDENTIAL TREATMENT REQUESTED BY CANADIAN SOLAR INC.
PART II**

INFORMATION NOT REQUIRED IN PROSPECTUS — (Continued)

Exhibit Number	Description of Document
10.6†	English translation of Solar Cell Silicon Wafer Agreement, dated July 6, 2006, between the Registrant and Jiangxi Saiwei LDK Solar Energy High-Tech Limited, as amended by the supplemental agreement, dated August 11, 2006
10.7†	Written description of prior Consulting Agreement between the Registrant and Shawn Qu
10.8†	Written description of prior Consulting Agreement between the Registrant and Robert Patterson
10.9†	Security Agreement, dated September 30, 2005, between the Registrants and ATS
10.10†	Promissory Note, dated September 30, 2005, issued by the Registrant
10.11†	Agreement of Guarantee, dated September 2005, between Xiao Hua Qu a.k.a. Shawn Qu as guarantor and ATS as lender
10.12†	Guarantee and Postponement of Claim, undated, from Xiaohua Qu as guarantor and the Royal Bank of Canada as the lender
10.13†	Commercial Contract, dated September 20, 2006, between the Registrant and Swiss Wafers AG
21.1†	Subsidiaries of the Registrant
23.1†	Consent of Deloitte Touche Tohmatsu, Independent Registered Public Accounting Firm
23.2†	Consent of WeirFoulds LLP
23.3†	Consent of Latham & Watkins LLP
23.4†	Consent of Chen & Co.
23.5†	Consent of American Appraisal
24.1†	Powers of Attorney (included on signature page)
99.1†	Code of Business Conduct and Ethics of the Registrant

† Filed herewith.

* To be filed by amendment.

[LOGO] Industry Canada Industrie Canada

Canada Business Corporations Act	Loi canadienne sur les sociétés par actions	FORM 11 ARTICLES OF CONTINUANCE (SECTION 187)	FORMULE 11 CLAUSES DE PROROGATION (ARTICLE 187)
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1 -- Name of the Corporation Denomination sociale de la société	2. - Taxation Year End Fin de l'année d'imposition M D - j
CANADIAN SOLAR INC.	12 31
3 -- The province or territory in Canada where the registered office is to be situated	La province ou territoire au Canada où se situera le siège social
ONTARIO	
4 -- The classes and the maximum number of shares that the corporation is authorized to issue	Catégories et le nombre maximal d'actions que la société est autorisée émettre
The Corporation is authorized to issue an unlimited number of common shares.	
5 -- Restrictions, if any, on share transfers	Restrictions sur le transfert des actions, s'il y a lieu
None	
6 -- Number (or minimum and maximum number) of directors	Nombre (ou nombre minimal et maximal) d'administrateurs
Minimum 3 and Maximum 10	
7 -- Restrictions, if any, on business the corporation may carry on	Limites imposées à l'activité commerciale de la société, s'il y a lieu
None	
8 -- (1) If change of name effected, previous name	(1) S'il y a changement
de denomination sociale, indiquer	la denomination sociale antérieure
N/A	
(2) Details of incorporation	(2) Détails de la constitution
The Corporation was incorporated on October 22, 2001 under the Business Corporations Act (Ontario)	
9 -- Other provisions, if any	Autres dispositions, s'il y a lieu
Any meeting of shareholders or directors of the Corporation may be held at a place outside Canada that the directors determine.	

Signature Printed Name - Nom en lettres moulees 10 -- Capacity of 11 - Tel. No.
- En qualite de - N degrees de tel.

FOR DEPARTMENTAL USE ONLY - A L'USAGE DU MINISTERE SEULEMENT

IC 3247 (2003/06)

[CANADA LOGO]

Exhibit 3.1

BY-LAW NO. 1

being a by-law relating generally
to the transaction of the business and affairs of
CANADIAN SOLAR INC.

BE IT ENACTED AND IT IS HEREBY ENACTED as a by-law of Canadian Solar Inc. (the
"Corporation") that:

ARTICLE I
REGISTERED OFFICE

1.1 The Corporation may from time to time (i) by resolution of the board of

directors (the "Board") change the address of the registered office of the Corporation within the Province in Canada specified in its articles, and (ii) by an amendment to its articles, change the Province within Canada in which its registered office is situated.

ARTICLE II SEAL

2.1 The corporate seal of the Corporation shall be in the form from time to time adopted by resolution of the Board. An instrument or agreement executed on behalf of the Corporation by a director, an officer or an agent of the Corporation is not invalid merely because the corporate seal, if any, is not affixed thereto.

ARTICLE III DIRECTORS

3.1 Powers - Subject to any unanimous shareholders agreement, the Board shall manage, or supervise the management of, the business and affairs of the Corporation. Notwithstanding vacancies in the Board, the remaining directors may exercise all the powers of the Board so long as a quorum remains in office.

3.2 Number and Quorum - The number of directors, or the minimum and maximum number of directors of the Corporation, is set out in the articles of the Corporation. If a minimum and maximum number of directors is set out in the articles of the Corporation, the number of directors of the Corporation shall be the number of directors elected by the shareholders of the Corporation at the most recent meeting of shareholders. At least twenty-five per cent of the directors (or one director, if the Corporation has less than four directors) shall be resident Canadians as defined by the Act. If the Corporation is a distributing corporation as defined by the Act and any of its outstanding securities are held by more than one person, it shall have at least three directors, at least two of whom are not officers or employees of the Corporation or its affiliates. A majority of the number of directors constitutes a quorum at any meeting of the Board, and, notwithstanding any vacancy among the directors, a quorum of directors may exercise all the powers of the Board. However, for a meeting of directors to be validly constituted, provided that the Corporation is not a corporation referred to in subsection 105(4) of the Act, at least twenty five percent (25%) of directors present at such meeting must be

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resident Canadians as defined by the Act, or if the Corporation has less than four directors, at least one of the directors present must be a resident Canadian, as defined by the Act. If the Corporation is subject to subsection 105(3.1), then a majority of directors present at such meeting must be resident Canadians as defined by the Act, or if the Corporation has only two (2) directors, at least one of the directors present must be a resident Canadian, as defined by the Act. Notwithstanding the foregoing, if a resident Canadian director who is unable to be present at the meeting approves the business transacted thereat in writing, or by telephonic, electronic or other communication facility and such director together with those resident Canadian directors present at the meeting would have constituted the requisite percentage of those present, such meeting shall be validly constituted.

3.3 Qualification - Each director shall be at least eighteen years of age and not disqualified from being a director by the Act.

3.4 Election and Term of Office - The directors shall be elected yearly at the annual meeting of shareholders of the Corporation and the term of each director so elected shall expire at the termination of the next annual meeting of shareholders. Each director then in office shall retire, but, if qualified, shall be eligible for re-election. Notwithstanding the foregoing, if an election of directors is not held at the annual meeting of shareholders, the directors then in office shall continue in office until their successors are elected or appointed. The election may be by a show of hands unless a ballot be demanded by

any shareholder.

3.5 Vacancies - So long as there is a quorum of directors in office, any vacancy occurring in the Board (except a vacancy resulting from an increase in the number or the minimum or maximum number of directors or from a failure to elect the minimum number of directors required by the Articles) may be filled for the remainder of the term by the directors then in office.

3.6 Vacation of Office - A director may resign by notice in writing delivered or sent to the Corporation and such resignation shall become effective at the time it is sent to the Corporation, or at the time specified in the resignation, whichever is later. A director shall forthwith cease to be a director (a) upon becoming bankrupt; or (b) is of unsound mind and has been so found by a court in Canada or elsewhere.

3.7 Removal of Directors - The shareholders may, by resolution passed by a majority of the votes cast at a special meeting duly called for that purpose, remove any director or directors from office and any vacancy created by the removal of a director may be filled by ordinary resolution at the meeting at which the director is removed, failing which it may be filled by the Board.

3.8 Meetings of Directors - Meetings of the Board may be held at any place in the world.

The Chair of the Board (the "Chair"), a Vice-Chair of the Board (a "Vice-Chair"), the President or a Vice-President who is a director or any two directors may at any time, and the Secretary at their direction shall, convene a meeting of the Board. Notice of the meeting shall be given to each director not less than 48 hours before the meeting, provided that such meetings

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may be held at any time without formal notice being given if all the directors are present, or if a quorum is present (except where a director attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called) and those directors who are absent waive notice, and any resolution passed, or proceeding had, or action taken at such meeting shall be as valid and effectual as if it had been passed at or had or taken at a meeting duly called and constituted. If any matter referred to in Section 115(3) of the Act is to be dealt with at the meeting, such matter shall be specified in the notice.

A director may, if all the directors of the Corporation consent, participate in a meeting of the Board or of a committee of the Board by means of such telephone or other communications facilities as permit all persons participating in the meeting to hear each other, and a director participating in such meeting by such means is deemed to be present at that meeting. Any such consent may be given before, after or during the meeting to which it relates and may be given generally with respect to all meetings of the Board or of committees of the Board.

After the election of directors at a meeting of shareholders, for the first meeting of the Board to be held immediately following such meeting, or in the case of a director appointed to fill a vacancy on the Board, for the meeting at which the appointment is made, no notice of such meeting shall be necessary to the newly elected or appointed director or directors in order validly to constitute the meeting, provided a quorum of directors be present.

Notice of an adjourned meeting of the Board is not required to be given if the time and place of the adjourned meeting is announced at the original meeting or the adjourned meeting preceding the applicable adjourned meeting, if the original meeting is adjourned on more than one occasion.

The Board may appoint a day or days in any month or months for regular meetings of the Board and shall designate the place and time at which such meetings are to be held. A copy of any resolution of the Board fixing the place

and time of regular meetings of the Board shall be sent to each director forthwith after being passed, and no other notice shall be required for any such regular meeting.

Notice of any meeting or any irregularity in any meeting or the notice thereof may be waived by any director either before or after the meeting.

3.9 Absent Directors - Any director of the Corporation who may be resident either temporarily or permanently outside of Canada may file with the Secretary of the Corporation a written waiver of notice of any meetings of the Board and may at any time withdraw such waiver, and until such waiver shall be withdrawn, no notice of meetings of the Board need be sent to such director, and any and all meetings of the directors of the Corporation shall (providing a quorum of directors be present) be validly constituted notwithstanding that notice shall not have been given to such director.

3.10 Voting at Meetings - Questions arising at any meeting of the Board shall be decided by a majority of votes. In the case of an equality of votes, the chair of the meeting shall have a second or casting vote.

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3.11 Remuneration - The directors shall be paid such remuneration as the Board may from time to time by resolution determine. The directors shall also be entitled to be paid their travelling and other expenses properly incurred by them in going to, attending and returning from meetings of the Board, committees of the Board and shareholders and any other expenses properly incurred by them in connection with the affairs of the Corporation or to receive such fixed allowance in respect thereof as the Board may from time to time by resolution determine.

3.12. Committees - The Board may from time to time appoint such committees as it may deem advisable, but the functions of such committees shall be advisory only.

ARTICLE IV OFFICERS

4.1 Appointment - Subject to any unanimous shareholder agreement, the Board may appoint a Chair, one or more Vice-Chairs, a President and a Secretary and may appoint one or more Vice-Presidents (to which title may be added words indicating seniority or function), a Treasurer and such other officers as the Board may determine, including one or more assistants to any of the officers so appointed. A person who holds the offices of both Secretary and Treasurer, may, but need not be, known as the Secretary-Treasurer. The Board may specify the duties of and, in accordance with this by-law and subject to the provisions of the Act, delegate to such officers powers to manage the business and affairs of the Corporation. Subject to sections 4.4 and 4.5, an officer may, but need not be, a director and one person may hold more than one office.

4.2 Remuneration and Removal - The Board may fix the remuneration to be paid to officers, agents, servants, and employees of the Corporation. Any officer, agent, servant or employee of the Corporation may receive such remuneration as may be determined notwithstanding being a director or shareholder of the Corporation. The officers shall also be entitled to be paid their travelling and other expenses properly incurred by them in going to, attending and returning from committee and shareholders' meetings and any other expenses properly incurred by them in connection with the affairs of the Corporation or to receive such fixed allowance in respect thereof as the Board may from time to time by resolution determine. The Board may by resolution award special remuneration to any officer of the Corporation undertaking any special work or service for, or undertaking any special mission on behalf of the Corporation other than routine work ordinarily required of such officer. Any remuneration payable to any officer who is also counsel or solicitor to the Corporation, or otherwise serves it in a professional capacity, shall be in addition to professional fees. No confirmation by the shareholders of any such remuneration or payment shall be required. All officers shall be subject to removal by resolution of the Board at

any time with or without cause. Until such removal, or earlier resignation, each officer shall hold office until a successor is appointed or until earlier resignation.

4.3 Duties may be Delegated - In case of the absence or inability to act of any officer of the Corporation or for any other reason that the Board may deem sufficient, the Board may delegate all or any of the powers of such officer to any other officer or to any director for the time being.

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4.4 Chair of the Board - The Board may from time to time appoint a Chair who shall be a director. If appointed, the Board may assign to the Chair any of the powers and duties that are by any provisions of this by-law assigned to the President, and the Chair shall, subject to the provisions of the Act, have such other powers and duties as the Board may specify. The Chair shall, when present, act as chair of all directors and shareholders meetings.

4.5 Vice-Chairs of the Board - The Board may, from time to time, appoint one or more Vice-Chairs who shall be directors. In the absence or incapacity of the Chair, the Chair's duties and powers may be performed and exercised by the Vice-Chair or, if there is more than one, by the Vice-Chairs in order of seniority (as determined by the Board). If a Vice-Chair exercises any such duty or power, the absence or disability of the Chair shall be presumed with reference thereto.

4.6 The President - The President shall be charged with the general supervision of the business and affairs of the Corporation, shall be ex officio a member of all standing committees and, if no Chair has been appointed, or if appointed is not present, chair of all meetings of shareholders and, if a director, of all meetings of directors of the Corporation. The President shall perform all duties incident to the office and shall have such other powers and duties as may from time to time be assigned by the Board.

4.7 Vice-President - During the absence or disability of the President the President's duties and powers may be performed and exercised by the Vice-President, or if there are more than one, by the Vice-Presidents in order of seniority (as determined by the Board), save that no Vice-President shall preside at a meeting of the Board or at a meeting of shareholders who is not qualified to attend the meeting as a director or shareholder, as the case may be. If a Vice-President exercises any such duty or power, the absence or disability of the President shall be presumed with reference thereto. A Vice-President shall also perform such duties and exercise such powers as the President may from time to time delegate or the Board may prescribe.

4.8 Secretary - The Secretary shall give, or cause to be given, all notices required to be given to shareholders, directors, auditors and members of committees provided that the validity of any notice shall not be affected by reason only of the fact that it is sent by some person other than the Secretary, shall attend all meetings of the directors and of the shareholders and shall enter or cause to be entered in books kept for that purpose minutes of all proceedings at such meetings and, subject to any specific appointment to the contrary, shall be the custodian of the stamp or mechanical device generally used for affixing the corporate seal of the Corporation and of all books, papers, records, documents and other instruments belonging to the Corporation, and shall perform such other duties as may from time to time be prescribed by the Board.

4.9 Treasurer - The Treasurer shall keep or cause to be kept proper books of account and accounting records with respect to all financial and other transactions of the Corporation and, under the direction of the Board, shall control the deposit of money, the safekeeping of securities and the disbursement of the funds of the Corporation, shall render to the Board at the meetings thereof, or whenever required, an account of all transactions as Treasurer and of the financial position of the Corporation, and shall perform such other duties as may from time to time be prescribed by the Board.

4.10 Other Officers - The duties of all other officers of the Corporation shall be such as the terms of their engagement call for or the Board requires of them. Any of the powers and duties of an officer to whom an assistant has been appointed may be exercised and performed by such assistant, unless the Board otherwise directs.

4.11 Officers of Divisions - The Board may appoint persons as officers of particular divisions into which any of the activities of the Corporation may be divided, with such titles (such as vice-president, secretary, treasurer, assistant-secretary, assistant-treasurer of any such division) as the Board may, from time to time, determine, and with such duties as the Board may, from time to time, determine. The authority of the officers so appointed to particular divisions may be limited to acts and transactions pertaining to that portion of the business of the Corporation which that division is authorized to transact and perform.

ARTICLE V
DIRECTORS AND OFFICERS

5.1 Interest of Directors and Officers in Contracts - Each director and officer of the Corporation who is a party to a material contract or proposed material contract with the Corporation or is a director or officer of or has a material interest in any person who is a party to a material contract or a proposed material contract with the Corporation, shall disclose in writing to the Corporation or request to have entered in the minutes of a meeting of the Board the nature and extent of the personal interest of such director or officer at the time and in the manner required by the Act and shall refrain from voting in respect of the material contract or proposed material contract if and when prohibited by the Act.

5.2 Indemnification of Directors, Officers, and Others

- (a) Except in respect of an action by or on behalf of the Corporation or a body corporate of the type hereafter in this Section 5.2 referred to herein to procure a judgment in its favour, the Corporation may indemnify a director or officer of the Corporation, a former director or officer of the Corporation or a person who acts or acted at the Corporation's request as a director or officer, or an individual acting in a similar capacity, of a body corporate of which the Corporation is or was a shareholder or creditor, and such person's heirs and legal representatives, against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by such person in respect of any civil, criminal, administrative, investigative or other proceeding to which such person is involved because of that association with the Corporation or other entity, if:

- (i) such person acted honestly and in good faith with the view to the best interests of the Corporation or, as the case may be, to the best interests of the other entity for which the individual acted as director or officer or in similar capacity at the Corporation's request; and

- (ii) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, such person had reasonable grounds for believing that the conduct was lawful.
- (b) The Corporation may with the approval of a court indemnify any person referred to in part (a) of this Section 5.2 in respect of an

action by or on behalf of the Corporation or body corporate to procure a judgment in its favour, to which such person is made a party by reason of being or having been a director or an officer of the Corporation or body corporate, against all costs, charges and expenses reasonably incurred by such person in connection with such action if such person fulfils the conditions set out in parts (i) and (ii) of the said part (a).

- (c) The Corporation may at any time and from time to time provide indemnities of the type referred to in parts (a) and (b) of this Section 5.2 to any number or all of the persons referred to in such parts.

5.3 Insurance - The Corporation may purchase and maintain insurance for the benefit of any person referred to in Section 5.2 against any liability incurred by such person by reason of such person's failure to exercise in the capacity as a director or officer of the Corporation the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances and against any other liability save for any liability in respect of which the Act prohibits insurance to be maintained.

5.4 Protection of Directors and Officers - Except as otherwise specifically provided in the Act, no director or officer of the Corporation shall be liable for the acts, receipts, neglects or defaults of any other director or officer or employee, or for joining in any receipt or other act for conformity, or for any loss, damage or expense happening to the Corporation through the insufficiency or deficiency of title to any property acquired by order of the Board for or on behalf of the Corporation or for the insufficiency or deficiency of any security in or upon which any of the moneys of the Corporation shall be invested or for any loss or damage arising from the bankruptcy, insolvency or tortious act of any person, firm or corporation with whom any moneys, securities or effects of the Corporation shall be deposited, or for any loss, conversion, misapplication or misappropriation of or damage resulting from any dealings with any moneys, securities or other assets belonging to the Corporation or for any loss occasioned by any error of judgment or oversight on his part or for any other loss, damage or misfortune whatever which may happen in the execution of the duties of the office or in relation thereto unless the same shall happen by failure to exercise the powers and to discharge the duties of the office honestly, in good faith with a view to the best interests of the Corporation and in connection therewith to exercise that degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Subject to the foregoing, the directors may rely upon the accuracy of any statement or report prepared by the Corporation's auditors and shall not be responsible or held liable for any loss or damage resulting from the payment of any dividends or otherwise acting upon such statement or report.

5.5 Loans to employees - The Corporation may, if authorized by a resolution of the Board, give financial assistance by means of loans, guarantees or otherwise to employees of the Corporation or any of its affiliates:

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- (a) to enable or assist them to purchase or rent accommodation for their own occupation, or
- (b) in accordance with a plan for the purchase of shares of the Corporation or any of its affiliates to be held by a trustee.

5.6 Fidelity Bonds - The Board may require such officers, employees and agents of the Corporation as the Board deems advisable to furnish bonds for the faithful discharge of their duties, in such form and with such surety as the Board may from time to time prescribe, but no director shall be liable for failure to require any bond or for the insufficiency of any bond or for any loss by reason of the failure of the Corporation to receive any indemnity thereby provided.

ARTICLE VI
MEETINGS OF SHAREHOLDERS

6.1 Annual Meeting - The annual meeting of the shareholders shall be held at such place permitted by the Articles, on such day and at such time as the Board may from time to time determine, for the purpose of considering the financial reports and statements required by the Act to be placed before the shareholders at an annual meeting, electing directors, appointing an auditor, and for the transaction of such other business as may properly be brought before the meeting.

6.2 Other Meetings - The Board, the Chair, a Vice-Chair, the President or any two directors shall have power at any time to call special meetings of the shareholders to be held at such time, on such day and at such place within Canada, as may be determined by the Board. The phrase "meeting of shareholders" wherever it occurs in this by-law shall mean and include both an annual meeting and any other meeting of shareholders.

6.3 Notice of Meeting of Shareholders - The Board may fix in advance a date as the record date for the determination of shareholders entitled to receive notice of a meeting of shareholders but such record date shall not be more than 60 days nor less than 21 days before the date on which the meeting is to be held. If a record date is so fixed, notice thereof shall be given in the time and in the manner required by the Act. If no record date is fixed, the record date for the determination of shareholders entitled to receive notice of a meeting of shareholders shall be at the close of business on the day immediately preceding the day on which the notice is given, or, if no notice is given, shall be the day on which the meeting is held.

Notice of the time and place of a meeting of shareholders shall be sent not less than 21 days nor more than 60 days before the meeting to each shareholder entitled to vote at the meeting, to each director and to the auditor of the Corporation. Notice of a meeting of shareholders at which special business is to be transacted shall state the nature of that business in sufficient detail to permit the shareholders to form a reasoned judgment thereon and the text of any special resolution to be submitted to the meeting. All business transacted at a special meeting of shareholders and all business transacted at an annual meeting of shareholders, except consideration of the financial statements, auditor's report, election of directors and reappointment of the incumbent auditor, is deemed to be special business. A shareholder and any other person entitled to attend a meeting of shareholders may in any manner waive notice of such meeting.

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6.4 Persons Entitled to be Present - The only persons entitled to be present at a meeting of shareholders shall be those entitled to vote thereat, the directors and auditor of the Corporation and others who, although not entitled to vote are entitled or required under any provision of the Act or the Articles or by-laws to be present at the meeting. Any other person may be admitted only on the invitation of the chair of the meeting or with the consent of the meeting.

6.5 Quorum - A quorum of shareholders is present at a meeting of shareholders, irrespective of the number of persons actually present at the meeting, if the holders of at least 33-1/3 % of the shares entitled to vote at the meeting are present in person or represented by proxy.

6.6 List of Shareholders Entitled to Notice - For every meeting of shareholders, the Corporation shall prepare a list of shareholders entitled to receive notice of the meeting, arranged in alphabetical order and showing the number of shares held by each shareholder entitled to vote at the meeting. If a record date for the meeting is fixed pursuant to Section 6.3, the shareholders listed shall be those registered at the close of business on such record date. If no record date is fixed, the shareholders listed shall be those registered at the close of business on the day immediately preceding the day on which notice of the meeting is given, or where no such notice is given, the day on which the meeting is

held. The list shall be available for examination by any shareholder during usual business hours at the registered office of the Corporation or at the place where the central securities register is maintained and at the meeting for which the list was prepared.

6.7 Right to Vote - Where a record date is fixed pursuant to Section 6.3, a person named in the list referred to in Section 6.6 is entitled to vote the shares shown opposite such person's name at the meeting to which the list relates and at any adjournment thereof except to the extent that the person has transferred the ownership of any of such shares after the record date and the transferee of those shares produces properly endorsed share certificates, or otherwise establishes that such transferee owns the shares, and demands, not later than ten days before the meeting or the relevant adjournment thereof, that the transferee's name be included in the list before the meeting, in which case the transferee shall be entitled to vote the shares at such meeting or adjournment, as the case may be. Where the Corporation does not fix a record date pursuant to Section 6.3, a person named in a list referred to in Section 6.6 shall be entitled to vote the shares shown opposite such person's name on such list at the meeting to which the list relates.

6.8 Joint Shareholders - If two or more persons hold shares jointly, one of those holders present at a meeting of shareholders may in the absence of the others vote the shares, but if two or more of those persons, who are present in person or by proxy, vote, they shall vote as one on the shares jointly held by them.

6.9 Representative - If a body corporate or other entity other than a natural person is a shareholder of the Corporation, the Corporation shall recognize any individual authorized by a resolution of the board of directors or governing body of the body corporate or other entity to represent it at meetings of shareholders of the Corporation. An individual so authorized may exercise on behalf of the body corporate or other entity he represents all powers it could exercise if it were an individual shareholder.

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6.10 Votes to Govern - At all meetings of shareholders every question shall, unless otherwise required by the Act or the Articles of the Corporation, be decided by the majority of the votes duly cast on the question.

6.11 Casting Vote - In case of an equality of votes at any meeting of shareholders either upon a show of hands or upon a ballot the chair of the meeting shall not be entitled to a second or casting vote.

6.12 Chair - In the absence of any person whose office entitles such person to act as chair of the meeting for fifteen minutes after the time appointed for holding the meeting, the persons present at the meeting and entitled to vote shall choose one of their number to be chair.

6.13 Scrutineer - At each meeting of shareholders one or more scrutineers may be appointed by resolution of the meeting or by the chair with the consent of the meeting to serve at the meeting. Such scrutineers need not be shareholders of the Corporation.

6.14 Adjournment of Meetings - The chair of any meeting of shareholders may, with the consent of the meeting and subject to such conditions as the meeting may decide, adjourn the same from time to time and from place to place, and no notice of such adjournment need be given to the shareholders except as required by the Act. Any business may be brought before or dealt with at an adjourned meeting which might have been brought before or dealt with at the original meeting in accordance with the notice calling such original meeting.

6.15 Proxies - Every shareholder entitled to vote at a meeting of shareholders may by means of a proxy appoint a proxyholder or one or more alternate proxyholders, who are not required to be shareholders, to attend and act at the meeting in the manner and to the extent authorized by the proxy and with the

authority conferred by the proxy. The proxy shall be executed by the shareholder or the shareholder's attorney authorized in writing and shall be valid only at the meeting in respect of which it is given or any adjournment thereof. The proxy shall be in such form as may be prescribed from time to time by the Board or in such other form as the chair of the meeting may accept and as complies with all applicable laws and regulations. The proxy shall be deposited with the Corporation or an agent thereof designated by the Board before any vote is cast under the authority thereof or at such earlier time, not exceeding 48 hours, excluding Saturdays and holidays, preceding the meeting or any adjournment thereof, as the Board may specify in the notice calling the meeting. A proxy in the form of a facsimile transmission may also be so deposited.

6.16 Meetings without Notice - A meeting of shareholders may be held without notice at any time and place permitted by the Act: (a) if all the shareholders entitled to vote thereat are present in person or represented by proxy or if those not present or represented by proxy waive notice of or otherwise consent to such meeting being held, and (b) if the auditors and the directors are present or waive notice of or otherwise consent to such meeting being held; so long as such shareholders, auditors or directors present are not attending for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called. At such a meeting any business may be transacted which the Corporation at a meeting of shareholders may transact. If the meeting is held at a place outside Canada, shareholders not

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present or represented by proxy, but who have waived notice of or otherwise consented to such meeting, shall also be deemed to have consented to the meeting being held at such place.

6.17 Omission of Notice - The accidental omission to give notice of any meeting or any irregularity in the notice of any meeting or the non-receipt of any notice by any shareholder or shareholders, director or directors or the auditor of the Corporation shall not invalidate any resolution passed or any proceedings taken at any meeting of shareholders.

ARTICLE VII SECURITIES

7.1 Allotment - The Board may from time to time, subject to the provisions of the Act, allot or grant options to purchase the whole or any part of the authorized and unissued shares of the Corporation at such times, to such persons, for such consideration and on such terms and conditions as the Board shall determine, provided that no share shall be issued until it is fully paid as provided by the Act.

7.2 Securities Records - The Corporation shall maintain a securities register in which it records the shares and other securities issued by it in registered form, showing with respect to each class or series of securities the names, alphabetically arranged, and the latest known address of each person who is or has been a security holder, the number of securities held by each person who is or has been a security holder, the number of securities held by each security holder, and the date and particulars of the issue and transfer of each security.

7.3 Transfer of Securities - Subject to the provisions of the Act and any restrictions on transfer set forth in the Articles of the Corporation or in the resolution authorizing the issuance of the security, where a security certificate is presented for transfer, the Corporation shall register or cause to be registered the transfer.

ARTICLE VIII VOTING SHARES AND SECURITIES IN OTHER BODIES CORPORATE

8.1 All of the shares or other securities carrying voting rights in any other body corporate held from time to time by the Corporation may be voted at any and all meetings of holders of such securities in such manner and by such person or

persons as the Board shall from time to time determine. In the absence of action by the Board, the proper signing officers of the Corporation may also from time to time execute and deliver for and on behalf of the Corporation instruments of proxy and arrange for the issue of voting certificates and other evidence of right to vote in such names as they may determine.

ARTICLE IX NOTICES

9.1 Method of Giving Notices - Any notice (which term includes any communication or document) to be sent pursuant to the Act, the regulations thereunder, the Articles, the by-laws or otherwise to a shareholder, director, officer, auditor or member of a committee of the board shall be sufficiently given if delivered personally to the person to whom it is to be given or if delivered to the latest address as shown on the records of the Corporation or if mailed to such

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latest address by prepaid ordinary or air mail or if sent to such latest recorded address by any means of prepaid transmitted or recorded communication or if sent by telecopier, to the latest telecopier number of the person to whom it is to be given, as shown in the records of the Corporation. A notice so delivered shall be deemed to have been given when it is delivered, a notice so mailed shall be deemed to have been given when deposited in a post office or public letter box, a notice so sent by any means of transmitted or recorded communication shall be deemed to have been given when dispatched or delivered to the appropriate communication company or agency or its representative for dispatch, and a notice sent by telecopier shall be deemed to have been received at the time of transmission. The secretary may change or cause to be changed the recorded address or telecopier number of any shareholder, director, officer, auditor or member of a committee of the board in accordance with any information believed by him to be reliable.

9.2 Shares Registered in More Than One Name - If two or more persons are registered as holders of the same share or shares, any notice shall be addressed to all of such holders but notice to any one of such persons shall be sufficient notice to all of them.

9.3 Computation of Time - In computing the date when notice must be given under any provision requiring a specified number of days' notice of any meeting or other event, the date of giving the notice shall be excluded and the date of the meeting or other event shall be included.

9.4 Undelivered Notices - If any notice given to a shareholder pursuant to Section 9.1 is returned on three consecutive occasions because the shareholder cannot be found, the Corporation shall not be required to give any further notices to such shareholder until the shareholder informs the Corporation in writing of a new address.

9.5 Omissions and Errors - The accidental omission to give any notice to any shareholder, director, officer, auditor or member of a committee of the Board or the non-receipt of any notice by any such person or any error in any notice not affecting the substance thereof shall not invalidate any action taken at any meeting held pursuant to such notice or otherwise founded thereon.

9.6 Proof of Service - A certificate of the Secretary or other duly authorized officer of the Corporation in office at the time of the making of the certificate, or of any agent of the Corporation, as to facts in relation to the mailing or delivery or sending of any notice or publication of any such notice, shall be conclusive evidence thereof.

9.7 Signature to Notice - The signature to any notice to be given by the Corporation may be printed or otherwise mechanically reproduced thereon or partly printed or otherwise mechanically reproduced thereon.

9.8 Waiver of Notice - Any shareholder (or a duly appointed proxyholder),

director, officer, auditor or member of a committee of the board may at any time waive any notice, or waive or abridge the time for any notice, required to be given under any provision of the Act, the regulations thereunder, the articles, the by-laws or otherwise and such waiver or abridgment, whether given before, during or after the meeting or other event of which notice is required to be

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given, shall cure any default in the giving or in the time of such notice, as the case may be. Any such waiver or abridgment may be given in any manner unless required by the Act to be in writing.

ARTICLE X BORROWING AND SECURITIES

10.1 Borrowing Power - Without limiting the borrowing powers of the Corporation as set forth in the Act, the board may from time to time:

- (a) borrow money upon the credit of the Corporation;
- (b) issue, reissue, sell or pledge bonds, debentures, notes or other evidences of indebtedness or guarantee of the Corporation, whether secured or unsecured; and
- (c) charge, mortgage, hypothecate, pledge or otherwise create a security interest in all or any property of the Corporation, whether owned or subsequently acquired, to secure any bonds, debentures, notes or other evidences of indebtedness or guarantee of the Corporation.

10.2 Delegation - Subject to the Act, the board may from time to time delegate to such one or more of the directors and officers of the Corporation as may be designated by the Board all or any of the powers conferred on the board by Section 10.1 or by the Act to such extent and in such manner as the board shall determine at the time of each such delegation.

ARTICLE XI MISCELLANEOUS

11.1 Bank Accounts, Cheques, Drafts and Notes - The Corporation's bank accounts shall be kept in such chartered bank, trust company or other firm or body corporate carrying on a banking business as the Board may by resolution from time to time determine. Cheques on bank accounts, drafts drawn or accepted by the Corporation, promissory notes given by it, acceptances, bills of exchange, orders for the payment of money and other instruments of a like nature may be made, signed, drawn, accepted or endorsed, as the case may be, by such officer or officers, person or persons as the Board may by resolution from time to time name for that purpose. Cheques, promissory notes, bills of exchange, orders for the payment of money and other negotiable paper may be endorsed for deposit to the credit of the Corporation's bank account by such officer or officers, person or persons, as the Board may by resolution from time to time name for that purpose, or they may be endorsed for such deposit by means of a stamp bearing the Corporation's name.

11.2 Execution of Instruments - Any instruments in writing may be signed in the name of and on behalf of the Corporation by two persons, one of whom holds the office of Chair, Vice-Chair, President, Vice-President or director and the other of whom holds one of the said offices or the office of Secretary or Treasurer and any instrument in writing so signed shall be binding upon the Corporation without any further authorization or formality. The Board shall have power from time to time by resolution to appoint any other officer or officers or any person or

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persons on behalf of the Corporation either to sign instruments in writing generally or to sign specific instruments in writing. The corporate seal may, when required, be affixed to any instruments in writing on the authority of any of the persons named in this section. The term "instruments in writing" as used herein shall, without limiting the generality thereof, include contracts, documents, deeds, mortgages, hypothecs, charges, conveyances, transfers and assignments of property (real or personal, immovable or movable), agreements, tenders, releases, receipts and discharges for the payment of money for other obligations, conveyances, transfers and assignments of shares, stocks, bonds, debentures or other securities and all paper writings.

11.3 Investments - In particular, and without limiting the generality of the foregoing, the Chair, a Vice-Chair, the President, a Vice-President or any director together with the Secretary or Assistant-Secretary or any other director shall have authority on behalf of the Corporation to sell, assign, transfer, exchange, convert or convey any and all shares, stocks, bonds, debentures, rights, warrants or other securities owned by or registered in the name of the Corporation and to sign and execute all assignments, transfers, conveyances, powers of attorney and other instruments that may be necessary for the purpose of selling, assigning, transferring, exchanging, converting or conveying any such shares, stocks, bonds, debentures, rights, warrants or other securities.

11.4 Solicitors - Any of the Chair, a Vice-Chair, the President or the Secretary shall have power from time to time to instruct solicitors to institute or defend actions or other legal proceedings for the Corporation without any special resolution or retainer or instructions from the Board provided, however, that the Board may give instructions superseding or varying such instructions.

11.5 Custody of Securities - The Board may from time to time by resolution provide for the deposit and custody of securities of the Corporation. All share certificates, bonds, debentures, notes or other obligations or securities belonging to the Corporation may be issued or held in the name of a nominee or nominees of the Corporation (and if issued or held in the name of more than one nominee shall be held in the names of the nominees jointly with right of survivorship) and shall be endorsed in blank with endorsement guaranteed in order to enable transfers to be completed and registration to be effected.

11.6 Financial Year - The financial year of the Corporation shall terminate on such day as is from time to time determined by the board.

11.7 Interpretation - In all by-laws of the Corporation where the context so requires or permits, the singular shall include the plural and the plural the singular; the word "Articles" shall include articles of incorporation or of continuance of the Corporation and any and all amendments thereto and restatements thereof from time to time in force; the word "person" shall include firms and corporations, and the masculine gender shall include the feminine and neuter genders; and wherever reference is made to the "Act", it shall mean the Canada Business Corporations Act, and every other act or statute incorporated therewith or amending the same, or any act or statute substituted therefor, and in the case of such substitution the reference in the by-laws of the Corporation to non-existing acts or statutes shall be read as referring to the substituted provisions in the new act or statute.

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The undersigned, being all of the directors of the Corporation, by the signatures below, resolve pursuant to the Canada Business Corporations Act that the foregoing by-law shall be and it is hereby made a by-law of the Corporation.

DATED as of the 1st day of June, 2006.

Xiao Hua Qu

Bing Zhu

Vincent Chan Chun Hung

Raymond Leung

Arthur Chien

The undersigned, being the sole shareholder of the Corporation entitled to vote in respect of the foregoing by-law, by the signature below resolves pursuant to the Canada Business Corporations Act that the foregoing by-law shall be and it is hereby confirmed as a by-law of the Corporation.

DATED as of the 1st day of June, 2006.

Xiao Hua Qu

BY-LAW NO. 1

A BY-LAW RELATING TO THE CONDUCT OF THE
BUSINESS AND AFFAIRS OF CANADIAN SOLAR INC.

ARTICLE ONE -- INTERPRETATION

1.1 DEFINITIONS. In this by-law,

ACT means the Canada Business Corporations Act and the regulations thereunder as amended or replaced.

BOARD means the board of directors of the Corporation.

BY-LAWS means this by-law and all other by-laws of the Corporation in force from time to time.

CORPORATION means Canadian Solar Inc.

DOCUMENT includes:

- (a) a deed, mortgage, hypothec, charge, conveyance, transfer or assignment of property (real or personal, movable or immovable);
- (b) an agreement, instrument, certificate, release or receipt or discharge for the payment of money or other obligations;
- (c) a certificate evidencing, or a conveyance, transfer or assignment of, securities; and
- (d) any other paper writing of the Corporation.

ELECTRONIC DOCUMENT means any form of information in electronic, optical or similar form that can be read by a person by any means.

HOLIDAY has the meaning ascribed to it in the Interpretation Act (Canada) as amended or replaced.

INFORMATION SYSTEM means the system used to generate, send, receive, store or otherwise process an electronic document.

MEETING OF SHAREHOLDERS includes an annual meeting of shareholders and a special meeting of shareholders.

1.2 WORDS AND PHRASES. Words and phrases defined in the Act and used herein have the meanings ascribed to them in the Act.

1.3 NUMBER AND GENDER. Words importing the singular include the plural and vice versa; words importing gender include all genders; and words importing persons include individuals, bodies corporate, corporations, partnerships, trusts and any aggregate number of persons in whatever form.

1.4 HEADINGS. The headings in this by-law are for convenience of reference only and do not affect the construction or interpretation of this by-law.

1.5 CONFLICT WITH ACT. The by-laws are made pursuant to and should be read in conjunction with the Act. If there is any conflict between the provisions of any by-law and the provisions of the Act, the provisions of the Act govern.

1.6 CALCULATION OF TIME. The computation of any period of time shall be determined in accordance with the Interpretation Act (Canada), as amended or replaced.

ARTICLE TWO -- GENERAL

2.1 EXECUTION OF DOCUMENTS. Any document or class of documents that requires the signature of the Corporation shall be signed:

- (a) in the manner and by such person or persons as shall have been appointed by resolution of the Board to sign such document or such class of document, including through the use of electronic signatures, as contemplated in the Act, and facsimile reproduction of signatures; or
- (b) in the absence of any such resolution, by any two of the officers and directors of the Corporation,

and when so signed shall be binding upon the Corporation without further act or formality.

2.2 CORPORATE SEAL. The Corporation may but need not have a corporate seal. The Board may by resolution from time to time approve a corporate seal for the Corporation. The person or persons authorized to sign a document on behalf of the Corporation may, if desirable, affix the corporate seal of the Corporation to the document.

ARTICLE THREE -- DIRECTORS

3.1 NUMBER, TERM AND QUALIFICATIONS. The number of directors shall be the number fixed by the articles of the Corporation or, if the articles of the Corporation specify a minimum and maximum number of directors, the number of directors shall be the number within the minimum and maximum fixed by resolution of the Board. The term of each director shall expire at the annual meeting of shareholders following his or her election as director. Retiring directors shall be eligible for re-election as directors. Subject to the Act, the Board may fill any vacancies in the number of directors. At least 25% of the directors shall be resident Canadians.

3.2 MEETINGS. The Board may hold regular meetings at such times and places as the Board may determine from time to time. The Chairman, the President or any two directors may call a meeting of the Board (other than a regular meeting) at any time. A meeting of the Board shall be held at such place as the person or persons calling the meeting may determine. Unless waived by all the directors, written or oral notice of each meeting of the Board shall be given to each director at least 24 hours before the meeting. A notice of a meeting need not specify the business to be transacted at the meeting except as may be required by the Act. The accidental failure to give notice of a meeting to a director or any error in the notice of a meeting not affecting the substance thereof shall not invalidate any action taken at the meeting. A director may participate in a meeting of the Board or a Board committee by means of a telephonic, electronic or other communication facility that permits all participants to communicate adequately with each other during the meeting.

3.3 QUORUM. The quorum for each meeting of the Board shall be a majority of the directors. If a quorum is not present at a meeting of the Board, no business may be conducted at the meeting except that a majority of the directors present at the meeting may adjourn the meeting to a fixed time and place.

3.4 RESIDENT CANADIAN REQUIREMENT. Directors shall not transact business at a meeting of the Board unless at least 25% of the directors present at the meeting are resident Canadians. Notwithstanding the foregoing, directors may transact business at a meeting of the Board if a resident Canadian director who is unable to be present at the meeting approves, in writing or by telephonic, electronic or other communication facility, the business transacted at the meeting and the required number of resident Canadian directors would have been present at the meeting had that director been present at the meeting.

3.5 CHAIRMAN OF MEETING. The Chairman or, in his absence, the President or, in their absence, a director designated by the directors present at the meeting shall act as chairman of each meeting of the Board.

3.6 VOTES TO GOVERN. At all meetings of the Board, every question to be decided by the Board shall be decided by a majority of the votes cast on the question. The chairman of the meeting shall not have a second or casting vote.

3.7 BOARD COMMITTEES. The Board may elect or appoint Board committees composed of directors and other persons. Subject to any limitations prescribed by the Act, Board committees may exercise such powers as the Board may delegate to them and carry out such functions as the Board may determine.

ARTICLE FOUR -- OFFICERS

4.1 OFFICERS. The Board shall appoint a Chairman, a President and a Secretary and such other officers as the Board may deem advisable having such responsibilities as the Board determines.

ARTICLE FIVE -- MEETINGS OF SHAREHOLDERS

5.1 CALLING OF MEETING. The Board shall call an annual meeting of shareholders at the times prescribed by the Act and may call a special meeting of shareholders at any time. A special meeting of shareholders may be held in conjunction with an annual meeting of shareholders. The Corporation shall give written notice to shareholders and to any stock exchange on which its shares are listed of the time and place of each meeting of shareholders not less than 21 days and not more than 60 days before the date on which the meeting of shareholders is to be held.

5.2 CHAIRMAN AND SECRETARY OF MEETING. The Chairman or, in his absence, the President or, in their absence, a director designated by the Board shall act as chairman of each meeting of shareholders. If no such officer is present within thirty minutes after the time appointed for the holding of the meeting, the persons present and entitled to vote at the meeting shall choose one of their number to be chairman of the meeting. The Secretary shall be the secretary of each meeting of shareholders but, if the Secretary is not present, the chairman of the meeting shall appoint another individual, who need not be a shareholder, to act as secretary of the meeting.

5.3 PERSONS ENTITLED TO BE PRESENT. The only persons entitled to attend a meeting of shareholders shall be those entitled to vote thereat, the auditors of the Corporation and others who, although not entitled to vote, are entitled or required under any provision of the Act or the by-laws to be present at the meeting. Other persons may attend a meeting of shareholders only with the consent of the chairman of the meeting or the shareholders present, or deemed to be present, in person or by proxy at the meeting. Subject to the Act, any person entitled to attend a meeting of shareholders may participate in the meeting by means of a telephonic, electronic or other communication facility made available by the Corporation that permits all participants to communicate adequately with each other during the meeting. The persons participating in a meeting of shareholders by such means shall be deemed for the purposes of this by-law to be present at the meeting. If the Board or the shareholders of the Corporation call a meeting of shareholders pursuant to the Act, the Board or the shareholders, as the case may be, may determine that the meeting shall be held, in accordance with the Act, entirely by means of a telephonic, electronic or other communication facility that permits all participants to communicate adequately with each other during the meeting.

5.4 QUORUM. A quorum for the transaction of business at any meeting of shareholders shall be two or more shareholders present, or deemed to be present, in person or by proxy at the meeting and together holding or representing by proxy shares carrying at least 33(1/3) per cent of the votes entitled to be cast at the meeting.

5.5 SCRUTINEERS. If desired, one or more scrutineers may be appointed to serve at a meeting of shareholders by a resolution of the meeting or by the chairman of the meeting with the consent of the meeting. The scrutineers need not be shareholders of the Corporation.

5.6 VOTES TO GOVERN. Unless otherwise required by the Act, the articles or the by-laws, the majority of the votes cast shall determine all questions proposed for the consideration of the shareholders at a meeting of shareholders.

5.7 SHOW OF HANDS. At a meeting of shareholders, every motion shall, subject to the provisions of the Act, be decided by a show of hands, unless a ballot thereon is required by the chairman of the meeting or is demanded by any shareholder entitled to vote and present, or deemed to be present, in person or by proxy at the meeting. Upon a show of hands, every such person who is entitled to vote shall have one vote. Before or after a show of hands has been taken upon any motion, the chairman may require, or any shareholder entitled to vote and present, or deemed to be present, in person or by proxy at the meeting may demand a ballot thereon. Notwithstanding the foregoing, the vote on any motion may be held, subject to compliance with the Act, by means of a telephonic, electronic or other communication facility made available by the Corporation for such purpose. Unless a ballot thereon is demanded, a declaration by the chairman of the meeting that the vote upon a motion has been carried or carried by a particular majority or not carried shall be the decision of the shareholders upon the motion and an entry in the minutes of the meeting to the effect that the chairman of the meeting declared the motion to be carried or defeated is, in the absence of evidence to the contrary, proof of that fact without proof of the number or proportion of the votes recorded in favour of or against the motion. A demand for a ballot may be withdrawn at any time before the ballot is taken.

5.8 BALLOT. If a ballot is required by the chairman of the meeting or is duly demanded by any shareholder entitled to vote and present, or deemed to be present, in person or by proxy at the meeting and the demand is not withdrawn, a ballot upon the motion shall be taken in such manner as the chairman of the meeting shall direct. Unless the Act or articles otherwise requires, upon a ballot, each shareholder who is present, or deemed to be present, in person or by proxy at the meeting shall be entitled to one vote for each share in respect of which he or she is entitled to vote at the meeting and the result of the ballot shall be the decision of the shareholders upon the motion.

ARTICLE SIX -- LIMITATION OF LIABILITY

6.1 LIMITATION OF LIABILITY. Except as otherwise provided in the Act, no director or officer of the Corporation shall be liable for any liability or obligation of the Corporation or for any loss, damage or expense incurred by the Corporation for any reason whatsoever or for acts or omissions of any other director, officer, employee or agent of the Corporation; provided that nothing herein shall relieve any director or officer from his or her obligations under Section 6.2.

6.2 DUTIES. Every director and officer of the Corporation shall exercise the powers and discharge the duties of his or her office honestly and in good faith with a view to the best interests of the Corporation and, in connection therewith, shall exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

6.3 INDEMNIFICATION. Subject to the limitations contained in the Act, but without limit to the right of the Corporation to indemnify any individual, under the Act or otherwise, to the full extent permitted by law, the Corporation:

- (a) shall indemnify each director or officer or former director or officer of the Corporation and each other individual who acts or has acted at the Corporation's request as a director or officer, or in a similar capacity, of another entity, against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by the individual in respect of any civil, criminal, administrative, investigative or other proceeding in which

the individual is involved because of that association with the Corporation or other entity, provided that: (1) the individual acted honestly and in good faith with a view to the best interests of the Corporation, or, as the case may be, to

the best interests of the other entity for which the individual acted as a director or officer or in a similar capacity at the Corporation's request; and (2) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, the individual had reasonable grounds for believing that the conduct was lawful;

- (b) may advance moneys to a director, officer or other individual for the costs, charges and expenses of a proceeding referred to in subsection 6.3(a); and
- (c) with the approval of a court, shall indemnify an individual referred to in subsection 6.3(a), or advance moneys as contemplated in subsection 6.3(b), in respect of an action by or on behalf of the Corporation or other entity to procure a judgment in its favour, to which the individual is made a party because of the individual's association with the Corporation or other entity as described in subsection 6.3(a) hereof against all costs, charges and expenses reasonably incurred by the individual in connection with such action, if the individual fulfils the conditions set out in clauses 6.3(a)(1) and 6.3(a)(2).

6.4 INSURANCE. Subject to the provisions of the Act, the Corporation may purchase and maintain insurance for the benefit of any individual referred to in subsection 6.3(a) against any liability incurred by the individual either in that individual's capacity as a director or officer of the Corporation or in that individual's capacity as a director or officer, or similar capacity, of another entity, if the individual acts or has acted in that capacity at the Corporation's request.

ARTICLE SEVEN -- DIVIDENDS AND RIGHTS

7.1 DIVIDEND CHEQUES. A dividend payable in cash may be paid by cheque drawn on the Corporation's bankers or any one of them to the order of each registered holder of shares of the class or series in respect of which it has been declared and mailed by ordinary mail (or, if overseas from the place of mailing, by airmail), postage prepaid, to such registered holder at his or her address appearing on the register of shareholders, unless the holder otherwise directs. In the case of joint holders, the cheque shall, unless the joint holders otherwise direct, be made payable to the order of all of the joint holders and mailed to them at the address appearing on the register of shareholders in respect of their joint holding, or to the first address so appearing if there are more than one. Unless it is not paid on due presentation, the mailing of a dividend cheque as aforesaid shall satisfy and discharge the liability for the dividend to the extent of the sum represented thereby plus the amount of any tax which the Corporation is required to and does withhold.

7.2 NON-RECEIPT OF CHEQUES. If a dividend cheque is not received by the person to whom it is sent as aforesaid, the Corporation shall issue to such person a replacement cheque for a like amount upon such terms as to indemnity and evidence of non-receipt and of title as the Board may from time to time prescribe, whether generally or in any particular case.

ARTICLE EIGHT -- NOTICES

8.1 METHOD OF GIVING NOTICES. Any notice (which term includes any communication or document) to be given, sent, delivered or served pursuant to the Act, the articles, the by-laws or otherwise to a shareholder, director, officer or auditor shall be sufficiently given if delivered personally to the person to whom it is to be given or if delivered to his or her recorded address or mailed

to him or her at his or her recorded address by ordinary mail (or, if overseas from the place of mailing, by airmail), postage prepaid, or sent to him or her at his or her recorded address by facsimile transmission or, subject to compliance with the Act, by the creation or provision of an electronic document. A notice so delivered shall be deemed to have been received when it is delivered personally at the address aforesaid. A notice so mailed shall be deemed to have been received at the time it would be delivered in the ordinary course of mail unless there are reasonable grounds for believing such notice was not received at that time or at all. A notice sent by facsimile transmission or electronic document shall be deemed to have been received when sent or provided to a designated information system.

8.2 NOTICE TO JOINT SHAREHOLDERS. If two or more persons are registered as joint holders of any share, notice to one of the joint holders shall be sufficient notice to all of them. Any notice shall be addressed to all of the joint holders and the address to be used for the purposes of Section 8.1 shall be the address appearing on the register of shareholders in respect of their joint holding, or the first address so appearing if there are more than one.

8.3 OMISSIONS AND ERRORS. The accidental omission to give any notice to any shareholder, director, officer, auditor or member of any Board committee or the non-receipt of any notice by any such person or any error in any notice not affecting the substance thereof shall not invalidate such notice or any action taken at any meeting held pursuant to such notice or otherwise founded thereon.

ARTICLE NINE -- REPEAL

9.1 REPEAL. The by-law adopted by the board of directors and shareholders of the Corporation as of June 1, 2006 is hereby repealed. However, such repeal shall not affect the previous operation of such by-law or affect the validity of any act done or right privilege, obligation or liability acquired or incurred under or the validity of any contract or agreement made pursuant to any such by-law prior to its repeal. All officers and persons acting under any by-law so repealed shall continue to act as if appointed under the provisions of this by-law and all resolutions with continuing effect of the board, shareholders or committees of the board passed under such repealed by-law shall continue to be good and valid except to the extent inconsistent with this by-law and until amended or repealed.

ENACTED: _____, 2006.

ARTICLES OF AMENDMENT OF CANADIAN SOLAR INC.

SCHEDULE/ANNEX A

The Corporation is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series.

The rights, privileges, restrictions and conditions attaching to the common shares and to the preferred shares as a class are as follows:

1. COMMON SHARES

1.1 DIVIDENDS. Subject to the prior rights of the holders of the preferred shares, the holders of the common shares shall be entitled to receive dividends declared by the board of directors of the Corporation.

1.2 DISSOLUTION. Subject to the prior rights of the holders of the preferred shares, the holders of the common shares shall be entitled to receive the remaining property of the Corporation in the event of the liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, or in the event of any other distribution of the property or assets of the

Corporation among its shareholders for the purpose of winding up its affairs, whether voluntary or involuntary.

1.3 VOTING. The holders of the common shares shall be entitled to one vote for each common share held by them at all meetings of shareholders of the Corporation, except meetings at which the holders of the preferred shares are entitled to vote separately as a class or series.

2. PREFERRED SHARES

2.1 ONE OR MORE SERIES. The board of directors of the Corporation may issue one or more series of preferred shares at any time and from time to time. Before it issues any series of preferred shares, the board of directors of the Corporation shall fix the number of preferred shares in, and determine the designation, rights, privileges, restrictions and conditions attaching to the preferred shares of, such series, including without limitation:

- (a) the issue price per share, which may be expressed in a foreign currency, provided that the issue price per share shall not be less than C\$1.00 (or its equivalent in a foreign currency at the date of issuance) or more than C\$100.00 (or its equivalent in a foreign currency at the date of issuance);
- (b) the rate, amount or method of calculation of dividends, including whether such rate, amount or method shall be subject to change or adjustment in the future;
- (c) the method of payment of dividends, including whether such dividends shall be cumulative, non-cumulative, partially cumulative, deferred or payable on some other basis;
- (d) the date or dates, manner and currency or currencies of payment of dividends;
- (e) the restrictions, if any, on the payments of dividends on any Junior Shares (defined below);
- (f) the rights and obligations, if any, of the Corporation to redeem or purchase the shares, including the prices and other terms of redemption or purchase;
- (g) the terms of any share purchase plan or sinking or similar fund providing for the purchase or redemption of the shares;
- (h) the rights, if any, of the holders of the shares to retract the shares, including the prices and other terms of retraction;
- (i) the rights, if any, of the holders of the shares or the Corporation to convert or exchange the shares for other securities of the Corporation or any other entity and the rates and other terms of conversion or exchange;
- (j) the voting rights, if any, attached to the shares; and
- (k) the preferences, if any, of the shares over any Junior Shares with respect to the distribution of assets of the Corporation in the event of liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, or in the event of any other distribution of the property or assets of the Corporation among its shareholders for the purpose of winding up its affairs, whether voluntary or involuntary.

"JUNIOR SHARES" means the common shares and any other shares of the Corporation ranking junior to the preferred shares with respect to the payment of dividends and with respect to the distribution of assets in the event of the liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, or in the event of any other distribution of the property or assets of the Corporation among its shareholders for the purpose of winding up its affairs, whether voluntary or involuntary.

2.2 DISSOLUTION. In the event of the liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, or in the event of any other distribution of the property or assets of the Corporation among its shareholders for the purpose of winding up its affairs, whether voluntary or involuntary, before any amount shall be paid to, or any property distributed among, the holders of the common shares, the holders of the preferred shares shall be entitled to receive:

- (a) the amount paid up on such shares or such other amount or amounts as have been provided for with respect to such shares;
- (b) the premium, if any, provided for with respect to such shares;
- (c) in the case of shares entitled to cumulative dividends, any unpaid cumulative dividends on such shares; and
- (d) in the case of shares entitled to non-cumulative dividends, any declared but unpaid non-cumulative dividends on such shares.

After payment of the amounts payable to them, the holders of the preferred shares shall not be entitled to share in any further distribution of the property and assets of the Corporation.

2.3 VOTING. Except where the rights, privileges, restrictions and conditions attaching to a series of preferred shares otherwise provide, the holders of the preferred shares shall not be not entitled as such to receive notice of, or to attend or vote at, a meeting of the shareholders of the Corporation. Except where the rights, privileges, restrictions and conditions attaching to a series of preferred shares otherwise provide, on any poll taken at any meeting of the holders of preferred shares, whether as a class or a series or two or more series, each holder of preferred shares entitled to vote at the meeting shall have one one-hundredth of a vote in respect of each C\$1.00 (or its equivalent in a foreign currency at the date of issuance) of the issue price for each preferred share held. Except where the rights, privileges, restrictions and conditions attaching to a series of preferred shares otherwise provide, the formalities to be observed with respect to the giving of notice of, and voting at, any meeting of holders of preferred shares, including without limitation, the quorum therefor, shall be those from time to time prescribed by the bylaws of the Corporation or by standing resolutions of the board of directors of the Corporation with respect to meetings of shareholders.

2.4 NO VOTING REQUIRED. Subject to the rights, privileges, restrictions and conditions attaching to a series of preferred shares, the Corporation may, without the approval or consent of the holders of the preferred shares voting separately as a class or series, at any time and from time to time:

- (a) create one or more other classes of shares ranking on a parity with the preferred shares with respect to the payment of dividends or the distribution of assets in the event of the liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, or in the event of any other distribution of the property or assets of the Corporation among its shareholders for the purpose of winding up its affairs, whether voluntary or involuntary;
- (b) if all dividends on each outstanding series of preferred shares accrued to the most recently preceding date for the payment of dividends on such series shall have been declared and paid or set apart for payment, create one or more other classes of shares ranking superior to the preferred shares with respect to the payment of dividends or the distribution of assets in the event of the liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, or in the event of any other distribution of the property or assets of the Corporation among its shareholders for the purpose of winding up its affairs, whether voluntary or involuntary;

- (c) increase any maximum number of authorized shares of any other class of shares; and
- (d) effect an exchange, reclassification or cancellation of all or part of the preferred shares.

2.5 NO PRE-EMPTIVE RIGHTS. The holders of the preferred shares shall not be entitled as such to subscribe for, purchase or receive any part of any issue of securities of the Corporation, now or hereafter authorized, or any rights to acquire the same, otherwise than in accordance with any conversion, exchange or other rights which may from time to time be attached to any series of preferred shares.

ARTICLES OF AMENDMENT OF CANADIAN SOLAR INC.

SCHEDULE/ANNEX E

1. AUTHORITY TO HOLD MEETINGS OF SHAREHOLDERS OUTSIDE OF CANADA

Meetings of shareholders of the Corporation may be held at a place within Canada determined by the directors or, if determined by the directors, outside Canada in New York, New York, United States of America, Los Angeles, California, United States of America, London, England, the Hong Kong Special Administrative Region of The People's Republic of China or Shanghai, The People's Republic of China.

2. AUTHORITY TO APPOINT ADDITIONAL DIRECTORS

The board of directors of the Corporation shall fix and may change the number of directors within the minimum and maximum number of directors provided for in the Articles of the Corporation. The board of directors may appoint one or more additional directors, who shall hold office for a term expiring not later than the close of the next annual meeting of shareholders, but the total number of directors so appointed may not exceed one-third of the number of directors elected at the previous annual meeting of shareholders.

DATED 16 NOVEMBER 2005

(1) CANADIAN SOLAR INC.

(2) HSBC HAV2 (III) LIMITED

(3) JAFCO ASIA TECHNOLOGY FUND II

(4) MR. QU XIAO HUA

(5) (Chinese Characters) (CSI SOLARTRONICS CO., LTD.)

(6) (Chinese Characters) (CSI SOLAR TECHNOLOGIES INC.)

and

(7) (Chinese Characters) (CSI SOLAR MANUFACTURING INC.)

SUBSCRIPTION AGREEMENT

IN RESPECT OF THE ISSUE OF NOTES

CONVERTIBLE INTO COMMON SHARES

IN THE CAPITAL OF

CANADIAN SOLAR INC.

BAKER & MCKENZIE

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THIS AGREEMENT is made on the 16th day of November 2005

BETWEEN:

- (1) CANADIAN SOLAR INC., a corporation incorporated under the laws of the Province of Ontario, Canada with its registered office at 4056 Jefton Crescent, Mississauga, Ontario, Canada L5L 1Z3 (the "COMPANY");
- (2) HSBC HAV 2 (III) LIMITED, a company incorporated in the Cayman Islands with its registered office at 2nd Floor, Strathvale House, North Church Street, George Town, Grand Cayman, Cayman Islands (the "FUNDS");
- (3) JAFCO ASIA TECHNOLOGY FUND II, a Cayman Islands exempted company with its registered office at PO Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands ("JAFCO");
- (4) MR. QU XIAO HUA, holder of Canadian Passport Number BC289772 and whose residential address being at 4056 Jefton Crescent, Mississauga, Ontario, Canada L5L 1Z3 (the "FOUNDER");
- (5) (Chinese Characters) (CSI SOLARTRONICS CO., LTD.), a company established in the People's Republic of China with its registered office at (Chinese Characters) (Yangyuan Industrial Park, Changshu, Jiangsu Province 215562, the People's Republic of China) ("SOLARTRONICS");
- (6) (Chinese Characters) (CSI SOLAR TECHNOLOGIES INC.), a company established in the People's Republic of China with its registered office at (Chinese Characters) (Suite C6017, China Suzhou Pioneering Park for Overseas Chinese Scholars, No. 209, Zhuyuan Road, Suzhou New & Hi-Tech District, Jiangsu Province 215011, the People's Republic of China) ("SOLAR TECHNOLOGIES"); and
- (7) (Chinese Characters) (CSI SOLAR MANUFACTURING INC.), a company established in the People's Republic of China with its registered office at (Chinese Characters) (Building A6, Export Processing Zone, Suzhou New & Hi-Tech District, Jiangsu Province 215151, the People's Republic of China) ("SOLAR MANUFACTURING").

The Funds and JAFCO shall be referred to collectively as the "INVESTORS" and individually as an "INVESTOR".

Solartronics, Solar Technologies and Solar Manufacturing shall be referred to collectively as the "PRC SUBSIDIARIES" and individually as a "PRC SUBSIDIARY".

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WHEREAS:

- (A) The Company is a corporation incorporated under the laws of the Province of Ontario, Canada. Particulars of the Company are set out in Schedule 1.
- (B) The Company has agreed to issue, and the Investors have agreed to subscribe for, Convertible Notes up to an aggregate principal amount of US\$10,500,000, and the Company has agreed to grant to the Investors options to subscribe for additional Convertible Notes up to an aggregate principal amount of US\$2,500,000, in accordance with and subject to the terms set out in this Agreement and the Conditions.
- (C) In consideration of the Investors agreeing to subscribe for the Convertible Notes, the Warrantors have agreed to provide to the Investors such representations and warranties as are set forth herein and the Founder has agreed to guarantee to the Investors the performance by the Company of its obligations under this Agreement, the Transaction Documents and the Conditions.

THE PARTIES HEREBY AGREE AS FOLLOWS:

1. DEFINITIONS

- 1.1 In this Agreement (including the Recitals), unless the context requires otherwise, the following expressions shall have the following meanings:

"AFFILIATE" of a specified Person means any other Person that, directly or indirectly, through one or more intermediaries, Controls, is Controlled by, or is under common Control with, such specified Person, and (a) in the case of a natural Person, such Person's spouse, parents and descendants (whether by blood or adoption and including stepchildren), and (b) in the case of an Investor, shall include (i) any Person who holds the Convertible Notes as a nominee for such Investor, (ii) any shareholder of such Investor and (iii) any entity or individual which has a direct or indirect interest in such Investor (including, if applicable, any general partner or limited partner, any fund manager or any fund managed by the same fund manager thereof), and each Group Company shall be deemed to be an Affiliate of the Founder;

"AGREED FORM" means, in relation to any document, the form of that document which has been or will be agreed and initialled by the Investors' Counsel and the Company's Counsel for the purpose of identification;

"APPLICABLE LAW" means, with respect to any Person, any and all provisions of any constitution, treaty, statute, law, regulation, ordinance, code, rule, judgement, rule of common law, order, decree, award, injunction, Governmental Approval, concession, grant, franchise, license, agreement, directive, guideline, policy, requirement, or other governmental restriction or any similar form of decision of, or determination by, or any interpretation or administration of any of the foregoing by, any Governmental Authority, whether in effect as of the date hereof or thereafter applicable to such Person;

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"ARBITRATORS" has the meaning ascribed to it in Clause 21.2;

"ARTICLES OF INCORPORATION" means the duly adopted articles of incorporation of the Company in force from time to time;

"ATS" means ATS Automated Tool Systems Inc., a corporation incorporated in Canada;

"ATS ARRANGEMENT" means the arrangement between the Founder and ATS in existence as at the date hereof in relation to, among other things, ATS's acquisition of ownership interest of not exceeding 19.5% in the Company;

"BOARD" means the board of directors of the Company;

"BUSINESS DAY" means any day (excluding Saturdays, Sundays and public holidays) on which banks generally are open for business in Hong Kong and Singapore;

"BUSINESS PLAN" means the business plan and business strategies of the Group in the form delivered to the Investors prior to the date hereof and as referred to in the Disclosure Letter;

"BY-LAWS" means the duly adopted by-laws of the Company in force from time to time;

"COMMON SHARES" means common shares in the capital of the Company and all other (if any) stock or shares from time to time and for the time being ranking pari passu therewith and all other (if any) shares or stock in the authorised share capital of the Company resulting from any sub-division, consolidation or re-classification of Common Shares;

"COMPANY'S COUNSEL" means Mr. John Tyrrell, the legal adviser to the Company;

"CONDITIONS" means the terms and conditions in respect of the Convertible Notes which shall form part of the Convertible Notes and which are set out in Schedule 5;

"CONTROL", "CONTROLLED" (or any correlative term) means the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of a Person, whether through the ownership of voting securities, by contract, credit arrangement or proxy, as trustee, executor, agent or otherwise; and for the purpose of this definition, a Person shall be deemed to Control another Person if such first Person, directly or indirectly, owns or holds more than 50% of the voting equity interests in such another Person;

"CONVERTIBLE NOTES" the convertible loan notes up to an aggregate principal amount of Thirteen Million United States Dollars (US\$13,000,000) convertible into Common Shares, the form of certificate for and conditions of which are set out in Schedule 5;

"CONVERTIBLE SECURITIES" means (i) any rights, options or warrants to acquire Shares, and (ii) any notes, debentures, preference shares (including, without

limitation, the Convertible Notes) or other securities or rights, which are ultimately convertible or exercisable into, or exchangeable for, Shares;

"DIRECTOR" means a director of the Company;

"DISCLOSURE LETTER" means the letter in the Agreed Form from the Warrantors to the Investors of even date hereto as accepted and countersigned by the Investors;

"ENCUMBRANCE" means any lien, encumbrance, hypothecation, right of others, proxy, voting trust or similar arrangement, pledge, security interest, collateral security agreement, limitations on voting rights, limitations on rights of ownership filed with any Governmental Authority, claim, charge, equities, mortgage, pledge, objection, title defect, title retention agreement, option, restrictive covenant, restriction on transfer, right of first refusal, right of first offer, or any comparable interest or right created by or arising under Applicable Law, of any nature whatsoever;

"ENVIRONMENTAL AND SAFETY LAWS" has the meaning ascribed to it in Paragraph 21 of Schedule 3;

"EQUITY SECURITIES" means (a) Convertible Securities and (b) shares of any class in the capital of the Company and including, without limitation, the Common Shares;

"ESOP" means an employee stock option plan to be adopted by the Company, pursuant to which (a) options may be granted to key employees and members of the management team of any Group Company to subscribe for Common Shares, (b) the number of Common Shares that may be subject to such options shall not exceed One Million (1,000,000) on the basis that the total expected number of Common Shares to be in issue on a Fully-Diluted Basis after issue of all Common Shares to ATS, pursuant to the ESOP and upon conversion of all Convertible Notes will be Ten Million (10,000,000), (c) the terms of the plan (including but not limited to the exercise price for each Common Share under the plan, the vesting date and the lock-up period of the options) shall be subject to the approval of the Compensation Committee of the Board, and (d) any grant of options under the plan shall be subject to the approval of the Compensation Committee of the Board;

"FINANCING TERMS" has the meaning ascribed to it in Clause 9.1;

"FIRST COMPLETION" means completion of the First Tranche Subscription in accordance with Clause 4.1;

"FIRST COMPLETION DATE" means the date on which First Completion takes place;

"FIRST TRANCHE SUBSCRIPTION" means the first tranche subscription of Convertible Notes as referred to in Clause 2.1;

"FULLY-DILUTED BASIS" means, when used with respect to issued and outstanding share capital of the Company, the total number of all Common Shares which are or would be issued and outstanding assuming the full conversion of all Convertible Notes in issue at the then applicable Conversion Price (as defined in the Conditions);

"GOVERNMENTAL APPROVAL" means any action, order, authorization, consent, approval, license, authorisation, qualification, lease, waiver, franchise, concession, agreement, ruling, permit, tariff, rate, certification, exemption of, filing or registration by or with, or report or notice to, any Governmental Authority;

"GOVERNMENTAL AUTHORITY" means any nation or government, any state or other political subdivision thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government (including, without limitation, any government authority, agency, department, board, commission or instrumentality of Canada, the PRC, Hong Kong or any other applicable jurisdiction in the world or any political subdivision of any of the foregoing), or any tribunal or arbitrator(s) of competent jurisdiction, or any self-regulatory organization;

"GROUP" means the Company and its subsidiaries (including the PRC Subsidiaries) and affiliates, and a "GROUP COMPANY" means any or a specific member within the Group as the context may require;

"GROUP INTELLECTUAL PROPERTY" has the meaning ascribed to it in Paragraph 13.1 of Schedule 3;

"HKIAC" has the meaning ascribed to it in Clause 21.2;

"HONG KONG" means the Hong Kong Special Administrative Region of the People's Republic of China;

"IAS" means International Accounting Standards as published by the International Accounting Standards Committee from time to time;

"INTELLECTUAL PROPERTY RIGHTS" means any and patents, patent rights and applications therefor, inventions, discoveries, improvements, concepts, innovations, industrial models, registered and unregistered copyrights, copyright registrations and applications, author's rights, works of authorship (including artwork of any kind and software of all types in whatever medium, inclusive of computer programs, source code, object code and executable code, and related documentation), web sites, web pages, technical information, know-how, trade secrets, drawings, designs, design protocols, specifications for parts and devices, research and development efforts, databases and proprietary data, formulae, operational procedures, trade names, trademarks, domain names, and service marks, and registrations and applications therefor, the goodwill of the business symbolized or represented by the foregoing, customer lists and other proprietary information and common law rights;

"INVESTMENT AGREEMENT" means an agreement substantially in the form set out in Schedule 8 to be entered into between the Parties at First Completion relating to the management of the Company and the PRC Subsidiaries and the relationship between other Parties;

"INVESTORS' COUNSEL" means Baker & McKenzie of 14/F, Hutchison House, 10 Harcourt Road, Central, Hong Kong, the legal advisers to the Investors;

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"IP CONFIDENTIAL INFORMATION" has the meaning ascribed to it in Paragraph 13.13 of Schedule 3;

"IPO" means the initial public offering of the shares of the Company or ListCo;

"JAFCO MANAGER" has the meaning ascribed to it in Clause 22;

"JIAP" has the meaning ascribed to it in Clause 22;

"LIEN" means any lien, pledge, mortgage, deed of trust, security interest, claim, lease, charge, option, right of first refusal, transfer restriction, hypothecation, Encumbrance or other security interest of any kind or nature whatsoever, or any agreement to give or make any of the foregoing;

"LISTCO" means a new holding company of the Group to be incorporated in a jurisdiction acceptable for the purpose of an IPO and the shares of which will be offered in the IPO;

"MAJORITY CN APPROVAL" means the written approval given by holders in respect of more than seventy-five per cent. (75%) of the aggregate principal amount of Convertible Notes subscribed for by the Investors;

"MATERIAL ADVERSE EFFECT" means any event, circumstance, occurrence, fact, condition, change or effect that is materially adverse to (i) the business, operations, results of operations, financial condition, management, prospects, properties, assets or liabilities of the Group, taken as a whole or otherwise; or (ii) the ability of any of the Company, the PRC Subsidiaries or the Founder to perform fully its/his obligations hereunder and to consummate the transactions contemplated hereby;

"MATERIAL CONTRACT" means an agreement, contract, arrangement or understanding to which any Group Company is a party and (a) which individually results or will result in any Group Company incurring a liability, cost or indebtedness or receiving revenue or payment in excess of (i) Two Hundred Thousand United States Dollars (US\$200,000) out of its

ordinary course of business or (ii) Five Hundred Thousand United States Dollars (US\$500,000) in the ordinary course of business or (b) such agreement, contract, arrangement, understanding or the indebtedness, liability or obligation arising therefrom is not terminable upon a notice of less than thirty (30) days notice without compensation, penalty or obligation;

"NOTE OPTION" has the meaning ascribed to it in Clause 2.2;

"PARTIES" means the named parties to this Agreement and their respective successors, and a "PARTY" shall be construed accordingly;

"PERSON" or "PERSONS" means any natural person, company, corporation, association, partnership, organization, firm, joint venture, trust, unincorporated organization or any other entity or organization, and shall include any Governmental Authority;

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"PRC" means the People's Republic of China, but shall not include Hong Kong, the Macau Special Administrative Region and Taiwan for the purpose of this Agreement;

"PRE-EMPTIVE RIGHT CERTIFICATE" means a certificate to be executed by the Founder substantially in the form set out in Schedule 4;

"QUALIFIED IPO" means a fully underwritten IPO on the main board of The Stock Exchange of Hong Kong Limited, the NASDAQ National Market or another international stock exchange (including without limiting the generality of the foregoing, the Toronto Stock Exchange) approved with Majority CN Approval, where (a) the offering size (net of all related expenses and underwriting discounts and commissions) being not less than Thirty Million United States Dollars (US\$30,000,000), (b) the total market capitalization of the Company or ListCo (as the case may be) immediately following the offering being not less than One Hundred and Twenty Million United States Dollars (US\$120,000,000) and (c) the public float immediately following the offering being not less than twenty-five per cent. (25%) of the enlarged share capital of the Company or ListCo (as the case may be);

"REGISTRATION RIGHTS AGREEMENT" means a registration rights agreement relating to the rights of the Investors to cause the Company to register its Shares to be entered into between the Company and the Investors in the Agreed Form;

"RELATED PARTIES" means Affiliates of the Founder and a "RELATED PARTY" shall mean any or a specific one of the Related Parties;

"RELATED PARTY TRANSACTION" means a transaction entered into by any Group Company with the Founder or any Related Party;

"RMB" means Renminbi, the lawful currency of the People's Republic of China;

"SATISFACTORY AUDIT REPORTS" means the consolidated financial statements of the Group (a) for the twelve (12) months ended 31 December 2004 in which the audited consolidated net profit after tax (excluding exceptional, extraordinary gains and prior year adjustments) of the Group for the twelve (12) months ended 31 December 2004 not being less than One Million United States Dollars (US\$1,000,000) and (b) for the eight (8) months ended 31 August 2005 in which the audited consolidated net assets of the Group as at 31 August 2005 not being less than Four Million and Five Hundred Thousand United States Dollars (US\$4,500,000), as prepared in accordance with IAS and audited by one of the "Big Four" accounting firms;

"SECOND COMPLETION" means completion of the Second Tranche Subscription in

accordance with Clause 4.2;

"SECOND COMPLETION DATE" means the date on which Second Completion takes place;

"SECOND TRANCHE SUBSCRIPTION" means the second tranche subscription of Convertible Notes as referred to in Clause 2.1;

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"SHARE(S)" means share(s) of any class in the capital of the Company and including, without limitation, the Common Share(s);

"SHARE PLEDGING AGREEMENT" means the Share Pledging Agreement to be entered into between the Founder and each of the Investors as referred to in Clause 4.1(A)(iv) in the Agreed Form;

"SHARE PLEDGE RELEASE" means the relevant release of each Share Pledging Agreement to be entered into between the Founder and each of the Investors as referred to in Clause 4.2(A)(iii) in the Agreed Form;

"SHAREHOLDER" means a holder of any Share(s);

"SUBSCRIPTION PRICE" means the price payable for the subscription of the Convertible Notes to be issued by the Company to the Investors pursuant to this Agreement;

"SUBSIDIARY" has the meaning that a company is a subsidiary of another company if that other company (i) Controls the composition of the board of directors of the first-mentioned company; (ii) Controls more than half of the voting power of the first-mentioned company; or (iii) holds more than half of the issued share capital of the first-mentioned company; and, for these purposes, a company shall be treated as being Controlled by another if that other company is able to direct its affairs and/or to Control the composition of its majority board of directors or equivalent management body;

"TAXES" or "TAXATION" means and includes all forms of tax, levy, duty, charge, impost, fee, deduction or withholding of any nature imposed, levied, collected withheld or assessed by any Governmental Authority or other taxing or similar authority in any part of the world and includes any interest, additional tax, penalty or other charge payable or claimed in respect thereof;

"TRANSACTION DOCUMENTS" means all documents (including but without limitation to the Investment Agreement, the Share Pledging Agreements, the Share Pledge Releases and the Registration Rights Agreement) referred to or contemplated in this Agreement;

"UNCITRAL RULES" has the meaning ascribed to it in Clause 21.2;

"UNITED STATES" or "US" means the United States of America;

"US\$" means United States dollars, the lawful currency of the United States of America;

"WARRANTORS" means the Company, the PRC Subsidiaries and the Founder and each of them shall be referred to as a "WARRANTOR"; and

"WARRANTORS' WARRANTIES" means the representations and warranties given by the Warrantors under Clause 5.1 and Schedule 3.

1.2 In this Agreement:

- (A) the headings are inserted for convenience only and shall not affect the construction and interpretation of this Agreement;
- (B) references to statutory provisions shall be construed as references to those provisions as amended or re-enacted or as their application is modified by other statutory provisions (whether before or after the date hereof) from time to time and shall include any provisions of which they are re-enactments (whether with or without modification) except to the extent that any amendment or modification enacted after the date hereof would extend or increase the liability of the Warrantors under the Warrantors' Warranties or (if applicable) materially affect the rights or obligations of any Party under this Agreement;
- (C) all time and dates in this Agreement shall be Hong Kong time and dates except where otherwise stated;
- (D) unless the context requires otherwise, words incorporating the singular shall include the plural and vice versa and words importing a gender shall include every gender;
- (E) references herein to Clauses, Recitals and Schedules are to clauses and recitals of and schedules to this Agreement; and
- (F) all Recitals and Schedules form part of this Agreement and shall have the same force and effect as if expressly set out in the body of this Agreement and any reference to this Agreement shall include such Recitals and Schedules.

1.3 Where any obligation in this Agreement is expressed to be undertaken or assumed by any Party, that obligation is to be construed as requiring the Party concerned to exercise all reasonable rights and powers of Control over the affairs of any other Person which that Party is able to reasonably exercise (whether directly or indirectly) in order to secure performance of that obligation.

1.4 In relation to the Warrantors' Warranties, references to the knowledge, information, belief or awareness of any Person shall be deemed to include any knowledge, information, belief or awareness which any such Person would have if he had made all usual and reasonable enquiries.

2. SUBSCRIPTION, CONSIDERATION AND GUARANTEE

2.1 Subject to the fulfilment of the conditions set out in Clause 3, the Investors agree to subscribe for, and the Company agrees to issue to the Investors, the following Convertible Notes free and clear of all Encumbrances, at a Subscription Price equivalent to the face value of the relevant Convertible Note, in two tranches in the following manner:

Face value / Subscription Price of the Convertible Notes			

Investor	First Tranche Subscription	Second Tranche Subscription	Total commitment
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The Funds	US\$5,400,000	US\$1,600,000	US\$ 7,000,000
JAFCO	US\$2,700,000	US\$ 800,000	US\$ 3,500,000
Total	US\$8,100,000	US\$2,400,000	US\$10,500,000

- 2.2 The Company shall grant an option (a "NOTE OPTION") to each Investor to subscribe for additional Convertible Notes of, subject to Clauses 2.3 and 2.6, an aggregate principal amount of Two Million Five Hundred Thousand Dollars (US\$2,500,000) as follows:

Investor	Face value / Subscription Price of the Convertible Notes subject to the Note Option (subject to adjustment set out in Clause 2.3)
-----	-----
The Funds	US\$1,500,000
JAFCO	US\$1,000,000
Total	US\$2,500,000

Pursuant to a Note Option, the relevant Investor shall have the right, which may be exercised in whole but not in part, at any time during the period from the Second Completion Date to 31 March 2006, to subscribe for Convertible Notes of the principal amount set opposite its name above.

The Note Option of each Investor is independent from the Note Option of the other Investor. For the avoidance of doubt, one Investor may exercise its Note Option even if the other Investor does not exercise its Note Option.

Each Note Option is transferable in whole but not in part provided that such transfer will not be subject to or will be exempted from the prospectus and registration requirements under the Ontario Securities Act.

- 2.3 At any time on or before 31 January 2006, the Company may, by a prior written notice given to each of the Investors, elect to reduce the principal amount of the Convertible Notes subject to the Note Option as follows:

Investor	Face value / Subscription Price of the Convertible Notes subject to the Note Option (after adjustment set out in this Clause 2.3)
-----	-----
The Funds	US\$ 750,000
JAFCO	US\$ 500,000
Total	US\$1,250,000

- 2.4 Unless otherwise agreed by all of the Investors in writing, the proceeds of the Subscription Price shall be used for one or more of the following purposes:

- (A) purchase of long-term silicon supplies for the Group;
- (B) the Group's working capital;
- (C) the Group's capital expenditures; or

(D) such other purposes as the Board may decide.

2.5 In consideration of the Investors agreeing to subscribe for the Convertible Notes, the Founder agrees to guarantee to the Investors the due and timely performance by the Company of its obligations under this Agreement, the Transaction Documents and the Conditions (where applicable). In the event that the Company fails to comply with any of its obligations under this Agreement, the Transaction Documents or the Conditions (where applicable), the Founder undertakes to procure the prompt compliance by the Company of such obligations and indemnify each of the Investors on demand from and against all or any losses, costs, expenses damages, claims and liabilities borne, suffered or incurred by the Investor arising or resulting from or in connection with such failure of the Company to perform its obligations set out in this Agreement, the relevant Transaction Documents and the Conditions (where applicable).

2.6 The Investors undertake to extend cooperation to the other Parties to convert, before Second Completion, the form of their investment in the Company contemplated under this Agreement from Convertible Notes to preference shares (which can be converted into Common Shares) to be issued by the Company on such terms and conditions agreed upon by all Parties, subject to the necessary documentation (which shall (a) confer to the Investors in respect of the preference shares substantially the same rights as those attaching to the Convertible Notes, (b) allow the Investors to subscribe for preference shares in the proportional amount and on terms being substantially the same as those for the Second Tranche Subscription and (c) contain an option for each Investor to subscribe for additional preference shares and an option for the Company to reduce such subscription on substantially the same terms set out in Clauses 2.2 and 2.3 respectively) being finalized to the satisfaction of all Parties. Where such conversion does not occur before Second Completion, all Parties agree that the Company shall have the right to cancel the Note Options granted to the Investors under Clause 2.2.

3. CONDITIONS PRECEDENT TO FIRST COMPLETION AND SECOND COMPLETION

3.1 The obligation of the Investors to complete the First Tranche Subscription is conditional, except as waived in accordance with Clause 3.3, upon the following conditions being satisfied prior to First Completion:

(A) all of the Investors shall have been satisfied with the results of the business, technical, legal and financial due diligence on the Group undertaken by any of the Investors and its professional advisers by way of means including the following:

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(i) site visits, discussions with the Company's management on matters relating to the business, marketing, future projections, prospects, business strategies and development of the Group;

(ii) legal due diligence; and

(iii) the financial due diligence report on the Group prepared by PricewaterhouseCoopers.

(B) the results of the review referred to in paragraph (A)(iii) above shall not, in the discretion of the Investors, be significantly different from the information presented to the Investors by the Company prior to the date hereof;

(C) the investment committee of each of the Investors shall have approved the transactions contemplated hereby as well as the execution, delivery and performance of this Agreement and the Transaction Documents (where applicable) by the relevant Investor;

- (D) the Investors and the Company shall have received a legal opinion addressed to, among others, the Investors in the Agreed Form from legal counsel accepted by the Investors on laws of Canada relating to this Agreement and the Transaction Documents and the transactions contemplated under such agreements;
- (E) the Investors and the Company shall have received a legal opinion addressed to, among others, the Investors in the Agreed Form from Chen & Co. Law Firm on laws of the PRC relating to the business of the Group and the due incorporation of the Group Companies established in the PRC;
- (F) the Investors shall have received a Pre-emptive Right Certificate duly executed by the Founder;
- (G) the Investors shall have received a certified copy of the employment contract entered into between the Company and the Founder in the Agreed Form of a term of at least three (3) years;
- (H) the Investors shall have received certified copies of the Board resolutions and shareholders' resolutions of the Company duly passed in the Agreed Form for (i) approving the execution, delivery and performance of this Agreement and the Transaction Documents (where applicable) by the Company and (ii) approving and adopting in the Agreed Form amendments to the Articles of Incorporation and the By-Laws incorporating, among other things, the restrictions imposed on the Shareholders under this Agreement and the Investment Agreement;
- (I) the Company shall have filed the amended Articles of Incorporation duly adopted by the Company as referred to in Clause 3.1(H) with all relevant Governmental Authorities in Canada and shall have provided to each Investor a certified copy of the amended Articles of Incorporation;

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- (J) the arrangement between the Company and Swift Allies Inc. shall have been terminated and all payments by any Group Company to such company shall have been ended;
- (K) no event or series of events shall have occurred which, in the opinion of any of the Investors, has had or would reasonably be expected to have a Material Adverse Effect;
- (L) the consummation of the transactions contemplated hereby for the purpose of the First Tranche Subscription shall have been approved, or met with consents from, the relevant Governmental Authority where necessary and shall not have been restrained, enjoined or otherwise prohibited by any Applicable Law, including any order, injunction, decree or judgement of any court or other Governmental Authority;
- (M) except as disclosed in the Disclosure Letter, all the Warrantors' Warranties shall be true and accurate in all material respects on the date hereof and at all times up to and including the First Completion Date;
- (N) none of the Warrantors shall have breached any of their respective obligations, covenants and undertakings under this Agreement or any of the Transaction Documents (where applicable); and
- (O) the Investors shall have received certified copies of the Board resolutions of each of the PRC Subsidiaries duly passed in the Agreed Form for approving the execution, delivery and performance of this Agreement and the Investment Agreement by that PRC Subsidiary.

3.2 The obligation of the Investors to complete the Second Tranche Subscription is conditional, except as waived in accordance with Clause 3.3, upon the following conditions being satisfied prior to Second Completion:

- (A) the Company shall have delivered to each of the Investors the Satisfactory Audit Reports;
- (B) no event or series of events shall have occurred which, in the opinion of any of the Investors, has had or would reasonably be expected to have a Material Adverse Effect;
- (C) the consummation of the transactions contemplated hereby for the purpose of the Second Tranche Subscription shall have been approved, or met with consents from, the relevant Governmental Authority where necessary and shall not have been restrained, enjoined or otherwise prohibited by any Applicable Law, including any order, injunction, decree or judgement of any court or other Governmental Authority;
- (D) except as disclosed in the Disclosure Letter, all the Warrantors' Warranties shall be true and accurate in all material respects on the date hereof and at all times up to and including the Second Completion Date;
- (E) none of the Warrantors shall have breached any of their respective

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obligations, covenants and undertakings under this Agreement or any of the Transaction Documents (where applicable); and

- (F) the Investors shall have received a certified copy of (i) the employment contract entered into between the Company and each Person who holds the office of the chief financial officer, the chief operating officer or vice president of any Group Company in the Agreed Form, each of such contract being of a term of at least three (3) years, and (ii) an undertaking entered into between the Company, the Investors and each of such employees in the Agreed Form containing non-solicitation and non-competition covenants and undertakings in respect of Intellectual Property Rights from the relevant Person.

3.3 The Investors together (but no individually) may waive all or any of the conditions set out in Clause 3.1 or Clause 3.2 at any time prior to the relevant completion date by notice in writing to all of the other Parties.

3.4 The Company shall use all reasonable endeavours to procure that the conditions set out in Clause 3.1 (except the one set out in Clause 3.1(C)) are satisfied on or before 22 November 2005 or such a later date as the Parties may agree. As soon as the conditions set out in Clause 3.1 have been fully satisfied, the Company shall give written notice of the satisfaction of the conditions to all of the Investors. First Completion shall not be proceeded with unless the First Tranche Subscription by all of the Investors are completed simultaneously. If any of the conditions set out in Clause 3.1 shall not have been fulfilled (or waived by the Investors in accordance with Clause 3.3) on or before such deadline, First Completion shall be postponed to a later date as may be mutually agreed between the Parties. If any of the conditions set out in Clause 3.1 shall not have been fulfilled (or waived by the Investors in accordance with Clause 3.3) on or before such new deadline, this Agreement shall be terminated automatically forthwith, and upon such termination, this Agreement (with the exception of Clauses 1, 8 to 14, 16 to 22 which shall remain in full force and effect) shall cease to have effect between the Parties. The Parties shall not have any further right and liability under or pursuant to the provisions of this Agreement save and except in respect of any antecedent breach occurring prior to such termination.

3.5 The Company shall use all reasonable endeavours to procure that the conditions set out in Clause 3.2 are satisfied on or before 31 January 2006. As soon as the conditions set out in Clause 3.2 have been fully satisfied, the Company shall give written notice of the same to all Investors. Second Completion shall not be proceeded with unless the Second Tranche Subscription by all of the Investors are completed simultaneously. If any of the conditions set out in Clause 3.2 shall not have been fulfilled (or waived by the Investors in accordance with Clause 3.3) on or before such deadline, the Investors shall not be obliged to complete the Second Tranche Subscription. Notwithstanding the above, this Clause 3.5 shall not prejudice any rights of the Investors or any claims that the Investors may have against any of the other Parties under this Agreement.

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4. COMPLETION

4.1 Subject to Clause 3, First Completion shall take place on the sixth (6th) Business Day after the issue and delivery of the notice by the Company to the Investors referred to in Clause 3.4 (which is intended by all Parties to be not later than 30 November 2005) or such time and date as may be mutually agreed by the Parties, at a place as the Company and the Investors may agree, when all of the following business shall be transacted simultaneously:

(A) the Company shall:

- (i) deliver to the Investors certified copies of the Board resolutions and shareholders' resolutions of the Company duly passed in the Agreed Form for (i) approving the issue of the Convertible Notes to the Investors and the issue of the certificates for the Convertible Notes in respect of the First Tranche Subscription to the Investors and (ii) approving the appointment of each Person nominated by each Investor as a Director;
- (ii) issue to the Investors the Convertible Notes in respect of the First Tranche Subscription and deliver to the Investors the relevant certificates of the Company (duly executed under seal) for such Convertible Notes dated the First Completion Date and issued substantially in the form set out in Schedule 5;
- (iii) where the Registration Rights Agreement has not been signed before the First Completion Date, deliver to the Investors five (5) counterparts of the Registration Rights Agreement each duly executed by the Company;
- (iv) deliver to the Investors four (4) counterparts of each set of Share Pledging Agreements duly executed by the Founder, pursuant to which the Founder shall mortgage, charge and assign absolutely by way of first legal mortgage the following number of Shares in favour of each relevant Investor as a continuing security for the due and punctual performance and observance by the Company of all the obligations of the Company under Clause 3.2(A) (individually, a "SHARE PLEDGING AGREEMENT" and collectively, the "SHARE PLEDGING AGREEMENTS"):

Investor

Number of Common Shares

The Funds 755,789

JAFCO	377,895
Total	1,133,684 which represents twenty per cent. (20%) of the total Shares in issue as at the date hereof

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together with (a) a certified copy of the Board resolution and
(b) the stock transfer and power of attorney signed by the
Founder, both in the Agreed Form in relation to each Share
Pledging Agreement.

- (v) deliver to the Investors ten (10) counterparts of the Investment Agreement each duly executed by the Company, the PRC Subsidiaries and the Founder;
- (vi) enter the name of such Person as shall be nominated by each Investor in the register of directors of the Company as a Director and make available for collection by the Investors as soon as practicable after First Completion a certified copy of such updated register of directors; and
- (vii) deliver to each Investor the deed of indemnity executed by the Company in favour of the Person referred to in Clause 4.1(A) (vi) substantially in the form set out in Schedule 6;
- (viii) a compliance certificate dated as of the First Completion Date executed by each Warrantor or a duly authorized representative of each Warrantor, as applicable, certifying that all of the conditions set forth in Clause 3.1 (other than Clause 3.1(C)) have been fulfilled; and

(B) each of the Investors shall:

- (i) make the payment of the relevant amount of Subscription Price in respect of the First Tranche Subscription to the Company by way of telegraphic transfer to the Company's designated bank account together with evidence that the Subscription Price has or will be credited by telegraphic transfer, for value no later than the next Business Day, into the Company's said designated bank account, details of which are to be provided by the Company to all of the Investors in the same written notice to be given by the Company as referred to in Clause 3.4;
- (ii) subject to the receipt of the counterparts from the Company referred to in Clause 4.1(A) (iii), deliver to the Company two (2) counterparts of the Registration Rights Agreement each duly executed by the Investors;
- (iii) subject to the receipt of the counterparts from the Company referred to in Clause 4.1(A) (iv), deliver to the Company two (2) counterparts of each set of the Share Pledging Agreements each duly executed by the relevant Investor;
- (iv) subject to the receipt of the counterparts from the Company referred to in Clause 4.1(A) (v), deliver to the Company seven (7) counterparts of the Investment Agreement each duly executed by the Investors;

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- (v) deliver to the Company a letter appointing a Person as a Director

and, subject to the Investor's discretion, a Person (or, where applicable, the same person) to be a director of a subsidiary of the Company;

- (vi) delivery to the Company an acceptance of appointment as Director signed by the Person nominated by the Investor to act as a Director or, where applicable, a director of the relevant subsidiary of the Company; and
- (vii) where applicable, deliver to the Company the duly signed Accredited Investor Certificate (the form of which being set out in Schedule 7) necessary for the Company to claim exemption from the prospectus and registration requirements under the Ontario Securities Act.

4.2 Subject to Clause 3, Second Completion shall take place on the sixth (6th) Business Day after the issue and delivery of the notice by the Company to the Investors referred to in Clause 3.5 or such time and date as may be mutually agreed by the Parties (which in any event shall not be later than 28 February 2006), at a place as the Company and the Investors may agree, when all of the following business shall be transacted simultaneously:

(A) the Company shall:

- (i) deliver to the Investors certified copies of the Board resolutions and shareholders' resolutions of the Company duly passed in the Agreed Form for approving the issue of the Convertible Notes to the Investors and the issue of the certificates for the Convertible Notes in respect of the Second Tranche Subscription to the Investors;
- (ii) issue to the Investors the Convertible Notes in respect of the Second Tranche Subscription and deliver to the Investors the relevant certificates of the Company (duly executed under seal) for such Convertible Notes dated the Second Completion Date and issued substantially in the form set out in Schedule 5; and
- (iii) deliver to the Investors four (4) counterparts of each set of the Share Pledge Releases duly executed by the Founder, pursuant to which the relevant Investor shall release the mortgage created under the relevant Share Pledging Agreement (individually, a "SHARE PLEDGE RELEASE" and collectively, the "SHARE PLEDGE RELEASES"); and

(B) each of the Investors shall:

- (i) make the payment of the relevant amount of Subscription Price in respect of the Second Tranche Subscription to the Company by way of telegraphic transfer to the Company's designated bank account together with evidence that the Subscription Price has or will be credited by telegraphic transfer, for value no later than the next Business Day, into the Company's said designated bank account,

details of which are to be provided by the Company to all of the Investors in the same written notice to be given by the Company as referred to in Clause 3.5;

- (ii) subject to the receipt of the counterparts from the Company referred to in Clause 4.2(A)(iii), deliver to the Company two (2) counterparts of each set of the Share Pledge Releases each duly executed by the relevant Investor; and

(iii) where applicable, deliver to the Company the duly signed Accredited Investor Certificate (the form of which being set out in Schedule 7) necessary for the Company to claim exemption from the prospectus and registration requirements under the Ontario Securities Act.

4.3 For the avoidance of doubt, each of the First Completion and the Second Completion of the subscription of Convertible Notes by all (but not only part) of the Investors shall be conducted simultaneously. Where any Investor fails to complete the subscription, the other Investors shall not be obliged to complete the subscription.

4.4 Where applicable, the Company undertakes that it shall file the Accredited Investor Forms received by the Investors as referred to in Clauses 4.1(B)(vii) and 4.2(B)(iii) with the relevant Governmental Authority in Canada forthwith after the First Completion Date or the Second Completion Date (as the case may be).

5. REPRESENTATIONS AND WARRANTIES

5.1 Warrantors' Warranties

(A) Subject to disclosure in the Disclosure Letter, (i) each of the Company and the Founder jointly and severally represents and warrants to and undertakes with the Investors that each of the Warrantors' Warranties in both Parts A and B of Schedule 3, and (ii) each of the PRC Subsidiaries for itself only (but not jointly and/or severally with other Warrantors) represents and warrants to and undertakes with the Investors that each of the Warrantors' Warranties in Part B only of Schedule 3, is true and accurate and not misleading as at the date of this Agreement and will continue to be true and accurate in all respects and not misleading on each day after the date hereof up to and including the First Completion Date and the Second Completion Date (as the case may be) as if repeated on each such day. For this purpose only, where in any of the Warrantors' Warranties there is an express or implied reference to the date of this Agreement, that reference is to be construed as a reference to each day after the date hereof up to and including the First Completion Date and the Second Completion Date (as the case may be).

(B) The Warrantors acknowledge that the Investors have entered into this Agreement in reliance upon the Warrantors' Warranties, and that they are given with the intention of inducing the Investors to enter into this

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Agreement.

(C) Without prejudice to anything contained in this Clause 5, all Warrantors' Warranties contained herein shall survive the execution and delivery of this Agreement, First Completion and Second Completion.

(D) Each of the Warrantors hereby agrees with the Investors to waive any right which he/it may have in respect of any misrepresentation, inaccuracy or omission in or from any information or advice supplied or given by any Group Company or its officers and employees or advisers in enabling him/it to give the Warrantors' Warranties.

(E) The rights and remedies of the Investors in respect of the Warrantors' Warranties shall not be affected by any investigation made by or on behalf of the Investors into the affairs of any Group Company, save as disclosed in the Disclosure Letter.

(F) Each of the Warrantors' Warranties shall be construed as a separate representation and warranty and (save as expressly provided to the contrary) shall not be limited or restricted by reference to or inference from the terms of any other representation or warranty or any other term of this Agreement.

5.2 Except as disclosed to the Company, each the Investors for itself only (but not jointly and/or severally with other Investors) represents and warrants to the Company that each of the following representations and warranties is true and accurate and not misleading as at the date of this Agreement and will continue to be true and accurate in all respects and not misleading on each day after the date hereof up to and including the First Completion Date and the Second Completion Date (as the case may be) as if repeated on each such day:

(A) the Investor is a duly incorporated corporation or corporate body, is validly existing under the laws of its place of incorporation and is not in receivership or liquidation, has not taken any steps to enter into liquidation and no petition has been presented for its winding up or for the appointment of a receiver thereof; and

(B) the Investor has full power and authority to enter into this Agreement and all of the other documents contemplated under this Agreement, and this Agreement, when executed and delivered, will constitute the Investor's valid and legally binding obligation, enforceable in accordance with its terms except that the transactions contemplated herein as well as the execution, delivery and performance of this Agreement and the Transaction Documents (where applicable) by the Investor will be subject to the approval of its investment committee.

5.3 Each Warrantor shall promptly notify all of the Investors upon its/his becoming aware at any time prior to and after First Completion or Second Completion (as the case may be) of any event which could reasonably be expected to cause any of the Warrantors' Warranties to be incorrect, misleading or breached in any material respect or which may have any Material Adverse Effect.

6. UNDERTAKINGS BEFORE COMPLETION

6.1 The Warrantors hereby agree and undertake with the Investors:

(A) that they shall not do, allow or procure any act or omission in the period up to and including the First Completion Date and the Second Completion Date (as the case may be) which would constitute a breach of any of the Warrantors' Warranties; and

(B) to disclose promptly to all of the Investors in writing upon becoming aware of any matter, event or circumstance (including any omission to act) which may arise or become known to the Warrantors or any of them after the date of this Agreement and before First Completion or Second Completion (as the case may be) and:

(i) constitutes a breach of or is inconsistent with any of the Warrantors' Warranties if given at any time up to and including the First Completion Date or the Second Completion Date (as the case may be) or which might make them inaccurate or misleading; or

(ii) has, or is likely to have a Material Adverse Effect; or

(iii) might otherwise materially and adversely affect the value of the Convertible Notes.

6.2 Except as otherwise permitted by this Agreement or with the prior written consent of all Investors (such consent shall not be unreasonably withheld or delayed), from the date hereof and at all times up to and including the First Completion Date or the Second Completion Date (as the case may be), the Company shall, and shall cause each other Group Company in respect of itself:

- (A) to carry on its business in the ordinary course consistent with past practice in all material respects and to preserve its relationships with customers, suppliers and others having business dealings with the Group;
- (B) not materially change its nature or business scope or carry on any type of business not ancillary or deviating from the existing business;
- (C) save for the purpose of facilitating the transactions contemplated under this Agreement, not to amend, alter or repeal, whether by merger, reclassification or otherwise any provision of its constitutional documents;
- (D) save for the purpose of facilitating the transactions contemplated under this Agreement, not to increase, reduce, consolidate, sub-divide or cancel its authorized and issued share capital;
- (E) not to change its name or the name under which it carries on business;
- (F) not to change its jurisdiction of incorporation;
- (G) not to make any composition or arrangement with its creditors;

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- (H) not to pass any resolution which would result in its winding up, liquidation or entering into administration or receivership;
- (I) not to consolidate or merge with any other business, which is not part of its existing business as at the date hereof;
- (J) not to offer, sell or issue, or enter into any agreement or issue any instrument providing for the offer, sale or issuance (contingent or otherwise) of, any Equity Securities, or any equity securities of any Group Company;
- (K) not to increase the number of shares available for grant or issuance under any share or stock option plan or other share incentive plan or arrangement or make any amendment to or terminate any such plan or arrangement (if any);
- (L) not to create or allow to arise any fixed or floating charge, mortgage, Lien (other than a Lien arising by operation of law), pledge or other Encumbrance over the whole or any part of the undertaking, property or assets; or create, allow to arise or issue any debenture constituting any of the foregoing;
- (M) not to make any loan or advance in a substantial amount (except to its wholly-owned subsidiary) or give any credit in a substantial amount (except trade credit to customers in the ordinary course of business);
- (N) not to give any guarantee or indemnity for or otherwise secure the liabilities or obligations of any Person (except in favour of its wholly-owned subsidiary in the ordinary course of business);
- (O) not to transfer, license or create any Encumbrance over any of its Intellectual Property Rights;

(P) not to appoint or remove its auditors; and

(Q) not to declare or make any dividend on or with respect to any Equity Securities, or any equity securities of any Group Company, or otherwise distribute its shareholders any of its assets or property or reserve.

6.3 The Founder undertakes to the Investors that he shall exercise all his powers in relation to each Group Company so as to procure that no action shall be taken by or on behalf of the Company or any other Group Company to approve, authorise and/or ratify any of the matters set out in Clause 6.2, or any agreement or commitment to engage in any such matters, without first obtaining the prior written consent of all Investors (such consent shall not be unreasonably withheld or delayed).

7. REMEDIES

7.1 If before First Completion:

(A) any material breach of representations and warranties of a Party set out in

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this Agreement or any of the Transaction Documents (where applicable) comes to the notice of any of the other Parties; or

(B) any of the Warrantors or any Investor is in material breach of any obligation on its/his part under this Agreement or any of the Transaction Documents (where applicable);

then, but without prejudice to any other rights or remedies available to the non-defaulting Parties hereunder, any of the non-defaulting Parties may, without any liability to the defaulting Party, elect to terminate this Agreement or the relevant Transaction Document by giving notice in writing to all other Parties, whereupon this Agreement or such Transaction Document (as the case may be) shall terminate.

7.2 The Warrantors hereby jointly and severally agree to indemnify, at anytime after First Completion or Second Completion (as the case may be), each Investor in respect of all costs and expenses (including, without limitation, legal expenses) which an Investor may reasonably incur either before or after the commencement of any action in connection with:

(A) the settlement of any claim for breach of the undertakings given by any of the Warrantors under this Agreement, the Conditions and the Transaction Documents (where applicable);

(B) the settlement of any claim that any of the Warrantors' Warranties made by them are, on or before the First Completion Date or the Second Completion Date (as the case may be), untrue or misleading or have been breached;

(C) any proceedings in which an Investor claims that any of the Warrantors' Warranties made by them are, on or before the First Completion Date or the Second Completion Date (as the case may be), untrue or misleading or have been breached and in which judgment is given for the Investor; or

(D) the enforcement of any such settlement, arbitral award or judgment.

7.3 The Founder hereby covenants with the Investors that he shall indemnify and at all times keep indemnified the Investors and the Company on demand from and against all or any depletion or diminution in the value of assets or

increase in the liabilities of any Group Company arising or resulting from any Taxes or Taxation claims which has been imposed or made or may hereafter be imposed or made, wholly or partly, in respect of or in consequence of any event or any income, profits or gains earned, accrued or received or which are alleged to have, or which should have, been earned or accrued or received, or any transaction effected on or before the First Completion Date PROVIDED THAT the Founder shall be under no liability in respect of any breach of the said indemnity as aforesaid:

- (A) to the extent that provision or reserve in respect of such liability was made in the Satisfactory Audit Reports or the Group's other financial statements audited by one of the "Big Four" accounting firms; or

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- (B) to the extent that such liability arises or is increased as a result only of any increase in rates of Tax made after First Completion with retrospective effect; or
- (C) if such liability arises in respect of Tax for which the Group Company is primarily liable and which arose in the ordinary course of business of the Group Company; or
- (D) to the extent of the indemnity amount that does not exceed, and has been fully absorbed by and paid off from, the aggregate audited retained earnings of the Group for all financial periods ending 28 February 2006.

8. PAYMENT AND TAXES

All payments to be made to the Investors by any of the other Parties under this Agreement shall be made:

- (A) in full without any Person being able to set-off any amounts due to it or claimed by it; and
- (B) without withholding or deduction of or on account of any present or future Taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the government of Hong Kong, Canada or any authority therein or thereof having power to tax unless the withholding or deduction of such Taxes, duties, assessments or governmental charges is required by law. In that event, the paying Party shall pay such additional amounts as may be necessary in order that the net amounts received by the relevant Investor after such withholding or deduction shall equal the respective amounts receivable by the Investor in the absence of such withholding or deduction.

9. ANNOUNCEMENTS AND CONFIDENTIALITY

- 9.1 Disclosure of Terms. Each Party acknowledges that the terms and conditions (collectively, the "FINANCING TERMS") of this Agreement, the Transaction Documents, and all exhibits, restatements and amendments hereto and thereto, including their existence, shall be considered confidential information and shall not be disclosed by it to any third party except in accordance with the provisions set forth in this Clause 9. Each Investor agrees severally with the Company that such Investor will keep confidential and will not disclose or divulge, any information which such Investor obtains from the Company, pursuant to financial statements, reports, presentations, correspondence, and any other materials provided by the Company or its advisers to, or communications between the Company and such Investor, or pursuant to information rights granted under this Agreement or any other related documents, unless the information is known, or until the information becomes known, to the public through no fault of such Investor, or unless the Company gives its written consent to such Investor's release

of the information.

- 9.2 Press Releases. Within sixty (60) days from First Completion, the Company may issue a press release disclosing that the Investors have invested in the Company provided that (a) the release does not disclose any of the Financing Terms, (b) the

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press release does not disclose the amount or other specific terms of the investment contemplated under this Agreement and the Transaction Documents, and (c) the final form of the press release is approved in advance in writing by each Investor mentioned therein. Investors' names and the fact that Investors have made an investment in the Company can be included in a reusable press release boilerplate statement, so long as each Investor has given the Company its initial approval of such boilerplate statement and the boilerplate statement is reproduced in exactly the form in which it was approved. No other announcement regarding any Investor in a press release, conference, advertisement, announcement, professional or trade publication, mass marketing materials or otherwise to the general public may be made without such Investor's prior written consent, which consent may be withheld at such Investor's sole discretion.

- 9.3 Permitted Disclosures. Notwithstanding anything in the foregoing to the contrary,

- (A) the Company may disclose any of the Financing Terms to its current or bona fide prospective investors, directors, officers, employees, shareholders, investment bankers, lenders, accountants, auditors, insurers, business or financial advisors, and attorneys, in each case only where such persons or entities are under appropriate non-disclosure obligations imposed by professional ethics, law or otherwise;
- (B) each Investor may, without disclosing the identities of the other Investors or the Financing Terms of their respective investments in the Company without their consent, disclose such Investor's investment in the Company to third parties or to the public at its sole discretion and, if it does so, the other Parties shall have the right to disclose to third parties any such information disclosed in a press release or other public announcement by such Investor;
- (C) each Investor shall have the right to disclose:
 - (i) any information to such Investor's and/or its fund manager's and/or its Affiliate's legal counsel, fund manager auditor, insurer, accountant, consultant or to an officer, director, general partner, limited partner, its fund manager, shareholder, investment counsel or advisor, or employee of such Investor and/or its Affiliate; provided, however, that any counsel, auditor, insurer, accountant, consultant, officer, director, general partner, limited partner, fund manager, shareholder, investment counsel or advisor, or employee shall be advised of the confidential nature of the information or are under appropriate non-disclosure obligation imposed by professional ethics, law or otherwise;
 - (ii) any information for fund and inter-fund reporting purposes;
 - (iii) any information as required by law, government authorities, exchanges and/or regulatory bodies, including by the Securities and Futures Commission of Hong Kong, the China Securities and Regulatory Commission of the PRC or the Securities and Exchange

Commission of the United States (or equivalent for other venues);
and/or

- (iv) any information to bona fide prospective purchasers/investors of any share, security or other interests in the Company, and
 - (v) any information contained in press releases or public announcements of the Company pursuant to Clause 9.2.
- (D) the confidentiality obligations set out in this Clause 9 do not apply to:
- (i) information which was in the public domain or otherwise known to the relevant Party before it was furnished to it by another Party hereto or, after it was furnished to that Party, entered the public domain otherwise than as a result of (i) a breach by that Party of this Clause 9 or (ii) a breach of a confidentiality obligation by the discloser, where the breach was known to that Party;
 - (ii) information the disclosure of which is necessary in order to comply with any Applicable Law, the order of any court, the requirements of a stock exchange or to obtain Tax clearance or other clearances or consents from any relevant authority; or
 - (iii) information disclosed by any Director or Observers to his/her appointer or any of its Affiliate or otherwise in accordance with the foregoing provisions of this Clause 9.3.

9.4 The obligations contained in this Clause 9 shall endure, even after the termination of this Agreement, without limit in point of time except to the extent that and until any confidential information enters the public domain as set out above.

10. ENTIRE AGREEMENT

This Agreement sets out the entire agreement and understanding between the Parties in respect of the transactions and matters contemplated under this Agreement.

11. VARIATION

No variation of this Agreement (or any document entered into pursuant to this Agreement) shall be valid unless it is in writing and signed by or on behalf of each of the Parties.

12. SUCCESSORS AND ASSIGNS

All rights, covenants and agreements of the Parties contained in this Agreement shall, except as otherwise provided herein, be binding upon and inure for the benefit of their respective successors or permitted assigns.

13. INVALIDITY

If any provision of this Agreement is held to be invalid or unenforceable, then such provision shall (so far as it is invalid or unenforceable) be given no effect and shall be deemed not to be included in this Agreement but without invalidating any of the remaining provisions of this Agreement.

14. WAIVER

14.1 No failure on the part of any Party to exercise, and no delay on its part in exercising, any right or remedy under this Agreement will operate as a waiver thereof nor will any single or partial exercise of any right or remedy preclude any other or further exercise thereof or the exercise of any other right or remedy. The rights and remedies provided in this Agreement are cumulative and not exclusive of any rights or remedies provided by law.

14.2 Any waiver of any provision of this Agreement, and any consent by a Party under any provision of this Agreement, must be in writing. Any waiver or consent shall be effective only for that instance and for the purpose for which it is given.

15. FURTHER ASSURANCE

Each Party shall do or procure to be done all such further acts and things, and execute or procure the execution of all such other documents, as the other Parties may from time to time reasonably require, whether on or after the First Completion Date or the Second Completion Date (as the case may be), for the purpose of giving to the other Parties the full benefit of all of the provisions of this Agreement.

16. NOTICES

16.1 Notices or other communications required to be given by any Party pursuant to this Agreement shall be written in English and may be delivered personally or sent by registered airmail or postage prepaid, by a recognized courier service or by facsimile transmission to the address of the other Parties set forth below. The dates on which such notices shall be deemed to have been effectively given shall be determined as follows:

- (A) notices given by personal delivery shall be deemed effectively given on the date of personal delivery;
- (B) notices given by registered airmail or postage prepaid shall be deemed effectively given on the fifth (5th) Business Day after the date on which they were mailed (as indicated by the postmark);
- (C) notices given by courier shall be deemed effectively given on the second (2nd) Business Day after they were sent by recognized courier service; and
- (D) notices given by facsimile transmission shall be deemed effectively given immediately following confirmation of its transmission as recorded by the sender's facsimile machine.

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TO THE COMPANY OR ANY OF THE PRC SUBSIDIARIES:

Address: (Chinese Characters)
(Building A6, Export Processing Zone
Suzhou New & Hi-Tech District
Jiangsu Province 215151
The People's Republic of China)
Fax Number: 86-512-62696016
Attention: Mr. QU Xiao Hua

TO THE FUNDS:

c/o HSBC Private Equity (Asia) Ltd.
Address: Level 17, 1 Queen's Road Central
Hong Kong

Fax Number: +852 2845-9992
Attention: The Managing Director

TO JAFCO:

c/o JAFCO Investment (Asia Pacific) Ltd
Address: 6 Battery Road
#42-01 Singapore 049909
Fax Number: +65 6221-3690
Attention: The President

With a copy to:

JAFCO Investment (Hong Kong) Ltd.
Address: 30/F Two International Finance Centre
8 Finance Street
Central
Hong Kong
Fax Number: +852 2536-1979
Attention: General Manager
Email: All E-mail correspondence to
vincent.chan@jafcoasia.com and
sam.lai@jafcoasia.com

TO THE FOUNDER:

Address: (Chinese Characters)
(Building A6, Export Processing Zone
Suzhou New & Hi-Tech District
Jiangsu Province 215151
The People's Republic of China)
Fax Number: 86-512-62696016

16.2 Any Party may at any time change its address or fax number for service of notices in writing delivered to the other Parties in accordance with this Clause 16.

17. COUNTERPARTS

This Agreement may be executed in any number of counterparts and by the Parties hereto on separate counterparts, each of which when so executed shall be an original, but all of which shall together constitute one and the same instrument.

18. COSTS

18.1 Subject to First Completion, the Company shall bear all costs and expenses reasonably incurred by the Investors in relation to the Investors' investment contemplated under this Agreement including but not limited to the preparation and negotiation of the documentation for the matters referred to in this Agreement and the Transaction Documents and the due diligence undertaken by the Investors, up to a maximum limit of One Hundred Thousand United States Dollars (US\$100,000).

18.2 In the event First Completion does not take place, the Company and the Investors shall bear their own costs and expenses, provided that if the Company unilaterally decides not to proceed with First Completion, the Company shall bear all costs and expenses reasonably incurred by or on behalf of the Investors in relation to the Investors' intended investment under this Agreement including but not limited to the preparation and negotiation of the documentation for the matters referred to in this Agreement and the Transaction Documents and the due diligence undertaken by the Investors, up to a maximum limit set out in Clause 18.1.

18.3 This Clause 18 shall survive the termination of this Agreement.

19. PROCESS AGENTS

19.1 Each Party hereby irrevocably appoints the Person set out opposite its name below as its respective agent to accept service of process in Hong Kong in any legal action or proceedings arising out of this Agreement, service upon whom shall be deemed completed whether or not such service of process is forwarded to such Party by its agent or received by it, and each Party warrants and undertakes to the other Parties that the agent appointed by it hereunder is a company incorporated in Hong Kong and the address of such agent set out below is its registered office address in Hong Kong:

PARTY -----	AGENT / REGISTERED OFFICE ADDRESS -----
For the Company, the Founder and the PRC Subsidiaries:	Key Consultant Limited Address: Unit 710, 7th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong
The Funds	HSBC Private Equity (Asia) Ltd. Address: Level 17, 1 Queen's Road Central, Hong Kong
JAFCO	JAFCO Investment (Hong Kong) Ltd.

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PARTY -----	AGENT / REGISTERED OFFICE ADDRESS -----
	Address: 30/F Two International Finance Centre, 8 Finance Street, Central, Hong Kong

19.2 If a process agent appointed by any Party pursuant to Clause 19.1 ceases to be able to act as such or to have a registered office address in Hong Kong, the Party which appoints such process agent shall appoint a new process agent, which shall be a company incorporated in Hong Kong, and to deliver to the other Parties, before the expiry of fourteen (14) days from the date on which such process agent ceases to be able to act as such or to have a registered office address in Hong Kong, a copy of the written acceptance of appointment by that new process agent.

19.3 Nothing in this Agreement shall affect the right to serve process in any other manner permitted by law or the right to bring proceedings in any other jurisdiction for the purposes of the enforcement or execution of any judgement or other settlement in any other courts.

20. GOVERNING LAW

This Agreement is governed by and shall be construed in accordance with the laws of Hong Kong.

21. DISPUTE RESOLUTION

- 21.1 Any dispute, controversy or claim arising out of or connected with this Agreement or the interpretation, breach, termination or validity hereof, including a dispute as to the validity or existence of this Agreement, shall be resolved by way of arbitration upon the request of any of the Parties in dispute with notice to the other Parties.
- 21.2 Arbitration under this Clause 21 shall be conducted in Hong Kong, under the auspices of the Hong Kong International Arbitration Centre (the "HKIAC") by three arbitrators (the "ARBITRATORS") pursuant to the rules of the United Nations Commission on International Trade Law (the "UNCITRAL RULES"), save that, unless the parties in dispute agree otherwise:
- (A) The three Arbitrators shall be appointed by the HKIAC; and
- (B) the Parties agree to waive any right of appeal against the arbitration award.
- 21.3 The arbitration shall be administered by HKIAC in accordance with HKIAC's procedures for arbitration.
- 21.4 Each Party shall cooperate with the others in making full disclosure of and providing complete access to all information and documents requested by another Party in connection with such arbitration proceedings, subject only to any confidentiality obligations binding on the disclosing Party.

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- 21.5 The award of the arbitral tribunal shall be final and binding upon the disputing parties, and a prevailing party may apply to any court of competent jurisdiction for enforcement of such award.
- 21.6 The cost of the arbitration (including the reasonable and properly incurred fees and expenses of the lawyers appointed by each party to the arbitration) shall be borne by the Party or Parties against whom the arbitration award is made or otherwise in accordance with the ruling of the arbitration tribunal.
- 21.7 Any Party shall be entitled to seek preliminary injunctive relief, if possible, from any court of competent jurisdiction pending the constitution of the arbitral tribunal.

22. JAFCO'S RIGHTS

All Parties acknowledge and agree that any rights of JAFCO under this Agreement may, without prejudice to the rights of JAFCO to exercise any such rights, be exercised by JAFCO Investment (Asia Pacific) Ltd. ("JIAP") or any other fund manager of JAFCO or their nominees (each, a "JAFCO MANAGER"), unless JAFCO has (a) given notice to the other Parties that any such rights cannot be exercised by JIAP or a JAFCO Manager; and (b) not given notice to the other Parties that such notice given under paragraph (a) above has been revoked.

IN WITNESS WHEREOF this Agreement has been executed by the Parties the day and year first before written.

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SCHEDULE 1

PARTICULARS OF THE COMPANY

NAME: Canadian Solar Inc.
DATE OF INCORPORATION: 22 October 2001
PLACE OF INCORPORATION: Province of Ontario, Canada
REGISTERED OFFICE: 4056 Jefton Crescent. Mississauga, Ontario, Canada
L5L 1Z3
DIRECTORS: QU Xiao Hua
ISSUED CAPITAL (AS OF THE DATE HEREOF): 5,668,421 Common Shares with no nominal or par value (subdivided from 1,000,000 Common Shares; subject to filing of the Articles with the relevant Governmental Authority in Canada)

SHAREHOLDERS AS AT THE DATE HEREOF: -----	SHAREHOLDER -----	NO. OF EQUITY SECURITIES HELD -----
	QU Xiao Hua	5,668,421 Common Shares

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SCHEDULE 2

PARTICULARS OF THE COMPANY'S SUBSIDIARIES

PART I

NAME: (Chinese Characters) (CSI Solartronics Co. Ltd.)
DATE OF INCORPORATION: 23 November 2001
PLACE OF INCORPORATION: (Chinese Characters) (Changshu, Jiangsu Province, the PRC)
REGISTERED OFFICE: (Chinese Characters) (Yangyuan Industrial Park, Changshu, Jiangsu Province 215562, the PRC)
DIRECTORS: QU Xiao Hua,
QU Chong Ji,
ZHU Bing,
Kelvin KING, and
ZHANG Guo Xin
TOTAL INVESTMENT: US\$3,000,000
REGISTERED CAPITAL: US\$2,100,000
REGISTERED CAPITAL PAID UP (AS AT THE DATE HEREOF): US\$2,100,000

SHAREHOLDERS: -----	SHAREHOLDER -----	EQUITY INTEREST HELD -----
	Canadian Solar Inc.	100% of the registered capital

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PART II

NAME: (Chinese Characters) (CSI Solar Technologies Inc.)
DATE OF INCORPORATION: 8 August 2003
PLACE OF INCORPORATION: (Chinese Characters) (Suzhou, Jiangsu Province, the PRC)
REGISTERED OFFICE: (Chinese Characters) 209 (Chinese Characters) C6017

(Chinese Characters) (Suite C6017, China Suzhou
Pioneering Park for Overseas Chinese Scholars, No.
209, Zhuyuan Road, Suzhou New & Hi-Tech District,
Jiangsu 215011, the PRC)

DIRECTORS:
TOTAL INVESTMENT: US\$1,000,000
REGISTERED CAPITAL: US\$700,000
REGISTERED CAPITAL PAID UP US\$121,460
(AS AT THE DATE HEREOF):

SHAREHOLDERS: -----	SHAREHOLDER -----	EQUITY INTEREST HELD -----
	Canadian Solar Inc.	100% of the registered capital

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PART III

NAME: (Chinese Characters) (CSI Solar Manufacturing Inc.)
DATE OF INCORPORATION: 7 January 2005
PLACE OF INCORPORATION: (Chinese Characters) (Suzhou, Jiangsu Province,
the PRC)
REGISTERED OFFICE: (Chinese Characters) (Export Processing Zone,
Suzhou New & Hi-Tech District, Jiangsu 215151, the
PRC)
DIRECTORS: QU Xiao Hua
TOTAL INVESTMENT: US\$25,000,000
REGISTERED CAPITAL: US\$10,000,000
REGISTERED CAPITAL PAID UP US\$1,500,000
(AS AT THE DATE HEREOF):

SHAREHOLDERS: -----	SHAREHOLDER -----	EQUITY INTEREST HELD -----
	Canadian Solar Inc.	100% of the registered capital

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SCHEDULE 3 WARRANTORS' WARRANTIES

PART A

Save as disclosed in the Disclosure Letter and this Agreement, each of the
Company and the Founder jointly and severally represents and warrants to and
undertakes with the Investors as follows:

1. THE COMPANY AND ITS SUBSIDIARIES

- 1.1 The Company has no and never has had any subsidiary or shares in or stock
of any company other than the companies set out in Schedule 2.
- 1.2 The Company's interest in its subsidiaries set out in Schedule 2 is held
free from all charges, Liens, Encumbrances and claims.

2. EQUITY SECURITIES

- (A) The Common Shares issued to the Investors upon full conversion of all Convertible Notes (assuming the Second Tranche Subscription will be completed to the full extent under this Agreement and the Note Options will be exercised in full by the Investors and the Company does not exercise its option under Clause 2.3) will, immediately after such issue, amount to approximately 26.32% of the enlarged issued share capital of the Company on a Fully-Diluted Basis.
- (B) Save as provided in this Agreement, there is no, nor is there any legally valid agreement or arrangement to create any pledge, Lien, charge, Encumbrance, rights of pre-emption or other equities or third party rights of any nature whatsoever on, over or affecting any of Shares (except the ATS Arrangement) and no claim has been made by any Person (apart from ATS) to be entitled to any of the foregoing.
- (C) Save the Shares to be issued upon conversion of the Convertible Notes and the ESOP, there are no agreements or arrangement in force which call for the present or future issue or allotment of, or grant to any Person (apart from ATS) the right (whether conditional or otherwise) to call for the issue, allotment or transfer of any Equity Securities.
- (D) The allotment and issue of the Convertible Notes and the subsequent conversion thereof into Common Shares are not and will not be subject to any Encumbrances.
- (E) The Company has not granted any options to any Person to subscribe for or purchase any Equity Securities (apart from the options which may be granted under the ESOP).
- (F) An accurate and complete list of the Company's shareholders and holders of Convertible Securities and their respective holdings of the Equity Securities, together with all unissued options being reserved for issuance, in

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each case both immediately prior to and after the First Completion, is set forth in the Disclosure Letter. Save as disclosed in the Disclosure Letter, there are no outstanding and in issue any capital stock, option, warrants or securities convertible into or exchangeable for common stock of or unissued options or warrants or other Equity Securities being reserved for issuance of any Group Company both immediately prior to and after the First Completion.

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PART B

Save as disclosed in the Disclosure Letter and this Agreement, (i) each of the Company and the Founder jointly and severally represents and warrants to and undertakes with the Investors, and (ii) each of the PRC Subsidiaries for itself only (but not jointly and/or severally with other Warrantors) represents and warrants to and undertakes with the Investors, as follows:

3. INFORMATION

- 3.1 To the best of the knowledge of the Warrantors, all information contained in this Agreement (including the Recitals) is true and accurate in all material respects and not misleading in any material respect.

3.2 All written information which is set out or referred to in the Disclosure Letter or is given by or on behalf of the Warrantors to the Investors or their agents in the course of the negotiations leading to this Agreement is true and accurate in all material respects and not misleading in any material respect.

4. CAPACITY OF THE WARRANTORS

4.1 Each of the Warrantors has full power and authority to enter into and perform this Agreement and the Transaction Documents (where applicable), and the provisions of this Agreement and the Transaction Documents (where applicable), when executed, will constitute valid and binding obligations on him/it, in accordance with its terms.

4.2 The execution and delivery by each of the Warrantors of, and the performance of him/it of his/its obligations under, this Agreement and the Transaction Documents (where applicable) will neither:

(A) (where applicable) result in a breach of any provision of its constitutional documents subject, in the case of the Company, to the amended Articles of Incorporation referred to in Clause 3.1(H) having been filed with the relevant Governmental Authorities in Canada;

(B) result in a breach of any order, judgment or decree of any court or Governmental Authority to which it is a party or by which he/it is bound; nor

(C) violate any Applicable Law.

4.3 All consents, permissions, approvals and agreements of third parties which are necessary for each Warrantor to obtain in order to enter into and perform this Agreement and the Transaction Documents (where applicable) in accordance with their terms have been unconditionally obtained.

5. CORPORATE MATTERS

5.1 Each of the Group Companies has been duly incorporated and is validly existing under the Applicable Law, has obtained all necessary Governmental Approvals to

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own its assets and to carry on its business as presently conducted and all Governmental Approvals are valid and subsisting and, to the best of the knowledge of the Warrantors, there is no reason why any of them should be suspended, cancelled or revoked.

5.2 No order has been made or petition presented or resolution passed for the winding up of any Group Company and no distress, execution or other process has been levied on any of its assets. No Group Company is insolvent nor unable to pay its debts due for payment, no receiver or receiver and manager has been appointed by any person of its business or material assets or any substantial part thereof, and no power to make any such appointment has arisen. No Group Company has taken steps to enter liquidation and there are no valid grounds on which a petition or application could be based for the winding up or appointment of a receiver of any Group Company.

5.3 None of the Group Companies has even been a director or other officer of any other company.

5.4 None of the Group Companies has at any time:

(A) repaid or redeemed or agreed to repay or redeem any shares of any class of its share capital or otherwise reduced or agreed to reduce

any class of its issued share capital or purchased any of its own shares or carried out any transaction having the effect of a reduction of capital; or

(B) given any financial assistance in contravention of any Applicable Law.

5.5 The copies of the constitutional documents of each of the Group Companies delivered to the Investors or their agents are accurate and complete in all respects and have attached to them copies of all resolutions and agreements which are required to be so attached.

5.6 The register of members and all other statutory books of the Group Companies are up to date and contain true full and accurate records of all matters required to be dealt with therein and none of the Group Companies has received any notice of any application or intended application for rectification of its register.

5.7 All annual or other corporate returns required to be filed by each of the Group Companies with the relevant Governmental Authorities have been properly filed within any applicable time limit and all legal requirements relating to the issue of shares and other securities by all Group Companies have been complied with.

6. SUBSIDIARIES

(A) All issued shares in the capital of each of the Company's subsidiaries incorporated in a jurisdiction not being the PRC have been fully paid up.

(B) All capital and other contributions due to each PRC Subsidiary have been paid in full within the respective time limited imposed under the terms of the constitutional documents or the relevant Governmental Approvals.

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(C) There is no agreement or arrangement in force which calls for the present or future issue or allotment of, or grant to any Person the right (whether conditional or otherwise) to call for the issue, allotment or transfer of any share or loan capital of any of the Company's subsidiaries (including any option, notes, warrants or other securities or rights convertible or ultimately convertible into shares or equity interests in any of such subsidiaries).

7. COMPLIANCE

7.1 Each of the Group Companies has complied with its constitutional documents in all respects, and has full power, authority and legal right to own its assets and carry on its business.

7.2 Each Group Company has complied in all material respects with all Applicable Law. To the best of the knowledge of the Warrantors, none of the Group Companies has received notice of any violation of any Applicable Law from any Governmental Authority. There is no provision of any outstanding governmental judgement, decree or Applicable Law applicable to or binding upon any Group Company which could materially adversely affect the business, prospects, assets or condition, financial situation of any Group Company.

7.3 There is no term or provision of any mortgage, indenture, contract, agreement or instrument to which a Group Company is a party or by which it is bound, which adversely affects its business, prospects, assets or condition, financial position.

8. ACCOUNTS

- 8.1 The unaudited financial statements of each Group Company have been prepared in accordance with the requirements of the Applicable Law and on a consistent basis in accordance with IAS or other applicable accounting standards.
- 8.2 Each unaudited financial statement of each Group Company shows a true and fair view of the assets, liabilities, capital commitments and the state of affairs of such Group Company as at the relevant accounts date or of the profits and losses of such Group Company for the period concerned.
- 8.3 Since 1 September 2005:

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- (A) no Group Company has disposed of any asset (including trading stock) or supply of any service or business facility of any kind (including a loan of money or the letting, hiring or licensing of any property whether tangible or intangible) in circumstances where the consideration actually received or receivable for such disposal or supply was less than the consideration which would be deemed to have been received for Tax purposes;
- (B) no Group Company has assumed or incurred any liabilities (actual or contingent) or expenditure otherwise than in the ordinary course of carrying on its business or entered into any transaction which is not in its ordinary course of business;
- (C) no business of any of the Group Companies has been materially and adversely affected by the loss of any important contract or customer or source of supply or by any abnormal factor not affecting similar businesses to a like extent and the Warrantors are not aware of any facts which are likely to give rise to any such effects;
- (D) no dividends, bonuses or distributions have been declared, paid or made;
- (E) no payment has been made by any of the Group Companies which will not be deductible for Tax purposes either in computing the profits of the relevant Group Company or in computing the Tax chargeable on the Group;
- (F) no Group Company has changed its financial year end;
- (G) save for resolutions copies of which have been delivered to the Investors prior to the date hereof or which are required to be passed by any Group Company prior to First Completion and Second Completion in order to satisfy the conditions set out in Clause 3.1 and Clause 3.3 respectively, no board or shareholders' resolutions of any of the Group Companies have been or will be passed; and
- (H) there has not been any waiver or compromise granted by any Group Company of a valuable right or of a material debt owing to it; and
- (I) there has been no material change to a Material Contract which any Group Company or any of its assets is bound by or subject to.

9. TAXATION

- 9.1 Each of the Group Companies has duly and punctually paid all Taxation which is due and which it has become liable to pay and is under no outstanding liability to pay any penalty, interest, surcharge or fine in connection with any Taxation and has complied in all respects with all legislation relating to Taxation applicable to such company.

- 9.2 Each of the Group Companies has made all such returns and notifications, provided all such information, documents and particulars and maintained all such records in relation to Taxation as are required to be made or provided or maintained by it

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punctually and none of such returns, notifications, information, documents or particulars is disputed by the relevant Governmental Authority concerned.

- 9.3 None of the Group Companies is involved in any dispute in relation to Taxation. To the best of the knowledge of the Warrantors, there is no relevant Governmental Authority concerned which has investigated or indicated that it intends to investigate the Tax affairs of any Group Company.
- 9.4 All Taxation in connection with the arrangement between the Company and Swift Allies Inc. which are required to be paid on the part of any Group Company have been timely paid. None of the Group Companies is involved in any dispute with any Governmental Authority on Taxation in relation to such agreements. To the best of the knowledge of the Warrantors, there is no relevant Governmental Authority concerned which has investigated or indicated that it intends to investigate such agreements or the arrangement related thereto.

10. ASSETS

10.1 Title

- (A) The assets currently employed in the operation of the businesses of each Group Company are wholly and beneficially owned assets (other than trading stock which is intended to be subsequently disposed of in the ordinary course of business or trading stock acquired subject to retention or reservation of title by the supplier or manufacturer thereof) and all material assets (save and except for the trading stock) used by the Group:
- (a) are legally and beneficially owned by the Group free from all Encumbrances; and
 - (b) are in the possession or under the control of the Group.
- (B) All plant, machinery, vehicles, computers and equipment owned or used by each Group Company are (subject to normal wear and tear) in reasonable repair, condition and working order, have been regularly and properly maintained.

10.2 Stock

- (A) All trading stock of each Group Company is of merchantable quality saleable in the normal course of business.
- (B) No goods of any Group Company sold or delivered have incurred any product liability claimed against any Group Company.

10.3 Book debts

- (A) No part of the amount shown in the books of account of any Group Company in respect of debtors is represented by debts which are more than twelve (12) months overdue for payment or by debts in respect of

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arrangements made otherwise than in the ordinary course of any such Group Company's business.

- (B) No debt has been released by any Group Company on terms that the debtor paid less than the book value of his debt and no debt owing to any such Group Company has proved to any extent to be irrecoverable, except for the provision for bad and doubtful debts and discounts made in the books of account of any Group Company.

11. GENERAL COMMERCIAL MATTERS

- 11.1 None of the Group Companies has capital commitments which exceed One Hundred Thousand United States Dollars (US\$100,000) in aggregate in respect of that Group Company.
- 11.2 There are no loans, guarantees, pledges, mortgages, charges, Liens, debentures or, Encumbrances given, made or incurred by or on behalf of any Group Company which may incur material liability to any Group Company, except for those incurred in its ordinary course of business.
- 11.3 To the best of the knowledge of the Warrantors, none of the Group companies is the subject of any official investigation or inquiry by any Governmental Authority.

12. PROPERTIES

- 12.1 The Group has exclusive use and undisturbed possession of the land and the buildings erected thereon owned or leased by the Group.
- 12.2 The Group has good title to the land use right and the buildings it owns, free from any mortgage, charge, Encumbrance, right of occupation or third party right.
- 12.3 The landlords of the properties leased by the Group have good title to such properties and have the capacity to lease such properties to the Group.
- 12.4 The use of land and buildings by the each Group Company for operating its businesses does not violate any Applicable Law or terms of the leases for the relevant properties.
- 12.5 All buildings erected on the land occupied by the Group are in reasonably good and substantial repair and condition and are in such reasonable condition and state of repair as to be substantially fit for the purpose for which they are used at present by the Group for operating its businesses.

13. INTELLECTUAL PROPERTY RIGHTS

- 13.1 The Group has independently developed and owns or possesses sufficient legal rights to all Intellectual Property Rights (including registrations and applications to register or renew such rights), and licenses of any of the foregoing necessary for its business as now conducted and as presently proposed to be conducted (collectively,

the "GROUP INTELLECTUAL PROPERTY"), without any infringement of the rights of others.

- 13.2 The Disclosure Letter contains true, complete and accurate lists of all trademarks, servicemarks, trademarks applications, servicemarks application, patents, patent applications, trade names, copyright registration, domain names, software products or applications presently used by the Group or necessary for the conduct of the Group's business as

currently being conducted or proposed to be conducted, and the Group owns, or has the right to use under the agreements, all the Intellectual Property Rights set out in the Disclosure Letter.

- 13.3 There are no outstanding options, licenses or agreements of any kind relating to the Group Intellectual Property, nor is any Group Company bound by or are parties to any options, licenses or agreements of any kind with respect to the Group Intellectual Property of any other person or entity except, in either case, for standard end-user agreement with respect to commercially readily available intellectual property such as "off-the-shelf" computer software.
- 13.4 Each Group Company is in compliance with all material terms of any licenses by which it uses any Group Intellectual Property, and each such license is in full force and effect. Each licensor thereof is in compliance with all material terms of the respective license. No Group Company is aware of the existence of any fact or circumstance that would give the licensor thereof grounds under the terms of such license to cancel, terminate or suspend such license. All such licenses material to the operation of the Group will be renewed in the ordinary course of business on terms commercially reasonable.
- 13.5 No Group Company has received any communications alleging that it has violated or, by conducting its businesses as presently proposed, would violate any of the Intellectual Property Rights of any other person or entity.
- 13.6 The Company is not aware after due and careful enquiry that any of the Group's employees is obligated under any contract (including licenses, covenants or commitments of any nature) or other agreement, or subject to any judgement, decree or order of any court or administrative agency, that would interfere with their duties to the Group, or that would conflict with the Group's business as presently proposed to be conducted.
- 13.7 Neither the execution nor delivery of this Agreement or the Transaction Documents, nor the carrying on of the Group's business, nor the conduct of the Group's business as presently proposed, will conflict with or result in a breach of the terms, conditions or provisions of, or constitute a default under, any contract, covenant or instrument under which any Group Company or any employee is now obligated. It is not nor will it become necessary for any Group Company to utilize any Intellectual Property Rights of its employees made prior to their employment by the Group, except for the Intellectual Property Rights that has been assigned to a Group Company.
- 13.8 None of the Group Companies and the Founder have entered into any agreement to indemnify any other person against any charge of infringement or misappropriation of any Group Intellectual Property.

- 13.9 Each Group Company has taken all reasonably necessary action to protect and preserve (i) the validity and enforceability of trade and service marks and associated goodwill included in the Group Intellectual Property; (ii) the enforceability of copyrights and the confidentiality, validity and enforceability of pending patent applications included in the Group Intellectual Property; (iii) the validity and enforceability of patents included in the Group Intellectual Property; and (iv) the confidentiality and enforceability of trade secrets and the confidentiality of other proprietary information included in the Group Intellectual Property. All current employees and consultants of the Group have executed non-disclosure agreements to protect the confidentiality, and to vest in the relevant Group Company exclusive ownership, of the Group Intellectual Property.
- 13.10 To the best knowledge of the Warrantors, no material trade secret or confidential information constituting Group Intellectual Property has been

used, divulged or appropriated for the benefit of any person other than the Company or the other Group Companies or otherwise to the detriment of the Group, except pursuant to appropriate non-disclosure agreements. To the best knowledge of the Warrantors, none of the Founder and current employee or consultant of the Group or their respective Affiliates have used any trade secrets or other confidential information (except with the consent of the owner of such information) of any other person in the course of their work for the Group.

13.11 No Group Company has any written or oral agreements with current or former employees or consultants with respect to the ownership of Group Intellectual Property, including inventions, trade secrets or other works created by them as a result of which any such employee or consultant may have exclusive or non-exclusive rights to the portions of the Group Intellectual Property so created by such individual.

13.12 None of the Founder and current or former officer, employee or consultant of the Group are in violation of any term of any written employment contract, patent disclosure agreement, proprietary information agreement, non-competition agreement, non-solicitation agreement, confidentiality agreement, or any other similar contract or agreement or any restrictive covenants relating to the right of any such officer, employee, consultant or person to be employed or engaged by the Group or relating to the use of trade secrets or proprietary information of others, and no former employer of any such person has any rights in respect of the Group Intellectual Property.

13.13 The Group does not use any processes nor is it engaged in any activities which involve the misuse of any know-how, lists of customers or suppliers, trade secrets, technical processes or other confidential information ("IP CONFIDENTIAL INFORMATION") belonging to any third party. To the best knowledge of the Warrantors, there has been no actual or alleged misuse by any person of any IP Confidential Information. To the best knowledge of the Warrantors, none of the Founder and current or former officers, employees or consultants of the Group have disclosed to any person any IP Confidential Information except where such disclosure was properly made in the normal course of the Group's business and was made subject to an agreement under which the recipient is obliged to maintain the confidentiality of such IP Confidential Information and is restrained from further

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discussing it or using it other than for the purposes for which it was disclosed by the Group.

13.14 No royalty, honorarium, fees or other payments are payable by a Group Company to any third party by reason of the ownership, possession, sale, marketing, use or other exploitations of any Group Intellectual Property.

13.15 No government funding, facilities of any university, college or other educational institution or research centre or funding from third parties (other than funds received in consideration of capital stock of any Group Company or issuance of debt) was used in the development of any Group Intellectual Property.

13.16 No Group Company uses or otherwise carries on its business under any name other than its corporate name.

14. INSURANCE

All the assets (including stock-in-trade) of the Group of an insurable nature have at all material times been and are insured in amounts to the full replacement value thereof against fire and other risks normally insured against by Persons carrying on substantially the same classes of

business as those carried on by the Group, and as required by Applicable Law.

15. CONTRACTS

15.1 No Group Company is in breach of or has knowledge of the invalidity of or grounds for rescission, avoidance or repudiation of any Material Contract or has received no notice of any intention to terminate any Material Contract.

15.2 Unless otherwise disclosed to the Investors, none of the Group Companies has entered into any Material Contract.

16. EMPLOYEES

16.1 Each Group Company has complied with all obligations in all respects imposed on it by, and all orders and awards made under, all Applicable Law relevant to the relations between it and its employees and the terms of service of its employees.

16.2 No Group Company has any agreement or other arrangement (binding or otherwise) with any trade union or other body representing its employees or any of them or recognizes any trade union or other body representing its employees or any of them for negotiating purposes.

16.3 No Group Company is involved in any industrial or trade disputes or any dispute or negotiation regarding a claim of material importance with any employees, trade union or body of employees.

16.4 Apart from the ESOP and the intended transfers of Shares to certain senior executives of the Group as may be contemplated in the Investment Agreement, no Group Company has in existence or is proposing to introduce any share incentive

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scheme, share or stock option scheme or profit sharing bonus or other such incentive scheme for all or any of its employees.

17. LITIGATION

17.1 There are no actions, suits or proceedings (including arbitration proceedings) pending or threatened against or brought by any Group Company.

17.2 None of the Group Companies is subject to, or in default with respect to, any order, writ, injunction or decrees of any court, tribunal or Governmental Authority, domestic or foreign.

17.3 There is no unsatisfied judgment, court order or tribunal or arbitral award outstanding against any Group Company and no distress, execution or process has been levied on any part of their respective business or assets.

18. RELATED PARTY TRANSACTIONS

18.1 Unless otherwise disclosed to the Investors, there are no Related Party Transactions except those in relation to the remuneration of Related Parties and reimbursement or advance payment to any Related Party not exceeding Five Hundred Thousand United States Dollars (US\$500,000) on each occasion for each Related Party.

18.2 There is no breach on the part of the Related Party in respect of the terms of the agreements, contracts, arrangements or understanding underlying the Related Party Transactions.

19. BROKERAGE OR COMMISSIONS

No Person is entitled to receive from any Group Company any finder's fee brokerage or commission in connection with this Agreement or anything contained in it.

20. REGISTRATION RIGHTS AGREEMENT

Except as required pursuant to the Registration Rights Agreement, no Group Company is presently under any obligation, or has granted any rights to any Person to register any Shares or Convertible Securities under or pursuant to the Securities Act of the United States.

21. ENVIRONMENTAL AND SAFETY LAWS

No Group Company is in violation of any applicable statute, law or regulation relating to the environment or occupational health and safety ("ENVIRONMENTAL AND SAFETY LAWS"), and to the Warrantors' knowledge, no material expenditures are or will be required in order for any Group Company to comply with any such existing Environmental and Safety Laws. Each of the Group Companies has obtained all material permits, material licenses and other material authorizations that are required under applicable Environmental and Safety Laws to conduct its business and has filed all material reports, material notices, material assessments,

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material plans, material inventories, and material applications required by Environmental and Safety Laws.

22. BUSINESS PLAN

With respect to the Business Plan:

- (A) it was prepared in good faith and on a professional workmanlike manner and on a realistic basis after careful examination and due consideration of all relevant factors;
- (B) the technology referred to or described therein is proven reliable and capable of being applied in the successful economic production of premium products;
- (C) none of the statements therein are untrue or misleading in any way and it does not omit to state any material fact necessary to make the statements therein not misleading; and
- (D) the financial and other projections contained therein were prepared in good faith and that there is reasonable basis for such projection.

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SCHEDULE 4

FORM OF PRE-EMPTIVE RIGHT CERTIFICATE

To: (1) Canadian Solar Inc. (the "COMPANY"); and

(2) HSBC HAV2 (III) Limited and (3) JAFCO Asia Technology Fund II (together, the "INVESTORS")

Dear Sirs,

I, the undersigned, the sole shareholder of the Company being the registered

holder of 5,668,421 common shares, without nominal or par value, in the share capital of the Company, hereby certify to the Company and the Investors that I have no pre-emptive right or any right capable of becoming a pre-emptive right to acquire any further shares in the share capital of the Company either by contract, agreement, arrangement or understanding with any third party or the Company or under the Articles of Incorporation or By-laws of the Company or otherwise in respect of the Convertible Notes of an aggregate principal amount up to Thirteen Million United States Dollars (US\$13,000,000) as may be subscribed for by the Investors.

This undertaking shall be governed by and be construed in accordance with the laws of Hong Kong and is intended to take effect as a deed.

Dated this ____ day of _____ 2005.

SIGNED, SEALED and DELIVERED by)
QU XIAO HUA)
in the presence of:)

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SCHEDULE 5

FORM OF THE CERTIFICATE FOR THE CONVERTIBLE NOTES AND THE CONDITIONS

Certificate No.: [_____]]
Issue Date: [_____]]

CANADIAN SOLAR INC.

(Incorporated under the provisions of the Business Corporations Act (Ontario))
as the Company

and

[_____]]
as Noteholder

US\$[_____]]

CONVERTIBLE NOTE DUE [three years from First Completion Date]

The issue of this Convertible Note (the "CONVERTIBLE NOTE") was authorised by resolution of the Board of Directors of Canadian Solar Inc. (the "COMPANY") passed on [_____] pursuant to the agreement dated [_____] between, among others, the Company and the Noteholder (the "SUBSCRIPTION AGREEMENT").

The issue of this Convertible Note is subject to, in accordance with and with the benefit of the terms set out in the Subscription Agreement, and the conditions attached hereto which form part of this Convertible Note (the "CONDITIONS").

THIS IS TO CERTIFY that the Company will pay to the Noteholder the principal amount of [_____] United State Dollars (US\$_____) together with such interests and other additional amounts (if any) as may be payable under the Conditions on the Maturity Date (as defined in the Conditions) or on such earlier date as such sum may become payable in accordance with the Conditions.

The performance of the Company's obligations under this Convertible Note is guaranteed by Mr. QU Xiao Hua (the "FOUNDER").

THE TRANSFER OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY ONLY BE DONE

"CONVERSION PRICE" means the conversion price for the Convertible Note as determined in accordance with Conditions (B)3(c) and (B)4;

"EVENT OF DEFAULT" has the meaning ascribed to it in Condition (B)7;

"GUARANTEED 2005 PAT" means Six Million Five Hundred Thousand United States Dollars (US\$6,500,000);

"ISSUE DATE" means the date of issue of this Convertible Note;

"MATURITY DATE" means a date which is three (3) years after the Issue Date; and

"OPTIONAL CONVERSION" means the conversion of a Convertible Note into Common Shares referred to in Condition (B)3(a).

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(B) The Convertible Note shall carry the following rights, benefits and privileges and be subject to the following restrictions:

1. Status

The Convertible Note constitutes, or will after issue constitute, direct, unconditional, unsecured and unsubordinated obligations of the Company and rank pari passu (save for certain creditors required to be preferred by law in Canada) equally with all other present and future unsecured and unsubordinated obligations of the Company.

2. Interest and dividend

(a) The Convertible Note shall bear interest from the Issue Date at the rate of two per cent (2%) per annum on the principal amount of the Convertible Note outstanding, such interest shall, subject to sub-paragraphs (b) and (c) below, accrue from day to day, be calculated on the basis of the actual number of days that elapsed in a year of 365 days and be payable in cash by four equal quarterly instalments in arrears (the first payment being on the date falling three (3) months after the Issue Date). In the event that the Convertible Note has been wholly converted into Common Shares in accordance with these Conditions, the Noteholder shall be entitled to interest in respect of the whole of the principal amount being converted for the period from the date immediately preceding the last interest payment date (or the Issue Date, as the case may be) up to and including the date of conversion, and such interest (which has not been paid before the conversion) shall be payable by the Company on the date of conversion.

(b) Interest shall cease to accrue with effect from the date of conversion of the Convertible Note.

(c) On redemption of the Convertible Note, interest shall cease to accrue with effect from the date the redemption monies have been paid in full.

(d) The Noteholder agrees and acknowledges that the Shareholders as of the Issue Date are entitled to all audited retained earnings as of 28 February 2006. The Company shall not declare or pay any dividend before the completion of a Qualified IPO or redemption of all Convertible Notes, except with the prior written consent of all holders of all outstanding Convertible Notes.

In the event that the Board declares a dividend or distribution on the Common Shares before the completion of a Qualified IPO or redemption of all Convertible Notes with the prior written consent of all holders

of all outstanding Convertible Notes, the Company shall at the same time as such dividend or distribution is paid to the holders of Common Shares pay a special interest payment to the Noteholder where the Convertible Note remains outstanding, such that the Noteholder shall be entitled to its pro-rata share of the dividends on earnings accumulated after 28 February 2006. The special interest shall be calculated on an "as converted" basis as if the issued share capital of the Company had been enlarged (for the purpose of

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special interest payment) by the maximum number of Common Shares that could be converted upon the conversion of the outstanding Convertible Note at the then Conversion Price after adjustment (if any) in accordance with Condition (B)4, such that the special interest payment that the Noteholder receives is equal to the dividend it would have received had the outstanding Convertible Notes been wholly converted into Common Shares immediately prior to the record date for calculation of dividend or distribution entitlements.

- (e) If payment of any principal or interest or other payment in respect of the Convertible Note is not made in full when due or if the Convertible Note is not converted in full into Common Shares on the date fixed for conversion, the Convertible Note shall bear an extraordinary interest, at a compounded rate of twelve per cent (12%) per annum, accruing from day to day on the basis of the actual number of days that elapsed in a year of 365 days, of:
 - (i) in the case of interest accrued pursuant to Condition (B)2(a), any outstanding amount of interest, until such payment (together with further interest accrued thereon by virtue of this Condition (B)2(e)) is made in full;
 - (ii) in the case of special interest accrued pursuant to Condition (B)2(d), any outstanding amount of interest, until such payment (together with further interest accrued thereon by virtue of this Condition (B)2(e)) is made in full;
 - (iii) in the case of redemption, any outstanding amount of principal, premium or interest, until such payment (together with further interest accrued thereon by virtue of this Condition (B)2(e)) is made in full; or
 - (iv) in the case of conversion, any outstanding amount of principal not so converted, until conversion of the Convertible Note in full into Common Shares in accordance with these Conditions.

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3. Conversion

- (a) Optional Conversion. The whole or any part of the outstanding principal of the Convertible Note shall be convertible at the option of the Noteholder, at any time after the Issue Date but prior to the full redemption of the Convertible Note, and without the payment of any additional consideration therefore, into such number of fully paid Common Shares as determined in accordance with the then effective Conversion Price (such event being referred to herein as "OPTIONAL CONVERSION").

Before the Noteholder shall be entitled to convert the Convertible Note into Common Shares and to receive any certificate therefor, such

holder shall give written notice to the Company of not less than seven (7) Business Days (such notice shall not be withdrawn unless with the prior consent of the Board) at the Company's notice address specified in Clause 16.1(D) of the Subscription Agreement and surrender the certificate or certificates for the Convertible Note at the same address. Subject to the above, on the date of conversion the Company shall promptly issue and deliver to the Noteholder a certificate(s) for the number of Common Shares into which such Convertible Note is converted in the name of the Noteholder, together with cash in lieu of any fraction of an Common Share in accordance with Condition (B)3(g).

- (b) Automatic Conversion. The outstanding principal of the Convertible Note shall automatically be converted (i) immediately before the completion of a Qualified IPO or (ii) upon Majority CN Approval, into such number of fully paid Common Shares as determined in accordance with the then effective Conversion Price (such event being referred to herein as "AUTOMATIC CONVERSION").

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The Company shall give to each holder of Convertible Notes a notice in writing of the Automatic Conversion within three (3) Business Days before the anticipated Automatic Conversion. In the event of an Automatic Conversion, the outstanding Convertible Note shall be converted automatically without any further action by the Noteholder and whether or not the certificate representing such Convertible Note is surrendered to the Company. The Company shall not be obligated to issue any certificate evidencing the Common Shares issuable upon such Automatic Conversion unless the certificate evidencing such Convertible Note is either delivered to the Company, or the holder notifies the Company that such certificate has been lost, stolen, or destroyed and provides such indemnity as may be reasonably required by the Board. The Company shall, as soon as practicable (any in any event within ten (10) Business Days) after such delivery of certificate evidencing the Convertible Note or such notification in the case of a lost, stolen, or destroyed certificate, issue and deliver to such Noteholder a certificate or certificates for the number of Common Shares to which such holder shall be entitled as aforesaid, together with cash in lieu of any fraction of an Common Share in accordance with Condition (B)3(g). Within two (2) Business Days from the occurrence of Automatic Conversion, the Company shall notify the Noteholder in writing that Automatic Conversion has occurred.

- (c) Conversion Price. The Conversion Price per Common Share shall initially be US\$4.94, subject to adjustment in accordance with Condition (B)4. The number of Common Shares to which a Noteholder shall be entitled upon conversion will be the number obtained by dividing the principal amount of the Convertible Note to be converted by the Conversion Price then in effect. The initial Conversion Price is calculated on the basis that (i) a total of Five Million Six Hundred and Sixty-Eight Thousand Four Hundred and Twenty (5,668,421) Common Shares have been issued on the Issue Date, (ii) the maximum number of Common Shares that may be issued pursuant to the ESOP shall not exceed One Million (1,000,000); (iii) Seven Hundred Thousand (700,000) Common Shares are expected to be issued by the Company to ATS; (iv) an aggregate of Two Million Six Hundred and Thirty-One Thousand Five Hundred and Eighty (2,631,579) Common Shares are expected to be issued to all Investors upon the full conversion of all Convertible Notes of an aggregate principle amount of Thirteen Million United States Dollars (US\$13,000,000); and (v) the valuation of the Company after receiving all Convertible Notes proceeds of Thirteen Million United States Dollars (US\$13,000,000) shall be Forty-Nine Million Four Hundred Thousand United States Dollars (US\$49,400,000). For the purpose of clarity, the total expected number of Common Shares to be in issue on a Fully-Diluted Basis as set forth above shall be

Ten Million (10,000,000). The Conversion Price shall be subject to adjustments where any event set out in Condition (B)4 occurs or where the actual number of Common Shares in respect of paragraphs (ii) or (iii) above shall be different from the numbers set forth in the relevant paragraphs.

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- (d) Conversion. Conversion of the Convertible Note may be effected in such manner as may be permitted by law and as the Board shall from time to time determine (subject to the provisions of the Applicable Law and the constitutional documents of the Company).

Conversion shall be deemed to (in the case of Optional Conversion) have been made immediately prior to the close of business on the date of such surrender of the certificate(s) evidencing the Convertible Note to be converted, or (in the case of Automatic Conversion) on the date referred to in Condition (B)3(b). Nevertheless, with respect to any principal amount of the Convertible Note to be converted, such principal amount shall remain outstanding for all purposes until the date of conversion.

For the avoidance of doubt, no conversion shall prejudice the right of a Noteholder to receive dividends and other distributions declared but not paid as at the date of conversion pursuant to the Subscription Agreement.

The Common Shares issued upon Optional Conversion or Automatic Conversion shall rank *pari passu* in all respects with the Common Shares then in issue and be allotted and issued free from Encumbrances save that they shall not entitle the holder to any dividend declared or paid upon Common Shares in respect of the audited retained earnings as of 28 February 2006 as referred to Condition (B)2(d).

- (e) Sufficient authorised share capital. The Company shall ensure that at all times there is a sufficient number of authorized but unissued Common Shares in its authorised share capital to be issued in satisfaction of the conversion of the Convertible Note, whether the conversion is Optional Conversion or Automatic Conversion. The Company shall not do any act or thing if as a result the enforcement of the conversion of the Convertible Note would involve the issue of Common Shares at a discount.
- (f) Entry into register of members. Upon the issue of the Common Shares into which the Convertible Note is converted, the Company shall enter the Noteholder in its register of members in respect of the relevant number of Common Shares arising from such conversion. The Noteholder shall be treated for all purposes as the record holder or holders of such Common Shares at such time.
- (g) Fractional shares. No fraction of an Common Share shall be issued upon conversion of the Convertible Note. In lieu of any fraction of an Common Share to which the Noteholder would otherwise be entitled upon conversion, the Company shall pay to such holder cash equal to the product of such fraction multiplied by the fair market value of one Common Share on the date of conversion, as determined reasonably and in good faith by the Board.

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- (a) Adjustments for Splits, Subdivisions, Combinations, or Consolidation of Common Shares. In the event the outstanding Common Shares shall be increased by share split, subdivision, or other similar transaction (apart from issuance of new Shares approved in writing by all holders of all outstanding Convertible Notes) into a greater number of Common Shares, the Conversion Price then in effect shall, concurrently with the effectiveness of such event, be decreased in proportion to the percentage increase in the outstanding number of Common Shares. In the event the outstanding Common Shares shall be decreased by a reverse share split, combination, consolidation, or other similar transaction into a smaller number of Common Shares, the Conversion Price then in effect shall, concurrently with the effectiveness of such event, be increased in proportion to the percentage decrease in the outstanding number of Common Shares.
- (b) Adjustments for Reclassification, Exchange and Substitution. If the Common Shares issuable upon conversion of the Convertible Note shall be changed into the same or a different number of shares of any other class or classes of shares, whether by capital reorganization, reclassification, or otherwise (other than a subdivision or combination or consolidation of shares provided for above), the Conversion Price then in effect shall, concurrently with the effectiveness of such reorganization or reclassification, be proportionately adjusted such that the Convertible Note shall be convertible into, in lieu of the number of Common Shares which the holders would otherwise have been entitled to receive, a number of shares of such other class or classes of shares equivalent to the number of shares of such other class or classes of shares in the capital of the Company into which the Common Shares that would have been subject to receipt by the Noteholder upon conversion of such Convertible Note immediately before that change would have been effected.
- (c) Adjustments on Lower Price Issuance.
 - (i) If and whenever the Company shall issue any "Additional Equity Securities" (as defined below) at any time after the Issue Date for a consideration per share less than the Conversion Price in effect on the date and immediately prior to such issue or on terms more favourable to the Person receiving the Additional Equity Securities than the Conditions, then and in each such event, the Conversion Price then in effect shall be reduced, concurrently with such issue, to the price per share received by the Company pursuant to the issue of such Additional Equity Securities.
 - (ii) For the purposes of Condition (B)4(c)(i), "ADDITIONAL EQUITY SECURITIES" shall mean all Equity Securities issued after the Issue Date other than:

- (I) Common Shares issued or issuable at any time upon conversion of any Convertible Securities in issue as at the Issue Date;
- (II) Equity Securities issued or issuable out of the surplus of the Company as a dividend or distribution generally to members of the Company in proportion to their holdings of Common Shares (but subject to Condition (B)2(d));
- (III) Equity Securities issued at anytime upon exercise of any rights or options to subscribe for Equity Securities where the Conversion Price in effect immediately prior to the issuance of such Equity Securities has already been adjusted as a result of and in accordance with this Condition

(B) 4 (c) ;

- (IV) Common Shares issued or issuable pursuant to an offer for subscription made by the Company upon a Qualified IPO;
 - (V) Equity Securities issued or issuable pursuant to the consent in writing of all the members of the Company including all holders of all outstanding Convertible Notes;
 - (VI) Equities Securities issued or issuable as a result of any share split or share consolidation or the like which does not affect the total amount of issued share capital in the Company provided that the Conversion Price in effect prior to the issuance of such Equity Securities has already been adjusted as a result of and in accordance with this Condition (B)4;
 - (VII) any subsequent Convertible Notes issued pursuant to the Subscription Agreement;
 - (VIII) the number of Common Shares issued or issuable pursuant to the ESOP provided that such number of Common Shares shall not be more One Million (1,000,000) on the calculation basis set out in Condition (B)3(c); and
 - (IX) Common Shares to be issued to ATS, provided that the number of Common Shares shall not exceed Seven Hundred Thousand (700,000) on the calculation basis set out in Condition (B)3(c).
- (iii) For the purpose of making any adjustment to the Conversion Price as provided in paragraph (i) above, the consideration received by the Company for any issue of Additional Equity Securities shall be computed:
- (I) to the extent it consists of cash, as to the amount of cash received by the Company (before deduction of any offering expenses payable by the Company and any underwriting or similar commissions, compensation, or concessions paid or

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allowed by the Company negotiated on an arm's length basis by the Company with such underwriting agent) in connection with such issue;

- (II) to the extent it consists of property other than cash, at the fair market value of that property as reasonably determined in good faith by an independent valuer appointed by the Board;
- (III) if Additional Equity Securities are issued together with other stock or securities or other assets of the Company for a consideration which covers both, as the portion of the consideration so received that may be reasonably determined in good faith by the Board to be allocable to such Additional Equity Securities; and
- (IV) if Additional Equity Securities are issued in connection with any merger in which the Company is the surviving company, the amount of consideration therefor will be deemed to be the fair market value (as reasonably determined in good faith by the Board) of such portion of the net assets and business of the non-surviving company as is attributable to such Additional Equity Securities.

If the Additional Equity Securities comprise any rights or options to subscribe for, purchase, or otherwise acquire Common Shares, or any security convertible or exchangeable into Common Shares, then, in each case, the price per share received by the Company upon new issue of such Additional Equity Securities will be determined by dividing the total amount, if any, received or receivable by the Company as consideration for the granting of the rights or options or the issue of the convertible securities, plus the minimum aggregate amount of additional consideration payable to the Company on exercise or conversion of the securities, by the maximum number of Common Shares issuable on such exercise or conversion. Such granting or issue will be considered to be an issue for cash of the maximum number of Common Shares issuable on exercise or conversion at the price per share determined hereunder, and the Conversion Price will be adjusted as above provided to reflect (on the basis of that determination) the issue. No further adjustment of such Conversion Price will be made as a result of the actual issuance of Common Shares on the exercise of any such rights or options or the conversion of any such convertible securities.

Upon the redemption or repurchase of any such securities or the expiration or termination of the right to convert into, exchange for, or exercise with respect to, Common Shares, the Conversion Price will be readjusted to such price as would have been obtained had the adjustment made upon their issuance been made upon the basis of the issuance of only the number of such securities as were actually

converted into, exchanged for, or exercised with respect to, Common Shares. If the purchase price or conversion or exchange rate provided for in any such security changes at any time, then, upon such change becoming effective, the Conversion Price then in effect will be readjusted forthwith to such price as would have been obtained had the adjustment made upon the issuance of such securities been made upon the basis of (I) the issuance of only the number of Common Shares theretofor actually delivered upon the conversion, exchange or exercise of such securities, and the total consideration received therefor, and (II) the granting or issuance, at the time of such change, of any such securities then still outstanding for the consideration, if any, received by the Company therefor and to be received on the basis of such changed price or rate.

- (d) Adjustments for Other Distributions. Subject to Condition (B)2(d), in the event the Company at any time or from time to time makes, or fixes a record date for the determination of holders of Common Shares entitled to receive, any distribution payable in securities of the Company other than Common Shares and other than as adjusted elsewhere in this Condition (B)4, then and in each such event provision shall be made so that the Noteholder shall receive upon conversion thereof, in addition to the number of Common Shares receivable thereupon, the amount of securities of the Company which it would have received had its Convertible Note been converted into Common Shares immediately prior to such record date or on the date of such event and had it thereafter, during the period from the date of such event to and including the date of conversion, retained such securities receivable by them as aforesaid during such period, subject to all other adjustments called for during such period under this Condition (B)4 with respect to the rights of the Noteholder. Subject again to Condition (B)2(d), if the Company shall declare a distribution payable in securities of other Persons, evidence of indebtedness of the

Company or other Persons, assets (excluding cash dividends) or options or rights not referred to in this Condition (B)4(d), the Noteholder shall be entitled to a proportionate share of any such distribution as though it were the holders of the number of Common Shares into which its Convertible Note is convertible as of the record date fixed for determination of the holders of Common Shares entitled to receive such distribution.

- (e) Guaranteed 2005 PAT. If the 2005 PAT is less than Six Million United States Dollars (US\$6,000,000), the Conversion Price shall be adjusted in the following manner:

Conversion Price	Initial Conversion	2005 PAT
immediately after =	Price set out in	X -----
the adjustment	Condition (B)3(c)	Guaranteed 2005 PAT

For the avoidance of doubt, no adjustment to the Conversion Price shall be required where the 2005 PAT equals to or is more than Six Million United States Dollars (US\$6,000,000).

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- (f) ESOP. In the event that the total number of Common Shares issuable under the ESOP shall be less than One Million (1,000,000) on the calculation basis set out in Condition (B)3(c), the Conversion Price then in effect shall be increased in proportion to the percentage decrease in the number of enlarged share capital after taking into account of all Common Shares issuable under the ESOP.
- (g) Save as expressly provided in this Condition (B)4, there shall be no other adjustment in the Conversion Price. Exhibit (A) sets out examples of adjustments to the Conversion Price for illustration purpose only.
- (h) Extension of General Offer. So long as any Convertible Notes are outstanding and the Company becomes aware that an offer is made or an invitation is extended to all holders of Common Shares generally to acquire all or some of the Common Shares or any scheme of arrangement is proposed for that acquisition, the Company shall forthwith give notice to all holders of outstanding Convertible Notes and the Company shall use its best endeavours to ensure that there is made or extended at the same time a similar offer or invitation, or that the scheme of arrangement is extended, to each holder of Convertible Note, as if its conversion rights had been fully exercised on a date which is immediately before the record date for the offer or invitation or the scheme of arrangement at the Conversion Price applicable at that time.
- (i) No Impairment. The Company shall not, by amendment of its constitutional documents of the Company or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company but shall at all times in good faith assist in the carrying out of all the provisions of this Condition (B)4 and in the taking of all such action as may be necessary or appropriate in order to protect the conversion rights of the Noteholder against impairment.
- (j) Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment of the Conversion Price pursuant to this Condition (B)4, the Company, at its expense, shall promptly compute such adjustment or readjustment in accordance with the terms hereof, and furnish to the Noteholder a certificate setting forth: (I) such adjustment or readjustment, (II) the facts upon which such adjustment or readjustment is based, (III) the applicable Conversion Price then

in effect, and (IV) the number of Common Shares and the amount, if any, of other property which the Noteholder would receive upon the conversion of the Convertible Note.

(j) Notices of Record Date. In the event that the Company shall propose at any time to:

(i) declare any dividend or distribution upon the Common Shares or other class or series of shares, whether in cash, property, share, or other securities, and whether or not a regular cash dividend;

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(ii) offer for subscription pro rata to the holders of any class or series of its capital any additional shares of any class or series or other rights;

(iii) effect any reclassification or recapitalisation of the Common Shares outstanding involving a change in the Common Shares; or

(iv) merge or consolidate with or into any other corporation, or sell, lease, or convey all or substantially all its property, assets or business, or a majority of the capital of the Company, or to liquidate, dissolve, or wind up,

then, in connection with each such event, the Company shall send to the Noteholder:

(1) at least fourteen (14) Business Days' prior written notice of the date on which a record shall be taken for such dividend, distribution, or subscription rights (and specifying the date on which the holders of Common Shares shall be entitled thereto) or for determining rights to vote in respect of the matters referred to in subparagraphs (i) to (iv) of this Condition (B)4(j); and

(2) in the case of the matters referred to in subparagraphs (i) to (iv) of this Condition (B)4(j), at least fourteen (14) Business Days' prior written notice of the date when the same shall take place (and specifying the date on which the holders of Common Shares shall be entitled to exchange their Common Shares for securities or other property deliverable upon the occurrence of such event or the record date for the determination of such holders if such record date is earlier).

Each such written notice shall be delivered personally or given by first class mail, postage prepaid, addressed to the Noteholder.

5. Redemption

(a) Unless previously redeemed or converted as provided in these Conditions, the Noteholder has the right to require the Company to forthwith redeem all or part of the Convertible Note:

(i) if the Company has not completed a Qualified IPO before the Maturity Date, provided that the Noteholder shall give a written notice of not less than three (3) months to the Company at the Company's notice address specified in Clause 16.1(D) of the Subscription Agreement and surrender of the certificate(s) for the Convertible Note. If the Noteholder fails or refuses to deliver to the Company the certificate(s) for the Convertible Note, the Company may retain the redemption monies until delivery of such certificate or of an indemnity in respect thereof as the Board may reasonably require and shall within three (3) Business Days thereafter pay the redemption monies to such holder. No

shall have any claim against the Company for interest on any redemption monies so retained; or

- (ii) at any time after the occurrence of an Event of Default upon written demand from the Noteholder. The Company shall redeem the Convertible Note (or such relevant part) to which such demand relates forthwith upon receipt of such demand. Redemption of the Convertible Note upon occurrence of an Event of Default will not require the Noteholder to surrender to the Company the certificate(s) for the Convertible Note.
- (b) Upon written consent of all holders of all outstanding Convertible Notes, the Company may redeem all or any portion of the then outstanding principal, interest or other payment due under this Convertible Note, before the Maturity Date.
- (c) The redemption monies in respect of the Convertible Note (or the relevant part thereof) comprise of:
 - (i) the principal amount so redeemed;
 - (ii) arrears of interest, special interest and extraordinary interest accrued in accordance with Condition (B)2;
 - (iii) any outstanding amount payable in respect of the Convertible Note (or the relevant part thereof); and
 - (iii) a premium:
 - (I) in the case of a redemption under Condition (B)5(a)(i) or (B)5(b), of such amount that would give the Noteholder an internal rate of return of ten per cent. (10%) per annum in respect of the principal amount, all paid and unpaid interest, special interest and extraordinary interest accrued under Condition (B)2 in respect of the Convertible Note (or the relevant part thereof) to be redeemed for the period from the Issue Date up to and including the date of full repayment of redemption monies; and
 - (II) in the case of a redemption under Condition (B)5(a)(ii), of such higher amount of:
 - (1) such amount that would give the Noteholder an internal rate of return of twelve per cent. (12%) per annum in respect of the principal amount, all paid and unpaid interest, special interest and extraordinary interest accrued under Condition (B)2 in respect of the Convertible Note (or the relevant part thereof) to be redeemed for the period from the Issue Date up to and including the date of full repayment of redemption monies; and

- (2) assuming full conversion of all Convertible Notes held by all holders thereof, the proportional share of the Group's total market value as represented by the Shares into which the principal so redeemed might convert. For

such purpose, the Group's total market value shall be determined as a going concern by an independent professional valuer that has experience determining value of businesses similar to those of the Group. The independent valuer shall be appointed upon the approval of both the Company and the Noteholder, and whose costs and expenses relating to the valuation of the Group shall be borne solely by the Company.

- (d) The Convertible Note (or such portion thereof) so redeemed shall be cancelled and may not be re-issued.

6. Transferability

- (a) The Noteholder may transfer the whole or part of the rights in respect of this Convertible Note, provided that (without prejudice to any right of co-sale of the Noteholder):
 - (I) the Noteholder shall first negotiate with the Founder on terms of the intended transfer before entering into agreement on the transfer if the transfer is intended to be made any other Person not being an Affiliate of the Noteholder;
 - (II) the transfer will not be subject to or will be exempted from the prospectus and registration requirements under the Ontario Securities Act; and
 - (III) the transferee shall have executed and delivered to the Company, as a condition precedent to any such transfer, a joinder agreement in form and substance satisfactory to the Company and all holders of Convertible Notes under which the transferee undertakes to be bound by certain provisions of the Subscription Agreement and the Investment Agreement, including without limiting the generality of the forgoing the obligation to first negotiation with the Founder on terms of any subsequent intended transfer by such transferee.

For the avoidance of doubt, the Noteholder may transfer the Convertible Note to (i) any Person apart from the Founder where no agreement has been reached between the Noteholder and the Founder on the intended transfer within reasonable time or (ii) any of its Affiliates.

- (b) Title to this Convertible Note passes only upon the cancellation of the existing certificate and the issue of a new certificate (or new certificates in the case of a transfer of part of this Convertible Note) in accordance with Condition (B)6(c).

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- (c) In relation to any transfer of this Convertible Note permitted under or otherwise pursuant to this Condition (B)6:
 - (i) this Convertible Note may be transferred by execution of a form of transfer as specified by the Board under the hands of the transferor and the transferee (or their duly authorised representatives) or, where either the transferor or transferee is a corporation, executed by a duly authorised officer or director thereof. In this Condition, a "transferor" shall, where the context permits or requires, include joint transferors and shall be construed accordingly; and
 - (ii) save for loss destruction, the certificate(s) for this Convertible Note must be delivered for cancellation to the Company accompanied by (a) a duly executed transfer form; (b) in

the case of the execution of the transfer form on behalf of a corporation by its officers or directors, the authority of that person or those persons to do so. The Company shall, within three (3) Business Days of receipt of such documents from the Noteholder, cancel the existing certificate for this Convertible Note and issue a new certificate for this Convertible Note (or new certificates in the case of a transfer of part of this Convertible Note) under the seal of the Company and the Founder, in favour of the transferee.

7. Events of Default

Any of the following shall constitute an "Event of Default":

- (a) if the Company fails to pay any amount principal or interest on the due date under these Conditions, the Subscription Agreement or the Transaction Documents and such default is not remedied within seven (7) Business Days of the due date;
- (b) if any Group Company or the Founder is in material default in the due performance of any other of its/his covenants or obligations to the Noteholder under these Conditions, the Subscription Agreement or the Transaction Documents and such default remains not remedied for seven (7) Business Days after written notice thereof has been given to the Company or such other defaulting party by the Noteholder;
- (c) save as stated or referred to in the Disclosure Letter, if any representation or warranty made by the Company or the Founder in the Subscription Agreement or the Transaction Documents is or would be materially incorrect, misleading or untrue;
- (d) if any Group Company (or, to the extent applicable, the Founder) takes any corporate action or other steps are taken or legal proceedings are started or threatened to start for its winding-up, dissolution, administration or re-organisation (apart from the Re-organisation) (whether by way of voluntary arrangement, creditors' actions or otherwise) or for the appointment of a liquidator, receiver, administrator, administrative receiver, conservator, custodian, security trustee or similar officer of it or of any or all

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of its revenues and assets, without the prior written consent of all shareholders of the Company and all holders of all the outstanding Convertible Notes;

- (e) if any Group Company (or, to the extent applicable, the Founder) is dissolved and/or wound-up in any way or ceases or attempts to cease its activities or a major part thereof, or if any Group Company has discontinued or materially changed the nature of its business, or if any Group Company merges or consolidates with any other company or legal entity without the prior written consent of all shareholders of the Company and all holders of all outstanding Convertible Notes;
- (f) if there is, or is proposed or agreed to be, a change in Control in any of the Group Company without the prior written consent of all shareholders of the Company and all holders of all outstanding Convertible Notes;
- (g) if the Founder is in material default of any of his/its covenants or obligations under the Investment Agreement;
- (h) if the Company fails to deliver to each Investor on or before 31 January 2006 the Satisfactory Audited Reports in accordance with Clause 3.2(A) of the Subscription Agreement;

- (i) if all or a material part of the properties or rights or interests of any Group Company or the Founder are nationalised or expropriated;
- (j) if there is, or is proposed or agreed to be, any transfer of all or substantially all of the assets of any Group Company or the Founder without the prior written consent of all shareholders of the Company and all holders of all outstanding Convertible Notes;
- (k) if any Group Company or the Founder is unable to pay its/his debts as they fall due, commences negotiations with any one or more of its/his creditors with a view to the general readjustment or rescheduling of its/his indebtedness or makes a general assignment for the benefit of or a composition with its/his creditors;
- (l) if at any time it is or becomes unlawful for any Group Company or the Founder to perform or comply with any or all of its obligations under these Conditions, the Subscription Agreement or the Transaction Documents, or any of the obligations of any Group Company or the Founder under these Conditions, the Subscription Agreement or the Transaction Documents cease to be legal, valid, binding and enforceable;
- (m) if any Group Company or the Founder repudiates the Subscription Agreement or any of the Transaction Documents or does or causes to be done any act or thing evidencing an intention to repudiate the Subscription Agreement or any of the Transaction Documents;

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- (n) if any execution or distress is levied against, or an encumbrancer takes possession of, the whole or any material part of, the property, undertaking or assets of any Group Company;
- (o) if any of the Group Company fails to obtain all necessary Governmental Approvals to own its assets and to carry on its businesses, or any of such Governmental Approvals is not valid or is subject to any suspension, cancellation or revocation;
- (p) if the Founder or a company or corporation wholly Controlled by the Founder is no longer the largest Shareholder of the Company without the prior written consent from all holders of all outstanding Convertible Notes and holders of Shares issued upon conversion of Convertible Notes; or
- (q) if the proceeds of the Subscription Price is not used for the purpose stated in Clause 2.4 of the Subscription Agreement;
- (r) if any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in the foregoing paragraphs; or
- (s) if any Group Company fails to comply with any Applicable Law.

8. Guarantee

- (a) The Founder irrevocably and unconditionally:
 - (i) guarantees to the Noteholder punctual and due performance by the Company of all its obligations under the Convertible Note from time to time and the due payment and discharge of all such sums of money and liabilities expressed to be due, owing or incurred or payable and unpaid by the Company to the Noteholder pursuant to the Subscription Agreement and these Conditions from time to time or as a result of any breach thereof (including all

reasonable expenses, including legal fees and Taxes incurred by the Noteholder in connection with any of the above);

- (ii) undertakes with the Noteholder that whenever the Company does not pay any amount when due under or in connection with the Convertible Note, he shall immediately on demand pay that amount as if he was the principal obligor; and
- (iii) indemnifies the Noteholder immediately on demand against any cost, loss or liability suffered by the Noteholder if any obligation guaranteed by him (or anything which would have been an obligation if not unenforceable, invalid or illegal) is or becomes unenforceable, invalid or illegal. The amount of the cost, loss or liability shall be equal to the amount which the Noteholder would otherwise have been entitled to recover.

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- (b) This guarantee is a continuing guarantee and will extend to the ultimate balance of sums payable by the Company under the Convertible Note, regardless of any intermediate payment or discharge in whole or in part.
- (c) If any payment to the Noteholder (whether in respect of the obligations of the Company or any security for those obligations or otherwise) is avoided or reduced for any reason including, without limitation, as a result of insolvency, breach of fiduciary or statutory duties or any similar event:
 - (i) the liability of the Company shall continue as if the payment, discharge, avoidance or reduction had not occurred; and
 - (ii) the Noteholder shall be entitled to recover the value or amount of that security or payment from the Founder, as if the payment, discharge, avoidance or reduction had not occurred.
- (d) The obligations of the Founder under this Condition (B)8 will not be affected by an act, omission, matter or thing which, but for this Condition, would reduce, release or prejudice any of its obligations under this Condition (without limitation and whether or not known to the Noteholder) including:
 - (i) any time, waiver or consent granted by the Noteholder or other Person;
 - (ii) the release of the Company or any other Person under the terms of any composition or arrangement with any creditor of any member of the Group;
 - (iii) any lack of power, authority or legal personality of or dissolution or change in the members or status of the Company;
 - (iv) any amendment (however fundamental) or replacement of the Convertible Note;
 - (v) any unenforceability, illegality or invalidity of any obligation of any Person under the Convertible Note; and
 - (vi) any bankruptcy, insolvency or similar proceedings.
- (e) The Founder hereby subordinates to the Noteholder any right he may have of first requiring the Noteholder (or any trustee or agent on its behalf) to proceed against or enforce any other rights or security or claim payment from any Person before claiming from the Founder under this Condition (B)8 except to preserve any such claim. This waiver

applies irrespective of any law or any provision of the Convertible Note to the contrary.

- (f) This guarantee is in addition to and is not in any way prejudiced by any other guarantee or security now or subsequently held by the Noteholder.

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- (g) Without prejudice to the Noteholder's rights against the Company, the Founder shall be deemed a principal obligor in respect of his obligations under this guarantee and not merely a surety and, accordingly, the Founder shall not be discharged nor shall his liability hereunder be affected by any act or thing or means whatsoever by which such liability would have been discharged or affected if the Founder had not been a principal obligor.
- (h) Until all moneys, obligations and liabilities (including contingent obligations and liabilities) due, owing or incurred by the Company under the Convertible Note have been paid or discharged in full, the Founder waives all rights of subrogation and indemnity against the Company and agrees not to claim any set-off or counterclaim against the Company or to claim to prove in competition with the Noteholder in the event of the bankruptcy, insolvency or liquidation of the Company.
- (i) All sums payable under this guarantee shall be paid in full without set-off or counterclaim and free and clear of and without deduction of or withholding for or on account of any present or future Taxes, duties and/or other charges.

9. Payment and Taxation

- (a) All payments in respect of the Convertible Note will be made without withholding or deduction of or on account of any present or future Taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the government of Hong Kong, Canada or any authority therein or thereof having power to tax unless the withholding or deduction of such Taxes, duties, assessments or governmental charges is required by law. In that event, the Company or the Founder (as the case may be) will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholder after such withholding or deduction shall equal the respective amounts receivable in respect of the Convertible Note in the absence of such withholding or deduction.
- (b) All payments to the Noteholder shall be made in United States Dollars (or another currency as the Noteholder may otherwise specify in writing), not later than 4:00 p.m. (Hong Kong time) on the due date, by remittance to such bank account as the Noteholder may notify from time to time.
- (c) If the due date for payment of any amount in respect of the Convertible Note is not a Business Day, the Noteholder shall be entitled to payment on the next following Business Day in the same manner but shall not be entitled to be paid any interest in respect of any such delay.
- (d) The Company shall pay any and all issue and other Taxes (other than income taxes) that may be payable in respect of any issue or delivery of Common Shares on conversion of the Convertible Note, provided, however, that the Company shall not be obligated to pay any transfer taxes resulting from any transfer of the Convertible Note (or rights attached thereto) requested by the Noteholder.

10. Replacement certificate

If the certificate for this Convertible Note is lost or mutilated, the Noteholder shall forthwith notify the Company and a replacement certificate for this Convertible Note shall be issued if the Noteholder provides the Company with (i) a declaration by the Noteholder or its officer or director that this Convertible Note had been lost or mutilated (as the case may be) or other evidence that the certificate for this Convertible Note had been lost or mutilated; and (ii) an appropriate indemnity in such form and content as the Board may reasonably require. The certificate for this Convertible Note which has been replaced in accordance with this Condition (B)10 shall forthwith be cancelled.

* * *

Exhibit (A) to the Conditions of Convertible Note

	Scenario 1		Scenario 2		Scenario 3		Scenario 4		Scenario 5	
	Original Plan as per Condition (B)3(c)		If no Note Options are exercised		If the Note Options are exercised but are reduced by the Company		If more Common Shares are issued to ATS		If Common Shares subject to the ESOP are less than 10% of the issued share capital	
Founder and Executives (Note 1)...	5,668,421	56.68%	5,668,421	56.68%	5,668,421	56.68%	5,668,421	53.68%	5,668,421	58.68%
New Commons Shares issued to the Founder and Executive (Note 2)...			506,073	5.06%	253,036	2.53%				
ATS.....	700,000	7.00%	700,000	7.00%	700,000	7.00%	1,055,882	10.00%	676,143	7.00%
ESOP.....	1,000,000	10.00%	1,000,000	10.00%	1,000,000	10.00%	1,055,882	10.00%	772,735	8.00%
Investors.....	2,631,579	26.32%	2,125,506	21.26%	2,378,543	23.79%	2,778,638	26.32%	2,541,893	26.32%
Total.....	10,000,000	100.00%	10,000,000	100.00%	10,000,000	100.00%	10,558,823	100.00%	9,659,193	100.00%
Valuation.....	\$49,400,000		\$49,400,000		\$49,400,000		\$49,400,000		\$49,400,000	
Investment.....	\$13,000,000	26.32%	\$10,500,000	21.26%	\$11,750,000	23.79%	\$13,000,000	26.32%	\$13,000,000	26.32%
Conversion Price.....	\$ 4.9400		\$ 4.9400		\$ 4.9400		\$ 4.6786		\$ 5.1143	
ADJUSTMENT TO CONVERSION PRICE.....	N/A		No adjustment required		No adjustment required		Adjustment downwards if more Common Shares are issued to ATS		Adjustment upwards if Common Shares subject to the ESOP are less than 10% of the issued share capital (Note 3)	

Notes:

- (1) Such number of Common Shares held by the Founder and/or a corporation wholly Controlled by him and Common Shares which will be transferred to the Executives contemplated in the Investment Agreement.
- (2) New Commons Shares may be issued to the Founder and/or the Executives upon consent of all members of the Company and holder of Convertible Notes as per Condition (B)4(c) (ii) (V) in order to keep the total number of Common Shares at 10,000,000 (on a Full-Dilute Basis). Alternatively, the number of Common Shares to be issued to ATS and under ESOP may be reduced to keep the shareholding percentages amongst the Parties the same.
- (3) Although the Conversion Price is adjusted upwards, the Founder and the Company are still to ensure that the total number of (i) Common Shares subject to options granted under the ESOP and (ii) Common Shares Transferred to the Executives contemplated in the Investment Agreement shall, at any time, not be less than 10% of the total Common Shares in the enlarged share capital of the Company calculated on a Fully-Diluted Basis at 31 March 2006.

SCHEDULE 6

FORM OF INDEMNITY DEED FOR AN INVESTOR'S DIRECTOR

THIS DEED is made on the _____ day of _____ by Canadian Solar Inc. (the "COMPANY") in favour of [name of the director] (the "DIRECTOR").

Terms used herein shall have the same meanings as defined in the Subscription Agreement dated [date] between, among others, the Company and HSBC HAV2 (III) Limited, unless the context otherwise requires.

NOW THIS DEED WITNESSES as follows:

1. In consideration of the Director agreeing to act as a director of [the Company] / [name of the subsidiary, a subsidiary of the Company], subject to the Applicable Law and the Company's Articles of Incorporation, By-Laws, and any unanimous shareholder agreement, the Company hereby agrees to indemnify the Director, to the fullest extent permitted by laws, from and against all liabilities, damages, actions, suits, proceedings, claims, costs, charges and expenses suffered or incurred by or brought or made against such Director as a result of any act, matter or thing done or omitted to be done by him/her in good faith in the course of his/her acting as a director of [the Company] / [name of the subsidiary] unless:-
 - (A) such liability is a result of the gross negligence or wilful default of the Director; or
 - (B) such Director have already been fully indemnified in respect of such liabilities, damages, actions, suits, proceedings, claims, costs, charges and expenses by a separate insurance policy taken out by the Company.
2. The Director hereby accepts the appointment as a director of [the Company] / [name of the subsidiary] and so long as he continues to be a director of [the Company] / [name of the subsidiary], the Director shall, within the limits imposed by law and ethics, exercise all functions required by the Company's Articles of Incorporation, By-Laws and any unanimous shareholder agreement in relation to the Company, honestly and in good faith with a view to the best interests of [the Company] / [name of the subsidiary] and in connection therewith, and the Director shall exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.
3. The Company hereby represents and warrants that it has all requisite power and authority to enter into and to perform this Deed and this Deed constitutes a valid, binding and enforceable obligation of the Company in accordance with its terms.
4. Each reference herein to any party shall be deemed to include his or her or its (as the case may be) heirs, executors, administrators, legal representatives, successors and assigns.
5. The provisions of this Deed may be enlarged, modified, altered, waived, discharged or terminated only by an instrument in writing executed by all of the parties hereto.

6. This Deed shall terminate on the date on which the Director ceases to be a director of any of the Company and its subsidiaries; provided however that

the rights and obligations of each party shall survive and continue in full force and effect with respect to any matter arising up to the date of termination of this Deed, whether or not any demand, claim, proceeding or action is asserted, made or instituted after such date.

7. This Deed shall be governed by the laws of the Hong Kong Special Administrative Region of the People's Republic of China.

IN WITNESS WHEREOF the parties hereto have executed this Deed as of the date hereinabove mentioned.

The Common Seal of)
CANADIAN SOLAR INC.)
was affixed hereto)
in the presence of:-)

SIGNED, SEALED and DELIVERED by)
[THE DIRECTOR])
in the presence of:-)

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SCHEDULE 7

FORM OF THE ACCREDITED INVESTOR CERTIFICATE

ACCREDITED INVESTOR CERTIFICATE

1. The Subscriber represents, warrants and certifies to the Corporation and the Agent as at the date of this Certificate and as at the Closing Time that:
[Initial or check only one of boxes I (a) (b) or (c)];

- ☐ (a) The Subscriber is an "accredited investor" and is purchasing the securities as principal for its own account and not for the benefit of any other person, and it is purchasing for investment only and not with a view to resale or distribution and no other person, corporation, firm or other organization has a beneficial interest in the securities; or
- ☐ (b) The Subscriber is purchasing the securities as agent for a "Disclosed Principal", and the Disclosed Principal is an "accredited investor" purchasing as principal for its own account, and not for the benefit of any other person, and is purchasing for investment only and not for a view to resale or distribution; or
- ☐ (c) The Subscriber is a person described in paragraph (p) or (q) of section 2 below and is purchasing the securities on behalf of one or more fully managed accounts.

2. IF YOU OR THE DISCLOSED PRINCIPAL ARE AN "ACCREDITED INVESTOR "PURCHASING PURSUANT TO (A) OR (B) ABOVE , CHECK OR INITIAL THE BOXES THAT APPLY TO YOU OR SUCH DISCLOSED PRINCIPAL SITUATION:

- ☐ (a) a Canadian financial institution, or a Schedule III bank;
- ☐ (b) the Business Development Bank of Canada incorporated under the Business Development Bank of Canada Act (Canada);
- ☐ (c) a subsidiary of any person referred to in paragraphs (a) or (b), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary;

- [] (d) a person registered under the securities legislation of a jurisdiction of Canada as an adviser or dealer, other than a person registered solely as a limited market dealer under one or both of the Securities Act (Ontario) or the Securities Act (Newfoundland and Labrador);
- [] (e) an individual registered or formerly registered under the securities legislation of a jurisdiction of Canada as a representative of a person referred to in paragraph (d);

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- [] (f) the Government of Canada or a jurisdiction of Canada, or any crown corporation, agency or wholly owned entity of the Government of Canada or a jurisdiction of Canada;
- [] (g) a municipality, public board or commission in Canada and a metropolitan community, school board, the Comité de gestion de la taxe scolaire de l'île de Montréal or an intermunicipal management board in Quebec;
- [] (h) any national, federal, state, provincial, territorial or municipal government of or in any foreign jurisdiction, or any agency of that government;
- [] (i) a pension fund that is regulated by either the Office of the Superintendent of Financial Institutions (Canada) or a pension commission or similar regulatory authority of a jurisdiction of Canada;
- [] (j) an individual who, either alone or with a spouse, beneficially owns, directly or indirectly, financial assets having an aggregate realizable value that before taxes, but net of any related liabilities, exceeds \$1,000,000;
- [] (k) an individual whose net income before taxes exceeded \$200,000 in each of the 2 most recent calendar years or whose net income before taxes combined with that of a spouse exceeded \$300,000 in each of the 2 most recent calendar years and who, in either case, reasonably expects to exceed that net income level in the current calendar year;
- [] (l) an individual who, either alone or with a spouse, has net assets of at least \$5,000,000;
- [] (m) a person, other than an individual or investment fund, that has net assets of at least \$5,000,000 as shown on its most recently prepared financial statements;
- [] (n) an investment fund that distributes or has distributed its securities only to
 - (i) a person that is or was an accredited investor at the time of the distribution;
 - (ii) a person that acquires or acquired securities in the circumstances referred to in section 2.10 of NI 45-106 (Minimum amount investment), and section 2.19 of NI 45-106 (Additional investment in investment funds) or
 - (iii) a person described in paragraph (i) or (ii) above that acquires or acquired securities under section 2.18 of NI 45-106 (Investment fund reinvestment)';
- [] (o) an investment fund that distributes or has distributed securities

under a prospectus in a jurisdiction of Canada for which the regulator or, in Quebec, the securities regulatory authority, has issued a receipt;

- [] (p) a trust company or trust corporation registered or authorized to carry on business under the Trust and Loan Companies Act (Canada) or

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under comparable legislation in a jurisdiction of Canada or a foreign jurisdiction, acting on behalf of a fully managed account managed by the trust company or trust corporation, as the case may be;

- [] (q) a person acting on behalf of a fully managed account managed by that person, if that person

(i) is registered or authorized to carry on business as an adviser or the equivalent under the securities legislation of a jurisdiction of Canada or a foreign jurisdiction, and

(ii) in Ontario is purchasing a security that is not a security of an investment fund;

- [] (r) a registered charity under the Income Tax Act (Canada) that, in regard to the trade, has obtained advice from an eligibility adviser or an advisor registered under the securities legislation of the jurisdiction of the registered charity to give advice on the securities being traded;

- [] (s) an entity organized in a foreign jurisdiction that is analogous to any of the entities referred to in paragraphs (a) to (d) or paragraph (i) in form and function;

- [] (t) a person in respect of which all of the owners of interests, direct, indirect or beneficial, except the voting securities required by law to be owned by directors, are persons that are accredited investors;

- [] (u) an investment fund that is advised by a person registered as an adviser or a person that is exempt from registration as an adviser; or

- [] (v) a person that is recognized or designated by the securities regulatory authority or, except in Ontario and Quebec, the regulator as

(i) an accredited investor, or

(ii) an exempt purchaser in Alberta or British Columbia and the person has provided the Corporation and the Agent with evidence of such recognition or designation.

CERTIFICATION

The foregoing certificate is true and accurate as of the date hereof and will be true and accurate as of the Closing Time. If any representation or warranty shall not be true and accurate prior to the Closing Time, the undersigned agrees to give immediate written notice of that fact to the Corporation and the Agent.

The undersigned has executed this Certificate as of the _____ day of _____, 2005.

If a Corporation, Partnership or

If an Individual:

Name of Entity

76

Name of Individual

Title of Person Signing

77

FORM OF THE INVESTMENT AGREEMENT

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) /s/
)
) /s/

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) /s/
) /s/

79

The Seal of)
(Chinese Characters))
(CSI SOLAR TECHNOLOGIES INC.)) /s/
was affixed hereto) /s/
in the presence of:-)
[company seal of CSI Solar
Technologies Inc.]

The Seal of)
(Chinese Characters))
(CSI SOLAR MANUFACTURING INC.)) /s/
was affixed hereto) /s/
in the presence of:-)
[company seal of CSI Solar
Manufacturing Inc.]

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Supplemental Agreement dated February 28, 2006

EXECUTION COPY

THIS SUPPLEMENTAL AGREEMENT (this "AGREEMENT") is entered into as of February 28, 2006 by and among:

- (1) CANADIAN SOLAR INC., a corporation incorporated under the laws of the Province of Ontario, Canada with its registered office at 4056 Jefton Crescent, Mississauga, Ontario, Canada L5L 1Z3 (the "COMPANY");
- (2) HSBC HAV 2 (III) LIMITED, a company incorporated in the Cayman Islands with its registered office at 2nd Floor, Strathvale House, North Church Street, George Town, Grand Cayman, Cayman Islands (the "FUNDS");
- (3) JAFCO ASIA TECHNOLOGY FUND II, a Cayman Islands exempted company with its registered office at PO Box 309 GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands ("JAFCO");
- (4) MR. QU XIAO HUA, holder of Canadian Passport Number BC289772 and whose residential address being at 4056 Jefton Crescent, Mississauga, Ontario, Canada L5L 1Z3 (the "FOUNDER");
- (5) (Chinese Characters) (CSI SOLARTRONICS CO., LTD.), a company established in the People's Republic of China with its registered office at (Chinese Characters) (Yangyuan Industrial Park, Changshu, Jiangsu Province 215562, the People's Republic of China) ("SOLARTRONICS");
- (6) (Chinese Characters) (CSI SOLAR TECHNOLOGIES INC.), a company established in the People's Republic of China with its registered office at (Chinese Characters) 209 (Chinese Characters) C6017 (Chinese Characters) (Suite C6017, China Suzhou Pioneering Park for Overseas Chinese Scholars, No. 209, Zhuyuan Road, Suzhou New & Hi-Tech District, Jiangsu Province 215011, the People's Republic of China) ("SOLAR TECHNOLOGIES"); and
- (7) (Chinese Characters) (CSI SOLAR MANUFACTURING INC.), a company established in the People's Republic of China with its registered office at (Chinese Characters) (Building A6, Export Processing Zone, Suzhou New & Hi-Tech District, Jiangsu Province 215151, the People's Republic of China) ("SOLAR MANUFACTURING").

The Funds and JAFCO shall be referred to collectively as the "INVESTORS" and individually as an "INVESTOR". Solartronics, Solar Technologies and Solar Manufacturing shall be referred to collectively as the "PRC"

SUBSIDIARIES" and individually as a "PRC SUBSIDIARY".

WHEREAS, the Company, the PRC Subsidiaries, the Founder, the Funds and JAFCO are parties to a Subscription Agreement dated as of 16 November 2005 (the "SUBSCRIPTION AGREEMENT"), pursuant to which the Investors agreed to subscribe, and the Company agrees to issue to the Investors the Convertible Notes (as defined in the

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Subscription Agreement) up to an aggregate principal amount of US\$10,500,000, in accordance with and subject to the terms set out in the Subscription Agreement and the Conditions (as defined in the Subscription Agreement).

WHEREAS, the Subscription Agreement contemplated the Second Tranche Subscription, subject to the terms and conditions thereof.

WHEREAS, the obligation of the Investors to complete the Second Tranche Subscription is conditional upon satisfaction of certain conditions, one of which being the delivery of the Satisfactory Audit Reports by the Company to each of the Investors on or before 31 January 2006.

WHEREAS, in order to focus on the preparation of the proposed listing of the Shares (or any other security) of the Company scheduled to occur in the third quarter of 2006, the Company has delayed the delivery of the Satisfactory Audit Report and has requested to extend the deadline for delivering the Satisfactory Audit Report from January 31, 2006 to a later date and desires to extend the deadline for Second Tranche Subscription to a date later than February 28, 2006.

WHEREAS, in order to facilitate the Second Tranche Subscription, as set forth herein, the Parties are desirous of modifying certain terms in the Subscription Agreement on the terms and subject to the conditions set forth herein.

WHEREAS, the Founder entered into Share Pledging Agreements.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, the parties hereto hereby agree as follows:

SECTION 1. AMENDMENT OF SUBSCRIPTION AGREEMENT

1.1 The second paragraph of Clause 2.2 of the Subscription Agreement is hereby amended in its entirety to read as follows:

"PURSUANT TO A NOTE OPTION, THE RELEVANT INVESTOR SHALL HAVE THE RIGHT, WHICH MAY BE EXERCISED IN WHOLE BUT NOT IN PART, AT ANY TIME DURING THE PERIOD FROM THE SECOND COMPLETION DATE TO MAY 31, 2006, TO SUBSCRIBE FOR CONVERTIBLE NOTES OF THE PRINCIPAL AMOUNT SET OPPOSITE ITS NAME ABOVE."

1.2 The first sentence of Clause 3.5 of the Subscription Agreement is hereby amended in its entirety to read as follows:

"THE COMPANY SHALL USE ALL REASONABLE ENDEAVOURS TO PROCURE THAT THE CONDITIONS SET OUT IN CLAUSE 3.2 ARE SATISFIED ON OR BEFORE APRIL 15, 2006".

1.3 The first paragraph of Clause 4.2 of the Subscription Agreement is hereby amended in its entirety to read as follows:

"SUBJECT TO CLAUSE 3, SECOND COMPLETION SHALL TAKE PLACE ON THE SIXTH (6TH) BUSINESS DAY AFTER ALL OF THE CONDITIONS SET OUT IN CLAUSE 3.2 HAVE BEEN FULLY SATISFIED, OR IF NOT ALL OF THE CONDITIONS ARE SATISFIED, AFTER SUCH CONDITIONS HAVE

BEEN WAIVED BY ALL OF THE INVESTORS IN WRITING. THE SECOND COMPLETION SHALL OCCUR ON OR BEFORE MAY 15, 2006, OR SUCH OTHER LATER DATE AS THE COMPANY AND ALL INVESTORS MAY AGREE IN WRITING, AT A PLACE AS THE COMPANY AND THE INVESTORS MAY AGREE, WHEN ALL OF THE FOLLOWING BUSINESS SHALL BE TRANSACTED SIMULTANEOUSLY".

SECTION 2. AMENDMENTS TO THE SHARE PLEDGING AGREEMENTS

2.1. The last sentence of Section 4 of each Share Pledging Agreement is hereby amended in its entirety to read as follows:

"THE PLEDGEE ACKNOWLEDGES THAT IN THE EVENT THAT THE SATISFACTORY AUDIT REPORT IS DELIVERED AFTER JANUARY 31, 2006 BUT ON OR BEFORE APRIL 15, 2006, THE PLEDGEE SHALL NOT DECLARE AN "EVENT OF DEFAULT" UNDER CONDITION B7(H) AS SET OUT IN CONDITIONS OF CONVERTIBLE NOTE."

2.2 Section 7 of each Share Pledging Agreement is hereby amended in its entirety to read as follows:

"IF (A) CSI DELIVERS TO THE PLEDGEE THE SATISFACTORY AUDIT REPORTS ACCORDING TO SECTION 4; (B) CSI FAILS TO DELIVER SUCH SATISFACTORY AUDIT REPORTS ACCORDING TO SECTION 4 BUT THE PLEDGEE DOES NOT DELIVER ANY NOTICE OF REDEMPTION REFERRED TO IN SECTION 4 ON OR BEFORE MAY 15, 2006; OR (C) CSI FAILS TO DELIVER SUCH SATISFACTORY AUDIT REPORTS ACCORDING TO SECTION 4 BUT REDEEMS THE CONVERTIBLE NOTES WITHIN TWO (2) MONTHS FROM THE DATE ON WHICH CSI RECEIVES THE PLEDGEE'S NOTICE OF REDEMPTION, THEN THE PLEDGEE SHALL BE REQUIRED TO DELIVER UP TO THE PLEDGOR THE PLEDGED SHARES AND UPON SUCH DELIVERY TO THE PLEDGOR THIS SHARE PLEDGING AGREEMENT SHALL BE TERMINATED AND OF NO FURTHER FORCE OR EFFECT. FOR THE AVOIDANCE OF DOUBT, THE TERMINATION OF THIS SHARE PLEDGING AGREEMENT SHALL NOT AFFECT ANY RIGHTS OF THE PLEDGEE UNDER THE TRANSACTION DOCUMENTS."

SECTION 3. AMENDMENTS TO THE CERTIFICATE FOR THE CONVERTIBLE NOTES AND THE CONDITIONS

3.1 Condition (B)7(h) of the Certificate for the Convertible Notes and the Conditions is hereby amended in its entirety to read as follows:

"(H) IF THE COMPANY FAILS TO DELIVER TO EACH INVESTOR ON OR BEFORE APRIL 15, 2006 THE SATISFACTORY AUDITED REPORTS IN ACCORDANCE WITH CLAUSE 3.2(A) OF THE SUBSCRIPTION AGREEMENT;"

SECTION 4. MISCELLANEOUS

4.1 Definitions and Interpretation. Capitalized terms used but not otherwise defined in this Agreement shall have the meanings given them in the Subscription Agreement.

4.2 Assignment. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns. No party to this Agreement shall assign any of its rights hereunder without the written consent of the other parties.

4.3 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original with the same effect as if the signatures thereto and hereto were upon the same instrument.

- 4.4 Survival. All other provisions of the Subscription Agreement (including the definitions, Schedules and Disclosure Letter) and the Share Pledging Agreements which are not specifically amended pursuant to Section 1 or Section 2, as the case may be, of this Agreement shall survive this Agreement and continue in full force and effect.
- 4.5 Entire Agreement; Conflict. The Transaction Documents, as amended by this Agreement constitutes the entire understanding of the parties with respect to the subject matter hereof and supersedes all prior agreements and understandings, both written and oral, of the parties with respect to the subject matter of such documents. In the event of any conflict or inconsistency between the Subscription Agreement or the Share Pledging Agreements on the one hand, and this Agreement on the other hand, the terms of this Agreement shall prevail.
- 4.6 Governing Law. This Agreement is governed by and shall be construed in accordance with the laws of Hong Kong.

(Signatures Follow)

4

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first above written.

The Common Seal of)
CANADIAN SOLAR INC.) /s/
was affixed hereto) /s/
in the presence of:-)

5

SIGNED, SEALED and DELIVERED)
as a Deed by) /s/
QU XIAO HUA) /s/
in the presence of:-)

The Seal of)
(Chinese Characters))
(CSI SOLARTRONICS CO., LTD.)) /s/
was affixed hereto) /s/
in the presence of:-)
[Company seal of CSI Solartronics Co.,
Ltd.]

The Seal of)
(Chinese Characters))
(CSI SOLAR TECHNOLOGIES INC.)) /s/
was affixed hereto) /s/
in the presence of:-)
[Company seal of CSI Solar
Technologies Inc.]

The Seal of)
(Chinese Characters))
(CSI SOLAR MANUFACTURING INC.)) /s/
was affixed hereto) /s/
in the presence of:-)
[Company seal of CSI Solar

SIGNED by)
for and on behalf of) /s/
HSBC HAV2 (III) LIMITED) /s/
in the presence of:-)

SIGNED by)
for and on behalf of) /s/
JAFCO ASIA TECHNOLOGY FUND II) /s/
in the presence of:-)

Supplemental Agreement dated March 29, 2006

EXECUTION COPY

THIS SUPPLEMENTAL AGREEMENT (this "SUPPLEMENTAL AGREEMENT") is entered into as of March 29, 2006 by and among:

- (1) CANADIAN SOLAR INC., a corporation incorporated under the laws of the Province of Ontario, Canada with its registered office at 4056 Jefton Crescent, Mississauga, Ontario, Canada L5L 1Z3 (the "COMPANY");
- (2) HSBC HAV 2 (III) LIMITED, a company incorporated in the Cayman Islands with its registered office at 2nd Floor, Strathvale House, North Church Street, George Town, Grand Cayman, Cayman Islands (the "FUNDS");
- (3) JAFCO ASIA TECHNOLOGY FUND II, a Cayman Islands exempted company with its registered office at PO Box 309 GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands ("JAFCO");
- (4) MR. QU XIAO HUA, holder of Canadian Passport Number BC289772 and whose residential address being at 4056 Jefton Crescent, Mississauga, Ontario, Canada L5L 1Z3 (the "FOUNDER");
- (5) (Chinese Characters) (CSI SOLARTRONICS CO., LTD.), a company established in the People's Republic of China with its registered office at (Chinese Characters) (Yangyuan Industrial Park, Changshu, Jiangsu Province 215562, the People's Republic of China) ("SOLARTRONICS");
- (6) (Chinese Characters) (CSI SOLAR TECHNOLOGIES INC.), a company established in the People's Republic of China with its registered office at (Chinese Characters) 209 (Chinese Characters) C6017 (Chinese Characters) (Suite C6017, China Suzhou Pioneering Park for Overseas Chinese Scholars, No. 209, Zhuyuan Road, Suzhou New & Hi-Tech District, Jiangsu Province 215011, the People's Republic of China) ("SOLAR TECHNOLOGIES"); and
- (7) (Chinese Characters) (CSI SOLAR MANUFACTURING INC.), a company established in the People's Republic of China with its registered office at (Chinese Characters) (Building A6, Export Processing Zone, Suzhou New & Hi-Tech District, Jiangsu Province 215151, the People's Republic of China) ("SOLAR MANUFACTURING").

The Funds and JAFCO shall be referred to collectively as the "INVESTORS" and individually as an "INVESTOR". Solartronics, Solar Technologies and

Solar Manufacturing shall be referred to collectively as the "PRC SUBSIDIARIES" and individually as a "PRC SUBSIDIARY".

WHEREAS, the Company, the PRC Subsidiaries, the Founder, the Funds and JAFCO are parties to a Subscription Agreement dated as of November 16, 2005, as amended on February 28, 2006, (the "SUBSCRIPTION AGREEMENT"), pursuant to which the Investors agreed to subscribe, and the Company agreed to issue to the Investors the Convertible Notes (as defined in the Subscription Agreement) up to an aggregate principal amount of US\$10,500,000 together with the granting of options (the "NOTES OPTION") to

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the Investors to acquire additional Convertible Notes up to an aggregate principal amount of \$2,500,000, in accordance with and subject to the terms set out in the Subscription Agreement and the Conditions (as defined in the Subscription Agreement).

WHEREAS, on November 30, 2005, pursuant to the First Tranche Subscription (as defined in the Subscription Agreement), the Company issued: (i) a Certificate for the Convertible Notes and the Conditions in the principal amount of US\$5,400,000 to the Funds (the "FUNDS CONVERTIBLE NOTES"); and (ii) a Certificate for the Convertible Notes and the Conditions in the principal amount of US\$2,700,000 to JAFCO (the "JAFCO CONVERTIBLE NOTES" and together with the Funds Convertible Notes, the "FIRST TRANCHE CONVERTIBLE NOTES").

WHEREAS, the Company, the PRC Subsidiaries, the Founder, the Funds and JAFCO entered into a supplemental agreement on February 28, 2006 modifying certain terms in the Subscription Agreement, the Share Pledging Agreements and the Certificate for the Convertible Notes and the Conditions on the terms and subject to the conditions set forth therein (the "FEBRUARY 28 SUPPLEMENTAL AGREEMENT").

WHEREAS, the Parties are desirous of further modifying certain terms in the Subscription Agreement and the Certificate for the Convertibles Notes and the Conditions on the terms and subject to the conditions set forth herein.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, the parties hereto hereby agree, as follows:

SECTION 1. AMENDMENTS TO THE SUBSCRIPTION AGREEMENT AND CERTIFICATE FOR THE CONVERTIBLE NOTES AND THE CONDITIONS

1.1 Schedule 5 (Form of the Certificate for the Convertible Notes and the Conditions) to the Subscription Agreement is hereby amended by:

(a) replacing Condition (B)5(c)(iii)(II) in its entirety with the following:

(II) IN THE CASE OF A REDEMPTION UNDER CONDITION (B)5(A)(II), OF SUCH AMOUNT THAT WOULD GIVE THE NOTEHOLDER AN INTERNAL RATE OF RETURN OF EIGHTEEN PER CENT. (18%) PER ANNUM IN RESPECT OF THE PRINCIPAL AMOUNT, ALL PAID AND UNPAID INTEREST, SPECIAL INTEREST AND EXTRAORDINARY INTEREST ACCRUED UNDER CONDITION (B)2 IN RESPECT OF THE CONVERTIBLE NOTE (OR THE RELEVANT PART THEREOF) TO BE REDEEMED FOR THE PERIOD FROM THE ISSUE DATE UP TO AND INCLUDING THE DATE OF FULL REPAYMENT OF REDEMPTION MONIES.

(b) replacing Condition (B)7(h) in its entirety with the following:

"(H) IF THE COMPANY FAILS TO DELIVER TO EACH INVESTOR ON OR BEFORE APRIL 30, 2006 THE SATISFACTORY AUDIT REPORTS IN ACCORDANCE WITH CLAUSE 3.2(A) OF THE SUBSCRIPTION AGREEMENT;"

(c) replacing the definition of "Guaranteed 2005 PAT" in Condition A(3) in

its entirely with the following:

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"GUARANTEED 2005 PAT" MEANS SIX MILLION FIVE HUNDRED THOUSAND UNITED STATES DOLLARS (US\$6,500,000) MINUS ANY ACCOUNTING CHARGES INCURRED BY THE COMPANY ARISING SOLELY IN CONNECTION WITH PRIOR CONDITION (B)5(C)(III)(II) (WHICH WAS INCLUDED PREVIOUSLY IN SCHEDULE 5 TO THE SUBSCRIPTION AGREEMENT PRIOR TO ITS AMENDMENT) "

- 1.2 If the Company issues Convertible Notes to the Investors pursuant to the Second Tranche Subscription (as defined in the Subscription Agreement) and the Notes Option, the Certificates for the Convertible Notes and Conditions issued in connection therewith shall be in the form set forth in Schedule 5, as amended in this Supplemental Agreement and the February 28 Supplemental Agreement.
- 1.3 The parties have reached an agreement as of the date hereof that the Form of the Certificate for the Convertible Notes and the Conditions as set forth in Schedule 5 (as amended) to the Subscription Agreement will apply to the First Tranche Convertible Notes. To effect this agreement, the Investors shall return forthwith the First Tranche Convertible Notes to the Company and the Company shall, in exchange therefor, provide forthwith new Certificates for Convertible Notes and Conditions to the Investors identical to the First Tranche Convertible Notes and on the same terms and conditions and in the same principal amounts, except for such amended terms that are reflected in Schedule 5 (as amended) to the Subscription Agreement.

SECTION 2. MISCELLANEOUS

- 2.1 Definitions and Interpretation. Capitalized terms used but not otherwise defined in this Supplemental Agreement shall have the meanings given them in the Subscription Agreement.
- 2.2 Assignment. This Supplemental Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns. No party to this Supplemental Agreement shall assign any of its rights hereunder without the written consent of the other parties.
- 2.3 Counterparts. This Supplemental Agreement may be executed in counterparts, each of which shall be deemed to be an original with the same effect as if the signatures thereto and hereto were upon the same instrument.
- 2.4 Survival. All other provisions of the Subscription Agreement (including the definitions, Schedules and Disclosure Letter) which are not specifically amended pursuant to Section 1 of this Supplemental Agreement shall survive this Supplemental Agreement and continue in full force and effect.
- 2.5 Entire Agreement; Conflict. The Transaction Documents, as amended by this Supplemental Agreement constitutes the entire understanding of the parties with respect to the subject matter hereof and supersedes all prior agreements and understandings, both written and oral, of the parties with respect to the subject matter of such documents. In the event of any conflict or inconsistency between the Subscription Agreement on the one hand, and this Supplemental Agreement on the other hand, the terms of this Supplemental Agreement shall prevail.

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- 2.6 Governing Law. This Supplemental Agreement is governed by and shall be construed in accordance with the laws of Hong Kong.

(Signatures Follow)

4

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Agreement to be executed as of the date first above written.

The Common Seal of)
CANADIAN SOLAR INC.) /s/
was affixed hereto) /s/
in the presence of:-)

[Signature Pages for Supplemental Agreement]

5

SIGNED, SEALED and DELIVERED)
as a Deed by) /s/
QU XIAO HUA) /s/
in the presence of:-)

The Seal of)
(Chinese Characters))
(CSI SOLARTRONICS CO., LTD.)) /s/
was affixed hereto) /s/
in the presence of:-)
[Company seal of CSI Solartronics Co.,
Ltd.]

The Seal of)
(Chinese Characters))
(CSI SOLAR TECHNOLOGIES INC.)) /s/
was affixed hereto) /s/
in the presence of:-)
[Company seal of CSI Solar Technologies
Inc.]

The Seal of)
(Chinese Characters))
(CSI SOLAR MANUFACTURING INC.)) /s/
was affixed hereto) /s/
in the presence of:-)
[Company seal of CSI Solar
Manufacturing Inc.]

[Signature Pages for Supplemental Agreement]

6

SIGNED by)
for and on behalf of) /s/
HSBC HAV2 (III) LIMITED) /s/
in the presence of:-)

SIGNED by)

for and on behalf of) /s/
JAFCO ASIA TECHNOLOGY FUND II) /s/
in the presence of:-)

[Signature Pages for Supplemental Agreement]

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Supplemental Agreement dated June 9, 2006

EXECUTION COPY

THIS SUPPLEMENTAL AGREEMENT (this "SUPPLEMENTAL AGREEMENT") is entered into as of June 9, 2006 by and among:

- (1) CANADIAN SOLAR INC., a corporation incorporated under the laws of the Province of Ontario, Canada with its registered office at 4056 Jefton Crescent, Mississauga, Ontario, Canada L5L 1Z3 (the "COMPANY");
- (2) HSBC HAV 2 (III) LIMITED, a company incorporated in the Cayman Islands with its registered office at 2nd Floor, Strathvale House, North Church Street, George Town, Grand Cayman, Cayman Islands (the "FUNDS");
- (3) JAFCO ASIA TECHNOLOGY FUND II, a Cayman Islands exempted company with its registered office at PO Box 309 GT, Uglan House, South Church Street, George Town, Grand Cayman, Cayman Islands ("JAFCO");
- (4) MR. QU XIAO HUA, holder of Canadian Passport Number BC289772 and whose residential address being at 4056 Jefton Crescent, Mississauga, Ontario, Canada L5L 1Z3 (the "FOUNDER");
- (5) (Chinese Characters) (CSI SOLARTRONICS CO., LTD.), a company established in the People's Republic of China with its registered office at (Chinese Characters) (Yangyuan Industrial Park, Changshu, Jiangsu Province 215562, the People's Republic of China) ("SOLARTRONICS");
- (6) (Chinese Characters) (CSI SOLAR TECHNOLOGIES INC.), a company established in the People's Republic of China with its registered office at (Chinese Characters) 209 (Chinese Characters) C6017 (Chinese Characters) (Suite C6017, China Suzhou Pioneering Park for Overseas Chinese Scholars, No. 209, Zhuyuan Road, Suzhou New & Hi-Tech District, Jiangsu Province 215011, the People's Republic of China) ("SOLAR TECHNOLOGIES"); and
- (7) (Chinese Characters) (CSI SOLAR MANUFACTURING INC.), a company established in the People's Republic of China with its registered office at (Chinese Characters) (Building A6, Export Processing Zone, Suzhou New & Hi-Tech District, Jiangsu Province 215151, the People's Republic of China) ("SOLAR MANUFACTURING").

The Funds and JAFCO shall be referred to collectively as the "INVESTORS" and individually as an "INVESTOR". Solartronics, Solar Technologies and Solar Manufacturing shall be referred to collectively as the "PRC SUBSIDIARIES" and individually as a "PRC SUBSIDIARY".

WHEREAS, the Company, the PRC Subsidiaries, the Founder, the Funds and JAFCO are parties to a Subscription Agreement dated as of November 16, 2005, as amended (the "SUBSCRIPTION AGREEMENT"), pursuant to which the Investors agreed to subscribe, and the Company agreed to issue to the Investors the Convertible Notes (as

defined in the Subscription Agreement) up to an aggregate principal amount of US\$10,500,000 together with the granting of options (the "NOTES OPTION") to the Investors to acquire additional Convertible Notes up to an aggregate principal amount of \$2,500,000, in accordance with and subject to the terms set out in the Subscription Agreement and the Conditions (as defined in the Subscription Agreement).

WHEREAS, on November 30, 2005, pursuant to the First Tranche Subscription (as defined in the Subscription Agreement), the Company issued: (i) a Certificate for the Convertible Notes and the Conditions in the principal amount of US\$5,400,000 to the Funds (the "FIRST TRANCHE FUNDS CONVERTIBLE NOTES"); and (ii) a Certificate for the Convertible Notes and the Conditions in the principal amount of US\$2,700,000 to JAFCO (the "FIRST TRANCHE JAFCO CONVERTIBLE NOTES" and together with the First Tranche Funds Convertible Notes, the "FIRST TRANCHE CONVERTIBLE NOTES").

WHEREAS, the Company, the PRC Subsidiaries, the Founder, the Funds and JAFCO entered into a supplemental agreement on February 28, 2006 modifying certain terms in the Subscription Agreement, the Share Pledging Agreements and the Certificate for the Convertible Notes and the Conditions on the terms and subject to the conditions set forth therein (the "FEBRUARY 28 SUPPLEMENTAL AGREEMENT").

WHEREAS, the Company, the PRC Subsidiaries, the Founder, the Funds and JAFCO entered into a supplemental agreement on March 29, 2006 modifying certain terms in the Subscription Agreement and the Certificate for the Convertible Notes and the Conditions on the terms and subject to the conditions set forth therein (the "MARCH 29 SUPPLEMENTAL AGREEMENT").

WHEREAS, on March 30, 2006, pursuant to the March 29 Supplemental Agreement, the Company issued: (i) a Certificate for the Convertible Notes and the Conditions in the principal amount of US\$5,400,000 to the Funds (the "FIRST TRANCHE FUNDS REPLACEMENT CONVERTIBLE NOTES") in replacement of the First Tranche Funds Convertible Notes which became cancelled upon such replacement; and (ii) a Certificate for the Convertible Notes and the Conditions in the principal amount of US\$2,700,000 to JAFCO (the "FIRST TRANCHE JAFCO REPLACEMENT CONVERTIBLE NOTES") in replacement of the First Tranche JAFCO Convertible Notes which became cancelled upon such replacement; and First Tranche JAFCO Replacement Convertible Notes together with the First Tranche Funds Replacement Convertible Notes, the "FIRST TRANCHE REPLACEMENT CONVERTIBLE NOTES").

WHEREAS, on March 30, 2006, pursuant to the Second Tranche Subscription (as defined in the Subscription Agreement), the Company issued: (i) a Certificate for the Convertible Notes and the Conditions in the principal amount of US\$2,350,000 to the Funds (the "SECOND TRANCHE FUNDS CONVERTIBLE NOTES"); and (ii) a Certificate for the Convertible Notes and the Conditions in the principal amount of US\$1,300,000 to JAFCO (the "SECOND TRANCHE JAFCO CONVERTIBLE NOTES" and together with the Funds Convertible Notes, the "SECOND TRANCHE CONVERTIBLE NOTES").

WHEREAS, the Parties are desirous of further modifying certain terms in the Subscription Agreement and the Certificate for the Convertibles Notes and the Conditions on the terms and subject to the conditions set forth herein.

2

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, the parties hereto hereby agree, as follows:

SECTION 1. AMENDMENTS TO THE SUBSCRIPTION AGREEMENT AND CERTIFICATE FOR THE CONVERTIBLE NOTES AND THE CONDITIONS

1.1 Schedule 5 (Form of the Certificate for the Convertible Notes and the

Conditions) to the Subscription Agreement is hereby amended by:

(a) deleting Condition (B)4(e) in its entirety.

- 1.2 The parties have reached an agreement as of the date hereof that the Form of the Certificate for the Convertible Notes and the Conditions as set forth in Schedule 5 (as amended) to the Subscription Agreement will apply to the First Tranche Replacement Convertible Notes. To effect this agreement, the Investors shall return forthwith the First Tranche Replacement Convertible Notes to the Company and the Company shall, in exchange therefor, provide forthwith new Certificates for Convertible Notes and Conditions to the Investors identical to the First Tranche Replacement Convertible Notes and on the same terms and conditions and in the same principal amounts, except for such amended terms that are reflected in Schedule 5 (as amended by this Supplemental Agreement, the February 28 Supplemental Agreement and the March 29 Supplemental Agreement) to the Subscription Agreement.
- 1.3 The parties have reached an agreement as of the date hereof that the Form of the Certificate for the Convertible Notes and the Conditions as set forth in Schedule 5 (as amended) to the Subscription Agreement will apply to the Second Tranche Convertible Notes. To effect this agreement, the Investors shall return forthwith the Second Tranche Convertible Notes to the Company and the Company shall, in exchange therefor, provide forthwith new Certificates for Convertible Notes and Conditions to the Investors identical to the Second Tranche Convertible Notes and on the same terms and conditions and in the same principal amounts, except for such amended terms that are reflected in Schedule 5 (as amended by this Supplemental Agreement, the February 28 Supplemental Agreement and the March 29 Supplemental Agreement) to the Subscription Agreement.

SECTION 2. MISCELLANEOUS

- 2.1 Definitions and Interpretation. Capitalized terms used but not otherwise defined in this Supplemental Agreement shall have the meanings given them in the Subscription Agreement.
- 2.2 Assignment. This Supplemental Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns. No party to this Supplemental Agreement shall assign any of its rights hereunder without the written consent of the other parties.
- 3
- 2.3 Counterparts. This Supplemental Agreement may be executed in counterparts, each of which shall be deemed to be an original with the same effect as if the signatures thereto and hereto were upon the same instrument.
- 2.4 Survival. All other provisions of the Subscription Agreement (including the definitions, Schedules and Disclosure Letter) which are not specifically amended pursuant to Section 1 of this Supplemental Agreement shall survive this Supplemental Agreement and continue in full force and effect.
- 2.5 Entire Agreement; Conflict. The Transaction Documents, as amended by this Supplemental Agreement constitutes the entire understanding of the parties with respect to the subject matter hereof and supersedes all prior agreements and understandings, both written and oral, of the parties with respect to the subject matter of such documents. In the event of any conflict or inconsistency between the Subscription Agreement on the one hand, and this Supplemental Agreement on the other hand, the terms of this Supplemental Agreement shall prevail.
- 2.6 Governing Law. This Supplemental Agreement is governed by and shall be construed in accordance with the laws of Hong Kong.

(Signatures Follow)

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IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Agreement to be executed as of the date first above written.

The Common Seal of)
CANADIAN SOLAR INC.) /s/
was affixed hereto)
in the presence of:-)

[Signature Pages for Supplemental Agreement]

5

SIGNED, SEALED and DELIVERED)
as a Deed by) /s/
QU XIAO HUA)
in the presence of:-)

The Seal of)
(Chinese Characters))
(CSI SOLARTRONICS CO., LTD.)) /s/
was affixed hereto)
in the presence of:-)
[Company seal of CSI Solartronics Co.,
Ltd.]

The Seal of)
(Chinese Characters))
(CSI SOLAR TECHNOLOGIES INC.)) /s/
was affixed hereto)
in the presence of:-)
[Company seal of CSI Solar Technologies
Inc.]

The Seal of)
(Chinese Characters))
(CSI SOLAR MANUFACTURING INC.)) /s/
was affixed hereto)
in the presence of:-)
[Company seal of CSI Solar
Manufacturing Inc.]

[Signature Pages for Supplemental Agreement]

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SIGNED by)
for and on behalf of) /s/
HSBC HAV2 (III) LIMITED)
in the presence of:-)

SIGNED by)

for and on behalf of) /s/
JAFCO ASIA TECHNOLOGY FUND II) /s/
in the presence of:-)

[Signature Pages for Supplemental Agreement]

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Supplemental Agreement dated July 1, 2006

EXECUTION COPY

THIS SUPPLEMENTAL AGREEMENT (this "SUPPLEMENTAL AGREEMENT") is entered into as of July 1, 2006 by and among:

- (1) CANADIAN SOLAR INC., a corporation incorporated under the laws of the Province of Ontario, Canada with its registered office at 4056 Jefton Crescent, Mississauga, Ontario, Canada L5L 1Z3 (the "COMPANY");
- (2) HSBC HAV 2 (III) LIMITED, a company incorporated in the Cayman Islands with its registered office at 2nd Floor, Strathvale House, North Church Street, George Town, Grand Cayman, Cayman Islands (the "FUNDS");
- (3) JAFCO ASIA TECHNOLOGY FUND II, a Cayman Islands exempted company with its registered office at PO Box 309 GT, Uglan House, South Church Street, George Town, Grand Cayman, Cayman Islands ("JAFCO");
- (4) MR. QU XIAO HUA, holder of Canadian Passport Number BC289772 and whose residential address being at 4056 Jefton Crescent, Mississauga, Ontario, Canada L5L 1Z3 (the "FOUNDER");
- (5) (Chinese Characters) (CSI SOLARTRONICS CO., LTD.), a company established in the People's Republic of China with its registered office at (Chinese Characters) (Yangyuan Industrial Park, Changshu, Jiangsu Province 215562, the People's Republic of China) ("SOLARTRONICS");
- (6) (Chinese Characters) (CSI SOLAR TECHNOLOGIES INC.), a company established in the People's Republic of China with its registered office at (Chinese Characters) 209 (Chinese Characters) C6017 (Chinese Characters) (Suite C6017, China Suzhou Pioneering Park for Overseas Chinese Scholars, No. 209, Zhuyuan Road, Suzhou New & Hi-Tech District, Jiangsu Province 215011, the People's Republic of China) ("SOLAR TECHNOLOGIES"); and
- (7) (Chinese Characters) (CSI SOLAR MANUFACTURING INC.), a company established in the People's Republic of China with its registered office at (Chinese Characters) (Building A6, Export Processing Zone, Suzhou New & Hi-Tech District, Jiangsu Province 215151, the People's Republic of China) ("SOLAR MANUFACTURING").

The Funds and JAFCO shall be referred to collectively as the "INVESTORS" and individually as an "INVESTOR". Solartronics, Solar Technologies and Solar Manufacturing shall be referred to collectively as the "PRC SUBSIDIARIES" and individually as a "PRC SUBSIDIARY".

WHEREAS, the Company, the PRC Subsidiaries, the Founder, the Funds and JAFCO are parties to a Subscription Agreement dated as of November 16, 2005, as amended (the "SUBSCRIPTION AGREEMENT"), pursuant to which the Investors agreed to subscribe, and the Company agreed to issue to the Investors the Convertible Notes (as defined in the Subscription Agreement) up to an aggregate principal amount of US\$10,500,000 together with the granting of options (the "NOTES OPTION") to the Investors

to acquire additional Convertible Notes up to an aggregate principal amount of \$2,500,000, in accordance with and subject to the terms set out in the Subscription Agreement and the Conditions (as defined in the Subscription Agreement).

WHEREAS, on November 30, 2005, pursuant to the First Tranche Subscription (as defined in the Subscription Agreement), the Company issued: (i) a Certificate for the Convertible Notes and the Conditions in the principal amount of US\$5,400,000 to the Funds (the "FIRST TRANCHE FUNDS CONVERTIBLE NOTES"); and (ii) a Certificate for the Convertible Notes and the Conditions in the principal amount of US\$2,700,000 to JAFCO (the "FIRST TRANCHE JAFCO CONVERTIBLE NOTES" and together with the First Tranche Funds Convertible Notes, the "FIRST TRANCHE CONVERTIBLE NOTES").

WHEREAS, the Company, the PRC Subsidiaries, the Founder, the Funds and JAFCO entered into a supplemental agreement on February 28, 2006 modifying certain terms in the Subscription Agreement, the Share Pledging Agreements and the Certificate for the Convertible Notes and the Conditions on the terms and subject to the conditions set forth therein (the "FEBRUARY 28 SUPPLEMENTAL AGREEMENT").

WHEREAS, the Company, the PRC Subsidiaries, the Founder, the Funds and JAFCO entered into a supplemental agreement on March 29, 2006 modifying certain terms in the Subscription Agreement and the Certificate for the Convertible Notes and the Conditions on the terms and subject to the conditions set forth therein (the "MARCH 29 SUPPLEMENTAL AGREEMENT").

WHEREAS, on March 30, 2006, pursuant to the March 29 Supplemental Agreement, the Company issued: (i) a Certificate for the Convertible Notes and the Conditions in the principal amount of US\$5,400,000 to the Funds (the "FIRST TRANCHE FUNDS REPLACEMENT CONVERTIBLE NOTES") in replacement of the First Tranche Funds Convertible Notes which became cancelled upon such replacement; and (ii) a Certificate for the Convertible Notes and the Conditions in the principal amount of US\$2,700,000 to JAFCO (the "FIRST TRANCHE JAFCO REPLACEMENT CONVERTIBLE NOTES") in replacement of the First Tranche JAFCO Convertible Notes which became cancelled upon such replacement; and First Tranche JAFCO Replacement Convertible Notes together with the First Tranche Funds Replacement Convertible Notes, the "FIRST TRANCHE REPLACEMENT CONVERTIBLE NOTES").

WHEREAS, on March 30, 2006, pursuant to the Second Tranche Subscription (as defined in the Subscription Agreement), the Company issued: (i) a Certificate for the Convertible Notes and the Conditions in the principal amount of US\$2,350,000 to the Funds (the "SECOND TRANCHE FUNDS CONVERTIBLE NOTES"); and (ii) a Certificate for the Convertible Notes and the Conditions in the principal amount of US\$1,300,000 to JAFCO (the "SECOND TRANCHE JAFCO CONVERTIBLE NOTES" and together with the Second Tranche Funds Convertible Notes, the "SECOND TRANCHE CONVERTIBLE NOTES").

WHEREAS, the Company, the PRC Subsidiaries, the Founder, the Funds and JAFCO entered into a supplemental agreement on June 9, 2006 modifying certain terms in the Subscription Agreement and the Certificate for the Convertible Notes and the Conditions on the terms and subject to the conditions set forth therein (the "JUNE 9 SUPPLEMENTAL Agreement").

WHEREAS, on June 9, 2006, pursuant to the June 9 Supplemental Agreement, the Company issued: (i) a Certificate for the Convertible Notes and the Conditions in the principal amount of US\$5,400,000 to the Funds (the "FIRST TRANCHE FUNDS REPLACEMENT (2) CONVERTIBLE NOTES") in replacement of the First Tranche Funds Convertible Replacement Notes which became cancelled upon such

replacement; (ii) a Certificate for the Convertible Notes and the Conditions in the principal amount of US\$2,700,000 to JAFCO (the "FIRST TRANCHE JAFCO REPLACEMENT (2) CONVERTIBLE NOTES" together with the First Tranche Funds Replacement (2) Convertible Notes, the "FIRST TRANCHE REPLACEMENT (2) CONVERTIBLE NOTES") in replacement of the First Tranche JAFCO Replacement Convertible Notes which became cancelled upon such replacement; (i) a Certificate for the Convertible Notes and the Conditions in the principal amount of US\$2,350,000 to the Funds (the "SECOND TRANCHE FUNDS REPLACEMENT CONVERTIBLE NOTES") in replacement of the Second Tranche Funds Convertible Notes which became cancelled upon such replacement; and (ii) a Certificate for the Convertible Notes and the Conditions in the principal amount of US\$1,300,000 to JAFCO (the "SECOND TRANCHE JAFCO REPLACEMENT CONVERTIBLE NOTES" together with the Second Tranche Funds Replacement Convertible Notes, the "SECOND TRANCHE REPLACEMENT CONVERTIBLE NOTES") in replacement of the Second Tranche JAFCO Convertible Notes which became cancelled upon such replacement.

WHEREAS, the Parties are desirous of further modifying certain terms in the Subscription Agreement and the Certificate for the Convertibles Notes and the Conditions on the terms and subject to the conditions set forth herein.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, the parties hereto hereby agree, as follows:

SECTION 1. AMENDMENTS TO THE SUBSCRIPTION AGREEMENT AND CERTIFICATE FOR THE CONVERTIBLE NOTES AND THE CONDITIONS

1.1 Schedule 5 (Form of the Certificate for the Convertible Notes and the Conditions) to the Subscription Agreement is hereby amended, so as to conform with the original intention of the parties, by:

(a) deleting Condition (B)2(a) in its entirety and replacing it with the following:

"The Convertible Note shall bear interest from the Issue Date at the rate of twelve per cent (12%) per annum on the principal amount of the Convertible Note outstanding, such interest shall, subject to sub-paragraphs (b) and (c) below, accrue from day to day, be calculated on the basis of the actual number of days that elapsed in a year of 365 days and be payable as follows: (i) two per cent (2%) per annum shall be payable in cash by four equal quarterly instalments in arrears (the first payment being on the date falling three (3) months after the Issue Date), and (ii) ten per cent (10%) per annum shall be payable in a balloon payment as at the date of conversion or redemption as the case may be. In the event that the Convertible Note has been wholly converted into Common Shares in accordance with these Conditions, the Noteholder shall be entitled to interest in respect of the whole of the principal amount being converted for the period from the date immediately

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preceding the last interest payment date (or the Issue Date, as the case may be) up to and including the date of conversion, and such interest (which has not been paid before the conversion) shall be payable by the Company on the date of conversion."

(b) deleting Condition (B)5(c) in its entirety and replacing it with the following:

"The redemption monies in respect of the Convertible Note (or the relevant part thereof) comprise of:

(i) the principal amount so redeemed;

(ii) arrears of interest, special interest and extraordinary interest

accrued in accordance with Condition (B)2; and

(iii) any outstanding amount payable in respect of the Convertible Note (or the relevant part thereof)."

(c) deleting Condition (B)9(a) in its entirety and replacing it with the following:

"All payments in respect of the Convertible Note will be made without withholding or deduction of or on account of any present or future Taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the government of Hong Kong, Canada or any authority therein or thereof having power to tax unless the withholding or deduction of such Taxes, duties, assessments or governmental charges is required by law. In that event, the Company or the Founder (as the case may be) will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholder after such withholding or deduction shall equal the respective amounts receivable in respect of the Convertible Note in the absence of such withholding or deduction, provided that, notwithstanding any agreement to the contrary, no withholding tax shall be payable under the Canadian income tax laws in respect of any amounts deemed to constitute interest paid upon conversion of the Convertible Note."

1.2 The parties have reached an agreement as of the date hereof that the Form of the Certificate for the Convertible Notes and the Conditions as set forth in Schedule 5 (as amended) to the Subscription Agreement will apply to the First Tranche Replacement (2) Convertible Notes. To effect this agreement, the Investors shall return forthwith the First Tranche Replacement (2) Convertible Notes to the Company and the Company shall, in exchange therefor, provide forthwith new Certificates for Convertible Notes and Conditions to the Investors identical to the First Tranche Replacement (2) Convertible Notes and on the same terms and conditions and in the same principal amounts, except for such amended terms that are reflected in Schedule 5 (as amended by this Supplemental Agreement, the February 28 Supplemental Agreement, the March 29 Supplemental Agreement and the June 9 Supplemental Agreement) to the Subscription Agreement.

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1.3 The parties have reached an agreement as of the date hereof that the Form of the Certificate for the Convertible Notes and the Conditions as set forth in Schedule 5 (as amended) to the Subscription Agreement will apply to the Second Tranche Convertible Replacement Notes. To effect this agreement, the Investors shall return forthwith the Second Tranche Replacement Convertible Notes to the Company and the Company shall, in exchange therefor, provide forthwith new Certificates for Convertible Notes and Conditions to the Investors identical to the Second Tranche Replacement Convertible Notes and on the same terms and conditions and in the same principal amounts, except for such amended terms that are reflected in Schedule 5 (as amended by this Supplemental Agreement, the February 28 Supplemental Agreement, the March 29 Supplemental Agreement and the June 9 Supplemental Agreement) to the Subscription Agreement.

1.4 The parties agree that the Conversion Price per Common Share should be adjusted to be US\$5.770563156 on the basis that (i) a total of 5,668,421 Common Shares are currently in issue; (ii) the maximum number of Common Shares that may be issued pursuant to the ESOP shall be 1,000,000; (iii) an aggregate of 2,036,195.824 Common Shares are expected to be issued to all Investors upon the full conversion of all Convertible Notes of an aggregate principal amount of US\$11,750,000; and (iv) immediately following the full conversion of all Convertible Notes, the Common Shares will be split on a 1 for 1.168130772 basis although the maximum number of Common Shares that may be issued pursuant to the ESOP shall remain 1,000,000, such that the

aggregate shareholding of all Investors in the Company following the share split shall be 23.79%.

SECTION 2. MISCELLANEOUS

- 2.1 Definitions and Interpretation. Capitalized terms used but not otherwise defined in this Supplemental Agreement shall have the meanings given them in the Subscription Agreement.
- 2.2 Assignment. This Supplemental Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns. No party to this Supplemental Agreement shall assign any of its rights hereunder without the written consent of the other parties.
- 2.3 Counterparts. This Supplemental Agreement may be executed in counterparts, each of which shall be deemed to be an original with the same effect as if the signatures thereto and hereto were upon the same instrument.
- 2.4 Survival. All other provisions of the Subscription Agreement (including the definitions, Schedules and Disclosure Letter) which are not specifically amended pursuant to Section 1 of this Supplemental Agreement shall survive this Supplemental Agreement and continue in full force and effect.
- 2.5 Entire Agreement; Conflict. The Transaction Documents, as amended by this Supplemental Agreement constitutes the entire understanding of the parties with respect to the subject matter hereof and supersedes all prior agreements and understandings, both written and oral, of the parties with respect to the subject matter of such documents. In the event of any conflict or inconsistency between the

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Subscription Agreement on the one hand, and this Supplemental Agreement on the other hand, the terms of this Supplemental Agreement shall prevail.

- 2.6 Governing Law. This Supplemental Agreement is governed by and shall be construed in accordance with the laws of Hong Kong.

(Signatures Follow)

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IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Agreement to be executed as of the date first above written.

The Common Seal of)
CANADIAN SOLAR INC.)
was affixed hereto) /s/
in the presence of:-) /s/

[Signature Pages for Supplemental Agreement]

7

SIGNED, SEALED and DELIVERED)
as a Deed by)
QU XIAO HUA) /s/
in the presence of:-) /s/

The Seal of)
(Chinese Characters))
(CSI SOLARTRONICS CO., LTD.))
was affixed hereto) /s/
in the presence of:-) /s/

The Seal of)
(Chinese Characters))
(CSI SOLAR TECHNOLOGIES INC.))
was affixed hereto) /s/
in the presence of:-) /s/

The Seal of)
(Chinese Characters))
(CSI SOLAR MANUFACTURING INC.))
was affixed hereto) /s/
in the presence of:-) /s/

[Signature Pages for Supplemental Agreement]

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SIGNED by Victor Leung)
for and on behalf of)
HSBC HAV2 (III) LIMITED) /s/
in the presence of:-) /s/

/s/

Laetitia K.W. Yu
Witness

[Signature Pages for Supplemental Agreement]

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SIGNED by)
for and on behalf of)
JAFCO ASIA TECHNOLOGY FUND II) /s/
in the presence of:- Liu Xiao Ning) /s/

[Signature Pages for Supplemental Agreement]

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DATED 30 NOVEMBER 2005

(1) CANADIAN SOLAR INC.

(2) HSBC HAV2 (III) LIMITED

(3) JAFECO ASIA TECHNOLOGY FUND II

(4) MR. QU XIAO HUA

(5) [chinese characters] (CSI SOLARTRONICS CO., LTD.)

(6) [chinese characters] (CSI SOLAR TECHNOLOGIES INC.)

and

(7) [chinese characters] (CSI SOLAR MANUFACTURING INC.)

INVESTMENT AGREEMENT

relating to

CANADIAN SOLAR INC.

BAKER & MCKENZIE

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Schedule

1. Particulars of the Company
2. Representations and warranties referred to in Clause 4.7(C) (i)

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THIS AGREEMENT is made on the 30th day of November 2005

BETWEEN:

- (1) CANADIAN SOLAR INC., a corporation incorporated under the laws of the Province of Ontario, Canada with its registered office at 4056 Jefton Crescent, Mississauga, Ontario, Canada L5L 1Z3 (the "COMPANY");
- (2) HSBC HAV 2 (III) LIMITED, a company incorporated in the Cayman Islands with its registered office at 2nd Floor, Strathvale House, North Church Street, George Town, Grand Cayman, Cayman Islands (the "FUNDS");
- (3) JAFCO ASIA TECHNOLOGY FUND II, a Cayman Islands exempted company with its registered office at PO Box 309GT, Uglan House, South Church Street, George Town, Grand Cayman, Cayman Islands ("JAFCO");
- (4) MR. QU XIAO HUA, holder of Canadian Passport Number BC289772 and whose residential address being at 4056 Jefton Crescent, Mississauga, Ontario, Canada L5L 1Z3 (the "FOUNDER");
- (5) [chinese characters] (CSI SOLARTRONICS CO., LTD.), a company established in the People's Republic of China with its registered office at [chinese characters] (Yangyuan Industrial Park, Changshu, Jiangsu Province 215562, the People's Republic of China) ("SOLARTRONICS");
- (6) [chinese characters] (CSI SOLAR TECHNOLOGIES INC.), a company established in the People's Republic of China with its registered office at [chinese characters] 209 [chinese characters] C6017 [chinese characters] (Suite C6017, China Suzhou Pioneering Park for Overseas Chinese Scholars, No. 209, Zhuyuan Road, Suzhou New & Hi-Tech District, Jiangsu Province 215011, the People's Republic of China) ("SOLAR TECHNOLOGIES"); and
- (7) [chinese characters] (CSI SOLAR MANUFACTURING INC.), a company established in the People's Republic of China with its registered office at [chinese characters] (Building A6, Export Processing Zone, Suzhou New & Hi-Tech District, Jiangsu Province 215151, the People's Republic of China) ("SOLAR MANUFACTURING").

The Funds and JAFCO shall be referred to collectively as the "INVESTORS" and individually as an "INVESTOR".

Solartronics, Solar Technologies and Solar Manufacturing shall be referred to collectively as the "PRC SUBSIDIARIES" and individually as a "PRC SUBSIDIARY".

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WHEREAS:

- (A) The Company is a corporation incorporated under the laws of the Province of Ontario, Canada.
- (B) The Investors has subscribed for Convertible Notes pursuant to the Subscription Agreement.
- (C) The Founder, the PRC Subsidiaries and the Investors wish to enter into this

Agreement with each other to govern certain aspects of the affairs of the Company.

- (D) Founder has agreed to guarantee to the Investors the performance by the Company of its obligations under this Agreement.

THE PARTIES HEREBY AGREE AS FOLLOWS:

1. DEFINITIONS

- 1.1 In this Agreement (including the Recitals), unless the context requires otherwise, the following expressions shall have the following meanings:

"AFFILIATE" of a specified Person means any other Person that, directly or indirectly, through one or more intermediaries, Controls, is Controlled by, or is under common Control with, such specified Person, and (a) in the case of a natural Person, such Person's spouse, parents and descendants (whether by blood or adoption and including stepchildren), and (b) in the case of an Investor, shall include (i) any Person who holds the Convertible Notes as a nominee for such Investor, (ii) any shareholder of such Investor and (iii) any entity or individual which has a direct or indirect interest in such Investor (including, if applicable, any general partner or limited partner, any fund manager or any fund managed by the same fund manager thereof), and each Group Company shall be deemed to be an Affiliate of the Founder;

"APPLICABLE LAW" means, with respect to any Person, any and all provisions of any constitution, treaty, statute, law, regulation, ordinance, code, rule, judgement, rule of common law, order, decree, award, injunction, Governmental Approval, concession, grant, franchise, license, agreement, directive, guideline, policy, requirement, or other governmental restriction or any similar form of decision of, or determination by, or any interpretation or administration of any of the foregoing by, any Governmental Authority, whether in effect as of the date hereof or thereafter applicable to such Person;

"ARBITRATORS" has the meaning ascribed to it in Clause 24.2;

"ARTICLES OF INCORPORATION" means the duly adopted articles of incorporation of the Company in force from time to time;

"ATS" means ATS Automation Tooling Systems Inc., a corporation incorporated in Canada;

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"ATS ARRANGEMENT" means the arrangement between the Founder and ATS in existence as at the date of the Subscription Agreement in relation to, among other things, ATS's acquisition of ownership interest of not exceeding nineteen point five per cent. (19.5%) in the Company;

"BOARD" means the board of directors of the Company;

"BUSINESS DAY" means any day (excluding Saturdays, Sundays and public holidays) on which banks generally are open for business in Hong Kong and Singapore;

"BY-LAWS" means the duly adopted by-laws of the Company in force from time to time;

"COMMON SHARES" means common shares in the capital of the Company and all other (if any) stock or shares from time to time and for the time being ranking pari passu therewith and all other (if any) shares or stock in the authorised share capital of the Company resulting from any sub-division, consolidation or re-classification of Common Shares;

"COMMON SHARES EQUIVALENTS" means, with respect to any Investor, the aggregate number of Common Shares owned by such Investor together with the number of Common Shares into or for which any Convertible Notes owned by such Investor shall be convertible;

"COMPENSATION COMMITTEE" means the compensation committee of the Board as referred to in Clause 7.2(B);

"CONTROL", "CONTROLLED" (or any correlative term) means the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of a Person, whether through the ownership of voting securities, by contract, credit arrangement or proxy, as trustee, executor, agent or otherwise; and for the purpose of this definition, a Person shall be deemed to Control another Person if such first Person, directly or indirectly, owns or holds more than 50% of the voting equity interests in such another Person;

"CONVERTIBLE NOTES" the convertible loan notes up to an aggregate principal amount of Thirteen Million United States Dollars (US\$13,000,000) convertible into Common Shares issued or to be issued to the Investors under the Subscription Agreement;

"CONVERTIBLE SECURITIES" means (i) any rights, options or warrants to acquire Shares, and (ii) any notes, debentures, preference shares (including, without limitation, the Convertible Notes) or other securities or rights, which are ultimately convertible or exercisable into, or exchangeable for, Shares;

"CO-SALE EXERCISE AMOUNT" has the meaning ascribed to it in Clause 4.4(A);

"CO-SALE NOTICE" has the meaning ascribed to it in Clause 4.4(A);

"CO-SALE PROPORTIONATE AMOUNT" has the meaning ascribed to it in Clause 4.4(E);

"CO-SALE SECURITIES" has the meaning ascribed to it in Clause 4.4(A);

"DIRECTLY OWNED SUBSIDIARY" has the meaning ascribed to it in Clause 9.2;

"DIRECTOR" means a director of the Company;

"ENCUMBRANCE" means any lien, encumbrance, hypothecation, right of others, proxy, voting trust or similar arrangement, pledge, security interest, collateral security agreement, limitations on voting rights, limitations on rights of ownership filed with any Governmental Authority, claim, charge, equities, mortgage, pledge, objection, title defect, title retention agreement, option, restrictive covenant, restriction on transfer, right of first refusal, right of first offer, or any comparable interest or right created by or arising under Applicable Law, of any nature whatsoever;

"ESOP" means an employee stock option plan to be adopted by the Company, pursuant to which (a) options may be granted to key employees and members of the management team of any Group Company to subscribe for Common Shares, (b) the number of Common Shares that may be subject to such options shall not exceed One Million (1,000,000) on the basis that the total expected number of Common Shares to be in issue on a Fully-Diluted Basis after issue of all Common Shares to ATS, pursuant to the ESOP and upon conversion of all Convertible Notes will be Ten Million (10,000,000), (c) the terms of the plan (including but not limited to the exercise price for each Common Share under the plan, the vesting date and the lock-up period of the options) shall be subject to the approval of the Compensation Committee, and (d) any grant of options under the plan shall be subject to the approval of the Compensation Committee;

"EXECUTIVE" means a director, the chief executive officer, the chief operation officer, the chief financial officer, the general manager or a vice-president of any Group Company, or such other Person as the Compensation Committee may nominate from time to time;

"EQUITY SECURITIES" means (a) Convertible Securities and (b) shares of any class in the capital of the Company and including, without limitation, the Common Shares;

"EXCESS OFFERED SECURITIES" has the meaning ascribed to it in Clause 4.3(B) (b);

"EXCESS NEW SECURITIES" has the meaning ascribed to it in Clause 5.2(B);

"EXCESS PRO-RATA AMOUNT" has the meaning ascribed to it in Clause 5.2(D);

"EXCESS PROPORTIONATE AMOUNT" has the meaning ascribed to it in Clause 4.3(B) (d);

"EXERCISE AMOUNT" has the meaning ascribed to it in Clause 4.3(B) (a);

"EXERCISE NOTICE" has the meaning ascribed to it in Clause 5.2(A);

"EXERCISING PARTY" has the meaning ascribed to it in Clause 4.3(B) (a);

"FINANCING TERMS" has the meaning ascribed to it in Clause 12.1;

"FIRST COMPLETION" has the meaning ascribed to it in the Subscription Agreement;

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"FULLY-DILUTED BASIS" means, when used with respect to issued and outstanding share capital of the Company, the total number of all Common Shares which are or would be issued and outstanding assuming the full conversion of all Convertible Notes in issue at the then applicable Conversion Price (as defined in the conditions of the Convertible Notes);

"GOVERNMENTAL APPROVAL" means any action, order, authorization, consent, approval, license, authorisation, qualification, lease, waiver, franchise, concession, agreement, ruling, permit, tariff, rate, certification, exemption of, filing or registration by or with, or report or notice to, any Governmental Authority;

"GOVERNMENTAL AUTHORITY" means any nation or government, any state or other political subdivision thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government (including, without limitation, any government authority, agency, department, board, commission or instrumentality of Canada, the PRC, Hong Kong or any other applicable jurisdiction in the world or any political subdivision of any of the foregoing), or any tribunal or arbitrator(s) of competent jurisdiction, or any self-regulatory organization;

"GROUP" means the Company and its subsidiaries and affiliates, and a "GROUP COMPANY" means any or a specific member within the Group as the context may require;

"HKIAC" has the meaning ascribed to it in Clause 24.2;

"HONG KONG" means the Hong Kong Special Administrative Region of the People's Republic of China;

"IAS" means International Accounting Standards as published by the

International Accounting Standards Committee from time to time;

"INDIRECTLY OWNED SUBSIDIARY" has the meaning ascribed to it in Clause 9.3;

"INVESTOR'S DIRECTOR" means the Person nominated by each Investor pursuant to Clause 7.3 and duly appointed as a Director or a director of a subsidiary of the Company;

"IPO" means the initial public offering of the shares of the Company or ListCo;

"ISSUANCE NOTICE" has the meaning ascribed to it in Clause 5.1;

"JAFCO MANAGER" has the meaning ascribed to it in Clause 25;

"JOINDER AGREEMENT" means, an agreement, the terms and conditions of which shall be satisfactory to the Investors, which a Person is required to enter into with or in favour of all the Parties as a condition of the Company approving any Transfer or issuance and allotment of Equity Securities to such Person to which such Person undertakes to be bound by certain provisions of this Agreement, as if it were a party to this Agreement;

"JIAP" has the meaning ascribed to it in Clause 25;

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"LIEN" means any lien, pledge, mortgage, deed of trust, security interest, claim, lease, charge, option, right of first refusal, transfer restriction, hypothecation, Encumbrance or other security interest of any kind or nature whatsoever, or any agreement to give or make any of the foregoing;

"LISTCO" means a new holding company of the Group to be incorporated in a jurisdiction acceptable for the purpose of the IPO and the shares of which will be offered in the IPO;

"MAJORITY CN APPROVAL" means the written approval given by holders in respect of more than seventy-five per cent. (75%) of the aggregate principal amount of Convertible Notes subscribed for by the Investors;

"MATERIAL ADVERSE EFFECT" means any event, circumstance, occurrence, fact, condition, change or effect that is materially adverse to (i) the business, operations, results of operations, financial condition, management, prospects, properties, assets or liabilities of the Group, taken as a whole or otherwise; or (ii) the ability of any of the Company, the PRC Subsidiaries or the Founder to perform fully its/his obligations hereunder and to consummate the transactions contemplated hereby;

"NEW SECURITIES" has the meaning ascribed to it in Clause 5.1(B);

"OBSERVER" has the meaning ascribed to it in Clause 7.3(D);

"OFFER PRICE" has the meaning ascribed to it in Clause 4.3(A);

"OFFERED SECURITIES" has the meaning ascribed to it in Clause 4.3(A);

"PARTIES" means the named parties to this Agreement and their respective successors, and a "PARTY" shall be construed accordingly;

"PERMITTED TRANSFER" has the meaning ascribed to it in Clause 4.7(B);

"PERMITTED TRANSFEREE" has the meaning ascribed to it in Clause 4.7(B);

"PERSON" or "PERSONS" means any natural person, company, corporation, association, partnership, organization, firm, joint venture, trust, unincorporated organization or any other entity or organization, and shall

include any Governmental Authority;

"PRC" means the People's Republic of China, but shall not include Hong Kong, the Macau Special Administrative Region and Taiwan for the purpose of this Agreement;

"PRE-EMPTIVE AMOUNT" has the meaning ascribed to it in Clause 5.2(A);

"PRE-EMPTIVE PARTY" has the meaning ascribed to it in Clause 5.2(A);

"PRO-RATA AMOUNT" has the meaning ascribed to it in Clause 5.2(C);

"PROPORTIONATE AMOUNT" has the meaning ascribed to it in Clause 4.3(B)(c);

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"QUALIFIED IPO" means a fully underwritten IPO on the main board of The Stock Exchange of Hong Kong Limited, the NASDAQ National Market or another international stock exchange (including without limiting the generality of the forgoing, the Toronto Stock Exchange) approved with Majority CN Approval, where (a) the offering size (net of all related expenses and underwriting discounts and commissions) being not less than Thirty Million United States Dollars (US\$30,000,000), (b) the total market capitalization of the Company or ListCo (as the case may be) immediately following the offering being not less than One Hundred and Twenty Million United States Dollars (US\$120,000,000) and (c) the public float immediately following the offering being not less than twenty-five per cent. (25%) of the enlarged share capital of the Company or ListCo (as the case may be);

"REGISTRATION RIGHTS AGREEMENT" has the meaning ascribed to it in the Subscription Agreement;

"REORGANISATION" has the meaning ascribed to it in Clause 6.1(A);

"RELATED PARTIES" means Affiliates of the Founder and a "RELATED PARTY" shall mean any or a specific one of the Related Parties;

"RELATED PARTY TRANSACTION" means a transaction entered into by any Group Company with the Founder or any Related Party;

"REMAINING EQUITIES HOLDER" has the meaning ascribed to it in Clause 4.3(A);

"REPLY NOTICE" has the meaning ascribed to it in Clause 4.3(B)(a);

"RESERVED MATTERS" has the meaning ascribed to it in Clause 9.1;

"SECOND COMPLETION" has the meaning ascribed to it in the Subscription Agreement;

"SHARE(S)" means share(s) of any class in the capital of the Company and including, without limitation, the Common Share(s);

"SHARE SWAP" has the meaning ascribed to it in Clause 6.1(A);

"SHAREHOLDER" means a holder of any Share(s);

"SUBSCRIPTION AGREEMENT" means a subscription agreement dated 16 November 2005 relating to, among other things, the subscription of Convertible Notes by the Investors, and entered into between the Parties;

"SUBSIDIARY" has the meaning that a company is a subsidiary of another company if that other company (i) Controls the composition of the board of directors of the first-mentioned company; (ii) Controls more than half of the voting power of the first-mentioned company; or (iii) holds more than

half of the issued share capital of the first-mentioned company; and, for these purposes, a company shall be treated as being Controlled by another if that other company is able to direct its affairs and/or to Control the composition of its majority board of directors or equivalent management body;

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"TAXES" or "TAXATION" means and includes all forms of tax, levy, duty, charge, impost, fee, deduction or withholding of any nature imposed, levied, collected withheld or assessed by any Governmental Authority or other taxing or similar authority in any part of the world and includes any interest, additional tax, penalty or other charge payable or claimed in respect thereof;

"TERRITORY" has the meaning ascribed to it in Clause 6.6(A)(i);

"TRANSACTION DOCUMENTS" means all documents (including but without limitation to the Share Pledging Agreements (as defined in the Subscription Agreement), the Share Pledge Releases (as defined in the Subscription Agreement) and the Registration Rights Agreement) referred to or contemplated in this Agreement;

"TRANSFER", "TRANSFERRING" (or any correlative term) means a sale, assignment, pledge, charge, mortgage, hypothecation, gift, placement in trust (voting or otherwise) or transfer by operation of law of, creation of a security interest in, or Lien on, or any other encumbering or disposal (directly or indirectly and whether or not voluntary), and shall include any transfer by will or intestate succession;

"TRANSFER NOTICE" has the meaning ascribed to it in Clause 4.3(A);

"TRANSFEROR" has the meaning ascribed to it in Clause 4.3(A);

"UNCITRAL RULES" has the meaning ascribed to it in Clause 23.2;

"UNITED STATES" or "US" means the United States of America;

"US\$" means United States dollars, the lawful currency of the United States of America; and

"VALUER" has the meaning ascribed to it in Clause 4.3(E).

1.2 In this Agreement:

- (A) the headings are inserted for convenience only and shall not affect the construction and interpretation of this Agreement;
- (B) references to statutory provisions shall be construed as references to those provisions as amended or re-enacted or as their application is modified by other statutory provisions (whether before or after the date hereof) from time to time and shall include any provisions of which they are re-enactments (whether with or without modification) except to the extent that any amendment or modification enacted after the date hereof would materially affect the rights or obligations of any Party under this Agreement;
- (C) all time and dates in this Agreement shall be Hong Kong time and dates except where otherwise stated;
- (D) unless the context requires otherwise, words incorporating the singular shall include the plural and vice versa and words importing a gender shall include every gender;

- (E) references herein to Clauses, Recitals and Schedules are to clauses and recitals of and schedules to this Agreement; and
- (F) all Recitals and Schedules form part of this Agreement and shall have the same force and effect as if expressly set out in the body of this Agreement and any reference to this Agreement shall include such Recitals and Schedules.

1.3 Where any obligation in this Agreement is expressed to be undertaken or assumed by any Party, that obligation is to be construed as requiring the Party concerned to exercise all reasonable rights and powers of Control over the affairs of any other Person which that Party is able to reasonably exercise (whether directly or indirectly) in order to secure performance of that obligation.

2. GUARANTEE

The Founder guarantees to the Investors the due and timely performance by the Company and the PRC Subsidiaries of their respective obligations under this Agreement. In the event that the Company or any of the PRC Subsidiaries fails to comply with any of its obligations under this Agreement, the Founder undertakes to procure the prompt compliance by the Company or the relevant PRC Subsidiary (as the case may be) of such obligations and indemnify each of the Investors on demand from and against all or any losses, costs, expenses damages, claims and liabilities borne, suffered or incurred by the Investor arising or resulting from or in connection with such failure of the Company or the PRC Subsidiary (as the case may be) to perform its obligations set out in this Agreement.

3. OWNERSHIP OF EQUITY SECURITIES

3.1 The Founder represents and warrants to the Investors that each of the following statements is true:

- (A) the Founder owns beneficially the number and types of Equity Securities set out opposite his name in Schedule 1, and that he has not pledged, hypothecated or granted any security interest in such Equity Securities to any Person (except as disclosed in the Disclosure Letter referred to in the Subscription Agreement);
- (B) he has not granted to any Person any right to purchase or otherwise acquire any interest in such Equity Securities save as contemplated by this Agreement, the Subscription Agreement and the Articles of Incorporation and By-Laws and except the ATS Arrangement;
- (C) he owns such Equity Securities free and clear of all Encumbrance save as contemplated by this Agreement and the Articles of Incorporation and By-Laws and except the ATS Arrangement;
- (D) he has all requisite right, power and authority and full legal capacity to enter into this Agreement, to carry out his obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by him and the consummation of the transactions contemplated hereby has been duly authorized by all necessary

action on his part (where applicable), and no other consent or approval (corporate or otherwise) on his part or the part of any other Person are necessary for him to enter into this Agreement or to

consummate the transactions contemplated hereby. This Agreement has been duly executed and delivered by him and constitutes a legal, valid and binding obligation of his enforceable against him in accordance with its terms; and

- (E) the execution, delivery and performance of this Agreement by him and the consummation of the transactions contemplated hereby, do not and will not (a) conflict with or violate any Applicable Law in any material respect; (b) result in the creation of any Encumbrance over any Equity Securities owned by him save as contemplated by this Agreement or the Subscription Agreement; or (c) result in any material breach of, or constitute a material default (or event which with the giving of notice or lapse of time, or both, would become a material default) under, or give to others any rights of termination, amendment, acceleration or cancellation pursuant to any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument to which he is a party or by which any Equity Securities owned by him or any of his other assets may be bound.

4. TRANSFERS OF EQUITY SECURITIES

4.1 Upon First Completion:

- (A) the Founder shall not, directly or indirectly, effect or facilitate a Transfer of all or any portion of his Equity Securities or other interests in the Company before the completion of a Qualified IPO unless (i) the prior written consent of all Investors is obtained and (ii) the Founder has complied with the provisions of Clauses 4.3 to 4.5; and
- (B) each of the Investors shall not, directly or indirectly, effect or facilitate a Transfer of all or any portion of its Equity Securities unless it has complied with the provisions of Clause 4.6.

4.2 Any purported Transfer by any Shareholder in violation of this Clause 4 or the Articles of Incorporation and By-Laws shall be null and void and of no force and effect and the purported transferee shall have no rights or privileges in or with respect to the Company. The Company shall refuse to recognize any such Transfer and shall not reflect on its records any change in ownership of such Equity Securities purported to have been transferred.

4.3 Right of First Refusal

- (A) Subject to the provisions in Clause 4.1(A), if the Founder (the "TRANSFEROR") wishes to Transfer all or part of his Equity Securities to any Person, then such Transferor shall, prior to consummating any such desired Transfer, give to each Investor (each, the "REMAINING EQUITIES HOLDER") a written notice of his intention to make such Transfer (the "TRANSFER NOTICE"), which shall include (i) a description (including the class and the total number) of the Equity Securities to be transferred (the "OFFERED SECURITIES"); (ii) the identity of the prospective transferee(s); and (iii) the proposed offer price per Offered Security (the "OFFER PRICE") and the

material terms and conditions upon which the proposed Transfer is to be made. The Transfer Notice shall certify that the Transferor has received a firm offer from the prospective bona fide transferee(s) and in good faith believes a binding agreement for the Transfer is obtainable on the terms set forth in the Transfer Notice. The Transfer Notice shall also include a copy of any written proposal, term sheet or letter of intent or other agreement relating to the proposed Transfer. Once given, the Transfer Notice shall not be revoked save

with the prior written consent of all Remaining Equities Holders.

- (B) (a) The Remaining Equities Holder(s) (an "EXERCISING PARTY") who wish(es) to purchase any Offered Securities shall provide the Transferor and the Company with a written notice (a "REPLY NOTICE") specifying the maximum number of any Offered Securities which it irrevocably commits to purchase (the "EXERCISE AMOUNT") within thirty (30) days of the receipt by an Exercising Party of the Transfer Notice. For the avoidance of doubt, such Exercising Party may specify in its Reply Notice an Exercise Amount higher or lower than its Proportionate Amount (as defined below). The Offered Securities shall be allocated among each Exercising Party in proportion to its respective Proportionate Amount (with rounding to avoid fractional shares), at the Offer Price and on the same material terms and conditions as specified in the Transfer Notice PROVIDED THAT in no event shall an amount greater than such Exercising Party's Exercise Amount be allocated to such Exercising Party.
- (b) Any Offered Securities not yet allocated to the Exercising Parties after employing the procedures set out in Clause 4.3(B)(a) (the "EXCESS OFFERED SECURITIES") shall be allocated, among all such Exercising Parties whose Exercise Amounts have not yet been satisfied, in proportion to each such Exercising Party's respective Excess Proportionate Amount (as defined below) (with rounding to avoid fractional shares), at the Offer Price and on the same material terms and conditions as specified in the Transfer Notice PROVIDED THAT in no event shall an Exercising Party be required to purchase more Equity Securities pursuant to this Clause 4.3(B)(b) than the Exercise Amount specified by such Exercising Party in its Reply Notice. The procedures set out in this Clause 4.3(B)(b) shall be repeatedly employed until the Exercise Amounts of all such Exercising Parties shall have been satisfied or until the total number of the Offered Securities shall have been fully allocated to the Exercising Parties after employing the procedures set out herein, whichever to occur first. The Remaining Equities Holder(s)'(s) right to purchase any Offered Securities pursuant to this Clause 4.3(B) shall be subject to Clause 4.3(C).
- (c) An Exercising Party's "PROPORTIONATE AMOUNT" is equal to the product obtainable by multiplying (x) the total number of Offered Securities, by (y) a fraction, the numerator of which shall be the number of Common Shares Equivalents owned by such Exercising

Party on the date of the Transfer Notice and the denominator of which shall be the aggregate number of all Common Shares Equivalents owned by all the Exercising Parties on the date of the Transfer Notice.

- (d) An Exercising Party's "EXCESS PROPORTIONATE AMOUNT" is equal to the product obtainable by multiplying (x) the total number of Excess Offered Securities, by (y) a fraction, the numerator of which shall be the number of Common Shares Equivalents owned by such Exercising Party on the date of the Transfer Notice and the denominator of which shall be the aggregate number of Common Shares Equivalents owned by all the Exercising Parties on the date of the Transfer Notice whose Exercise Amount has not yet been satisfied after employing the procedures set out herein.
- (C) If and only if not all of the Offered Securities being offered by the Transferor are allocated to the Remaining Equities Holder(s) after employing the procedures set out in Clause 4.3(B), the Transferor

shall still be obliged to sell the Offered Securities to the Exercising Party(s) but may sell the remaining Offered Securities to the prospective transferee(s) as specified in the Transfer Notice on terms not more favourable to the proposed transferee than as specified in the Transfer Notice in accordance with and subject to the terms set out in Clauses 4.4 and 4.5.

- (D) The completion of the purchase by the Exercising Parties of the Offered Securities pursuant to this Clause 4.3 shall occur at such a place and time as the parties to the transaction may agree, which shall not be later than forty-five (45) days after the receipt of the Transfer Notice by the Exercising Parties. At such closing, the Transferor shall deliver certificates representing the Offered Securities and share transfer form(s) for such Offered Securities duly executed by the Transferor and accompanied by all requisite transfer documents. The Transferor shall represent and warrant that the Offered Securities shall be free and clear of all Encumbrances and Liens (other than those imposed by this Agreement, the Registration Rights Agreement and the Articles of Incorporation and By-Laws) but subject to any registration requirements imposed by any Applicable Law and that he is the beneficial owner of the Offered Securities or otherwise has full authority to Transfer the Offered Securities. Each Exercising Party shall deliver at such completion to the Transferor by bank cheque the appropriate amount in respect of the Offered Securities to be purchased.
- (E) Should the Offer Price specified in the Transfer Notice be payable in securities or property other than cash or evidences of indebtedness, the Exercising Parties shall have the right to pay for the Offer Price in such securities or property or in the form of cash equal in amount to the fair market value of such securities or property, and the Transferor shall liaise with the Company before the dispatch of the Transfer Notice to appoint an independent third party valuer (the "VALUER") approved by the Company to determine such fair market value as at the latest practicable date reasonably selected by the Valuer. The determination of such fair market value by the Valuer shall, in the absence of manifest error, be final and binding for all parties concerned and shall be included in the Transfer Notice together with

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a copy of the report from the Valuer stating therein the basis for calculating such fair market value. The costs for appointing the Valuer for determination of such fair market value shall be borne solely by the Transferor. The Valuer shall act as expert and not as an arbitrator.

4.4 Right of Co-Sale

- (A) In respect of any Offered Securities proposed to be Transferred by the Transferor, an Investor, if it does not exercise its right of first refusal pursuant to Clause 4.3 shall, upon notifying the Transferor and the Company in writing (a "CO-SALE NOTICE") within thirty (30) days after the receipt by the Investor of the Transfer Notice, have the right to participate in the sale of such Offered Securities including, for the avoidance of doubt, sales effected to any Exercising Party pursuant to Clause 4.3, on the same terms and conditions as specified in the Transfer Notice. The Co-Sale Notice shall indicate the class and number (the "CO-SALE EXERCISE AMOUNT"), which shall be up to the Investor's Co-Sale Proportionate Amount (as defined below), of the Equity Securities (the "CO-SALE SECURITIES") which the Investor wishes to co-sell under its right to participate hereunder. To the extent that the Investor exercises its right of participation in accordance with the terms and conditions set forth in this Clause 4.4, the number of Offered Securities that the Transferor

may sell shall be correspondingly reduced. In no event shall the Investor be allowed or required to sell more Equity Securities pursuant to this Clause 4.4 than the Co-Sale Exercise Amount as specified in its Co-Sale Notice.

- (B) Notwithstanding any contrary provision in this Clause 4.4, where the Offered Securities consist of Common Shares and the Investor has no Common Shares or insufficient Common Shares to participate in the sale of the Offered Securities, the Investor shall be entitled to exercise its right of co-sale by first converting any Convertible Securities it then holds into Common Shares, and to sell such converted Common Shares in the exercise of its rights under this Clause 4.4. The Company agrees to make any such conversion contingent upon the completion of the actual sale of such converted Common Shares by the Investor to any prospective purchaser pursuant to this Clause 4.4.
- (C) The Investor shall effect its participation in the co-sale by promptly delivering to the Company for transfer to the prospective purchaser or purchasers one or more certificates, share transfer form(s) for duly executed by the Investor (and accompanied by all requisite transfer documents), which represent the number of Co-Sale Securities which the Investor elects to sell pursuant to this Clause 4.4.
- (D) The share certificate or certificates and all requisite transfer documents that the Investor delivers to the Company pursuant to Clause 4.4(C) shall be transferred to the prospective purchaser or purchasers in consummation of the sale of the Equity Securities pursuant to the terms and conditions specified in the Transfer Notice, and the Company shall concurrently therewith remit to the Investor that portion of the sale proceeds to which the Investor is entitled by reason of its participation in the co-sale. To the extent that any prospective purchaser or purchasers refuses to purchase Common

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Shares or Convertible Notes (as the case may be) from the Investor exercising its rights of co-sale hereunder, the Transferor shall not sell to such prospective purchaser or purchasers any Equity Securities unless and until, simultaneously with such sale, such prospective purchaser or purchasers shall purchase such Common Shares or Convertible Notes (as the case may be) from the Investor for the same consideration and on terms and conditions no less favourable to the Investor than as described in the Transfer Notice, provided that the Remaining Equities Holder(s) shall not be required to make any representations and warranties other than those on Encumbrance-free title of the Co-Sale Securities.

- (E) An Investor's "CO-SALE PROPORTIONATE AMOUNT" is equal to the product obtainable by multiplying (x) the total number of Offered Securities, by (y) a fraction, the numerator of which shall be the number of Common Shares Equivalents owned by such Investor on the date of the Transfer Notice and the denominator of which shall be the aggregate number of Common Shares Equivalents owned by the Transferor and all of the Investors who exercise the right of co-sale under this Clause 4.4, calculated as on the date of the Transfer Notice.

4.5 Non-Exercise of Rights

- (A) To the extent that all of the Remaining Equities Holder(s) has not/have not exercised its or their rights to purchase the Offered Securities under Clause 4.3 or if not all of the Offered Securities are allocated to the Remaining Equities Holder(s) after employing the procedures set out in Clause 4.3(B) but, subject to compliance with Clause 4.4 where applicable, then upon expiration of the forty-five (45) days from the date of receipt of the Transfer Notice by the

Remaining Equities Holder(s), the Transferor shall have a period of twenty-eight (28) days from the expiration of such forty-five (45) days' period in which to sell any remaining portion of the Offered Securities upon terms and conditions no more favourable to the transferee than those specified in the Transfer Notice to the third-party transferee(s) identified in the Transfer Notice PROVIDED THAT no Shareholder and no Investor may sell or Transfer its Equity Securities unless and until (i) such transferee(s) have delivered to the Company and each of the Investors a duly executed Joinder Agreement, (ii) such Transfer will not be subject to or will be exempted from the prospectus and registration requirements under the Ontario Securities Act and (iii) where necessary, the transferee(s) shall sign and deliver to the Company an Accredited Investor Certificate in the form set out in schedule 8 to the Subscription Agreement.

- (B) In the event the Transferor does not consummate the sale or disposition of the Offered Securities within the twenty-eight (28) days' period as referred to in Clause 4.5(A), the Transferor shall not thereafter sell or Transfer any such Offered Securities without again first offering them in accordance with this Clause 4.

4.6 First Right of Negotiation

Without prejudice to each Investor's right under Clauses 4.4 and 4.7(A), if an Investor wishes to Transfer all or part of its Equity Securities to any Person, it shall first

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negotiate with the Founder on terms of the intended Transfer before entering into agreement on the Transfer with any other Person. For the avoidance of doubt, the Investor may proceed with the Transfer to any Person apart from the Founder where no agreement has been reached between the Investor and the Founder on the intended Transfer within reasonable time.

4.7 Permitted Transfers

- (A) None of the restrictions and/or requirements contained in Clauses 4.1 to 4.6 with respect to Transfers of Equity Securities shall, subject to any Applicable Law, the Articles and By-Laws, apply to:
- (i) any Transfer of Equity Securities to achieve the Share Swap or the Reorganisation;
 - (ii) any re-purchase or redemption of Equity Securities by the Company as one of the Reserved Matters;
 - (iii) any Transfer as part of an IPO;
 - (iv) any Transfer by an Investor to any of its Affiliates;
 - (v) any Transfer by the Founder to a company or corporation which is wholly Controlled by the Founder; and
 - (vi) any Transfer to the Executives by the Founder of Common Shares,

Provided that such Transfer (save under paragraph (iii) above) will not be subject to or will be exempted from the prospectus and registration requirements under the Ontario Securities Act. Where necessary, the transferee(s) shall sign and deliver to the Company an Accredited Investor Certificate in the form set out in schedule 8 to the Subscription Agreement

- (B) In the case of any Transfer described in Clause 4.7(A)(i), (iv) to (vi) (any such Transfer shall be referred to hereinafter as a "PERMITTED TRANSFER" and any such transferee being referred to as a "PERMITTED TRANSFEE"):
- (i) each Permitted Transferee shall have executed and delivered to the Company and each of the Investors, as a condition precedent to any such Transfer or acquisition of the Equity Securities, a Joinder Agreement; and
 - (ii) the Permitted Transfer shall not, in the Company's reasonable opinion formed after consulting the relevant stock exchange, regulatory body and professionals, adversely affect the IPO.
- (C) In the case of any Permitted Transfer described in Clause 4.7(A)(v), the Founder undertakes that:
- (i) he shall give such representations and warranties as set out in Schedule 2, as a condition precedent to such Permitted Transfer;

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- (ii) if the Share Pledging Agreements have not yet released at the material time, he shall ensure that he and the Permitted Transferee shall enter into share pledging agreements as pledgors with all the Investors as pledges in place of and on substantially the same terms as the Share Pledging Agreements, as a condition precedent to such Permitted Transfer;
- (iii) where the Permitted Transferee ceases to be wholly Controlled by the Founder at any time, the Founder shall ensure that the Permitted Transferee shall Transfer all Equity Securities then held by the Permitted Transfer to the Founder or another company or corporation wholly Controlled by the Founder; and
- (iv) he shall remain liable under the Subscription Agreement, this Agreement and the Transaction Documents even though the Permitted Transferee is to enter into a Joinder Agreement pursuant to Clause 4.7(B)(i), and such continuation of his liabilities shall be set out in that Joinder Agreement.

4.8 Legend

Each certificate representing issued Equity Securities held as at First Completion or hereinafter acquired by any Person shall, subject to any Applicable Law, the Articles and the By-Laws and for as long as this Agreement remains effective, be stamped or otherwise imprinted with a legend in substantially the following form in the English language:

"THE TRANSFER OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY ONLY BE DONE IN COMPLIANCE WITH AND PURSUANT TO THE TERMS OF THE INVESTMENT AGREEMENT DATED [DATE] (AS THE SAME MAY BE FURTHER AMENDED, MODIFIED OR SUPPLEMENTED FROM TIME TO TIME) AND ENTERED INTO, AMONG OTHERS, BETWEEN CANADIAN SOLAR INC. (THE "COMPANY") AND CERTAIN OTHER PERSONS (THE "INVESTMENT AGREEMENT"). THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED OR THE SECURITIES LAWS OF ANY OTHER COUNTRY. THE INVESTMENT AGREEMENT (AS THE SAME MAY BE FURTHER AMENDED, MODIFIED OR SUPPLEMENTED FROM TIME TO TIME) SHALL, TO THE EXTENT APPLICABLE, BE DEEMED TO BE AN AGREEMENT PURSUANT TO SECTION 108(2) OF THE BUSINESS CORPORATIONS ACT (ONTARIO). UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS CERTIFICATE MUST NOT TRADE THE SECURITIES PRESENTED BY THIS CERTIFICATE BEFORE THE DATE THAT IS FOUR (4) MONTHS AND A DAY AFTER THE LATER OF (I) THE DATE OF THIS CERTIFICATE AND (II) THE DATE THE COMPANY BECAME A REPORTING ISSUER IN

5. PRE-EMPTIVE RIGHTS

5.1 If at anytime after First Completion, the Company proposes to issue any Equity Securities (after obtaining any requisite approval required as one of the Reserved Matters), the Company shall first offer such Equity Securities to each Investor in a written notice (an "ISSUANCE NOTICE") setting forth:

- (A) a description of the Equity Securities to be issued, including the rights and powers associated therewith;
- (B) the number of such Equity Securities to be offered (the "NEW SECURITIES"); and
- (C) the price and terms upon which it proposes to offer the New Securities.

- 5.2 (A) Each Investor who wishes to purchase any New Securities (an "PRE-EMPTIVE PARTY") shall provide the Company with a written notice (the "EXERCISE NOTICE") specifying the maximum number of New Securities which it irrevocably commits to purchase (the "PRE-EMPTIVE AMOUNT") within thirty (30) days of the receipt by such Pre-emptive Party of the Issuance Notice. For the avoidance of doubt, each Pre-emptive Party may specify in its Exercise Notice a Pre-emptive Amount higher or lower than its Pro-rata Amount (as defined below). The New Securities shall be allocated among each Pre-emptive Party (with rounding to avoid fractional shares) in proportion to its respective Pro-rata Amount PROVIDED THAT in no event shall an amount greater than such Pre-emptive Party's Pre-emptive Amount be allocated to such Pre-emptive Party.
- (B) Any excess New Securities (the "EXCESS NEW SECURITIES") not yet allocated after employing the procedures set out in Clause 5.2(A) shall be allocated among all the Pre-emptive Parties whose Pre-emptive Amounts have not yet been satisfied in proportion to each such Pre-emptive Party's respective Excess Pro-rata Amount (as defined below) (with rounding to avoid fractional shares) PROVIDED THAT in no event shall a Pre-emptive Party be required to purchase more New Securities pursuant to this Clause 5.2(B) than as specified in the Exercise Notice of such Pre-emptive Party, and the procedures set out in this Clause 5.2(B) shall be repeatedly employed until the Pre-emptive Amounts of all Pre-emptive Parties shall have been satisfied or until the total number of the New Securities have been fully allocated to all the Pre-emptive Parties after employing the procedures set out in this Clause 5.2(B), whichever is to occur first.
- (C) For the purpose of this Clause 5.2, a Pre-emptive Party's "PRO-RATA AMOUNT" is equal to the product obtainable by multiplying (x) the total number of New Securities, by (y) a fraction, the numerator of which shall be the number of Common Shares Equivalents owned by such Pre-emptive Party on the date of the Issuance Notice and the denominator of which shall be the aggregate number of all Common Shares Equivalents owned by all the Pre-emptive Parties on the date of the Issuance Notice.
- (D) For the purpose of this Clause 5.2, a Pre-emptive Party's "EXCESS PRO-RATA AMOUNT" is equal to the product obtainable by multiplying (x) the total

number of Excess New Securities, by (y) a fraction, the numerator of which shall be the number of Common Shares Equivalents owned by such Pre-emptive Party on the date of the Issuance Notice and the denominator of which shall be the aggregate number of all Common Shares Equivalents owned by all the Pre-emptive Parties on the date of the Issuance Notice whose Pre-emptive Amounts have not yet been satisfied after employing the procedures set out in this Clause 5.2.

5.3 If there remain excess New Securities after employing the procedures set out in Clauses 5.2(A) and 5.2(B) or if no Investor exercises its right under this Clause 5 to purchase New Securities within thirty (30) days following the receipt by all Investors of the Issuance Notice, the unsubscribed New Securities may be offered by the Company within sixty (60) days thereafter to any Person at a price not less, and upon terms no more favourable to such Person than specified in the Issuance Notice, PROVIDED THAT no New Securities shall be allotted or issued to any Person who is not a Party unless and until (i) such Person has delivered to the Company and each of the Investors a duly executed Joinder Agreement, (ii) such issuance will not be subject to or will be exempted from the prospectus and registration requirements under the Ontario Securities Act and (iii) where necessary, such Person shall sign and deliver to the Company an Accredited Investor Certificate in the form set out in schedule 8 to the Subscription Agreement. If the Company does not enter into an agreement for the sale of the unsubscribed New Securities within such sixty (60) days' period or, if such agreement is not completed within thirty (30) days after the execution thereof, the Company shall not thereafter issue or sell any such unsubscribed New Securities without again first offering such unsubscribed securities in the manner provided in Clauses 5.1 and 5.2.

5.4 Notwithstanding anything stated to the contrary herein, the pre-emptive rights described in this Clause 5 shall not apply to:

- (A) Common Shares issued or offered in a Qualified IPO;
- (B) Convertible Notes issued pursuant to the Subscription Agreement;
- (C) Common Shares issued upon exercise of the conversion right attached to the Convertible Notes;
- (D) Equity Securities issued in connection with a share split, scrip dividend or other similar event in which all Pre-emptive Parties are entitled to participate on a pro rata basis;
- (E) options granted under the ESOP for issuance of in aggregate up to One Million (1,000,000) Common Shares (on the basis that the total expected number of Common Shares to be in issue on a Fully-Diluted Basis after issue of all Common Shares to ATS, pursuant to the ESOP and upon conversion of all Convertible Notes will be Ten Million (10,000,000));
- (F) in aggregate not more than One Million (1,000,000) Common Shares issued under the ESOP (on the basis that the total expected number of Common Shares to be in issue on a Fully-Diluted Basis after issue of all Common Shares to ATS, pursuant to the ESOP and upon conversion of all Convertible Notes will be Ten Million (10,000,000)), provided that the

Person to whom the Common Shares are issued shall have delivered to the Company and each of the Investors a duly executed Joinder Agreement as a condition precedent to the issuance; and

- (G) Common Shares to be issued to ATS pursuant to the ATS Arrangement or otherwise, provided that ATS shall have delivered to the Company and each of the Investors a duly executed Joinder Agreement as a condition precedent to the issuance,

Provided further that such issuance (save under paragraph (A) above) will not be subject to or will be exempted from the prospectus and registration requirements under the Ontario Securities Act. Where necessary, the Person to which the issuance is made shall sign and deliver to the Company an Accredited Investor Certificate in the form set out in schedule 8 to the Subscription Agreement

6. UNDERTAKINGS AFTER FIRST COMPLETION

6.1 In respect of an IPO, all Parties agree that:

- (A) the Group may effect a reorganisation for the purpose of achieving an IPO (the "REORGANISATION"), including the formation of ListCo, the sale of all Equity Securities to ListCo and the issue of securities by ListCo to the then holder of Equity Securities (the "SHARE SWAP");
- (B) where a Reorganisation is required, the timing and the terms of the Reorganisation shall be subject to the approval of the Board and the Investors and shall provide the Investors with the rights and benefits which are the same in all material respects to those existing under this Agreement, the Subscription Agreement and the Transaction Documents;
- (C) the Company and the Founder shall, jointly and severally, indemnify and keep indemnified the Investors against all Taxes which may be charged or chargeable on the Investors in respect of the share transfers contemplated in the Reorganisation;
- (D) at an IPO (whether or not a Qualified IPO) each Investor shall have the right to sell its pro-rata number of shares (based on the aggregate number of shares that will be in issue in the capital of the Company or ListCo (as the case may be) immediately after full conversion of all Convertible Notes) in the IPO at the price and on other terms not less favourable to such Investor than to other selling Shareholder in the IPO or, where there is no other selling Shareholder, to the Company or ListCo (as the case may be);
- (E) to the extent permitted by the relevant stock exchange and regulatory body, all costs and expenses (excluding underwriting discounts and commissions but including fees of counsel to selling shareholders and all other expenses related to the IPO or the registration in relation to the IPO) in connection with the shares of the Investor being sold in the IPO as referred to in Clause 6.1(D) shall be borne by the Company; and
- (F) the right of the Investor referred to in Clause 6.1(D) shall be freely assigned together with the Transfer of any Equity Securities owned or held by the

Investor.

6.2 The Company undertakes with the Investors that at any time after First Completion:

- (A) the Group's consolidated debt (excluding the debt underlying the Convertible Notes) shall not exceed one and a half (1.5) times of the Group's consolidated tangible net worth; and

(B) the ratio of the Group's earnings before interest and tax to the Group's interest shall always exceed three and a half (3.5) times.

6.3 The Company shall (A) take out key person life and liability insurance policies for the Founder and director's liability insurance for each Investor's Director for such an insured amount, on such other terms and conditions and at such time agreed upon by the Company and the Investors and (B) deliver to each Investor certified copies of such policies forthwith after the policies have been taken out. The Company shall deliver to each Investor all such necessary documents in relation to any liability incurred by any of the persons referred to above in the course of discharging their duties as Directors or officers of the Company which has arisen or will arise a claim under such insurance policies.

6.4 The Company shall permit any representative designated by each Investor, at such Investor's expense, to visit and inspect any of the properties of any Group Company, including its books of account and records (and to make copies thereof and to take extracts therefrom) and facilities, and to discuss that Group Company's affairs, finances and accounts with its officers or employees, the Group's Company's auditors and legal advisers, or representatives of that Group Company's lenders, at such reasonable times with reasonable prior notice by the Investor.

6.5 Where any banking facilities made available to an Group Company by its bankers have been withdrawn, the Company shall, and shall procure the relevant Group Company to, use its best efforts to restore adequate banking facilities for its normal operation of business.

6.6 (A) The Founder undertakes to the Company and the Investors that for so long as he has any beneficial interest in any Equity Securities either directly or indirectly or he remains to be a Director or an officer of any Group Company, and for a period of twelve (12) months after he ceases to be so interested or ceases to be a Director or officer of any Group Company (as the case may be), he will not, without the prior written consent of all the Investors:

- (i) in the PRC and such other territories where the Group carries on its business or part thereof (the "TERRITORY") either on his own account or through any of his Affiliates, or in conjunction with or on behalf of any other person, carry on or be engaged, concerned or interested directly or indirectly whether as shareholder, director, employee, partner, adviser, agent or otherwise carry on any business in direct competition with the business or proposed business of the Group;
- (ii) either on his own account or through any of his Affiliates or in conjunction with or on behalf of any other person solicit or entice away or attempt to solicit or entice

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away from any Group Company, the custom of any person, firm, company or organization who is or shall at any time within twelve (12) months prior to such cessation have been a customer, client, representative, agent or correspondent of such Group Company;

- (iii) either on his own account or through any of his Affiliates or in conjunction with or on behalf of any other person, employ, solicit or entice away or attempt to employ, solicit or entice away from any Group Company any person who is or shall have been at the date of or within twelve (12) months prior to such cessation an officer, manager, consultant or employee of any such Group Company, whether or not such person would commit a breach of contract by reason of leaving such employment; and

- (iv) neither he nor any of his Affiliates will at any time hereafter, in relation to any trade, business or company use a name including any word used by any Group Company in its name or in the name of any of its products, services or their derivative terms, or the Chinese or English equivalent or any similar word in such a way as to be capable of or likely to be confused with the name of any Group Company or the product or services or any other products or services of any Group Company, and shall use all reasonable endeavours to procure that no such name shall be used by any of his/her Affiliates or otherwise by any person with which he/she is connected.
- (B) Each and every obligation under Clause 6.6(A) shall be treated as a separate obligation and shall be severally enforceable as such and in the event of any obligation or obligations being or becoming unenforceable in whole or in part, such part or parts which are unenforceable shall be deleted from such clause and any such deletion shall not affect the enforceability of the remainder parts of such clause.
- (C) The Founder, the Company and the Investors agree that having regard to all the circumstances, the restrictive covenants contained in Clause 6.6(A) are reasonable and necessary for the protection of the Group and the Investors, and further agree that having regard to those circumstances the said covenants are not excessive or unduly onerous upon the Founder. However, it is recognized that restrictions of the nature in question may fail for technical reasons currently unforeseen and accordingly it is hereby agreed and declared that if any of such restrictions shall be adjudged to be void as going beyond what is reasonable in all the circumstances for the protection of the Group or the Investors, but would be valid if part of the wording thereof were deleted or the periods thereof reduced or the range of activities or area dealt with thereby reduced in scope, the said restriction shall apply with such modification as may be necessary to make it valid and effective.
- (D) The Founder, the Company and the Investors further agree that if the Founder breaches any undertaking herein, damages may not be an adequate remedy in which case such undertaking may be enforced by injunction, order for specific performance or such other equitable release as a court of competent jurisdiction may see fit to award.

- 6.7 (A) The Parties foresee that the Founder has created and may create Intellectual Property Rights in the course of his duties as a director, employee, consultant or agent of any Group Company and agree and acknowledge that the Founder has a special responsibility in such respect to further the interests of the Group.
- (B) Any invention, production, improvement or design made or process or information discovered or copyright work or trade mark or trade name or get-up source code or any other Intellectual Property Rights created by the Founder during the continuance of his office of directorship or employment with any Group Company (whether before or after the date hereof or whether capable of being patented or registered or not and whether or not made or discovered in the course of his office of directorship or employment with any Group Company) in conjunction with or in any way affecting or relating to the business of any Group Company or capable of being used or adapted for use by any Group Company shall forthwith be disclosed to the Company and shall belong to and be the absolute property of such Group Company as the Company may direct.
- (C) The Founder, if and whenever required to do by the Company or any of

the Investors, shall at the expense of the Group apply or join with the relevant Group Company in applying for patent or other protection or registration for any such Intellectual Property Rights referred to in Clause 6.7(B) which belongs to such Group Company, and shall at the expense of such Group Company execute and do all instruments and things necessary for vesting the said patent or other protection or registration when obtained and all right title and interest to and in the same in such Group Company absolutely as the sole beneficial owner.

- (D) The Founder hereby irrevocably appoints the Company to be his Attorney in his name and on his behalf to execute and do any such instrument or thing and generally to use his name for the purpose of giving to the Company the full benefit of this Clause 6.7.

6.8 The Founder undertakes to assume whatever liabilities or obligations (whether or not contingent in nature) arising from the ATS Arrangement and agrees to indemnify each of the Group Companies and the Investors on demand from and against all or any losses, costs, expenses damages, claims and liabilities borne, suffered or incurred by it arising or resulting from or in connection with the ATS Arrangement.

6.9 Where any PRC legal counsel to the Company or to any Investor are of the view that the Notice on Foreign Exchange Control Issues Relating to Financing and Reverse Investment by Domestic Residents Through Offshore Special Purpose Vehicles issued by the State Administration of Foreign Exchange of the PRC ([chinese characters]) on 21 October 2005 is applicable to the Founder or any other Person, the Founder shall, and shall ensure that the relevant Person(s) shall, complete all foreign exchange registration procedures in accordance with, and within the time limit set out in, such notice.

6.10 The Founder and the Company undertake that the summation of (i) the number of

Common Shares issued or to be issued in relation to options already granted under the ESOP and (ii) the number of Common Shares Transferred to the Executives under Clause 4.7(A)(vi) shall, at any time after 31 March 2006, not be less than ten per cent. (10%) of the total Common Shares in the enlarged share capital of the Company calculated on a Fully-Diluted Basis.

7. DIRECTORS AND MANAGEMENT

7.1 The Board shall be responsible for the overall direction, supervision and management of the Company and shall ensure that all Group Companies shall conduct their businesses in accordance with instructions of the Board. The Board shall not, however, take any decision which may contravene with the provisions set out in Clause 9 in relation to any of the Reserved Matters unless approval shall have been obtained in accordance with Clause 9.

7.2 Following the First Completion:

- (A) the Board shall consist of up to seven (7) Directors including an Investor's Director nominated by each Investor; and
- (B) the Board shall establish a compensation committee (the "COMPENSATION COMMITTEE"), the duties of which shall include, among other things, consider and approve the remuneration of members of the senior management of each Group Company and the terms of the ESOP and grant options under the ESOP.

7.3 At all times whilst an Investor (or any Affiliates thereof) holds any Equity Securities:

- (A) it shall have the right to nominate one Person to the Board as a Director and as a member of any committee of the Board (including but not limited to the Compensation Committee) and one Person to the board of director of each subsidiary of the Company (each Person nominated by each Investor being referred in this Agreement as the "INVESTOR'S DIRECTOR") and, for the avoidance of doubt, each Investor's Director shall have the voting rights of, where applicable, any Director in any Board meeting, any committee of the Board in accordance with the By-Laws and any director in any board meeting of the relevant subsidiary of the Company in accordance with the constitutional documents of that subsidiary;
- (B) upon the death, resignation or incapacity of an Investor's Director appointed in accordance with Clause 7.3(A), the Investor shall be entitled to appoint such Investor's Director's replacement to the Board, the relevant committee of the Board and the board of the relevant subsidiary of the Company;
- (C) an Investor's Director may be removed from office by notice to the Company of the Investor and the Investor shall be entitled to appoint a successor to fill the resulting vacancy. The Founder hereby agrees to procure that an Investor's Director appointed pursuant to Clause 7.3(A) or 10.3(B) shall not be removed from such position unless the relevant Investor expressly consents in writing to such removal; and

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- (D) where an Investor does not exercise its rights under Clause 7.3(A) or (B), it shall have be entitled to nominate a representative (each, an "OBSERVER") to attend, at its own expense, all meetings of the Board, all committees of the Board and the boards of all subsidiaries of the Company. An Observer is entitled to receive all notices of meetings of the Board, all committees of the Board and the boards of all subsidiaries of the Company as well as copies of all minutes, consents and other materials, financial or otherwise, in the same manner as such notices, minutes, consents and other materials are provided to, where applicable, any Director or any director of any subsidiary of the Company. An Observer shall have full rights of audience and may speak at all relevant meetings, but shall not be entitled to vote or be counted towards the quorum at any such meetings.

- 7.4 At least seven (7) Business Days written notice shall be given to each Director (and each Observer, where applicable) of any meeting of the Board, any committee of the Board and the board of any subsidiary of the Company. Any notice shall include an agenda identifying in reasonable detail the matters to be discussed at the meeting together with copies of any relevant papers to be discussed at the meeting and shall be copied to each Investor at the same time as it is sent to the Directors (and the Observers, where applicable). No amendments or additions shall be made to such agenda following such delivery without the unanimous consent of all the Directors. The Company shall procure that draft minutes of all meetings of the Board, all committees of the Board and the boards of all subsidiaries of the Company are sent to each of the Directors (and the Observers, where applicable) and the Investors within Fourteen (14) Business Days after the holding of such meetings.
- 7.5 Any Director (and any Observer, where applicable) may participate in any meeting of the Board, any committee of the Board and the board of any subsidiary of the Company by telephone, video conferencing or other means by which all participants may speak and hear each other, and any Director so participating shall be deemed to be present in person at such meeting.
- 7.6 Meetings of the Board shall be held at least once every three (3) calendar months and, subject to Clause 9, matters arising at any meeting of the

Board or any committee of the Board shall be decided by a simple majority of votes, provided that in the case of a meeting of the Compensation Committee, the majority of votes shall include the favourable votes of the Investor's Director appointed by each Investor. The quorum necessary for the transaction of business at a meeting of the Board or any committee of the Board shall be at least three (3) Directors present in person or by telephone or video conference including the Investor's Director nominated by each Investor where the membership of the Board or the relevant committee comprises of such Investor's Director. If, within one hour from the time of the meeting specified in the notice given pursuant to Clause 7.4, such a quorum is not present, the meeting shall stand adjourned to the same day in the following week at the same time and place and, if at such adjourned meeting, such a quorum is still not present, those Directors present, provided that there are at least two (2) Directors present (and, in the case of a meeting of the Compensation Committee only, the Investor's Director nominated by each Investor) shall be deemed a quorum and may, subject to Clause 9, transact the business for which the adjourned meeting was originally convened.

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- 7.7 A resolution signed in writing by all the Directors (which resolution may consist of several counterparts) shall be as valid and effective as if passed at a duly convened meeting of the Board. A resolution signed in writing by all members of a committee of the Board (which resolution may consist of several counterparts) shall be as valid and effective as if passed at a duly convened meeting of that committee.
- 7.8 The Company, the PRC Subsidiaries and the Founder shall procure that all directors of all Group Companies and all members of Group's senior management, but excluding any Investor's Director and any non-executive director or any Group Company:
- (B) shall devote substantially all their time to the Group's business; and
 - (C) shall not engage directly or indirectly in a business which competes with the Group's business or proposed business.
- 7.9 The Parties agree and acknowledge that the number of directors of each PRC Subsidiary shall be increased from three (3) to five (5) and the Company undertakes to take the appropriate actions to achieve such increase as soon as practical after the date hereof.
8. MEETINGS OF SHAREHOLDERS
- 8.1 Meetings of Shareholder shall be held at least once every twelve (12) calendar months and, subject to Clause 9.
- 8.2 At least fourteen (14) Business Days written notice of any meeting of Shareholders shall be given to each Shareholder by the Board (or such longer period as may be required by law for any specific matters) unless all Shareholders agree in writing to a shorter notice period. Any notice shall include an agenda identifying in reasonable detail the matters to be discussed at the meeting together with copies of any relevant papers to be discussed at the meeting.
- 8.3 Any Shareholder may participate in any meeting of Shareholders by telephone, video conferencing or other means by which all participants may speak and hear each other, and any Shareholder so participating shall be deemed to be present in person at such meeting.
- 8.4 If, within one hour from the time of the meeting specified in the notice given pursuant to Clause 8.2, a quorum is still not present, the meeting shall stand adjourned to the same day in the following week at the same time and place and, if at such adjourned meeting, such a quorum is still

not present, the Shareholder(s) present, provided that the Shareholder(s) present in person or by proxy together holding not less than fifty per cent. (50%) of all the issued and outstanding Common Shares shall be deemed a quorum.

- 8.5 A resolution in writing (in one or more counterparts) signed by all Shareholders for the time being entitled to receive notice of and to attend and vote at meetings of Shareholders shall be as valid and effective as if the same had been passed at a meeting of Shareholders duly convened and held.

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9. RESERVED MATTERS

- 9.1 The Company, the PRC Subsidiaries and the Founder undertake to the Investors, and each of the Shareholders (other than an Investor who holds any Common Shares) undertakes to the other Shareholders that, following the First Completion it/he shall exercise all its/his powers in relation to the Company and/or other Group Companies (including the PRC Subsidiaries) so as to procure that, subject to any Applicable Law, the following matters (the "RESERVED MATTERS") shall not be effected, and no agreement or commitment to engage in any such matters shall be entered into by the Company or any other Group Companies (with references herein to the "Company" deemed to be read also as a reference to all of the other Group Companies under this Clause 9.1), except as contemplated in this Agreement, the Subscription Agreement and the Transaction Documents:

9.1.1 without the prior written consent of all Investors:

- (A) make any loans or investments or acquire any securities (listed or unlisted) or grant any loans or give any credit (other than normal trade credit or to other Group Companies) or give any guarantee or indemnity (save to the Company's bankers to secure borrowings by the Company within the agreed limit) with an aggregate accumulative value at any time being in excess of Five Hundred Thousand United States Dollars (US\$500,000);
- (B) acquire, grant an operating right in relation to or otherwise dispose of any shares or securities or material part of its business or assets (excluding current assets) with an aggregate accumulative value for any financial year being in excess of One Million United States Dollars (US\$1,000,000),
- (C) make any material change in the nature of its business;
- (D) enter into transactions not on a bona fide arm's length basis or not in the ordinary course of business;
- (E) enter into any arrangement with any of its directors or shareholders or any Related Party Transactions (except pursuant to the ESOP);
- (F) change its auditors or accounting reference date or accounting policies and bases;
- (G) adopt or approve any business plan or annual budget;
- (H) pass any resolution for or which would result in the winding up, liquidation or entering into administration or receivership of any Group Company; or undertake any amalgamation or merger (other for the purpose of a Reorganisation or a Share Swap), reconstruction or liquidation exercise concerning any Group Company; or apply for the appointment of a receiver, manager or judicial manager or like officer of any Group Company or any

material assets thereof;

- (I) create or issue any new class of shares having preference over the Common Shares or equity interests in issue as at the date hereof, or

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do any act which has the effect of diluting or reducing the effective shareholding of any Investor in the Company on a Fully-Diluted Basis, save for the purpose of implementing the ESOP and issue of up to 700,000 Common Shares to ATS (on the basis of the shareholding structure set out in Schedule 1);

- (J) select the listing exchange or the underwriters for an IPO or approve the valuation and terms and conditions for the IPO, whether or not the IPO is a Qualified IPO;
- (K) change its authorized or issued share capital, constitutional documents, or capitalize any debenture (except conversion of the Convertible Notes and issue of Common Shares upon exercise of options granted under the ESOP), or re-purchase, redeem or acquire any securities (except as provided in the conditions of the Convertible Notes);
- (L) issue any new shares or options or other securities (including warrants, options or other rights to acquire shares) for acquisitions or otherwise (except pursuant to the ESOP);
- (M) enter into any joint venture, partnership or consortium arrangement;
- (N) enter into any contract or arrangement which involves a consideration or payment or receipt exceeding Five Million United States Dollars (US\$5,000,000) to be made within any one year; or
- (O) make any capital commitment of an amount exceeding Two Million United States Dollars (US\$2,000,000);

9.1.2 without the favourable votes from the Investor's Director nominated by each Investor in a duly convened meeting of the Board or the relevant committee of the Board:

- (A) hire any Person as the chief financial officer, the chief operation officer and any position with vice-president titles;
- (B) approve the terms of the ESOP, or any new employee share or stock option plan apart from the ESOP;
- (C) change the terms of employment of any employee whose base salary is in excess of Fifty Thousand United States Dollars (US\$50,000) per annum; or
- (D) declare, make or pay any dividend or distribution to its shareholders.

9.1 Each of the Company and the PRC Subsidiaries agrees that it will exercise or refrain from exercising any voting rights or other powers of Control which it may have in or over any of its directly owned subsidiaries (each a "DIRECTLY OWNED SUBSIDIARY") so as to ensure that none of the actions set out in Clause 9.1 will be taken by any such Directly Owned Subsidiary without the same prior approval as required under Clause 9.1, insofar as it is not inconsistent with or contrary to the

Applicable Law of the jurisdiction in which such Directly Owned Subsidiary is organised or the constitutional document of such Directly Owned Subsidiary.

- 9.2 Each of the Company and the PRC Subsidiaries also agrees that it will procure each of its Directly Owned Subsidiaries to exercise or refrain from exercising any voting rights or other powers of Control (whether direct or indirect) which it may have in or over any company which is an indirectly owned subsidiary of the Company (an "INDIRECTLY OWNED SUBSIDIARY") so as to ensure that none of the actions set out in Clause 9.1 will be taken by such Indirectly Owned Subsidiary without the same prior approval as required under Clause 9.1, insofar as it is not inconsistent with or contrary to the Applicable Law of the jurisdiction in which such Indirectly Owned Subsidiary is organised or the constitutional document of such Indirectly Owned Subsidiary.

10. INFORMATION RIGHTS

- 10.1 Following the First Completion, the Company shall supply each of the Investors with:

- (A) audited consolidated profit and loss accounts, balance sheets and statements of cash flow of the Group within three (3) months after the end of each financial year;
- (B) monthly consolidated management accounts of the Company and individual company standard accounts for each other Group Company within fifteen (15) Business Days after each month end;
- (C) quarterly consolidated management accounts of the Group within thirty (30) days after each quarter end;
- (D) annual budgets and trading forecasts of the Group not less than thirty (30) days prior to the commencement of each financial year;
- (E) all other information which an Investor may reasonably require within seven (7) days of the Company's receipt of a notice requesting such information or, where the Company provides a clear demonstration of best efforts if more than seven (7) days are required, within the deadline indicated by the Company;
- (F) full details of any progress in relation to any IPO as soon as practicable;
- (G) prompt notification of any withdrawal of banking facilities made available to any Group Company;
- (H) prompt notification of any material dispute, litigation or arbitration and of any circumstances that would likely give rise to material dispute, litigation or arbitration;
- (I) prior notification of any change in the equity holding percentages of the Company in any of its subsidiaries or affiliates or any joint venture to which the Company is a party; and

- (J) promptly upon written request from an Investor the then current versions of (i) this Agreement, other related investment documents (including the Subscription Agreement and the Transaction Documents) and all documents relating to any subsequent financings by the

Company, the management of the Company or otherwise affecting the Convertible Notes or Shares issued upon conversion of the Convertible Notes, each bearing the signatures of all parties and (ii) of the Articles of Incorporation and By-Laws, bearing the file stamp of the relevant Governmental Authority, in each case with all amendments and restatements.

10.2 All financial statements referred to in Clause 10.1 shall be prepared in accordance with IAS and presented to the Investors in English language. The documents to be provided under Clause 10.1 may be delivered in either hard copies or in Portable Document Format (PDF).

11. PAYMENT AND TAXES

All payments to be made to the Investors by any of the other Parties under this Agreement shall be made:

- (A) in full without any Person being able to set-off any amounts due to it or claimed by it; and
- (B) without withholding or deduction of or on account of any present or future Taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the government of Hong Kong, Canada or any authority therein or thereof having power to tax unless the withholding or deduction of such Taxes, duties, assessments or governmental charges is required by law. In that event, the paying Party shall pay such additional amounts as may be necessary in order that the net amounts received by the relevant Investor after such withholding or deduction shall equal the respective amounts receivable by the Investor in the absence of such withholding or deduction.

12. ANNOUNCEMENTS AND CONFIDENTIALITY

12.1 Disclosure of Terms. Each Party acknowledges that the terms and conditions (collectively, the "FINANCING TERMS") of the Subscription Agreement, this Agreement, the Transaction Documents, and all exhibits, restatements and amendments hereto and thereto, including their existence, shall be considered confidential information and shall not be disclosed by it to any third party except in accordance with the provisions set forth in this Clause 12. Each Investor agrees severally with the Company that such Investor will keep confidential and will not disclose or divulge, any information which such Investor obtains from the Company, pursuant to financial statements, reports, presentations, correspondence, and any other materials provided by the Company or its advisers to, or communications between the Company and such Investor, or pursuant to information rights granted under this Agreement or any other related documents, unless the information is known, or until the information becomes known, to the public through no fault of such Investor, or unless the Company gives its written consent to such Investor's release of the information.

12.2 Press Releases. Within sixty (60) days from First Completion, the Company may issue a press release disclosing that the Investors have invested in the Company provided that (a) the release does not disclose any of the Financing Terms, (b) the press release does not disclose the amount or other specific terms of the investment contemplated under the Subscription Agreement, this Agreement and the Transaction Documents, and (c) the final form of the press release is approved in advance in writing by each Investor mentioned therein. Investors' names and the fact that Investors have made an investment in the Company can be included in a reusable press release boilerplate statement, so long as each Investor has given the Company its initial approval of such boilerplate statement and the boilerplate statement is reproduced in exactly the form in which it was approved. No other announcement regarding any Investor in a press release,

conference, advertisement, announcement, professional or trade publication, mass marketing materials or otherwise to the general public may be made without such Investor's prior written consent, which consent may be withheld at such Investor's sole discretion.

12.3 Permitted Disclosures. Notwithstanding anything in the foregoing to the contrary,

- (A) the Company may disclose any of the Financing Terms to its current or bona fide prospective investors, directors, officers, employees, shareholders, investment bankers, lenders, accountants, auditors, insurers, business or financial advisors, and attorneys, in each case only where such persons or entities are under appropriate non-disclosure obligations imposed by professional ethics, law or otherwise;
- (B) each Investor may, without disclosing the identities of the other Investors or the Financing Terms of their respective investments in the Company without their consent, disclose such Investor's investment in the Company to third parties or to the public at its sole discretion and, if it does so, the other Parties shall have the right to disclose to third parties any such information disclosed in a press release or other public announcement by such Investor;
- (C) each Investor shall have the right to disclose:
 - (i) any information to such Investor's and/or its fund manager's and/or its Affiliate's legal counsel, fund manager auditor, insurer, accountant, consultant or to an officer, director, general partner, limited partner, its fund manager, shareholder, investment counsel or advisor, or employee of such Investor and/or its Affiliate; provided, however, that any counsel, auditor, insurer, accountant, consultant, officer, director, general partner, limited partner, fund manager, shareholder, investment counsel or advisor, or employee shall be advised of the confidential nature of the information or are under appropriate non-disclosure obligation imposed by professional ethics, law or otherwise;
 - (ii) any information for fund and inter-fund reporting purposes;
 - (iii) any information as required by law, government authorities, exchanges and/or regulatory bodies, including by the Securities and Futures Commission of Hong Kong, the China Securities and
- (iv) any information to bona fide prospective purchasers/investors of any share, security or other interests in the Company, and
- (v) any information contained in press releases or public announcements of the Company pursuant to Clause 12.2.
- (D) the confidentiality obligations set out in this Clause 12 do not apply to:
 - (i) information which was in the public domain or otherwise known to the relevant Party before it was furnished to it by another Party hereto or, after it was furnished to that Party, entered the public domain otherwise than as a result of (i) a breach by that Party of this Clause 12 or (ii) a breach of a confidentiality

Regulatory Commission of the PRC or the Securities and Exchange Commission of the United States (or equivalent for other venues); and/or

obligation by the discloser, where the breach was known to that Party;

(ii) information the disclosure of which is necessary in order to comply with any Applicable Law, the order of any court, the requirements of a stock exchange or to obtain Tax clearance or other clearances or consents from any relevant authority; or

(iii) information disclosed by any Director (and any Observer, where applicable) to his/her appointer or any of its Affiliate or otherwise in accordance with the foregoing provisions of this Clause 12.3.

12.4 Each Party agrees that an Investor's Director (and an Observer, where applicable) shall be entitled to report all matters concerning the Group, including but not limited to matters discussed at any meeting of the Board and of any committee of the Board, to his/her respective appointer, and that each the Investor's Directors (and each Observer, where applicable) may take advice and obtain instructions from his/her respective appointer, but without prejudice to the Investor's Director's obligation to act at all times in the best interests of the Company or the relevant subsidiary of the Company (where applicable).

12.5 The obligations contained in this Clause 12 shall endure, even after the termination of this Agreement, without limit in point of time except to the extent that and until any confidential information enters the public domain as set out above.

13. TERMINATION OF THIS AGREEMENT

13.1 This Agreement (save for any provisions which shall come into or continue to be in force and effect on or after the termination of this Agreement as expressly stated herein, in the Subscription Agreement or the Transaction Documents and those provisions which are necessary for the purposes of interpretation of this Agreement in respect thereof) shall terminate and cease to have effect on the earliest of the date on which:

(A) a Qualified IPO is completed; or

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(B) this Agreement is terminated by operations of law or by mutual agreement of all the Shareholders from time to time,

PROVIDED THAT upon the Transfer by any Person of all Equity Securities owned by it in accordance with the provisions hereof, such Person shall automatically cease to be a Party and shall have no further rights or obligations hereunder

13.2 The termination of this Agreement or rights and obligations hereunder shall not apply to (a) the public offering or registration rights of the Investors under the Registration Rights Agreement, (b) the rights and obligations under the undertakings referred to in clause 3.1(G) of the Subscription Agreement and (c) the rights and obligations under Clause 12 (where applicable).

13.3 Any termination pursuant to Clause 13.1 shall be without prejudice to any accrued rights and liabilities of the Parties.

14. ENTIRE AGREEMENT

This Agreement sets out the entire agreement and understanding between the Parties in respect of the transactions and matters contemplated under this Agreement.

15. VARIATION

No variation of this Agreement (or any document entered into pursuant to this Agreement) shall be valid unless it is in writing and signed by or on behalf of each of the Parties.

16. SUCCESSORS AND ASSIGNS

All rights, covenants and agreements of the Parties contained in this Agreement shall, except as otherwise provided herein, be binding upon and inure for the benefit of their respective successors or permitted assigns.

17. INVALIDITY

If any provision of this Agreement is held to be invalid or unenforceable, then such provision shall (so far as it is invalid or unenforceable) be given no effect and shall be deemed not to be included in this Agreement but without invalidating any of the remaining provisions of this Agreement.

18. WAIVER

18.1 No failure on the part of any Party to exercise, and no delay on its part in exercising, any right or remedy under this Agreement will operate as a waiver thereof nor will any single or partial exercise of any right or remedy preclude any other or further exercise thereof or the exercise of any other right or remedy. The rights and remedies provided in this Agreement are cumulative and not exclusive of any rights or remedies provided by law.

18.2 Any waiver of any provision of this Agreement, and any consent by a Party under any provision of this Agreement, must be in writing. Any waiver or consent shall be effective only for that instance and for the purpose for which it is given.

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19. THIS AGREEMENT

The Parties acknowledge and agree that: (a) to the extent applicable, this Agreement shall be deemed to be an agreement pursuant to section 108(2) of the Business Corporations Act (Ontario) and (b) where there is any conflict between the provisions of this Agreement and the Subscription Agreement on one hand and the Articles and By-Laws on the other hand, the provisions of this Agreement and the Subscription Agreement shall prevail.

20. NOTICES

20.1 Notices or other communications required to be given by any Party pursuant to this Agreement shall be written in English and may be delivered personally or sent by registered airmail or postage prepaid, by a recognized courier service or by facsimile transmission to the address of the other Parties set forth below. The dates on which such notices shall be deemed to have been effectively given shall be determined as follows:

- (A) notices given by personal delivery shall be deemed effectively given on the date of personal delivery;
- (B) notices given by registered airmail or postage prepaid shall be deemed effectively given on the fifth (5th) Business Day after the date on which they were mailed (as indicated by the postmark);
- (C) notices given by courier shall be deemed effectively given on the second (2nd) Business Day after they were sent by recognized courier service; and

- (D) notices given by facsimile transmission shall be deemed effectively given immediately following confirmation of its transmission as recorded by the sender's facsimile machine.

TO THE COMPANY OR ANY OF THE PRC SUBSIDIARIES:

Address: [chinese characters]
(Building A6, Export Processing Zone
Suzhou New & Hi-Tech District
Jiangsu Province 215151
The People's Republic of China)
Fax Number: 86-512-62696016
Attention: The President

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TO THE FUNDS:
c/o HSBC Private Equity
(Asia) Ltd.

Address: Level 17, 1 Queen's Road Central
Hong Kong
Fax Number: +852 2845-9992
Attention: The Managing Director

TO JAFCO:
c/o JAFCO Investment
(Asia Pacific) Ltd

Address: 6 Battery Road
#42-01 Singapore 049909
Fax Number: +65 6221-3690
Attention: The President

With a copy to:
JAFCO Investment
(Hong Kong) Ltd.

Address: 30/F Two International Finance Centre
8 Finance Street
Central
Hong Kong
Fax Number: +852 2536-1979
Attention: General Manager
Email: All E-mail correspondence to
vincent.chan@jafcoasia.com and
sam.lai@jafcoasia.com

TO THE FOUNDER:

Address: [chinese characters]
(Building A6, Export Processing Zone
Suzhou New & Hi-Tech District
Jiangsu Province 215151
The People's Republic of China)
Fax Number: 86-512-62696016

- 20.2 Any Party may at any time change its address or fax number for service of notices in writing delivered to the other Parties in accordance with this Clause 20.

21. COUNTERPARTS

This Agreement may be executed in any number of counterparts and by the Parties hereto on separate counterparts, each of which when so executed shall be an original, but all of which shall together constitute one and the same instrument.

22. PROCESS AGENTS

22.1 Each Party hereby irrevocably appoints the Person set out opposite its name below as its respective agent to accept service of process in Hong Kong in any legal action or proceedings arising out of this Agreement, service upon whom shall be deemed completed whether or not such service of process is forwarded to such Party by its

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agent or received by it, and each Party warrants and undertakes to the other Parties that the agent appointed by it hereunder is a company incorporated in Hong Kong and the address of such agent set out below is its registered office address in Hong Kong:

PARTY -----	AGENT / REGISTERED OFFICE ADDRESS -----
For the Company, the Founder and the PRC Subsidiaries:	Key Consultant Limited Address: Unit 710, 7th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong
The Funds	HSBC Private Equity (Asia) Ltd. Address: Level 17, 1 Queen's Road Central, Hong Kong
JAFCO	JAFCO Investment (Hong Kong) Ltd. Address: 30/F Two International Finance Centre, 8 Finance Street, Central, Hong Kong

22.2 If a process agent appointed by any Party pursuant to Clause 22.1 ceases to be able to act as such or to have a registered office address in Hong Kong, the Party which appoints such process agent shall appoint a new process agent, which shall be a company incorporated in Hong Kong, and to deliver to the other Parties, before the expiry of fourteen (14) days from the date on which such process agent ceases to be able to act as such or to have a registered office address in Hong Kong, a copy of the written acceptance of appointment by that new process agent.

22.3 Nothing in this Agreement shall affect the right to serve process in any other manner permitted by law or the right to bring proceedings in any other jurisdiction for the purposes of the enforcement or execution of any judgement or other settlement in any other courts.

23. GOVERNING LAW

This Agreement is governed by and shall be construed in accordance with the laws of Hong Kong.

24. DISPUTE RESOLUTION

24.1 Any dispute, controversy or claim arising out of or connected with this Agreement or the interpretation, breach, termination or validity hereof, including a dispute as to the validity or existence of this Agreement, shall be resolved by way of arbitration upon the request of any of the Parties in dispute with notice to the other Parties.

24.2 Arbitration under this Clause 24 shall be conducted in Hong Kong, under the

auspices of the Hong Kong International Arbitration Centre (the "HKIAC") by three arbitrators (the "ARBITRATORS") pursuant to the rules of the United Nations

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Commission on International Trade Law (the "UNCITRAL RULES"), save that, unless the parties in dispute agree otherwise:

- (A) The three Arbitrators shall be appointed by the HKIAC; and
- (B) the Parties agree to waive any right of appeal against the arbitration award.

24.3 The arbitration shall be administered by HKIAC in accordance with HKIAC's procedures for arbitration.

24.4 Each Party shall cooperate with the others in making full disclosure of and providing complete access to all information and documents requested by another Party in connection with such arbitration proceedings, subject only to any confidentiality obligations binding on the disclosing Party.

24.5 The award of the arbitral tribunal shall be final and binding upon the disputing parties, and a prevailing party may apply to any court of competent jurisdiction for enforcement of such award.

24.6 The cost of the arbitration (including the reasonable and properly incurred fees and expenses of the lawyers appointed by each party to the arbitration) shall be borne by the Party or Parties against whom the arbitration award is made or otherwise in accordance with the ruling of the arbitration tribunal.

24.7 Any Party shall be entitled to seek preliminary injunctive relief, if possible, from any court of competent jurisdiction pending the constitution of the arbitral tribunal.

25. JAFCO'S RIGHTS

All Parties acknowledge and agree that any rights of JAFCO under this Agreement may, without prejudice to the rights of JAFCO to exercise any such rights, be exercised by JAFCO Investment (Asia Pacific) Ltd. ("JIAP") or any other fund manager of JAFCO or their nominees (each, a "JAFCO MANAGER"), unless JAFCO has (a) given notice to the other Parties that any such rights cannot be exercised by JIAP or a JAFCO Manager; and (b) not given notice to the other Parties that such notice given under paragraph (a) above has been revoked.

IN WITNESS WHEREOF this Agreement has been executed by the Parties the day and year first before written.

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SCHEDULE 1

PARTICULARS OF THE COMPANY

NAME:	Canadian Solar Inc.
DATE OF INCORPORATION:	22 October 2001
PLACE OF INCORPORATION:	Province of Ontario, Canada
REGISTERED OFFICE:	4056 Jefton Crescent. Mississauga, Ontario, Canada L5L 1Z3
DIRECTORS:	QU Xiao Hua

ISSUED CAPITAL (AS OF THE DATE HEREOF): 5,668,421 Common Shares with no nominal or par value (subdivided from 1,000,000 Common Shares; subject to filing of the Articles with the relevant Governmental Authority in Canada)

SHAREHOLDERS AS AT THE DATE HEREOF:	SHAREHOLDER	NO. OF EQUITY SECURITIES HELD
-----	-----	-----
	QU Xiao Hua	5,668,421 Common Shares

SCHEDULE 2

REPRESENTATIONS AND WARRANTIES REFERRED TO IN CLAUSE 4.7(C) (I)

The Founder warrants to the Investors as follows in relation to the company / corporation referred to in Clause 4.7(A) (v) (the "VEHICLE"):

1. DUE INCORPORATION

The Vehicle which is a corporation or corporate body has been duly incorporated and is validly existing under the laws of its place of incorporation and is not in receivership or liquidation, has not taken any steps to enter into liquidation and no petition has been presented for its winding up and there are no valid and justifiable grounds on which a petition or application could be based for the winding up or appointment of a receiver thereof.

2. COMPLIANCE

2.1 The Vehicle has duly obtained all necessary corporate authorisations (where applicable) and all other applicable governmental, statutory, regulatory or other consents, licences, waivers or exemptions required to empower it to enter into and to perform its obligations under the Joinder Agreement, the Investment Agreement and the Transaction Documents (as defined in the Investment Agreement) (where applicable). The Joinder Agreement will, upon execution be, duly executed and delivered by the Vehicle and the Founder, and constitute valid and binding obligations of the Vehicle and the Founder enforceable in accordance with their respective terms.

2.2 The execution and performance of the transactions contemplated by the Joinder Agreement, the Investment Agreement and the Transaction Documents and compliance with their provisions by the Vehicle will not violate any provision of law or conflict with or result in a breach of any of the terms, conditions or provisions of, or if applicable, constitute a default under the Vehicle's constitutional documents, or any indenture, lease, agreement or other instrument to which the Vehicle or the Founder is a party or by which he/it or any of his/its properties are bound or any judgement, decree, order, statute, rule or regulation applicable to the Vehicle or the Founder.

3. SHAREHOLDING AND SUBSIDIARIES

3.1 Shareholding

(A) All shares in the capital of the Vehicle issued have been fully paid up and held and owned by the Founder.

(B) There is no, nor is there any legally valid agreement or arrangement

to create any, pledge, lien, charge, encumbrance, rights of pre-emption or other equities or third party rights of any nature whatsoever on, over or affecting any of the shares in the capital of the Vehicle and no claim has been made by any Person to be entitled to any of the foregoing.

- (C) There are no legally valid agreements or arrangement in force which call for the present or future issue or allotment of, or grant to any Person the right

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(whether conditional or otherwise) to call for the issue, allotment or transfer of any shares of the Vehicle.

3.2 Subsidiaries

The Vehicle does not have and has never had any subsidiary other than the Group Companies. Save for the Group Companies, the Vehicle is not the legal or beneficial owner of any share or equity interests in any Person.

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The Common Seal of
CANADIAN SOLAR INC.

)
)

was affixed hereto

) /s/

in the presence of:-

) /s/

SIGNED by
for and on behalf of

)
)

HSBC HAV2 (III) LIMITED

) /s/

in the presence of:-

)

SIGNED by
for and on behalf of

)
)

JAFECO ASIA TECHNOLOGY FUND II

) /s/

in the presence of:-

)

SIGNED, SEALED and DELIVERED
as a Deed by

)
)

QU XIAO HUA

) /s/

in the presence of:-

) /s/

The Seal of)
[chinese characters])
(CSI SOLARTRONICS CO., LTD.))

was affixed hereto) /s/

in the presence of:-) /s/

[Company seal of CSI Solartronics Co., Ltd.]

The Seal of)
[chinese characters])
(CSI SOLAR TECHNOLOGIES INC.))

was affixed hereto) /s/

in the presence of:-) /s/

[Company seal of CSI Solar Technologies Inc.]

The Seal of)
[chinese characters])
(CSI SOLAR MANUFACTURING INC.))

was affixed hereto) /s/

in the presence of:-) /s/

[Company seal of CSI Solar Manufacturing Inc.]

DATED 30 November 2005

CANADIAN SOLAR INC.

REGISTRATION RIGHTS AGREEMENT

BAKER & MCKENZIE

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REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (this "Agreement") is made as of the 30 day of November, 2005, by and among Canadian Solar Inc., a corporation incorporated under the laws of the Province of Ontario, Canada (the "Company"), QU Xiao Hua, an individual holding Canadian passport no.BC289772 (the "Founder") and the investors listed on Schedule A hereto (the "Investor").

RECITALS

WHEREAS, each Investor is a party to a Subscription Agreement dated 16 November 2005 (the "Subscription Agreement") between, among others, the Company and the Investor, pursuant to which the Investor is subscribing for convertible notes (the "Convertible Notes") of the Company;

WHEREAS, in order to induce the Company to enter into the Subscription Agreement and to induce the Investors to invest funds in the Company pursuant to the Subscription Agreement, the Investors and the Company hereby agree that this Agreement shall govern the rights of the Investor to cause the Company to register Common Shares issuable to such persons, and certain other matters as set forth herein;

WHEREAS, the Investors and the Company have agreed, pursuant to the Subscription Agreement, to enter into this Agreement;

NOW, THEREFORE, in consideration of the promises, covenants, and conditions set forth herein, the parties hereto hereby agree as follows:

1. Applicability of Rights. The Holders shall be entitled to the following rights with respect to any proposed public offering of the Company's Common Shares in the United States.
2. Definitions. For the purpose of this Agreement:

2.1 Business Day. The term means any day (excluding Saturdays, Sundays and public holidays) on which banks generally are open for business in Hong Kong and Singapore.

2.2 Claim. The term means any claim, demand, assessment, judgment, order, decree, action, cause of action, litigation, suit, investigation or other legal, administrative or arbitration action, suit, complaint, charge, hearing, inquiry, investigation or proceeding (including any partial or threatened proceedings).

2.3 Common Shares. The term means the common shares in the share capital of the Company.

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2.4 Exchange Act. The term means the U.S. Securities Exchange Act of 1934, as amended.

2.5 Form S-3 and Form F-3. The terms mean such respective forms under the Securities Act or any successor registration form under the Securities Act subsequently adopted by the SEC that permits inclusion or incorporation of substantial information by reference to other documents filed by the Company with the SEC.

2.6 Holder. The term means any Person owning Registrable Securities or any permitted assignee of record of such Registrable Securities to whom rights under this Agreement have been duly assigned.

2.7 IPO. The term means the initial public offering of the shares of the Company or ListCo.

2.8 ListCo. The term means a new holding company of the Company to be incorporated in a jurisdiction acceptable for the purpose of an IPO and the shares of which will be offered in the IPO.

2.9 Majority. The term in this Agreement refers to at least seventy-five per cent. (75%).

2.10 Person. The term means any natural person, company, corporation, association, partnership, organization, firm, joint venture, trust, unincorporated organization or any other entity or organization, and shall include any governmental authority.

2.11 Qualified IPO. The term means a fully underwritten IPO on the main board of The Stock Exchange of Hong Kong Limited, the Nasdaq National Market or another international stock exchange approved in writing by the Majority of all outstanding Convertible Notes, where (a) the offering size (net of all related expenses and underwriting discounts and commissions) being not less than Thirty Million United States Dollars (US\$30,000,000), (b) the total market capitalization of the Company or ListCo (as the case may be) immediately following the offering being not less than One Hundred and Twenty Million United States Dollars (US\$120,000,000) and (c) the public float immediately following the offering being not less than twenty-five per cent. (25%) of the enlarged share capital of the Company or ListCo (as the case may be).

2.12 Registrable Securities. The term means any Common Shares of the

Company issued or issuable to the Investors or their assigns pursuant to conversion of any Convertible Notes held by the Investors and includes such securities of the Company issued with respect to the aforesaid securities through stock splits, subdivisions, reclassification, exchange, substitution or similar events. Notwithstanding the foregoing, "Registrable Securities" shall exclude any Registrable Securities which are sold in a registered public offering under the Securities Act or analogous statute of another jurisdiction, or sold pursuant to Rule 144 promulgated under the Securities Act or analogous rule of another jurisdiction.

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- 2.13 Registrable Securities then Outstanding. The number of shares of "Registrable Securities then outstanding" shall mean the number of Common Shares of the Company that are Registrable Securities and are then issued and outstanding, issuable upon conversion of Convertible Notes then issued and outstanding.
- 2.14 Registration. The terms "register," "registered," and "registration" refer to a registration effected by filing a registration statement which is in a form that complies with, and is declared effective by the SEC in accordance with, the Securities Act.
- 2.15 SEC. The term means the United States Securities and Exchange Commission.
- 2.16 Securities Act. The term means the U.S. Securities Act of 1933, as amended.
- 2.17 Registration Expenses. The term means all expenses incurred by the Company in complying with Clauses 3, 4 and 5 hereof, including, without limitation, all registration and filing fees, printing expenses, fees, and disbursements of counsel for the Company, reasonable fees and disbursements of one counsel for the Holders, "blue sky" fees and expenses, the expense of any special audits incident to or required by any such registration, any fee charged by any depositary bank, transfer agent or share registrar (but excluding the compensation of regular employees of the Company which shall be paid in any event by the Company).
- 2.18 Selling Expenses. The term means all underwriting discounts and selling commissions applicable to the sale of Registrable Securities pursuant to Clauses 3, 4 and 5 hereof.
- 2.19 Transfer. The term (or any correlative term) means a sale, assignment, pledge, charge, mortgage, hypothecation, gift, placement in trust (voting or otherwise) or transfer by operation of law of, creation of a security interest in, or lien on, or any other encumbering or disposal (directly or indirectly and whether or not voluntary), and shall include any transfer by will or intestate succession.

3. Demand Registration.

- 3.1 Request by Holders. If the Company shall, at any time after six (6) months following the closing of a Qualified IPO in the United States on either the New York Stock Exchange or the Nasdaq National Market, receive a written request from the Holders of at least 25% of the Registrable Securities then Outstanding that the Company file a registration statement under the Securities Act covering the registration of Registrable Securities pursuant to this Clause 3, then the Company shall, within ten (10) Business Days of the receipt of such written request, deliver written notice of such request (the "REQUEST NOTICE") to all Holders, and use its best efforts to effect, as soon as practicable, the registration under the Securities Act of

all Registrable Securities that the Holders request to be registered and included in such registration by written notice delivered by such Holders to the Company within twenty (20) days after receipt of the Request Notice, subject only to the limitations of this Clause 3; provided that the Company shall not be obligated to effect any such registration if the

Company has, within the preceding twelve (12) month period, already effected two or more registrations under the Securities Act pursuant to this Clause 3 or Clause 5 in which the Holders had an opportunity to participate pursuant to the provisions of Clause 4, other than a registration from which the Registrable Securities of the Holders have been excluded (with respect to all or any portion of the Registrable Securities the Holders requested be included in such registration) pursuant to the provisions of Clause 4.1.

- 3.2 Underwriting. If the Holders initiating the registration request under this Clause 3 (the "INITIATING HOLDERS") intend to distribute the Registrable Securities included in their request by means of an underwriting, then they shall so advise the Company as a part of their request made pursuant to this Clause 3 and the Company shall include such information in the Request Notice. In such event, the right of any Holder to include its Registrable Securities in such registration shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting (unless otherwise mutually agreed by a Majority in interest of the Initiating Holders and such Holder) to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall enter into an underwriting agreement in customary form with the managing underwriter or underwriters selected for such underwriting by the Holders of a Majority of the Registrable Securities being registered and reasonably acceptable to the Company. Notwithstanding any other provision of this Clause 3, if the underwriter(s) advise(s) the Company in writing that marketing factors require a limitation of the number of securities to be underwritten, then the Company shall so advise all Holders of Registrable Securities which would otherwise be registered and underwritten pursuant hereto, and the number of Registrable Securities that may be included in the underwriting shall be reduced as required by the underwriter(s) and allocated among the Holders of Registrable Securities on a pro rata basis according to the number of Registrable Securities then Outstanding held by each Holder requesting registration (including the Initiating Holders); provided, however, that the number of shares of Registrable Securities to be included in such underwriting and registration shall not be reduced unless all other securities are first entirely excluded from the underwriting and registration including, without limitation, all Shares that are not Registrable Securities and are held by any other Person, including, without limitation, any Person who is an employee, officer or director of the Company or any subsidiary of the Company; provided further, that at least twenty-five percent (25)% of shares of Registrable Securities requested by the Holders to be included in such underwriting and registration shall be so included. If any Holder disapproves of the terms of any such underwriting, such Holder may elect to withdraw therefrom by written notice to the Company and the underwriter(s), delivered at least ten (10) Business Days prior to the effective date of the registration statement. Any Registrable Securities excluded or withdrawn from such underwriting shall be excluded and withdrawn from the registration.
- 3.3 Maximum Number of Demand Registrations. The Company shall not be obligated to effect more than three (3) such demand registrations pursuant to this Clause 3.

- 3.4 Deferral. Notwithstanding the foregoing, if the Company shall furnish to Holders requesting registration pursuant to this Clause 3, a certificate signed by the president or chief executive officer of the Company stating that in the good faith judgment of the board of directors of the Company, it would be materially detrimental to the Company and its shareholders for such registration statement to be filed at such time, then the Company shall have the right to defer such filing for a period of not more than 120 days after receipt of the request of the Initiating Holders; provided, however, that the Company may not utilize this right more than once in any twelve (12) month period; provided further, that the Company shall not register any other of its Shares during such twelve (12) month period. A demand right shall not be deemed to have been exercised until such deferred registration shall have been effected.

4. Piggyback Registrations.

- 4.1 The Company shall notify all Holders of Registrable Securities in writing at least thirty (30) days prior to filing any registration statement under the Securities Act for purposes of effecting a public offering of securities of the Company (including, but not limited to, registration statements relating to secondary offerings of securities of the Company, but excluding registration statements relating to any registration under Clause 3 or Clause 5 of this Agreement or to any employee benefit plan or a corporate reorganization), and shall afford each such Holder an opportunity to include in such registration statement all or any part of the Registrable Securities then held by such Holder. Each Holder desiring to include in any such registration statement all or any part of the Registrable Securities held by it shall within twenty (20) days after receipt of the above-described notice from the Company, so notify the Company in writing, and in such notice shall inform the Company of the number of Registrable Securities such Holder wishes to include in such registration statement. If a Holder decides not to include all of its Registrable Securities in any registration statement thereafter filed by the Company, such Holder shall nevertheless continue to have the right to include any Registrable Securities in any subsequent registration statement or registration statements as may be filed by the Company with respect to offerings of its securities, all upon the terms and conditions set forth herein.
- 4.2 Underwriting. If a registration statement under which the Company gives notice under this Clause 4 is for an underwritten offering, then the Company shall so advise the Holders of Registrable Securities. In such event, the right of any such Holder's Registrable Securities to be included in a registration pursuant to this Clause 4 shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein. All Holders proposing to distribute their Registrable Securities through such underwriting shall enter into an underwriting agreement in customary form with the managing underwriter or underwriters selected for such underwriting. Notwithstanding any other provision of this Agreement but subject to Clause 12, if the managing underwriter(s) determine(s) in good faith that marketing factors require a limitation of the number of shares to be underwritten, then the managing underwriter(s) may exclude shares from the registration and the underwriting, and the number of shares that may be included in the registration and the underwriting shall

be allocated, first, to the Company, second, to each of the Holders requesting inclusion of their Registrable Securities in such registration statement on a pro rata basis based on the total number of shares of Registrable Securities then held by each such Holder, and third, to holders of other securities of the Company; provided, however, that the right of the underwriter(s) to exclude shares (including Registrable Securities) from the registration and underwriting as described above shall be restricted so that (i) the number of Registrable Securities included in any such registration is not reduced below twenty-five percent (25%) of the aggregate number of shares of Registrable Securities for which inclusion has been requested; and (ii) all shares that are not Registrable Securities and are held by any other Person, including, without limitation, any Person who is an employee, officer or director of the Company (or any subsidiary of the Company) shall first be excluded from such registration and underwriting before any Registrable Securities are so excluded. If any Holder disapproves of the terms of any such underwriting, such Holder may elect to withdraw therefrom by written notice to the Company and the underwriter(s), delivered at least ten (10) Business Days prior to the effective date of the registration statement. Any Registrable Securities excluded or withdrawn from such underwriting shall be excluded and withdrawn from the registration.

4.3 Not Demand Registration. Registration pursuant to this Clause 4 shall not be deemed to be a demand registration as described in Clause 3 above. There shall be no limit on the number of times the Holders may request registration of Registrable Securities under this Clause 4.

5. Form S-3 or Form F-3 Registration. In case the Company shall receive from any Holder or Holders of a Majority of all Registrable Securities then outstanding a written request or requests that the Company effect a registration on Form S-3 or Form F-3 and any related qualification or compliance with respect to all or a part of the Registrable Securities owned by such Holder or Holders, then the Company will:

5.1 Notice. Promptly deliver written notice of the proposed registration and the Holder's or Holders' request therefor, and any related qualification or compliance, to all other Holders of Registrable Securities; and

5.2 Registration. As soon as practicable, effect such registration and all such qualifications and compliances as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of such Holders or Holders' Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any other Holder or Holders joining in such request as are specified in a written request delivered within twenty (20) days after the Company provides the notice contemplated by Clause 5.1; provided, however, that the Company shall not be obligated to effect any such registration, qualification or compliance pursuant to this Clause 5:

5.2.1 if Form S-3 or Form F-3 is not available for such offering by the Holders;

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5.2.2 if the Holders, together with the holders of any other securities of the Company entitled to inclusion in such registration, propose to sell Registrable Securities and such other securities (if any) at an aggregate price to the public of less than US\$1,000,000;

5.2.3 if the Company shall furnish to the Holders a certificate signed

by the president or chief executive officer of the Company stating that in the good faith judgment of the board of directors of the Company, it would be materially detrimental to the Company and its shareholders for such Form S-3 or Form F-3 Registration to be effected at such time, in which event the Company shall have the right to defer the filing of the Form S-3 or Form F-3 registration statement no more than once during any twelve (12) month period for a period of not more than 120 days after receipt of the request of the Holder or Holders under this Clause 5; provided that the Company shall not register any of its other shares during such 120 day period;

5.2.4 if the Company has, within the six (6) month period preceding the date of such request, already effected a registration under the Securities Act other than a registration from which the Registrable Securities of Holders have been excluded (with respect to all or any portion of the Registrable Securities the Holders requested be included in such registration) pursuant to the provisions of Clauses 3.2 and 4.1; or

5.2.5 in any particular jurisdiction in which the Company would be required to qualify to do business or to execute a general consent to service of process in effecting such registration, qualification or compliance.

Subject to the foregoing, the Company shall file a Form S-3 or Form F-3 registration statement covering the Registrable Securities and other securities so requested to be registered as soon as practicable after receipt of the request or requests of the Holders.

5.3 Not Demand Registration. Form S-3 or Form F-3 registrations shall not be deemed to be demand registrations as described in Clause 3 above. Except as otherwise provided herein, there shall be no limit on the number of times the Holders may request registration of Registrable Securities under this Clause 5.

6. Expenses. All Registration Expenses incurred in connection with any registration pursuant to Clauses 3, 4 or 5 (but excluding Selling Expenses) shall be borne by the Company. Each Holder participating in a registration pursuant to Clauses 3, 4 or 5 shall bear such Holder's proportionate share (based on the total number of shares sold in such registration other than for the account of the Company) of all Selling Expenses or other amounts payable to underwriter(s) or brokers, in connection with such offering by the Holders. Notwithstanding the foregoing, the Company shall not be required to pay for any expenses of any registration proceeding begun pursuant to Clause 3 if the registration request is subsequently withdrawn at the request of the Holders of a Majority of the Registrable Securities to be registered, unless the Holders of a Majority of the Registrable Securities then outstanding agree that such registration constitutes the use by the Holders of one (1) demand registration pursuant to

Clause 3 (in which case such registration shall also constitute the use by all Holders of Registrable Securities of one (1) such demand registration). Notwithstanding the foregoing, if at the time of such withdrawal, the Holders have learned of a material adverse change in the condition, business, or prospects of the Company due to acts, omissions, or events within the Company's control that were not known to the Holders at the time of their request for such registration and have withdrawn their request for registration with reasonable promptness after learning of such material adverse change, then the Holders shall not be required to pay any of such expenses and such registration request shall not constitute the use of a demand registration pursuant to Clause 3. If the Holders have learned of a material adverse change in the condition, business, or prospects of the

Company due to acts, omissions, or events beyond the Company's control that were not known to the Holders at the time of their request for such registration and have withdrawn their request for registration with reasonable promptness after learning of such material adverse change, then the Company, on the one hand, and the Holders, on the other hand, shall pay any such expenses on an equal basis and such registration request shall not constitute the use of a demand registration pursuant to Clause 3.

7. Obligations of the Company. Whenever required to effect the registration of any Registrable Securities under this Agreement the Company shall, as expeditiously as reasonably possible:

- 7.1 Registration Statement. Prepare and file with the SEC a registration statement with respect to such Registrable Securities and use its best efforts to cause such registration statement to become effective, and, upon the request of the Holders of a Majority of the Registrable Securities registered thereunder, keep such registration statement effective for a period of up to ninety (90) days or, in the case of Registrable Securities registered under Form S-3 or Form F-3 in accordance with Rule 415 under the Securities Act or a successor rule, until the distribution contemplated in the registration statement has been completed; provided, however, that (i) such ninety (90) day period shall be extended for a period of time equal to the period any Holder refrains from selling any securities included in such registration at the request of the underwriter(s), and (ii) in the case of any registration of Registrable Securities on Form S-3 or Form F-3 which are intended to be offered on a continuous or delayed basis, such ninety (90) day period shall be extended, if necessary, to keep the registration statement effective until all such Registrable Securities are sold.

- 7.2 Amendments and Supplements. Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement.

- 7.3 Prospectuses. Furnish to the Holders such number of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the disposition of the Registrable Securities owned by them that are included in such registration.

- 7.4 Blue Sky. Use its best efforts to register or qualify the securities covered by such registration statement under such other securities or "blue sky" laws of such jurisdictions as shall be reasonably requested by the Holders, provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business in any jurisdiction where it would not otherwise be required to qualify but for this Clause 7.4, to subject itself to taxation in any such jurisdiction or consent to service of process in any such jurisdiction, unless the Company is already subject to service in such jurisdiction.

- 7.5 Underwriting. In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement in usual and customary form, with the managing underwriter(s) of such offering. Each Holder participating in such underwriting shall also enter into and perform its obligations under such an agreement.

- 7.6 Notification. Notify each Holder of Registrable Securities covered by

such registration statement at any time when a prospectus relating thereto is required to be delivered under the Securities Act of (i) the issuance of any stop order by the SEC in respect of such registration statement, or (ii) the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

7.7 Opinion and Comfort Letter. Furnish, at the request of any Holder requesting registration of Registrable Securities, on the date that such Registrable Securities are delivered to the underwriter(s) for sale, if such securities are being sold through underwriters, or, if such securities are not being sold through underwriters, on the date that the registration statement with respect to such securities becomes effective, (i) an opinion, dated as of such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering and reasonably satisfactory to a Majority in interest of the Holders requesting registration, addressed to the underwriters, if any, and to the Holders requesting registration of Registrable Securities and (ii) letters dated as of (x) the effective date of the registration statement covering such Registrable Securities and (y) the closing date of the offering, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering and reasonably satisfactory to a Majority in interest of the Holders requesting registration, addressed to the underwriters, if any, and to the Holders requesting registration of Registrable Securities.

8. Furnish Information. It shall be a condition precedent to the obligations of the Company to take any action pursuant to Clauses 3, 4 or 5 that the selling Holders shall furnish to the Company such information regarding themselves, the Registrable Securities held by them and the intended method of disposition of such securities as shall be required to timely effect the Registration of their Registrable Securities.

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9. Indemnification. In the event any Registrable Securities are included in a registration statement under Clauses 3, 4 or 5:

9.1 By the Company. To the extent permitted by law, the Company will indemnify and hold harmless each Holder, its partners, officers, directors, legal counsel, any underwriter (as defined in the Securities Act) for such Holder and each Person, if any, who controls such Holder or underwriter within the meaning of the Securities Act or the Exchange Act (each a "CONTROLLING PERSON"), against any losses, Claims, damages, or liabilities (joint or several) to which they may become subject under the Securities Act, the Exchange Act, or other U.S. federal or state law, insofar as such losses, Claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "VIOLATION"):

9.1.1 any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto;

9.1.2 the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the

statements therein not misleading; or

9.1.3 any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any U.S. federal or state securities law, or any rule or regulation promulgated under the Securities Act, the Exchange Act, or any U.S. federal or state securities law in connection with the offering covered by such registration statement;

and the Company will reimburse each such Holder, its partner, officer, director, legal counsel, underwriter or Controlling Person for any legal or other expenses reasonably incurred by them, as such expenses are incurred, in connection with investigating or defending any such loss, Claim, damage, liability or action; provided, however, that the indemnity agreement contained in this Clause 9.1 shall not apply to amounts paid in settlement of any such loss, Claim, damage, liability or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld), nor shall the Company be liable in any such case for any such loss, Claim, damage, liability or action to the extent (and only to the extent) that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by such Holder, partner, officer, director, legal counsel, underwriter or Controlling Person of such Holder.

9.2 By Selling Holders. To the extent permitted by law, each selling Holder will, if Registrable Securities held by Holder are included in the securities as to which such registration qualifications or compliance is being effected, indemnify and hold harmless the Company, each of its directors, each of its officers who has signed the registration statement, each Person, if any, who controls the Company within the meaning of the Securities Act, any underwriter and any other Holder selling securities

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under such registration statement or any of such other Holder's partners, directors, officers, legal counsel, or any Person who controls such Holder within the meaning of the Securities Act or the Exchange Act, against any losses, Claims, damages or liabilities (joint or several) to which the Company or any such director, officer, legal counsel, Controlling Person, underwriter or other such Holder, partner or director, officer or Controlling Person of such other Holder may become subject under the Securities Act, the Exchange Act or other U.S. federal or state law, insofar as such losses, Claims, damages or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Holder expressly for use in connection with such registration; and each such Holder will reimburse any legal or other expenses reasonably incurred by the Company or any such director, officer, Controlling Person, underwriter or other Holder, partner, officer, director or Controlling Person of such other Holder in connection with investigating or defending any such loss, Claim, damage, liability or action; provided, however, that the indemnity agreement contained in this Clause 9.2 shall not apply to amounts paid in settlement of any such loss, Claim, damage, liability or action if such settlement is effected without the consent of the Holder, which consent shall not be unreasonably withheld; and provided, further, that in no event shall any indemnity under this Clause 9.2 exceed the net proceeds received by such Holder in the registered offering out of which the applicable Violation arises.

9.3 Notice. Promptly after receipt by an indemnified party under this

Clause 9 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Clause 9, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties in their reasonable judgment; provided, however, that an indemnified party shall have the right to retain its own counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential conflict of interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall relieve such indemnifying party of liability to the indemnified party under this Clause 9 to the extent the indemnifying party is prejudiced as a result thereof, but the omission to so deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Clause 9.

- 9.4 Contribution. In order to provide for just and equitable contribution to joint liability under the Securities Act in any case in which either (i) any indemnified party makes a claim for indemnification pursuant to this Clause 9 but it is judicially determined (by the entry of a final judgment or decree by a court of competent jurisdiction and the expiration of time to appeal or the denial of the last right of appeal) that such

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indemnification may not be enforced in such case notwithstanding the fact that this Clause 9 provides for indemnification in such case, or (ii) contribution under the Securities Act may be required on the part of any indemnified party in circumstances for which indemnification is provided under this Clause 9; then, and in each such case, the indemnified party and the indemnifying party will contribute to the aggregate losses, Claims, damages or liabilities to which they may be subject (after contribution from others) in such proportion so that a Holder (together with its related Persons) is responsible for the portion represented by the percentage that the public offering price of its Registrable Securities offered by and sold under the registration statement bears to the public offering price of all securities offered by and sold under such registration statement, and the Company and other selling Holders are responsible for the remaining portion. The relative fault of the indemnifying party and of the indemnified party shall be determined by a court of law by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission; provided, however, that, in any such case: (A) no Holder will be required to contribute any amount in excess of the net proceeds to such Holder from the sale of all such Registrable Securities offered and sold by such Holder pursuant to such registration statement; and (B) no Person or entity guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) will be entitled to contribution from any Person or entity who was not guilty of such fraudulent misrepresentation.

- 9.5 Survival; Consents to Judgments and Settlements. The obligations of the Company and Holders under this Clause 9 shall survive the

completion of any offering of Registrable Securities in a registration statement, regardless of the expiration of any statutes of limitation or extensions of such statutes. No indemnifying party, in the defense of any such Claim or litigation, shall, except with the consent of each indemnified party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect to such Claim or litigation.

10. Termination of the Company's Obligations. The Company shall have no obligations pursuant to Clauses 3, 4 and 5 with respect to any Registrable Securities proposed to be sold by a Holder in a registration pursuant to Clause 3, 4 or 5 after seven (7) years following the consummation of the Qualifying IPO in the United States on either the New York Stock Exchange or the Nasdaq National Market or, as to any Holder, such earlier time at which all Registrable Securities held by such Holder (and any affiliate of the Holder with whom such Holder must aggregate its sales under Rule 144) can be sold in any ninety (90) day period without registration in compliance with Rule 144 of the Securities Act.
11. No Registration Rights to Third Parties. Without the prior written consent of the holders of a Majority of the Registrable Securities then outstanding, the Company covenants and agrees that it shall not grant, or cause or permit to be created, for the benefit of any Person or entity

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(other than the Founder) any registration rights of any kind (whether similar to the demand, "piggyback" or Form S-3 or Form F-3 registration rights described in this Agreement, or otherwise) relating to any securities of the Company which are senior to, or on a parity with, those granted to the Holders of Registrable Securities.

12. Market Stand-Off. The Founder agrees that, so long as he holds or owns any voting securities of the Company, upon request by the Company or the underwriters managing the initial public offering of the Company's securities, he will not sell or otherwise transfer or dispose of any securities of the Company (other than those permitted to be included in the registration and other transfers to Affiliates permitted by law) without the prior written consent of the Company or such underwriters, as the case may be, for a period of time specified by the representative of the underwriters not to exceed 180 days from the effective date of the registration statement covering such initial public offering or the pricing date of such offering as may be requested by the underwriters. The foregoing provision of this Clause 12 shall not apply to the sale of any securities of the Company to an underwriter pursuant to any underwriting agreement. The Company shall require all future acquirers of the Company's securities to execute prior to a Qualified IPO a market stand-off agreement containing substantially similar provisions as those contained in this Clause 12.
13. Rule 144 Reporting. With a view to making available to the Holders the benefits of certain rules and regulations of the SEC which may at any time permit the sale of the Registrable Securities to the public without registration or pursuant to a registration on Form S-3 or Form F-3, after such time as a public market exists for the Common Shares in the United States, the Company agrees to:
 - 13.1 Make and keep public information available, as those terms are understood and defined in Rule 144 under the Securities Act, at all times after the effective date of the first registration under the Securities Act filed by the Company for an offering of its securities to the general public;
 - 13.2 File with the SEC in a timely manner all reports and other documents

required of the Company under the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements); and

- 13.3 So long as a Holder owns any Registrable Securities, to furnish to such Holder forthwith upon request (i) a written statement by the Company as to its compliance with the reporting requirements of Rule 144 (at any time after ninety (90) days after the effective date of the Company's initial public offering in the United States), the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements), or its qualification as a registrant whose securities may be resold pursuant to Form S-3 or Form F-3 (at any time after it so qualifies), (ii) a copy of the most recent annual or quarterly report of the Company, and (iii) such other reports and documents of the Company as a Holder may reasonably request in availing itself of any rule or regulation of the SEC that permits the selling of any such securities without registration or pursuant to Form S-3 or Form F-3.

14. Transfer of Registration Rights.

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- 14.1 The rights of the Holders under this Agreement (the "REGISTRATION RIGHTS") may be assigned by a Holder, in conjunction with a Transfer of Registrable Securities, to a Transferee that (a) is a subsidiary, parent, partner, limited partner, member, retired member, retired, partner, affiliate, stockholder, fund manager, or a fund managed by the same fund manager of a Holder, (b) is a Holder's family member or trust for the benefit of an individual Holder, (c) holds Registrable Securities at the time of such Transfer, or (d) after such Transfer, holds at least twenty five percent (25%) of the Registrable Securities held by such Holder prior to any Transfers of Registrable Securities.
- 14.2 In the event of a Transfer of Registration Rights pursuant to Clause 14.1 (a), (b), or (c), if such Transferee receives one hundred percent (100%) of the Registrable Securities held by the Transferring Holder, then such Transferee may subsequently transfer the Registration Rights in accordance with this Clause 14, otherwise such Transferee may not subsequently transfer the Registration Rights.
- 14.3 In the event of a Transfer of Registration Rights pursuant to Clause 14.1(d), such Transferee may not subsequently transfer the Registration Rights.
- 14.4 Nothing in this Clause 14 shall be construed as imposing any restrictions on the transferability of the Holders' Registrable Securities.

15. Miscellaneous.

- 15.1 Successors and Assigns. Except as otherwise provided herein, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties (including transferees of any shares of Registrable Securities). Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.
- 15.2 Governing Law and Jurisdiction. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, United States of America. The parties hereto irrevocably agree to submit to the non-exclusive jurisdiction of the courts of the State of

New York and the United States federal courts sitting in the Borough of Manhattan, The City of New York in all matters arising in connection with this Agreement.

The Company undertakes to appoint an agent to receive and acknowledge on its behalf service of any writ, summons, order, judgment or other notice of legal process in New York, forthwith after it has commenced procedures to apply for its securities to be registered in the United States of America.

- 15.3 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

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- 15.4 Titles and Subtitles. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

- 15.5 Notices. Any and all notices required or permitted to be given to a party pursuant to the provisions of this Agreement will be in writing, given in English language and will be effective and deemed to provide such party sufficient notice under this Agreement on the earliest of the following: (a) at the time of personal delivery, if delivery is in person; (b) at the time of transmission by facsimile, addressed to the other party at its facsimile number specified herein (or hereafter modified by subsequent notice to the parties hereto), with confirmation of receipt made by both telephone and printed confirmation sheet verifying successful transmission of the facsimile; (c) one (1) Business Day after deposit with an express overnight courier for deliveries within a country, or three (3) Business Days after such deposit for international deliveries or (d) three (3) Business Days after deposit in mail by certified mail (return receipt requested) or equivalent for deliveries within a country, or seven (7) days after deposit in mail by certified mail (return receipt requested) or equivalent for international deliveries. For the purposes of this Clause 15.5, a delivery between the People's Republic of China and Hong Kong shall be considered an international delivery.

All notices for international delivery will be sent by facsimile or by express courier. All notices not delivered personally or by facsimile will be sent with postage and/or other charges prepaid and properly addressed to the party to be notified at the address or facsimile number indicated for such party on the signature page hereof, or at such other address or facsimile number as such other party may designate by giving ten (10) days advance written notice by one of the indicated means of notice herein to the other party hereto. Notices by facsimile shall be machine verified as received.

Any party hereto (and such party's permitted assigns) may by notice so given change its address for future notices hereunder. Notice shall conclusively be deemed to have been given in the manner set forth above.

- 15.6 Attorney's Fees. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.
- 15.7 Amendments and Waivers. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the

holders of all Registrable Securities then outstanding. Any amendment or waiver effected in accordance with this paragraph shall be binding upon each holder of Registrable Securities then outstanding, each future holder of all such Registrable Securities and the Company.

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15.8 Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be excluded from this Agreement, and the balance of the Agreement shall be interpreted as if such provision were so excluded, and shall be enforceable in accordance with its terms.

15.9 Aggregation of Shares. All shares of Registrable Securities of the Company held or acquired by a shareholder and its affiliated entities shall be aggregated together for the purpose of determining the availability of any rights under this Agreement. For purposes of the foregoing, the shares held by any shareholder that (i) is a partnership or corporation shall be deemed to include shares held by affiliated partnerships or the partners, retired partners and shareholders of such holder or members of the "immediate family" (as defined below) of any such partners, retired partners and shareholders, and any custodian or trustee for the benefit of any of the foregoing persons and (ii) is an individual shall be deemed to include shares held by any members of the shareholder's immediate family ("immediate family" shall include any spouse, father, mother, brother, sister, lineal descendant of spouse or lineal descendant) or to any custodian or trustee for the benefit of any of the foregoing persons.

15.10 Exercise of Rights

All parties acknowledge and agree that any rights of JAFCO Asia Technology Fund II under this Agreement may, without prejudice to the rights of JAFCO Asia Technology Fund II to exercise any such rights, be exercised by JAFCO Investment (Asia Pacific) Ltd. ("JIAP") or any other fund manager of JAFCO Asia Technology Fund II or their nominees (each, a "JAFCO MANAGER"), unless JAFCO Asia Technology Fund II has (a) given notice to the other parties that any such rights cannot be exercised by JIAP or a JAFCO Manager; and (b) not given notice to the other parties that such notice given under paragraph (a) above has been revoked.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

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CANADIAN SOLAR INC.

By: /s/

Name: QU Xiao Hua

Title: Director

Address: 4056 Jefton Crescent,
Mississauga, Ontario,
Canada L5L 1Z3

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INVESTORS:

HSBC HAV2 (III) LIMITED

By: /s/

Name: Victor Leung
Title: Authorised person
Address: 2nd Floor, Strathvale House,
North Church Street,
George Town, Grand Cayman,
Cayman Islands

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JAFECO ASIA TECHNOLOGY FUND II

By: /s/

Name: Vincent CHAN Chun Hung
Title: Attorney
Address: PO Box 309GT, Ugland House,
South Church Street,
George Town, Grand Cayman,
Cayman Islands

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SCHEDULE A

THE INVESTORS

1. HSBC HAV2 (III) Limited
2. JAFECO Asia Technology Fund II

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DATED October 3, 2006

CANADIAN SOLAR INC.

REGISTRATION RIGHTS AGREEMENT

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REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (this "Agreement") is made as of October 3, 2006, by and among Canadian Solar Inc., a corporation incorporated under the laws of the Province of Ontario, Canada (the "Company") and ATS Automation Tooling Systems Inc., an Ontario corporation (the "Investor").

RECITALS

WHEREAS, on November 16, 2005, the Company signed a subscription agreement (the "Subscription Agreement") with HSBC HAV2 (III) Limited ("HSBC") and JAFCO Asia Technology Fund II ("JAFCO") to issue two tranches of convertible notes in the aggregate principal amount of US \$10.5 million, and granted an option to such investors to subscribe for a third tranche of convertible notes in the principal amount of US \$2.5 million (which may be reduced at the Company's discretion to US \$1.25 million).

WHEREAS, in order to induce the Company to enter into the Subscription Agreement and to induce HSBC and JAFCO to invest funds in the Company pursuant to the Subscription Agreement, HSBC, JAFCO and the Company entered into a Registration Rights Agreement dated as of November 30, 2005 (the "Original Registration Rights Agreement"), which governs the rights of HSBC and JAFCO to cause the Company to register registrable securities of such persons, and certain other matters as set forth therein.

WHEREAS the first tranche of convertible notes in the principal amount of US \$8.1 million was issued on November 30, 2005 and the second and third tranches of convertible notes in the principal amount of US \$3.65 million were issued on March 30, 2006, and accordingly the Subscription Agreement is no longer in force or effect.

WHEREAS on July 1, 2006, the convertible notes in the aggregate principal amount of US \$11.75 million were converted into 2,331,905 common shares of the Company (after giving effect to a share split approved by the Company on July 11, 2006 and a subsequent transfer of 46,638 common shares of the Company from the investors to Shawn Xiaohua Qu ("Dr. Qu")).

WHEREAS, on July 1, 2006, Dr. Qu entered into a put option agreement with the investors to grant the investors an option, exercisable upon the occurrence of certain events, to sell back all the common shares of the Company issued upon conversion of the convertible notes to Dr. Qu at the principal amount of the convertible notes, being US \$11.75 million.

WHEREAS, Dr. Qu, the Investor and the Company are parties to a share transfer agreement, memorializing the arrangements between Dr. Qu and the Investor as to the percentage shareholding in the Company that the Investor would receive as contemplated by a letter of intent dated September 2001, pursuant to which Dr. Qu has agreed to transfer 800,171 common shares of the Company held by Dr. Qu to the Investor upon the terms and conditions

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contained therein, including entering into a Registration Rights Agreement granting the Investor rights to cause the Company to register registrable securities held by the Investor.

NOW, THEREFORE, in consideration of the promises, covenants, and conditions set forth herein, the parties hereto hereby agree as follows:

1. Applicability of Rights. The Holders shall be entitled to the following

rights with respect to any proposed public offering of the Company's Common Shares in the United States.

2. Definitions. For the purpose of this Agreement:

- 2.1 Business Day. The term means any day (excluding Saturdays, Sundays and public holidays) on which banks generally are open for business in Toronto and the City of New York.
- 2.2 Claim. The term means any claim, demand, assessment, judgment, order, decree, action, cause of action, litigation, suit, investigation or other legal, administrative or arbitration action, suit, complaint, charge, hearing, inquiry, investigation or proceeding (including any partial or threatened proceedings).
- 2.3 Common Shares. The term means the common shares in the share capital of the Company.
- 2.4 Exchange Act. The term means the U.S. Securities Exchange Act of 1934, as amended.
- 2.5 Form S-3 and Form F-3. The terms mean such respective forms under the Securities Act or any successor registration form under the Securities Act subsequently adopted by the SEC that permits inclusion or incorporation of substantial information by reference to other documents filed by the Company with the SEC.
- 2.6 Holder. The term means any Person owning Registrable Securities or any permitted assignee of record of such Registrable Securities to whom rights under this Agreement have been duly assigned.
- 2.7 IPO. The term means the initial public offering of the shares of the Company or ListCo.
- 2.8 ListCo. The term means a new holding company of the Company to be incorporated in a jurisdiction acceptable for the purpose of an IPO and the shares of which will be offered in the IPO.
- 2.9 Majority. The term in this Agreement refers to at least seventy-five per cent. (75%).
- 2.10 Person. The term means any natural person, company, corporation, association, partnership, organization, firm, joint venture, trust, unincorporated organization or any other entity or organization, and shall include any governmental authority.

- 2.11 Qualified IPO. The term means a fully underwritten IPO on the main board of The Stock Exchange of Hong Kong Limited, the Nasdaq National Market, the NYSE Arca exchange or another international stock exchange approved in writing by the Majority of Holders of Registrable Securities, where (a) the offering size (net of all related expenses and underwriting discounts and commissions) being not less than Thirty Million United States Dollars (US\$30,000,000), (b) the total market capitalization of the Company or ListCo (as the case may be) immediately following the offering being not less than One Hundred and Twenty Million United States Dollars (US\$120,000,000) and (c) the public float immediately following the offering being not less than twenty-five per cent. (25%) of the enlarged share capital of the Company or ListCo (as the case may be).
- 2.12 Registrable Securities. The term means any Common Shares of the Company issued or issuable to the Investor or its assigns and includes such securities of the Company issued with respect to the aforesaid securities through stock splits, subdivisions, reclassification,

exchange, substitution or similar events.

- 2.13 Registrable Securities then Outstanding. The number of shares of "Registrable Securities then outstanding" shall mean the number of Common Shares of the Company that are Registrable Securities and are then issued and outstanding.
- 2.14 Registration. The terms "register," "registered," and "registration" refer to a registration effected by filing a registration statement which is in a form that complies with, and is declared effective by the SEC in accordance with, the Securities Act.
- 2.15 SEC. The term means the United States Securities and Exchange Commission.
- 2.16 Securities Act. The term means the U.S. Securities Act of 1933, as amended.
- 2.17 Registration Expenses. The term means all expenses incurred by the Company in complying with Clauses 3, 4 and 5 hereof, including, without limitation, all registration and filing fees, printing expenses, fees, and disbursements of counsel for the Company, reasonable fees and disbursements of one counsel for the Holders, "blue sky" fees and expenses, the expense of any special audits incident to or required by any such registration, any fee charged by any depositary bank, transfer agent or share registrar (but excluding the compensation of regular employees of the Company which shall be paid in any event by the Company).
- 2.18 Selling Expenses. The term means all underwriting discounts and selling commissions applicable to the sale of Registrable Securities pursuant to Clauses 3, 4 and 5 hereof.
- 2.19 Transfer. The term (or any correlative term) means a sale, assignment, pledge, charge, mortgage, hypothecation, gift, placement in trust (voting or otherwise) or transfer by operation of law of, creation of a security interest in, or lien on, or any other encumbering or disposal (directly or indirectly and whether or not voluntary), and shall include any transfer by will or intestate succession.

3. Demand Registration.

- 3.1 Request by Holders. If the Company shall, at any time after six (6) months following the closing of a Qualified IPO in the United States on either the New York Stock Exchange, including the NYSE Arca exchange, or the Nasdaq National Market, receive a written request from the Holders of at least 25% of the Registrable Securities then Outstanding that the Company file a registration statement under the Securities Act covering the registration of Registrable Securities pursuant to this Clause 3, then the Company shall, within ten (10) Business Days of the receipt of such written request, deliver written notice of such request (the "REQUEST NOTICE") to all Holders, and use its best efforts to effect, as soon as practicable, the registration under the Securities Act of all Registrable Securities that the Holders request to be registered and included in such registration by written notice delivered by such Holders to the Company within twenty (20) days after receipt of the Request Notice, subject only to the limitations of this Clause 3; provided that the Company shall not be obligated to effect any such registration if the Company has, within the preceding twelve (12) month period, already effected two or more registrations under the Securities Act pursuant to this Clause 3 or Clause 5 in which the Holders had an opportunity to participate pursuant to the provisions of Clause 4, other than a registration from which the Registrable Securities of the Holders have been excluded

(with respect to all or any portion of the Registrable Securities the Holders requested be included in such registration) pursuant to the provisions of Clause 4.1.

- 3.2 Underwriting. If the Holders initiating the registration request under this Clause 3 (the "INITIATING HOLDERS") intend to distribute the Registrable Securities included in their request by means of an underwriting, then they shall so advise the Company as a part of their request made pursuant to this Clause 3 and the Company shall include such information in the Request Notice. In such event, the right of any Holder to include its Registrable Securities in such registration shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting (unless otherwise mutually agreed by a Majority in interest of the Initiating Holders and such Holder) to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall enter into an underwriting agreement in customary form with the managing underwriter or underwriters selected for such underwriting by the Holders of a Majority of the Registrable Securities being registered and reasonably acceptable to the Company. Notwithstanding any other provision of this Clause 3, if the underwriter(s) advise(s) the Company in writing that marketing factors require a limitation of the number of securities to be underwritten, then the Company shall so advise all Holders of Registrable Securities which would otherwise be registered and underwritten pursuant hereto, and the number of Registrable Securities that may be included in the underwriting shall be reduced as required by the underwriter(s) and allocated among the Holders of Registrable Securities on a pro rata basis according to the number of Registrable Securities then Outstanding held by each Holder requesting registration (including the Initiating Holders); provided, however, that the number of shares of Registrable Securities to be included in such underwriting and registration shall not be reduced unless all other securities are first entirely excluded

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from the underwriting and registration including, without limitation, all Shares that are not Registrable Securities and are held by any other Person, including, without limitation, any Person who is an employee, officer or director of the Company or any subsidiary of the Company; provided further, that at least twenty-five percent (25)% of shares of Registrable Securities requested by the Holders to be included in such underwriting and registration shall be so included. If any Holder disapproves of the terms of any such underwriting, such Holder may elect to withdraw therefrom by written notice to the Company and the underwriter(s), delivered at least ten (10) Business Days prior to the effective date of the registration statement. Any Registrable Securities excluded or withdrawn from such underwriting shall be excluded and withdrawn from the registration.

- 3.3 Maximum Number of Demand Registrations. The Company shall not be obligated to effect more than two (2) such demand registrations pursuant to this Clause 3.
- 3.4 Deferral. Notwithstanding the foregoing, if the Company shall furnish to Holders requesting registration pursuant to this Clause 3, a certificate signed by the president or chief executive officer of the Company stating that in the good faith judgment of the board of directors of the Company, it would be materially detrimental to the Company and its shareholders for such registration statement to be filed at such time, then the Company shall have the right to defer such filing for a period of not more than 120 days after receipt of the request of the Initiating Holders; provided, however, that the Company may not utilize this right more than once in any twelve (12) month period; provided further, that the Company shall not register

any other of its Shares during such twelve (12) month period. A demand right shall not be deemed to have been exercised until such deferred registration shall have been effected.

4. Piggyback Registrations.

- 4.1 At any time after a Qualified IPO, the Company shall notify all Holders of Registrable Securities in writing at least thirty (30) days prior to filing any registration statement under the Securities Act for purposes of effecting a public offering of securities of the Company (including, but not limited to, registration statements relating to secondary offerings of securities of the Company, but excluding registration statements relating to any registration under Clause 3 or Clause 5 of this Agreement or to any employee benefit plan or a corporate reorganization), and shall afford each such Holder an opportunity to include in such registration statement all or any part of the Registrable Securities then held by such Holder. Each Holder desiring to include in any such registration statement all or any part of the Registrable Securities held by it shall within twenty (20) days after receipt of the above-described notice from the Company, so notify the Company in writing, and in such notice shall inform the Company of the number of Registrable Securities such Holder wishes to include in such registration statement. If a Holder decides not to include all of its Registrable Securities in any registration statement thereafter filed by the Company, such Holder shall nevertheless continue to have the right to include any Registrable Securities in any subsequent registration statement or registration statements as may

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be filed by the Company with respect to offerings of its securities, all upon the terms and conditions set forth herein.

- 4.2 Underwriting. If a registration statement under which the Company gives notice under this Clause 4 is for an underwritten offering, then the Company shall so advise the Holders of Registrable Securities. In such event, the right of any such Holder's Registrable Securities to be included in a registration pursuant to this Clause 4 shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein. All Holders proposing to distribute their Registrable Securities through such underwriting shall enter into an underwriting agreement in customary form with the managing underwriter or underwriters selected for such underwriting. Notwithstanding any other provision of this Agreement but subject to Clause 12, if the managing underwriter(s) determine(s) in good faith that marketing factors require a limitation of the number of shares to be underwritten, then the managing underwriter(s) may exclude shares from the registration and the underwriting, and the number of shares that may be included in the registration and the underwriting shall be allocated, first, to the Company, second, to each of the Holders requesting inclusion of their Registrable Securities in such registration statement on a pro rata basis based on the total number of shares of Registrable Securities then held by each such Holder, and third, to holders of other securities of the Company; provided, however, that the right of the underwriter(s) to exclude shares (including Registrable Securities) from the registration and underwriting as described above shall be restricted so that (i) the number of Registrable Securities included in any such registration is not reduced below twenty-five percent (25%) of the aggregate number of shares of Registrable Securities for which inclusion has been requested; and (ii) all shares that are not Registrable Securities and are held by any other Person, including, without limitation, any Person who is an employee, officer or director of the Company (or any subsidiary of the Company) shall first be excluded from such

registration and underwriting before any Registrable Securities are so excluded. If any Holder disapproves of the terms of any such underwriting, such Holder may elect to withdraw therefrom by written notice to the Company and the underwriter(s), delivered at least ten (10) Business Days prior to the effective date of the registration statement. Any Registrable Securities excluded or withdrawn from such underwriting shall be excluded and withdrawn from the registration.

4.3 Not Demand Registration. Registration pursuant to this Clause 4 shall not be deemed to be a demand registration as described in Clause 3 above. There shall be no limit on the number of times the Holders may request registration of Registrable Securities under this Clause 4.

5. Form S-3 or Form F-3 Registration. Upon the Company becoming Form S-3 or Form F-3 eligible, in case the Company shall receive from any Holder or Holders of a Majority of all Registrable Securities then outstanding a written request or requests that the Company effect a registration on Form S-3 or Form F-3 and any related qualification or compliance with respect to all or a part of the Registrable Securities owned by such Holder or Holders, then the Company will:

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5.1 Notice. Promptly deliver written notice of the proposed registration and the Holder's or Holders' request therefor, and any related qualification or compliance, to all other Holders of Registrable Securities; and

5.2 Registration. As soon as practicable, effect such registration and all such qualifications and compliances as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of such Holders or Holders' Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any other Holder or Holders joining in such request as are specified in a written request delivered within twenty (20) days after the Company provides the notice contemplated by Clause 5.1; provided, however, that the Company shall not be obligated to effect any such registration, qualification or compliance pursuant to this Clause 5:

5.2.1 if Form S-3 or Form F-3 is not available for such offering by the Holders;

5.2.2 if the Holders, together with the holders of any other securities of the Company entitled to inclusion in such registration, propose to sell Registrable Securities and such other securities (if any) at an aggregate price to the public of less than US\$1,000,000;

5.2.3 if the Company shall furnish to the Holders a certificate signed by the president or chief executive officer of the Company stating that in the good faith judgment of the board of directors of the Company, it would be materially detrimental to the Company and its shareholders for such Form S-3 or Form F-3 Registration to be effected at such time, in which event the Company shall have the right to defer the filing of the Form S-3 or Form F-3 registration statement no more than once during any twelve (12) month period for a period of not more than 120 days after receipt of the request of the Holder or Holders under this Clause 5; provided that the Company shall not register any of its other shares during such 120 day period;

5.2.4 if the Company has, within the six (6) month period preceding the date of such request, already effected a registration under the Securities Act other than a registration from which the Registrable Securities of Holders have been excluded (with

respect to all or any portion of the Registrable Securities the Holders requested be included in such registration) pursuant to the provisions of Clauses 3.2 and 4.1; or

- 5.2.5 in any particular jurisdiction in which the Company would be required to qualify to do business or to execute a general consent to service of process in effecting such registration, qualification or compliance.

Subject to the foregoing, the Company shall file a Form S-3 or Form F-3 registration statement covering the Registrable Securities and other securities so requested to be registered as soon as practicable after receipt of the request or requests of the Holders.

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5.3 Not Demand Registration. Form S-3 or Form F-3 registrations shall not be deemed to be demand registrations as described in Clause 3 above. Except as otherwise provided herein, there shall be no limit on the number of times the Holders may request registration of Registrable Securities under this Clause 5.

6. Expenses. All Registration Expenses incurred in connection with any registration pursuant to Clauses 3, 4 or 5 (but excluding Selling Expenses) shall be borne by the Company. Each Holder participating in a registration pursuant to Clauses 3, 4 or 5 shall bear such Holder's proportionate share (based on the total number of shares sold in such registration other than for the account of the Company) of all Selling Expenses or other amounts payable to underwriter(s) or brokers, in connection with such offering by the Holders. Notwithstanding the foregoing, the Company shall not be required to pay for any expenses of any registration proceeding begun pursuant to Clause 3 if the registration request is subsequently withdrawn at the request of the Holders of a Majority of the Registrable Securities to be registered, unless the Holders of a Majority of the Registrable Securities then outstanding agree that such registration constitutes the use by the Holders of one (1) demand registration pursuant to Clause 3 (in which case such registration shall also constitute the use by all Holders of Registrable Securities of one (1) such demand registration). Notwithstanding the foregoing, if at the time of such withdrawal, the Holders have learned of a material adverse change in the condition, business, or prospects of the Company due to acts, omissions, or events within the Company's control that were not known to the Holders at the time of their request for such registration and have withdrawn their request for registration with reasonable promptness after learning of such material adverse change, then the Holders shall not be required to pay any of such expenses and such registration request shall not constitute the use of a demand registration pursuant to Clause 3. If the Holders have learned of a material adverse change in the condition, business, or prospects of the Company due to acts, omissions, or events beyond the Company's control that were not known to the Holders at the time of their request for such registration and have withdrawn their request for registration with reasonable promptness after learning of such material adverse change, then the Company, on the one hand, and the Holders, on the other hand, shall pay any such expenses on an equal basis and such registration request shall not constitute the use of a demand registration pursuant to Clause 3.
7. Obligations of the Company. Whenever required to effect the registration of any Registrable Securities under this Agreement the Company shall, as expeditiously as reasonably possible:

- 7.1 Registration Statement. Prepare and file with the SEC a registration statement with respect to such Registrable Securities and use its best efforts to cause such registration statement to become effective, and, upon the request of the Holders of a Majority of the Registrable Securities registered thereunder, keep such registration statement effective for a period of up to ninety (90) days or, in the case of

Registrable Securities registered under Form S-3 or Form F-3 in accordance with Rule 415 under the Securities Act or a successor rule, until the distribution contemplated in the registration statement has been completed; provided, however, that (i) such ninety (90) day period shall be extended for a period of time equal to the period any Holder refrains from selling any securities included in such registration at the request of the underwriter(s), and (ii) in the case of any registration of Registrable Securities on

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Form S-3 or Form F-3 which are intended to be offered on a continuous or delayed basis, such ninety (90) day period shall be extended, if necessary, to keep the registration statement effective until all such Registrable Securities are sold.

- 7.2 Amendments and Supplements. Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement.
- 7.3 Prospectuses. Furnish to the Holders such number of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the disposition of the Registrable Securities owned by them that are included in such registration.
- 7.4 Blue Sky. Use its best efforts to register or qualify the securities covered by such registration statement under such other securities or "blue sky" laws of such jurisdictions as shall be reasonably requested by the Holders, provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business in any jurisdiction where it would not otherwise be required to qualify but for this Clause 7.4, to subject itself to taxation in any such jurisdiction or consent to service of process in any such jurisdiction, unless the Company is already subject to service in such jurisdiction.
- 7.5 Underwriting. In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement in usual and customary form, with the managing underwriter(s) of such offering. Each Holder participating in such underwriting shall also enter into and perform its obligations under such an agreement.
- 7.6 Notification. Notify each Holder of Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Securities Act of (i) the issuance of any stop order by the SEC in respect of such registration statement, or (ii) the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.
- 7.7 Opinion and Comfort Letter. Furnish, at the request of any Holder requesting registration of Registrable Securities, on the date that such Registrable Securities are delivered to the underwriter(s) for sale, if such securities are being sold through underwriters, or, if such securities are not being sold through underwriters, on the date that the registration statement with respect to such securities becomes effective, (i) an opinion, dated as of such date, of the counsel representing the Company for the purposes of such

registration, in form and substance as is customarily given to

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underwriters in an underwritten public offering and reasonably satisfactory to a Majority in interest of the Holders requesting registration, addressed to the underwriters, if any, and to the Holders requesting registration of Registrable Securities and (ii) letters dated as of (x) the effective date of the registration statement covering such Registrable Securities and (y) the closing date of the offering, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering and reasonably satisfactory to a Majority in interest of the Holders requesting registration, addressed to the underwriters, if any, and to the Holders requesting registration of Registrable Securities.

8. **Furnish Information.** It shall be a condition precedent to the obligations of the Company to take any action pursuant to Clauses 3, 4 or 5 that the selling Holders shall furnish to the Company such information regarding themselves, the Registrable Securities held by them and the intended method of disposition of such securities as shall be required to timely effect the Registration of their Registrable Securities.
9. **Indemnification.** In the event any Registrable Securities are included in a registration statement under Clauses 3, 4 or 5:
 - 9.1 By the Company. To the extent permitted by law, the Company will indemnify and hold harmless each Holder, its partners, officers, directors, legal counsel, any underwriter (as defined in the Securities Act) for such Holder and each Person, if any, who controls such Holder or underwriter within the meaning of the Securities Act or the Exchange Act (each a "CONTROLLING PERSON"), against any losses, Claims, damages, or liabilities (joint or several) to which they may become subject under the Securities Act, the Exchange Act, or other U.S. federal or state law, insofar as such losses, Claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "VIOLATION"):
 - 9.1.1 any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto;
 - 9.1.2 the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading; or
 - 9.1.3 any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any U.S. federal or state securities law, or any rule or regulation promulgated under the Securities Act, the Exchange Act, or any U.S. federal or state securities law in connection with the offering covered by such registration statement;

and the Company will reimburse each such Holder, its partner, officer, director, legal counsel, underwriter or Controlling Person for any legal or other expenses reasonably incurred by them, as such expenses are incurred, in connection with investigating or

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defending any such loss, Claim, damage, liability or action; provided, however, that the indemnity agreement contained in this Clause 9.1 shall not apply to amounts paid in settlement of any such loss, Claim, damage, liability or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld), nor shall the Company be liable in any such case for any such loss, Claim, damage, liability or action to the extent (and only to the extent) that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by such Holder, partner, officer, director, legal counsel, underwriter or Controlling Person of such Holder.

9.2 By Selling Holders. To the extent permitted by law, each selling Holder will, if Registrable Securities held by Holder are included in the securities as to which such registration qualifications or compliance is being effected, indemnify and hold harmless the Company, each of its directors, each of its officers who has signed the registration statement, each Person, if any, who controls the Company within the meaning of the Securities Act, any underwriter and any other Holder selling securities under such registration statement or any of such other Holder's partners, directors, officers, legal counsel, or any Person who controls such Holder within the meaning of the Securities Act or the Exchange Act, against any losses, Claims, damages or liabilities (joint or several) to which the Company or any such director, officer, legal counsel, Controlling Person, underwriter or other such Holder, partner or director, officer or Controlling Person of such other Holder may become subject under the Securities Act, the Exchange Act or other U.S. federal or state law, insofar as such losses, Claims, damages or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Holder expressly for use in connection with such registration; and each such Holder will reimburse any legal or other expenses reasonably incurred by the Company or any such director, officer, Controlling Person, underwriter or other Holder, partner, officer, director or Controlling Person of such other Holder in connection with investigating or defending any such loss, Claim, damage, liability or action; provided, however, that the indemnity agreement contained in this Clause 9.2 shall not apply to amounts paid in settlement of any such loss, Claim, damage, liability or action if such settlement is effected without the consent of the Holder, which consent shall not be unreasonably withheld; and provided, further, that in no event shall any indemnity under this Clause 9.2 exceed the net proceeds received by such Holder in the registered offering out of which the applicable Violation arises.

9.3 Notice. Promptly after receipt by an indemnified party under this Clause 9 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Clause 9, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties in their reasonable judgment; provided,

however, that an indemnified party shall have the right to retain its own counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential conflict of interests between such indemnified

party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall relieve such indemnifying party of liability to the indemnified party under this Clause 9 to the extent the indemnifying party is prejudiced as a result thereof, but the omission to so deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Clause 9.

9.4 Contribution. In order to provide for just and equitable contribution to joint liability under the Securities Act in any case in which either (i) any indemnified party makes a claim for indemnification pursuant to this Clause 9 but it is judicially determined (by the entry of a final judgment or decree by a court of competent jurisdiction and the expiration of time to appeal or the denial of the last right of appeal) that such indemnification may not be enforced in such case notwithstanding the fact that this Clause 9 provides for indemnification in such case, or (ii) contribution under the Securities Act may be required on the part of any indemnified party in circumstances for which indemnification is provided under this Clause 9; then, and in each such case, the indemnified party and the indemnifying party will contribute to the aggregate losses, Claims, damages or liabilities to which they may be subject (after contribution from others) in such proportion so that a Holder (together with its related Persons) is responsible for the portion represented by the percentage that the public offering price of its Registrable Securities offered by and sold under the registration statement bears to the public offering price of all securities offered by and sold under such registration statement, and the Company and other selling Holders are responsible for the remaining portion. The relative fault of the indemnifying party and of the indemnified party shall be determined by a court of law by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission; provided, however, that, in any such case: (A) no Holder will be required to contribute any amount in excess of the net proceeds to such Holder from the sale of all such Registrable Securities offered and sold by such Holder pursuant to such registration statement; and (B) no Person or entity guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) will be entitled to contribution from any Person or entity who was not guilty of such fraudulent misrepresentation.

9.5 Survival; Consents to Judgments and Settlements. The obligations of the Company and Holders under this Clause 9 shall survive the completion of any offering of Registrable Securities in a registration statement, regardless of the expiration of any statutes of limitation or extensions of such statutes. No indemnifying party, in the defense of any such Claim or litigation, shall, except with the consent of each

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indemnified party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect to such Claim or litigation.

10. Termination of the Company's Obligations. The Company shall have no obligations pursuant to Clauses 3, 4 and 5 with respect to any Registrable Securities proposed to be sold by a Holder in a registration pursuant to Clause 3, 4 or 5 after seven (7) years following the consummation of the

Qualifying IPO in the United States on either the New York Stock Exchange, including the NYSE Arca exchange, or the Nasdaq National Market or, as to any Holder, such earlier time at which all Registrable Securities held by such Holder (and any affiliate of the Holder with whom such Holder must aggregate its sales under Rule 144) can be sold in any ninety (90) day period without registration in compliance with Rule 144 of the Securities Act.

11. No Registration Rights to Third Parties. Without the prior written consent of the holders of a Majority of the Registrable Securities then outstanding, the Company covenants and agrees that it shall not grant, or cause or permit to be created, for the benefit of any Person or entity (other than Dr. Qu) any registration rights of any kind (whether similar to the demand, "piggyback" or Form S-3 or Form F-3 registration rights described in this Agreement, or otherwise) relating to any securities of the Company which are senior to, or on a parity with, those granted to the Holders of Registrable Securities.
12. Rule 144 Reporting. With a view to making available to the Holders the benefits of certain rules and regulations of the SEC which may at any time permit the sale of the Registrable Securities to the public without registration or pursuant to a registration on Form S-3 or Form F-3, after such time as a public market exists for the Common Shares in the United States, the Company agrees to:
 - 12.1 Make and keep public information available, as those terms are understood and defined in Rule 144 under the Securities Act, at all times after the effective date of the first registration under the Securities Act filed by the Company for an offering of its securities to the general public;
 - 12.2 File with the SEC in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements); and
 - 12.3 So long as a Holder owns any Registrable Securities, to furnish to such Holder forthwith upon request (i) a written statement by the Company as to its compliance with the reporting requirements of Rule 144 (at any time after ninety (90) days after the effective date of the Company's initial public offering in the United States), the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements), or its qualification as a registrant whose securities may be resold pursuant to Form S-3 or Form F-3 (at any time after it so qualifies), (ii) a copy of the most recent annual or quarterly report of the Company, and (iii) such other reports and documents of the Company as a Holder may reasonably request in

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availing itself of any rule or regulation of the SEC that permits the selling of any such securities without registration or pursuant to Form S-3 or Form F-3.

13. Transfer of Registration Rights.
 - 13.1 The rights of the Holders under this Agreement (the "REGISTRATION RIGHTS") may be assigned by a Holder, in conjunction with a Transfer of Registrable Securities, to a Transferee that (a) is a subsidiary, parent, partner, limited partner, member, retired member, retired, partner, affiliate, stockholder, fund manager, or a fund managed by the same fund manager of a Holder, (b) is a Holder's family member or trust for the benefit of an individual Holder, (c) holds Registrable Securities at the time of such Transfer, (d) after such Transfer, holds at least twenty five percent (25%) of the Registrable Securities

held by such Holder prior to any Transfers of Registrable Securities, or (e) is an Affiliate (as defined in the Investment Agreement) or is Photowatt Technologies Inc. or any of its Affiliates.

13.2 In the event of a Transfer of Registration Rights pursuant to Clause 13.1 (a), (b), (c) or (e), if such Transferee receives one hundred percent (100%) of the Registrable Securities held by the Transferring Holder, then such Transferee may subsequently transfer the Registration Rights in accordance with this Clause 13, otherwise such Transferee may not subsequently transfer the Registration Rights.

13.3 In the event of a Transfer of Registration Rights pursuant to Clause 13.1(d), such Transferee may not subsequently transfer the Registration Rights.

13.4 Nothing in this Clause 13 shall be construed as imposing any restrictions on the transferability of the Holders' Registrable Securities.

14. Miscellaneous.

14.1 Successors and Assigns. Except as otherwise provided herein, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties (including transferees of any shares of Registrable Securities). Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

14.2 Governing Law and Jurisdiction. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, United States of America. The parties hereto irrevocably agree to submit to the non-exclusive jurisdiction of the courts of the State of New York and the United States federal courts sitting in the Borough of Manhattan, The City of New York in all matters arising in connection with this Agreement.

The Company undertakes to appoint an agent to receive and acknowledge on its behalf service of any writ, summons, order, judgment or other notice of legal process

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in New York, forthwith after it has commenced procedures to apply for its securities to be registered in the United States of America.

14.3 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

14.4 Titles and Subtitles. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

14.5 Notices. Any and all notices required or permitted to be given to a party pursuant to the provisions of this Agreement will be in writing, given in English language and will be effective and deemed to provide such party sufficient notice under this Agreement on the earliest of the following: (a) at the time of personal delivery, if delivery is in person; (b) at the time of transmission by facsimile, addressed to the other party at its facsimile number specified herein (or hereafter modified by subsequent notice to the parties hereto), with confirmation of receipt made by both telephone and printed confirmation sheet verifying successful transmission of the facsimile;

(c) one (1) Business Day after deposit with an express overnight courier for deliveries within a country, or three (3) Business Days after such deposit for international deliveries or (d) three (3) Business Days after deposit in mail by certified mail (return receipt requested) or equivalent for deliveries within a country, or seven (7) days after deposit in mail by certified mail (return receipt requested) or equivalent for international deliveries. For the purposes of this Clause 14.5, a delivery between the People's Republic of China and Hong Kong shall be considered an international delivery.

All notices for international delivery will be sent by facsimile or by express courier. All notices not delivered personally or by facsimile will be sent with postage and/or other charges prepaid and properly addressed to the party to be notified at the address or facsimile number indicated for such party on the signature page hereof, or at such other address or facsimile number as such other party may designate by giving ten (10) days advance written notice by one of the indicated means of notice herein to the other party hereto. Notices by facsimile shall be machine verified as received.

Any party hereto (and such party's permitted assigns) may by notice so given change its address for future notices hereunder. Notice shall conclusively be deemed to have been given in the manner set forth above.

14.6 Attorney's Fees. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.

14.7 Amendments and Waivers. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a

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particular instance and either retroactively or prospectively), only with the written consent of the Company and the holders of all Registrable Securities then outstanding. Any amendment or waiver effected in accordance with this paragraph shall be binding upon each holder of Registrable Securities then outstanding, each future holder of all such Registrable Securities and the Company.

14.8 Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be excluded from this Agreement, and the balance of the Agreement shall be interpreted as if such provision were so excluded, and shall be enforceable in accordance with its terms.

14.9 Non-Qualified IPO. The Company agrees with the Investor that it will not effect or otherwise complete a non-Qualified IPO without prior written consent of the Investor.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

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CANADIAN SOLAR INC.

By: /s/

Name: QU Xiao Hua

Title: Director

Address: 4056 Jefton Crescent,

Mississauga, Ontario,

Canada L5L 1Z3

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ATS AUTOMATION TOOLING SYSTEMS INC.

By: /s/ /s/

Name: Carl Galloway Gerry Beard

Title: V.P. Treasurer V.P. and Chief Financial Officer

Address: 250 Royal Oak Road

Cambridge ON

N3H 4R6

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JOINDER AGREEMENT

JOINDER AGREEMENT, dated as of October 3, 2006 (this "Agreement"), among Shawn Xiaohua Qu ("Founder"), ATS Automation Tooling Systems Inc., an Ontario corporation ("ATS"), HSBC HAV 2 (III) Limited ("HSBC"), JAFCO Asia Technology Fund II (Barbados) Limited ("JAFCO", and together with HSBC, the "Initial Investors"), Canadian Solar Inc., a Canadian corporation ("CSI" or the "Company"), and CSI Solartronics Co., Ltd., CSI Solar Technologies Inc. and CSI Solar Manufacturing Inc. (collectively, the "PRC Subsidiaries").

WHEREAS the Founder, the Initial Investors, the Company and the PRC Subsidiaries entered into an investment agreement dated as of November 30, 2005 (the "Investment Agreement") to govern certain aspects of the affairs of the Company, a true and complete copy of which is attached hereto as Exhibit A.

WHEREAS, pursuant to a share transfer agreement dated as of September 15, 2006 (the "Share Transfer Agreement") among the Founder, ATS and the Company, the Founder is transferring 800,171 common shares of the Company, representing approximately 8% of the share capital of CSI on a fully-diluted basis, to ATS.

WHEREAS, pursuant to the Investment Agreement, ATS is required to enter into this Agreement as a condition of the Company approving the above-noted transfer of common shares from the Founder to ATS.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein and for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

1.1 Definitions and References. As used in this Agreement, and unless the context requires a different meaning or otherwise defined herein, all defined terms shall have the meanings ascribed thereto in the Investment Agreement. All references to Clauses herein shall be to the corresponding clauses in the Investment Agreement.

ARTICLE II

TRANSFER OF COMMON SHARES

2.1 Transfer of Common Shares. All parties hereto acknowledge and consent to the transfer of 800,171 Common Shares from the Founder to ATS pursuant to the Share Transfer Agreement, and waive any and all rights that they may be entitled to under the Investment Agreement with respect to the transfer of such Common Shares.

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ARTICLE III

ACKNOWLEDGEMENT, CONFIRMATION AND AGREEMENT

ATS hereby acknowledges and agrees to be bound by the Investment Agreement to the extent set forth herein, and all other parties hereto confirm and agree as follows:

3.1 Transfers of Equity Securities (Clause 4 of the Investment Agreement).

(a) ATS shall not, directly or indirectly, effect or facilitate a Transfer

of all or any portion of its Equity Securities or other interest in the Company before the completion of a Qualified IPO unless (i) the prior written consent of all Investors is obtained or (ii) ATS has complied with the provisions of Clauses 4.3 (Right of First Refusal) and 4.5 (Non-Exercise of Rights) of the Investment Agreement in the manner set forth herein.

(b) ATS hereby grants to the Investors a right of first refusal as set forth in Clause 4.3 of the Investment Agreement, with all necessary modifications thereto as may be necessary to give proper effect to the grant of such right herein provided for.

(c) The Founder hereby grants to ATS a right of co-sale as set forth in Clause 4.4 of the Investment Agreement, with all necessary modifications thereto as may be necessary to give effect to the grant of such right herein provided for.

(d) None of the restrictions and/or requirements contained in Clauses 4.1 to 4.6 of the Investment Agreement (to the extent applicable to ATS as provided for in this Agreement) shall apply to any Transfer by ATS to any of its Affiliates or to Photowatt Technologies Inc. or any of its Affiliates; and all rights of ATS hereunder shall enure for the benefit of any such transferee when such transferee signs a Joinder Agreement pursuant to which it undertakes to be bound by the provisions of the Investment Agreement and this Agreement as if it was ATS.

(e) All parties agree that in the event that the Initial Investors no longer hold any Equity Securities, ATS shall then be entitled to the benefits of all of the rights of the Investors set forth in Clauses 4.1 to 4.6 of the Investment Agreement and in furtherance thereof, ATS shall upon the occurrence of such event be deemed to be the "Investor" for purposes of those Clauses. Upon the occurrence of such event, the rights set out in sections 3.1(a), 3.1(b), 3.1(c) and 3.1(f) hereof shall terminate and be of no further force and effect.

(f) ATS hereby grants to the Founder a first right of negotiation as set forth in Clause 4.6 of the Investment Agreement, the effectiveness of such right being subject to section 3.1(b) hereof.

3.2 Pre-emptive Rights (Clause 5 of the Investment Agreement). The Company hereby grants to ATS the pre-emptive rights as set forth in Clause 5 of the Investment Agreement as if ATS is deemed to be an "Investor" for purposes of that Clause.

3.

3.3 Undertakings after First Completion (Clause 6 of the Investment Agreement). ATS hereby acknowledges and agrees that the Group may effect a reorganization for purposes of achieving an IPO as set forth in Clause 6.1 of the Investment Agreement and may effect a share split, subdivision or share combination of the Common Shares which does not result in any change in the proportional ownership of the Common Shares owned by the Shareholders, provided that ATS is deemed to be an "Investor" for purposes of Clause 6.1(C) (Tax Indemnity on a Reorganization) of the Investment Agreement. In addition, ATS is deemed to be an "Investor" for purposes of Clauses 6.2 to 6.10 of the Investment Agreement.

3.4 Directors and Management (Clause 7 of the Investment Agreement). All parties agree that ATS shall be entitled to nominate one individual to the Board as a Director in the event that: (i) a Qualified IPO is not completed on or before March 31, 2007; and (ii) HSBC no longer has a right to nominate an individual to the Board, and upon the occurrence of such events, ATS shall have the same rights that each "Investor" has pursuant to Clause 7 of the Investment Agreement and ATS is deemed to be an "Investor" for purposes of that Clause. In addition, ATS shall be entitled to the "Observer" right as set forth in Clause 7.3(D) of the Investment Agreement from the date hereof until the earlier of: (i) ATS (or its permitted transferee) no longer holds any Equity Securities, or (ii) completion of a Qualified IPO.

3.5 Reserved Matters (Clause 9 of the Investment Agreement). All parties

agree that in the event that the Initial Investors no longer hold any Equity Securities, each of the reserved matters set out in Clause 9 of the Investment Agreement shall then require the consent of ATS and in furtherance thereof, ATS shall upon the occurrence of such event be deemed to be the "Investor" for purposes of that Clause.

3.6 Information Rights (Clause 10 of the Investment Agreement). The Company shall supply to ATS all such information that each of the Investors is entitled to pursuant to Clause 10 of the Investment Agreement and ATS is deemed to be an "Investor" for purposes of that Clause, provided that in respect of Clause 10.1 of the Investment Agreement, the financial statements may be prepared in accordance with U.S. GAAP or IAS.

3.7 Joinder Agreement. Any Joinder Agreement to be signed by any Person shall be satisfactory to ATS. For greater certainty, any Transfer pursuant to Clause 4.6 of the Investment Agreement is conditional upon such transferee(s) executing a Joinder Agreement

3.8 General. ATS acknowledges and confirms that all terms of the Investment Agreement applicable to all Shareholders and/or all Parties shall apply to ATS as a Shareholder of the Company or Party to the Investment Agreement, including for the avoidance of doubt, the announcements and confidentiality provisions of Clause 12 of the Investment Agreement (subject to ATS being deemed to be an Investor for purposes therein and to ATS being entitled to make such disclosure about the Company as considered desirable to comply with Applicable Law, to effect any Transfer in accordance with the Investment Agreement and in connection with the Photowatt Technologies Inc. F-1 Registration Statement) and the termination provisions of Clause 13 of the Investment Agreement. In addition, for greater certainty, at no time shall the Founder be considered the

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"Investor" for purposes of the Investment Agreement, including upon any direct or indirect Transfer by an Investor to the Founder.

ARTICLE IV

MISCELLANEOUS

4.1 Other Terms and Provisions.. Unless otherwise varied or provided for in this Agreement, all other terms and provisions of the Investment Agreement remain in full force and effect, unamended.

4.2 Successors and Assigns; Third Party Beneficiaries. This Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of the parties hereto.

4.3 Notices. All parties agree that the notice requirements set forth in Clause 20 of the Investment Agreement shall apply to ATS whose address is set forth below.

Address: 250 royal Oak Road
Cambridge, Ontario N3H 4R6

Fax Number: 519-650-6520

Attention: Chief Financial Officer

4.4 Counterparts. This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

4.5 Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF HONG KONG.

[The remainder of this page is intentionally left blank]

IN WITNESS WHEREOF, the undersigned have executed, or have caused to be executed, this Agreement on the date first written above.

The Common Seal of	) /s/
ATS AUTOMATION TOOLING SYSTEMS INC.	) Vice President Treasurer
was affixed hereto	) /s/
in the presence of:- /s/	) Vice President CFO

The Common Seal of)
CANADIAN SOLAR INC.	) /s/
was affixed hereto	) /s/
in the presence of:-)

SIGNED by)
for and on behalf of)
HSBC HAV2 (III) LIMITED	) /s/
in the presence of:- /s/)

SIGNED by)
for and on behalf of)
JAFCO ASIA TECHNOLOGY FUND II)
(BARBADOS) LIMITED	) /s/
in the presence of:- /s/)

SIGNED, SEALED and DELIVERED)
as a Deed by	) /s/
QU XIAO HUA)
in the presence of:-	) /s/

The Seal of)
("CHINESE CHARACTERS"))
(CSI SOLARTRONICS CO., LTD.)	) /s/
was affixed hereto)
in the presence of:-	) /s/

The Seal of)
("CHINESE CHARACTERS"))
(CSI SOLAR TECHNOLOGIES INC.)	) /s/
was affixed hereto)
in the presence of:-	) /s/

The Seal of)
("CHINESE CHARACTERS"))

7.

[See exhibit 4.3]

CERTIFICATE FOR THE CONVERTIBLE NOTES AND THE
CONDITIONS

Certificate No.: 11
Issue Date: November 30, 2005
Amendment and Restatement Date: July 1, 2006

CANADIAN SOLAR INC.
(Continued under the provisions of the Canada Business Corporations Act)
as the Company

and

HSBC HAV2 (III) LIMITED
as Noteholder

US\$5,400,000
CONVERTIBLE NOTE DUE NOVEMBER 30, 2008

The issue of this Convertible Note (the "CONVERTIBLE NOTE") was authorised by resolution of the Board of Directors of Canadian Solar Inc. (the "COMPANY") passed on November 30, 2005 pursuant to the agreement dated 16 November 2005 between, among others, the Company and the Noteholder (the "SUBSCRIPTION AGREEMENT").

The issue of this Convertible Note is subject to, in accordance with and with the benefit of the terms set out in the Subscription Agreement, and the conditions attached hereto which form part of this Convertible Note (the "CONDITIONS").

THIS IS TO CERTIFY that the Company will pay to the Noteholder the principal amount of FIVE MILLION FOUR HUNDRED THOUSAND UNITED STATE DOLLARS (US\$5,400,000) together with such interests and other additional amounts (if any) as may be payable under the Conditions on the Maturity Date (as defined in the Conditions) or on such earlier date as such sum may become payable in accordance with the Conditions.

The performance of the Company's obligations under this Convertible Note is guaranteed by Mr. QU Xiao Hua (the "FOUNDER").

THE TRANSFER OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY ONLY BE DONE IN COMPLIANCE WITH AND PURSUANT TO THE TERMS OF THE INVESTMENT AGREEMENT DATED NOVEMBER 30, 2005 (AS THE SAME MAY BE FURTHER AMENDED, MODIFIED OR SUPPLEMENTED FROM TIME TO TIME) AND ENTERED INTO, AMONG OTHERS, BETWEEN THE COMPANY AND THE NOTEHOLDER (THE "INVESTMENT AGREEMENT"). THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED

STATES SECURITIES ACT OF 1933, AS AMENDED OR THE SECURITIES LAWS OF ANY OTHER COUNTRY. THE INVESTMENT AGREEMENT (AS THE SAME MAY BE FURTHER AMENDED, MODIFIED OR SUPPLEMENTED FROM TIME TO TIME) SHALL, TO THE EXTENT APPLICABLE, BE DEEMED TO BE AN AGREEMENT PURSUANT TO SECTION 108(2) OF THE BUSINESS CORPORATIONS ACT (ONTARIO). UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE NOTEHOLDER MUST NOT TRADE THE SECURITIES PRESENTED BY THIS CERTIFICATE BEFORE THE DATE THAT IS FOUR (4) MONTHS AND A DAY AFTER THE LATER OF (I) THE DATE OF THIS CERTIFICATE AND (II) THE DATE THE COMPANY BECAME A REPORTING ISSUER IN ANY PROVINCE OR

TERRITORY.

This Convertible Note and the Conditions are governed by and shall be construed in accordance with the laws of Hong Kong.

IN WITNESS WHEREOF this Convertible Note has been executed under seal by the Company on July 1, 2006.

THE COMMON SEAL of)
CANADIAN SOLAR INC.)
was affixed hereto) /s/
in the presence of :)

SIGNED, SEALED and DELIVERED by)
QU XIAO HUA) /s/
in the presence of :)

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CONDITIONS OF CONVERTIBLE NOTE

(A) In these Conditions:

1. the expressions "Company" and "Noteholder" shall, where the context permits, include their respective successors and permitted assigns and any persons deriving title under them;
2. terms defined in the Subscription Agreement shall have the same meanings herein unless otherwise defined; and
3. the following expressions shall, unless the context otherwise requires, have the following meanings:

"2005 PAT" means the consolidated net profit after tax (excluding exceptional, extraordinary gains and prior year adjustments) of the Group in the financial statements for the twelve (12) months ending 28 February 2006 as prepared in accordance with IAS and audited by one of the "Big Four" accounting firms;

"ADDITIONAL EQUITY SECURITIES" has the meaning ascribed to it in Condition (B)4(c)(ii);

"AUTOMATIC CONVERSION" means the conversion of a Convertible Note into Common Shares referred to in Condition (B)3(b);

"CONVERSION PRICE" means the conversion price for the Convertible Note as determined in accordance with Conditions (B)3(c) and (B)4;

"EVENT OF DEFAULT" has the meaning ascribed to it in Condition (B)7;

"GUARANTEED 2005 PAT" means Six Million Five Hundred Thousand United States Dollars (US\$6,500,000) minus any accounting charges incurred by the Company arising solely in connection with the prior Condition (B)5(c)(iii)(II) (which was included previously in Schedule 5 to the Subscription Agreement prior to its amendment);

"ISSUE DATE" means November 30, 2005;

"MATURITY DATE" means a date which is three (3) years after the Issue Date; and

"OPTIONAL CONVERSION" means the conversion of a Convertible Note into Common Shares referred to in Condition (B)3(a).

- (B) The Convertible Note shall carry the following rights, benefits and privileges and be subject to the following restrictions:

1. Status

The Convertible Note constitutes, or will after issue constitute, direct, unconditional, unsecured and unsubordinated obligations of the Company and rank pari passu (save for certain creditors required to be preferred by law in Canada) equally with all other present and future unsecured and unsubordinated obligations of the Company.

2. Interest and dividend

- (a) The Convertible Note shall bear interest from the Issue Date at the rate of twelve per cent (12%) per annum on the principal amount of the Convertible Note outstanding, such interest shall, subject to sub-paragraphs (b) and (c) below, accrue from day to day, be calculated on the basis of the actual number of days that elapsed in a year of 365 days and be payable as follows: (i) two per cent (2%) per annum shall be payable in cash by four equal quarterly instalments in arrears (the first payment being on the date falling three (3) months after the Issue Date), and (ii) ten per cent (10%) per annum shall be payable in a balloon payment as at the date of conversion or redemption as the case may be. In the event that the Convertible Note has been wholly converted into Common Shares in accordance with these Conditions, the Noteholder shall be entitled to interest in respect of the whole of the principal amount being converted for the period from the date immediately preceding the last interest payment date (or the Issue Date, as the case may be) up to and including the date of conversion, and such interest (which has not been paid before the conversion) shall be payable by the Company on the date of conversion.
- (b) Interest shall cease to accrue with effect from the date of conversion of the Convertible Note.
- (c) On redemption of the Convertible Note, interest shall cease to accrue with effect from the date the redemption monies have been paid in full.
- (d) The Noteholder agrees and acknowledges that the Shareholders as of the Issue Date are entitled to all audited retained earnings as of 28 February 2006. The Company shall not declare or pay any dividend before the completion of a Qualified IPO or redemption of all Convertible Notes, except with the prior written consent of all holders of all outstanding Convertible Notes.

In the event that the Board declares a dividend or distribution on the Common Shares before the completion of a Qualified IPO or redemption of all Convertible Notes with the prior written consent of all holders of all outstanding Convertible Notes, the Company shall at the same time as such dividend or distribution is paid to the holders of Common Shares pay a special interest payment to the Noteholder where the Convertible Note remains outstanding, such that the Noteholder shall be entitled to its pro-rata share of the dividends on earnings accumulated after 28

February 2006. The special interest shall be calculated on an "as converted" basis as if the issued share capital of the Company had been enlarged (for the purpose of special interest payment) by the

maximum number of Common Shares that could be converted upon the conversion of the outstanding Convertible Note at the then Conversion Price after adjustment (if any) in accordance with Condition (B)4, such that the special interest payment that the Noteholder receives is equal to the dividend it would have received had the outstanding Convertible Notes been wholly converted into Common Shares immediately prior to the record date for calculation of dividend or distribution entitlements.

- (e) If payment of any principal or interest or other payment in respect of the Convertible Note is not made in full when due or if the Convertible Note is not converted in full into Common Shares on the date fixed for conversion, the Convertible Note shall bear an extraordinary interest, at a compounded rate of twelve per cent (12%) per annum, accruing from day to day on the basis of the actual number of days that elapsed in a year of 365 days, of:
 - (i) in the case of interest accrued pursuant to Condition (B)2(a), any outstanding amount of interest, until such payment (together with further interest accrued thereon by virtue of this Condition (B)2(e)) is made in full;
 - (ii) in the case of special interest accrued pursuant to Condition (B)2(d), any outstanding amount of interest, until such payment (together with further interest accrued thereon by virtue of this Condition (B)2(e)) is made in full;
 - (iii) in the case of redemption, any outstanding amount of principal, premium or interest, until such payment (together with further interest accrued thereon by virtue of this Condition (B)2(e)) is made in full; or
 - (iv) in the case of conversion, any outstanding amount of principal not so converted, until conversion of the Convertible Note in full into Common Shares in accordance with these Conditions.

3. Conversion

- (a) Optional Conversion. The whole or any part of the outstanding principal of the Convertible Note shall be convertible at the option of the Noteholder, at any time after the Issue Date but prior to the full redemption of the Convertible Note, and without the payment of any additional consideration therefore, into such number of fully paid Common Shares as determined in accordance with the then effective Conversion Price (such event being referred to herein as "OPTIONAL CONVERSION").

Before the Noteholder shall be entitled to convert the Convertible Note into Common Shares and to receive any certificate therefor, such holder shall give written notice to the Company of not less than seven (7) Business Days (such notice shall not be withdrawn unless with the prior consent of the Board) at the

Company's notice address specified in Clause 16.1(D) of the Subscription Agreement and surrender the certificate or certificates for the Convertible Note at the same address. Subject to the above, on the date of conversion the Company shall promptly issue and deliver to the Noteholder a certificate(s) for the number of Common Shares into which such Convertible Note is converted in the name of the Noteholder, together with cash in lieu of any fraction of an Common Share in accordance with Condition (B)3(g).

- (b) Automatic Conversion. The outstanding principal of the Convertible

Note shall automatically be converted (i) immediately before the completion of a Qualified IPO or (ii) upon Majority CN Approval, into such number of fully paid Common Shares as determined in accordance with the then effective Conversion Price (such event being referred to herein as "AUTOMATIC Conversion").

The Company shall give to each holder of Convertible Notes a notice in writing of the Automatic Conversion within three (3) Business Days before the anticipated Automatic Conversion. In the event of an Automatic Conversion, the outstanding Convertible Note shall be converted automatically without any further action by the Noteholder and whether or not the certificate representing such Convertible Note is surrendered to the Company. The Company shall not be obligated to issue any certificate evidencing the Common Shares issuable upon such Automatic Conversion unless the certificate evidencing such Convertible Note is either delivered to the Company, or the holder notifies the Company that such certificate has been lost, stolen, or destroyed and provides such indemnity as may be reasonably required by the Board. The Company shall, as soon as practicable (any in any event within ten (10) Business Days) after such delivery of certificate evidencing the Convertible Note or such notification in the case of a lost, stolen, or destroyed certificate, issue and deliver to such Noteholder a certificate or certificates for the number of Common Shares to which such holder shall be entitled as aforesaid, together with cash in lieu of any fraction of an Common Share in accordance with Condition (B)3(g). Within two (2) Business Days from the occurrence of Automatic Conversion, the Company shall notify the Noteholder in writing that Automatic Conversion has occurred.

- (c) Conversion Price. The Conversion Price per Common Share shall initially be US\$4.94, subject to adjustment in accordance with Condition (B)4. The number of Common Shares to which a Noteholder shall be entitled upon conversion will be the number obtained by dividing the principal amount of the Convertible Note to be converted by the Conversion Price then in effect. The initial Conversion Price is calculated on the basis that (i) a total of Five Million Six Hundred and Sixty-Eight Thousand Four Hundred and Twenty (5,668,421) Common Shares have been issued on the Issue Date, (ii) the maximum number of Common Shares that may be issued pursuant to the ESOP shall not exceed One Million (1,000,000); (iii) Seven Hundred Thousand (700,000) Common Shares are expected to be issued by the Company to ATS; (iv) an aggregate of Two Million Six Hundred and Thirty-One Thousand Five Hundred and Eighty (2,631,579) Common Shares are expected to be issued to all Investors upon the full

conversion of all Convertible Notes of an aggregate principle amount of Thirteen Million United States Dollars (US\$13,000,000); and (v) the valuation of the Company after receiving all Convertible Notes proceeds of Thirteen Million United States Dollars (US\$13,000,000) shall be Forty-Nine Million Four Hundred Thousand United States Dollars (US\$49,400,000). For the purpose of clarity, the total expected number of Common Shares to be in issue on a Fully-Diluted Basis as set forth above shall be Ten Million (10,000,000). The Conversion Price shall be subject to adjustments where any event set out in Condition (B)4 occurs or where the actual number of Common Shares in respect of paragraphs (ii) or (iii) above shall be different from the numbers set forth in the relevant paragraphs.

- (d) Conversion. Conversion of the Convertible Note may be effected in such manner as may be permitted by law and as the Board shall from time to time determine (subject to the provisions of the Applicable Law and the constitutional documents of the Company).

Conversion shall be deemed to (in the case of Optional Conversion) have been made immediately prior to the close of business on the date of such surrender of the certificate(s) evidencing the Convertible Note to be converted, or (in the case of Automatic Conversion) on the date referred to in Condition (B)3(b). Nevertheless, with respect to any principal amount of the Convertible Note to be converted, such principal amount shall remain outstanding for all purposes until the date of conversion.

For the avoidance of doubt, no conversion shall prejudice the right of a Noteholder to receive dividends and other distributions declared but not paid as at the date of conversion pursuant to the Subscription Agreement.

The Common Shares issued upon Optional Conversion or Automatic Conversion shall rank *pari passu* in all respects with the Common Shares then in issue and be allotted and issued free from Encumbrances save that they shall not entitle the holder to any dividend declared or paid upon Common Shares in respect of the audited retained earnings as of 28 February 2006 as referred to Condition (B)2(d).

- (e) Sufficient authorised share capital. The Company shall ensure that at all times there is a sufficient number of authorized but unissued Common Shares in its authorised share capital to be issued in satisfaction of the conversion of the Convertible Note, whether the conversion is Optional Conversion or Automatic Conversion. The Company shall not do any act or thing if as a result the enforcement of the conversion of the Convertible Note would involve the issue of Common Shares at a discount.
- (f) Entry into register of members. Upon the issue of the Common Shares into which the Convertible Note is converted, the Company shall enter the Noteholder in its register of members in respect of the relevant number of Common Shares arising from such conversion. The Noteholder shall be treated for all purposes as the record holder or holders of such Common Shares at such time.

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- (g) Fractional shares. No fraction of an Common Share shall be issued upon conversion of the Convertible Note. In lieu of any fraction of an Common Share to which the Noteholder would otherwise be entitled upon conversion, the Company shall pay to such holder cash equal to the product of such fraction multiplied by the fair market value of one Common Share on the date of conversion, as determined reasonably and in good faith by the Board.

4. Adjustments to Conversion Price

- (a) Adjustments for Splits, Subdivisions, Combinations, or Consolidation of Common Shares. In the event the outstanding Common Shares shall be increased by share split, subdivision, or other similar transaction (apart from issuance of new Shares approved in writing by all holders of all outstanding Convertible Notes) into a greater number of Common Shares, the Conversion Price then in effect shall, concurrently with the effectiveness of such event, be decreased in proportion to the percentage increase in the outstanding number of Common Shares. In the event the outstanding Common Shares shall be decreased by a reverse share split, combination, consolidation, or other similar transaction into a smaller number of Common Shares, the Conversion Price then in effect shall, concurrently with the effectiveness of such event, be increased in proportion to the percentage decrease in the outstanding number of Common Shares.
- (b) Adjustments for Reclassification, Exchange and Substitution. If the

Common Shares issuable upon conversion of the Convertible Note shall be changed into the same or a different number of shares of any other class or classes of shares, whether by capital reorganization, reclassification, or otherwise (other than a subdivision or combination or consolidation of shares provided for above), the Conversion Price then in effect shall, concurrently with the effectiveness of such reorganization or reclassification, be proportionately adjusted such that the Convertible Note shall be convertible into, in lieu of the number of Common Shares which the holders would otherwise have been entitled to receive, a number of shares of such other class or classes of shares equivalent to the number of shares of such other class or classes of shares in the capital of the Company into which the Common Shares that would have been subject to receipt by the Noteholder upon conversion of such Convertible Note immediately before that change would have been effected.

(c) Adjustments on Lower Price Issuance.

- (i) If and whenever the Company shall issue any "Additional Equity Securities" (as defined below) at any time after the Issue Date for a consideration per share less than the Conversion Price in effect on the date and immediately prior to such issue or on terms more favourable to the Person receiving the Additional Equity Securities than the Conditions, then and in each such event, the Conversion Price then in effect shall be reduced, concurrently with such issue, to the price per share received by the Company pursuant to the issue of such Additional Equity Securities.

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- (ii) For the purposes of Condition (B)4(c)(i), "ADDITIONAL EQUITY SECURITIES" shall mean all Equity Securities issued after the Issue Date other than:

- (I) Common Shares issued or issuable at any time upon conversion of any Convertible Securities in issue as at the Issue Date;
- (II) Equity Securities issued or issuable out of the surplus of the Company as a dividend or distribution generally to members of the Company in proportion to their holdings of Common Shares (but subject to Condition (B)2(d));
- (III) Equity Securities issued at anytime upon exercise of any rights or options to subscribe for Equity Securities where the Conversion Price in effect immediately prior to the issuance of such Equity Securities has already been adjusted as a result of and in accordance with this Condition (B)4(c);
- (IV) Common Shares issued or issuable pursuant to an offer for subscription made by the Company upon a Qualified IPO;
- (V) Equity Securities issued or issuable pursuant to the consent in writing of all the members of the Company including all holders of all outstanding Convertible Notes;
- (VI) Equities Securities issued or issuable as a result of any share split or share consolidation or the like which does not affect the total amount of issued share capital in the Company provided that the Conversion Price in effect prior to the issuance of such Equity Securities has already been adjusted as a result of and in accordance with this Condition (B)4;

- (VII) any subsequent Convertible Notes issued pursuant to the Subscription Agreement;
 - (VIII) the number of Common Shares issued or issuable pursuant to the ESOP provided that such number of Common Shares shall not be more One Million (1,000,000) on the calculation basis set out in Condition (B)3(c); and
 - (IX) Common Shares to be issued to ATS, provided that the number of Common Shares shall not exceed Seven Hundred Thousand (700,000) on the calculation basis set out in Condition (B)3(c).
- (iii) For the purpose of making any adjustment to the Conversion Price as provided in paragraph (i) above, the consideration received by the Company for any issue of Additional Equity Securities shall be computed:

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- (I) to the extent it consists of cash, as to the amount of cash received by the Company (before deduction of any offering expenses payable by the Company and any underwriting or similar commissions, compensation, or concessions paid or allowed by the Company negotiated on an arm's length basis by the Company with such underwriting agent) in connection with such issue;
- (II) to the extent it consists of property other than cash, at the fair market value of that property as reasonably determined in good faith by an independent valuer appointed by the Board;
- (III) if Additional Equity Securities are issued together with other stock or securities or other assets of the Company for a consideration which covers both, as the portion of the consideration so received that may be reasonably determined in good faith by the Board to be allocable to such Additional Equity Securities; and
- (IV) if Additional Equity Securities are issued in connection with any merger in which the Company is the surviving company, the amount of consideration therefor will be deemed to be the fair market value (as reasonably determined in good faith by the Board) of such portion of the net assets and business of the non-surviving company as is attributable to such Additional Equity Securities.

If the Additional Equity Securities comprise any rights or options to subscribe for, purchase, or otherwise acquire Common Shares, or any security convertible or exchangeable into Common Shares, then, in each case, the price per share received by the Company upon new issue of such Additional Equity Securities will be determined by dividing the total amount, if any, received or receivable by the Company as consideration for the granting of the rights or options or the issue of the convertible securities, plus the minimum aggregate amount of additional consideration payable to the Company on exercise or conversion of the securities, by the maximum number of Common Shares issuable on such exercise or conversion. Such granting or issue will be considered to be an issue for cash of the maximum number of Common Shares issuable on exercise or conversion at the price per share determined hereunder, and the Conversion Price will be adjusted as above provided to reflect (on the basis of that

determination) the issue. No further adjustment of such Conversion Price will be made as a result of the actual issuance of Common Shares on the exercise of any such rights or options or the conversion of any such convertible securities.

Upon the redemption or repurchase of any such securities or the expiration or termination of the right to convert into, exchange for, or exercise with respect to, Common Shares, the Conversion Price will be readjusted to

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such price as would have been obtained had the adjustment made upon their issuance been made upon the basis of the issuance of only the number of such securities as were actually converted into, exchanged for, or exercised with respect to, Common Shares. If the purchase price or conversion or exchange rate provided for in any such security changes at any time, then, upon such change becoming effective, the Conversion Price then in effect will be readjusted forthwith to such price as would have been obtained had the adjustment made upon the issuance of such securities been made upon the basis of (I) the issuance of only the number of Common Shares theretofor actually delivered upon the conversion, exchange or exercise of such securities, and the total consideration received therefor, and (II) the granting or issuance, at the time of such change, of any such securities then still outstanding for the consideration, if any, received by the Company therefor and to be received on the basis of such changed price or rate.

- (d) Adjustments for Other Distributions. Subject to Condition (B)2(d), in the event the Company at any time or from time to time makes, or fixes a record date for the determination of holders of Common Shares entitled to receive, any distribution payable in securities of the Company other than Common Shares and other than as adjusted elsewhere in this Condition (B)4, then and in each such event provision shall be made so that the Noteholder shall receive upon conversion thereof, in addition to the number of Common Shares receivable thereupon, the amount of securities of the Company which it would have received had its Convertible Note been converted into Common Shares immediately prior to such record date or on the date of such event and had it thereafter, during the period from the date of such event to and including the date of conversion, retained such securities receivable by them as aforesaid during such period, subject to all other adjustments called for during such period under this Condition (B)4 with respect to the rights of the Noteholder. Subject again to Condition (B)2(d), if the Company shall declare a distribution payable in securities of other Persons, evidence of indebtedness of the Company or other Persons, assets (excluding cash dividends) or options or rights not referred to in this Condition (B)4(d), the Noteholder shall be entitled to a proportionate share of any such distribution as though it were the holders of the number of Common Shares into which its Convertible Note is convertible as of the record date fixed for determination of the holders of Common Shares entitled to receive such distribution.
- (e) [intentionally omitted]
- (f) ESOP. In the event that the total number of Common Shares issuable under the ESOP shall be less than One Million (1,000,000) on the calculation basis set out in Condition (B)3(c), the Conversion Price then in effect shall be increased in proportion to the percentage decrease in the number of enlarged share capital after taking into account of all Common Shares issuable under the ESOP.

- (g) Save as expressly provided in this Condition (B)4, there shall be no other adjustment in the Conversion Price. Exhibit (A) sets out examples of adjustments to the Conversion Price for illustration purpose only.
- (h) Extension of General Offer. So long as any Convertible Notes are outstanding and the Company becomes aware that an offer is made or an invitation is extended to all holders of Common Shares generally to acquire all or some of the Common Shares or any scheme of arrangement is proposed for that acquisition, the Company shall forthwith give notice to all holders of outstanding Convertible Notes and the Company shall use its best endeavours to ensure that there is made or extended at the same time a similar offer or invitation, or that the scheme of arrangement is extended, to each holder of Convertible Note, as if its conversion rights had been fully exercised on a date which is immediately before the record date for the offer or invitation or the scheme of arrangement at the Conversion Price applicable at that time.
- (i) No Impairment. The Company shall not, by amendment of its constitutional documents of the Company or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company but shall at all times in good faith assist in the carrying out of all the provisions of this Condition (B)4 and in the taking of all such action as may be necessary or appropriate in order to protect the conversion rights of the Noteholder against impairment.
- (j) Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment of the Conversion Price pursuant to this Condition (B)4, the Company, at its expense, shall promptly compute such adjustment or readjustment in accordance with the terms hereof, and furnish to the Noteholder a certificate setting forth: (I) such adjustment or readjustment, (II) the facts upon which such adjustment or readjustment is based, (III) the applicable Conversion Price then in effect, and (IV) the number of Common Shares and the amount, if any, of other property which the Noteholder would receive upon the conversion of the Convertible Note.
- (k) Notices of Record Date. In the event that the Company shall propose at any time to:
 - (i) declare any dividend or distribution upon the Common Shares or other class or series of shares, whether in cash, property, share, or other securities, and whether or not a regular cash dividend;
 - (ii) offer for subscription pro rata to the holders of any class or series of its capital any additional shares of any class or series or other rights;
 - (iii) effect any reclassification or recapitalisation of the Common Shares outstanding involving a change in the Common Shares; or

- (iv) merge or consolidate with or into any other corporation, or sell, lease, or convey all or substantially all its property, assets or business, or a majority of the capital of the Company, or to

liquidate, dissolve, or wind up,
then, in connection with each such event, the Company shall send to the Noteholder:

- (1) at least fourteen (14) Business Days' prior written notice of the date on which a record shall be taken for such dividend, distribution, or subscription rights (and specifying the date on which the holders of Common Shares shall be entitled thereto) or for determining rights to vote in respect of the matters referred to in subparagraphs (i) to (iv) of this Condition (B)4(j); and
- (2) in the case of the matters referred to in subparagraphs (i) to (iv) of this Condition (B)4(j), at least fourteen (14) Business Days' prior written notice of the date when the same shall take place (and specifying the date on which the holders of Common Shares shall be entitled to exchange their Common Shares for securities or other property deliverable upon the occurrence of such event or the record date for the determination of such holders if such record date is earlier).

Each such written notice shall be delivered personally or given by first class mail, postage prepaid, addressed to the Noteholder.

5. Redemption

- (a) Unless previously redeemed or converted as provided in these Conditions, the Noteholder has the right to require the Company to forthwith redeem all or part of the Convertible Note:
 - (i) if the Company has not completed a Qualified IPO before the Maturity Date, provided that the Noteholder shall give a written notice of not less than three (3) months to the Company at the Company's notice address specified in Clause 16.1(D) of the Subscription Agreement and surrender of the certificate(s) for the Convertible Note. If the Noteholder fails or refuses to deliver to the Company the certificate(s) for the Convertible Note, the Company may retain the redemption monies until delivery of such certificate or of an indemnity in respect thereof as the Board may reasonably require and shall within three (3) Business Days thereafter pay the redemption monies to such holder. No holder of a Convertible Note shall have any claim against the Company for interest on any redemption monies so retained; or
 - (ii) at any time after the occurrence of an Event of Default upon written demand from the Noteholder. The Company shall redeem the Convertible Note (or such relevant part) to which such demand relates forthwith upon

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receipt of such demand. Redemption of the Convertible Note upon occurrence of an Event of Default will not require the Noteholder to surrender to the Company the certificate(s) for the Convertible Note.

- (b) Upon written consent of all holders of all outstanding Convertible Notes, the Company may redeem all or any portion of the then outstanding principal, interest or other payment due under this Convertible Note, before the Maturity Date.
- (c) The redemption monies in respect of the Convertible Note (or the relevant part thereof) comprise of:

- (i) the principal amount so redeemed;
 - (ii) arrears of interest, special interest and extraordinary interest accrued in accordance with Condition (B)2; and
 - (iii) any outstanding amount payable in respect of the Convertible Note (or the relevant part thereof);
- (d) The Convertible Note (or such portion thereof) so redeemed shall be cancelled and may not be re-issued.

6. Transferability

- (a) The Noteholder may transfer the whole or part of the rights in respect of this Convertible Note, provided that (without prejudice to any right of co-sale of the Noteholder):
- (I) the Noteholder shall first negotiate with the Founder on terms of the intended transfer before entering into agreement on the transfer if the transfer is intended to be made any other Person not being an Affiliate of the Noteholder;
 - (II) the transfer will not be subject to or will be exempted from the prospectus and registration requirements under the Ontario Securities Act; and
 - (III) the transferee shall have executed and delivered to the Company, as a condition precedent to any such transfer, a joinder agreement in form and substance satisfactory to the Company and all holders of Convertible Notes under which the transferee undertakes to be bound by certain provisions of the Subscription Agreement and the Investment Agreement, including without limiting the generality of the forgoing the obligation to first negotiation with the Founder on terms of any subsequent intended transfer by such transferee.

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For the avoidance of doubt, the Noteholder may transfer the Convertible Note to (i) any Person apart from the Founder where no agreement has been reached between the Noteholder and the Founder on the intended transfer within reasonable time or (ii) any of its Affiliates.

- (b) Title to this Convertible Note passes only upon the cancellation of the existing certificate and the issue of a new certificate (or new certificates in the case of a transfer of part of this Convertible Note) in accordance with Condition (B)6(c).
- (c) In relation to any transfer of this Convertible Note permitted under or otherwise pursuant to this Condition (B)6:
- (i) this Convertible Note may be transferred by execution of a form of transfer as specified by the Board under the hands of the transferor and the transferee (or their duly authorised representatives) or, where either the transferor or transferee is a corporation, executed by a duly authorised officer or director thereof. In this Condition, a "transferor" shall, where the context permits or requires, include joint transferors and shall be construed accordingly; and
 - (ii) save for loss destruction, the certificate(s) for this

Convertible Note must be delivered for cancellation to the Company accompanied by (a) a duly executed transfer form; (b) in the case of the execution of the transfer form on behalf of a corporation by its officers or directors, the authority of that person or those persons to do so. The Company shall, within three (3) Business Days of receipt of such documents from the Noteholder, cancel the existing certificate for this Convertible Note and issue a new certificate for this Convertible Note (or new certificates in the case of a transfer of part of this Convertible Note) under the seal of the Company and the Founder, in favour of the transferee.

7. Events of Default

Any of the following shall constitute an "Event of Default":

- (a) if the Company fails to pay any amount principal or interest on the due date under these Conditions, the Subscription Agreement or the Transaction Documents and such default is not remedied within seven (7) Business Days of the due date;
- (b) if any Group Company or the Founder is in material default in the due performance of any other of its/his covenants or obligations to the Noteholder under these Conditions, the Subscription Agreement or the Transaction Documents and such default remains not remedied for seven (7) Business Days after written notice thereof has been given to the Company or such other defaulting party by the Noteholder;
- (c) save as stated or referred to in the Disclosure Letter, if any representation or warranty made by the Company or the Founder in the Subscription Agreement or

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the Transaction Documents is or would be materially incorrect, misleading or untrue;

- (d) if any Group Company (or, to the extent applicable, the Founder) takes any corporate action or other steps are taken or legal proceedings are started or threatened to start for its winding-up, dissolution, administration or re-organisation (apart from the Re-organisation) (whether by way of voluntary arrangement, creditors' actions or otherwise) or for the appointment of a liquidator, receiver, administrator, administrative receiver, conservator, custodian, security trustee or similar officer of it or of any or all of its revenues and assets, without the prior written consent of all shareholders of the Company and all holders of all the outstanding Convertible Notes;
- (e) if any Group Company (or, to the extent applicable, the Founder) is dissolved and/or wound-up in any way or ceases or attempts to cease its activities or a major part thereof, or if any Group Company has discontinued or materially changed the nature of its business, or if any Group Company merges or consolidates with any other company or legal entity without the prior written consent of all shareholders of the Company and all holders of all outstanding Convertible Notes;
- (f) if there is, or is proposed or agreed to be, a change in Control in any of the Group Company without the prior written consent of all shareholders of the Company and all holders of all outstanding Convertible Notes;
- (g) if the Founder is in material default of any of his/its covenants or obligations under the Investment Agreement;

- (h) if the Company fails to deliver to each Investor on or before April 30, 2006 the Satisfactory Audited Reports in accordance with Clause 3.2(A) of the Subscription Agreement;
- (i) if all or a material part of the properties or rights or interests of any Group Company or the Founder are nationalised or expropriated;
- (j) if there is, or is proposed or agreed to be, any transfer of all or substantially all of the assets of any Group Company or the Founder without the prior written consent of all shareholders of the Company and all holders of all outstanding Convertible Notes;
- (k) if any Group Company or the Founder is unable to pay its/his debts as they fall due, commences negotiations with any one or more of its/his creditors with a view to the general readjustment or rescheduling of its/his indebtedness or makes a general assignment for the benefit of or a composition with its/his creditors;
- (l) if at any time it is or becomes unlawful for any Group Company or the Founder to perform or comply with any or all of its obligations under these Conditions, the Subscription Agreement or the Transaction Documents, or any of the obligations of any Group Company or the Founder under these Conditions, the Subscription

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Agreement or the Transaction Documents cease to be legal, valid, binding and enforceable;

- (m) if any Group Company or the Founder repudiates the Subscription Agreement or any of the Transaction Documents or does or causes to be done any act or thing evidencing an intention to repudiate the Subscription Agreement or any of the Transaction Documents;
- (n) if any execution or distress is levied against, or an encumbrancer takes possession of, the whole or any material part of, the property, undertaking or assets of any Group Company;
- (o) if any of the Group Company fails to obtain all necessary Governmental Approvals to own its assets and to carry on its businesses, or any of such Governmental Approvals is not valid or is subject to any suspension, cancellation or revocation;
- (p) if the Founder or a company or corporation wholly Controlled by the Founder is no longer the largest Shareholder of the Company without the prior written consent from all holders of all outstanding Convertible Notes and holders of Shares issued upon conversion of Convertible Notes; or
- (q) if the proceeds of the Subscription Price is not used for the purpose stated in Clause 2.4 of the Subscription Agreement;
- (r) if any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in the foregoing paragraphs; or
- (s) if any Group Company fails to comply with any Applicable Law.

8. Guarantee

- (a) The Founder irrevocably and unconditionally:
 - (i) guarantees to the Noteholder punctual and due performance by the Company of all its obligations under the Convertible Note from time to time and the due payment and discharge of all such sums of money and liabilities expressed to be due, owing or incurred

or payable and unpaid by the Company to the Noteholder pursuant to the Subscription Agreement and these Conditions from time to time or as a result of any breach thereof (including all reasonable expenses, including legal fees and Taxes incurred by the Noteholder in connection with any of the above);

- (ii) undertakes with the Noteholder that whenever the Company does not pay any amount when due under or in connection with the Convertible Note, he shall immediately on demand pay that amount as if he was the principal obligor; and

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(iii) indemnifies the Noteholder immediately on demand against any cost, loss or liability suffered by the Noteholder if any obligation guaranteed by him (or anything which would have been an obligation if not unenforceable, invalid or illegal) is or becomes unenforceable, invalid or illegal. The amount of the cost, loss or liability shall be equal to the amount which the Noteholder would otherwise have been entitled to recover.

- (b) This guarantee is a continuing guarantee and will extend to the ultimate balance of sums payable by the Company under the Convertible Note, regardless of any intermediate payment or discharge in whole or in part.
- (c) If any payment to the Noteholder (whether in respect of the obligations of the Company or any security for those obligations or otherwise) is avoided or reduced for any reason including, without limitation, as a result of insolvency, breach of fiduciary or statutory duties or any similar event:
 - (i) the liability of the Company shall continue as if the payment, discharge, avoidance or reduction had not occurred; and
 - (ii) the Noteholder shall be entitled to recover the value or amount of that security or payment from the Founder, as if the payment, discharge, avoidance or reduction had not occurred.
- (d) The obligations of the Founder under this Condition (B)8 will not be affected by an act, omission, matter or thing which, but for this Condition, would reduce, release or prejudice any of its obligations under this Condition (without limitation and whether or not known to the Noteholder) including:
 - (i) any time, waiver or consent granted by the Noteholder or other Person;
 - (ii) the release of the Company or any other Person under the terms of any composition or arrangement with any creditor of any member of the Group;
 - (iii) any lack of power, authority or legal personality of or dissolution or change in the members or status of the Company;
 - (iv) any amendment (however fundamental) or replacement of the Convertible Note;
 - (v) any unenforceability, illegality or invalidity of any obligation of any Person under the Convertible Note; and
 - (vi) any bankruptcy, insolvency or similar proceedings.
- (e) The Founder hereby subordinates to the Noteholder any right he may have of first requiring the Noteholder (or any trustee or agent on its

behalf) to proceed against or enforce any other rights or security or claim payment from any Person before

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claiming from the Founder under this Condition (B)8 except to preserve any such claim. This waiver applies irrespective of any law or any provision of the Convertible Note to the contrary.

- (f) This guarantee is in addition to and is not in any way prejudiced by any other guarantee or security now or subsequently held by the Noteholder.
- (g) Without prejudice to the Noteholder's rights against the Company, the Founder shall be deemed a principal obligor in respect of his obligations under this guarantee and not merely a surety and, accordingly, the Founder shall not be discharged nor shall his liability hereunder be affected by any act or thing or means whatsoever by which such liability would have been discharged or affected if the Founder had not been a principal obligor.
- (h) Until all moneys, obligations and liabilities (including contingent obligations and liabilities) due, owing or incurred by the Company under the Convertible Note have been paid or discharged in full, the Founder waives all rights of subrogation and indemnity against the Company and agrees not to claim any set-off or counterclaim against the Company or to claim to prove in competition with the Noteholder in the event of the bankruptcy, insolvency or liquidation of the Company.
- (i) All sums payable under this guarantee shall be paid in full without set-off or counterclaim and free and clear of and without deduction of or withholding for or on account of any present or future Taxes, duties and/or other charges.

9. Payment and Taxation

- (a) All payments in respect of the Convertible Note will be made without withholding or deduction of or on account of any present or future Taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the government of Hong Kong, Canada or any authority therein or thereof having power to tax unless the withholding or deduction of such Taxes, duties, assessments or governmental charges is required by law. In that event, the Company or the Founder (as the case may be) will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholder after such withholding or deduction shall equal the respective amounts receivable in respect of the Convertible Note in the absence of such withholding or deduction provided that, notwithstanding any agreement to the contrary, no such additional amounts shall be payable by the Company or the Founder (as the case may be) in respect of any amounts deemed under Canadian income tax laws to constitute interest paid upon conversion of the Convertible Note.
- (b) All payments to the Noteholder shall be made in United States Dollars (or another currency as the Noteholder may otherwise specify in writing), not later than 4:00 p.m. (Hong Kong time) on the due date, by remittance to such bank account as the Noteholder may notify from time to time.

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- (c) If the due date for payment of any amount in respect of the Convertible Note is not a Business Day, the Noteholder shall be entitled to payment on the next following Business Day in the same manner but shall not be entitled to be paid any interest in respect of any such delay.
- (d) The Company shall pay any and all issue and other Taxes (other than income taxes) that may be payable in respect of any issue or delivery of Common Shares on conversion of the Convertible Note, provided, however, that the Company shall not be obligated to pay any transfer taxes resulting from any transfer of the Convertible Note (or rights attached thereto) requested by the Noteholder.

10. Replacement certificate

If the certificate for this Convertible Note is lost or mutilated, the Noteholder shall forthwith notify the Company and a replacement certificate for this Convertible Note shall be issued if the Noteholder provides the Company with (i) a declaration by the Noteholder or its officer or director that this Convertible Note had been lost or mutilated (as the case may be) or other evidence that the certificate for this Convertible Note had been lost or mutilated; and (ii) an appropriate indemnity in such form and content as the Board may reasonably require. The certificate for this Convertible Note which has been replaced in accordance with this Condition (B)10 shall forthwith be cancelled.

* * *

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Exhibit (A) to the Conditions of Convertible Note

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CERTIFICATE FOR THE CONVERTIBLE NOTES AND THE CONDITIONS

Certificate No.: 12
Issue Date: November 30, 2005
Amendment and Restatement Date: July 1, 2006

CANADIAN SOLAR INC.
(Continued under the provisions of the Canada Business Corporations Act)
as the Company

and

JAFECO ASIA TECHNOLOGY FUND II
as Noteholder

US\$2,700,000
CONVERTIBLE NOTE DUE NOVEMBER 30, 2008

The issue of this Convertible Note (the "CONVERTIBLE NOTE") was authorised by resolution of the Board of Directors of Canadian Solar Inc. (the "COMPANY") passed on November 30, 2005 pursuant to the agreement dated 16 November 2005 between, among others, the Company and the Noteholder (the "SUBSCRIPTION AGREEMENT").

The issue of this Convertible Note is subject to, in accordance with and with

the benefit of the terms set out in the Subscription Agreement, and the conditions attached hereto which form part of this Convertible Note (the "CONDITIONS").

THIS IS TO CERTIFY that the Company will pay to the Noteholder the principal amount of TWO MILLION SEVEN HUNDRED THOUSAND UNITED STATE DOLLARS (US\$2,700,000) together with such interests and other additional amounts (if any) as may be payable under the Conditions on the Maturity Date (as defined in the Conditions) or on such earlier date as such sum may become payable in accordance with the Conditions.

The performance of the Company's obligations under this Convertible Note is guaranteed by Mr. QU Xiao Hua (the "FOUNDER").

THE TRANSFER OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY ONLY BE DONE IN COMPLIANCE WITH AND PURSUANT TO THE TERMS OF THE INVESTMENT AGREEMENT DATED NOVEMBER 30, 2005 (AS THE SAME MAY BE FURTHER AMENDED, MODIFIED OR SUPPLEMENTED FROM TIME TO TIME) AND ENTERED INTO, AMONG OTHERS, BETWEEN THE COMPANY AND THE NOTEHOLDER (THE "INVESTMENT AGREEMENT"). THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED OR THE SECURITIES LAWS OF

ANY OTHER COUNTRY. THE INVESTMENT AGREEMENT (AS THE SAME MAY BE FURTHER AMENDED, MODIFIED OR SUPPLEMENTED FROM TIME TO TIME) SHALL, TO THE EXTENT APPLICABLE, BE DEEMED TO BE AN AGREEMENT PURSUANT TO SECTION 108(2) OF THE BUSINESS CORPORATIONS ACT (ONTARIO). UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE NOTEHOLDER MUST NOT TRADE THE SECURITIES PRESENTED BY THIS CERTIFICATE BEFORE THE DATE THAT IS FOUR (4) MONTHS AND A DAY AFTER THE LATER OF (I) THE DATE OF THIS CERTIFICATE AND (II) THE DATE THE COMPANY BECAME A REPORTING ISSUER IN ANY PROVINCE OR TERRITORY.

This Convertible Note and the Conditions are governed by and shall be construed in accordance with the laws of Hong Kong.

IN WITNESS WHEREOF this Convertible Note has been executed under seal by the Company on July 1, 2006.

THE COMMON SEAL of)
CANADIAN SOLAR INC.)
was affixed hereto) /s/
in the presence of :)

SIGNED, SEALED and DELIVERED by)
 QU XIAO HUA) /s/
 in the presence of :)

CONDITIONS OF CONVERTIBLE NOTE

(C) In these Conditions:

1. the expressions "Company" and "Noteholder" shall, where the context permits, include their respective successors and permitted assigns and any persons deriving title under them;
2. terms defined in the Subscription Agreement shall have the same meanings herein unless otherwise defined; and
3. the following expressions shall, unless the context otherwise requires,

have the following meanings:

"2005 PAT" means the consolidated net profit after tax (excluding exceptional, extraordinary gains and prior year adjustments) of the Group in the financial statements for the twelve (12) months ending 28 February 2006 as prepared in accordance with IAS and audited by one of the "Big Four" accounting firms;

"ADDITIONAL EQUITY SECURITIES" has the meaning ascribed to it in Condition (B)4(c)(ii);

"AUTOMATIC CONVERSION" means the conversion of a Convertible Note into Common Shares referred to in Condition (B)3(b);

"CONVERSION PRICE" means the conversion price for the Convertible Note as determined in accordance with Conditions (B)3(c) and (B)4;

"EVENT OF DEFAULT" has the meaning ascribed to it in Condition (B)7;

"GUARANTEED 2005 PAT" means Six Million Five Hundred Thousand United States Dollars (US\$6,500,000) minus any accounting charges incurred by the Company arising solely in connection with the prior Condition (B)5(c)(iii)(II) (which was included previously in Schedule 5 to the Subscription Agreement prior to its amendment);

"ISSUE DATE" means November 30, 2005;

"MATURITY DATE" means a date which is three (3) years after the Issue Date; and "OPTIONAL CONVERSION" means the conversion of a Convertible Note into Common Shares referred to in Condition (B)3(a).

(D) The Convertible Note shall carry the following rights, benefits and privileges and be subject to the following restrictions:

1. Status

The Convertible Note constitutes, or will after issue constitute, direct, unconditional, unsecured and unsubordinated obligations of the Company and rank pari passu (save for certain creditors required to be preferred by law in Canada) equally with all other present and future unsecured and unsubordinated obligations of the Company.

2. Interest and dividend

- (a) The Convertible Note shall bear interest from the Issue Date at the rate of twelve per cent (12%) per annum on the principal amount of the Convertible Note outstanding, such interest shall, subject to sub-paragraphs (b) and (c) below, accrue from day to day, be calculated on the basis of the actual number of days that elapsed in a year of 365 days and be payable as follows: (i) two per cent (2%) per annum shall be payable in cash by four equal quarterly instalments in arrears (the first payment being on the date falling three (3) months after the Issue Date), and (ii) ten per cent (10%) per annum shall be payable in a balloon payment as at the date of conversion or redemption as the case may be. In the event that the Convertible Note has been wholly converted into Common Shares in accordance with these Conditions, the Noteholder shall be entitled to interest in respect of the whole of the principal amount being converted for the period from the date immediately preceding the last interest payment date (or the Issue Date, as the case may be) up to and including the date of conversion, and such interest (which has not been paid before the conversion) shall be payable by the Company on the date of conversion.

- (b) Interest shall cease to accrue with effect from the date of conversion of the Convertible Note.
- (c) On redemption of the Convertible Note, interest shall cease to accrue with effect from the date the redemption monies have been paid in full.
- (d) The Noteholder agrees and acknowledges that the Shareholders as of the Issue Date are entitled to all audited retained earnings as of 28 February 2006. The Company shall not declare or pay any dividend before the completion of a Qualified IPO or redemption of all Convertible Notes, except with the prior written consent of all holders of all outstanding Convertible Notes.

In the event that the Board declares a dividend or distribution on the Common Shares before the completion of a Qualified IPO or redemption of all Convertible Notes with the prior written consent of all holders of all outstanding Convertible Notes, the Company shall at the same time as such dividend or distribution is paid to the holders of Common Shares pay a special interest payment to the Noteholder where the Convertible Note remains outstanding, such that the Noteholder shall be entitled to its pro-rata share of the dividends on earnings accumulated after 28

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February 2006. The special interest shall be calculated on an "as converted" basis as if the issued share capital of the Company had been enlarged (for the purpose of special interest payment) by the maximum number of Common Shares that could be converted upon the conversion of the outstanding Convertible Note at the then Conversion Price after adjustment (if any) in accordance with Condition (B)4, such that the special interest payment that the Noteholder receives is equal to the dividend it would have received had the outstanding Convertible Notes been wholly converted into Common Shares immediately prior to the record date for calculation of dividend or distribution entitlements.

- (e) If payment of any principal or interest or other payment in respect of the Convertible Note is not made in full when due or if the Convertible Note is not converted in full into Common Shares on the date fixed for conversion, the Convertible Note shall bear an extraordinary interest, at a compounded rate of twelve per cent (12%) per annum, accruing from day to day on the basis of the actual number of days that elapsed in a year of 365 days, of:
 - (i) in the case of interest accrued pursuant to Condition (B)2(a), any outstanding amount of interest, until such payment (together with further interest accrued thereon by virtue of this Condition (B)2(e)) is made in full;
 - (ii) in the case of special interest accrued pursuant to Condition (B)2(d), any outstanding amount of interest, until such payment (together with further interest accrued thereon by virtue of this Condition (B)2(e)) is made in full;
 - (iii) in the case of redemption, any outstanding amount of principal, premium or interest, until such payment (together with further interest accrued thereon by virtue of this Condition (B)2(e)) is made in full; or
 - (iv) in the case of conversion, any outstanding amount of principal not so converted, until conversion of the Convertible Note in full into Common Shares in accordance with these Conditions.

3. Conversion

- (a) Optional Conversion. The whole or any part of the outstanding principal of the Convertible Note shall be convertible at the option of the Noteholder, at any time after the Issue Date but prior to the full redemption of the Convertible Note, and without the payment of any additional consideration therefore, into such number of fully paid Common Shares as determined in accordance with the then effective Conversion Price (such event being referred to herein as "OPTIONAL CONVERSION").

Before the Noteholder shall be entitled to convert the Convertible Note into Common Shares and to receive any certificate therefor, such holder shall give written notice to the Company of not less than seven (7) Business Days (such notice shall not be withdrawn unless with the prior consent of the Board) at the

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Company's notice address specified in Clause 16.1(D) of the Subscription Agreement and surrender the certificate or certificates for the Convertible Note at the same address. Subject to the above, on the date of conversion the Company shall promptly issue and deliver to the Noteholder a certificate(s) for the number of Common Shares into which such Convertible Note is converted in the name of the Noteholder, together with cash in lieu of any fraction of an Common Share in accordance with Condition (B)3(g).

- (b) Automatic Conversion. The outstanding principal of the Convertible Note shall automatically be converted (i) immediately before the completion of a Qualified IPO or (ii) upon Majority CN Approval, into such number of fully paid Common Shares as determined in accordance with the then effective Conversion Price (such event being referred to herein as "AUTOMATIC CONVERSION").

The Company shall give to each holder of Convertible Notes a notice in writing of the Automatic Conversion within three (3) Business Days before the anticipated Automatic Conversion. In the event of an Automatic Conversion, the outstanding Convertible Note shall be converted automatically without any further action by the Noteholder and whether or not the certificate representing such Convertible Note is surrendered to the Company. The Company shall not be obligated to issue any certificate evidencing the Common Shares issuable upon such Automatic Conversion unless the certificate evidencing such Convertible Note is either delivered to the Company, or the holder notifies the Company that such certificate has been lost, stolen, or destroyed and provides such indemnity as may be reasonably required by the Board. The Company shall, as soon as practicable (any in any event within ten (10) Business Days) after such delivery of certificate evidencing the Convertible Note or such notification in the case of a lost, stolen, or destroyed certificate, issue and deliver to such Noteholder a certificate or certificates for the number of Common Shares to which such holder shall be entitled as aforesaid, together with cash in lieu of any fraction of an Common Share in accordance with Condition (B)3(g). Within two (2) Business Days from the occurrence of Automatic Conversion, the Company shall notify the Noteholder in writing that Automatic Conversion has occurred.

- (c) Conversion Price. The Conversion Price per Common Share shall initially be US\$4.94, subject to adjustment in accordance with Condition (B)4. The number of Common Shares to which a Noteholder shall be entitled upon conversion will be the number obtained by dividing the principal amount of the Convertible Note to be converted

by the Conversion Price then in effect. The initial Conversion Price is calculated on the basis that (i) a total of Five Million Six Hundred and Sixty-Eight Thousand Four Hundred and Twenty (5,668,421) Common Shares have been issued on the Issue Date, (ii) the maximum number of Common Shares that may be issued pursuant to the ESOP shall not exceed One Million (1,000,000); (iii) Seven Hundred Thousand (700,000) Common Shares are expected to be issued by the Company to ATS; (iv) an aggregate of Two Million Six Hundred and Thirty-One Thousand Five Hundred and Eighty (2,631,579) Common Shares are expected to be issued to all Investors upon the full

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conversion of all Convertible Notes of an aggregate principle amount of Thirteen Million United States Dollars (US\$13,000,000); and (v) the valuation of the Company after receiving all Convertible Notes proceeds of Thirteen Million United States Dollars (US\$13,000,000) shall be Forty-Nine Million Four Hundred Thousand United States Dollars (US\$49,400,000). For the purpose of clarity, the total expected number of Common Shares to be in issue on a Fully-Diluted Basis as set forth above shall be Ten Million (10,000,000). The Conversion Price shall be subject to adjustments where any event set out in Condition (B)4 occurs or where the actual number of Common Shares in respect of paragraphs (ii) or (iii) above shall be different from the numbers set forth in the relevant paragraphs.

- (d) Conversion. Conversion of the Convertible Note may be effected in such manner as may be permitted by law and as the Board shall from time to time determine (subject to the provisions of the Applicable Law and the constitutional documents of the Company).

Conversion shall be deemed to (in the case of Optional Conversion) have been made immediately prior to the close of business on the date of such surrender of the certificate(s) evidencing the Convertible Note to be converted, or (in the case of Automatic Conversion) on the date referred to in Condition (B)3(b). Nevertheless, with respect to any principal amount of the Convertible Note to be converted, such principal amount shall remain outstanding for all purposes until the date of conversion.

For the avoidance of doubt, no conversion shall prejudice the right of a Noteholder to receive dividends and other distributions declared but not paid as at the date of conversion pursuant to the Subscription Agreement.

The Common Shares issued upon Optional Conversion or Automatic Conversion shall rank *pari passu* in all respects with the Common Shares then in issue and be allotted and issued free from Encumbrances save that they shall not entitle the holder to any dividend declared or paid upon Common Shares in respect of the audited retained earnings as of 28 February 2006 as referred to Condition (B)2(d).

- (e) Sufficient authorised share capital. The Company shall ensure that at all times there is a sufficient number of authorized but unissued Common Shares in its authorised share capital to be issued in satisfaction of the conversion of the Convertible Note, whether the conversion is Optional Conversion or Automatic Conversion. The Company shall not do any act or thing if as a result the enforcement of the conversion of the Convertible Note would involve the issue of Common Shares at a discount.
- (f) Entry into register of members. Upon the issue of the Common Shares into which the Convertible Note is converted, the Company shall enter the Noteholder in its register of members in respect of the relevant number of Common Shares arising from such conversion. The Noteholder

shall be treated for all purposes as the record holder or holders of such Common Shares at such time.

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- (g) Fractional shares. No fraction of an Common Share shall be issued upon conversion of the Convertible Note. In lieu of any fraction of an Common Share to which the Noteholder would otherwise be entitled upon conversion, the Company shall pay to such holder cash equal to the product of such fraction multiplied by the fair market value of one Common Share on the date of conversion, as determined reasonably and in good faith by the Board.

4. Adjustments to Conversion Price

- (a) Adjustments for Splits, Subdivisions, Combinations, or Consolidation of Common Shares. In the event the outstanding Common Shares shall be increased by share split, subdivision, or other similar transaction (apart from issuance of new Shares approved in writing by all holders of all outstanding Convertible Notes) into a greater number of Common Shares, the Conversion Price then in effect shall, concurrently with the effectiveness of such event, be decreased in proportion to the percentage increase in the outstanding number of Common Shares. In the event the outstanding Common Shares shall be decreased by a reverse share split, combination, consolidation, or other similar transaction into a smaller number of Common Shares, the Conversion Price then in effect shall, concurrently with the effectiveness of such event, be increased in proportion to the percentage decrease in the outstanding number of Common Shares.
- (b) Adjustments for Reclassification, Exchange and Substitution. If the Common Shares issuable upon conversion of the Convertible Note shall be changed into the same or a different number of shares of any other class or classes of shares, whether by capital reorganization, reclassification, or otherwise (other than a subdivision or combination or consolidation of shares provided for above), the Conversion Price then in effect shall, concurrently with the effectiveness of such reorganization or reclassification, be proportionately adjusted such that the Convertible Note shall be convertible into, in lieu of the number of Common Shares which the holders would otherwise have been entitled to receive, a number of shares of such other class or classes of shares equivalent to the number of shares of such other class or classes of shares in the capital of the Company into which the Common Shares that would have been subject to receipt by the Noteholder upon conversion of such Convertible Note immediately before that change would have been effected.
- (c) Adjustments on Lower Price Issuance.
 - (i) If and whenever the Company shall issue any "Additional Equity Securities" (as defined below) at any time after the Issue Date for a consideration per share less than the Conversion Price in effect on the date and immediately prior to such issue or on terms more favourable to the Person receiving the Additional Equity Securities than the Conditions, then and in each such event, the Conversion Price then in effect shall be reduced, concurrently with such issue, to the price per share received by the Company pursuant to the issue of such Additional Equity Securities.

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- (ii) For the purposes of Condition (B)4(c)(i), "ADDITIONAL EQUITY SECURITIES" shall mean all Equity Securities issued after the Issue Date other than:
- (I) (I) Common Shares issued or issuable at any time upon conversion of any Convertible Securities in issue as at the Issue Date;
 - (II) Equity Securities issued or issuable out of the surplus of the Company as a dividend or distribution generally to members of the Company in proportion to their holdings of Common Shares (but subject to Condition (B)2(d));
 - (III) Equity Securities issued at anytime upon exercise of any rights or options to subscribe for Equity Securities where the Conversion Price in effect immediately prior to the issuance of such Equity Securities has already been adjusted as a result of and in accordance with this Condition (B)4(c);
 - (IV) Common Shares issued or issuable pursuant to an offer for subscription made by the Company upon a Qualified IPO;
 - (V) Equity Securities issued or issuable pursuant to the consent in writing of all the members of the Company including all holders of all outstanding Convertible Notes;
 - (VI) Equities Securities issued or issuable as a result of any share split or share consolidation or the like which does not affect the total amount of issued share capital in the Company provided that the Conversion Price in effect prior to the issuance of such Equity Securities has already been adjusted as a result of and in accordance with this Condition (B)4;
 - (VII) any subsequent Convertible Notes issued pursuant to the Subscription Agreement;
 - (VIII) the number of Common Shares issued or issuable pursuant to the ESOP provided that such number of Common Shares shall not be more One Million (1,000,000) on the calculation basis set out in Condition (B)3(c); and
 - (IX) Common Shares to be issued to ATS, provided that the number of Common Shares shall not exceed Seven Hundred Thousand (700,000) on the calculation basis set out in Condition (B)3(c).
- (iii) For the purpose of making any adjustment to the Conversion Price as provided in paragraph (i) above, the consideration received by the Company for any issue of Additional Equity Securities shall be computed:

- (I) to the extent it consists of cash, as to the amount of cash received by the Company (before deduction of any offering expenses payable by the Company and any underwriting or similar commissions, compensation, or concessions paid or allowed by the Company negotiated on an arm's length basis by the Company with such underwriting agent) in connection with such issue;
- (II) to the extent it consists of property other than cash, at

the fair market value of that property as reasonably determined in good faith by an independent valuer appointed by the Board;

(III) if Additional Equity Securities are issued together with other stock or securities or other assets of the Company for a consideration which covers both, as the portion of the consideration so received that may be reasonably determined in good faith by the Board to be allocable to such Additional Equity Securities; and

(IV) if Additional Equity Securities are issued in connection with any merger in which the Company is the surviving company, the amount of consideration therefor will be deemed to be the fair market value (as reasonably determined in good faith by the Board) of such portion of the net assets and business of the non-surviving company as is attributable to such Additional Equity Securities.

If the Additional Equity Securities comprise any rights or options to subscribe for, purchase, or otherwise acquire Common Shares, or any security convertible or exchangeable into Common Shares, then, in each case, the price per share received by the Company upon new issue of such Additional Equity Securities will be determined by dividing the total amount, if any, received or receivable by the Company as consideration for the granting of the rights or options or the issue of the convertible securities, plus the minimum aggregate amount of additional consideration payable to the Company on exercise or conversion of the securities, by the maximum number of Common Shares issuable on such exercise or conversion. Such granting or issue will be considered to be an issue for cash of the maximum number of Common Shares issuable on exercise or conversion at the price per share determined hereunder, and the Conversion Price will be adjusted as above provided to reflect (on the basis of that determination) the issue. No further adjustment of such Conversion Price will be made as a result of the actual issuance of Common Shares on the exercise of any such rights or options or the conversion of any such convertible securities.

Upon the redemption or repurchase of any such securities or the expiration or termination of the right to convert into, exchange for, or exercise with respect to, Common Shares, the Conversion Price will be readjusted to

such price as would have been obtained had the adjustment made upon their issuance been made upon the basis of the issuance of only the number of such securities as were actually converted into, exchanged for, or exercised with respect to, Common Shares. If the purchase price or conversion or exchange rate provided for in any such security changes at any time, then, upon such change becoming effective, the Conversion Price then in effect will be readjusted forthwith to such price as would have been obtained had the adjustment made upon the issuance of such securities been made upon the basis of (I) the issuance of only the number of Common Shares theretofor actually delivered upon the conversion, exchange or exercise of such securities, and the total consideration received therefor, and (II) the granting or issuance, at the time of such change, of any such securities then still outstanding for the consideration, if any, received by the Company therefor and to be received on the basis of such changed price or rate.

(d) Adjustments for Other Distributions. Subject to Condition (B)2(d), in the event the Company at any time or from time to time makes, or fixes a record date for the determination of holders of Common Shares entitled to receive, any distribution payable in securities of the Company other than Common Shares and other than as adjusted elsewhere in this Condition (B)4, then and in each such event provision shall be made so that the Noteholder shall receive upon conversion thereof, in addition to the number of Common Shares receivable thereupon, the amount of securities of the Company which it would have received had its Convertible Note been converted into Common Shares immediately prior to such record date or on the date of such event and had it thereafter, during the period from the date of such event to and including the date of conversion, retained such securities receivable by them as aforesaid during such period, subject to all other adjustments called for during such period under this Condition (B)4 with respect to the rights of the Noteholder. Subject again to Condition (B)2(d), if the Company shall declare a distribution payable in securities of other Persons, evidence of indebtedness of the Company or other Persons, assets (excluding cash dividends) or options or rights not referred to in this Condition (B)4(d), the Noteholder shall be entitled to a proportionate share of any such distribution as though it were the holders of the number of Common Shares into which its Convertible Note is convertible as of the record date fixed for determination of the holders of Common Shares entitled to receive such distribution.

(e) [intentionally omitted]

(f) ESOP. In the event that the total number of Common Shares issuable under the ESOP shall be less than One Million (1,000,000) on the calculation basis set out in Condition (B)3(c), the Conversion Price then in effect shall be increased in proportion to the percentage decrease in the number of enlarged share capital after taking into account of all Common Shares issuable under the ESOP.

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(g) Save as expressly provided in this Condition (B)4, there shall be no other adjustment in the Conversion Price. Exhibit (A) sets out examples of adjustments to the Conversion Price for illustration purpose only.

(h) Extension of General Offer. So long as any Convertible Notes are outstanding and the Company becomes aware that an offer is made or an invitation is extended to all holders of Common Shares generally to acquire all or some of the Common Shares or any scheme of arrangement is proposed for that acquisition, the Company shall forthwith give notice to all holders of outstanding Convertible Notes and the Company shall use its best endeavours to ensure that there is made or extended at the same time a similar offer or invitation, or that the scheme of arrangement is extended, to each holder of Convertible Note, as if its conversion rights had been fully exercised on a date which is immediately before the record date for the offer or invitation or the scheme of arrangement at the Conversion Price applicable at that time.

(i) No Impairment. The Company shall not, by amendment of its constitutional documents of the Company or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company but shall at all times in good faith assist in the carrying out of all the provisions of this Condition (B)4 and in the taking of all such action as may be necessary or appropriate in order to protect the conversion rights of the Noteholder against impairment.

- (j) Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment of the Conversion Price pursuant to this Condition (B)4, the Company, at its expense, shall promptly compute such adjustment or readjustment in accordance with the terms hereof, and furnish to the Noteholder a certificate setting forth: (I) such adjustment or readjustment, (II) the facts upon which such adjustment or readjustment is based, (III) the applicable Conversion Price then in effect, and (IV) the number of Common Shares and the amount, if any, of other property which the Noteholder would receive upon the conversion of the Convertible Note.
- (k) Notices of Record Date. In the event that the Company shall propose at any time to:
 - (i) declare any dividend or distribution upon the Common Shares or other class or series of shares, whether in cash, property, share, or other securities, and whether or not a regular cash dividend;
 - (ii) offer for subscription pro rata to the holders of any class or series of its capital any additional shares of any class or series or other rights;
 - (iii) effect any reclassification or recapitalisation of the Common Shares outstanding involving a change in the Common Shares; or

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- (iv) merge or consolidate with or into any other corporation, or sell, lease, or convey all or substantially all its property, assets or business, or a majority of the capital of the Company, or to liquidate, dissolve, or wind up,

then, in connection with each such event, the Company shall send to the Noteholder:

- (1) at least fourteen (14) Business Days' prior written notice of the date on which a record shall be taken for such dividend, distribution, or subscription rights (and specifying the date on which the holders of Common Shares shall be entitled thereto) or for determining rights to vote in respect of the matters referred to in subparagraphs (i) to (iv) of this Condition (B)4(j); and
- (2) in the case of the matters referred to in subparagraphs (i) to (iv) of this Condition (B)4(j), at least fourteen (14) Business Days' prior written notice of the date when the same shall take place (and specifying the date on which the holders of Common Shares shall be entitled to exchange their Common Shares for securities or other property deliverable upon the occurrence of such event or the record date for the determination of such holders if such record date is earlier).

Each such written notice shall be delivered personally or given by first class mail, postage prepaid, addressed to the Noteholder.

5. Redemption

- (a) Unless previously redeemed or converted as provided in these Conditions, the Noteholder has the right to require the Company to forthwith redeem all or part of the Convertible Note:
 - (i) if the Company has not completed a Qualified IPO before the Maturity Date, provided that the Noteholder shall give a written notice of not less than three (3) months to the Company at the

Company's notice address specified in Clause 16.1(D) of the Subscription Agreement and surrender of the certificate(s) for the Convertible Note. If the Noteholder fails or refuses to deliver to the Company the certificate(s) for the Convertible Note, the Company may retain the redemption monies until delivery of such certificate or of an indemnity in respect thereof as the Board may reasonably require and shall within three (3) Business Days thereafter pay the redemption monies to such holder. No holder of a Convertible Note shall have any claim against the Company for interest on any redemption monies so retained; or

- (ii) at any time after the occurrence of an Event of Default upon written demand from the Noteholder. The Company shall redeem the Convertible Note (or such relevant part) to which such demand relates forthwith upon receipt of such demand. Redemption of the Convertible Note upon

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occurrence of an Event of Default will not require the Noteholder to surrender to the Company the certificate(s) for the Convertible Note.

- (b) Upon written consent of all holders of all outstanding Convertible Notes, the Company may redeem all or any portion of the then outstanding principal, interest or other payment due under this Convertible Note, before the Maturity Date.
- (c) The redemption monies in respect of the Convertible Note (or the relevant part thereof) comprise of:
 - (i) the principal amount so redeemed;
 - (ii) arrears of interest, special interest and extraordinary interest accrued in accordance with Condition (B)2; and
 - (iii) any outstanding amount payable in respect of the Convertible Note (or the relevant part thereof).
- (d) The Convertible Note (or such portion thereof) so redeemed shall be cancelled and may not be re-issued.

6. Transferability

- (a) The Noteholder may transfer the whole or part of the rights in respect of this Convertible Note, provided that (without prejudice to any right of co-sale of the Noteholder):
 - (I) the Noteholder shall first negotiate with the Founder on terms of the intended transfer before entering into agreement on the transfer if the transfer is intended to be made any other Person not being an Affiliate of the Noteholder;
 - (II) the transfer will not be subject to or will be exempted from the prospectus and registration requirements under the Ontario Securities Act; and
 - (III) the transferee shall have executed and delivered to the Company, as a condition precedent to any such transfer, a joinder agreement in form and substance satisfactory to the Company and all holders of Convertible Notes under which the transferee undertakes to be bound by certain provisions of the Subscription Agreement and the Investment Agreement, including without limiting the generality of the foregoing the obligation to first negotiation with the Founder on terms of any subsequent intended

transfer by such transferee.

For the avoidance of doubt, the Noteholder may transfer the Convertible Note to (i) any Person apart from the Founder where no agreement has been reached

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between the Noteholder and the Founder on the intended transfer within reasonable time or (ii) any of its Affiliates.

- (b) Title to this Convertible Note passes only upon the cancellation of the existing certificate and the issue of a new certificate (or new certificates in the case of a transfer of part of this Convertible Note) in accordance with Condition (B)6(c).
- (c) In relation to any transfer of this Convertible Note permitted under or otherwise pursuant to this Condition (B)6:
 - (i) this Convertible Note may be transferred by execution of a form of transfer as specified by the Board under the hands of the transferor and the transferee (or their duly authorised representatives) or, where either the transferor or transferee is a corporation, executed by a duly authorised officer or director thereof. In this Condition, a "transferor" shall, where the context permits or requires, include joint transferors and shall be construed accordingly; and
 - (ii) save for loss destruction, the certificate(s) for this Convertible Note must be delivered for cancellation to the Company accompanied by (a) a duly executed transfer form; (b) in the case of the execution of the transfer form on behalf of a corporation by its officers or directors, the authority of that person or those persons to do so. The Company shall, within three (3) Business Days of receipt of such documents from the Noteholder, cancel the existing certificate for this Convertible Note and issue a new certificate for this Convertible Note (or new certificates in the case of a transfer of part of this Convertible Note) under the seal of the Company and the Founder, in favour of the transferee.

7. Events of Default

Any of the following shall constitute an "Event of Default":

- (a) if the Company fails to pay any amount principal or interest on the due date under these Conditions, the Subscription Agreement or the Transaction Documents and such default is not remedied within seven (7) Business Days of the due date;
- (b) if any Group Company or the Founder is in material default in the due performance of any other of its/his covenants or obligations to the Noteholder under these Conditions, the Subscription Agreement or the Transaction Documents and such default remains not remedied for seven (7) Business Days after written notice thereof has been given to the Company or such other defaulting party by the Noteholder;
- (c) save as stated or referred to in the Disclosure Letter, if any representation or warranty made by the Company or the Founder in the Subscription Agreement or the Transaction Documents is or would be materially incorrect, misleading or untrue;

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- (d) if any Group Company (or, to the extent applicable, the Founder) takes any corporate action or other steps are taken or legal proceedings are started or threatened to start for its winding-up, dissolution, administration or re-organisation (apart from the Re-organisation) (whether by way of voluntary arrangement, creditors' actions or otherwise) or for the appointment of a liquidator, receiver, administrator, administrative receiver, conservator, custodian, security trustee or similar officer of it or of any or all of its revenues and assets, without the prior written consent of all shareholders of the Company and all holders of all the outstanding Convertible Notes;
- (e) if any Group Company (or, to the extent applicable, the Founder) is dissolved and/or wound-up in any way or ceases or attempts to cease its activities or a major part thereof, or if any Group Company has discontinued or materially changed the nature of its business, or if any Group Company merges or consolidates with any other company or legal entity without the prior written consent of all shareholders of the Company and all holders of all outstanding Convertible Notes;
- (f) if there is, or is proposed or agreed to be, a change in Control in any of the Group Company without the prior written consent of all shareholders of the Company and all holders of all outstanding Convertible Notes;
- (g) if the Founder is in material default of any of his/its covenants or obligations under the Investment Agreement;
- (h) if the Company fails to deliver to each Investor on or before April 30, 2006 the Satisfactory Audited Reports in accordance with Clause 3.2(A) of the Subscription Agreement;
- (i) if all or a material part of the properties or rights or interests of any Group Company or the Founder are nationalised or expropriated;
- (j) if there is, or is proposed or agreed to be, any transfer of all or substantially all of the assets of any Group Company or the Founder without the prior written consent of all shareholders of the Company and all holders of all outstanding Convertible Notes;
- (k) if any Group Company or the Founder is unable to pay its/his debts as they fall due, commences negotiations with any one or more of its/his creditors with a view to the general readjustment or rescheduling of its/his indebtedness or makes a general assignment for the benefit of or a composition with its/his creditors;
- (l) if at any time it is or becomes unlawful for any Group Company or the Founder to perform or comply with any or all of its obligations under these Conditions, the Subscription Agreement or the Transaction Documents, or any of the obligations of any Group Company or the Founder under these Conditions, the Subscription Agreement or the Transaction Documents cease to be legal, valid, binding and enforceable;
- (m) if any Group Company or the Founder repudiates the Subscription Agreement or any of the Transaction Documents or does or causes to be done any act or thing evidencing an intention to repudiate the Subscription Agreement or any of the Transaction Documents;
- (n) if any execution or distress is levied against, or an encumbrancer takes possession of, the whole or any material part of, the property, undertaking or assets of any Group Company;

- (o) if any of the Group Company fails to obtain all necessary Governmental Approvals to own its assets and to carry on its businesses, or any of such Governmental Approvals is not valid or is subject to any suspension, cancellation or revocation;
- (p) if the Founder or a company or corporation wholly Controlled by the Founder is no longer the largest Shareholder of the Company without the prior written consent from all holders of all outstanding Convertible Notes and holders of Shares issued upon conversion of Convertible Notes; or
- (q) if the proceeds of the Subscription Price is not used for the purpose stated in Clause 2.4 of the Subscription Agreement;
- (r) if any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in the foregoing paragraphs; or
- (s) if any Group Company fails to comply with any Applicable Law.

8. Guarantee

- (a) The Founder irrevocably and unconditionally:
 - (i) guarantees to the Noteholder punctual and due performance by the Company of all its obligations under the Convertible Note from time to time and the due payment and discharge of all such sums of money and liabilities expressed to be due, owing or incurred or payable and unpaid by the Company to the Noteholder pursuant to the Subscription Agreement and these Conditions from time to time or as a result of any breach thereof (including all reasonable expenses, including legal fees and Taxes incurred by the Noteholder in connection with any of the above);
 - (ii) undertakes with the Noteholder that whenever the Company does not pay any amount when due under or in connection with the Convertible Note, he shall immediately on demand pay that amount as if he was the principal obligor; and
 - (iii) indemnifies the Noteholder immediately on demand against any cost, loss or liability suffered by the Noteholder if any obligation guaranteed by him (or anything which would have been an obligation if not unenforceable,

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invalid or illegal) is or becomes unenforceable, invalid or illegal. The amount of the cost, loss or liability shall be equal to the amount which the Noteholder would otherwise have been entitled to recover.

- (b) This guarantee is a continuing guarantee and will extend to the ultimate balance of sums payable by the Company under the Convertible Note, regardless of any intermediate payment or discharge in whole or in part.
- (c) If any payment to the Noteholder (whether in respect of the obligations of the Company or any security for those obligations or otherwise) is avoided or reduced for any reason including, without limitation, as a result of insolvency, breach of fiduciary or statutory duties or any similar event:
 - (i) the liability of the Company shall continue as if the payment, discharge, avoidance or reduction had not occurred; and

- (ii) the Noteholder shall be entitled to recover the value or amount of that security or payment from the Founder, as if the payment, discharge, avoidance or reduction had not occurred.
- (d) The obligations of the Founder under this Condition (B)8 will not be affected by an act, omission, matter or thing which, but for this Condition, would reduce, release or prejudice any of its obligations under this Condition (without limitation and whether or not known to the Noteholder) including:
 - (i) any time, waiver or consent granted by the Noteholder or other Person;
 - (ii) the release of the Company or any other Person under the terms of any composition or arrangement with any creditor of any member of the Group;
 - (iii) any lack of power, authority or legal personality of or dissolution or change in the members or status of the Company;
 - (iv) any amendment (however fundamental) or replacement of the Convertible Note;
 - (v) any unenforceability, illegality or invalidity of any obligation of any Person under the Convertible Note; and
 - (vi) any bankruptcy, insolvency or similar proceedings.
- (e) The Founder hereby subordinates to the Noteholder any right he may have of first requiring the Noteholder (or any trustee or agent on its behalf) to proceed against or enforce any other rights or security or claim payment from any Person before claiming from the Founder under this Condition (B)8 except to preserve any such claim. This waiver applies irrespective of any law or any provision of the Convertible Note to the contrary.

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- (f) This guarantee is in addition to and is not in any way prejudiced by any other guarantee or security now or subsequently held by the Noteholder.
- (g) Without prejudice to the Noteholder's rights against the Company, the Founder shall be deemed a principal obligor in respect of his obligations under this guarantee and not merely a surety and, accordingly, the Founder shall not be discharged nor shall his liability hereunder be affected by any act or thing or means whatsoever by which such liability would have been discharged or affected if the Founder had not been a principal obligor.
- (h) Until all moneys, obligations and liabilities (including contingent obligations and liabilities) due, owing or incurred by the Company under the Convertible Note have been paid or discharged in full, the Founder waives all rights of subrogation and indemnity against the Company and agrees not to claim any set-off or counterclaim against the Company or to claim to prove in competition with the Noteholder in the event of the bankruptcy, insolvency or liquidation of the Company.
- (i) All sums payable under this guarantee shall be paid in full without set-off or counterclaim and free and clear of and without deduction of or withholding for or on account of any present or future Taxes, duties and/or other charges.

- (a) All payments in respect of the Convertible Note will be made without withholding or deduction of or on account of any present or future Taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the government of Hong Kong, Canada or any authority therein or thereof having power to tax unless the withholding or deduction of such Taxes, duties, assessments or governmental charges is required by law. In that event, the Company or the Founder (as the case may be) will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholder after such withholding or deduction shall equal the respective amounts receivable in respect of the Convertible Note in the absence of such withholding or deduction provided that, notwithstanding any agreement to the contrary, no such additional amounts shall be payable by the Company or the Founder (as the case may be) in respect of any amounts deemed under Canadian income tax laws to constitute interest paid upon conversion of the Convertible Note.
- (b) All payments to the Noteholder shall be made in United States Dollars (or another currency as the Noteholder may otherwise specify in writing), not later than 4:00 p.m. (Hong Kong time) on the due date, by remittance to such bank account as the Noteholder may notify from time to time.
- (c) If the due date for payment of any amount in respect of the Convertible Note is not a Business Day, the Noteholder shall be entitled to payment on the next

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following Business Day in the same manner but shall not be entitled to be paid any interest in respect of any such delay.

- (d) The Company shall pay any and all issue and other Taxes (other than income taxes) that may be payable in respect of any issue or delivery of Common Shares on conversion of the Convertible Note, provided, however, that the Company shall not be obligated to pay any transfer taxes resulting from any transfer of the Convertible Note (or rights attached thereto) requested by the Noteholder.

10. Replacement certificate

If the certificate for this Convertible Note is lost or mutilated, the Noteholder shall forthwith notify the Company and a replacement certificate for this Convertible Note shall be issued if the Noteholder provides the Company with (i) a declaration by the Noteholder or its officer or director that this Convertible Note had been lost or mutilated (as the case may be) or other evidence that the certificate for this Convertible Note had been lost or mutilated; and (ii) an appropriate indemnity in such form and content as the Board may reasonably require. The certificate for this Convertible Note which has been replaced in accordance with this Condition (B)10 shall forthwith be cancelled.

* * *

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Exhibit (A) to the Conditions of Convertible Note

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CERTIFICATE FOR THE CONVERTIBLE NOTES AND THE CONDITIONS

Certificate No.: 13
Issue Date: March 30, 2006
Amendment and Restatement Date: July 1, 2006

CANADIAN SOLAR INC.
(Continued under the provisions of the Canada Business Corporations Act)
as the Company

and

HSBC HAV2 (III) LIMITED
as Noteholder

US\$2,350,000
CONVERTIBLE NOTE DUE MARCH 30, 2009

The issue of this Convertible Note (the "CONVERTIBLE NOTE") was authorised by resolution of the Board of Directors of Canadian Solar Inc. (the "COMPANY") passed on November 30, 2005 pursuant to the agreement dated 16 November 2005 between, among others, the Company and the Noteholder (the "SUBSCRIPTION AGREEMENT").

The issue of this Convertible Note is subject to, in accordance with and with the benefit of the terms set out in the Subscription Agreement, and the conditions attached hereto which form part of this Convertible Note (the "CONDITIONS").

THIS IS TO CERTIFY that the Company will pay to the Noteholder the principal amount of TWO MILLION THREE HUNDRED FIFTY THOUSAND UNITED STATE DOLLARS (US\$2,350,000) together with such interests and other additional amounts (if any) as may be payable under the Conditions on the Maturity Date (as defined in the Conditions) or on such earlier date as such sum may become payable in accordance with the Conditions.

The performance of the Company's obligations under this Convertible Note is guaranteed by Mr. QU Xiao Hua (the "FOUNDER").

THE TRANSFER OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY ONLY BE DONE IN COMPLIANCE WITH AND PURSUANT TO THE TERMS OF THE INVESTMENT AGREEMENT DATED NOVEMBER 30, 2005 (AS THE SAME MAY BE FURTHER AMENDED, MODIFIED OR SUPPLEMENTED FROM TIME TO TIME) AND ENTERED INTO, AMONG OTHERS, BETWEEN THE COMPANY AND THE NOTEHOLDER (THE "INVESTMENT AGREEMENT"). THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED

STATES SECURITIES ACT OF 1933, AS AMENDED OR THE SECURITIES LAWS OF ANY OTHER COUNTRY. THE INVESTMENT AGREEMENT (AS THE SAME MAY BE FURTHER AMENDED, MODIFIED OR SUPPLEMENTED FROM TIME TO TIME) SHALL, TO THE EXTENT APPLICABLE, BE DEEMED TO BE AN AGREEMENT PURSUANT TO SECTION 108(2) OF THE BUSINESS CORPORATIONS ACT (ONTARIO). UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE NOTEHOLDER MUST NOT TRADE THE SECURITIES PRESENTED BY THIS CERTIFICATE BEFORE THE DATE THAT IS FOUR (4) MONTHS AND A DAY AFTER THE LATER OF (I) THE DATE OF THIS CERTIFICATE AND (II) THE DATE THE COMPANY BECAME A REPORTING ISSUER IN ANY PROVINCE OR TERRITORY.

(B) The Convertible Note shall carry the following rights, benefits and privileges and be subject to the following restrictions:

1. Status

The Convertible Note constitutes, or will after issue constitute, direct, unconditional, unsecured and unsubordinated obligations of the Company and rank pari passu (save for

certain creditors required to be preferred by law in Canada) equally with all other present and future unsecured and unsubordinated obligations of the Company.

2. Interest and dividend

- (a) The Convertible Note shall bear interest from the Issue Date at the rate of twelve per cent (12%) per annum on the principal amount of the Convertible Note outstanding, such interest shall, subject to sub-paragraphs (b) and (c) below, accrue from day to day, be calculated on the basis of the actual number of days that elapsed in a year of 365 days and be payable as follows: (i) two per cent (2%) per annum shall be payable in cash by four equal quarterly instalments in arrears (the first payment being on the date falling three (3) months after the Issue Date), and (ii) ten per cent (10%) per annum shall be payable in a balloon payment as at the date of conversion or redemption as the case may be. In the event that the Convertible Note has been wholly converted into Common Shares in accordance with these Conditions, the Noteholder shall be entitled to interest in respect of the whole of the principal amount being converted for the period from the date immediately preceding the last interest payment date (or the Issue Date, as the case may be) up to and including the date of conversion, and such interest (which has not been paid before the conversion) shall be payable by the Company on the date of conversion.
- (b) Interest shall cease to accrue with effect from the date of conversion of the Convertible Note.
- (c) On redemption of the Convertible Note, interest shall cease to accrue with effect from the date the redemption monies have been paid in full.
- (d) The Noteholder agrees and acknowledges that the Shareholders as of the Issue Date are entitled to all audited retained earnings as of 28 February 2006. The Company shall not declare or pay any dividend before the completion of a Qualified IPO or redemption of all Convertible Notes, except with the prior written consent of all holders of all outstanding Convertible Notes.

In the event that the Board declares a dividend or distribution on the Common Shares before the completion of a Qualified IPO or redemption of all Convertible Notes with the prior written consent of all holders of all outstanding Convertible Notes, the Company shall at the same time as such dividend or distribution is paid to the holders of Common Shares pay a special interest payment to the Noteholder where the Convertible Note remains outstanding, such that the Noteholder shall be entitled to its pro-rata share of the dividends on earnings accumulated after 28 February 2006. The special interest shall be calculated on an "as converted" basis as if the issued share capital of the Company had been enlarged (for the purpose of special interest payment) by the maximum number of Common Shares that could be converted upon the conversion of the outstanding Convertible Note at the then Conversion Price after adjustment (if any) in accordance with Condition (B)4, such that the special interest payment that the Noteholder receives is equal

to the dividend it would have received had the outstanding Convertible Notes been wholly converted into Common Shares immediately prior to the record date for calculation of dividend or distribution entitlements.

- (e) If payment of any principal or interest or other payment in respect of the Convertible Note is not made in full when due or if the Convertible Note is not converted in full into Common Shares on the date fixed for conversion, the Convertible Note shall bear an extraordinary interest, at a compounded rate of twelve per cent (12%) per annum, accruing from day to day on the basis of the actual number of days that elapsed in a year of 365 days, of:
 - (i) in the case of interest accrued pursuant to Condition (B)2(a), any outstanding amount of interest, until such payment (together with further interest accrued thereon by virtue of this Condition (B)2(e)) is made in full;
 - (ii) in the case of special interest accrued pursuant to Condition (B)2(d), any outstanding amount of interest, until such payment (together with further interest accrued thereon by virtue of this Condition (B)2(e)) is made in full;
 - (iii) in the case of redemption, any outstanding amount of principal, premium or interest, until such payment (together with further interest accrued thereon by virtue of this Condition (B)2(e)) is made in full; or
 - (iv) in the case of conversion, any outstanding amount of principal not so converted, until conversion of the Convertible Note in full into Common Shares in accordance with these Conditions.

3. Conversion

- (a) Optional Conversion. The whole or any part of the outstanding principal of the Convertible Note shall be convertible at the option of the Noteholder, at any time after the Issue Date but prior to the full redemption of the Convertible Note, and without the payment of any additional consideration therefore, into such number of fully paid Common Shares as determined in accordance with the then effective Conversion Price (such event being referred to herein as "OPTIONAL CONVERSION").

Before the Noteholder shall be entitled to convert the Convertible Note into Common Shares and to receive any certificate therefor, such holder shall give written notice to the Company of not less than seven (7) Business Days (such notice shall not be withdrawn unless with the prior consent of the Board) at the Company's notice address specified in Clause 16.1(D) of the Subscription Agreement and surrender the certificate or certificates for the Convertible Note at the same address. Subject to the above, on the date of conversion the Company shall promptly issue and deliver to the Noteholder a certificate(s) for the number of Common Shares into which such Convertible Note is converted in the name of

the Noteholder, together with cash in lieu of any fraction of an Common Share in accordance with Condition (B)3(g).

- (b) Automatic Conversion. The outstanding principal of the Convertible Note shall automatically be converted (i) immediately before the completion of a Qualified IPO or (ii) upon Majority CN Approval, into such number of fully paid Common Shares as determined in accordance

with the then effective Conversion Price (such event being referred to herein as "AUTOMATIC CONVERSION").

The Company shall give to each holder of Convertible Notes a notice in writing of the Automatic Conversion within three (3) Business Days before the anticipated Automatic Conversion. In the event of an Automatic Conversion, the outstanding Convertible Note shall be converted automatically without any further action by the Noteholder and whether or not the certificate representing such Convertible Note is surrendered to the Company. The Company shall not be obligated to issue any certificate evidencing the Common Shares issuable upon such Automatic Conversion unless the certificate evidencing such Convertible Note is either delivered to the Company, or the holder notifies the Company that such certificate has been lost, stolen, or destroyed and provides such indemnity as may be reasonably required by the Board. The Company shall, as soon as practicable (any in any event within ten (10) Business Days) after such delivery of certificate evidencing the Convertible Note or such notification in the case of a lost, stolen, or destroyed certificate, issue and deliver to such Noteholder a certificate or certificates for the number of Common Shares to which such holder shall be entitled as aforesaid, together with cash in lieu of any fraction of a Common Share in accordance with Condition (B)3(g). Within two (2) Business Days from the occurrence of Automatic Conversion, the Company shall notify the Noteholder in writing that Automatic Conversion has occurred.

- (c) Conversion Price. The Conversion Price per Common Share shall initially be US\$4.94, subject to adjustment in accordance with Condition (B)4. The number of Common Shares to which a Noteholder shall be entitled upon conversion will be the number obtained by dividing the principal amount of the Convertible Note to be converted by the Conversion Price then in effect. The initial Conversion Price is calculated on the basis that (i) a total of Five Million Six Hundred and Sixty-Eight Thousand Four Hundred and Twenty (5,668,421) Common Shares have been issued on the Issue Date, (ii) the maximum number of Common Shares that may be issued pursuant to the ESOP shall not exceed One Million (1,000,000); (iii) Seven Hundred Thousand (700,000) Common Shares are expected to be issued by the Company to ATS; (iv) an aggregate of Two Million Six Hundred and Thirty-One Thousand Five Hundred and Eighty (2,631,579) Common Shares are expected to be issued to all Investors upon the full conversion of all Convertible Notes of an aggregate principle amount of Thirteen Million United States Dollars (US\$13,000,000); and (v) the valuation of the Company after receiving all Convertible Notes proceeds of Thirteen Million United States Dollars (US\$13,000,000) shall be Forty-Nine Million Four Hundred Thousand United States Dollars (US\$49,400,000). For the purpose of clarity, the

total expected number of Common Shares to be in issue on a Fully-Diluted Basis as set forth above shall be Ten Million (10,000,000). The Conversion Price shall be subject to adjustments where any event set out in Condition (B)4 occurs or where the actual number of Common Shares in respect of paragraphs (ii) or (iii) above shall be different from the numbers set forth in the relevant paragraphs.

- (d) Conversion. Conversion of the Convertible Note may be effected in such manner as may be permitted by law and as the Board shall from time to time determine (subject to the provisions of the Applicable Law and the constitutional documents of the Company).

Conversion shall be deemed to (in the case of Optional Conversion) have been made immediately prior to the close of business on the date

of such surrender of the certificate(s) evidencing the Convertible Note to be converted, or (in the case of Automatic Conversion) on the date referred to in Condition (B)3(b). Nevertheless, with respect to any principal amount of the Convertible Note to be converted, such principal amount shall remain outstanding for all purposes until the date of conversion.

For the avoidance of doubt, no conversion shall prejudice the right of a Noteholder to receive dividends and other distributions declared but not paid as at the date of conversion pursuant to the Subscription Agreement.

The Common Shares issued upon Optional Conversion or Automatic Conversion shall rank *pari passu* in all respects with the Common Shares then in issue and be allotted and issued free from Encumbrances save that they shall not entitle the holder to any dividend declared or paid upon Common Shares in respect of the audited retained earnings as of 28 February 2006 as referred to Condition (B)2(d).

- (e) Sufficient authorised share capital. The Company shall ensure that at all times there is a sufficient number of authorized but unissued Common Shares in its authorised share capital to be issued in satisfaction of the conversion of the Convertible Note, whether the conversion is Optional Conversion or Automatic Conversion. The Company shall not do any act or thing if as a result the enforcement of the conversion of the Convertible Note would involve the issue of Common Shares at a discount.
- (f) Entry into register of members. Upon the issue of the Common Shares into which the Convertible Note is converted, the Company shall enter the Noteholder in its register of members in respect of the relevant number of Common Shares arising from such conversion. The Noteholder shall be treated for all purposes as the record holder or holders of such Common Shares at such time.
- (g) Fractional shares. No fraction of an Common Share shall be issued upon conversion of the Convertible Note. In lieu of any fraction of an Common Share to which the Noteholder would otherwise be entitled upon conversion, the Company shall pay to such holder cash equal to the product of such fraction

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multiplied by the fair market value of one Common Share on the date of conversion, as determined reasonably and in good faith by the Board.

4. Adjustments to Conversion Price

- (a) Adjustments for Splits, Subdivisions, Combinations, or Consolidation of Common Shares. In the event the outstanding Common Shares shall be increased by share split, subdivision, or other similar transaction (apart from issuance of new Shares approved in writing by all holders of all outstanding Convertible Notes) into a greater number of Common Shares, the Conversion Price then in effect shall, concurrently with the effectiveness of such event, be decreased in proportion to the percentage increase in the outstanding number of Common Shares. In the event the outstanding Common Shares shall be decreased by a reverse share split, combination, consolidation, or other similar transaction into a smaller number of Common Shares, the Conversion Price then in effect shall, concurrently with the effectiveness of such event, be increased in proportion to the percentage decrease in the outstanding number of Common Shares.
- (b) Adjustments for Reclassification, Exchange and Substitution. If the Common Shares issuable upon conversion of the Convertible Note shall

be changed into the same or a different number of shares of any other class or classes of shares, whether by capital reorganization, reclassification, or otherwise (other than a subdivision or combination or consolidation of shares provided for above), the Conversion Price then in effect shall, concurrently with the effectiveness of such reorganization or reclassification, be proportionately adjusted such that the Convertible Note shall be convertible into, in lieu of the number of Common Shares which the holders would otherwise have been entitled to receive, a number of shares of such other class or classes of shares equivalent to the number of shares of such other class or classes of shares in the capital of the Company into which the Common Shares that would have been subject to receipt by the Noteholder upon conversion of such Convertible Note immediately before that change would have been effected.

(c) Adjustments on Lower Price Issuance.

- (i) If and whenever the Company shall issue any "Additional Equity Securities" (as defined below) at any time after the Issue Date for a consideration per share less than the Conversion Price in effect on the date and immediately prior to such issue or on terms more favourable to the Person receiving the Additional Equity Securities than the Conditions, then and in each such event, the Conversion Price then in effect shall be reduced, concurrently with such issue, to the price per share received by the Company pursuant to the issue of such Additional Equity Securities.
- (ii) For the purposes of Condition (B)4(c)(i), "ADDITIONAL EQUITY SECURITIES" shall mean all Equity Securities issued after the Issue Date other than:

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- (I) Common Shares issued or issuable at any time upon conversion of any Convertible Securities in issue as at the Issue Date;
- (II) Equity Securities issued or issuable out of the surplus of the Company as a dividend or distribution generally to members of the Company in proportion to their holdings of Common Shares (but subject to Condition (B)2(d));
- (III) Equity Securities issued at anytime upon exercise of any rights or options to subscribe for Equity Securities where the Conversion Price in effect immediately prior to the issuance of such Equity Securities has already been adjusted as a result of and in accordance with this Condition (B)4(c);
- (IV) Common Shares issued or issuable pursuant to an offer for subscription made by the Company upon a Qualified IPO;
- (V) Equity Securities issued or issuable pursuant to the consent in writing of all the members of the Company including all holders of all outstanding Convertible Notes;
- (VI) Equities Securities issued or issuable as a result of any share split or share consolidation or the like which does not affect the total amount of issued share capital in the Company provided that the Conversion Price in effect prior to the issuance of such Equity Securities has already been adjusted as a result of and in accordance with this Condition (B)4;

- (VII) any subsequent Convertible Notes issued pursuant to the Subscription Agreement;
 - (VIII) the number of Common Shares issued or issuable pursuant to the ESOP provided that such number of Common Shares shall not be more One Million (1,000,000) on the calculation basis set out in Condition (B)3(c); and
 - (IX) Common Shares to be issued to ATS, provided that the number of Common Shares shall not exceed Seven Hundred Thousand (700,000) on the calculation basis set out in Condition (B)3(c).
- (iii) For the purpose of making any adjustment to the Conversion Price as provided in paragraph (i) above, the consideration received by the Company for any issue of Additional Equity Securities shall be computed:
- (I) to the extent it consists of cash, as to the amount of cash received by the Company (before deduction of any offering expenses payable by the Company and any underwriting or similar commissions, compensation, or concessions paid or allowed by the

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Company negotiated on an arm's length basis by the Company with such underwriting agent) in connection with such issue;

- (II) to the extent it consists of property other than cash, at the fair market value of that property as reasonably determined in good faith by an independent valuer appointed by the Board;
- (III) if Additional Equity Securities are issued together with other stock or securities or other assets of the Company for a consideration which covers both, as the portion of the consideration so received that may be reasonably determined in good faith by the Board to be allocable to such Additional Equity Securities; and
- (IV) if Additional Equity Securities are issued in connection with any merger in which the Company is the surviving company, the amount of consideration therefor will be deemed to be the fair market value (as reasonably determined in good faith by the Board) of such portion of the net assets and business of the non-surviving company as is attributable to such Additional Equity Securities.

If the Additional Equity Securities comprise any rights or options to subscribe for, purchase, or otherwise acquire Common Shares, or any security convertible or exchangeable into Common Shares, then, in each case, the price per share received by the Company upon new issue of such Additional Equity Securities will be determined by dividing the total amount, if any, received or receivable by the Company as consideration for the granting of the rights or options or the issue of the convertible securities, plus the minimum aggregate amount of additional consideration payable to the Company on exercise or conversion of the securities, by the maximum number of Common Shares issuable on such exercise or conversion. Such granting or issue will be considered to be an issue for cash of the maximum number of Common Shares issuable on exercise or conversion at the price per share determined hereunder, and the Conversion Price will be adjusted as above provided to reflect (on the basis of that

determination) the issue. No further adjustment of such Conversion Price will be made as a result of the actual issuance of Common Shares on the exercise of any such rights or options or the conversion of any such convertible securities.

Upon the redemption or repurchase of any such securities or the expiration or termination of the right to convert into, exchange for, or exercise with respect to, Common Shares, the Conversion Price will be readjusted to such price as would have been obtained had the adjustment made upon their issuance been made upon the basis of the issuance of only the number of such securities as were actually converted into, exchanged for, or exercised with respect to, Common Shares. If the purchase price or

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conversion or exchange rate provided for in any such security changes at any time, then, upon such change becoming effective, the Conversion Price then in effect will be readjusted forthwith to such price as would have been obtained had the adjustment made upon the issuance of such securities been made upon the basis of (I) the issuance of only the number of Common Shares theretofor actually delivered upon the conversion, exchange or exercise of such securities, and the total consideration received therefor, and (II) the granting or issuance, at the time of such change, of any such securities then still outstanding for the consideration, if any, received by the Company therefor and to be received on the basis of such changed price or rate.

- (d) Adjustments for Other Distributions. Subject to Condition (B)2(d), in the event the Company at any time or from time to time makes, or fixes a record date for the determination of holders of Common Shares entitled to receive, any distribution payable in securities of the Company other than Common Shares and other than as adjusted elsewhere in this Condition (B)4, then and in each such event provision shall be made so that the Noteholder shall receive upon conversion thereof, in addition to the number of Common Shares receivable thereupon, the amount of securities of the Company which it would have received had its Convertible Note been converted into Common Shares immediately prior to such record date or on the date of such event and had it thereafter, during the period from the date of such event to and including the date of conversion, retained such securities receivable by them as aforesaid during such period, subject to all other adjustments called for during such period under this Condition (B)4 with respect to the rights of the Noteholder. Subject again to Condition (B)2(d), if the Company shall declare a distribution payable in securities of other Persons, evidence of indebtedness of the Company or other Persons, assets (excluding cash dividends) or options or rights not referred to in this Condition (B)4(d), the Noteholder shall be entitled to a proportionate share of any such distribution as though it were the holders of the number of Common Shares into which its Convertible Note is convertible as of the record date fixed for determination of the holders of Common Shares entitled to receive such distribution.
- (e) Guaranteed 2005 PAT. If the 2005 PAT is less than Six Million United States Dollars (US\$6,000,000), the Conversion Price shall be adjusted in the following manner:

Conversion Price	=	Initial Conversion	X
immediately after		Price set out in	2005 PAT
the adjustment		Condition (B)3(c)	

Guaranteed 2005 PAT

For the avoidance of doubt, no adjustment to the Conversion Price shall be required where the 2005 PAT equals to or is more than Six Million United States Dollars (US\$6,000,000).

- (f) ESOP. In the event that the total number of Common Shares issuable under the ESOP shall be less than One Million (1,000,000) on the calculation basis set out in Condition (B)3(c), the Conversion Price then in effect shall be increased in proportion to the percentage decrease in the number of enlarged share capital after taking into account of all Common Shares issuable under the ESOP.
- (g) Save as expressly provided in this Condition (B)4, there shall be no other adjustment in the Conversion Price. Exhibit (A) sets out examples of adjustments to the Conversion Price for illustration purpose only.
- (h) Extension of General Offer. So long as any Convertible Notes are outstanding and the Company becomes aware that an offer is made or an invitation is extended to all holders of Common Shares generally to acquire all or some of the Common Shares or any scheme of arrangement is proposed for that acquisition, the Company shall forthwith give notice to all holders of outstanding Convertible Notes and the Company shall use its best endeavours to ensure that there is made or extended at the same time a similar offer or invitation, or that the scheme of arrangement is extended, to each holder of Convertible Note, as if its conversion rights had been fully exercised on a date which is immediately before the record date for the offer or invitation or the scheme of arrangement at the Conversion Price applicable at that time.
- (i) No Impairment. The Company shall not, by amendment of its constitutional documents of the Company or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company but shall at all times in good faith assist in the carrying out of all the provisions of this Condition (B)4 and in the taking of all such action as may be necessary or appropriate in order to protect the conversion rights of the Noteholder against impairment.
- (j) Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment of the Conversion Price pursuant to this Condition (B)4, the Company, at its expense, shall promptly compute such adjustment or readjustment in accordance with the terms hereof, and furnish to the Noteholder a certificate setting forth: (I) such adjustment or readjustment, (II) the facts upon which such adjustment or readjustment is based, (III) the applicable Conversion Price then in effect, and (IV) the number of Common Shares and the amount, if any, of other property which the Noteholder would receive upon the conversion of the Convertible Note.
- (k) Notices of Record Date. In the event that the Company shall propose at any time to:

- (i) declare any dividend or distribution upon the Common Shares or other class or series of shares, whether in cash, property, share, or other securities, and whether or not a regular cash

dividend;

- (ii) offer for subscription pro rata to the holders of any class or series of its capital any additional shares of any class or series or other rights;
- (iii) effect any reclassification or recapitalisation of the Common Shares outstanding involving a change in the Common Shares; or
- (iv) merge or consolidate with or into any other corporation, or sell, lease, or convey all or substantially all its property, assets or business, or a majority of the capital of the Company, or to liquidate, dissolve, or wind up,

then, in connection with each such event, the Company shall send to the Noteholder:

- (1) at least fourteen (14) Business Days' prior written notice of the date on which a record shall be taken for such dividend, distribution, or subscription rights (and specifying the date on which the holders of Common Shares shall be entitled thereto) or for determining rights to vote in respect of the matters referred to in subparagraphs (i) to (iv) of this Condition (B)4(j); and
- (2) in the case of the matters referred to in subparagraphs (i) to (iv) of this Condition (B)4(j), at least fourteen (14) Business Days' prior written notice of the date when the same shall take place (and specifying the date on which the holders of Common Shares shall be entitled to exchange their Common Shares for securities or other property deliverable upon the occurrence of such event or the record date for the determination of such holders if such record date is earlier).

Each such written notice shall be delivered personally or given by first class mail, postage prepaid, addressed to the Noteholder.

5. Redemption

- (a) Unless previously redeemed or converted as provided in these Conditions, the Noteholder has the right to require the Company to forthwith redeem all or part of the Convertible Note:
 - (i) if the Company has not completed a Qualified IPO before the Maturity Date, provided that the Noteholder shall give a written notice of not less than three (3) months to the Company at the Company's notice address specified in Clause 16.1(D) of the Subscription Agreement and surrender of the certificate(s) for the Convertible Note. If the Noteholder fails or refuses to deliver to the Company the certificate(s) for the Convertible Note, the Company may retain the redemption monies until delivery of

such certificate or of an indemnity in respect thereof as the Board may reasonably require and shall within three (3) Business Days thereafter pay the redemption monies to such holder. No holder of a Convertible Note shall have any claim against the Company for interest on any redemption monies so retained; or

- (ii) at any time after the occurrence of an Event of Default upon written demand from the Noteholder. The Company shall redeem the Convertible Note (or such relevant part) to which such demand relates forthwith upon receipt of such demand. Redemption of the Convertible Note upon occurrence of an Event of Default will not

require the Noteholder to surrender to the Company the certificate(s) for the Convertible Note.

- (b) Upon written consent of all holders of all outstanding Convertible Notes, the Company may redeem all or any portion of the then outstanding principal, interest or other payment due under this Convertible Note, before the Maturity Date.
- (c) The redemption monies in respect of the Convertible Note (or the relevant part thereof) comprise of:
 - (i) the principal amount so redeemed;
 - (ii) arrears of interest, special interest and extraordinary interest accrued in accordance with Condition (B)2; and
 - (iii) any outstanding amount payable in respect of the Convertible Note (or the relevant part thereof).
- (d) The Convertible Note (or such portion thereof) so redeemed shall be cancelled and may not be re-issued.

6. Transferability

- (a) The Noteholder may transfer the whole or part of the rights in respect of this Convertible Note, provided that (without prejudice to any right of co-sale of the Noteholder):
 - (I) the Noteholder shall first negotiate with the Founder on terms of the intended transfer before entering into agreement on the transfer if the transfer is intended to be made any other Person not being an Affiliate of the Noteholder;
 - (II) the transfer will not be subject to or will be exempted from the prospectus and registration requirements under the Ontario Securities Act; and
 - (III) the transferee shall have executed and delivered to the Company, as a condition precedent to any such transfer, a joinder agreement in

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form and substance satisfactory to the Company and all holders of Convertible Notes under which the transferee undertakes to be bound by certain provisions of the Subscription Agreement and the Investment Agreement, including without limiting the generality of the foregoing the obligation to first negotiation with the Founder on terms of any subsequent intended transfer by such transferee.

For the avoidance of doubt, the Noteholder may transfer the Convertible Note to (i) any Person apart from the Founder where no agreement has been reached between the Noteholder and the Founder on the intended transfer within reasonable time or (ii) any of its Affiliates.

- (b) Title to this Convertible Note passes only upon the cancellation of the existing certificate and the issue of a new certificate (or new certificates in the case of a transfer of part of this Convertible Note) in accordance with Condition (B)6(c).
- (c) In relation to any transfer of this Convertible Note permitted under

or otherwise pursuant to this Condition (B)6:

- (i) this Convertible Note may be transferred by execution of a form of transfer as specified by the Board under the hands of the transferor and the transferee (or their duly authorised representatives) or, where either the transferor or transferee is a corporation, executed by a duly authorised officer or director thereof. In this Condition, a "transferor" shall, where the context permits or requires, include joint transferors and shall be construed accordingly; and
- (ii) save for loss destruction, the certificate(s) for this Convertible Note must be delivered for cancellation to the Company accompanied by (a) a duly executed transfer form; (b) in the case of the execution of the transfer form on behalf of a corporation by its officers or directors, the authority of that person or those persons to do so. The Company shall, within three (3) Business Days of receipt of such documents from the Noteholder, cancel the existing certificate for this Convertible Note and issue a new certificate for this Convertible Note (or new certificates in the case of a transfer of part of this Convertible Note) under the seal of the Company and the Founder, in favour of the transferee.

7. Events of Default

Any of the following shall constitute an "Event of Default":

- (a) if the Company fails to pay any amount principal or interest on the due date under these Conditions, the Subscription Agreement or the Transaction Documents and such default is not remedied within seven (7) Business Days of the due date;
- (b) if any Group Company or the Founder is in material default in the due performance of any other of its/his covenants or obligations to the Noteholder

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under these Conditions, the Subscription Agreement or the Transaction Documents and such default remains not remedied for seven (7) Business Days after written notice thereof has been given to the Company or such other defaulting party by the Noteholder;

- (c) save as stated or referred to in the Disclosure Letter, if any representation or warranty made by the Company or the Founder in the Subscription Agreement or the Transaction Documents is or would be materially incorrect, misleading or untrue;
- (d) if any Group Company (or, to the extent applicable, the Founder) takes any corporate action or other steps are taken or legal proceedings are started or threatened to start for its winding-up, dissolution, administration or re-organisation (apart from the Re-organisation) (whether by way of voluntary arrangement, creditors' actions or otherwise) or for the appointment of a liquidator, receiver, administrator, administrative receiver, conservator, custodian, security trustee or similar officer of it or of any or all of its revenues and assets, without the prior written consent of all shareholders of the Company and all holders of all the outstanding Convertible Notes;
- (e) if any Group Company (or, to the extent applicable, the Founder) is dissolved and/or wound-up in any way or ceases or attempts to cease its activities or a major part thereof, or if any Group Company has discontinued or materially changed the nature of its business, or if

any Group Company merges or consolidates with any other company or legal entity without the prior written consent of all shareholders of the Company and all holders of all outstanding Convertible Notes;

- (f) if there is, or is proposed or agreed to be, a change in Control in any of the Group Company without the prior written consent of all shareholders of the Company and all holders of all outstanding Convertible Notes;
- (g) if the Founder is in material default of any of his/its covenants or obligations under the Investment Agreement;
- (h) if the Company fails to deliver to each Investor on or before April 30, 2006 the Satisfactory Audited Reports in accordance with Clause 3.2(A) of the Subscription Agreement;
- (i) if all or a material part of the properties or rights or interests of any Group Company or the Founder are nationalised or expropriated;
- (j) if there is, or is proposed or agreed to be, any transfer of all or substantially all of the assets of any Group Company or the Founder without the prior written consent of all shareholders of the Company and all holders of all outstanding Convertible Notes;
- (k) if any Group Company or the Founder is unable to pay its/his debts as they fall due, commences negotiations with any one or more of its/his creditors with a view

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to the general readjustment or rescheduling of its/his indebtedness or makes a general assignment for the benefit of or a composition with its/his creditors;

- (l) if at any time it is or becomes unlawful for any Group Company or the Founder to perform or comply with any or all of its obligations under these Conditions, the Subscription Agreement or the Transaction Documents, or any of the obligations of any Group Company or the Founder under these Conditions, the Subscription Agreement or the Transaction Documents cease to be legal, valid, binding and enforceable;
- (m) if any Group Company or the Founder repudiates the Subscription Agreement or any of the Transaction Documents or does or causes to be done any act or thing evidencing an intention to repudiate the Subscription Agreement or any of the Transaction Documents;
- (n) if any execution or distress is levied against, or an encumbrancer takes possession of, the whole or any material part of, the property, undertaking or assets of any Group Company;
- (o) if any of the Group Company fails to obtain all necessary Governmental Approvals to own its assets and to carry on its businesses, or any of such Governmental Approvals is not valid or is subject to any suspension, cancellation or revocation;
- (p) if the Founder or a company or corporation wholly Controlled by the Founder is no longer the largest Shareholder of the Company without the prior written consent from all holders of all outstanding Convertible Notes and holders of Shares issued upon conversion of Convertible Notes; or
- (q) if the proceeds of the Subscription Price is not used for the purpose stated in Clause 2.4 of the Subscription Agreement;

- (r) if any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in the foregoing paragraphs; or
- (s) if any Group Company fails to comply with any Applicable Law.

8. Guarantee

- (a) The Founder irrevocably and unconditionally:
 - (i) guarantees to the Noteholder punctual and due performance by the Company of all its obligations under the Convertible Note from time to time and the due payment and discharge of all such sums of money and liabilities expressed to be due, owing or incurred or payable and unpaid by the Company to the Noteholder pursuant to the Subscription Agreement and these Conditions from time to time or as a result of any breach thereof
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- (including all reasonable expenses, including legal fees and Taxes incurred by the Noteholder in connection with any of the above);
- (ii) undertakes with the Noteholder that whenever the Company does not pay any amount when due under or in connection with the Convertible Note, he shall immediately on demand pay that amount as if he was the principal obligor; and
 - (iii) indemnifies the Noteholder immediately on demand against any cost, loss or liability suffered by the Noteholder if any obligation guaranteed by him (or anything which would have been an obligation if not unenforceable, invalid or illegal) is or becomes unenforceable, invalid or illegal. The amount of the cost, loss or liability shall be equal to the amount which the Noteholder would otherwise have been entitled to recover.
- (b) This guarantee is a continuing guarantee and will extend to the ultimate balance of sums payable by the Company under the Convertible Note, regardless of any intermediate payment or discharge in whole or in part.
 - (c) If any payment to the Noteholder (whether in respect of the obligations of the Company or any security for those obligations or otherwise) is avoided or reduced for any reason including, without limitation, as a result of insolvency, breach of fiduciary or statutory duties or any similar event:
 - (i) the liability of the Company shall continue as if the payment, discharge, avoidance or reduction had not occurred; and
 - (ii) the Noteholder shall be entitled to recover the value or amount of that security or payment from the Founder, as if the payment, discharge, avoidance or reduction had not occurred.
 - (d) The obligations of the Founder under this Condition (B)8 will not be affected by an act, omission, matter or thing which, but for this Condition, would reduce, release or prejudice any of its obligations under this Condition (without limitation and whether or not known to the Noteholder) including:
 - (i) any time, waiver or consent granted by the Noteholder or other Person;
 - (ii) the release of the Company or any other Person under the terms of

any composition or arrangement with any creditor of any member of the Group;

(iii) any lack of power, authority or legal personality of or dissolution or change in the members or status of the Company;

(iv) any amendment (however fundamental) or replacement of the Convertible Note;

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(v) any unenforceability, illegality or invalidity of any obligation of any Person under the Convertible Note; and

(vi) any bankruptcy, insolvency or similar proceedings.

(e) The Founder hereby subordinates to the Noteholder any right he may have of first requiring the Noteholder (or any trustee or agent on its behalf) to proceed against or enforce any other rights or security or claim payment from any Person before claiming from the Founder under this Condition (B)8 except to preserve any such claim. This waiver applies irrespective of any law or any provision of the Convertible Note to the contrary.

(f) This guarantee is in addition to and is not in any way prejudiced by any other guarantee or security now or subsequently held by the Noteholder.

(g) Without prejudice to the Noteholder's rights against the Company, the Founder shall be deemed a principal obligor in respect of his obligations under this guarantee and not merely a surety and, accordingly, the Founder shall not be discharged nor shall his liability hereunder be affected by any act or thing or means whatsoever by which such liability would have been discharged or affected if the Founder had not been a principal obligor.

(h) Until all moneys, obligations and liabilities (including contingent obligations and liabilities) due, owing or incurred by the Company under the Convertible Note have been paid or discharged in full, the Founder waives all rights of subrogation and indemnity against the Company and agrees not to claim any set-off or counterclaim against the Company or to claim to prove in competition with the Noteholder in the event of the bankruptcy, insolvency or liquidation of the Company.

(i) All sums payable under this guarantee shall be paid in full without set-off or counterclaim and free and clear of and without deduction of or withholding for or on account of any present or future Taxes, duties and/or other charges.

9. Payment and Taxation

(a) All payments in respect of the Convertible Note will be made without withholding or deduction of or on account of any present or future Taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the government of Hong Kong, Canada or any authority therein or thereof having power to tax unless the withholding or deduction of such Taxes, duties, assessments or governmental charges is required by law. In that event, the Company or the Founder (as the case may be) will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholder after such withholding or deduction shall equal the respective amounts receivable in respect of the Convertible Note in the absence of such withholding or deduction provided that, notwithstanding any agreement to the contrary, no such additional amounts shall be payable by the Company or the Founder (as the case

may be) in

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respect of any amounts deemed under Canadian income tax laws to constitute interest paid upon conversion of the Convertible Note.

- (b) All payments to the Noteholder shall be made in United States Dollars (or another currency as the Noteholder may otherwise specify in writing), not later than 4:00 p.m. (Hong Kong time) on the due date, by remittance to such bank account as the Noteholder may notify from time to time.
- (c) If the due date for payment of any amount in respect of the Convertible Note is not a Business Day, the Noteholder shall be entitled to payment on the next following Business Day in the same manner but shall not be entitled to be paid any interest in respect of any such delay.
- (d) The Company shall pay any and all issue and other Taxes (other than income taxes) that may be payable in respect of any issue or delivery of Common Shares on conversion of the Convertible Note, provided, however, that the Company shall not be obligated to pay any transfer taxes resulting from any transfer of the Convertible Note (or rights attached thereto) requested by the Noteholder.

10. Replacement certificate

If the certificate for this Convertible Note is lost or mutilated, the Noteholder shall forthwith notify the Company and a replacement certificate for this Convertible Note shall be issued if the Noteholder provides the Company with (i) a declaration by the Noteholder or its officer or director that this Convertible Note had been lost or mutilated (as the case may be) or other evidence that the certificate for this Convertible Note had been lost or mutilated; and (ii) an appropriate indemnity in such form and content as the Board may reasonably require. The certificate for this Convertible Note which has been replaced in accordance with this Condition (B)10 shall forthwith be cancelled.

* * *

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Exhibit (A) to the Conditions of Convertible Note

CERTIFICATE FOR THE CONVERTIBLE NOTES AND THE CONDITIONS

Certificate No.: 14

Issue Date: March 30, 2006

Amendment and Restatement Date: July 1, 2006

CANADIAN SOLAR INC.

(Continued under the provisions of the Canada Business Corporations Act)
as the Company

and

JAFECO ASIA TECHNOLOGY FUND II
as Noteholder

(A) In these Conditions:

1. the expressions "Company" and "Noteholder" shall, where the context permits, include their respective successors and permitted assigns and any persons deriving title under them;
2. terms defined in the Subscription Agreement shall have the same meanings herein unless otherwise defined; and
3. the following expressions shall, unless the context otherwise requires, have the following meanings:

"2005 PAT" means the consolidated net profit after tax (excluding exceptional, extraordinary gains and prior year adjustments) of the Group in the financial statements for the twelve (12) months ending 28 February 2006 as prepared in accordance with IAS and audited by one of the "Big Four" accounting firms;

"ADDITIONAL EQUITY SECURITIES" has the meaning ascribed to it in Condition (B)4(c)(ii);

"AUTOMATIC CONVERSION" means the conversion of a Convertible Note into Common Shares referred to in Condition (B)3(b);

"CONVERSION PRICE" means the conversion price for the Convertible Note as determined in accordance with Conditions (B)3(c) and (B)4;

"EVENT OF DEFAULT" has the meaning ascribed to it in Condition (B)7;

"GUARANTEED 2005 PAT" means Six Million Five Hundred Thousand United States Dollars (US\$6,500,000) minus any accounting charges incurred by the Company arising solely in connection with prior Condition (B)5(c)(iii)(II) (which was included previously in Schedule 5 to the Subscription Agreement prior to its amendment);

"ISSUE DATE" means the date of issue of this Convertible Note;

"MATURITY DATE" means a date which is three (3) years after the Issue Date; and

"OPTIONAL CONVERSION" means the conversion of a Convertible Note into Common Shares referred to in Condition (B)3(a).

(B) The Convertible Note shall carry the following rights, benefits and privileges and be subject to the following restrictions:

1. Status

The Convertible Note constitutes, or will after issue constitute, direct, unconditional, unsecured and unsubordinated obligations of the Company and rank pari passu (save for

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certain creditors required to be preferred by law in Canada) equally with all other present and future unsecured and unsubordinated obligations of the Company.

2. Interest and dividend

- (a) The Convertible Note shall bear interest from the Issue Date at the rate of twelve per cent (12%) per annum on the principal amount of the Convertible Note outstanding, such interest shall, subject to sub-paragraphs (b) and (c) below, accrue from day to day, be calculated on the basis of the actual number of days that elapsed in a

year of 365 days and be payable as follows: (i) two per cent (2%) per annum shall be payable in cash by four equal quarterly instalments in arrears (the first payment being on the date falling three (3) months after the Issue Date), and (ii) ten per cent (10%) per annum shall be payable in a balloon payment as at the date of conversion or redemption as the case may be. In the event that the Convertible Note has been wholly converted into Common Shares in accordance with these Conditions, the Noteholder shall be entitled to interest in respect of the whole of the principal amount being converted for the period from the date immediately preceding the last interest payment date (or the Issue Date, as the case may be) up to and including the date of conversion, and such interest (which has not been paid before the conversion) shall be payable by the Company on the date of conversion.

- (b) Interest shall cease to accrue with effect from the date of conversion of the Convertible Note.
- (c) On redemption of the Convertible Note, interest shall cease to accrue with effect from the date the redemption monies have been paid in full.
- (d) The Noteholder agrees and acknowledges that the Shareholders as of the Issue Date are entitled to all audited retained earnings as of 28 February 2006. The Company shall not declare or pay any dividend before the completion of a Qualified IPO or redemption of all Convertible Notes, except with the prior written consent of all holders of all outstanding Convertible Notes.

In the event that the Board declares a dividend or distribution on the Common Shares before the completion of a Qualified IPO or redemption of all Convertible Notes with the prior written consent of all holders of all outstanding Convertible Notes, the Company shall at the same time as such dividend or distribution is paid to the holders of Common Shares pay a special interest payment to the Noteholder where the Convertible Note remains outstanding, such that the Noteholder shall be entitled to its pro-rata share of the dividends on earnings accumulated after 28 February 2006. The special interest shall be calculated on an "as converted" basis as if the issued share capital of the Company had been enlarged (for the purpose of special interest payment) by the maximum number of Common Shares that could be converted upon the conversion of the outstanding Convertible Note at the then Conversion Price after adjustment (if any) in accordance with Condition (B)4, such that the special interest payment that the Noteholder receives is equal

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to the dividend it would have received had the outstanding Convertible Notes been wholly converted into Common Shares immediately prior to the record date for calculation of dividend or distribution entitlements.

- (e) If payment of any principal or interest or other payment in respect of the Convertible Note is not made in full when due or if the Convertible Note is not converted in full into Common Shares on the date fixed for conversion, the Convertible Note shall bear an extraordinary interest, at a compounded rate of twelve per cent (12%) per annum, accruing from day to day on the basis of the actual number of days that elapsed in a year of 365 days, of:
 - (i) in the case of interest accrued pursuant to Condition (B)2(a), any outstanding amount of interest, until such payment (together with further interest accrued thereon by virtue of this Condition (B)2(e)) is made in full;

- (ii) in the case of special interest accrued pursuant to Condition (B)2(d), any outstanding amount of interest, until such payment (together with further interest accrued thereon by virtue of this Condition (B)2(e)) is made in full;
- (iii) in the case of redemption, any outstanding amount of principal, premium or interest, until such payment (together with further interest accrued thereon by virtue of this Condition (B)2(e)) is made in full; or
- (iv) in the case of conversion, any outstanding amount of principal not so converted, until conversion of the Convertible Note in full into Common Shares in accordance with these Conditions.

3. Conversion

- (a) Optional Conversion. The whole or any part of the outstanding principal of the Convertible Note shall be convertible at the option of the Noteholder, at any time after the Issue Date but prior to the full redemption of the Convertible Note, and without the payment of any additional consideration therefore, into such number of fully paid Common Shares as determined in accordance with the then effective Conversion Price (such event being referred to herein as "OPTIONAL CONVERSION").

Before the Noteholder shall be entitled to convert the Convertible Note into Common Shares and to receive any certificate therefor, such holder shall give written notice to the Company of not less than seven (7) Business Days (such notice shall not be withdrawn unless with the prior consent of the Board) at the Company's notice address specified in Clause 16.1(D) of the Subscription Agreement and surrender the certificate or certificates for the Convertible Note at the same address. Subject to the above, on the date of conversion the Company shall promptly issue and deliver to the Noteholder a certificate(s) for the number of Common Shares into which such Convertible Note is converted in the name of

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the Noteholder, together with cash in lieu of any fraction of an Common Share in accordance with Condition (B)3(g).

- (b) Automatic Conversion. The outstanding principal of the Convertible Note shall automatically be converted (i) immediately before the completion of a Qualified IPO or (ii) upon Majority CN Approval, into such number of fully paid Common Shares as determined in accordance with the then effective Conversion Price (such event being referred to herein as "AUTOMATIC CONVERSION").

The Company shall give to each holder of Convertible Notes a notice in writing of the Automatic Conversion within three (3) Business Days before the anticipated Automatic Conversion. In the event of an Automatic Conversion, the outstanding Convertible Note shall be converted automatically without any further action by the Noteholder and whether or not the certificate representing such Convertible Note is surrendered to the Company. The Company shall not be obligated to issue any certificate evidencing the Common Shares issuable upon such Automatic Conversion unless the certificate evidencing such Convertible Note is either delivered to the Company, or the holder notifies the Company that such certificate has been lost, stolen, or destroyed and provides such indemnity as may be reasonably required by the Board. The Company shall, as soon as practicable (any in any event within ten (10) Business Days) after such delivery of certificate evidencing the Convertible Note or such notification in the case of a lost, stolen, or destroyed certificate, issue and deliver to such

Noteholder a certificate or certificates for the number of Common Shares to which such holder shall be entitled as aforesaid, together with cash in lieu of any fraction of an Common Share in accordance with Condition (B)3(g). Within two (2) Business Days from the occurrence of Automatic Conversion, the Company shall notify the Noteholder in writing that Automatic Conversion has occurred.

- (c) Conversion Price. The Conversion Price per Common Share shall initially be US\$4.94, subject to adjustment in accordance with Condition (B)4. The number of Common Shares to which a Noteholder shall be entitled upon conversion will be the number obtained by dividing the principal amount of the Convertible Note to be converted by the Conversion Price then in effect. The initial Conversion Price is calculated on the basis that (i) a total of Five Million Six Hundred and Sixty-Eight Thousand Four Hundred and Twenty (5,668,421) Common Shares have been issued on the Issue Date, (ii) the maximum number of Common Shares that may be issued pursuant to the ESOP shall not exceed One Million (1,000,000); (iii) Seven Hundred Thousand (700,000) Common Shares are expected to be issued by the Company to ATS; (iv) an aggregate of Two Million Six Hundred and Thirty-One Thousand Five Hundred and Eighty (2,631,579) Common Shares are expected to be issued to all Investors upon the full conversion of all Convertible Notes of an aggregate principle amount of Thirteen Million United States Dollars (US\$13,000,000); and (v) the valuation of the Company after receiving all Convertible Notes proceeds of Thirteen Million United States Dollars (US\$13,000,000) shall be Forty-Nine Million Four Hundred Thousand United States Dollars (US\$49,400,000). For the purpose of clarity, the

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total expected number of Common Shares to be in issue on a Fully-Diluted Basis as set forth above shall be Ten Million (10,000,000). The Conversion Price shall be subject to adjustments where any event set out in Condition (B)4 occurs or where the actual number of Common Shares in respect of paragraphs (ii) or (iii) above shall be different from the numbers set forth in the relevant paragraphs.

- (d) Conversion. Conversion of the Convertible Note may be effected in such manner as may be permitted by law and as the Board shall from time to time determine (subject to the provisions of the Applicable Law and the constitutional documents of the Company).

Conversion shall be deemed to (in the case of Optional Conversion) have been made immediately prior to the close of business on the date of such surrender of the certificate(s) evidencing the Convertible Note to be converted, or (in the case of Automatic Conversion) on the date referred to in Condition (B)3(b). Nevertheless, with respect to any principal amount of the Convertible Note to be converted, such principal amount shall remain outstanding for all purposes until the date of conversion.

For the avoidance of doubt, no conversion shall prejudice the right of a Noteholder to receive dividends and other distributions declared but not paid as at the date of conversion pursuant to the Subscription Agreement.

The Common Shares issued upon Optional Conversion or Automatic Conversion shall rank *pari passu* in all respects with the Common Shares then in issue and be allotted and issued free from Encumbrances save that they shall not entitle the holder to any dividend declared or paid upon Common Shares in respect of the audited retained earnings as of 28 February 2006 as referred to Condition (B)2(d).

- (e) Sufficient authorised share capital. The Company shall ensure that at all times there is a sufficient number of authorized but unissued Common Shares in its authorised share capital to be issued in satisfaction of the conversion of the Convertible Note, whether the conversion is Optional Conversion or Automatic Conversion. The Company shall not do any act or thing if as a result the enforcement of the conversion of the Convertible Note would involve the issue of Common Shares at a discount.
- (f) Entry into register of members. Upon the issue of the Common Shares into which the Convertible Note is converted, the Company shall enter the Noteholder in its register of members in respect of the relevant number of Common Shares arising from such conversion. The Noteholder shall be treated for all purposes as the record holder or holders of such Common Shares at such time.
- (g) Fractional shares. No fraction of an Common Share shall be issued upon conversion of the Convertible Note. In lieu of any fraction of an Common Share to which the Noteholder would otherwise be entitled upon conversion, the Company shall pay to such holder cash equal to the product of such fraction

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multiplied by the fair market value of one Common Share on the date of conversion, as determined reasonably and in good faith by the Board.

4. Adjustments to Conversion Price

- (a) Adjustments for Splits, Subdivisions, Combinations, or Consolidation of Common Shares. In the event the outstanding Common Shares shall be increased by share split, subdivision, or other similar transaction (apart from issuance of new Shares approved in writing by all holders of all outstanding Convertible Notes) into a greater number of Common Shares, the Conversion Price then in effect shall, concurrently with the effectiveness of such event, be decreased in proportion to the percentage increase in the outstanding number of Common Shares. In the event the outstanding Common Shares shall be decreased by a reverse share split, combination, consolidation, or other similar transaction into a smaller number of Common Shares, the Conversion Price then in effect shall, concurrently with the effectiveness of such event, be increased in proportion to the percentage decrease in the outstanding number of Common Shares.
- (b) Adjustments for Reclassification, Exchange and Substitution. If the Common Shares issuable upon conversion of the Convertible Note shall be changed into the same or a different number of shares of any other class or classes of shares, whether by capital reorganization, reclassification, or otherwise (other than a subdivision or combination or consolidation of shares provided for above), the Conversion Price then in effect shall, concurrently with the effectiveness of such reorganization or reclassification, be proportionately adjusted such that the Convertible Note shall be convertible into, in lieu of the number of Common Shares which the holders would otherwise have been entitled to receive, a number of shares of such other class or classes of shares equivalent to the number of shares of such other class or classes of shares in the capital of the Company into which the Common Shares that would have been subject to receipt by the Noteholder upon conversion of such Convertible Note immediately before that change would have been effected.
- (c) Adjustments on Lower Price Issuance.
 - (i) If and whenever the Company shall issue any "Additional Equity

Securities" (as defined below) at any time after the Issue Date for a consideration per share less than the Conversion Price in effect on the date and immediately prior to such issue or on terms more favourable to the Person receiving the Additional Equity Securities than the Conditions, then and in each such event, the Conversion Price then in effect shall be reduced, concurrently with such issue, to the price per share received by the Company pursuant to the issue of such Additional Equity Securities.

- (ii) For the purposes of Condition (B)4(c)(i), "ADDITIONAL EQUITY SECURITIES" shall mean all Equity Securities issued after the Issue Date other than:

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- (I) Common Shares issued or issuable at any time upon conversion of any Convertible Securities in issue as at the Issue Date;
 - (II) Equity Securities issued or issuable out of the surplus of the Company as a dividend or distribution generally to members of the Company in proportion to their holdings of Common Shares (but subject to Condition (B)2(d));
 - (III) Equity Securities issued at anytime upon exercise of any rights or options to subscribe for Equity Securities where the Conversion Price in effect immediately prior to the issuance of such Equity Securities has already been adjusted as a result of and in accordance with this Condition (B)4(c);
 - (IV) Common Shares issued or issuable pursuant to an offer for subscription made by the Company upon a Qualified IPO;
 - (V) Equity Securities issued or issuable pursuant to the consent in writing of all the members of the Company including all holders of all outstanding Convertible Notes;
 - (VI) Equities Securities issued or issuable as a result of any share split or share consolidation or the like which does not affect the total amount of issued share capital in the Company provided that the Conversion Price in effect prior to the issuance of such Equity Securities has already been adjusted as a result of and in accordance with this Condition (B)4;
 - (VII) any subsequent Convertible Notes issued pursuant to the Subscription Agreement;
 - (VIII) the number of Common Shares issued or issuable pursuant to the ESOP provided that such number of Common Shares shall not be more One Million (1,000,000) on the calculation basis set out in Condition (B)3(c); and
 - (IX) Common Shares to be issued to ATS, provided that the number of Common Shares shall not exceed Seven Hundred Thousand (700,000) on the calculation basis set out in Condition (B)3(c).
- (iii) For the purpose of making any adjustment to the Conversion Price as provided in paragraph (i) above, the consideration received by the Company for any issue of Additional Equity Securities shall be computed:

- (I) to the extent it consists of cash, as to the amount of cash received by the Company (before deduction of any offering expenses payable by the Company and any underwriting or similar commissions, compensation, or concessions paid or allowed by the Company negotiated on an arm's length basis by the Company with such underwriting agent) in connection with such issue;
- (II) to the extent it consists of property other than cash, at the fair market value of that property as reasonably determined in good faith by an independent valuer appointed by the Board;
- (III) if Additional Equity Securities are issued together with other stock or securities or other assets of the Company for a consideration which covers both, as the portion of the consideration so received that may be reasonably determined in good faith by the Board to be allocable to such Additional Equity Securities; and
- (IV) if Additional Equity Securities are issued in connection with any merger in which the Company is the surviving company, the amount of consideration therefor will be deemed to be the fair market value (as reasonably determined in good faith by the Board) of such portion of the net assets and business of the non-surviving company as is attributable to such Additional Equity Securities.

If the Additional Equity Securities comprise any rights or options to subscribe for, purchase, or otherwise acquire Common Shares, or any security convertible or exchangeable into Common Shares, then, in each case, the price per share received by the Company upon new issue of such Additional Equity Securities will be determined by dividing the total amount, if any, received or receivable by the Company as consideration for the granting of the rights or options or the issue of the convertible securities, plus the minimum aggregate amount of additional consideration payable to the Company on exercise or conversion of the securities, by the maximum number of Common Shares issuable on such exercise or conversion. Such granting or issue will be considered to be an issue for cash of the maximum number of Common Shares issuable on exercise or conversion at the price per share determined hereunder, and the Conversion Price will be adjusted as above provided to reflect (on the basis of that determination) the issue. No further adjustment of such Conversion Price will be made as a result of the actual issuance of Common Shares on the

exercise of any such rights or options or the conversion of any such convertible securities.

Upon the redemption or repurchase of any such securities or the expiration or termination of the right to convert into, exchange for, or exercise with respect to, Common Shares, the Conversion Price will be readjusted to such price as would have been obtained had the adjustment made upon their issuance been made upon the basis of the issuance of only the number of such securities as were actually converted into, exchanged for, or exercised with respect to, Common Shares. If the purchase price

or conversion or exchange rate provided for in any such security changes at any time, then, upon such change becoming effective, the Conversion Price then in effect will be readjusted forthwith to such price as would have been obtained had the adjustment made upon the issuance of such securities been made upon the basis of (I) the issuance of only the number of Common Shares theretofor actually delivered upon the conversion, exchange or exercise of such securities, and the total consideration received therefor, and (II) the granting or issuance, at the time of such change, of any such securities then still outstanding for the consideration, if any, received by the Company therefor and to be received on the basis of such changed price or rate.

- (d) Adjustments for Other Distributions. Subject to Condition (B)2(d), in the event the Company at any time or from time to time makes, or fixes a record date for the determination of holders of Common Shares entitled to receive, any distribution payable in securities of the Company other than Common Shares and other than as adjusted elsewhere in this Condition (B)4, then and in each such event provision shall be made so that the Noteholder shall receive upon conversion thereof, in addition to the number of Common Shares receivable thereupon, the amount of securities of the Company which it would have received had its Convertible Note been converted into Common Shares immediately prior to such record date or on the date of such event and had it thereafter, during the period from the date of such event to and including the date of conversion, retained such securities receivable by them as aforesaid during such period, subject to all other adjustments called for during such period under this Condition (B)4 with respect to the rights of the Noteholder. Subject again to Condition (B)2(d), if the Company shall declare a distribution payable in securities of other Persons, evidence of indebtedness of the Company or other Persons, assets (excluding cash dividends) or options or rights not referred to in this Condition (B)4(d), the Noteholder shall be entitled to a proportionate share of any such distribution as though it were the holders of the number of Common Shares into which its Convertible Note is convertible as of the record date fixed for determination of the holders of Common Shares entitled to receive such distribution.

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- (e) [intentionally omitted]
- (f) ESOP. In the event that the total number of Common Shares issuable under the ESOP shall be less than One Million (1,000,000) on the calculation basis set out in Condition (B)3(c), the Conversion Price then in effect shall be increased in proportion to the percentage decrease in the number of enlarged share capital after taking into account of all Common Shares issuable under the ESOP.
- (g) Save as expressly provided in this Condition (B)4, there shall be no other adjustment in the Conversion Price. Exhibit (A) sets out examples of adjustments to the Conversion Price for illustration purpose only.
- (h) Extension of General Offer. So long as any Convertible Notes are outstanding and the Company becomes aware that an offer is made or an invitation is extended to all holders of Common Shares generally to acquire all or some of the Common Shares or any scheme of arrangement is proposed for that acquisition, the Company shall forthwith give notice to all holders of outstanding Convertible Notes and the Company shall use its best endeavours to ensure that there is made or extended at the same time a similar offer or invitation, or that the scheme of arrangement is extended, to each holder of Convertible Note, as if its conversion rights had been fully exercised on a date which is

immediately before the record date for the offer or invitation or the scheme of arrangement at the Conversion Price applicable at that time.

- (i) No Impairment. The Company shall not, by amendment of its constitutional documents of the Company or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company but shall at all times in good faith assist in the carrying out of all the provisions of this Condition (B)4 and in the taking of all such action as may be necessary or appropriate in order to protect the conversion rights of the Noteholder against impairment.
- (j) Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment of the Conversion Price pursuant to this Condition (B)4, the Company, at its expense, shall promptly compute such adjustment or readjustment in accordance with the terms hereof, and furnish to the Noteholder a certificate setting forth: (I) such adjustment or readjustment, (II) the facts upon which such adjustment or readjustment is based, (III) the applicable Conversion Price then in effect, and (IV) the number of Common Shares and the amount, if any, of other property which the Noteholder would receive upon the conversion of the Convertible Note.

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- (k) Notices of Record Date. In the event that the Company shall propose at any time to:
 - (i) declare any dividend or distribution upon the Common Shares or other class or series of shares, whether in cash, property, share, or other securities, and whether or not a regular cash dividend;
 - (ii) offer for subscription pro rata to the holders of any class or series of its capital any additional shares of any class or series or other rights;
 - (iii) effect any reclassification or recapitalisation of the Common Shares outstanding involving a change in the Common Shares; or
 - (iv) merge or consolidate with or into any other corporation, or sell, lease, or convey all or substantially all its property, assets or business, or a majority of the capital of the Company, or to liquidate, dissolve, or wind up,

then, in connection with each such event, the Company shall send to the Noteholder:

- (1) at least fourteen (14) Business Days' prior written notice of the date on which a record shall be taken for such dividend, distribution, or subscription rights (and specifying the date on which the holders of Common Shares shall be entitled thereto) or for determining rights to vote in respect of the matters referred to in subparagraphs (i) to (iv) of this Condition (B)4(j); and
- (2) in the case of the matters referred to in subparagraphs (i) to (iv) of this Condition (B)4(j), at least fourteen (14) Business Days' prior written notice of the date when the same shall take place (and specifying the date on which the holders of Common Shares shall be entitled to exchange their Common Shares for securities or other property deliverable upon the occurrence of such event or the record date for the determination of such holders if such record date is earlier).

Each such written notice shall be delivered personally or given by first class mail, postage prepaid, addressed to the Noteholder.

5. Redemption

- (a) Unless previously redeemed or converted as provided in these Conditions, the Noteholder has the right to require the Company to forthwith redeem all or part of the Convertible Note:
 - (i) if the Company has not completed a Qualified IPO before the Maturity Date, provided that the Noteholder shall give a written notice of not less than three (3) months to the Company at the Company's notice address specified in Clause 16.1(D) of the Subscription Agreement and surrender

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of the certificate(s) for the Convertible Note. If the Noteholder fails or refuses to deliver to the Company the certificate(s) for the Convertible Note, the Company may retain the redemption monies until delivery of such certificate or of an indemnity in respect thereof as the Board may reasonably require and shall within three (3) Business Days thereafter pay the redemption monies to such holder. No holder of a Convertible Note shall have any claim against the Company for interest on any redemption monies so retained; or

- (ii) at any time after the occurrence of an Event of Default upon written demand from the Noteholder. The Company shall redeem the Convertible Note (or such relevant part) to which such demand relates forthwith upon receipt of such demand. Redemption of the Convertible Note upon occurrence of an Event of Default will not require the Noteholder to surrender to the Company the certificate(s) for the Convertible Note.
- (b) Upon written consent of all holders of all outstanding Convertible Notes, the Company may redeem all or any portion of the then outstanding principal, interest or other payment due under this Convertible Note, before the Maturity Date.
- (c) The redemption monies in respect of the Convertible Note (or the relevant part thereof) comprise of:
 - (i) the principal amount so redeemed;
 - (ii) arrears of interest, special interest and extraordinary interest accrued in accordance with Condition (B)2; and
 - (iii) any outstanding amount payable in respect of the Convertible Note (or the relevant part thereof).
- (d) The Convertible Note (or such portion thereof) so redeemed shall be cancelled and may not be re-issued.

6. Transferability

- (a) The Noteholder may transfer the whole or part of the rights in respect of this Convertible Note, provided that (without prejudice to any right of co-sale of the Noteholder):
 - (I) the Noteholder shall first negotiate with the Founder on terms of the intended transfer before entering into agreement on the transfer if the transfer is intended to be made any other Person not being an Affiliate of the Noteholder;

(II) the transfer will not be subject to or will be exempted from the prospectus and registration requirements under the Ontario Securities Act; and

(III) the transferee shall have executed and delivered to the Company, as a condition precedent to any such transfer, a joinder agreement in form and substance satisfactory to the Company and all holders of Convertible Notes under which the transferee undertakes to be bound by certain provisions of the Subscription Agreement and the Investment Agreement, including without limiting the generality of the foregoing the obligation to first negotiation with the Founder on terms of any subsequent intended transfer by such transferee.

For the avoidance of doubt, the Noteholder may transfer the Convertible Note to (i) any Person apart from the Founder where no agreement has been reached between the Noteholder and the Founder on the intended transfer within reasonable time or (ii) any of its Affiliates.

- (b) Title to this Convertible Note passes only upon the cancellation of the existing certificate and the issue of a new certificate (or new certificates in the case of a transfer of part of this Convertible Note) in accordance with Condition (B)6(c).
- (c) In relation to any transfer of this Convertible Note permitted under or otherwise pursuant to this Condition (B)6:
 - (i) this Convertible Note may be transferred by execution of a form of transfer as specified by the Board under the hands of the transferor and the transferee (or their duly authorised representatives) or, where either the transferor or transferee is a corporation, executed by a duly authorised officer or director thereof. In this Condition, a "transferor" shall, where the context permits or requires, include joint transferors and shall be construed accordingly; and
 - (ii) save for loss destruction, the certificate(s) for this Convertible Note must be delivered for cancellation to the Company accompanied by (a) a duly executed transfer form; (b) in the case of the execution of the transfer form on behalf of a corporation by its officers or directors, the authority of that person or those persons to do so. The Company shall, within three (3) Business Days of receipt of such documents from the Noteholder, cancel the existing certificate for this Convertible Note and issue a new certificate for this Convertible Note (or new certificates in the case of a transfer of part of this Convertible Note) under the seal of the Company and the Founder, in favour of the transferee.

7. Events of Default

Any of the following shall constitute an "Event of Default":

- (a) if the Company fails to pay any amount principal or interest on the due date under these Conditions, the Subscription Agreement or the Transaction Documents and such default is not remedied within seven

(7) Business Days of the due date;

- (b) if any Group Company or the Founder is in material default in the due performance of any other of its/his covenants or obligations to the Noteholder under these Conditions, the Subscription Agreement or the Transaction Documents and such default remains not remedied for seven (7) Business Days after written notice thereof has been given to the Company or such other defaulting party by the Noteholder;
- (c) save as stated or referred to in the Disclosure Letter, if any representation or warranty made by the Company or the Founder in the Subscription Agreement or the Transaction Documents is or would be materially incorrect, misleading or untrue;
- (d) if any Group Company (or, to the extent applicable, the Founder) takes any corporate action or other steps are taken or legal proceedings are started or threatened to start for its winding-up, dissolution, administration or re-organisation (apart from the Re-organisation) (whether by way of voluntary arrangement, creditors' actions or otherwise) or for the appointment of a liquidator, receiver, administrator, administrative receiver, conservator, custodian, security trustee or similar officer of it or of any or all of its revenues and assets, without the prior written consent of all shareholders of the Company and all holders of all the outstanding Convertible Notes;
- (e) if any Group Company (or, to the extent applicable, the Founder) is dissolved and/or wound-up in any way or ceases or attempts to cease its activities or a major part thereof, or if any Group Company has discontinued or materially changed the nature of its business, or if any Group Company merges or consolidates with any other company or legal entity without the prior written consent of all shareholders of the Company and all holders of all outstanding Convertible Notes;
- (f) if there is, or is proposed or agreed to be, a change in Control in any of the Group Company without the prior written consent of all shareholders of the Company and all holders of all outstanding Convertible Notes;
- (g) if the Founder is in material default of any of his/its covenants or obligations under the Investment Agreement;
- (h) if the Company fails to deliver to each Investor on or before April 30, 2006 the Satisfactory Audited Reports in accordance with Clause 3.2(A) of the Subscription Agreement;

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- (i) if all or a material part of the properties or rights or interests of any Group Company or the Founder are nationalised or expropriated;
- (j) if there is, or is proposed or agreed to be, any transfer of all or substantially all of the assets of any Group Company or the Founder without the prior written consent of all shareholders of the Company and all holders of all outstanding Convertible Notes;
- (k) if any Group Company or the Founder is unable to pay its/his debts as they fall due, commences negotiations with any one or more of its/his creditors with a view to the general readjustment or rescheduling of its/his indebtedness or makes a general assignment for the benefit of or a composition with its/his creditors;
- (l) if at any time it is or becomes unlawful for any Group Company or the Founder to perform or comply with any or all of its obligations under these Conditions, the Subscription Agreement or the Transaction

Documents, or any of the obligations of any Group Company or the Founder under these Conditions, the Subscription Agreement or the Transaction Documents cease to be legal, valid, binding and enforceable;

- (m) if any Group Company or the Founder repudiates the Subscription Agreement or any of the Transaction Documents or does or causes to be done any act or thing evidencing an intention to repudiate the Subscription Agreement or any of the Transaction Documents;
- (n) if any execution or distress is levied against, or an encumbrancer takes possession of, the whole or any material part of, the property, undertaking or assets of any Group Company;
- (o) if any of the Group Company fails to obtain all necessary Governmental Approvals to own its assets and to carry on its businesses, or any of such Governmental Approvals is not valid or is subject to any suspension, cancellation or revocation;
- (p) if the Founder or a company or corporation wholly Controlled by the Founder is no longer the largest Shareholder of the Company without the prior written consent from all holders of all outstanding Convertible Notes and holders of Shares issued upon conversion of Convertible Notes; or
- (q) if the proceeds of the Subscription Price is not used for the purpose stated in Clause 2.4 of the Subscription Agreement;
- (r) if any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in the foregoing paragraphs; or
- (s) if any Group Company fails to comply with any Applicable Law.

8. Guarantee

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- (a) The Founder irrevocably and unconditionally:
 - (i) guarantees to the Noteholder punctual and due performance by the Company of all its obligations under the Convertible Note from time to time and the due payment and discharge of all such sums of money and liabilities expressed to be due, owing or incurred or payable and unpaid by the Company to the Noteholder pursuant to the Subscription Agreement and these Conditions from time to time or as a result of any breach thereof (including all reasonable expenses, including legal fees and Taxes incurred by the Noteholder in connection with any of the above);
 - (ii) undertakes with the Noteholder that whenever the Company does not pay any amount when due under or in connection with the Convertible Note, he shall immediately on demand pay that amount as if he was the principal obligor; and
 - (iii) indemnifies the Noteholder immediately on demand against any cost, loss or liability suffered by the Noteholder if any obligation guaranteed by him (or anything which would have been an obligation if not unenforceable, invalid or illegal) is or becomes unenforceable, invalid or illegal. The amount of the cost, loss or liability shall be equal to the amount which the Noteholder would otherwise have been entitled to recover.
- (b) This guarantee is a continuing guarantee and will extend to the ultimate balance of sums payable by the Company under the Convertible

Note, regardless of any intermediate payment or discharge in whole or in part.

- (c) If any payment to the Noteholder (whether in respect of the obligations of the Company or any security for those obligations or otherwise) is avoided or reduced for any reason including, without limitation, as a result of insolvency, breach of fiduciary or statutory duties or any similar event:
 - (i) the liability of the Company shall continue as if the payment, discharge, avoidance or reduction had not occurred; and
 - (ii) the Noteholder shall be entitled to recover the value or amount of that security or payment from the Founder, as if the payment, discharge, avoidance or reduction had not occurred.
- (d) The obligations of the Founder under this Condition (B)8 will not be affected by an act, omission, matter or thing which, but for this Condition, would reduce, release or prejudice any of its obligations under this Condition (without limitation and whether or not known to the Noteholder) including:
 - (i) any time, waiver or consent granted by the Noteholder or other Person;

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- (ii) the release of the Company or any other Person under the terms of any composition or arrangement with any creditor of any member of the Group;
 - (iii) any lack of power, authority or legal personality of or dissolution or change in the members or status of the Company;
 - (iv) any amendment (however fundamental) or replacement of the Convertible Note;
 - (v) any unenforceability, illegality or invalidity of any obligation of any Person under the Convertible Note; and
 - (vi) any bankruptcy, insolvency or similar proceedings.
- (e) The Founder hereby subordinates to the Noteholder any right he may have of first requiring the Noteholder (or any trustee or agent on its behalf) to proceed against or enforce any other rights or security or claim payment from any Person before claiming from the Founder under this Condition (B)8 except to preserve any such claim. This waiver applies irrespective of any law or any provision of the Convertible Note to the contrary.
- (f) This guarantee is in addition to and is not in any way prejudiced by any other guarantee or security now or subsequently held by the Noteholder.
- (g) Without prejudice to the Noteholder's rights against the Company, the Founder shall be deemed a principal obligor in respect of his obligations under this guarantee and not merely a surety and, accordingly, the Founder shall not be discharged nor shall his liability hereunder be affected by any act or thing or means whatsoever by which such liability would have been discharged or affected if the Founder had not been a principal obligor.
- (h) Until all moneys, obligations and liabilities (including contingent obligations and liabilities) due, owing or incurred by the Company under the Convertible Note have been paid or discharged in full, the

Founder waives all rights of subrogation and indemnity against the Company and agrees not to claim any set-off or counterclaim against the Company or to claim to prove in competition with the Noteholder in the event of the bankruptcy, insolvency or liquidation of the Company.

- (i) All sums payable under this guarantee shall be paid in full without set-off or counterclaim and free and clear of and without deduction of or withholding for or on account of any present or future Taxes, duties and/or other charges.

9. Payment and Taxation

- (a) All payments in respect of the Convertible Note will be made without withholding or deduction of or on account of any present or future Taxes, duties, assessments

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or governmental charges of whatever nature imposed or levied by or on behalf of the government of Hong Kong, Canada or any authority therein or thereof having power to tax unless the withholding or deduction of such Taxes, duties, assessments or governmental charges is required by law. In that event, the Company or the Founder (as the case may be) will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholder after such withholding or deduction shall equal the respective amounts receivable in respect of the Convertible Note in the absence of such withholding or deduction provided that, notwithstanding any agreement to the contrary, no such additional amounts shall be payable by the Company or the Founder (as the case may be) in respect of any amounts deemed under Canadian income tax laws to constitute interest paid upon conversion of the Convertible Note.

- (b) All payments to the Noteholder shall be made in United States Dollars (or another currency as the Noteholder may otherwise specify in writing), not later than 4:00 p.m. (Hong Kong time) on the due date, by remittance to such bank account as the Noteholder may notify from time to time.
- (c) If the due date for payment of any amount in respect of the Convertible Note is not a Business Day, the Noteholder shall be entitled to payment on the next following Business Day in the same manner but shall not be entitled to be paid any interest in respect of any such delay.
- (d) The Company shall pay any and all issue and other Taxes (other than income taxes) that may be payable in respect of any issue or delivery of Common Shares on conversion of the Convertible Note, provided, however, that the Company shall not be obligated to pay any transfer taxes resulting from any transfer of the Convertible Note (or rights attached thereto) requested by the Noteholder.

10. Replacement certificate

If the certificate for this Convertible Note is lost or mutilated, the Noteholder shall forthwith notify the Company and a replacement certificate for this Convertible Note shall be issued if the Noteholder provides the Company with (i) a declaration by the Noteholder or its officer or director that this Convertible Note had been lost or mutilated (as the case may be) or other evidence that the certificate for this Convertible Note had been lost or mutilated; and (ii) an appropriate indemnity in such form and content as the Board may reasonably require. The certificate for this Convertible Note which has been replaced in accordance with this Condition (B)10 shall forthwith be cancelled.

* * *

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Exhibit (A) to the Conditions of Convertible Note

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CONVERSION NOTICE

Date: 1 July 2006

By letter and by fax

To: Canadian Solar Inc.
("CHINESE CHARACTERS")
(Building A6, Export Processing Zone
Suzhou New & Hi-Tech District
Jiangsu Province 215151
The People's Republic of China)
Fax No.: 86-512-62696016
Attention: Mr. QU Xiao Hua

To: Mr. QU Xiao Hua
("CHINESE CHARACTERS")
(Building A6, Export Processing Zone
Suzhou New & Hi-Tech District
Jiangsu Province 215151
The People's Republic of China)

Dear Sirs,

Conversion of Convertible Notes (the "Convertible Notes") into Common Shares in the capital of Canadian Solar Inc. (the "Company")

We refer to (a) the subscription agreement dated 16 November 2005 and entered into between, among others, the Company, Mr. Qu, HSBC HAV2 (III) Limited (the "Funds") and JAFCO Asia Technology Fund II ("JAFCO") and four supplemental agreements relating thereto dated 28 February 2006, 29 March 2006, 9 June 2006 and the date of today respectively (collectively, the "Subscription Agreements") and (b) the certificates for the Convertible Notes issued to the Funds (the "CN Certificates") pursuant to the Subscription Agreements, (c) the investment agreement relating to the Company entered into between, among others, the Company, Mr. Qu, the Funds and JAFCO on 30 November 2005 (the "Investment Agreement") and (d) the deed of undertaking given by, among others, the Company and Mr. Qu, in favour of the Funds and JAFCO on 1 December 2005 (the "Deed of Undertaking") in relation to the restructuring of the Group (as defined in Subscription Agreements) into a structure as reasonably satisfactory to the Funds and JAFCO.

We hereby serve notice on the Company that, subject to the satisfaction of the following condition(s), we wish to convert all of the outstanding Convertible Notes issued to us in the aggregate principal amount of US\$7,750,000 into 1,343,022.577 Common Shares in the capital of the Company (the "Conversion Shares") at the Conversion Price (as defined in the CN Certificates) in accordance with the terms set out in the Subscription Agreements and the CN Certificates as an Optional Conversion (as defined in the CN Certificates) (the "Conversion"):

- (1) Mr. Qu having entered into a put option agreement with the Funds and JAFCO under which Mr. Qu shall give a put option to each of the Funds and JAFCO relating to the Conversion Shares on a form agreed upon by all parties thereto; and
- (2) Mr. Qu having mortgaged, pledged and assigned absolutely by way of first legal mortgage 1,912,766 Common Shares (after a share split to be conducted immediately after the Conversion) in the capital of the Company in favour of the Funds as security for the performance of his obligations under the above-mentioned put option agreement.

Further, we note that the restructuring referred to in the Deed of Undertaking has not been conducted. Nevertheless, JAFCO may be requested by Mr. Qu to transfer its Conversion Shares to an affiliate of JAFCO. We hereby give consent to such transfer provided that we will not be required to assume any liability of whatsoever nature in respect of such transfer. Additionally, the Funds may be requested by Mr. Qu to continue to another jurisdiction.

To effect the Conversion, we have delivered the CN Certificates to the Company's designated legal advisers, Latham & Watkins LLP, of 41st Floor, One Exchange Square, 8 Connaught Place, Central, Hong Kong who have received such certificates on the Company's behalf.

Please could the Company arrange to effect the Conversion and send one share certificate for the Conversion Shares to the Funds (Attention: Mr. Victor Leung).

We acknowledge that, notwithstanding the Conversion, Mr. Qu's rights under Condition (B)2(d) of the conditions of the Convertible Notes set forth in each CN Certificate shall remain in effect.

For the avoidance of doubt, the Conversion shall not prejudice or affect any of the rights and benefits of the Funds in the Investment Agreement.

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Yours faithfully,

/s/

Victor Leung
(as an authorized person of HSBC HAV2 (III) Limited)

* * *

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Acknowledgement

To: HSBC HAV2 (III) Limited
c/o HSBC Private Equity (Asia) Ltd.
Level 17, 1 Queen's Road Central
Hong Kong
Fax No.: 852-2845 9992
Attention: The Managing Director

Dear Sirs,

We refer to your conversion notice dated 1 July 2006. The capitalized terms in this acknowledgement will have the same meanings as defined in your conversion notice. We hereby acknowledge, agree and confirm that:

1. Latham & Watkins LLP shall receive the CN Certificates from the Funds on our behalf and Latham & Watkins LLP have confirmed that they have received such certificates;
2. we noted that the condition(s) set out in your conversion notice have been satisfied;
3. we have effected the Conversion and, following the filing of the Company's Articles of Amendment pursuant to which the Common Shares shall be split on a 1 for 1.168130772 basis, a share certificate for 1,568,826 Common Shares (which takes into account the share split) will be issued to the Funds and will be sent to the Funds; and

4. the Conversion shall not prejudice or affect any of the rights and benefits of the Funds in the Investment Agreement.

Attached please find a copy of our board resolution authorizing the Conversion.

4

Yours faithfully,

/s/

Name: QU Xiao Hua
For and on behalf of
Canadian Solar Inc.
Date: July 1, 2006

/s/

Name: QU Xiao Hua (signed, sealed and delivered)
Date: July 1, 2006

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CONVERSION NOTICE

Date: 1 July 2006

By letter and by fax

To: Canadian Solar Inc.
("CHINESE CHARACTERS")
(Building A6, Export Processing Zone
Suzhou New & Hi-Tech District
Jiangsu Province 215151
The People's Republic of China)
Fax No.: 86-512-62696016
Attention: Mr. QU Xiao Hua

To: Mr. QU Xiao Hua
("CHINESE CHARACTERS")
(Building A6, Export Processing Zone
Suzhou New & Hi-Tech District
Jiangsu Province 215151
The People's Republic of China)

Dear Sirs,

Conversion of Convertible Notes (the "Convertible Notes") into Common Shares in the capital of Canadian Solar Inc. (the "Company")

We refer to (a) the subscription agreement dated 16 November 2005 and entered into between, among others, the Company, Mr. Qu, HSBC HAV2 (III) Limited (the "Funds") and JAFCO Asia Technology Fund II ("JAFCO") and four supplemental agreements relating thereto dated 28 February 2006, 29 March 2006, 9 June 2006 and the date of today respectively (collectively, the "Subscription Agreements") and (b) the certificates for the Convertible Notes issued to the Funds (the "CN Certificates") pursuant to the Subscription Agreements, (c) the investment agreement relating to the Company entered into between, among others, the

Company, Mr. Qu, the Funds and JAFCO on 30 November 2005 (the "Investment Agreement") and (d) the deed of undertaking given by, among others, the Company and Mr. Qu, in favour of the Funds and JAFCO on 1 December 2005 (the "Deed of Undertaking") in relation to the restructuring of the Group (as defined in Subscription Agreements) into a structure as reasonably satisfactory to the Funds and JAFCO.

We hereby serve notice on the Company that, subject to the satisfaction of the following condition(s), we wish to convert all of the outstanding Convertible Notes issued to us in the aggregate principal amount of US\$4,000,000 into 693,173.247 Common Shares in the capital of the Company (the "Conversion Shares") at the Conversion Price (as defined in the CN Certificates) in accordance with the terms set out in the Subscription Agreements and the CN Certificates as an Optional Conversion (as defined in the CN Certificates) (the "Conversion"):

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- (1) Mr. Qu having entered into a put option agreement with the Funds and JAFCO under which Mr. Qu shall give a put option to each of the Funds and JAFCO relating to the Conversion Shares on a form agreed upon by all parties thereto; and
- (2) Mr. Qu having mortgaged, pledged and assigned absolutely by way of first legal mortgage 987,234 Common Shares (after a share split to be conducted immediately after the Conversion) in the capital of the Company in favour of JAFCO.

Further, we note that the restructuring referred to in the Deed of Undertaking has not been conducted. Nevertheless, JAFCO may be requested by Mr. Qu to transfer its Conversion Shares to an affiliate of JAFCO.

To effect the Conversion, we have delivered the CN Certificates to the Company's designated legal advisers, Latham & Watkins LLP, of 41st Floor, One Exchange Square, 8 Connaught Place, Central, Hong Kong who have received such certificates on the Company's behalf.

Please could the Company arrange to effect the Conversion and send one share certificate for the Conversion Shares to JAFCO at 6 Battery Road, #42-01, Singapore 049909 (Attention: The President).

We acknowledge that, notwithstanding the Conversion, Mr. Qu's rights under Condition (B)2(d) of the conditions of the Convertible Notes set forth in each CN Certificate shall remain in effect.

For the avoidance of doubt, the Conversion shall not prejudice or affect any of the rights and benefits of JAFCO in the Investment Agreement.

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Yours faithfully,

/s/

HIROSHI YAMADA
(as a lawful attorney for JAFCO Asia Technology Fund II)

* * *

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Acknowledgement

To: JAFCO Asia Technology Fund II
c/o JAFCO Investment (Asia Pacific) Ltd
6 Battery Road
#42-01, Singapore 044909
Fax No.: 65-6221 3690
Attention: The President

Cc: JAFCO Investments (Hong Kong) Ltd.
30/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong
Fax No.: 852-2536 1979
Attention: The General Manager

Dear Sirs,

We refer to your conversion notice dated 1 July 2006. The capitalized terms in this acknowledgement will have the same meanings as defined in your conversion notice. We hereby acknowledge, agree and confirm that:

1. Latham & Watkins LLP shall receive the CN Certificates from JAFCO on our behalf and Latham & Watkins LLP have confirmed that they have received such certificates;
2. we noted that the condition(s) set out in your conversion notice have been satisfied;
3. we have effected the Conversion and, following the filing of the Company's Articles of Amendment pursuant to which the Common Shares shall be split on a 1 for 1.168130772 basis, a share certificate for 809,717 Common Shares (which takes into account the share split) will be issued to JAFCO and will be sent to JAFCO; and
4. the Conversion shall not prejudice or affect any of the rights and benefits of JAFCO in the Investment Agreement.

Attached please find a copy of our board resolution authorizing the Conversion.

9

Yours faithfully,

/s/

Name: QU Xiao Hua
For and on behalf of
Canadian Solar Inc.
Date: July 1, 2006

/s/

Name: QU Xiao Hua (signed, sealed and delivered)
Date: July 1, 2006

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DATED 1 JULY 2006

- (1) MR. QU XIAO HUA
- (2) HSBC HAV2 (III) LIMITED
- and
- (3) JAFCO ASIA TECHNOLOGY FUND II

PUT OPTION AGREEMENT

IN RESPECT OF

CANADIAN SOLAR INC.

BAKER & MCKENZIE

THIS AGREEMENT is made on the 1st day of July 2006

BETWEEN:

- (1) MR. QU XIAO HUA, holder of Canadian Passport Number BC289772 and whose residential address being at 4056 Jefton Crescent, Mississauga, Ontario, Canada L5L 1Z3 (the "FOUNDER");
- (2) HSBC HAV 2 (III) LIMITED, a company incorporated in the Cayman Islands with its registered office at 2nd Floor, Strathvale House, North Church Street, George Town, Grand Cayman, Cayman Islands (the "FUNDS"); and
- (3) JAFCO ASIA TECHNOLOGY FUND II, a Cayman Islands exempted company with its registered office at PO Box 309GT, Uglan House, South Church Street, George Town, Grand Cayman, Cayman Islands ("JAFCO").

The Funds and JAFCO shall be referred to collectively as the "INVESTORS" and individually as an "INVESTOR".

WHEREAS:

- (A) Canadian Solar Inc. (the "COMPANY") is a corporation continued under the laws of Canada. Particulars of the Company are set out in Schedule 1.
- (B) The Company, the Founder, the Investors and other parties entered into (i) a subscription agreement on 16 November 2005 in relation to the issue of Convertible Notes to the Investors and (ii) four supplemental agreements relating thereto dated 28 February 2006, 29 March 2006, 9 June 2006 and the date of today respectively (collectively, the "SUBSCRIPTION AGREEMENTS"). The same parties also entered into an investment agreement relating to the Company on 30 November 2005 (the "INVESTMENT AGREEMENT").
- (C) Pursuant to the Subscription Agreements, the Company issued to the Funds Convertible Notes of an aggregate principal amount of US\$7,750,000 and to JAFCO Convertible Notes of an aggregate principal amount of US\$4,000,000. All the Convertible Notes are outstanding as at the date hereof.
- (D) Each of the parties hereto acknowledges that each Investor was requested by

the Company and the Founder to convert all its outstanding Convertible Notes into Common Shares, or any other Shares issued or issuable in respect thereof upon any stock split, subdivision, reorganisation or the like, or issued or issuable as stock dividend in respect of such Common Shares (the "CONVERSION SHARES") as an Optional Conversion (the "CONVERSION"). As a condition to the Conversion and in consideration of each Investor agreeing to conduct the Conversion, the Founder shall grant an option to each Investor to require the Founder to purchase all of the Conversion Shares from the relevant Investor or its Affiliate on the terms and conditions set out in this Agreement.

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- (E) It is contemplated by the parties and the Company that the Common Shares (including the Conversion Shares) will undergo a share split immediately following the Conversion, and accordingly the price for the option set out herein will be adjusted.

NOW, THEREFORE, in consideration of the foregoing recitals, the mutual promises hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, THE PARTIES HEREBY AGREE AS FOLLOWS:

1. INTERPRETATION

1.1 In this Agreement, capitalized terms shall have the meanings as set out in the Subscription Agreements, unless otherwise defined.

1.2 In this Agreement:

- (A) the headings are inserted for convenience only and shall not affect the construction and interpretation of this Agreement;
- (B) unless the context requires otherwise, words incorporating the singular shall include the plural and vice versa and words importing a gender shall include every gender;
- (C) references herein to Clauses, Recitals and Schedules are to clauses and recitals of and schedules to this Agreement; and
- (D) all Recitals and Schedules form part of this Agreement and shall have the same force and effect as if expressly set out in the body of this Agreement and any reference to this Agreement shall include such Recitals and Schedules.

2. PUT OPTION

2.1 In consideration of each Investor agreeing to conduct the Conversion, the Founder hereby grants to each of the Investors severally an option (the "PUT OPTION") to require the Founder to purchase all of the Conversion Shares held by each Investor or its Affiliate (the "TRANSFER") at the option price ("OPTION PRICE") calculated in accordance with the following provisions:

Option Price = US\$5.770563156 per Conversion Share,

on the basis that (i) a total of 5,668,421 Common Shares are currently in issue before the Conversion; (ii) the maximum number of Common Shares that may be issued pursuant to the ESOP shall be 1,000,000; (iii) an aggregate of 2,036,195.824 Common Shares are expected to be issued to all Investors upon the full conversion of all Convertible Notes of an aggregate principal amount of US\$11,750,000.

2.2 In the event the Common Shares shall be increased by share split, subdivision, or other similar transaction into a greater number of Common

Shares, the Option Price then in effect shall, concurrently with the effectiveness of such event, be decreased

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in proportion to the percentage increase in the outstanding number of Common Shares. In the event the outstanding Common Shares shall be decreased by a reverse share split, combination, consolidation, or other similar transaction into a smaller number of Common Shares, the Option Price then in effect shall, concurrently with the effectiveness of such event, be increased in proportion to the percentage decrease in the outstanding number of Common Shares.

For the avoidance of doubt, where the Common Shares shall undergo a share split immediately following the Conversion on a 1 for 1.168130772 basis and where the maximum number of Common Shares that may be issued pursuant to the ESOP shall remain 1,000,000 notwithstanding the share split:

Option Price = US\$4.94 per Conversion Share,

on the basis that the aggregate shareholding of all Investors in the Company following the share split shall be 23.79%.

2.3 Subject to Clause 2.4 below, the Put Option may be exercisable from time to time in whole or in part.

2.4 The Put Option is exercisable by each of the Investors, by serving a written option notice (the "OPTION NOTICE") on the Founder in accordance with Clause 7 and

(A) at any time from 31 March 2007 (inclusive) to 10 April 2007 (inclusive) in the event that the Company has not completed a Qualified IPO on or before 31 March 2007; or

(B) at any time after the occurrence and during the continuance of an Event of Default upon written demand from any of the Investors, which demand may be served by the Investors at any time following the date on which such Event of Default becomes known to such Investor.

2.4 The Option Notice shall, concurrently with delivery to the Founder, be delivered to the other Investor(s). Upon receipt of the Option Notice, the other Investor(s) may also elect to exercise the Put Option by delivering a separate option notice ("SECOND OPTION NOTICE") to the Founder (copying all other Investors) within ten (10) days of the receipt of the Option Notice.

2.5 For the purpose of Clause 2.4(B) above, the Founder hereby undertakes with each of the Investors that upon him becoming aware of the occurrence of any Event of Default, he will promptly give written notice thereof to each of the Investors.

2.6 Any Option Notice served by any Investor pursuant to Clause 2 shall contain a statement to the effect that such Investor wishes to exercise the Put Option and shall set out in as much details as reasonably possible particulars of the event which forms the basis for the exercise of the Put Option, the number of Conversion Shares to be transferred by such Investor or its Affiliate pursuant to the said notice, the Option Price and the place where the Transfer of the Conversion Shares shall take place.

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2.7 The completion of the Transfer of the Conversion Shares upon exercise of the Put Option by an Investor pursuant to Clauses 2.4 and/or 2.5 shall take

place as soon as possible after the Investor or its Affiliate has provided the Founder with a certificate under section 116 of the Income Tax Act (Canada) as referred to in Clause 2.9, whereupon the Founder shall deliver to such Investor or its Affiliate payment of the Option Price in respect of the total number of the Conversion Shares stated in the Option Notice, or in the Second Option Notice, as the case may be. Upon receipt of the payment aforesaid, such Investor or its Affiliate shall deliver to the Founder or its nominee the relevant shares certificate(s) in respect of the said Conversion Shares and duly executed instrument of transfer. At such completion, the Investor or its Affiliate shall represent and warrant that the Conversion Shares subject to the Put Option are free and clear of all Encumbrances and Liens (other than those imposed by this Agreement, the Investment Agreement, the Registration Rights Agreement and the Articles of Incorporation and By-Laws) and that the Investor or its Affiliate has full authority to transfer such shares to the Founder or his nominee.

- 2.8 Provided that each Investor or its Affiliate provides the Founder with a certificate under section 116 of the Income Tax Act (Canada) with the appropriate certificate limit, the Option Price payable to any Investor or its Affiliate shall be paid to such Investor or its relevant Affiliate, by way of banker's draft or cashier's order, in United States dollars in full without any deduction or withholding for or on account of any present or future taxes, levies, imposes, duties or other charges, fees, withholdings, restrictions or conditions, and without set-off, counterclaim or any deduction whatsoever.
- 2.9 Where applicable, the Founder shall procure the approval of the Company's board of directors on each Transfer of the Conversion Shares.
- 2.10 Subject to the provisions of Clause 2.4, the parties hereto agree that there shall be no limit to the timing and numbers of Option Notices.
- 2.11 The right of each Investor to exercise the Put Option shall be independent of the decision of the other Investor. For avoidance of doubt, one Investor may require the Founder to complete a Transfer even if the other Investor does not so require.
- 2.12 The Founder agrees to bear all taxes and stamp duty, if any, payable on each Transfer.
- 2.13 The parties hereto acknowledge that any Transfer (a) shall be free from the transfer restrictions imposed on the Investors in the Investment Agreement but (b) shall not otherwise affect or prejudice the rights of any Investor under the Investment Agreement, the Subscription Agreements, the corresponding certificates of the Convertible Notes, the Registration Rights Agreement and the Articles of Incorporation and By-Laws.

3. VARIATION

No variation of this Agreement (or any document entered into pursuant to this Agreement) shall be valid unless it is in writing and signed by or on behalf of each of the parties hereto.

4. SUCCESSORS AND ASSIGNS

All rights, covenants and agreements of the parties hereto contained in this Agreement shall, except as otherwise provided herein, be binding upon and inure for the benefit of their respective successors or permitted assigns, provided that the Founder shall not assign any of his rights under this Agreement without the prior written consent of all of the Investors. Notwithstanding anything to the contrary in this Agreement, each of the Investor is entitled to assign its rights in and benefit of this Agreement to any third parties to which such Investor shall have transferred the

beneficial ownership of the Conversion Shares (or any interest therein held by such Investor).

5. FURTHER ASSURANCE

Each party hereto shall do or procure to be done all such further acts and things, and execute or procure the execution of all such other documents, as the other parties may from time to time reasonably require for the purpose of giving to the other parties the full benefit of all of the provisions of this Agreement.

6. WAIVER; SEVERANCE

6.1 The failure of any party hereto at any time to require performance or observance by any other party of any provision of this Agreement shall in no way affect the right of such first party to require performance of that provisions; and any waiver by any party of any breach of any provision of this Agreement shall not be construed as a waiver of any continuing or succeeding breach of such provision, a waiver of the provision itself or a waiver of any right under this Agreement.

6.2 Should any provision of this Agreement be declared null and void by any competent government agency or court this shall not effect the other provisions of this Agreement which are capable of severance and which shall continue unaffected.

7. NOTICES

7.1 Notices or other communications required to be given by any party hereto pursuant to this Agreement shall be written in English and may be delivered personally or sent by registered airmail or postage prepaid, by a recognized courier service or by facsimile transmission to the address of the other relevant parties set forth below. The dates on which such notices shall be deemed to have been effectively given shall be determined as follows:

- (A) notices given by personal delivery shall be deemed effectively given on the date of personal delivery;
- (B) notices given by registered airmail or postage prepaid shall be deemed effectively given on the fifth (5th) Business Day after the date on which they were mailed (as indicated by the postmark);
- (C) notices given by courier shall be deemed effectively given on the second (2nd) Business Day after they were sent by recognized courier service; and

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- (D) notices given by facsimile transmission shall be deemed effectively given immediately following confirmation of its transmission as recorded by the sender's facsimile machine.

TO THE FOUNDER:

Address:

[chinese characters]
(Building A6, Export
Processing Zone
Suzhou New & Hi-Tech District
Jiangsu Province 215151
The People's Republic of
China)

Fax Number:

86-512-62696016

TO THE FUNDS:

c/o HSBC Private Equity (Asia) Ltd.

Address:

Level 17, 1 Queen's Road
Central
Hong Kong
+852 2845-9992
The Managing Director

Fax Number:

Attention:

TO JAFCO:

c/o JAFCO Investment (Asia Pacific) Ltd

Address:

6 Battery Road
#42-01 Singapore 049909
+65 6221-3690
The President

Fax Number:

Attention:

With a copy to:

JAFCO Investment (Hong Kong) Ltd.

Address:

30/F Two International Finance
Centre
8 Finance Street
Central
Hong Kong
+852 2536-1979
General Manager
All E-mail correspondence to
vincent.chan@jafcoasia.com and
sam.lai@jafcoasia.com

Fax Number:

Attention:

Email:

- 7.2 Any party may at any time change its address or fax number for service of notices in writing delivered to the other parties in accordance with this Clause 7.

8. COUNTERPARTS

This Agreement may be executed in any number of counterparts and by the parties hereto on separate counterparts, each of which when so executed shall be an original, but all of which shall together constitute one and the same instrument.

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9. PROCESS AGENTS

- 9.1 Each party hereby irrevocably appoints the person set out opposite its name below as its respective agent to accept service of process in Hong Kong in any legal action or proceedings arising out of this Agreement, service upon whom shall be deemed completed whether or not such service of process is forwarded to such party by its agent or received by it, and each party warrants and undertakes to the other parties that the agent appointed by it hereunder is a company incorporated in Hong Kong and the address of such agent set out below is its registered office address in Hong Kong:

PARTY	AGENT / REGISTERED OFFICE ADDRESS
-----	-----

For the Founder: Key Consultant Limited

Address: Unit 710, 7th Floor, Bank of America Tower,
12 Harcourt Road, Central, Hong Kong

The Funds HSBC Private Equity (Asia) Ltd.

Address: Level 17, 1 Queen's Road Central, Hong Kong

JAFCO JAFCO Investment (Hong Kong) Ltd.

Address: 30/F Two International Finance Centre,
8 Finance Street, Central, Hong Kong

9.2 If a process agent appointed by any party pursuant to Clause 9 ceases to be able to act as such or to have a registered office address in Hong Kong, the party which appoints such process agent shall appoint a new process agent, which shall be a company incorporated in Hong Kong, and to deliver to the other parties, before the expiry of fourteen (14) days from the date on which such process agent ceases to be able to act as such or to have a registered office address in Hong Kong, a copy of the written acceptance of appointment by that new process agent.

9.3 Nothing in this Agreement shall affect the right to serve process in any other manner permitted by law or the right to bring proceedings in any other jurisdiction for the purposes of the enforcement or execution of any judgement or other settlement in any other courts.

10. GOVERNING LAW

This Agreement is governed by and shall be construed in accordance with the laws of Hong Kong.

11. DISPUTE RESOLUTION

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11.1 Any dispute, controversy or claim arising out of or connected with this Agreement or the interpretation, breach, termination or validity hereof, including a dispute as to the validity or existence of this Agreement, shall be resolved by way of arbitration upon the request of any of the parties in dispute with notice to the other parties.

11.2 Arbitration under this Clause 11 shall be conducted in Hong Kong, under the auspices of the Hong Kong International Arbitration Centre (the "HKIAC") by three arbitrators (the "ARBITRATORS") pursuant to the rules of the United Nations Commission on International Trade Law (the "UNCITRAL RULES"), save that, unless the parties in dispute agree otherwise:

(A) the three Arbitrators shall be appointed by the HKIAC; and

(B) the parties agree to waive any right of appeal against the arbitration award.

11.3 The arbitration shall be administered by HKIAC in accordance with HKIAC's procedures for arbitration.

11.4 Each party shall cooperate with the others in making full disclosure of and providing complete access to all information and documents requested by another party in connection with such arbitration proceedings, subject only to any confidentiality obligations binding on the disclosing party.

11.5 The award of the arbitral tribunal shall be final and binding upon the disputing parties, and a prevailing party may apply to any court of competent jurisdiction for enforcement of such award.

11.6 The cost of the arbitration (including the reasonable and properly incurred fees and expenses of the lawyers appointed by each party to the arbitration) shall be borne by the party or parties against whom the

arbitration award is made or otherwise in accordance with the ruling of the arbitration tribunal.

11.7 Any party shall be entitled to seek preliminary injunctive relief, if possible, from any court of competent jurisdiction pending the constitution of the arbitral tribunal.

12. JAFCO'S RIGHTS

All parties acknowledge and agree that any rights of JAFCO under this Agreement may, without prejudice to the rights of JAFCO to exercise any such rights, be exercised by JAFCO Investment (Asia Pacific) Ltd. ("JIAP") or any other fund manager of JAFCO or their nominees (each, a "JAFCO MANAGER"), unless JAFCO has (a) given notice to the other parties that any such rights cannot be exercised by JIAP or a JAFCO Manager; and (b) not given notice to the other parties that such notice given under paragraph (a) above has been revoked.

IN WITNESS WHEREOF this Agreement has been executed by the parties the day and year first before written.

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SCHEDULE 1

PARTICULARS OF THE COMPANY

NAME:	Canadian Solar Inc.
DATE OF INCORPORATION:	22 October 2001
PLACE OF ORGANISATION:	Canada
REGISTERED OFFICE:	4056 Jefton Crescent. Mississauga, Ontario, Canada L5L 1Z3
ISSUED CAPITAL (AS OF THE DATE HEREOF):	5,668,421 Common Shares with no nominal or par value

SHAREHOLDERS AS AT THE DATE HEREOF:	SHAREHOLDER	NO. OF EQUITY SECURITIES HELD
-----	-----	-----
	QU Xiao Hua	5,668,421 Common Shares

CONVERTIBLE NOTES ISSUED AND OUTSTANDING AS AT THE DATE HEREOF:	HOLDER	PRINCIPAL AMOUNT OF THE CONVERTIBLE NOTES
-----	-----	-----
	The Funds	US\$7,750,000
	JAFCO	US\$4,000,000

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SIGNED, SEALED and DELIVERED)
as a Deed by) /s/
QU XIAO HUA)
in the presence of:-)

/s/

10

SIGNED by Victor Leung)
for and on behalf of) /s/
HSBC HAV2 (III) LIMITED)
in the presence of:-)

/s/

Laetitia K.W. Yu
Witness

11

SIGNED by Hiroshi Yamada)
for and on behalf of) /s/
JAFCO ASIA TECHNOLOGY FUND II)
in the presence of:- Liu Xiao Ning /s/)

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DATED JULY 28, 2006

- (1) MR. QU XIAO HUA
- (2) HSBC HAV2 (III) LIMITED
- (3) JAFCO ASIA TECHNOLOGY FUND II

AND

- (4) JAFCO ASIA TECHNOLOGY FUND II
(BARBADOS) LIMITED

SUPPLEMENTAL PUT OPTION AGREEMENT

IN RESPECT OF
CANADIAN SOLAR INC.

THIS SUPPLEMENTAL AGREEMENT is made on the 28th day of July 2006

BETWEEN:

- (1) MR. QU XIAO HUA, holder of Canadian Passport Number BC289772 and whose residential address being at 4056 Jefton Crescent, Mississauga, Ontario, Canada L5L 1Z3 (the "FOUNDER");
- (2) HSBC HAV 2 (III) LIMITED, a company incorporated in the Cayman Islands with its registered office at 2nd Floor, Strathvale House, North Church Street, George Town, Grand Cayman, Cayman Islands (the "FUNDS");
- (3) JAFCO ASIA TECHNOLOGY FUND II, a Cayman Islands exempted company with its registered office at PO Box 309GT, Uglan House, South Church Street, George Town, Grand Cayman, Cayman Islands ("JAFCO CAYMAN"); and
- (4) JAFCO ASIA TECHNOLOGY FUND II (BARBADOS) LIMITED, a Corporation incorporated under the laws of Barbados and with its registered office situate at 13, 8th Avenue Belleville in the parish of St. Michael in Barbados ("JAFCO BARBADOS").

The Funds and JAFCO Barbados shall be referred to collectively as the "INVESTORS" and individually as an "INVESTOR".

WHEREAS:

- (A) The Founder, the Funds and JAFCO Cayman entered into a put option agreement (the "PUT OPTION AGREEMENT") on July 1, 2006, pursuant to which, each of the Funds and JAFCO Cayman shall have the right to request the Founder to purchase certain number of Conversion Shares from each of them.
- (B) JAFCO Cayman and JAFCO Barbados entered into a share sale and purchase agreement on July 17, 2006 (the "SHARE SALE AND PURCHASE AGREEMENT"). Further to and in connection with the said Share Sale and Purchase Agreement, JAFCO Cayman and JAFCO Barbados entered into an assignment agreement dated July 17, 2006, pursuant to which, JAFCO Cayman assigns to JAFCO Barbados all its rights under the Put Option Agreement.
- (C) The parties hereto are desirous of modifying certain terms in the Put Option Agreement on the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing recitals, the mutual promises hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, THE PARTIES HEREBY AGREE AS FOLLOWS:

3. AMENDMENTS TO THE PUT OPTION AGREEMENT

The parties hereto agree that, in order to conform to the original intention of the parties, Clause 2.4 of the Put Option Agreement shall be deleted in its entirety and replaced with the following and such replacement shall take effect on the date of the Put Option Agreement:

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"2.4 THE PUT OPTION IS EXERCISABLE BY EACH OF THE INVESTORS, BY SERVING A WRITTEN OPTION NOTICE (THE "OPTION NOTICE") ON THE FOUNDER IN ACCORDANCE WITH CLAUSE 7 AND

- (A) AT ANY TIME FROM 31 MARCH 2007 (INCLUSIVE) TO 10 APRIL 2007 (INCLUSIVE) IN THE EVENT THAT THE COMPANY HAS NOT COMPLETED AN IPO ON OR BEFORE 31 MARCH 2007; OR
- (B) AT ANY TIME AFTER THE OCCURRENCE AND DURING THE CONTINUANCE OF AN EVENT OF DEFAULT UPON WRITTEN DEMAND FROM ANY OF THE INVESTORS, WHICH DEMAND MAY BE SERVED BY THE INVESTORS AT ANY TIME FOLLOWING THE DATE ON WHICH SUCH EVENT OF DEFAULT BECOMES KNOWN TO SUCH INVESTOR."

2. MISCELLANEOUS

2.1 Definitions. In this Supplemental Agreement, capitalized terms shall have the meanings as set out in the Put Option Agreement, unless otherwise defined.

2.2 Assignment. This Supplemental Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns. No party to this Supplemental Agreement shall assign any of its rights hereunder without the written consent of the other parties.

2.3 Counterparts. This Supplemental Agreement may be executed in counterparts, each of which shall be deemed to be an original with the same effect as if the signatures thereto and hereto were upon the same instrument.

2.4 Survival. All other provisions of the Put Option Agreement which are not specifically amended pursuant to Clause 1 of this Supplemental Agreement shall survive this Supplemental Agreement and continue in full force and effect.

2.5 Governing Law. This Supplemental Agreement is governed by and shall be construed in accordance with the laws of Hong Kong.

[SIGNATURE PAGES FOLLOW]

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SIGNED, SEALED and DELIVERED)
as a Deed by)
QU XIAO HUA) /s/
in the presence of:-)

3

SIGNED by Victor Leung)
for and on behalf of)
HSBC HAV2 (III) LIMITED) /s/
in the presence of:-)

4

SIGNED by CHAN CHUN HUNG VINCENT)
for and on behalf of)
JAFCO ASIA TECHNOLOGY FUND II) /s/
in the presence of:- Wong Yun Pun /s/)

SIGNED by HIROSHI YAMADA)
for and on behalf of)
JAFCO ASIA TECHNOLOGY FUND II)
(BARBADOS) LIMITED) /s/
in the presence of:- Liu Xiao Ning /s/)

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July 28, 2006

Canadian Solar Inc.
(CHINESE CHARACTERS)
(Building A6, Export Processing Zone
Suzhou New & Hi-Tech District
Jiangsu Province 215151
The People's Republic of China)
Fax No.: 86-512-62696016
Attention: Mr. QU Xiao Hua

Mr. QU Xiao Hua
(CHINESE CHARACTERS)
(Building A6, Export Processing Zone
Suzhou New & Hi-Tech District
Jiangsu Province 215151
The People's Republic of China)

Dear Sirs:

When HSBC HAV2 (III) Limited ("HSBC") and JAFCO Asia Technology Fund II ("JAFCO") converted all of their convertible notes of Canadian Solar Inc. (the "Company") into the Company's common shares (the "Common Shares") on July 1, 2006, they acknowledged and agreed that Mr. Qu's right to the Company's retained earnings as of February 28, 2006 under Condition (B)2(d) of the terms and conditions of the convertible notes would remain in effect.

It is proposed to give effect to Mr. Qu's right by:

(i) the transfer to Mr. Qu of 30,761 and 15,877 Common Shares from HSBC and JAFCO, respectively; and

(ii) the issue under the Company's Share Incentive Plan of (a) 50,000 restricted shares, and (b) options to purchase 20,000 Common Shares at an exercise price of US\$10.00 per Common Share, both with vesting periods of four years, to Hanbing Zhang, who is the wife of Mr. Qu.

Each of HSBC, JAFCO, Mr. Qu and the Company will take all necessary actions to implement the above proposal, including, without limitation, entering into share transfer agreements, delivering share certificates, adopting board resolutions, and in the case of HSBC, JAFCO and Mr. Qu, voting or causing their respective nominees to vote in favor of resolutions of the Company's board of directors authorizing such actions.

Upon completion of the transfer of Common Shares to Mr. Qu and the issue of restricted shares and share options outlined above, all rights and obligations of the parties with respect to the Company's retained earnings as of February 28, 2006 will be fully satisfied and discharged.

If the foregoing correctly sets forth the agreement between HSBC, JAFCO, Mr. Qu and the Company, please indicate your acceptance in the space provided below for that purpose.

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Very truly yours,

HSBC HAV2 (III) LIMITED

By: /s/

Name: Victor Leung
Title:

JAFCO ASIA TECHNOLOGY FUND II

By: /s/

Name: Hiroshi Yamada
Title: Attorney

Accepted and agreed by:

QU XIAOHUA

 /s/

CANADIAN SOLAR INC.

By: /s/

Name:
Title:

[CHEN&CO.LAWFIRM (LETTERHEAD)]

October , 2006

CANADIAN SOLAR INC.
XIN ZHUANG INDUSTRIAL PARK
CHANGSHU, SUZHOU
JIANGSU 215562
THE PEOPLE'S REPUBLIC OF CHINA

DEUTSCHE BANK SECURITIES INC..
60 WALL STREET
4TH FLOOR
NEW YORK, NY 10005
USA

LEHMAN BROTHERS INC.
745 SEVENTH AVENUE
NEW YORK, NEW YORK 10019
USA

As Representatives of the several
Underwriter parties to the Underwriting Agreement
in relation to the IPO (as defined below)

Dear Sirs,

We have acted as special People's Republic of China ("PRC") legal counsel to Canadian Solar Inc. (the "Company") in connection with the proposed initial public offering ("IPO") of the Company's common shares, the listing of the common shares on the NYSE Arca Exchange and the related filing of a registration statement on Form F-1 (the "Registration Statement") with the U.S. Securities and Exchange Commission (the "Commission"). You have asked us to provide you with a legal opinion concerning the matters set forth below. We are qualified to practice law in the PRC and we do not express any opinion herein concerning any law other than the published and publicly available laws and regulations of the PRC.

The Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (the "New M&A Rules") were promulgated on dateMonth8Day8Year2006August 8, 2006 by six Chinese regulatory agencies, including the China Securities Regulatory Commission ("CSRC"), and require offshore special

purpose vehicles, in certain circumstances, to obtain CSRC approval prior to listing their securities on an overseas stock exchange.

The New M&A Rules, which took effect on September 8, 2006, replaced the Interim Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors promulgated in 2003. The New M&A Rules govern mergers and acquisitions of shares and assets of a domestic company by foreign investors. Amongst other things, they focus on the acquisition of a PRC domestic company where, for the purpose of listing overseas, the shareholders of an overseas special purpose company or the overseas special purpose company itself, which is directly or indirectly controlled by a PRC domestic company or a PRC natural person, purchase equity of the domestic company or newly issued equity of the domestic company. In these circumstances, the overseas listing is subject to various governmental approvals, including that of the CSRC.

Article 39 of the New M&A Rules defines a "special purpose company" as an

overseas company that is controlled directly or indirectly by a domestic company or natural person and that is formed for the purpose of listing the equity securities of a domestic company abroad. A "domestic company" is defined in Article 2 of the New M&A Rules as a domestic non-foreign funded enterprise. Accordingly, the target of the CSRC's supervision under the New M&A Rules are only "special purpose companies" that are directly or indirectly ultimately controlled by a PRC entity or natural person and that are established for the purpose of the listing the equities of non foreign funded enterprises.

We are of the opinion that the New M&A Rules do not apply to the Company's IPO because the Company is not a special purpose company within the meaning of Article 39 of the New M&A Rules. The Company was incorporated in Canada in October 2001. None of the Company's controlling shareholders since its founding, including Dr. Shawn Qu, who at all relevant times was a Canadian citizen, is a PRC entity or natural person. The Company's PRC subsidiaries are foreign funded enterprises established, at their respective dates of incorporation, by the Company through direct investment. The proposed listing of the Company's common shares does not constitute an indirect listing of equity securities of a "domestic company" that has been acquired by the Company within the scope of the New M&A Rules.

On September 21, 2006, the CSRC published on its website relevant guidance relating to "The Indirect Issuance or Listing Abroad of Securities of Domestic Enterprises", including a list of application materials to be submitted when seeking the CSRC's approvals. The relevant guidance referred to the "Circular of the State Council Concerning Further Strengthening the Administration of Share Issuance and Listing Overseas" (the "1997 Circular") and the New M&A Rules. Although the 1997 Circular stipulated that the listing of an overseas company on an overseas stock exchange is subject to consent or approval by different PRC government authorities, the guidance is clear that such consent or approval is only needed if such overseas company is controlled by PRC-sourced capital, i.e. the ultimate controlling or largest shareholder of such overseas enterprise must be a PRC entity or individual(1). Such a position taken by the State Council/CSRC is in conformity with the

(1) e.g. Article 2 of the "Circular of the State Council Concerning Further Strengthening the Administration of Share Issuance and Listing Overseas" provides: "Local laws of the overseas jurisdiction shall apply where a Chinese invested non-listed company or a Chinese-held listed company registered abroad applies for overseas issuing and listing of shares with its overseas assets or its domestic assets which are formed from its investment in China using its overseas assets and have been in its actual possession for over

provisions of the New M&A Rules, which limit the jurisdiction of the CSRC to transactions involving capital owned by PRC entities or individuals. In addition, some of the key application materials stipulated in the guidance are only applicable to, or can only be provided by, a domestic company that has transferred the ownership of its equity securities to an overseas entity under a restructuring process(2). Accordingly, we are of the opinion that neither the above guidance of CSRC nor the New M&A Rules require the approval of the CSRC for the IPO of the Company

We hereby consent to the use of this opinion in, and the filing hereof as an exhibit to, the Registration Statement filed by Canadian Solar Inc. with the Commission under the Securities Act of 1933, as amended.

Yours sincerely,

/s/
Chen & Co. Law Firm

three years. However, the domestic shareholder shall obtain prior consent from the provincial people's government or the competent department under the State Council. Domestic assets in possession for less than three years shall not be used in the overseas issuance or listing of shares. In the case of special needs, a report thereon shall be submitted to the China Securities Regulatory Commission for verification and then to the State Council Securities Commission for examination and approval. After the listing has been completed, the domestic shareholder should report the relevant details to the China Securities Regulatory Commission for record.

(2) e.g. the following materials are needed for and applicable to a domestic company under restructuring only:

"2. Letter of reply in principle issued by MOFCOM on the special purpose vehicle ("SPV")'s merger and acquisition of a domestic enterprise;

3. Resolution of the shareholders of the acquired domestic company as a limited liability company or resolution of the general shareholders' meeting of the acquired domestic company as a joint stock company limited approving the merger and acquisition by the SPV, or other similar legal documents;

15. Approval and certificate issued by MOFCOM for the overseas investment and incorporation of the SPV;

16. Foreign exchange registration of SPV's overseas investment;

17. Incorporation certificate of the SPV and identification certificate or incorporation certificate and articles of association of the ultimate controlling person;

18. Relevant agreements on SPV's merger and acquisition of the domestic company;

19. Commercial plan on SPV's overseas listing;

24. Transaction arrangement and evaluation method related to the equities of the acquired domestic company entered into between the SPV and such overseas company.

CANADIAN SOLAR, INC.

SHARE INCENTIVE PLAN

ARTICLE 1

PURPOSE

The purpose of the Canadian Solar, Inc. Share Incentive Plan (the "Plan") is to promote the success and enhance the value of Canadian Solar, Inc., a company formed under the laws of Canada (the "Company") by linking the personal interests of the members of the Board, Employees, and Consultants to those of Company shareholders and by providing such individuals with an incentive for outstanding performance to generate superior returns to Company shareholders. The Plan is further intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of members of the Board, Employees, and Consultants upon whose judgment, interest, and special effort the successful conduct of the Company's operation is largely dependent.

ARTICLE 2

DEFINITIONS AND CONSTRUCTION

Wherever the following terms are used in the Plan they shall have the meanings specified below, unless the context clearly indicates otherwise. The singular pronoun shall include the plural where the context so indicates.

2.1 "Applicable Laws" means the legal requirements relating to the Plan and the Awards under applicable provisions of the corporate, securities, tax and other laws, rules, regulations and government orders, and the rules of any applicable Share exchange or national market system, of any jurisdiction applicable to Awards granted to residents therein.

2.2 "Award" means an Option, or Restricted Share award granted to a Participant pursuant to the Plan.

2.3 "Award Agreement" means any written agreement, contract, or other instrument or document evidencing an Award, including through electronic medium.

2.4 "Board" means the Board of Directors of the Company.

2.5 "Change in Control" means a change in ownership or control of the Company after the Registration Date effected through either of the following transactions:

(a) the direct or indirect acquisition by any person or related group of persons (other than an acquisition from or by the Company or by a Company-sponsored employee benefit plan or by a person that directly or indirectly controls, is controlled by, or is under common control with, the Company) of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities pursuant to a tender or

exchange offer made directly to the Company's shareholders which a majority of the Incumbent Board (as defined below) who are not affiliates or associates of the offeror under Rule 12b-2 promulgated under the Exchange Act do not recommend such shareholders accept, or

(b) the individuals who, as of the Effective Date, are members of the Board (the "Incumbent Board"), cease for any reason to constitute at least fifty percent (50%) of the Board; provided that if the election, or nomination

for election by the Company's shareholders, of any new member of the Board is approved by a vote of at least fifty percent (50%) of the Incumbent Board, such new member of the Board shall be considered as a member of the Incumbent Board.

2.6 "Code" means the Internal Revenue Code of 1986 of the United States, as amended.

2.7 "Committee" means the committee of the Board described in Article 10.

2.8 "Consultant" means any consultant or adviser if: (a) the consultant or adviser renders bona fide services to a Service Recipient; (b) the services rendered by the consultant or adviser are not in connection with the offer or sale of securities in a capital-raising transaction and do not directly or indirectly promote or maintain a market for the Company's securities; and (c) the consultant or adviser is a natural person who has contracted directly with the Service Recipient to render such services.

2.9 "Corporate Transaction" means any of the following transactions, provided, however, that the Committee shall determine under (d) and (e) whether multiple transactions are related, and its determination shall be final, binding and conclusive:

(a) an amalgamation, arrangement or consolidation in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the jurisdiction in which the Company is incorporated;

(b) the sale, transfer or other disposition of all or substantially all of the assets of the Company;

(c) the complete liquidation or dissolution of the Company;

(d) any reverse takeover or series of related transactions culminating in a reverse takeover (including, but not limited to, a tender offer followed by a reverse takeover) in which the Company is the surviving entity but (A) the Common Shares outstanding immediately prior to such takeover are converted or exchanged by virtue of the takeover into other property, whether in the form of securities, cash or otherwise, or (B) in which securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities are transferred to a person or persons different from those who held such securities immediately prior to such takeover or the initial transaction culminating in such takeover, but excluding any such transaction or series of related transactions that the Committee determines shall not be a Corporate Transaction; or

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(e) acquisition in a single or series of related transactions by any person or related group of persons (other than the Company or by a Company-sponsored employee benefit plan) of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities but excluding any such transaction or series of related transactions that the Committee determines shall not be a Corporate Transaction.

2.10 "Disability" means that the Participant qualifies to receive long-term disability payments under the Service Recipient's long-term disability insurance program, as it may be amended from time to time, to which the Participant provides services regardless of whether the Participant is covered by such policy. If the Service Recipient to which the Participant provides service does not have a long-term disability plan in place, "Disability" means that a Participant is unable to carry out the responsibilities and functions of the position held by the Participant by reason of any medically determinable physical or mental impairment for a period of not less than ninety (90) consecutive days. A Participant will not be considered to have incurred a Disability unless he or she furnishes proof of such impairment sufficient to satisfy the Committee in its discretion.

2.11 "Effective Date" shall have the meaning set forth in Section 10.1.

2.12 "Employee" means any person, including an officer or member of the Board of the Company, any Parent or Subsidiary of the Company, who is in the employ of a Service Recipient, subject to the control and direction of the Service Recipient as to both the work to be performed and the manner and method of performance. The payment of a director's fee by a Service Recipient shall not be sufficient to constitute "employment" by the Service Recipient.

2.13 "Exchange Act" means the Securities Exchange Act of 1934 of the United States, as amended.

2.14 "Fair Market Value" means, as of any date, the value of Shares determined as follows:

(a) If the Shares are listed on one or more established Share exchanges or national market systems, including without limitation, The Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Share Market, its Fair Market Value shall be the closing sales price for such shares (or the closing bid, if no sales were reported) as quoted on the principal exchange or system on which the Shares are listed (as determined by the Committee) on the date of determination (or, if no closing sales price or closing bid was reported on that date, as applicable, on the last trading date such closing sales price or closing bid was reported), as reported in The Wall Street Journal or such other source as the Committee deems reliable;

(b) If the Shares are regularly quoted on an automated quotation system (including the OTC Bulletin Board) or by a recognized securities dealer, its Fair Market Value shall be the closing sales price for such shares as quoted on such system or by such securities dealer on the date of determination, but if selling prices are not reported, the Fair Market Value of a Common Share shall be the mean between the high bid and low asked prices for the Common Shares on the date of determination (or, if no such prices were reported on that date, on

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the last date such prices were reported), as reported in The Wall Street Journal or such other source as the Committee deems reliable; or

(c) In the absence of an established market for the Shares of the type described in (i) and (ii), above, the Fair Market Value thereof shall be determined by the Committee in good faith by reference to the placing price of the latest private placement of the Shares and the development of the Company's business operations and the general economic and market conditions since such latest private placement.

2.15 "Incentive Share Option" means an Option that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.

2.16 "Independent Director" means a member of the Board who is not an Employee of the Company.

2.17 "Non-Employee Director" means a member of the Board who qualifies as a "Non-Employee Director" as defined in Rule 16b-3(b)(3) of the Exchange Act, or any successor definition adopted by the Board.

2.18 "Non-Qualified Share Option" means an Option that is not intended to be an Incentive Share Option.

2.19 "Option" means a right granted to a Participant pursuant to Article 5 of the Plan to purchase a specified number of Shares at a specified price during specified time periods. An Option may be either an Incentive Share Option or a Non-Qualified Share Option.

2.20 "Participant" means a person who, as a member of the Board, Consultant or Employee, has been granted an Award pursuant to the Plan.

2.21 "Parent" means a parent corporation under Section 424(e) of the Code.

2.22 "Plan" means this Canadian Solar, Inc. Share Incentive Award Plan, as it may be amended from time to time.

2.23 "Related Entity" means any business, corporation, partnership, limited liability company or other entity in which the Company, a Parent or Subsidiary of the Company holds a substantial ownership interest, directly or indirectly but which is not a Subsidiary and which the Board designates as a Related Entity for purposes of the Plan.

2.24 "Restricted Share" means a Share awarded to a Participant pursuant to Article 6 that is subject to certain restrictions and may be subject to risk of forfeiture.

2.25 "Securities Act" means the Securities Act of 1933 of the United States, as amended.

2.26 "Service Recipient" means the Company, any Parent or Subsidiary of the Company and any Related Entity to which a Participant provides services as an Employee, Consultant or as a Director.

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2.27 "Share" means Common Shares of the Company, and such other securities of the Company that may be substituted for Shares pursuant to Article 9.

2.28 "Subsidiary" means any corporation or other entity of which a majority of the outstanding voting shares or voting power is beneficially owned directly or indirectly by the Company.

2.29 "Trading Date" means the closing of the first sale to the general public of the Shares pursuant to a registration statement filed with and declared effective by the U.S. Securities and Exchange Commission under the Securities Act.

ARTICLE 3

SHARES SUBJECT TO THE PLAN

3.1 Number of Shares.

(a) Subject to the provisions of Article 10 and Section 3.1(b), the maximum aggregate number of Shares which may be issued pursuant to all Awards (including Incentive Share Options) is 1,000,000, plus for Awards other than Incentive Option Shares, an annual increase to be added on the first business day of each calendar year beginning in 2007 equal to the lesser of (x) one percent (1%) of the number of Shares outstanding as of such date, or (y) a lesser number of Shares determined by the Committee.

(b) To the extent that an Award terminates, expires, or lapses for any reason, any Shares subject to the Award shall again be available for the grant of an Award pursuant to the Plan. To the extent permitted by Applicable Law, Shares issued in assumption of, or in substitution for, any outstanding awards of any entity acquired in any form or combination by the Company or any Parent or Subsidiary of the Company shall not be counted against Shares available for grant pursuant to the Plan. Shares delivered by the Participant or withheld by the Company upon the exercise of any Award under the Plan, in payment of the exercise price thereof or tax withholding thereon, may again be optioned, granted or awarded hereunder, subject to the limitations of Section 3.1(a). If any Restricted Shares are forfeited by the Participant or repurchased by the Company, such Shares may again be optioned, granted or awarded hereunder, subject to the limitations of Section 3.1(a). Notwithstanding the provisions of this Section 3.1(b), no Shares may again be optioned, granted or awarded if such action would cause an Incentive Share Option to fail to qualify as an incentive Share option under Section 422 of the Code.

3.2 Shares Distributed. Any Shares distributed pursuant to an Award may consist, in whole or in part, of authorized and unissued Shares, treasury or Shares purchased on the open market. Additionally, in the discretion of the Committee, American Depositary Shares in an amount equal to the number of Shares which otherwise would be distributed pursuant to an Award may be distributed in lieu of Shares in settlement of any Award. If the number of Shares represented by an American Depositary Share is other than on a one-to-one basis, the limitations of Section 3.1 shall be adjusted to reflect the distribution of American Depositary Shares in lieu of Shares.

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ARTICLE 4

ELIGIBILITY AND PARTICIPATION

4.1 Eligibility. Persons eligible to participate in this Plan include Employees, Consultants, and all members of the Board, as determined by the Committee.

4.2 Participation. Subject to the provisions of the Plan, the Committee may, from time to time, select from among all eligible individuals, those to whom Awards shall be granted and shall determine the nature and amount of each Award. No individual shall have any right to be granted an Award pursuant to this Plan.

4.3 Jurisdictions. In order to assure the viability of Awards granted to Participants employed in various jurisdictions, the Committee may provide for such special terms as it may consider necessary or appropriate to accommodate differences in local law, tax policy, or custom applicable in the jurisdiction in which the Participant resides or is employed. Moreover, the Committee may approve such supplements to, or amendments, restatements, or alternative versions of, the Plan as it may consider necessary or appropriate for such purposes without thereby affecting the terms of the Plan as in effect for any other purpose; provided, however, that no such supplements, amendments, restatements, or alternative versions shall increase the share limitations contained in Section 3.1 of the Plan. Notwithstanding the foregoing, the Committee may not take any actions hereunder, and no Awards shall be granted, that would violate any Applicable Laws.

ARTICLE 5

OPTIONS

5.1 General. The Committee is authorized to grant Options to Participants on the following terms and conditions:

(a) Exercise Price. The exercise price per Share subject to an Option shall be determined by the Committee and set forth in the Award Agreement which may be a fixed or variable price related to the Fair Market Value of the Shares; provided, however, that no Option may be granted to an individual subject to taxation in the United States at less than the Fair Market Value on the date of Grant.

(b) Time and Conditions of Exercise. The Committee shall determine the time or times at which an Option may be exercised in whole or in part, including exercise prior to vesting; provided that the term of any Option granted under the Plan shall not exceed ten years, except as provided in Section 9.2. The Committee shall also determine any conditions, if any, that must be satisfied before all or part of an Option may be exercised.

(c) Payment. The Committee shall determine the methods by which the exercise price of an Option may be paid, the form of payment, including, without limitation (i) cash or check denominated in U.S. or Canadian Dollars, (ii) cash or check in Chinese Renminbi, (iii) cash or check denominated in any other local currency as approved by the Committee, (iv) Shares held for such period of time

as may be required by the Committee in order to avoid

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adverse financial accounting consequences and having a Fair Market Value on the date of delivery equal to the aggregate exercise price of the Option or exercised portion thereof, (v) after the Trading Date the delivery of a notice that the Participant has placed a market sell order with a broker with respect to Shares then issuable upon exercise of the Option, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the Option exercise price; provided that payment of such proceeds is then made to the Company upon settlement of such sale), and the methods by which Shares shall be delivered or deemed to be delivered to Participants (vi) other property acceptable to the Committee with a Fair Market Value equal to the exercise price, or (vii) any combination of the foregoing. Notwithstanding any other provision of the Plan to the contrary, no Participant who is a member of the Board or an "executive officer" of the Company within the meaning of Section 13(k) of the Exchange Act shall be permitted to pay the exercise price of an Option in any method which would violate Section 13(k) of the Exchange Act.

(d) Evidence of Grant. All Options shall be evidenced by an Award Agreement between the Company and the Participant. The Award Agreement shall include such additional provisions as may be specified by the Committee.

5.2 Incentive Share Options. Incentive Share Options shall be granted only to Employees of the Company, a Parent or Subsidiary of the Company. Incentive Share Options may not be granted to Employees of a Related Entity. The terms of any Incentive Share Options granted pursuant to the Plan, in addition to the requirements of Section 5.1, must comply with the following additional provisions of this Section 5.2:

(a) Expiration of Option. An Incentive Share Option may not be exercised to any extent by anyone after the first to occur of the following events:

(i) Ten years from the date it is granted, unless an earlier time is set in the Award Agreement;

(ii) Three months after the Participant's termination of employment as an Employee; and

(iii) One year after the date of the Participant's termination of employment or service on account of Disability or death. Upon the Participant's Disability or death, any Incentive Share Options exercisable at the Participant's Disability or death may be exercised by the Participant's legal representative or representatives, by the person or persons entitled to do so pursuant to the Participant's last will and testament, or, if the Participant fails to make testamentary disposition of such Incentive Share Option or dies intestate, by the person or persons entitled to receive the Incentive Share Option pursuant to the applicable laws of descent and distribution.

(b) Individual Dollar Limitation. The aggregate Fair Market Value (determined as of the time the Option is granted) of all Shares with respect to which Incentive Share Options are first exercisable by a Participant in any calendar year may not exceed \$100,000 or such other limitation as imposed by Section 422(d) of the Code, or any successor provision. To the extent that Incentive Share Options are first exercisable by a Participant in

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excess of such limitation, the excess shall be considered Non-Qualified Share Options.

(c) Ten Percent Owners. An Incentive Share Option shall be granted to any individual who, at the date of grant, owns Shares possessing more than

ten percent of the total combined voting power of all classes of shares of the Company only if such Option is granted at a price that is not less than 110% of Fair Market Value on the date of grant and the Option is exercisable for no more than five years from the date of grant.

(d) Transfer Restriction. The Participant shall give the Company prompt notice of any disposition of Shares acquired by exercise of an Incentive Share Option within (i) two years from the date of grant of such Incentive Share Option or (ii) one year after the transfer of such Shares to the Participant.

(e) Expiration of Incentive Share Options. No Award of an Incentive Share Option may be made pursuant to this Plan after the tenth anniversary of the Effective Date.

(f) Right to Exercise. During a Participant's lifetime, an Incentive Share Option may be exercised only by the Participant.

ARTICLE 6

RESTRICTED SHARES

6.1 Grant of Restricted Shares. The Committee is authorized to make Awards of Restricted Shares to any Participant selected by the Committee in such amounts and subject to such terms and conditions as determined by the Committee. All Awards of Restricted Shares shall be evidenced by an Award Agreement.

6.2 Issuance and Restrictions. Restricted Shares shall be subject to such restrictions on transferability and other restrictions as the Committee may impose (including, without limitation, limitations on the right to vote Restricted Shares or the right to receive dividends on the Restricted Share). These restrictions may lapse separately or in combination at such times, pursuant to such circumstances, in such installments, or otherwise, as the Committee determines at the time of the grant of the Award or thereafter.

6.3 Forfeiture. Except as otherwise determined by the Committee at the time of the grant of the Award or thereafter, upon termination of employment or service during the applicable restriction period, Restricted Shares that are at that time subject to restrictions shall be forfeited; provided, however, the Committee may (a) provide in any Restricted Share Award Agreement that restrictions or forfeiture conditions relating to Restricted Shares will be waived in whole or in part in the event of terminations resulting from specified causes, and (b) in other cases waive in whole or in part restrictions or forfeiture conditions relating to Restricted Shares.

6.4 Certificates for Restricted Shares. Restricted Shares granted pursuant to the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing Restricted Shares are registered in the name of the Participant, certificates must bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such

Restricted Shares, and the Company may, at its discretion, retain physical possession of the certificate until such time as all applicable restrictions lapse.

ARTICLE 7

PROVISIONS APPLICABLE TO AWARDS

7.1 Award Agreement. Awards under the Plan shall be evidenced by Award Agreements that set forth the terms, conditions and limitations for each Award which may include the term of an Award, the provisions applicable in the event the Participant's employment or service terminates, and the Company's authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind an Award.

7.2 Limits on Transfer. No right or interest of a Participant in any Award may be pledged, encumbered, or hypothecated to or in favor of any party other than the Company or a Subsidiary, or shall be subject to any lien, obligation, or liability of such Participant to any other party other than the Company or a Subsidiary. Except as otherwise provided by the Committee, no Award shall be assigned, transferred, or otherwise disposed of by a Participant other than by will or the laws of descent and distribution. The Committee by express provision in the Award or an amendment thereto may permit an Award (other than an Incentive Share Option) to be transferred to, exercised by and paid to certain persons or entities related to the Participant, including but not limited to members of the Participant's family, charitable institutions, or trusts or other entities whose beneficiaries or beneficial owners are members of the Participant's family and/or charitable institutions, or to such other persons or entities as may be expressly approved by the Committee, pursuant to such conditions and procedures as the Committee may establish. Any permitted transfer shall be subject to the condition that the Committee receive evidence satisfactory to it that the transfer is being made for estate and/or tax planning purposes (or to a "blind trust" in connection with the Participant's termination of employment or service with the Company or a Subsidiary to assume a position with a governmental, charitable, educational or similar non-profit institution) and on a basis consistent with the Company's lawful issue of securities.

7.3 Beneficiaries. Notwithstanding Section 7.2, a Participant may, in the manner determined by the Committee, designate a beneficiary to exercise the rights of the Participant and to receive any distribution with respect to any Award upon the Participant's death. A beneficiary, legal guardian, legal representative, or other person claiming any rights pursuant to the Plan is subject to all terms and conditions of the Plan and any Award Agreement applicable to the Participant, except to the extent the Plan and Award Agreement otherwise provide, and to any additional restrictions deemed necessary or appropriate by the Committee. If the Participant is married and resides in a community property state, a designation of a person other than the Participant's spouse as his or her beneficiary with respect to more than 50% of the Participant's interest in the Award shall not be effective without the prior written consent of the Participant's spouse. If no beneficiary has been designated or survives the Participant, payment shall be made to the person entitled thereto pursuant to the Participant's will or the laws of descent and distribution. Subject to the foregoing, a beneficiary designation may be changed or revoked by a Participant at any time provided the change or revocation is filed with the Committee.

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7.4 Share Certificates. Notwithstanding anything herein to the contrary, the Company shall not be required to issue or deliver any certificates evidencing shares of Share pursuant to the exercise of any Award, unless and until the Board has determined, with advice of counsel, that the issuance and delivery of such certificates is in compliance with all Applicable Laws, regulations of governmental authorities and, if applicable, the requirements of any exchange on which the Shares are listed or traded. All Share certificates delivered pursuant to the Plan are subject to any stop-transfer orders and other restrictions as the Committee deems necessary or advisable to comply with federal, state, or foreign jurisdiction, securities or other laws, rules and regulations and the rules of any national securities exchange or automated quotation system on which the Shares are listed, quoted, or traded. The Committee may place legends on any Share certificate to reference restrictions applicable to the Share. In addition to the terms and conditions provided herein, the Board may require that a Participant make such reasonable covenants, agreements, and representations as the Board, in its discretion, deems advisable in order to comply with any such laws, regulations, or requirements. The Committee shall have the right to require any Participant to comply with any timing or other restrictions with respect to the settlement or exercise of any Award, including a window-period limitation, as may be imposed in the discretion of the Committee.

7.5 Paperless Administration. Subject to Applicable Laws, the Committee

may make Awards, provide applicable disclosure and procedures for exercise of Awards by an internet website or interactive voice response system for the paperless administration of Awards.

7.6 Foreign Currency. A Participant may be required to provide evidence that any currency used to pay the exercise price of any Award were acquired and taken out of the jurisdiction in which the Participant resides in accordance with Applicable Laws, including foreign exchange control laws and regulations. In the event the exercise price for an Award is paid in Chinese Renminbi, Canadian dollars or other foreign currency, as permitted by the Committee, the amount payable will be determined by conversion from U.S. dollars at the official rate promulgated by the People's Bank of China for Chinese Renminbi, or for jurisdictions other than the PRC, the exchange rate as selected by the Committee on the date of exercise.

ARTICLE 8

CHANGES IN CAPITAL STRUCTURE

8.1 Adjustments. In the event of any dividend, share split, combination or exchange of Shares, amalgamation, arrangement or consolidation, spin-off, recapitalization or other distribution (other than normal cash dividends) of Company assets to its shareholders, or any other change affecting the shares of Shares or the share price of a Share, the Committee shall make such proportionate adjustments, if any, as the Committee in its discretion may deem appropriate to reflect such change with respect to (a) the aggregate number and type of shares that may be issued under the Plan (including, but not limited to, adjustments of the limitations in Section 3.1); (b) the terms and conditions of any outstanding Awards (including, without limitation, any applicable performance targets or criteria with respect thereto); and (c) the grant or exercise price per share for any outstanding Awards under the Plan.

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8.2 Acceleration upon a Change of Control. Except as may otherwise be provided in any Award Agreement or any other written agreement entered into by and between the Company and a Participant, if a Change of Control occurs and a Participant's Awards are not converted, assumed, or replaced by a successor, such Awards shall become fully exercisable and all forfeiture restrictions on such Awards shall lapse. Upon, or in anticipation of, a Change of Control, the Committee may in its sole discretion provide for (i) any and all Awards outstanding hereunder to terminate at a specific time in the future and shall give each Participant the right to exercise such Awards during a period of time as the Committee shall determine, (ii) either the purchase of any Award for an amount of cash equal to the amount that could have been attained upon the exercise of such Award or realization of the Participant's rights had such Award been currently exercisable or payable or fully vested (and, for the avoidance of doubt, if as of such date the Committee determines in good faith that no amount would have been attained upon the exercise of such Award or realization of the Participant's rights, then such Award may be terminated by the Company without payment), (iii) the replacement of such Award with other rights or property selected by the Committee in its sole discretion the assumption of or substitution of such Award by the successor or surviving corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of Shares and prices, or (iv) provide for payment of Awards in cash based on the value of Shares on the date of the Change of Control plus reasonable interest on the Award through the date such Award would otherwise be vested or have been paid in accordance with its original terms, if necessary to comply with Section 409A of the Code.

8.3 Outstanding Awards - Corporate Transactions. In the event of a Corporate Transaction, each Award will terminate upon the consummation of the Corporate Transaction, unless the Award is assumed by the successor entity or Parent thereof in connection with the Corporate Transaction. . Except as provided otherwise in an individual Award Agreement, in the event of a Corporate Transaction and:

(a) the Award either is (x) assumed by the successor entity or Parent thereof or replaced with a comparable Award (as determined by the Committee) with respect to shares of the capital stock of the successor entity or Parent thereof or (y) replaced with a cash incentive program of the successor entity which preserves the compensation element of such Award existing at the time of the Corporate Transaction and provides for subsequent payout in accordance with the same vesting schedule applicable to such Award, then such Award (if assumed), the replacement Award (if replaced), or the cash incentive program automatically shall become fully vested, exercisable and payable and be released from any restrictions on transfer (other than transfer restrictions applicable to Options) and repurchase or forfeiture rights, immediately upon termination of the Participant's employment or service with all Service Recipient within twelve (12) months of the Corporate Transaction without cause; and

(b) For each Award that is neither assumed nor replaced, such portion of the Award shall automatically become fully vested and exercisable and be released from any repurchase or forfeiture rights (other than repurchase rights exercisable at Fair Market Value) for all of the Shares at the time represented by such portion of the Award, immediately prior to the specified effective date of such Corporate Transaction, provided that the Participant remains an Employee, Consultant or Director on the effective date of the Corporate Transaction.

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8.4 Outstanding Awards - Other Changes. In the event of any other change in the capitalization of the Company or corporate change other than those specifically referred to in this Article 10, the Committee may, in its absolute discretion, make such adjustments in the number and class of shares subject to Awards outstanding on the date on which such change occurs and in the per share grant or exercise price of each Award as the Committee may consider appropriate to prevent dilution or enlargement of rights.

8.5 No Other Rights. Except as expressly provided in the Plan, no Participant shall have any rights by reason of any subdivision or consolidation of Shares of any class, the payment of any dividend, any increase or decrease in the number of shares of any class or any dissolution, liquidation, merger, or consolidation of the Company or any other corporation. Except as expressly provided in the Plan or pursuant to action of the Committee under the Plan, no issuance by the Company of shares of any class, or securities convertible into shares of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number of shares subject to an Award or the grant or exercise price of any Award.

ARTICLE 9

ADMINISTRATION

9.1 Committee. The Plan shall be administered by the Compensation Committee of the Board; provided, however that the Compensation Committee may delegate to a committee of one or more members of the Board the authority to grant or amend Awards to Participants other than (a) senior executives of the Company who are subject to Section 16 of the Exchange Act or (b) Covered Employees. The Committee shall consist of at least two individuals, each of whom qualifies as a Non-Employee Director. Reference to the Committee shall refer to the Board if the Compensation Committee ceases to exist and the Board does not appoint a successor Committee. Notwithstanding the foregoing, the full Board, acting by majority of its members in office shall conduct the general administration of the Plan if required by Applicable Law, and with respect to Awards granted to Independent Directors and for purposes of such Awards the term "Committee" as used in the Plan shall be deemed to refer to the Board.

9.2 Action by the Committee. A majority of the Committee shall constitute a quorum. The acts of a majority of the members present at any meeting at which a quorum is present, and acts approved in writing by a majority of the Committee in lieu of a meeting, shall be deemed the acts of the Committee. Each member of

the Committee is entitled to, in good faith, rely or act upon any report or other information furnished to that member by any officer or other employee of the Company or any Subsidiary, the Company's independent certified public accountants, or any executive compensation consultant or other professional retained by the Company to assist in the administration of the Plan.

9.3 Authority of Committee. Subject to any specific designation in the Plan, the Committee has the exclusive power, authority and discretion to:

- (a) Designate Participants to receive Awards;
- (b) Determine the type or types of Awards to be granted to each Participant;
- (c) Determine the number of Awards to be granted and the number of Shares to which an Award will relate;
- (d) Determine the terms and conditions of any Award granted pursuant to the Plan, including, but not limited to, the exercise price, grant price, or purchase price, any restrictions or limitations on the Award, any schedule for lapse of forfeiture restrictions or restrictions on the exercisability of an Award, and accelerations or waivers thereof, any provisions related to non-competition and recapture of gain on an Award, based in each case on such considerations as the Committee in its sole discretion determines;
- (e) Determine whether, to what extent, and pursuant to what circumstances an Award may be settled in, or the exercise price of an Award may be paid in, cash, Shares, other Awards, or other property, or an Award may be canceled, forfeited, or surrendered;
- (f) Prescribe the form of each Award Agreement, which need not be identical for each Participant;
- (g) Decide all other matters that must be determined in connection with an Award;
- (h) Establish, adopt, or revise any rules and regulations as it may deem necessary or advisable to administer the Plan;
- (i) Interpret the terms of, and any matter arising pursuant to, the Plan or any Award Agreement; and
- (j) Make all other decisions and determinations that may be required pursuant to the Plan or as the Committee deems necessary or advisable to administer the Plan.

9.4 Decisions Binding. The Committee's interpretation of the Plan, any Awards granted pursuant to the Plan, any Award Agreement and all decisions and determinations by the Committee with respect to the Plan are final, binding, and conclusive on all parties.

ARTICLE 10

EFFECTIVE AND EXPIRATION DATE

10.1 Effective Date. The Plan is effective as of the date the Plan is approved by the Company's shareholders (the "Effective Date"). The Plan will be deemed to be approved by the shareholders if it receives the affirmative vote of the holders of a majority of the share capital of the Company present or represented and entitled to vote at a meeting duly held in accordance with the applicable provisions of the Company's Memorandum of Association and Articles of Association.

10.2 Expiration Date. The Plan will expire on, and no Award may be granted pursuant to the Plan after, the tenth anniversary of the Effective Date. Any

Awards that are outstanding on the tenth anniversary of the Effective Date shall remain in force according to the terms of the Plan and the applicable Award Agreement.

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ARTICLE 11

AMENDMENT, MODIFICATION, AND TERMINATION

11.1 Amendment, Modification, And Termination. With the approval of the Board, at any time and from time to time, the Committee may terminate, amend or modify the Plan; provided, however, that (a) to the extent necessary and desirable to comply with any applicable law, regulation, or stock exchange rule, the Company shall obtain shareholder approval of any Plan amendment in such a manner and to such a degree as required, and (b) shareholder approval is required for any amendment to the Plan that (i) increases the number of Shares available under the Plan (other than any adjustment as provided by Article 8), (ii) permits the Committee to grant Options with an exercise price that is below Fair Market Value on the date of grant, (iii) permits the Committee to extend the exercise period for an Option beyond ten years from the date of grant, or (iv) results in a material increase in benefits or a change in eligibility requirements.

11.2 Awards Previously Granted. Except with respect to amendments made pursuant to Section 11.1, no termination, amendment, or modification of the Plan shall adversely affect in any material way any Award previously granted pursuant to the Plan without the prior written consent of the Participant.

ARTICLE 12

GENERAL PROVISIONS

12.1 No Rights to Awards. No Participant, employee, or other person shall have any claim to be granted any Award pursuant to the Plan, and neither the Company nor the Committee is obligated to treat Participants, employees, and other persons uniformly.

12.2 No Shareholders Rights. No Award gives the Participant any of the rights of a Shareholder of the Company unless and until Shares are in fact issued to such person in connection with such Award.

12.3 Taxes. No Shares shall be delivered under the Plan to any Participant until such Participant has made arrangements acceptable to the Committee for the satisfaction of any income and employment tax withholding obligations under Applicable Laws. The Company or any Subsidiary shall have the authority and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, local and foreign taxes (including the Participant's payroll tax obligations) required by law to be withheld with respect to any taxable event concerning a Participant arising as a result of this Plan. The Committee may in its discretion and in satisfaction of the foregoing requirement allow a Participant to elect to have the Company withhold Shares otherwise issuable under an Award (or allow the return of Shares) having a Fair Market Value equal to the sums required to be withheld. Notwithstanding any other provision of the Plan, the number of Shares which may be withheld with respect to the issuance, vesting, exercise or payment of any Award (or which may be repurchased from the Participant of such Award after such Shares were acquired by the Participant from the Company) in order to satisfy the Participant's federal, state, local and foreign income and payroll tax liabilities with respect to the issuance, vesting, exercise or payment of the Award shall, unless specifically approved by the Committee, be limited to the

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number of Shares which have a Fair Market Value on the date of withholding or repurchase equal to the aggregate amount of such liabilities based on the

minimum statutory withholding rates for federal, state, local and foreign income tax and payroll tax purposes that are applicable to such supplemental taxable income.

12.4 No Right to Employment or Services. Nothing in the Plan or any Award Agreement shall interfere with or limit in any way the right of the Service Recipient to terminate any Participant's employment or services at any time, nor confer upon any Participant any right to continue in the employ or service of any Service Recipient.

12.5 Unfunded Status of Awards. The Plan is intended to be an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a Participant pursuant to an Award, nothing contained in the Plan or any Award Agreement shall give the Participant any rights that are greater than those of a general creditor of the Company or any Subsidiary.

12.6 Indemnification. To the extent allowable pursuant to applicable law, each member of the Committee or of the Board shall be indemnified and held harmless by the Company from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such member in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action or failure to act pursuant to the Plan and against and from any and all amounts paid by him or her in satisfaction of judgment in such action, suit, or proceeding against him or her; provided he or she gives the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled pursuant to the Company's Memorandum of Association and Articles of Association,, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

12.7 Relationship to other Benefits. No payment pursuant to the Plan shall be taken into account in determining any benefits pursuant to any pension, retirement, savings, profit sharing, group insurance, welfare or other benefit plan of the Company or any Subsidiary except to the extent otherwise expressly provided in writing in such other plan or an agreement thereunder.

12.8 Expenses. The expenses of administering the Plan shall be borne by the Company and its Subsidiaries.

12.9 Titles and Headings. The titles and headings of the Sections in the Plan are for convenience of reference only and, in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

12.10 Fractional Shares. No fractional shares of Share shall be issued and the Committee shall determine, in its discretion, whether cash shall be given in lieu of fractional shares or whether such fractional shares shall be eliminated by rounding up or down as appropriate.

12.11 Limitations Applicable to Section 16 Persons. Notwithstanding any other

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provision of the Plan, the Plan, and any Award granted or awarded to any Participant who is then subject to Section 16 of the Exchange Act, shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, the Plan and Awards granted or awarded hereunder shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

12.12 Government and Other Regulations. The obligation of the Company to make payment of awards in Share or otherwise shall be subject to all Applicable Laws, rules, and regulations, and to such approvals by government agencies as

may be required. The Company shall be under no obligation to register any of the Shares paid pursuant to the Plan under the Securities Act or any other similar law in any applicable jurisdiction. If the Shares paid pursuant to the Plan may in certain circumstances be exempt from registration pursuant to the Securities Act or other Applicable Laws the Company may restrict the transfer of such shares in such manner as it deems advisable to ensure the availability of any such exemption.

12.13 Governing Law. The Plan and all Award Agreements shall be construed in accordance with and governed by the laws of Canada.

12.14 Section 409A. To the extent that the Committee determines that any Award granted under the Plan is or may become subject to Section 409A of the Code, the Award Agreement evidencing such Award shall incorporate the terms and conditions required by Section 409A of the Code. To the extent applicable, the Plan and the Award Agreements shall be interpreted in accordance with Section 409A of the Code and the U.S. Department of Treasury regulations and other interpretative guidance issued thereunder, including without limitation any such regulation or other guidance that may be issued after the Effective Date. Notwithstanding any provision of the Plan to the contrary, in the event that following the Effective Date the Committee determines that any Award may be subject to Section 409A of the Code and related Department of Treasury guidance (including such Department of Treasury guidance as may be issued after the Effective Date), the Committee may adopt such amendments to the Plan and the applicable Award agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Committee determines is necessary or appropriate to (a) exempt the Award from Section 409A of the Code and /or preserve the intended tax treatment of the benefits provided with respect to the Award, or (b) comply with the requirements of Section 409A of the Code and related U.S. Department of Treasury guidance.

12.15 Appendices. The Committee may approve such supplements, amendments or appendices to the Plan as it may consider necessary or appropriate for purposes of compliance with applicable laws or otherwise and such supplements, amendments or appendices shall be considered a part of the Plan; provided, however, that no such supplements shall increase the share limitations contained in Sections 3.1 and 3.3 of the Plan.

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* * * * *

I hereby certify that the foregoing Plan was duly adopted by the Board of Directors of Canadian Solar, Inc. on March 15, 2006.

* * * * *

I hereby certify that the foregoing Plan was approved by the shareholders of Canadian Solar, Inc. on March 15, 2006.

Executed on this 15th day of March, 2006.

/s/

President & CEO

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CANADIAN SOLAR INC.

RESTRICTED SHARES AWARD AGREEMENT

NAME: _____ SHARE INCENTIVE PLAN

ADDRESS: _____

GRANT: _____ COMMON SHARES (THE "RESTRICTED
SHARES") OF CANADIAN SOLAR, INC.
(THE "COMPANY")

GRANT PRICE: US\$0.00 PER SHARE

SIGNATURE: _____ GRANT DATE: _____, 200__

VESTING COMMENCEMENT DATE: _____, 200__

Effective on the Grant Date you have been granted the Restricted Shares of the Company, in accordance with the provisions of the Canadian Solar Inc. Share Incentive Plan (the "Plan") and subject to the restrictions, terms and conditions set forth herein.

The Restricted Shares will vest in accordance with the following schedule:

50% of the Restricted Shares will be vested one year after the Grant Date, and another 50% of the Restricted Shares will be vested two years after the Grant Date.

Once vested, the Restricted Shares will no longer be subject to forfeiture and the restrictions contained in this Agreement.

In the event of the termination of your employment or service for any reason, whether such termination is occasioned by you, by the Company or any of its Subsidiaries, with or without cause or by mutual agreement ("Termination of Service"), prior to vesting in the Restricted Shares, your right to any unvested Restricted Shares will terminate effective as of the earlier of: (i) the date that you give or are provided with written notice of Termination of Service, or (ii) if you are an employee of the Company or any of its Subsidiaries, the date that you are no longer actively employed and physically present on the premises of the Company or any of its Subsidiaries, regardless of any notice period or period of pay in lieu of such notice required under any applicable statute or the common law (each, the "Notice Period"). For greater clarity, you have no rights to vest in Restricted Shares during the Notice Period.

Notwithstanding the foregoing, the Restricted Shares will fully vest and no longer be subject to forfeiture and the restrictions contained in this Agreement if your Termination of Service is as a result of death or disability.

Until vested, the Restricted Shares are not transferable and may not be sold, pledged or otherwise transferred.

The Company may but is not obligated to cause to be issued one or more share certificates, registered in your name, evidencing the Restricted Shares or may hold the Restricted Shares in book form. If the Company issues certificate(s) evidencing the Restricted Shares each such certificate will bear the following legend:

The shares represented by this certificate are subject to forfeiture and the transferability of this certificate and the shares represented hereby are subject to the restrictions, terms and conditions (including restrictions against transfer) contained in the Canadian Solar Inc. Share Incentive Plan and a Restricted Shares Award Agreement dated thereof, entered into between the registered owner of such shares and Canadian Solar Inc..

Each such certificate, together with powers duly executed in blank related to such Restricted Shares, will be deposited with the Secretary of the Company or a custodian designated by the Secretary. The Secretary or custodian will issue a receipt to you evidencing the certificates held that are registered in your name. Following the vesting of any of your Restricted Shares, the Company will cause to be issued and delivered to you certificates evidencing such Restricted Shares, free of the legend provided above.

You will not be entitled to receive dividends paid on the common shares of the Company, if any, until the Restricted Shares are vested. You will not be entitled to vote the Restricted Shares until such Restricted Shares are vested. Only the vested portion of the Restricted Shares shall entitle the holder thereof to receive dividends, if any, and voting right.

The Company has the authority to deduct or withhold, or require you to remit to the Company, an amount sufficient to satisfy applicable federal, state, local and foreign taxes arising from this Restricted Shares Award. You may satisfy your tax obligation, in whole or in part, by: (i) electing to have the Company withhold shares of your Restricted Shares otherwise to be delivered with a fair market value equal to the minimum amount of the tax withholding obligation; (ii) surrendering to the Company previously owned Restricted Shares with a fair market value equal to the minimum amount of the tax withholding obligation; or (iii) paying over to the Company in cash the amount of tax withholding obligation.

You acknowledge and consent to the collection, use, processing and transfer of personal data as described in this paragraph. The Company, its affiliates and your employer hold certain personal information, including your name, home address and telephone number, date of birth, identification number, salary, nationality, job title, any shares awarded, cancelled, purchased, vested, unvested or outstanding in your favor, for the purpose of managing and administering the Plan ("Data"). The Company and its affiliates will transfer Data to any third parties assisting the Company in the implementation, administration and management of the Plan. These recipients may be located in the PRC or elsewhere such as the European Economic Area or the United States. You authorize them to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing your participation in the Plan, including any requisite transfer of such Data as may be required for the administration of the Plan and/or the subsequent holding of shares on your behalf to a broker or other third party with whom you may elect to deposit any shares acquired pursuant to the Plan. You may, at any time, review Data, require any necessary amendments to it or withdraw the consent herein in writing by contacting the Company; however, withdrawing the consent may affect your ability to participate in the Plan.

Your participation in the Plan is voluntary. The value of the Restricted Shares Award is an extraordinary item of compensation outside the scope of your employment contract, if any. As such, the Restricted Shares Award is not part of normal or expected compensation for purposes of calculating any severance, resignation, redundancy, end of service payments, bonuses, long-service awards, pensions or retirement

benefits or similar payments unless specifically and otherwise provided. Rather, the awarding of Restricted Shares under the Plan represents a mere investment opportunity.

This Restricted Shares Award is granted under and governed by the terms and conditions of the Plan. You acknowledge and agree that the Plan is discretionary in nature and may be amended, cancelled, or terminated by the Company, in its sole discretion, at any time. The grant of a Restricted Shares Award under the Plan is a one-time benefit and does not create any contractual or other right to receive an award of Restricted Shares or benefits in lieu of Restricted Shares in the future. Future awards of Restricted Shares, if any, will be at the sole discretion of the Company, including, but not limited to, the timing of the award, the number of shares, and vesting provisions. The Plan has been introduced voluntarily by the Company and in accordance with the provisions of the Plan may be terminated by the Company at any time. By execution of this Agreement, you consent to the provisions of the Plan and this Agreement. Defined terms used herein shall have the meaning set forth in the Plan, unless otherwise defined herein.

COMPANY:

Canadian Solar Inc.

Name:
Title:

ACKNOWLEDGED AND AGREED BY:

Name:

CANADIAN SOLAR, INC.
SHARE OPTION AGREEMENT

NAME: PLAN: SHARE INCENTIVE PLAN

ADDRESS: GRANT: OPTION TO PURCHASE _____ SHARES
OF THE ORDINARY SHARE CAPITAL OF
CANADIAN SOLAR, INC.

EXERCISE PRICE: \$

SIGNATURE: GRANT DATE:

Effective on the Grant Date you have been granted an the option to purchase the number of Shares of the Company at the exercise price designated above, in accordance with the provisions of the Canadian Solar, Inc. Share Incentive Plan (the "Plan"). This option may be exercised for whole shares only.

Twenty-five percent (25%) of the Shares subject to the option will vest and become exercisable on each anniversary of the Grant Date

In the event of the termination of your employment or service for the Company, for any reason, whether such termination is occasioned by you, by the Company or any of its Subsidiaries or Related Entities, or with or without cause or by mutual agreement or if you cease to be employed by a Related Entity either through sale or otherwise ("Termination of Service"), your right to vest in your option under the Plan, if any, will terminate effective as of the earlier of: (i) the date that you give or are provided with written notice of Termination of Service, or (ii) if you are an employee of the Company or any of its Subsidiaries, the date that you are no longer actively employed and physically present on the premises of the Company or any of its Subsidiaries, regardless of any notice period or period of pay in lieu of such notice required under any applicable statute or the common law (each, the "Notice Period"). For greater clarity, you have no rights to vest in your option during the Notice Period.

Notwithstanding the foregoing, if your Termination of Service is by reason of cause, then your right to exercise the option shall terminate concurrently with your Termination of Service. For this purpose cause shall have the meaning as expressly defined in any then-effective written agreement regarding your employment with the Company, any Subsidiary or Related Entity, or in the absence of such then-effective written agreement and definition, is based on, in the determination of the Committee that you have: (i) performed an act or failure to perform any act in bad faith and to the detriment of the Company, a Subsidiary or any Related Entity; (ii) engaged in dishonesty, intentional misconduct or material breach of any agreement with the Company, a Subsidiary or a Related Entity; or (iii) commission of a crime involving dishonesty, breach of trust, or physical or emotional harm to any person.

The option may not be exercised until vested. Once vested, the option may be exercised in whole or any part, at any time. However, a vested option must be exercised, if at all, prior to the earlier of:

- (a) one year following your Termination of Service with the Company, its Subsidiaries and Related Entities by reason of death, or Disability;

- (b) 90 days following your last day of active employment or service with or for the Company, its Subsidiary or Related Entities for any reason other than death or Disability; for this purpose your last day of active employment or service will be deemed to occur on the date of the closing of the sale of all or substantially all of the stock or assets of a Subsidiary or Related Entity for which you are employed at the time of the transaction;
- (c) the tenth anniversary of the Grant Date;

and if not exercised prior thereto shall terminate and no longer be exercisable.

The option will be deemed exercised upon your completing the exercise procedures established by the Company and your payment of the option exercise price per share and any applicable tax withholding to the Company. Payment may be made in cash or such other method as the Company may permit from time to time as set forth in the Plan.

The Shares acquired upon exercise of the option may in the discretion of the Company be subject to such restrictions as the Company may require such as rights of first refusal, rights of repurchase or requirements that you consent not to transfer the Shares for a period of time in connection with any public offering of the Shares.

Notwithstanding anything in the Plan to the contrary and in accordance with Section 4.3 of the Plan, if you are a resident for tax purposes in the Peoples Republic of China ("PRC"), you may exercise your option only by placing a market sell order with a broker with respect to Shares then issuable upon exercise of the option as described in Section 5.1(c) of the Plan.

The Company has the authority to deduct or withhold, or require you to remit to the Company, an amount sufficient to satisfy applicable federal, state, local and foreign taxes arising from this option. You may satisfy your tax obligation, in whole or in part, by either: (i) electing to have the Company withhold Shares otherwise to be delivered with a fair market value equal to the minimum amount of the tax withholding obligation; or (ii) surrendering to the Company previously owned Shares with a fair market value equal to the minimum amount of the tax withholding obligation.

This option is not transferable except by will or the laws of descent and distribution.

You acknowledge and consent to the collection, use, processing and transfer of personal data as described in this paragraph. The Company, its affiliates and your employer hold certain personal information, including your name, home address and telephone number, date of birth, social security number or other employee tax identification number, salary, nationality, job title, any shares of stock awarded, cancelled, purchased, vested, unvested or outstanding in your favor, for the purpose of managing and administering the Plan ("Data"). The Company and its affiliates will transfer Data to any third parties assisting the Company in the implementation, administration and management of the Plan. These recipients may be located in the European Economic Area, the PRC or elsewhere such as the United States. You authorize them to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing your participation in the Plan, including any requisite transfer of such Data as may be required for the administration of the Plan and/or the subsequent holding of shares of stock on your behalf to a broker or other third party with whom you may elect to deposit any shares of stock acquired pursuant to the Plan. You may, at any time, review Data, require any necessary amendments to it or withdraw the consent herein in writing by

contacting the Company; however, withdrawing the consent may affect your ability to participate in the Plan.

Your participation in the Plan is voluntary. The value of the option is an extraordinary item of compensation outside the scope of your employment contract, if any. As such, the option is not part of normal or expected compensation for purposes of calculating any severance, resignation, redundancy, end of service payments, bonuses, long-service awards, pensions or retirement benefits or similar payments unless specifically and otherwise provided. Rather, the awarding of an option under the Plan represents a mere investment opportunity.

This option is granted under and governed by the terms and conditions of the Plan. You acknowledge and agree that the Plan is discretionary in nature and may be amended, cancelled, or terminated by the Company, in its sole discretion, at any time. The grant of an option under the Plan is a one-time benefit and does not create any contractual or other right to receive a grant of options or benefits in lieu of options in the future. Future grants of options, if any, will be at the sole discretion of the Company, including, but not limited to, the timing of the grant, the number of options, vesting provisions, and the exercise price. The Plan has been introduced voluntarily by the Company and in accordance with the provisions of the Plan may be terminated by the Company at any time. By execution of this Agreement, you consent to the provisions of the Plan and this Agreement. Defined terms used herein shall have the meaning set forth in the Plan, unless otherwise defined herein.

COMPANY:

CANADIAN SOLAR, INC.

By:
Its:

DATED 29 NOVEMBER 2005

(1) CANADIAN SOLAR INC.

and

(2) MR. QU XIAO HUA

EMPLOYMENT AGREEMENT

THIS AGREEMENT is made the 29th day of November 2005.

BETWEEN:

- (1) CANADIAN SOLAR INC., a corporation incorporated under the laws of the Province of Ontario, Canada with its registered office at 4056 Jefton Crescent, Mississauga, Ontario, Canada L5L 1Z3 (the "COMPANY"); and
- (2) MR. QU XIAO HUA, holder of Canadian Passport Number BC289772 and whose residential address being at 4056 Jefton Crescent, Mississauga, Ontario, Canada L5L 1Z3 (the "EXECUTIVE");

WHEREAS the Company has employed the Executive and the Executive has been employed by the Company since November 29th, 2005 as the President and Chief Executive Officer and the parties now wish to record the terms of this engagement.

WHEREBY IT IS AGREED as follows:-

1. DEFINITIONS AND INTERPRETATION

- 1.1 In this Agreement, unless the context otherwise requires, the following words shall have the following meanings:

"AFFILIATE" of the Executive means (a) any company or corporation that, directly or indirectly, through one or more intermediaries, is controlled by the Executive and/or any of his spouse, parents or descendants (whether by blood or adoption and including stepchildren); and (b) the Executive's spouse, parents and descendants (whether by blood or adoption and including stepchildren);

"BOARD" means the board of directors from time to time of the Company or (as the context may require) the majority of directors present and voting at any meeting of the board of directors of the Company duly convened and held or a duly authorised committee thereof;

"BUSINESS" means all the business and affairs carried out by the Group or any company in the Group from time to time;

"BY-LAWS" means the by-laws of the Company as amended from time to time;

"COMMENCEMENT DATE" means the date of commencement of the Employment being November 29th, 2005;

"COMPENSATION COMMITTEE" means the compensation committee of the board of the Company;

"CONFIDENTIAL INFORMATION" means all information, know-how and records (in

whatever form held) in any way connected with the Business including (without

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prejudice to the generality of the foregoing) without limitation all formulae, designs, specifications, drawings, data, operations and testing procedures, manuals and instructions and all customer and supplier lists, sales information, business plans and forecasts and all technical or other expertise and all computer software and all accounting and tax records, correspondence, orders and enquiries that are confidential or not generally known;

"EMPLOYMENT" means the employment of the Executive as President and Chief Executive Officer of the Company or such other position as may be designated by the Company;

"GROUP" means the Company and any subsidiaries from time to time of the Company;

"GROUP COMPANY" means any company in the Group;

"HONG KONG" means the Hong Kong Special Administrative Region of the People's Republic of China;

"INCAPACITY" means any illness (whether mental or physical), injury or accident; and

"TRANSACTION DOCUMENTS" means (a) the subscription agreement dated 16 November 2005 between, among others, the Company and the Executive; and (b) the investment agreement to be entered into on or about November 30th, 2005 between, among others, the Company and the Executive.

1.2 References herein to Clauses are references to the clauses of this Agreement. The headings in this Agreement are inserted for convenience of reference only and do not affect the interpretation of this Agreement.

1.3 References herein to one gender include references to all other genders. References herein to persons include references to individuals, firms, companies, corporations and unincorporated bodies of persons and vice versa. References herein to the singular number include references to the plural and vice versa.

2. EMPLOYMENT

2.1 The Company has, from the Commencement Date, employed the Executive and the Executive shall continue to faithfully serve the Company as President and Chief Executive Officer of the Company (or such other position as the Company may from time to time designate) subject to and upon the terms hereinafter set out.

2.2 Subject to the provisions for termination set out in Clause 9, the Employment shall continue unless and until terminated by either the Company or the Executive giving to the other not less than three (3) months' prior notice in writing to terminate the Employment, provided that such notice may only be given by the Executive any time after December 31st, 2008.

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2.3 The Executive represents and warrants that he is not bound by or subject to any court order, agreement, arrangement or undertaking which in any way restricts or prohibits him from entering into this Agreement or the Employment nor from performing his duties hereunder.

3. EXECUTIVE'S DUTIES AND SERVICES

- 3.1 The Executive hereby undertakes with the Company that during the term of the Employment he shall use his best endeavours to carry out his duties hereunder and to protect, promote and act in the best interests of the Group.
- 3.2 Without prejudice to the generality of Clause 3.1 above, the Executive in his office as President and Chief Executive Officer of the Company (or such other position as the Company may from time to time designate) shall:-
- 3.2.1 devote the whole of his attention, skill and time to the interests and affairs of the Group in the discharge of his duties as President and Chief Executive Officer (or such other position as the Company may from time to time designate) in relation to the Group, both during his hours of work (being the normal business hours of the Group together with such additional hours as the Executive may spend on the performance of his duties) and at such other times as the Executive may spend for the proper and efficient conduct of the Business (subject to appropriate holidays and vacation time as provided in this Agreement);
- 3.2.2 in the discharge of such duties and in the exercise of such powers comply with all and any lawful directions and instructions from time to time made or given to him by the Board according to the best of his skills and ability and comply with all resolutions and regulations from time to time passed or made by the Board;
- 3.2.3 in pursuance of his duties hereunder perform such services for any company in the Group and (without further remuneration unless otherwise agreed) accept such offices (including being appointed as director thereof) in any company in the Group as the Board may from time to time reasonably require; and
- 3.2.4 faithfully and diligently perform such duties and exercise only such powers as are consistent with his office in relation to the Company and/or any company in the Group and use his best endeavours to promote the interests of the Group.
- 3.3 The Executive shall at all times keep the Board promptly and fully informed of the Executive's conduct of the Business or affairs of the Group and give promptly to the Board (in writing if so requested) all such information as the Board may reasonably require in relation to his conduct of the Business insofar as such information is or ought to be within the knowledge of the Executive and provide such written explanations as the Board may require in connection therewith.
- 3.4 The Executive shall carry out his duties and exercise his powers jointly with any other directors or executives as shall from time to time be appointed by the Board to

act jointly with the Executive and the Board may at any time require the Executive to cease performing or exercising any of his duties or powers under this Agreement.

- 3.5 The Executive shall work in any place in the People's Republic of China or Canada or any part of the world which the Board may from time to time require for the proper performance and exercise of his duties and powers under this Agreement.

4. REMUNERATION AND OTHER BENEFITS

- 4.1 In consideration for the performance of his duties hereunder and subject to the provisions of Clause 4.4, the Executive shall be entitled to receive with effect from the Commencement Date during the term of the

Employment a salary at the rate of [*] Canadian dollars per annum (including any sum payable to the Executive as directors' fees from any company in the Group, any tax and duties payable by the Executive pursuant to the applicable laws) payable by 12 monthly instalments, each such instalment being payable in arrears into a bank account in the name of the Executive designated by the Executive to the Company on the last business day of each calendar month provided that if the Employment is terminated prior to the end of a calendar month, the Executive shall only be entitled to a proportionate part of such salary in respect of the period of Employment during the relevant month up to the date of termination.

- 4.2 Payment of such salary to the Executive referred to in Clause 4.1 shall be made by the Company.
- 4.3 The salary referred in Clause 4.1 shall be subject to review by the Compensation Committee on November 30th of each calendar year from 2006 onwards.
- 4.4 The Executive shall continue to receive his salary during any period of absence on grounds of medical or physical ill-health up to a maximum of 90 days in any period of twelve (12) months or such number of days not more than that prescribed by law (whichever is longer) provided that the Executive shall, if required by the Company, supply the Company with medical certificates covering the period of absence and/or undergo at the Company's expense a medical examination by a Executive appointed by the Company.
- 4.5 The payment of tax, duties, social security and like payments arising out of the Employment shall be dealt with by the parties in accordance with the applicable laws and regulations. The Executive undertakes to the Company promptly to discharge any payments which shall be paid by him pursuant to the applicable laws as they fall due and to indemnify the Company against any liability in respect thereof which may fall upon the Company as a result of his failure to pay.
- 4.6 The Executive shall be entitled to bonus as approved by the Compensation Committee.
- 4.7 The Company shall provide the Executive, his spouse and children benefits to health, medical and accidental insurance policies which will be taken out by the Company in accordance with its human resources policy and subject to approval by the Compensation Committee. The Company will reimburse the Executive, his

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spouse and children reasonable medical and emergency expenses before such policies are taken out.

- 4.8 The Company shall provide the Executive reasonable housing or housing allowance in accordance with its human resources policy and subject to approval by the Compensation Committee.
 - 4.9 The Company shall provide each of the Executive, his spouse and children two (2) return business class airfares between Canada and the People's Republic of China in a year.
5. EXPENSES

The Executive shall be reimbursed all reasonable out-of-pocket business expenses (including entertainment, travelling, telephone and hotel expenses) properly and reasonably incurred by him in relation to the Business or in the discharge of his duties under this Agreement, providing the Executive complies with directions of the Board as may from time to time be made in relation to such expenses and such expenses shall be evidenced in such manner as the Board may require.

6. LEAVE

- 6.1 The Executive shall (in addition to Sundays and statutory holidays) be entitled, at the absolute discretion of the Company, to paid holiday of twenty-five (25) working days in each holiday year during the continuance of the Employment to be taken at such time or times convenient to the Company as the Board may agree. The Executive may cash out or carry forward up to one year's unused holiday entitlement to a subsequent holiday year and no payment in lieu will be paid therefor.
- 6.2 The Executive will be entitled on termination to pay in lieu of any unused holiday entitlement. Where the Executive has taken holiday in excess of his accrued entitlement, the Executive will be required to repay any excess salary received in respect of such holiday at the rate of 1/365th of the Executive's salary for each day.

7. SHARE DEALINGS

The Executive shall comply where relevant with every rule of law and every regulation applicable to the Company and its securities and every regulation contained in the By-Laws and the Transaction Documents or otherwise applicable to the Company in force in relation to dealings in shares, debentures or other securities of the companies in the Group and in relation to unpublished price-sensitive information affecting the shares, debentures or other securities of any company in the Group provided always that in relation to overseas dealings the Executive shall also comply with all laws of the state and all regulations of the stock exchange, market or dealing system in which such dealings take place.

8. INCAPACITY

- 8.1 If the Executive is absent from work because of Incapacity such fact should, where practicable, be reported by the Executive to another director of the Company and, after three continuous days' absence, the Executive must provide, for sickness

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allowance purposes, a medical practitioners' certificate(s) of his Incapacity and its cause covering the whole of the Executive's period of absence.

- 8.2 If the Executive is absent from work due to Incapacity and has complied with the provisions of Clause 8.1, he will continue to be paid sickness allowance in accordance with the applicable laws or Clause 4.4 whichever is more favourable to the Executive. If the Executive's absence exceeds 30 consecutive days, the Company will be entitled to appoint a temporary replacement to cover the Executive's absence.
- 8.3 The Executive will, whenever requested by the Board (in circumstances where the Board has reasonable grounds to believe that the Executive may be suffering from any Incapacity or that the Executive may not be fit to carry out his duties), submit to examination by a medical practitioner selected and paid for by the Company. The Executive hereby authorises such medical practitioner to disclose to and discuss with the Board any matters which, in the opinion of the medical practitioner, might hinder or prevent the Executive (if during a period of Incapacity) from returning to work or (in other circumstances) from properly performing his duties at any time.

9. TERMINATION

- 9.1 If at any time during the term of the Employment, the Executive shall:
- 9.1.1 be guilty of fraud or other gross or wilful misconduct, or gross incompetence or habitual neglect of duty, or commit any other serious breach of this Agreement; or

- 9.1.2 act in any manner (whether in the course of his duties or otherwise) which is likely to bring him or any Group Company into disrepute or prejudice the interests of any Group Company; or
- 9.1.3 commit any act of bankruptcy or become insolvent or make any arrangements or composition with his creditors generally; or
- 9.1.4 fail to pay his personal debts generally; or
- 9.1.5 be convicted of any criminal offence involving his integrity or honesty; or
- 9.1.6 refuse to carry out any reasonable lawful order given to him by the Board in the course of the Employment or fail diligently to attend to his duties hereunder (including without limitation, absent himself of meetings of the Board during a continuous period of 6 months without special leave of absence from the Board); or
- 9.1.7 be guilty of continuing unsatisfactory conduct or poor performance of his duties, after having received a written warning from the Company relating to the same; or
- 9.1.8 resign as a director of any Group Company without the Board's written consent; or
- 9.1.9 be or become prohibited by law from being a director,

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the Company may terminate the Executive's employment hereunder forthwith without any notice or payment in lieu of notice and upon such termination the Executive shall not be entitled to any payment whatsoever (other than in respect of unpaid salary and unused annual leave actually accrued) or to claim any compensation or damages in respect of such termination.

- 9.2 Any delay or forbearance by the Company in exercising any right to terminate this Agreement shall not constitute a waiver of such right.
- 9.3 Subject to provisions set out in Clauses 2.2 and 9.1, upon termination of the Employment, the Company will compensate the Executive one month salary for every year of services.
- 9.4 Forthwith upon the termination of the Employment hereunder, and/or at any other time if the Company shall so request, the Executive shall deliver to the Company all documents (including correspondence, lists of customers, notes, memoranda, plans, drawings and other documents of whatsoever nature), models or samples made or compiled by or delivered to the Executive during the Employment and concerning the Business. For the avoidance of doubt it is hereby declared that the property in all such documents as aforesaid shall at all times be vested in the relevant Group Company.
- 9.5 The Executive acknowledges that the Company may, during all or any part of any period of notice whether given by the Company or the Executive to terminate the Executive's employment under this Agreement require the Executive not to attend work and/or not to undertake all or any of his duties and/or exclude him from any premises of the Company, provided that for the avoidance of doubt during such period the Executive shall continue to receive salary and other contractual benefits provided by this Agreement.
- 9.6 The Executive agrees that he will not, at any time after the termination of the Employment, represent himself as still having any connection with the Company or any other Group Companies, save as a former employee for the purpose of communicating with prospective employers or complying with any applicable statutory requirements.

9.7 The Executive shall forthwith resign in writing from all directorships, trusteeships and other offices he may hold from time to time with the Company or any other Group Companies without compensation for loss of office in the event of:

9.7.1 the termination of the Employment; or

9.7.2 either the Company or the Executive serving on the other notice of termination of the Employment.

9.8 In the event of the Executive failing to comply with his obligations under Clause 9.6, he hereby irrevocably and unconditionally authorises the Company to appoint another person in his name and on his behalf to sign or execute any documents and/or do all things necessary or requisite to give effect to such resignations as referred to in Clause 9.6.

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10. UNDERTAKINGS OF THE EXECUTIVE

10.1 The Executive undertakes to the Company that:

10.1.1 for so long as he remains being employed by any Group Company or remains as an officer of any Group Company, and for a period of twelve (12) months after he ceases to be an employment or officer of any Group Company (as the case may be), he will not, without the prior written consent of the Board:

- (a) in the People's Republic of China and such other territories where the Group carries on its business or part thereof (the "TERRITORY") either on his own account or through any of his Affiliates, or in conjunction with or on behalf of any other person, carry on or be engaged, concerned or interested directly or indirectly whether as shareholder, director, employee, partner, adviser, agent or otherwise carry on any business in direct competition with the business or proposed business of the Group;
- (b) either on his own account or through any of his Affiliates or in conjunction with or on behalf of any other person, solicit or entice away or attempt to solicit or entice away from any Group Company, the custom of any person, firm, company or organization who is or shall at any time within twelve (12) months prior to such cessation have been a customer, client, representative, agent or correspondent of such Group Company;
- (c) either on his own account or through any of his Affiliates or in conjunction with or on behalf of any other person, employ, solicit or entice away or attempt to employ, solicit or entice away from any Group Company any person who is or shall have been at the date of or within twelve (12) months prior to such cessation an officer, manager, consultant or employee of any such Group Company, whether or not such person would commit a breach of contract by reason of leaving such employment; and
- (d) either on his own account or through any of his Affiliates, in relation to any trade, business or company, use a name including any word used by any Group Company in its name or in the name of any of its products, services or their derivative terms, or the Chinese or English equivalent or any similar word in such a way as to be capable of or likely to be confused with the name of any Group Company or the product or services or any other products or services of any Group Company, and the Executive shall use all reasonable endeavours to procure that no such name shall be used by any of his Affiliates or otherwise by any person with which he is connected; and

10.1.2 any expansion, development or evolution of the activities of any business or any appropriate opportunity offered to him shall (unless the Company

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otherwise agrees) only be pursued or taken up through the Company or another Group Company.

10.2 Each of Clauses 10.1.1(a), 10.1.1(b), 10.1.1(c), 10.1.1(d) and 10.1.2 shall be deemed to constitute a separate undertaking and shall be construed independently of each other, and so that if any such undertaking is held to be void or invalid, but would not have been so held if part of the wording were deleted, or its extent reduced or modified, then such undertaking shall apply with such modification(s) as may be necessary to make the same valid and enforceable.

11. CONFIDENTIAL INFORMATION

11.1 The Executive shall not, at any time during the term of the Employment or after the termination of the Employment without limit in point of time, except authorised or required by his duties:-

11.1.1 use, take away, conceal or destroy any Confidential Information for his own purpose or for any purpose other than that of the Group; or

11.1.2 divulge or communicate to any person any Confidential Information except to those of the employees of a Group Company on a need-to-know basis; or

11.1.3 through any failure to exercise all due care and diligence, cause any unauthorised disclosure of any Confidential Information (including without limitation):-

- (a) relating to the dealings, organisation, business, finance, transactions or any other affairs of the Group or its clients or customers; or
- (b) in respect of which any such company in the Group is bound by an obligation of confidence to any third party; or
- (c) relating to the working of any process or invention which is carried on or used by any company in the Group or which he may discover or make during his Employment; including anything which by virtue of Clause 12 becomes the absolute property of the Group,

but so that these restrictions shall cease to apply to any information or knowledge which may (otherwise than through the default of the Executive) become available to the public generally or otherwise required by law or any applicable regulations to be disclosed.

11.2 Since the Executive may obtain in the course of the Employment by reason of services rendered for or offices held in any Group Company knowledge of the trade secrets or other confidential information of such company, the Executive hereby agrees that he will at the request and cost of the Company or such other company enter into a direct agreement or undertaking with such company whereby he will accept restrictions corresponding to the restrictions herein contained (or such of them as may be appropriate in the circumstances) in relation to such products and

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services and such area and for such period as such company may reasonably

require for the protection of its legitimate interests.

- 11.3 All notes, memoranda, records and writings made by the Executive in relation to the Business or concerning any of its dealings or affairs or the dealings or affairs of any clients or customers of the Group shall be and remain the property of the Group and shall be handed over by him to the Company (or to such other company in the Group as the Company may direct) from time to time on demand and in any event upon his leaving the service of the Company and the Executive shall not retain any copy thereof.

12. INTELLECTUAL PROPERTY

- 12.1 The parties foresee that the Executive has created and may create designs or other intellectual property in the course of his duties hereunder and agree that in this respect the Executive has a special responsibility to further the interests of the Company and the Group.
- 12.2 Any invention, production, improvement or design made or process or information discovered or copyright work or trade mark or trade name or get-up source code or any other intellectual property created by the Executive during the continuance of his Employment hereunder (whether before or after the date hereof or whether capable of being patented or registered or not and whether or not made or discovered in the course of his employment hereunder) in conjunction with or in any way affecting or relating to the business of any company in the Group or capable of being used or adapted for use therein or in connection therewith shall forthwith be disclosed to the Company and shall belong to and be the absolute property of such company in the Group as the Company may direct.
- 12.3 The Executive, if and whenever required to do by the Company, shall at the expense of a company in the Group apply or join with such company in applying for letters patent or other protection or registration for any such invention improvement design process information work trade mark name or get-up source code or other intellectual property rights as aforesaid which belongs to such company and shall at the expense of such company execute and do all instruments and things necessary for vesting the said letters patent or other protection or registration when obtained and all right title and interest to and in the same in such company absolutely and as sole beneficial owner.
- 12.4 The Executive hereby irrevocably appoints the Company to be his Attorney in his name and on his behalf to execute and do any such instrument or thing and generally to use his name for the purpose of giving to the Company the full benefit of this Clause 12 and in favour of any third party a certificate in writing signed by any director of the Company that any instrument or act falls within the authority hereby conferred shall be conclusive evidence that such is the case.

13. REASONABLENESS

While the restrictions and obligations contained in Clauses 10, 11 and 12 (on which the Executive has had the opportunity to take independent advice, as the Executive hereby acknowledges) are considered by the parties to be reasonable in all the

circumstances. It is recognised by the parties that restrictions and obligations of the nature in question may fail for technical and/or unforeseen reasons and accordingly it is hereby agreed and declared that if any such restrictions or obligations shall be adjudged to be void as going beyond what is reasonable in all the circumstances for the protection of the interest of the Company or any other company in the Group but would not be void if part of the wording thereof were deleted or the periods (if any) thereof were reduced the said restriction shall apply with such modifications as may be necessary to make it valid and

effective.

14. WAIVER AND REMEDIES

14.1 No failure or delay on the part of either party to exercise any power, right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise by either party of any power, right or remedy preclude any other or further exercise of the remaining part thereof or the exercise of any other available power, right or remedy by that party.

14.2 The remedies provided herein are cumulative and are not exclusive of any remedies provided by law.

15. FORMER SERVICE AGREEMENTS

15.1 This Agreement shall be in substitution for and supersedes any previous service agreement, arrangements or undertakings entered into between any company in the Group and the Executive or any of his Affiliates and any terms of employment previously in force between any such company and the Executive or any of his Affiliates, whether or not on a legal or formal basis and the Executive now acknowledges that such agreements, arrangement or undertakings are now terminated.

15.2 The Executive hereby acknowledges that he has no claim of any kind against any company in the Group (other than in respect of accrued but unpaid management fees, director loan and retained earnings as a shareholder) and without prejudice to the generality of the foregoing he further acknowledges that he has no claim for damages against any company in the Group for the termination of any previous service agreements, arrangements or undertakings in accordance with Clause 15.1 for the sole purpose of entering into this Agreement.

15.3 The terms of this Agreement may not be modified, altered, varied or added to except by agreement in writing signed by the parties to this Agreement. None of the rights or duties of the Executive under this Agreement may be assigned, transferred or sub-contracted.

15.4 This Agreement embodies all of the terms and provisions of and relating to the employment of the Executive by the Company.

16. REPRESENTATIONS AND WARRANTIES

The Executive represents and warrants to the Company, as follows:

16.1 that he has no criminal convictions;

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16.2 that he has not been investigated by any regulatory or government authority,

16.3 that he has the necessary work permits (if required) to work for the Group; and

16.4 that he had the benefit of independent legal advice before signing this Agreement.

17. SEVERABILITY

The provisions of this Agreement are severable and if any provision is held to be invalid or unenforceable by any court of competent jurisdiction then such invalidity or unenforceability shall not affect the remaining provisions of this Agreement.

18. NOTICES

18.1 Any notice to be given hereunder to the Executive may be served by being

handed to him personally or by being sent by registered post to him at the address provided at the head of this Agreement (save that, where such address is outside the People's Republic of China, such notice may be sent by airmail) and any notice to be given to the Company may be served by being left at or sent by registered post to its place of business in China for the time being.

18.2 Any notice served by registered post in the city to which is addressed shall be deemed to have been served on the second day (excluding Sundays and statutory holidays) following the date of posting and any notice served by airmail shall be deemed to have been served on the seventh day (excluding Sundays and statutory holidays) following the date of posting and in proving such service it shall be sufficient proof that the notice was properly addressed and posted as a prepaid letter by registered post or airmail (as the case may be).

18.3 All notices or communications required to be served or given pursuant to this Agreement shall be in writing.

19. LAW

This Agreement is governed by and shall be construed in all respects in accordance with the laws of Ontario, Canada.

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IN WITNESS whereof this Agreement has been executed as a deed and delivered by the parties on the day and year first above written.

SIGNED BY THE PARTIES ON THE DATE FIRST ABOVE WRITTEN.

/s/

Name:

For and on behalf of
CANADIAN SOLAR INC.
in the presence of:

/s/

Witness

/s/

QU XIAO HUA

in the presence of:

/s/

Witness

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EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement"), is entered into as of _____, 2006 by and between Canadian Solar Inc., a corporation incorporated under the laws of the Province of Ontario, Canada (the "Company") and _____ (the "Employee").

RECITALS

A. The Company desires to employ the Employee as its [_____] and to assure itself of the services of the Employee during the term of Employment (as defined below).

B. The Employee desires to be employed by the Company as its [_____] during the term of Employment and upon the terms and conditions of this Agreement.

AGREEMENT

The parties hereto agree as follows:

1. POSITION

The Employee hereby accepts a position of [_____] (the "Employment") of the Company.

2. TERM

Subject to the terms and conditions of this Agreement, the initial term of the Employment shall be three years, commencing on [_____] 2006 (the "Effective Date"), until [_____] 2009, unless terminated sooner pursuant to the terms of this Agreement. Upon expiration of the initial three-year term, the Employment shall be automatically extended for successive one-year terms unless either party gives the other party hereto a one-month prior written notice to terminate the Employment prior to the expiration of such one-year term or unless terminated sooner pursuant to the terms of this Agreement.

3. PROBATION

No probationary period.

4. DUTIES AND RESPONSIBILITIES

The Employee's duties at the Company will include all jobs assigned by the Company's Board of the Directors (the "Board") or officers senior to the Employee.

The Employee shall devote all of his or her working time, attention and skills to the performance of his or her duties at the Company and shall faithfully and diligently serve the Company in accordance with this Agreement, the Charter Documents of the Company, and the guidelines, policies and procedures of the Company approved from time to time by the Board.

The Employee shall use his or her best endeavor to perform his or her duties hereunder. The Employee shall not, without the prior written consent of the Board, become an employee of any entity other than the Company and any subsidiary or affiliate of the Company, and shall not be concerned or interested in any business or entity that competes with that carried on by the Company (any such business or entity, a "Competitor"), provided that nothing in this clause shall preclude the Employee from

holding any shares or other securities of any Competitor that is listed on any securities exchange or recognized securities market anywhere. The Employee shall notify the Company in writing of his or her interest in such shares or securities in a timely manner and with such details and particulars as the Company may reasonably require.

5. LOCATION

The Employee will be based in [_____]. The Company reserves the right to transfer or second the Employee to any location in [China] or elsewhere in accordance with its operational requirements.

6. COMPENSATION AND BENEFITS

- (a) Cash Compensation. The Employee's cash compensation (including salary) shall be provided by the Company pursuant to Schedule A hereto, subject to annual review and adjustment by the Company.
- (b) Equity Incentives. To the extent the Company adopts and maintains a share incentive plan, the Employee will be eligible for participating in such plan pursuant to the terms thereof as determined by the Company.
- (c) Benefits. The Employee is eligible for participation in any standard employee benefit plan of the Company that currently exists or may be adopted by the Company in the future, including, but not limited to, any retirement plan, life insurance plan, health insurance plan, disability insurance plan and travel/holiday plan. If the Employee elects, the Company shall pay the reasonable cost of membership for the Employee, his or her spouse and dependent children not greater than twenty-one (21) years of age, for a private patient medical plan, with a reputable medical expense insurance scheme as the Company shall decide from time to time.

7. TERMINATION OF THE AGREEMENT

- (a) By the Company.

(i) The Company may terminate the Employment for cause, at any time, without notice or remuneration, if (1) the Employee is convicted or pleads guilty to a felony or to an act of fraud, misappropriation or embezzlement, (2) the Employee has been negligent or acted dishonestly to the detriment of the Company, or (3) the Employee has engaged in actions amounting to misconduct or failed to perform his or her duties hereunder and such failure continues after the Employee is afforded a reasonable opportunity to cure such failure.

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(ii) In addition, the Company may terminate the Employment without cause, at any time, upon three-months written notice. The Company shall have the option, in its sole discretion, to make the Employee's termination effective at any time prior to the end of such notice period as long as the Company pays the Employee all compensation to which the Employee is entitled up through the last day of the three-months notice period.

(iii) If the Employee's employment is terminated by the Company without cause (other than by reason of disability or death), the Employee shall receive, within 30 days following termination, a lump sum payment of (i) any earned but unpaid salary through the date of termination, and (ii) any earned but unpaid bonus for any calendar year preceding the year in which the termination occurs. In addition, subject to the Employee having completed the probation period, if any, and the Employee's compliance with Sections 8, 9 and 10 below, the Employee shall receive continued payments of his or her salary: (i) for one-month following a termination effective

prior to the first anniversary of the Effective Date; (ii) for two-months following a termination effective prior to the second anniversary of the Effective Date; (iii) for three-months following a termination effective prior to the third anniversary of the Effective Date; and (iv) for four-months following a termination effective at any time after the third anniversary of the Effective Date. The Employee shall have no further rights to any compensation (including any salary or bonus) or any other benefits under this Agreement. If the Employee is terminated for cause pursuant to this Section 7(a), he or she shall be entitled to receive only his or her salary through the date of termination and he shall have no further rights to any compensation (including any salary or bonus) or any other benefits under this Agreement.

(iv) All other benefits, if any, due to the Employee following a termination with or without cause shall be determined in accordance with the plans, policies and practices of the Company; provided, however, that the Employee shall not participate in any severance plan, policy or program of the Company.

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- (b) By the Employee. The Employee may terminate the Employment at any time with a one-month prior written notice to the Company, if (1) there is a material reduction in the Employee's authority, duties and responsibilities, or (2) there is a material reduction in the Employee's annual salary before the next annual salary review. In addition, the Employee may resign prior to the expiration of the Agreement if such resignation is approved by the Board of Directors of the Company (the "Board") or an alternative arrangement with respect to the Employment is agreed to by the Board. Upon a termination by the Employee pursuant to this Section 7(b), the Employee shall be entitled to his or her salary through the date of such termination and he shall have no further rights to any compensation (including any salary or bonus) or any other benefits under this Agreement. All other benefits, if any, due to the Employee following termination pursuant to this Section 7(b) shall be determined in accordance with the plans, policies and practices of the Company; provided, however, that the Employee shall not participate in any severance plan, policy or program of the Company.

8. CONFIDENTIALITY AND NONDISCLOSURE

In the course of the Employee's services, the Employee may have access to the Company and/or the Company's client's and/or prospective client's trade secrets and confidential information, including but not limited to those embodied in memoranda, manuals, letters or other documents, computer disks, tapes or other information storage devices, hardware, or other media or vehicles, pertaining to the Company and/or the Company's client's and/or prospective client's business. All such trade secrets and confidential information are considered confidential. All materials containing any such trade secret and confidential information are the property of the Company and/or the Company's client and/or prospective client, and shall be returned to the Company and/or the Company's client and/or prospective client upon expiration or earlier termination of this Agreement. The Employee shall not directly or indirectly disclose or use any such trade secret or confidential information, except as required in the performance of the Employee's duties in connection with the Employment, or pursuant to applicable law.

During and after the Employment, the Employee shall hold the Trade Secrets in strict confidence; the Employee shall not disclose these Trade Secrets to anyone except other employees of the Company who have a need to know the Trade Secrets in connection with the Company's business. The Employee shall not use the Trade Secrets other than for the benefits of the Company.

"Trade Secrets" means information deemed confidential by the Company, treated by the Company or which the Employee know or ought reasonably to have known to be confidential, and trade secrets, including without limitation designs, processes, pricing policies, methods, inventions, conceptions, technology, technical data, financial information, corporate structure and know-how, relating to the business and affairs of the Company and its subsidiaries, affiliates and business associates, whether embodied in memoranda, manuals, letters or other documents, computer disks, tapes or other information storage devices, hardware, or other media or vehicles. Trade Secrets do not include information generally known or released to public domain through no fault of yours.

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This Section 8 shall survive the termination of this Agreement for any reason. In the event the Employee breaches this Section 8, the Company shall have right to seek remedies permissible under applicable law.

9. INVENTIONS ASSIGNMENT

The Employee understands that the Company engages in research and development and other activities in connection with its business and that, as an essential part of the Employment, The Employee is expected to make new contributions to and create inventions of value for the Company.

From and after the Effective Date, the Employee shall disclose in confidence to the Company all inventions, improvements, designs, original works of authorship, formulas, processes, compositions of matter, computer software programs, databases, mask works and trade secrets (collectively, the "Inventions"), which the Employee may solely or jointly conceive or develop or reduce to practice, or cause to be conceived or developed or reduced to practice, during the period of the Employee's Employment at the Company. The Employee acknowledges that copyrightable works prepared by the Employee within the scope of and during the period of the Employee's Employment with the Company are "works for hire" and that the Company will be considered the author thereof. The Employee agrees that all the Inventions shall be the sole and exclusive property of the Company and the Employee hereby assign all his or her right, title and interest in and to any and all of the Inventions to the Company or its successor in interest without further consideration.

The Employee agrees to assist the Company in every proper way to obtain for the Company and enforce patents, copyrights, mask work rights, trade secret rights, and other legal protection for the Inventions. The Employee will execute any documents that the Company may reasonably request for use in obtaining or enforcing such patents, copyrights, mask work rights, trade secrets and other legal protections. The Employee's obligations under this paragraph will continue beyond the termination of the Employment with the Company, provided that the Company will compensate the Employee at a reasonable rate after such termination for time or expenses actually spent by the Employee at the Company's request on such assistance. The Employee appoints the Secretary of the Company as the Employee's attorney-in-fact to execute documents on the Employee's behalf for this purpose.

This Section 9 shall survive the termination of this Agreement for any reason. In the event the Employee breaches this Section 9, the Company shall have right to seek remedies permissible under applicable law.

10. NON-COMPETITION

In consideration of the salary paid to the Employee by the Company, the Employee agrees that during the term of the Employment and for a period of one (1) year following the termination of the Employment for whatever reason:

- (a) the Employee will not approach clients, customers or contacts of the

Company or other persons or entities introduced to the Employee in the Employee's capacity as a representative of the Company for the purposes of doing business

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with such persons or entities which will harm the business relationship between the Company and such persons and/or entities;

- (b) unless expressly consented to by the Company, the Employee will not assume employment with or provide services as a director or otherwise for any Competitor in the People's Republic of China or such other territories where the Company carries on its business or part thereof (the "Territory"), or engage, whether as principal, partner, licensor or otherwise, in any Competitor that carries on its business or part thereof in the Territory; and
- (c) unless expressly consented to by the Company, the Employee will not seek directly or indirectly, by the offer of alternative employment or other inducement whatsoever, to solicit the services of any employee of the Company employed as at or after the date of such termination, or in the year preceding such termination.

For purposes of this Section 10, a "Competitor" of the Company shall not include an entity that generates 10% or less of its revenues from solar power products and services similar to those provided by the Company, except that if the Employee is employed by, or provides services as a director or otherwise to, a subsidiary or divisional business of such an entity, such subsidiary or divisional business shall be deemed a "Competitor" if it generates more than 10% of its revenues from solar power products and services similar to those provided by the Company. The provisions provided in Section 10 shall be separate and severable, enforceable independently of each other, and independent of any other provision of this Agreement.

The provisions contained in Section 10 are considered reasonable by the Employee and the Company. In the event that any such provisions should be found to be void under applicable laws but would be valid if some part thereof was deleted or the period or area of application reduced, such provisions shall apply with such modification as may be necessary to make them valid and effective.

This Section 10 shall survive the termination of this Agreement for any reason. In the event the Employee breaches this Section 10, the Company shall have right to seek remedies permissible under applicable law.

11. ENTIRE AGREEMENT

This Agreement constitutes the entire agreement and understanding between the Employee and the Company regarding the terms of the Employment and supersedes all prior or contemporaneous oral or written agreements concerning such subject matter. The Employee acknowledges that he or she has not entered into this Agreement in reliance upon any representation, warranty or undertaking which is not set forth in this Agreement. Any amendment to this Agreement must be in writing and signed by the Employee and the Company.

12. GOVERNING LAW; CONSENT TO JURISDICTION

This Agreement shall be governed by and construed in accordance with the laws of Hong Kong without regard to its conflicts of laws provisions. The parties hereto

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irrevocably submit to the non-exclusive jurisdiction of the Hong Kong

courts over any suit, action or proceeding arising out of or relating to this Agreement. To the fullest extent they may effectively do so under applicable law, the parties hereto irrevocably waive and agree not to assert, by way of motion, as a defense or otherwise, any claim that they are not subject to the jurisdiction of any such Hong Kong court, any objection that they may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any such Hong Kong court and any claim that any such suit, action or proceeding brought in any such Hong Kong court has been brought in an inconvenient forum.

(SIGNATURE PAGE FOLLOWS)

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IN WITNESS WHEREOF, this Agreement has been executed _____, 2006.

CANADIAN SOLAR INC.

EMPLOYEE

Signature: _____

Signature: _____

Name: _____

Name: _____

Title: _____

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Schedule A

CASH COMPENSATION

	AMOUNT	PAY PERIOD
	-----	-----
SALARY	[US\$] [] annually	[_____]
BONUS	Discretionary based on performance	

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c/o CSI Solar Manufacturing, Inc.
729 Binhe Rd, Suzhou New District, 215011, P.R. China
Tel: 86 (0)512 62696010-608
Fax: 86 (0)512 62696016
E-mail: shwan.qu@csisolar.com
www.csisolar.com

(CANADIAN SOLAR INC. LOGO)

STRATEGIC PARTNERSHIP AGREEMENT AND
PERFORMANCE REWARD PLAN
(2005)

BETWEEN Kunical International Group, Ltd.

AS "PARTY A"

AND Canadian Solar Inc.

AS "PARTY B"

Whereas PARTY A is one of the premier suppliers of silicon materials to both photovoltaic and semiconductor industries, and has vast interests in other area of photovoltaic.

Whereas PARTY B is a photovoltaic module manufacturer and application developer serving world-wide customers.

Whereas PARTY B strikes to become a world-class photovoltaic product manufacturer and to reach the target production volume of 50MW in two years and 100MW in five years, and whereas PARTY A expresses its desire to support PARTY B to reach such a goal.

PARTY A and PARTY B decide to enter into a strategic partnership relationship. The following covenants detail the essential nature of such a relationship.

- 1) This agreement shall be in place from the date of signing and valid for ten (10) years unless it is replaced by another agreement and/or terminated in writing by either PARTIES with cause and with ninety (90) day advance notice.
- 2) PARTY A will source and supply PARTY B with materials Including, but not limited to poly silicon, remelts, wafers and cells.
- 3) PARTY B will provide PARTY A, in October of every year, its forecast for materials need for the coming year. Such a forecast will then be updated every 3 months. In return, PARTY A will provide PARTY B with a forecast for the materials it will be able to supply for the coming year. PARTY A will give PARTY B the priority, whenever possible, to purchase materials. PARTY A will make best efforts to meet PARTY B's materials demand.
- 4) PARTY B will reward PARTY A with annual performance bonus, in the form of shares of PART(B, according to the following formulas:
 - \$2,000 for each 1,000 kg of bulk silicon materials, purchased and accepted by PARTY B from PARTY A in the previous calendar year
 - \$1,000 for each 10,000 pieces of 6" or 8" P-type reclaimable wafers, purchased and accepted by PARTY B from PARTY A in the previous calendar year

c/o CSI Solar Manufacturing, Inc.
729 Binhe Rd, Suzhou New District, 215011, P.R. China
Tel: 86 (0)512 62696010-608

(CANADIAN SOLAR INC. LOGO)

- The price of share is set to be the average closing price in the last five trading days at end of the previous calendar year
 - The number of shares shall be rounded up in the multiple of 10's at the time of each settlement
- 5) PARTY A may from time to time access to information of photovoltaic projects, in which PARTY A may act as the prime contractor or the advisor. PARTY B will make its best efforts to support PARTY A in such projects.
- 6) PARTY A is sourcing silicon scraps from Asian countries including Japan, Taiwan and Korea, and may desire to clean such materials in an Asian location in order to reduce the cost and to simplify the logistics. PARTY B expresses its willingness to handle such work at its China location for PARTY A, if the latter so desires.
- 7) PARTY A and PARTY B express the interest to jointly invest into photovoltaic or silicon related businesses Worldwide.
- 8) Both PARTIES will safeguard other party's confidential information including the nature of this Strategic Partnership Agreement. The request for confidentiality will survive three (3) more years after the termination of this Agreement.

/s/

Shawn Xiaohua Qu
President
Canadian Solar Inc.

Date: -----

/s/

Terry Kunimune
Chairman and CEO
Kunical International Group, Ltd.

Date: November 1, 2005

c/o CSI Solar Manufacturing, Inc.
729 Binhe Rd, Suzhou New District, 215011, P.R. China
Tel: 86 (0)512 62696010-608
Fax: 86 (0)512 62696016
E-mail: shwan.qu@csisolar.com
www.csisolar.com

(CANADIAN SOLAR INC. LOGO)

August 25, 2006

Mr. Terry Kunimune
President and CEO
Kunical International Group, Ltd.
818 N. Lake Street
Burbank, CA 91502

Re: REVISION OF THE STRATEGIC PARTNERSHIP AGREEMENT AND PERFORMANCE REWARD PLAN

Dear Terry,

We write to you to confirm the following revision of the Strategic Partnership Agreement and Performance Reward Plan dated November 1, 2005 ("Partnership Agreement").

Delete "Clause 4" (annual performance bonus) of the Partnership Agreement

This revision will be effective immediately. However, CSI will compute the total bonus which Kunical has accumulated according to the "Clause 4" in the period from January 1st to August 25th 2006, based on the Kunical invoice dates, and

will pay this bonus to Kunicipal in cash, rather in CSI shares as stated in the original Partnership Agreement.

We appreciate your confirming to this revision. We look forward to continuing to work with you.

Very truly yours,

Shawn Xiaohua Qu, Ph.D.
President, Canadian Solar Inc. (CSI)

Acknowledged and agreed to by:

Kunicipal International Group, Ltd.

By: /s/

Title: Chairman and CEO

(English Translation)

POLYCRYSTALLINE SILICON SUPPLY AGREEMENT

Party A: Canadian Solar Inc.
Address: Mississauga, Ontario, Canada

Party B: Luoyang Zhong Gui High-Tech Co., Ltd.
Address: Yanshi City, Luoyang, Henan Province, China

Whereas:

1. Party A intends to invest in and form a silicon solar cell or panel component company in Luoyang;
2. Party B agrees to supply polycrystalline silicon products to Party A after the polycrystalline production commences and achieves a certain production capacity; after friendly discussion, Party A and Party B hereby reach the following agreement on Party B's supply of polycrystalline silicon to Party A:

Article 1 Product Supply

Party B agrees to supply polycrystalline silicon products ("Products") to Party A according to this Agreement in such quantity as determined in accordance with the relevant provisions of this Agreement.

Party A will carry out the actual procurement through a wholly-owned subsidiary in China designated by Party A.

Article 2 Quantity of Supply

	Year	Quantity
	----	-----
1	2006	No less than 50 tons (to be supplied in equal monthly quantity in principle)
2	2007	No less than 50 tons
3	2008	If Phase II Expansion proceeds as scheduled, no less than 300 tons; if it does not proceed as scheduled, no less than 50 tons.
4	2009	If Phase II Expansion proceeds as scheduled, no less than 400 tons; if it does not proceed as scheduled, no less than 50 tons.
5	2010	If Phase II Expansion proceeds as scheduled, no less than 500 tons; if it does not proceed as scheduled, no less than 100 tons.

Article 3 Supply Undertaking

Party B undertakes to begin delivery to Party A no later than February 2006.

1. On the basis of same quality and same price, Party B will supply the Products to Party A in priority except it will first satisfy the needs of such other entities as Luoyang Monocrystalline Silicon Limited Liability Company for the agreed quantities.
2. Party B agrees that the unqualified bits of material resulting in the course of the crushing of polycrystalline silicon will be purchased by

Party A.

3. Party B may unconditionally terminate this Agreement if Party A fails to form a silicon solar cell or panel component company in Luoyang in 2006.

Article 4 Quality Standard and Specifications

Party B shall make deliveries to Party A according to the following quality standard and specifications:

1. Quality Standard

Acceptor (B): [Angle]lppb equivalent to P type resistivity: 260 (Omega). cm.
Donor (P): [Angle]lppb equivalent to N type resistivity: 43 (Omega). cm.
Carbon (C): [Angle]lppma

2. Range of size and packaging specifications: compliant with National Standard GB/T12963-1996 The standard Products supplied by Party B to Party A shall be washing free.

The above quality standard is only the reference standard for the Products to be supplied by Party B to Party A and does not form a compulsory production standard for the quality of Party B's products. Party A will accept the non-washing free products of Party B in other specifications.

Article 5 Principle for Determination of Supply Price and Payment

1. The price of the Products to be supplied by Party B to Party A: subject to the same quality standard, the price of the Products shall be determined by Party A and Party B on the basis of the market price in accordance with Article 6 hereof.
2. When the market price changes, the supply price shall be adjusted by the Parties on the basis of the changed market price in the first month of the quarter in which the change occurs; if the change of the market price does not occur in the first month of the quarter, the adjustment shall be made by the Parties on the basis of the changed market price in the first month of the next

-2-

quarter. The price of the Products shall remain unchanged for one quarter after such price adjustment.

3. Party A agrees to make an advance payment of RMB30 million Yuan for the product price to Party B in three installments after this Agreement duly comes into effect:
 - (1) RMB10 million Yuan within 7 days after this Agreement duly comes into effect;
 - (2) Party A will pay RMB10 million Yuan to Party B within 7 days after the first furnace in Party B's production line has successfully completed the first heat; Party B shall notify Party A one week in advance according to its funding need;
 - (3) Party A will pay RMB10 million Yuan to Party B within one month after all six furnaces of Party B have successfully completed the first heat.
4. Party A shall pay 30% of the product price in advance within one week of receipt of the delivery notice from Party B, and the remaining 70% of the product price shall be deducted from the advance payment of Party A.
5. Party A agrees to make an advance payment of RMB30 million Yuan each year into Party B's account as requested by Party B at any time in 2007 and

2008; subject to this condition, the payment of the product price by Party A to Party B will be discussed separately.

Article 6 Procedure of Supply

1. Party A and Party B shall agree in writing on the material terms of the supply, such as the price of the Products, quantity, quality, specifications and delivery schedule, under separate covers prior to each delivery period.
2. Party A shall issue an order to Party B 30 days prior to a delivery specifying the delivery quantity, quality, specification, delivery schedule and current price of the Products.
3. Upon receipt of Party A's order, Party B shall confirm the order in writing within 5 days. The order finally confirmed by both Parties in writing shall be the final basis of the supply of the Products for the delivery period concerned. If any Party proposes to change the delivery quantity or delivery time after such confirmation, that Party shall notify the other Party 10 days in advance and obtain the written consent of the other Party, otherwise it shall be liable for breach of contract.
4. Mode of delivery: Delivery shall be taken by Party A itself according to the delivery date and quantity finally confirmed by the Parties and, when Party A takes delivery, the Parties shall confirm the quantity of the Product and complete the delivery formalities in writing onsite.

-3-

Article 7 Acceptance and Objection

Party A shall carry out acceptance on the very day of receipt of the Product and shall raise any objection it may have with regard to the quality of the Product within 30 days of delivery of the Product. If it fails to do so within this period, it shall be deemed to have no objection.

Article 8 Liability for Breach of Contract

If any Party violates any provision of this Agreement, it shall be liable for breach of contract accordingly. If the quality of any Product supplied by Party B does not conform to that agreed to by the Parties, Party A has the right to return the Products to Party B within 30 days and Party B shall promptly replace the Products upon receipt from Party A.

The Parties agree that in the following circumstances Party A has the right to demand the return of the advance payment:

- (1) The Parties fail to reach an agreement on the specific price of the goods for a long period;
- (2) Party B suspends production for a long period (over three months), becomes bankrupt or encounters other material changes;
- (3) Party B fails to perform its obligations as required by this Agreement.

Article 9 Governing Law and Jurisdiction Over Disputes

1. The conclusion, validity, interpretation and performance of and the resolution of disputes relating to this Agreement shall be governed by the laws of the mainland area of the People's Republic of China.
2. All disputes arising from or in connection with the performance of this Agreement shall be resolved by the Parties through amicable consultation; if such consultation fails to resolve a dispute, either Party may apply to the Luoyang Arbitration Commission for arbitration by an arbitration

tribunal formed by the arbitration commission in accordance with the arbitration rules of that arbitration commission in effect at the time of the application. The arbitration award shall be final and binding on both Parties.

Article 10 Effectiveness of Agreement

This Agreement shall come into effect after it is signed by the legal representatives or authorized representatives of the Parties.

-4-

Article 11 Miscellaneous

This Agreement shall be written in quadruplicate with Party A and Party B each holding two copies (including one original and one duplicate), and all four copies of the Agreement shall have equal legal effect.

(No text of the main body hereafter)

Party A: Canadian Solar, Inc.

Legal representative or authorized representative: [signature]

September 12, 2005

Party B: Luoyang Zhong Gui High-Tech Limited Liability Company

Legal representative or authorized representative: [signature]

September 11, 2005

-5-

(English Translation)

SOLAR CELL SILICON WAFER SUPPLY AGREEMENT

CSI-LDK060602W

Party A: Canadian Solar Inc.
Address: Mississauga, Ontario, Canada

Party B: Jiangxi Saiwei LDK Solar Energy High-Tech Limited Liability Company
Address: Xinyu City High Technology Development Zone, Jiangxi Province

Whereas:

1. Party A and Party B have friendly cooperative relationship;
2. Party A has decided to invest in and form a solar cell silicon wafer production line in China;

After friendly consultation, Party A and Party B hereby reach the following agreement on Party B's supply of polycrystalline silicon to Party A:

Article 1 Product Supply

Party B agrees to supply polycrystalline silicon wafer products ("Product") to Party A according to this Agreement in such quantity as determined in accordance with the relevant provisions of this Agreement.

Party A will carry out the actual procurement through its subsidiary in China designated by it.

Article 2 Quantity of Supply

		Quantity			
		Quarter 1	Quarter 2	Quarter 3	Quarter 4
Year					
1	2007	1 MW	3 MW	5 MW	6 MW
2	2008		50 MW		
3	2009		75 MW		
4	2010		108 MW		

Article 3 Quality Standard and Specifications

Party B shall make deliveries to Party A according to its publicly announced product quality standard and specifications.

Article 4 Principle for Determination of Supply Price and Payment

1. The price of the Product to be supplied by Party B to Party A shall be the uniform price at which Party B supplies the Product to all major companies at that time. In principle, the price shall be determined on a monthly basis. Once determined, the price shall remain unchanged for at least one month.
2. Party A agrees that after this Agreement duly comes into effect it will

make an advance payment at 60% of the price to Party B as deposit six months before Party B begins to make deliveries, with the remaining 40% of the price to be paid in full within 30 days before Party B makes deliveries.

Article 5 Procedure of Supply

1. Party A and Party B shall agree in writing on the material terms of the supply, such as the price of the Product, quantity, quality, specifications, delivery schedule and amount of deposit payment, under separate covers prior to each delivery period.
2. Party B shall issue a supply order to Party A 45 days prior to a delivery specifying the delivery quantity, quality, specification and delivery schedule.
3. Upon receipt of Party B's order, Party A shall confirm the supply order in writing within 5 days. A purchase order finally confirmed by both Parties in writing shall be the final basis of the supply of the Product for the delivery period concerned. If any Party proposes to change the delivery quantity or delivery time after such confirmation, that Party shall notify the other Party 10 days in advance and obtain the written consent of the other Party, otherwise it shall be liable for breach of contract accordingly.
4. Mode of delivery: Delivery shall be taken by Party A itself according to the delivery date and quantity finally confirmed by the Parties and, when Party A takes delivery, the Parties shall confirm the quantity of the Product and complete the delivery formalities in writing onsite.

Article 7 Acceptance and Objection

Party A shall carry out acceptance on the very day of receipt of the Product and shall raise any objection it may have with regard to the quality of the Product within 90 days of receipt of the Product. If it fails to do so within this period, it shall be deemed to have no objection.

-2-

Article 8 Liability for Breach of Contract

If any Party violates any provision of this Agreement, it shall be liable for breach of contract accordingly. If the quality of any Product supplied by Party B does not conform to that agreed by the Parties, Party A has the right to return the Product to Party B within 90 days and Party B shall promptly replace the Product upon receipt of it from Party A.

The Parties agree that in the following circumstances Party A has the right to demand the return of the advance payment:

- (1) Party B fails to make deliveries on schedule and according to the quality requirement;
- (2) The Parties fail to reach an agreement on the specific price of the goods;
- (3) Party B suspends production for a long period (over three months), becomes bankrupt or encounters other material changes;
- (4) There is a material change in the equity structure of Party B or Party B's major shareholder;
- (5) Party B fails to perform its obligations as required by this Agreement.

Party B shall return the advance payment in full within 30 days after Party A

issues a written demand for the return of the advance payment and the obligations under this Agreement will not be deemed terminated until confirmation is given by both Parties.

Article 9 Governing Law and Jurisdiction Over Disputes

1. The conclusion, validity, interpretation and performance of and the resolution of disputes relating to this Agreement shall be governed by the laws of the mainland area of the People's Republic of China.
2. All disputes arising from or in connection with the performance of this Agreement shall be resolved by the Parties through amicable consultation; if such consultation fails to resolve a dispute, either Party may apply to the Suzhou Contract Arbitration Commission for arbitration by an arbitration tribunal formed by the arbitration commission in accordance with the arbitration rules of that arbitration commission in effect at the time of the application. The arbitration award shall be final and binding on both Parties.

Article 10 Effectiveness of Agreement

This Agreement shall come into effect after it is signed by the legal representatives or authorized representatives of the Parties.

-3-

Article 11 Miscellaneous

This Agreement shall be written in quadruplicate with Party A and Party B each holding two copies (including one original and one duplicate), and all four copies of the Agreement shall have equal legal effect.

-4-

(No text of the main body hereafter)

Party A: Canadian Solar, Inc.

Legal representative or authorized representative: [signature]

July 6, 2006

Party B: Jiangxi Saiwei LDK Solar Energy High-Tech Limited Liability Company

Legal representative or authorized representative: [signature]

July 6, 2006

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(English Translation)

SOLAR CELL SILICON WAFER SUPPLY SUPPLEMENTAL AGREEMENT

NO. 60810 CSI/LDK

Party A: Canadian Solar Inc.

Address: 4056 Jefton Crescent, Mississauga, Ontario, L5L 1Z3 Canada

Party B: Jiangxi Saiwei LDK Solar Energy High-Tech Limited Liability Company

Address: Xinyu City High Technology Development Zone, Jiangxi Province

Based on their respective developmental needs, Party A and Party B hereby

supplement the Solar Cell Silicon Wafer Supply Agreement of No. CSI-LDK060602W that they have executed.

Party B agrees to amend the quantity of supply stipulated in the above-said agreement as follows:

	Year	Quantity			
	----	-----			
1	2007	Quarter 1	Quarter 2	Quarter 3	Quarter 4
		1 MW	4 MW	8 MW	12 MW
2	2008		50 MW		
3	2009		75 MW		
4	2010		108 MW		

Other provisions shall remain unchanged.

Party A: [signature]

Party B: [signature]

Representative: /s/

Representative: /s/

Date: August 11, 2006

Date: August 11, 2006

WRITTEN DESCRIPTION OF NON-WRITTEN CONSULTANCY AGREEMENT WITH SHAWN QU

Prior to December 2005, the Registrant paid Dr. Shawn Qu, its chairman and chief executive officer, compensation for his services in the form of consultancy fees, on a quarterly basis, to a consulting company owned by him. The consultancy agreement was non-written and provided for consultancy fees to be paid to Dr. Qu in return for the project consulting, general management and technology services that he provided to the Registrant.

WRITTEN DESCRIPTION OF NON-WRITTEN CONSULTANCY AGREEMENT WITH ROBERT PATTERSON

The Registrant paid consultancy fees pursuant to a non-written agreement, on a monthly basis, to a consulting company owned by Robert Patterson, the Registrant's vice president of corporate and products development and general manager of Canadian operations, prior to his joining the Registrant as an officer in January 2006. Under the agreement, Mr. Patterson provided project consulting services to the Registrant, in particular in connection with its large-scale CIDA projects, for 40 hours per month with a minimum retainer of C\$2,000 per month. For additional work beyond the initial period and minimum retainer, Mr. Patterson was paid on an hourly basis.

SECURITY AGREEMENT

To: ATS AUTOMATION TOOLING SYSTEMS INC.

The undersigned (hereinafter called the "Debtor") hereby enters into this Security Agreement with ATS AUTOMATION TOOLING SYSTEMS INC. (hereinafter called the "Company") for valuable consideration and as security for the repayment of all present and future indebtedness of the Debtor to the Company and interest thereon and for the payment and discharge of all other present and future liabilities and obligations, direct or indirect, absolute or contingent, of the Debtor to the Company (all such indebtedness, interest, liabilities and obligations being hereinafter collectively called the "Obligations"). This Security Agreement is entered into pursuant to and is governed by the Personal Property Security Act (Ontario) insofar as it affects personal property located in Ontario.

1. The Debtor hereby:

- (a) mortgages and charges to the Company as and by way of a fixed and specific mortgage and charge, and grants to the Company a security interest in all its present and future equipment and any proceeds therefrom, including, without limiting the generality of the foregoing, all fixtures, plant, machinery, tools and furniture now or hereafter owned or acquired or in respect of which the Debtor has rights now or in the future and any equipment specifically listed or otherwise described in any schedule hereto;
- (b) mortgages and charges to the Company, and grants to the Company a security interest in all its present and future inventory and any proceeds therefrom, including, without limiting the generality of the foregoing, all raw materials, goods in process, finished goods and packaging material and goods acquired or held for sale or furnished or to be furnished under contracts of rental or service;
- (c) assigns, transfers and sets over to the Company, and grants to the Company a security interest in all its present and future intangibles and any proceeds therefrom, including, without limiting the generality of the foregoing, all its present and future accounts, accounts receivable, contract rights and other choses in action of every kind or nature now due or hereafter to become due, including insurance rights arising from or out of the assets referred to in sub-clauses (a) and (b) above;
- (d) grants, mortgages, charges, transfers and assigns to the Company a security interest in, all its present and future chattel papers, documents of title, instruments, money and securities, and any proceeds therefrom; and
- (e) charges in favour of the Company as and by way of a floating charge its undertaking and all its property and assets, real and personal, moveable or immovable, of whatsoever nature and kind, both present and future (other than property and assets hereby validly assigned or subjected to a specific mortgage and charge and to the exceptions hereinafter contained). For the purposes of this Security Agreement, the equipment, inventory, intangibles, undertaking and all

other property and assets of the Debtor referred to in this clause 1 are hereinafter sometimes collectively called the "Collateral". Without limiting the generality of the description of Collateral as set out in this clause 1, and for greater certainty, the Collateral shall include all present and future personal property of the Debtor of the type described in any schedule attached hereto. The Debtor

agrees that it shall promptly advise the Company in writing of any acquisition of personal property which is not of the type herein described. The Debtor agrees to execute and deliver from time to time, at its own expense, amendments to this Security Agreement or additional security agreements, which may be reasonably required by the Company to ensure attachment of security interests in such personal property.

2. The Debtor shall at all times do, execute, acknowledge and deliver or cause to be done, executed, acknowledged or delivered all and singular every such further acts, deeds, transfers, assignments, security agreements and assurances as the Company may reasonably require for the better granting, transferring, assigning, charging, setting over, assuring and confirming unto the Company the property and assets hereby mortgaged and charged or subjected to security interests or intended so to be or which the Debtor may hereafter become bound to mortgage, charge, transfer, assign or subject to a security interest in favour of the Company and for the better accomplishing and effectuating of this Security Agreement.
 3. The Debtor shall at all times upon request by the Company furnish the Company with such information concerning the Collateral and the Debtor's affairs and business as the Company may reasonably request, including lists of inventory and equipment and lists of accounts and accounts receivable showing the amounts owing upon each account and securities therefor and copies of all financial statements, books and accounts, invoices, letters, papers and other documents in any way evidencing or relating to the account.
 4. The Debtor shall be in default under this Security Agreement upon the occurrence of any one of the following events:
 - (a) the Debtor shall default under any of the Obligations;
 - (b) the Debtor shall default in the due observance or performance of any covenant, undertaking or agreement heretofore or hereafter given to the Company, whether contained herein or not, and including any covenant or undertaking set out in any Schedule to this Security Agreement;
 - (c) an execution or any other process of any court shall become enforceable against the Debtor or a distress or analogous process shall be levied upon the property of the Debtor or any part thereof;
 - (d) the Debtor shall become insolvent or commit an act of bankruptcy or make an assignment in bankruptcy or a bulk sale of its assets or a bankruptcy petition shall be filed or presented against the Debtor and not be bona fide opposed by the Debtor;
- 2
- (e) the Debtor shall cease to carry on business.
 5. Upon any default under this Security Agreement, the Company may declare any or all of the Obligations to be immediately due and payable and the Company may proceed to realize the security hereby constituted and to enforce its rights of entry; or by the appointment by instrument in writing of a receiver or receivers of the subject matter of such security or any part thereof and such receiver or receivers may be any person or persons, whether an officer or officers or employee or employees of the Company or not, and the Company may remove any receiver or receivers so appointed and appoint another or others in his or their stead; or by proceedings in any court of competent jurisdiction for the appointment of a receiver or receivers or for sale of the Collateral or any part thereof; or by any other action, suit, remedy or proceeding authorized or permitted hereby or by law or by equity; and may file such proofs of claim and other documents as may be necessary or advisable in order to have its claim

lodged in any bankruptcy, winding-up or other judicial proceedings relative to the Debtor. Any such receiver or receivers so appointed shall have power to take possession of the Collateral or any part thereof and to carry on the business of the Debtor, and to borrow money required for the maintenance, preservation or protection of the Collateral or any part thereof or the carrying on of the business of the Debtor, and to further charge the Collateral in priority to the security constituted by this Security Agreement as security for money so borrowed, and to sell, lease or otherwise dispose of the whole or any part of the Collateral on such terms and conditions and in such manner as he shall determine. In exercising any powers any such receiver or receivers shall act as agent or agents for the Debtor and the Company shall not be responsible for his or their actions.

In addition, the Company may enter upon the applicable premises and lease or sell the whole or any part or parts of the Collateral. The Debtor agrees that considering the nature of that part of the Collateral that is not perishable it will be commercially reasonable to sell such part of the Collateral:

- (a) as a whole or in various lots;
- (b) by a public sale or call for tenders by advertising such sale once in a local daily newspaper at least seven (7) days before such sale; and
- (c) by private sale after the receipt by the Company of at least two offers from prospective purchasers who may include persons related to or affiliated with the Debtor or other customers of the Company.

Any such sale shall be on such terms and conditions as to credit or otherwise and as to upset or reserve bid or price as to the Company in its sole discretion may seem advantageous and such sale may take place whether or not the Company has taken possession of such property and assets.

No remedy for the realization of the security hereof or for the enforcement of the rights of the Company shall be exclusive of or dependent on any other such remedy, but any one or more of such remedies may from time to time be exercised independently or in

combination. The term "receiver" as used in this Security Agreement includes a receiver and manager.

- 6. Any and all payments made in respect of the Obligations from time to time and moneys realized from any securities held therefor (including moneys realized on any enforcement of this Security Agreement) may be applied to such part or parts of the Obligations as the Company may see fit, and the Company shall at all times and from time to time have the right to change any appropriation as the Company may see fit.
- 7. The Debtor agrees to pay all reasonable expenses, including solicitor's fees and disbursements and the remuneration of any receiver appointed hereunder, incurred by the Company in the preparation, perfection and enforcement of this Security Agreement including all expenses incurred by the Company and its agents to put into place and confirm the priority of any security interest in this Security Agreement and the payment of such expenses shall be secured hereby.
- 8. The Company may waive any default herein referred to; provided always that no act or omission by the Company in the premises shall extend to or be taken in any manner whatsoever to affect any subsequent default or the rights resulting therefrom.
- 9. The Debtor acknowledges that value has been given, that the Debtor has

rights in the Collateral and that the parties have not agreed to postpone the time for attachment of any security interest in this Security Agreement.

10. The security hereof is in addition to and not in substitution for any other security now or hereafter held by the Company and shall be general and continuing security notwithstanding that the Obligations of the Debtor shall at any time or from time to time be fully satisfied or paid.
11. Nothing herein shall obligate the Company to make any advance or loan or further advance or loan or to renew any note or extend any time for payment of any indebtedness or liability of the Debtor to the Company.
12. This Security Agreement shall enure to the benefit of and be binding upon the respective heirs, executors, administrators, successors and assigns of the Debtor and the Company.
13. In construing this Security Agreement, terms herein shall have the same meaning as defined in The Personal Property Security Act (Ontario), unless the context otherwise requires. The word "Debtor", the personal pronoun "it" or "its" and any verb relating thereto and used therewith shall be read and construed as required by and in accordance with the context in which such words are used depending upon whether the Debtor is one or more individuals, corporations or partnerships and, if more than one, shall apply and be binding upon each of them severally. The term "successors" shall include, without limiting its meaning, any corporation resulting from the amalgamation of a corporation with another corporation and, where the Debtor is a partnership, any new partnership resulting from the admission of new partners or any other change in the Debtor, including, without limiting the generality of the foregoing, the death of any or all of the partners.

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IN WITNESS WHEREOF this Security Agreement has been executed by the Debtor on the 30th day of September, 2005.

CANADIAN SOLAR INC.

Per: /s/

Name: Shawn Xiaohua Qu
Title: President

I have authority to bind the corporation

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PROMISSORY NOTE

AMOUNT: \$1,300,000 USD

DATE: September 30th, 2005

FOR VALUE RECEIVED, the undersigned, Canadian Solar Inc. (the "Debtor"), hereby acknowledges itself indebted and unconditionally promises to pay to or to the order of ATS Automation Tooling Systems Inc. (the "Holder"), the sum of ONE MILLION THREE HUNDRED THOUSAND DOLLARS (\$1,300,000) in United States Dollars, ON DEMAND together with interest thereon calculated semi-annually at a rate equal to the Bank of Nova Scotia's published U.S. Dollar Base Rate in Canada in effect from time to time, with interest on overdue interest, as well after as before maturity, default and judgment. Interest shall be payable semi-annually until the principal sum is fully repaid, the first such payment to be payable on the date six months following the date of this Note.

The Debtor hereby waives demand, presentment, protest, dishonour and notice of dishonour in respect hereof. The failure of the Holder to exercise any of its rights hereunder in any instance shall not constitute a waiver thereof in that or any other instance.

The Debtor hereby agrees to pay all costs and expenses (including all reasonable legal costs) paid or incurred by the Holder in collecting the principal then outstanding.

Canadian Solar Inc.

Per: /s/

Duly Authorized Officer

AGREEMENT OF GUARANTEE

B E T W E E N:

XIAO HUA QU, A.K.A. SHAWN QU,
(hereinafter called the "Guarantor"),

OF THE FIRST PART;

- and -

ATS AUTOMATION TOOLING SYSTEMS INC.
(hereinafter called "Lender"),

OF THE SECOND PART.

WHEREAS Canadian Solar Inc. (the "Company") has authorized the issue to the Lender of a promissory note (the "Note") in the principal amount of One Million Three Hundred Thousand US Dollars (\$1,300,000.00); and

WHEREAS the Lender requires that the Guarantor enter into this Agreement in order to assist the Company, for the mutual benefit of the Company and the Guarantor.

NOW THEREFORE THIS AGREEMENT WITNESSETH that in consideration of the premises the Guarantor covenants and agrees with the Lender as follows:

ARTICLE 1
GUARANTEE

- 1.1 The Guarantor unconditionally guarantees and covenants with the Lender that the Company will duly and punctually pay to the Lender the principal of, interest on and all other moneys owing under the Note as and when the same become due and payable according to the terms of the Note.
- 1.2 The Guarantor hereby acknowledges communication of the terms of the Note and consents to and approves of the same. The guarantee herein contained shall take effect and be binding upon the Guarantor notwithstanding any defect in or omission from the Note.
- 1.3 The liability of the Guarantor under Section 1.1 hereof shall be joint and several with that of the Company and shall be absolute and unconditional. The Guarantor shall for all purposes of the guarantee be regarded as in the same position as a principal debtor, and hereby expressly waives demand, presentment, protest and notice thereof and of default. The obligation of the Guarantor hereunder shall be deemed to arise in respect of each default. Notwithstanding the foregoing, the Lender agrees that it shall use all

commercially reasonable efforts to collect payment on the Note from the Company, prior to seeking recourse against Guarantor under the terms of this Guarantee.

ARTICLE 2
DEFAULT AND ENFORCEMENT

- 2.1 If the Company shall make default in payment of the principal of, interest on or any other moneys owing under the Note as and when the same becomes due and payable, then the Guarantor shall forthwith on demand by the Lender pay to the Lender the principal, interest and other moneys in

default.

- 2.2 If the Guarantor shall fail forthwith on demand to make good any such default, the Lender may in its discretion proceed with the enforcement of its rights hereunder and may proceed to enforce such rights or from time to time any thereof prior to, contemporaneously with or after any action taken under the Note. The Guarantor shall pay on demand all costs and expenses (including legal fees on a solicitor and own client basis) incurred by the Lender in enforcing or attempting to enforce its rights hereunder and all proceedings taken in relation hereto; all such costs and expenses and other moneys payable hereunder shall bear interest at the interest rate provided for in the Note.
- 2.3 All sums paid to or recovered by the Lender pursuant to the provisions hereof shall be applied by it in payment of its costs and expenses payable hereunder and the principal, interest and other moneys owing on the Note in such order as the Lender in its sole discretion may determine.
- 2.4 The Lender may waive any default of the Guarantor hereunder upon such terms and conditions as it may determine provided that no such waiver shall extend to or be taken in any manner whatsoever to affect any subsequent default or the rights resulting therefrom.
- 2.5 Any moneys paid by or recovered from the Guarantor hereunder shall be held to have been paid pro tanto in discharge of the liability of the Guarantor hereunder, but not in discharge of the liability of the Company, and in the event of any such payment by or recovery from the Guarantor, the Guarantor hereby assigns any rights with respect to or arising from such payment or recovery (including without limitation any right of subrogation) to the Lender unless or until the Lender has received in the aggregate payment in full of all moneys owing on the Note.

ARTICLE 3 RELEASE AND DISCHARGE

- 3.1 The liability of the Guarantor hereunder shall not be limited, released, discharged or in any way affected by any release, loss or alteration in or dealing with the security under the Note, or by time being given to the Company or to any person whomsoever by the Lender or by any claim for negligence on the part of the Lender or any person acting as the Lender's agent; or by any amendment to the Note; or by any compromise, arrangement, composition or plan of reorganization affecting the Company or the security under the Note; or by release of any person liable directly or as surety or otherwise; or by waiver of any default under the Note, or by any dealings whatsoever between the Lender

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and the Company or any other person or persons whomsoever, or by any other act, omission or proceedings in relation to the Note or this Agreement whereby the Guarantor might otherwise be released or exonerated or the liabilities and obligations of the Guarantor hereunder affected. Any claims by the Guarantor against the Lender or its agents in respect of any of the foregoing matters are hereby waived.

- 3.2 After all moneys payable by the Company under the Note have been paid in full, this guarantee cease and become null and void and the Lender shall, at the request and at the expense of the Guarantor execute and deliver a release to the Guarantor.

ARTICLE 4 MISCELLANEOUS

- 4.1 Any notices given hereunder shall be conclusively deemed effectively given if delivered personally to either of the parties at their last known address if forwarded by registered mail to such party at such address. Any

notice so mailed shall be conclusively deemed given on the third business day after the day of mailing, provided that in the event of a known disruption of postal service notice shall be given by personal delivery only. Either party hereto may effect a change of address by written notice given to the other party hereto in accordance with this section.

- 4.2 This Agreement shall be construed in accordance with and governed by the laws of the Province of Ontario and shall extend to and be binding upon the heirs, executors, administrators and personal representatives of the Guarantor.

IN WITNESS WHEREOF the Guarantor has executed these presents on the day of September, 2005.

SIGNED, SEALED AND DELIVERED }
in the presence of }

/s/ }
----- }
Witness }

/s/ }
----- }
Shawn Qu

GUARANTEE AND POSTPONEMENT OF CLAIM

TO: ROYAL BANK OF CANADA

FOR VALUABLE CONSIDERATION, receipt whereof is hereby acknowledged, the undersigned and each of them (if more than one) hereby jointly and severally guarantee(s) payment on demand to Royal Bank of Canada (hereinafter called the "Bank") of all debts and liabilities, present or future, direct or indirect, absolute or contingent, matured or not, at any time owing by Canadian Solar Inc. (hereinafter called the "customer") to the Bank or remaining unpaid by the customer to the Bank, heretofore or hereafter incurred or arising and whether incurred by or arising from agreement or dealings between the Bank and the customer or by or from any agreement or dealings with any third party by which the Bank may be or become in any manner whatsoever a creator of the customer or however otherwise incurred or arising anywhere within or outside the country where this guarantee is executed and whether the customer be bound alone or with another or others and whether as principal or surety (such debts and liabilities being hereinafter called the "liabilities"); the liability of the undersigned hereunder being limited to the sum of \$500,000.00 Five Hundred Thousand Dollars together with interest thereon from the date of demand for payment at a rate equal to the Bank's Prime interest Rate per annum in effect from time to time plus 1.550 One AND Fifty-Five One Hundredths percent per annum as well after as before default and judgment.

AND THE UNDERSIGNED AND EACH OF THEM (IF MORE THAN ONE) HEREBY JOINTLY AND SEVERALLY AGREE(S) WITH THE BANK AS FOLLOWS:

(1) The Bank may grant time, renewals, extensions, indulgences, releases and discharges to, take securities (which word as used herein includes securities taken by the Bank from the Customer and others, monies which the Customer has on deposit with the Bank, other assets of the Customer held by the Bank in safekeeping or otherwise, and other guarantees) from and give the same and any or all existing securities up to, abstain from taking securities from, or perfecting securities of, cease or refrain from giving credit or making loans or advances to, or change any term or condition applicable to the liabilities, including without limitation, the rate of interest or maturity date, if any, or introduce new terms and conditions with regard to the liabilities, or accept compositions from and otherwise deal with, the customer and others and with all securities as the Bank may see fit, and may apply all moneys at any time received from the customer or others or from securities upon such part of the liabilities as the Bank deems best and change any such application in whole or in part from time to time as the Bank may see fit, the whole without in any way limiting or lessening the liability of the undersigned under this guarantee, and no loss of or in respect of any securities received by the Bank from the customer or others, whether occasioned by the fault of the Bank or otherwise, shall in any way limit or lessen the liability of the undersigned under this guarantee.

(2) This guarantee shall be a continuing guarantee and shall cover all the liabilities, and it shall apply to and secure any ultimate balance due or remaining unpaid to the Bank.

(3) The Bank shall not be bound to exhaust its recourse against the customer or others or any securities it may at any time hold before being entitled to payment from the undersigned of the liabilities. The undersigned renounce(s) to all benefits of discussion and division.

(4) The undersigned or any of them may, by notice in writing delivered to the Manager of the branch or agency of the Bank receiving this instrument, with effect from and after the date that is 30 days following the date of receipt by the Bank of such notice, determine their or his/her liability under this guarantee in respect of liabilities thereafter incurred or arising but not in

respect of any liabilities theretofore incurred or arising even though not then matured, provided, however, that notwithstanding receipt of any such notice the Bank may fulfill any requirements of the customer based on agreements express or implied made prior to the receipt of such notice and any resulting liabilities shall be covered by this guarantee; and provided further that in the event of the determination of this guarantee as to one or more of the undersigned it shall remain a continuing guarantee as to the other or others of the undersigned.

(5) All indebtedness and liability, present and future, of the customer to the undersigned or any of them are hereby assigned to the Bank and postponed to the liabilities, and all moneys received by the undersigned or any of them in respect thereof shall be received in trust for the Bank and forthwith upon receipt shall be paid over to the Bank, the whole without in any way limiting or lessening the liability of the undersigned under the foregoing guarantee; and this assignment and postponement is independent of the said guarantee and shall remain in full effect notwithstanding that the liability of the undersigned or any of them under the said guarantee may be extinct. The term "Liabilities", as previously defined, for purposes of the postponement feature provided by this agreement and this section in particular, includes any funds advanced or held at the disposal of the customer under any line(s) of credit.

(6) This guarantee and agreement shall not be affected by the death or loss or diminution of capacity of the undersigned or any of them or by any change in the name of the customer or in the membership of the customer's firm through the death or retirement of one or more partners or the introduction of one or more other partners or otherwise, or by the acquisition of the customer's business by a corporation, or by any change whatsoever in the objects, capital structure or constitution of the customer, or by the customer's business being amalgamated with a corporation, but shall notwithstanding the happening of any such event continue to apply to all the liabilities whether theretofore or thereafter incurred or arising and in this instrument the word "customer" shall include every such firm and corporation.

(7) This guarantee shall not be considered as wholly or partially satisfied by the payment or liquidation at any time or times of any sum or sums of money for the time being due or remaining unpaid to the Bank, and all dividends, compositions, proceeds of security valued and payments received by the Bank from the customer or from others or from estates shall be regarded for all purposes as payments in gross without any right on the part of the undersigned to claim in reduction of the liability under this guarantee the benefit of any such dividends, compositions, proceeds or payments or any securities held by the Bank or proceeds thereof, and the undersigned shall have no right to be subrogated in any rights of the Bank until the Bank shall have received payment in full of the liabilities.

(8) All monies, advances, renewals, credits and credit facilities in fact borrowed or obtained from the Bank shall be deemed to form part of the liabilities, notwithstanding any lack or limitation of status or of power, incapacity or disability of the customer or of the directors, partners or agents of the customer, or that the customer may not be a legal or suable entity, or any irregularity, defect or informality in the borrowing or obtaining of such monies, advances,

renewals, credits or credit facilities, or any other reason, similar or not, the whole whether known to the Bank or not. Any sum which may not be recoverable from the undersigned on the footing of a guarantee, whether for the reasons set out in the previous sentence, or for any other reason, similar or not, shall be recoverable from the undersigned and each of them as sole or principal debtor in respect of that sum, and shall be paid to the Bank on demand with interest and accessories.

(9) This guarantee is in addition to and not in substitution for any other

guarantee, by whomsoever given, at any time held by the Bank, and any present or future obligation to the Bank incurred or arising otherwise than under a guarantee, of the undersigned or any of them or of any other obligant, whether bound with or apart from the customer; excepting any guarantee surrendered for cancellation on delivery of this instrument.

(10) The undersigned and each of them shall be bound by any account settled between the Bank and the customer, and if no such account has been so settled immediately before demand for payment under this guarantee any account stated by the Bank shall be accepted by the undersigned and each of them as conclusive evidence of the amount which at the date of the account so stated is due by the customer to the Bank or remains unpaid by the customer to the Bank.

(11) This guarantee and agreement shall be operative and binding upon every signatory thereof notwithstanding the non-execution thereof by any other proposed signatory or signatories, and possession of this instrument by the Bank shall be conclusive evidence against the undersigned and each of them that this instrument was not delivered in escrow or pursuant to any agreement that it should not be effective until any conditions precedent or subsequent had been complied with, unless at the time of receipt of this instrument by the Bank each signatory thereof obtains from the Manager of the branch or agency of the Bank receiving this instrument a letter setting out the terms and conditions under which this instrument was delivered and the conditions, if any, to be observed before it becomes effective.

(12) No suit based on this guarantee shall be instituted until demand for payment has been made, and demand for payment shall be deemed to have been effectually made upon any guarantor if and when an envelope containing such demand, addressed to such guarantor at the address of such guarantor last known to the Bank, is posted, postage prepaid, in the post office, and in the event of the death of any guarantor demand for payment addressed to any of such guarantor's heirs, executors, administrators or legal representatives at the address of the addressee last known to the Bank and posted as aforesaid shall be deemed to have been effectually made upon all of them. Moreover, when demand for payment has been made, the undersigned shall also be liable to the Bank for all legal costs (on a solicitor and own client basis) incurred by or on behalf of the Bank resulting from any action instituted on the basis of this guarantee. All payments hereunder shall be made to the Bank at a branch or agency of the Bank.

(13) This instrument covers all agreements between the parties hereto relative to this guarantee and assignment and postponement, and none of the parties shall be bound by any representation or promise made by any person relative thereto which is not embodied herein.

(14) This guarantee and agreement shall extend to and enure to the benefit of the Bank and its successors and assigns, and every reference herein to the undersigned or to each of them or to any of them, is a reference to and shall be construed as including the undersigned and the heirs, executors, administrators, legal representatives, successors and assigns of the undersigned or of each of them or of any of them, as the case may be, to and upon all of whom this guarantee and agreement shall extend and be binding.

(15) Prime interest Rate is the annual rate of interest announced from time to time by Royal Bank of Canada as a reference rate then in effect for determining interest rates on Canadian dollar commercial loans in Canada.

(16) This Guarantee and Postponement of Claim shall be governed by and construed in accordance with the laws of the Province of Ontario ("Jurisdiction"). The undersigned irrevocably submits to the courts of the Jurisdiction in any action or proceeding arising out of or relating to this Guarantee and Postponement of Claim, and irrevocably agrees that all such actions and proceedings may be heard and determined in such courts, and irrevocably waives, to the fullest extent

possible, the defense of an inconvenient forum. The undersigned agrees that a judgment or order in any such action or proceeding may be enforced in other jurisdictions in any manner provided by law. Provided, however, that the Bank may serve legal process in any manner permitted by law or may bring an action or proceeding against the undersigned or the property or assets of the undersigned in the courts of any other jurisdiction.

(17) The Undersigned hereby acknowledges receipt of a copy of this agreement.

(18) The Undersigned hereby waives Undersigned's right to receive a copy of any Financing Statement or Financing Change Statement registered by the Bank.

GIVEN UNDER SEAL at Toronto this

[MONTH]

[DAY]

[YEAR]

SIGNED, SEALED AND DELIVERED IN THE PRESENCE OF

/s/ _____ /s/ _____ (SEAL)

Witness XIAOHUA QU
PRESIDENT

(SEAL)

Witness

(SEAL)

Witness

(SEAL)

Witness

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(To be completed when the guarantee is stated to be governed by the laws of the Province of Alberta, the loan is repayable in Alberta, the guarantee is executed in Alberta, the customer carries on business in Alberta, or the Guarantor is resident or owns assets in Alberta.)

THE GUARANTEES ACKNOWLEDGEMENT ACT, (ALBERTA)
CERTIFICATE OF NOTARY PUBLIC

I HEREBY CERTIFY THAT:

(1) _____ of _____ in the Province of Ontario, the Guarantor in the guarantee dated _____ made between ROYAL BANK OF CANADA and _____, which this certificate is attached to or noted upon, appeared in person before me and acknowledged that he/she had executed the guarantee;

(2) I satisfied myself by examination of the Guarantor that he/she is aware of the contents of the guarantee and understands it.

Given at _____ this _____ under my hand and seal of office

(SEAL OF NOTARY PUBLIC)

A NOTARY PUBLIC IN AND FOR

STATEMENT OF GUARANTOR

I am the person named in the certificate /s/

Signature of Guarantor

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(To be completed when the guarantee is stated to be governed by the laws of the Province of Saskatchewan and the Borrower or Guarantor is a farmer in Saskatchewan, or the farmer or Guarantor owns farm assets in Saskatchewan.)

THE SASKATCHEWAN FARM SECURITY ACT
ACKNOWLEDGEMENT OF GUARANTEE
(SECTION 31)
CERTIFICATE OF LAWYER OR NOTARY PUBLIC

I HEREBY CERTIFY THAT:

(1) _____ of _____ in the Province of Ontario, the Guarantor in the guarantee dated _____ made between ROYAL BANK OF CANADA and _____, which this certificate is attached to or noted upon, appeared in person before me and acknowledged that he/she had executed the guarantee;

(2) I satisfied myself by examination of the Guarantor that he/she is aware of the contents of the guarantee and understands it.

(3) I have not prepared any documents on behalf of the creditor, Royal Bank of Canada, relating to the transaction and I am not otherwise interested in the transaction;

(4) I acknowledge that the Guarantor signed the following "Statement of Guarantor" in my presence. Given at _____ this _____ under my hand and seal of office

(SEAL REQUIRED WHERE NOTARY
PUBLIC SIGNS CERTIFICATE)

A LAWYER OR A NOTARY PUBLIC IN AND FOR

STATEMENT OF GUARANTOR

I am the person named in the certificate /s/

Signature of Guarantor

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SEPTEMBER 20TH, 2006

COMMERCIAL CONTRACT

between

SWISS WAFERS AG
Fichtenstr. 2 CH-8570 Weinfelden

AS "PARTY A"

AND

CANADIAN SOLAR INC.
Sales Department 2963 Guy Hoffman, St-Laurent Quebec, Canada, H4R 2R2

AS "PARTY B"

Regarding

SALES AND PURCHASE OF SOLAR WAFER

PREMISE

Whereas PARTY A is a major manufacturer of solar ingots and wafers, and a reseller of solar cells

AND

Whereas PARTY B is a photovoltaic solar cell and module manufacturer and application developer serving world-wide customers

AND

Whereas PARTY A strikes to become a world-class solar wafer manufacturer and to reach the target production volume of 80 MW in 2007, and whereas PARTY B expresses its desire to support PARTY A to reach such a goal

AND

Whereas PARTY B strikes to become a world-class solar cell and module product manufacturer and to reach the target production volume of 50-70MW in 2007 and 100MW in 2008, and whereas PARTY A expresses its desire to support PARTY B to reach such a goal

AND

Whereas both companies wish to enter into a contract where PARTY A will supply PARTY B with solar cells (for 2006) and solar wafers (for 2007 and 2008).

THE AGREEMENT:

SECTION 1 TIMETABLE

This agreement is for a period starting October 1st, 2006 and to continue likely to December 31st, 2008. Extension of the agreement is possible given the mutual agreement of both parties.

SECTION 2 SUPPLY OF WAFERS

1. PARTY A will supply to PARTY B with silicon solar wafers or cells with the following schedule:

2006: PARTY A will supply to PARTY B a minimum of 200,000 finished cells per month. These cells will be of size 125x125 or size 156x156, mono or multi-crystalline silicon. PARTY A will give PARTY B 'the first right of refusal' for these cells. However, PARTY A can sell the cells to others if the two PARTIES can not agree on the price after three days.

2007: PARTY A will supply to PARTY B silicon solar wafers. PARTY A will give PARTY B 'the first right of refusal' for these wafers. However, PARTY A can sell the wafers to others if the two PARTIES can not agree on the price after three days.

	1 Quarter Range	2 Quarter Range	3 Quarter Range	4 Quarter Range	Annual total range
Quantity (MW)	2 to 3	3 to 6	3 to 8	3 to 8	11 to 25

2008: PARTY A will supply to PARTY B silicon solar wafers. PARTY A will give PARTY B 'the first right of refusal' for these wafers. However, PARTY A can sell the wafers to others if the two PARTIES can not agree on the price after three days. Total up to 30 MW with the quarterly schedule to be determined.

2. PARTY A and PARTY B will review and agree on the price, type and weekly forecast of wafer delivery on monthly basis. For example, the two parties should agree on the price, type and weekly delivery schedule for January 2007, before December 31st, 2006.
3. PARTY A will supply to PARTY B wafers 125x125 and 156x156, in either mono-crystalline or multi-crystalline. The specifications of wafers are attached as Schedule A.

SECTION 3 BAYBACK RIGHT

PARTY A has the right to bay back 80% of cells made from wafers it supplies to PARTY B.

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SECTION 4 COMPENSATION

1. PARTY A will invoice PARTY B prior to shipping of wafers.
2. PARTY B will invoice PARTY A a price equal to the material price plus the "Tolling Fee" for cells sold back to PARTY A.
3. PARTY B reserves the right to sell the cells or modules to other parties if it does not receive the order acknowledgement and payment ten (10) working days after it made the invoice to PARTY A.
4. PARTY A reserves the right to sell the wafer and cells to other parties if it does not receive the order acknowledgement and payment ten (10) working days after it made the invoice to PARTY B.

SECTION 5 PAYMENT TERMS

The payment terms for both sides are TT in advance.

SECTION 6 TERMINATION OF THIS AGREEMENT

1. This agreement can be terminated at any time by either party on three (3) months written notice to the other party.
2. Both parties will make "best efforts" to meet the terms of the agreement in its entirety.

SECTION 7 EXTENSION OF THIS AGREEMENT

Any extension of this agreement and the term or modified terms will be determined by both parties by Oct., 2008.

SECTION 8 LEGAL JURISDICTION

Weinfelden, Switzerland is the legal jurisdiction.

whereof the parties have executed this Agreement:

Swiss Wafers AG

Signature: /s/-----
Name: Peder Moser-----
Title: CFO-----
Date: 01.10.06-----
Bjorn Brezger-----
/s/-----

Canadian Solar Inc.

Signature: /s/-----
Name: Shawn X. Qu-----
Title: President-----
Date: September 25, 2006-----

List of Subsidiaries

CSI Solartronics (Changhsu) Co., Ltd., incorporated in the People's Republic of China

CSI Solar Manufacture Inc., incorporated in the People's Republic of China

CSI Solar Technologies Inc., incorporated in the People's Republic of China

CSI Central Solar Power Co., Ltd., incorporated in the People's Republic of China

CSI Solarchip International Co., Ltd., incorporated in the People's Republic of China

Changshu CSI Advanced Solar Inc., incorporated in the People's Republic of China

[DELOITTE LETTERHEAD]

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the use in the initial public filing of the Registration Statement on Form F-1 of our report dated October 23, 2006, relating to the financial statements of Canadian Solar, Inc. appearing in the Prospectus, which is a part of such Registration Statement, and to the reference to us under the headings "Selected Financial and Operating Data" and "Experts" in such Prospectus.

DELOITTE TOUCHE TOHMATSU CPA LTD.

/s/
Shanghai, China
October 23, 2006

WAYNE T. EGAN

[WEIRFOULDS LLP LOGO]

E-MAIL WEGAN@WEIRFOULDS.COM
DIRECT LINE 416-947-5086
FILE NO. 11628.00002

October 23, 2006

Canadian Solar Inc.
Xin Zhuang Industry Park
Changshu, Suzhou
Jiangsu 215562
People's Republic of China

Dear Sirs:

RE: CANADIAN SOLAR INC. (THE "COMPANY")

We hereby consent to the references to our firm under the captions "Enforceability of Civil Liabilities", "Taxation" and "Legal Matters" in the prospectus forming a part of the form F-1 originally filed by the Company with the U.S. Securities and Exchange Commission on October 23, 2006. In giving this consent, we do not hereby admit that we are experts within the meaning of Section 11 of the Securities Act or that we are within the category of persons whose consent is required under Section 7 of the U.S. Securities Act of 1933, as amended, or the rules and regulations of the Commission promulgated thereunder.

Yours truly,

WEIRFOULDS LLP

/s/

WTE/apl

THE EXCHANGE TOWER, SUITE 1600
P.O. BOX 480, 130 KING STREET WEST
TORONTO, ONTARIO, CANADA M5X 1J5

TELEPHONE 416-365-1110
FACSIMILE 416-365-1876
WEBSITE WWW.WEIRFOULDS.COM

[LATHAM & WATKINS LLP LETTERHEAD]

October 23, 2006

Canadian Solar Inc.
Xin Zhuang Industry Park,
Changshu, Suzhou
Jiangsu 215562
People's Republic of China

Ladies and Gentlemen:

We hereby consent to the use of our name under the caption "Legal Matters" in the prospectus included in the registration statement on Form F-1, originally filed by Canadian Solar Inc. on October 23, 2006, with the Securities and Exchange Commission under the Securities Act of 1933, as amended. In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, as amended, or the regulations promulgated thereunder.

Sincerely yours,
/s/
Latham & Watkins LLP

[CHEN & CO. LAW FIRM LETTERHEAD]

October 23, 2006

Canadian Solar Inc.
Xin Zhuang Industry Park,
Changshu, Suzhou
Jiangsu 215562
People's Republic of China

Ladies and Gentlemen:

We hereby consent to the use of our name under the captions "Risk Factors," "Enforceability of Civil Liabilities" and "Legal Matters" in the prospectus included in the registration statement on Form F-1, originally filed by Canadian Solar Inc. on October 23, 2006, with the Securities and Exchange Commission under the Securities Act of 1933, as amended. In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, as amended, or the regulations promulgated thereunder.

Sincerely yours,
/s/
Chen & Co.

[AMERICAN APPRAISAL LETTERHEAD]

October 23, 2006

Canadian Solar Inc.
Xin Zhuang Industry Park,
Changshu, Suhou,
Jiangsu 215562,
People's Republic of China

CONSENT OF INDEPENDENT APPRAISER

American Appraisal China Limited ("AAC") hereby consents to the references to AAC's name and value conclusions for accounting purposes, with respect to its appraisal reports addressed to the board of Canadian Solar Inc. (the "Company") dated August 1, 2006 and September 11, 2006 respectively, in the Company's Registration Statement on Form F-1 (together with any amendments thereto, the "Registration Statement") to be filed with the U.S. Securities and Exchange Commission. AAC also hereby consents to the filing of this letter as an exhibit to the Registration Statement.

AMERICAN APPRAISAL CHINA LIMITED

/s/

Name: James Kwok
Title: Vice President

CANADIAN SOLAR INC.
CODE OF BUSINESS CONDUCT AND ETHICS

INTRODUCTION

PURPOSE

This Code of Business Conduct and Ethics contains general guidelines for conducting the business of the Company consistent with the highest standards of business ethics. To the extent this Code requires a higher standard than required by commercial practice or applicable laws, rules or regulations, we adhere to these higher standards.

This Code applies to all of the directors, officers and employees of the Company and its subsidiaries (which, unless the context otherwise requires, are collectively referred to as the "Company" in this Code). We refer to all persons covered by this Code as "Company employees" or simply "employees." We also refer to our Chief Executive Officer, our Chief Financial Officer, our principal accounting officer and our controller as our "principal financial officers."

SEEKING HELP AND INFORMATION

This Code is not intended to be a comprehensive rulebook and cannot address every situation that you may face. If you feel uncomfortable about a situation or have any doubts about whether it is consistent with the Company's ethical standards, seek help. We encourage you to contact your supervisor for help first. If your supervisor cannot answer your question or if you do not feel comfortable contacting your supervisor, contact the Compliance Officer of the Company, who shall be a person appointed by the Board of Directors of the Company. Bing Zhu has initially been appointed by the Board of Directors of the Company as the Compliance Officer for the Company. Bing Zhu can be reached at +86 (512) 6269-6010 (x613) and bing.zhu@csisolar.com. The Company will notify you if the Board of Directors appoints a different Compliance Officer. You may also seek help from or submit information to the Company by writing to the Company at the email address "whistleblower@csi.com." You may remain anonymous and will not be required to reveal your identity in your communication to the Company.

REPORTING VIOLATIONS OF THE CODE

All employees have a duty to report any known or suspected violation of this Code, including any violation of the laws, rules, regulations or policies that apply to the Company. If you know of or suspect a violation of this Code, immediately report the conduct to your supervisor. Your supervisor will contact the Compliance Officer, who will work with you and your supervisor to investigate the matter. If you do not feel comfortable reporting the matter to your supervisor or you do not get a satisfactory response, you may contact the Compliance Officer directly. You may also report known or suspected violations of the Code to the Company at the email address "whistleblower@csi.com." Employees making a report need not leave their name or other personal information and reasonable efforts will be used to conduct the investigation that follows from the report in a manner that protects the confidentiality and anonymity of the employee submitting the report. All reports of known or suspected violations of the law or this Code will be handled sensitively and with discretion. Your supervisor, the Compliance Officer and the Company will protect your confidentiality to the extent possible, consistent with law and the Company's need to investigate your REPORT.

It is Company policy that any employee who violates this Code will be subject to appropriate discipline, which may include termination of employment. This determination will be based upon the facts and circumstances of each

particular situation. An employee accused of violating this Code will be given an opportunity to present his or her version of the events at issue prior to any determination of appropriate discipline. Employees who violate the law or this Code may expose themselves to substantial civil damages, criminal fines and prison terms. The Company may also face substantial fines and penalties and many incur damage to its reputation and standing in the community. Your conduct as a representative of the Company, if it does not comply with the law or with this Code, can result in serious consequences for both you and the Company.

POLICY AGAINST RETALIATION

The Company prohibits retaliation against an employee who, in good faith, seeks help or reports known or suspected violations. Any reprisal or retaliation against an employee because the employee, in good faith, sought help or filed a report will be subject to disciplinary action, including potential termination of employment.

WAIVERS OF THE CODE

Waivers of this Code for employees may be made only by an executive officer of the Company. Any waiver of this Code for our directors, executive officers or other principal financial officers may be made only by our Board of Directors or the appropriate committee of our Board of Directors and will be disclosed to the public as required by law or the rules of the Nasdaq Global Market.

CONFLICTS OF INTEREST

IDENTIFYING POTENTIAL CONFLICTS OF INTEREST

A conflict of interest can occur when an employee's private interest interferes, or appears to interfere, with the interests of the Company as a whole. You should avoid any private interest that influences your ability to act in the interests of the Company or that makes it difficult to perform your work objectively and effectively.

Identifying potential conflicts of interest may not always be clear-cut. The following situations are examples of conflicts of interest:

- o Outside Employment. No employee should be employed by, serve as a director of, or provide any services to a company that is a material customer, supplier or competitor of the Company.
- o Improper Personal Benefits. No employee should obtain any material (as to him or her) personal benefits or favors because of his or her position with the Company. Please see "Gifts and Entertainment" below for additional guidelines in this area.
- o Financial Interests. No employee should have a significant financial interest (ownership or otherwise) in any company that is a material customer, supplier or competitor of the Company. A "significant financial interest" means (i) ownership of greater than 1% of the equity of a material customer, supplier or competitor or (ii) an investment in a material customer, supplier or competitor that represents more than 5% of the total assets of the employee.
- o Loans or Other Financial Transactions. No employee should obtain loans or guarantees of personal obligations from, or enter into any other personal financial transaction with, any company that is a material customer, supplier or competitor of the Company. This guideline does not prohibit arms-length transactions with banks, brokerage firms or other financial institutions.
- o Service on Boards and Committees. No employee should serve on a board

of directors or trustees or on a committee of any entity (whether profit or not-for-profit) whose interests reasonably would be expected to conflict with those of the Company.

- o Actions of Family Members. The actions of family members outside the workplace may also give rise to the conflicts of interest described above because they may influence an employee's objectivity in making decisions on behalf of the Company. For purposes of this Code, "family members"

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include your spouse or life-partner, brothers, sisters and parents, in-laws and children whether such relationships are by blood or adoption.

For purposes of this Code, a company is a "material" customer if the company has made payments to the Company in the past year in excess of US\$200,000 or 5% of the customer's gross revenues, whichever is greater. A company is a "material" supplier if the company has received payments from the Company in the past year in excess of US\$200,000 or 5% of the supplier's gross revenues, whichever is greater. A company is a "material" competitor if the company competes in the Company's line of business and has annual gross revenues from such line of business in excess of US\$1,000,000. If you are uncertain whether a particular company is a material customer, supplier or competitor, please contact the Compliance Officer for assistance.

DISCLOSURE OF CONFLICTS OF INTEREST

The Company requires that employees disclose any situations that reasonably would be expected to give rise to a conflict of interest. If you suspect that you have a conflict of interest, or something that others could reasonably perceive as a conflict of interest, you must report it to your supervisor or the Compliance Officer. Your supervisor and the Compliance Officer will work with you to determine whether you have a conflict of interest and, if so, how best to address it. Although conflicts of interest are not automatically prohibited, they are not desirable and may only be waived as described in "Waivers of the Code" above.

CORPORATE OPPORTUNITIES

As an employee of the Company, you have an obligation to advance the Company's interests when the opportunity to do so arises. If you discover or are presented with a business opportunity through the use of corporate property, information or because of your position with the Company, you should first present the business opportunity to the Company before pursuing the opportunity in your individual capacity. No employee may use corporate property, information or his or her position with the Company for personal gain or should compete with the Company.

You should disclose to your supervisor the terms and conditions of each business opportunity covered by this Code that you wish to pursue. Your supervisor will contact the Compliance Officer and the appropriate management personnel to determine whether the Company wishes to pursue the business opportunity. If the Company waives its right to pursue the business opportunity, you may pursue the business opportunity on the same terms and conditions as originally proposed and consistent with the other ethical guidelines set forth in this Code.

CONFIDENTIAL INFORMATION

Employees have access to a variety of confidential information while employed at the Company. Confidential information includes all non-public information that might be

of use to competitors, or, if disclosed, harmful to the Company or its customers. Employees have a duty to safeguard all confidential information of the Company or third parties with which the Company conducts business, except when disclosure is authorized or legally mandated. An employee's obligation to protect confidential information continues after her or she leaves the Company. Unauthorized disclosure of confidential information could cause competitive harm to the Company or its customers and could result in legal liability to you and the Company.

Any questions or concerns regarding whether disclosure of Company information is legally mandated should be promptly referred to the Compliance Officer.

SAFEGUARDING CONFIDENTIAL INFORMATION

Care must be taken to safeguard confidential information. Accordingly, the following measures should be adhered to:

- o The Company's employees should conduct their business and social activities so as not to risk inadvertent disclosure of confidential information. For example, when not in use, confidential information should be secretly stored. Also, review of confidential documents or discussion of confidential subjects in public places (e.g., airplanes, trains, taxis, etc.) should be conducted so as to prevent overhearing or other access by unauthorized persons.
- o Within the Company's offices, confidential matters should not be discussed within hearing range of visitors or others not working on such matters.
- o Confidential matters should not be discussed with other employees not working on such matters or with friends or relatives including those living in the same household as a Company employee.

COMPETITION AND FAIR DEALING

All employees are obligated to deal fairly with fellow employees and with the Company's customers, suppliers and competitors. Employees should not take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair-dealing practice.

RELATIONSHIPS WITH CUSTOMERS

Our business success depends upon our ability to foster lasting customer relationships. The Company is committed to dealing with customers fairly, honestly and with integrity. Specifically, you should keep the following guidelines in mind when dealing with customers:

- o Information we supply to customers should be accurate and complete to the best of our knowledge. Employees should not deliberately misrepresent information to customers.
- o Employees should not refuse to sell, service, or maintain products the Company has produced simply because a customer is buying products from another supplier.
- o Customer entertainment should not exceed reasonable and customary

business practice. Employees should not provide entertainment or other benefits that could be viewed as an inducement to or a reward for customer purchase decisions. Please see "Gifts and Entertainment" below for additional guidelines in this area.

RELATIONSHIPS WITH SUPPLIERS

The Company deals fairly and honestly with its suppliers. This means that our relationships with suppliers are based on price, quality, service and reputation, among other factors. Employees dealing with suppliers should carefully guard their objectivity. Specifically, no employee should accept or solicit any personal benefit from a supplier or potential supplier that might compromise, or appear to compromise, their objective assessment of the supplier's products and prices. Employees can give or accept promotional items of nominal value or moderately scaled entertainment within the limits of responsible and customary business practice. Please see "Gifts and Entertainment" below for additional guidelines in this area.

RELATIONSHIPS WITH COMPETITORS

The Company is committed to free and open competition in the marketplace. Employees should avoid actions that would be contrary to laws governing competitive practices in the marketplace, including antitrust laws. Such actions include misappropriation and/or misuse of a competitor's confidential information or making false statements about the competitor's business and business practices.

PROTECTION AND USE OF COMPANY ASSETS

Employees should protect the Company's assets and ensure their efficient use for legitimate business purposes only. Theft, carelessness and waste have a direct impact on the Company's profitability. The use of Company funds or assets, whether or not for personal gain, for any unlawful or improper purpose is prohibited.

To ensure the protection and proper use of the Company's assets, each employee should:

- o Exercise reasonable care to prevent theft, damage or misuse of Company property.
- o Report the actual or suspected theft, damage or misuse of Company property to a supervisor.
- o Use the Company's telephone system, other electronic communication services, written materials and other property primarily for business-related purposes.
- o Safeguard all electronic programs, data, communications and written materials from inadvertent access by others.
- o Use Company property only for legitimate business purposes, as authorized in connection with your job responsibilities.

Employees should be aware that Company property includes all data and communications transmitted or received to or by, or contained in, the Company's electronic or telephonic systems. Company property also includes all written communications. Employees and other users of Company property should have no expectation of privacy with respect to these communications and data. To the extent permitted by law, the Company has the ability, and reserves the right, to monitor all electronic and telephonic communication. These communications may also be subject to disclosure to law enforcement or government officials.

GIFTS AND ENTERTAINMENT

The giving and receiving of gifts is a common business practice. Appropriate business gifts and entertainment are welcome courtesies designed to build relationships and understanding among business partners. However, gifts and entertainment should not compromise, or appear to compromise, your ability to make objective and fair business decisions.

It is your responsibility to use good judgment in this area. As a general rule, you may give or receive gifts or entertainment to or from customers or suppliers only if the gift or entertainment would not be viewed as an inducement to or reward for any particular business decision. All gifts and entertainment expenses should be properly accounted for on expense reports. The following specific examples may be helpful:

- o Meals and Entertainment. You may occasionally accept or give meals, refreshments or other entertainment if:
 - [] The items are of reasonable value;
 - [] The purpose of the meeting or attendance at the event is business related; and
 - [] The expenses would be paid by the Company as a reasonable business expense if not paid for by another party.

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Entertainment of reasonable value may include food and tickets for sporting and cultural events if they are generally offered to other customers, suppliers or vendors.

- o Advertising and Promotional Materials. You may occasionally accept or give advertising or promotional materials of nominal value.
- o Personal Gifts. You may accept or give personal gifts of reasonable value that are related to recognized special occasions such as a graduation, promotion, new job, wedding, retirement or a holiday. A gift is also acceptable if it is based on a family or personal relationship and unrelated to the business involved between the individuals.
- o Gifts Rewarding Service or Accomplishment. You may accept a gift from a civic, charitable or religious organization specifically related to your service or accomplishment.

You must be particularly careful that gifts and entertainment are not construed as bribes, kickbacks or other improper payments. See "The Foreign Corrupt Practices Act" for a more detailed discussion of our policies regarding giving or receiving gifts related to business transactions.

You should make every effort to refuse or return a gift that is beyond these permissible guidelines. If it would be inappropriate to refuse a gift or you are unable to return a gift, you should promptly report the gift to your supervisor. Your supervisor will bring the gift to the attention of the Compliance Officer which may require you to donate the gift to an appropriate community organization. If you have any questions about whether it is permissible to accept a gift or something else of value, contact your supervisor or the Compliance Officer for additional guidance.

COMPANY RECORDS

Accurate and reliable records are crucial to our business. Our records are the basis of our earnings statements, financial reports and other disclosures to

the public and guide our business decision-making and strategic planning. Company records include booking information, payroll, timecards, travel and expense reports, e-mails, accounting and financial data, measurement and performance records, electronic data files and all other records maintained in the ordinary course of our business.

All Company records must be complete, accurate and reliable in all material respects. Undisclosed or unrecorded funds, payments or receipts are inconsistent with our business practices and are prohibited. You are responsible for understanding and complying with our record keeping policy. Ask your supervisor if you have any questions.

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ACCURACY OF FINANCIAL REPORTS AND OTHER PUBLIC COMMUNICATIONS

As a public company we are subject to various securities laws, regulations and reporting obligations. These laws, regulations and obligations and our policies require the disclosure of accurate and complete information regarding the Company's business, financial condition and results of operations. Inaccurate, incomplete or untimely reporting will not be tolerated and can severely damage the Company and result in legal liability.

The Company's principal financial officers and other employees working in the Accounting Department have a special responsibility to ensure that all of our financial disclosures are full, fair, accurate, timely and understandable. These employees must understand and strictly comply with generally accepted accounting principles in the U.S. and all standards, laws and regulations for accounting and financial reporting of transactions, estimates and forecasts.

In addition, U.S. federal securities law requires the Company to maintain proper internal books and records and to devise and maintain an adequate system of internal accounting controls. The Securities and Exchange Commission ("SEC") has supplemented the statutory requirements by adopting rules that prohibit (1) any person from falsifying records or accounts subject to the above requirements and (2) officers or directors from making any materially false, misleading, or incomplete statement to an accountant in connection with an audit or any filing with the SEC. These provisions reflect the SEC's intent to discourage officers, directors, and other persons with access to the Company's books and records from taking action that might result in the communication of materially misleading financial information to the investing public.

COMPLIANCE WITH LAWS AND REGULATIONS

Each employee has an obligation to comply with all laws, rules and regulations applicable to the Company operates. These include laws covering bribery and kickbacks, copyrights, trademarks and trade secrets, information privacy, insider trading, illegal political contributions, antitrust prohibitions, foreign corrupt practices, offering or receiving gratuities, environmental hazards, employment discrimination or harassment, occupational health and safety, false or misleading financial information or misuse of corporate assets. You are expected to understand and comply with all laws, rules and regulations that apply to your job position. If any doubt exists about whether a course of action is lawful, you should seek advice from your supervisor or the Compliance Officer.

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COMPLIANCE WITH INSIDER TRADING LAWS

The Company has an insider trading policy, which may be obtained from the Compliance Officer. The following is a summary of some of the general principles relevant to insider trading, and should be read in conjunction with the aforementioned specific policy.

Company employees are prohibited from trading in the stock or other securities of the Company while in possession of material, nonpublic information about the Company. In addition, Company employees are prohibited from recommending, "tipping" or suggesting that anyone else buy or sell stock or other securities of the Company on the basis of material, nonpublic information. Company employees who obtain material nonpublic information about another company in the course of their employment are prohibited from trading in the stock or securities of the other company while in possession of such information or "tipping" others to trade on the basis of such information. Violation of insider trading laws can result in severe fines and criminal penalties, as well as disciplinary action by the Company, up to and including termination of employment.

Information is "non-public" if it has not been made generally available to the public by means of a press release or other means of widespread distribution. Information is "material" if a reasonable investor would consider it important in a decision to buy, hold or sell stock or other securities. As a rule of thumb, any information that would affect the value of stock or other securities should be considered material. Examples of information that is generally considered "material" include:

- o Financial results or forecasts, or any information that indicates a company's financial results may exceed or fall short of forecasts or expectations;
- o Important new products or services;
- o Pending or contemplated acquisitions or dispositions, including mergers, tender offers or joint venture proposals;
- o Possible management changes or changes of control;
- o Pending or contemplated public or private sales of debt or equity securities;
- o Acquisition or loss of a significant customer or contract;
- o Significant write-offs;
- o Initiation or settlement of significant litigation; and

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- o Changes in the Company's auditors or a notification from its auditors that the Company may no longer rely on the auditor's report.

The laws against insider trading are specific and complex. Any questions about information you may possess or about any dealings you have had in the Company's securities should be promptly brought to the attention of the Compliance Officer.

PUBLIC COMMUNICATIONS AND PREVENTION OF SELECTIVE DISCLOSURE

PUBLIC COMMUNICATIONS GENERALLY

The Company places a high value on its credibility and reputation in the community. What is written or said about the Company in the news media and investment community directly impacts our reputation, positively or negatively. Our policy is to provide timely, accurate and complete information in response to public requests (media, analysts, etc.), consistent with our obligations to maintain the confidentiality of competitive and proprietary information and to prevent selective disclosure of market-sensitive financial data. To ensure compliance with this policy, all news media or other public requests for information regarding the Company should be directed to the Company's Investor Relations Department. The Investor Relations Department will work with you and the appropriate personnel to evaluate and coordinate a response to the request.

PREVENTION OF SELECTIVE DISCLOSURE

Preventing selective disclosure is necessary to comply with United States securities laws and to preserve the reputation and integrity of the Company as well as that of all persons affiliated with it. "Selective disclosure" occurs when any person provides potentially market-moving information to selected persons before the news is available to the investing public generally. Selective disclosure is a crime under United States law and the penalties for violating the law are severe.

The following guidelines have been established to avoid improper selective disclosure. Every employee is required to follow these procedures:

- o All contact by the Company with investment analysts, the press and/or members of the media shall be made through the Chief Executive Officer, Chief Financial Officer or persons designated by them (collectively, the "Media Contacts").
- o Other than the Media Contacts, no officer, director or employee shall provide any information regarding the Company or its business to any investment analyst or member of the press or media.

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- o All inquiries from third parties, such as industry analysts or members of the media, about the Company or its business should be directed to the Chief Executive Officer, Chief Financial Officer or other appropriate person designated by them. All presentations to the investment community regarding the Company will be made by us under the direction of a Media Contact.
- o Other than the Media Contacts, any employee who is asked a question regarding the Company or its business by a member of the press or media shall respond with "No comment" and forward the inquiry to a Media Contact.

These procedures do not apply to the routine process of making previously released information regarding the Company available upon inquiries made by investors, investment analysts and members of the media.

Any inquiry by the SEC or the Nasdaq Global Market could substantially damage the Company's reputation. Selective disclosure is currently a topic of intense focus with the SEC following the release of SEC Regulation FD (selective disclosure). Although foreign private issuers such as the Company are exempt from Regulation FD, the Company remains liable for selective disclosure. Please contact the Compliance Officer if you have any questions about the scope or application of the Company's policies regarding selective disclosure.

THE FOREIGN CORRUPT PRACTICES ACT

FOREIGN CORRUPT PRACTICES ACT

The Foreign Corrupt Practices Act (the "FCPA") prohibits the Company and its employees and agents from offering or giving money or any other item of value to win or retain business or to influence any act or decision of any governmental official, political party, candidate for political office or official of a public international organization. Stated more concisely, the FCPA prohibits the payment of bribes, kickbacks or other inducements to foreign officials. This prohibition also extends to payments to a sales representative or agent if there is reason to believe that the payment will be used indirectly for a prohibited payment to foreign officials. Violation of the FCPA is a crime that can result in severe fines and criminal penalties, as well as disciplinary action by the Company, up to and including termination of employment.

Certain small facilitation payments to foreign officials may be permissible under the FCPA if customary in the country or locality and intended to secure routine governmental action. Governmental action is "routine" if it is ordinarily and commonly performed by a foreign official and does not involve the exercise of discretion. For instance, "routine" functions would include setting up a telephone line or expediting a shipment through customs. To ensure legal compliance, all facilitation payments must

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receive prior written approval from the Compliance Officer and must be clearly and accurately reported as a business expense.

ENVIRONMENT, HEALTH AND SAFETY

The Company is committed to providing a safe and healthy working environment for its employees and to avoiding adverse impact and injury to the environment and the communities in which we do business. Company employees must comply with all applicable environmental, health and safety laws, regulations and Company standards. It is your responsibility to understand and comply with the laws, regulations and policies that are relevant to your job. Failure to comply with environmental, health and safety laws and regulations can result in civil and criminal liability against you and the Company, as well as disciplinary action by the Company, up to and including termination of employment. You should contact the Compliance Officer if you have any questions about the laws, regulations and policies that apply to you.

ENVIRONMENT

All Company employees should strive to conserve resources and reduce waste and emissions through recycling and other energy conservation measures. You have a responsibility to promptly report any known or suspected violations of environmental laws or any events that may result in a discharge or emission of hazardous materials. Employees whose jobs involve manufacturing have a special responsibility to safeguard the environment. Such employees should be particularly alert to the storage, disposal and transportation of waste, and handling of toxic materials and emissions into the land, water or air.

HEALTH AND SAFETY

The Company is committed not only to comply with all relevant health and safety laws, but also to conduct business in a manner that protects the safety of its employees. All employees are required to comply with all applicable health and safety laws, regulations and policies relevant to their jobs. If you have a concern about unsafe conditions or tasks that present a risk of injury to you, please report these concerns immediately to your supervisor or the Human Resources Department.

EMPLOYMENT PRACTICES

The Company pursues fair employment practices in every aspect of its business. The following is intended to be a summary of our employment policies and procedures. Copies of our detailed policies are available from the Human Resources Department. Company employees must comply with all applicable labor and employment laws, including anti-discrimination laws and laws related to freedom of association, privacy and collective bargaining. It is your responsibility to understand and comply with the laws, regulations and policies that are relevant to your job. Failure to comply with labor and employment laws can result in civil and criminal liability against you and the

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Company, as well as disciplinary action by the Company, up to and including termination of employment. You should contact the Compliance Officer or the Human Resources Department if you have any questions about the laws, regulations and policies that apply to you.

HARASSMENT AND DISCRIMINATION

The Company is committed to providing equal opportunity and fair treatment to all individuals on the basis of merit, without discrimination because of race, color, religion, national origin, sex (including pregnancy), sexual orientation, age, disability, veteran status or other characteristic protected by law. The Company prohibits harassment in any form, whether physical or verbal and whether committed by supervisors, non-supervisory personnel or non-employees. Harassment may include, but is not limited to, offensive sexual flirtations, unwanted sexual advances or propositions, verbal abuse, sexually or racially degrading words, or the display in the workplace of sexually suggestive objects or pictures.

If you have any complaints about discrimination or harassment, report such conduct to your supervisor or the Human Resources Department. All complaints will be treated with sensitivity and discretion. Your supervisor, the Human Resources Department and the Company will protect your confidentiality to the extent possible, consistent with law and the Company's need to investigate your concern. Where our investigation uncovers harassment or discrimination, we will take prompt corrective action, which may include disciplinary action by the Company, up to and including, termination of employment. The Company strictly prohibits retaliation against an employee who, in good faith, files a complaint.

Any member of management who has reason to believe that an employee has been the victim of harassment or discrimination or who receives a report of alleged harassment or discrimination is required to report it to the Human Resources Department immediately.

CONCLUSION

This Code of Business Conduct and Ethics contains general guidelines for conducting the business of the Company consistent with the highest standards of business ethics. If you have any questions about these guidelines, please contact your supervisor or the Compliance Officer or submit your questions to the Company at the email address "whistleblower@csi.com." We expect all Company employees, to adhere to these standards.

The sections of this Code of Business Conduct and Ethics titled "Introduction," "Conflicts of Interest," "Company Records," "Accuracy of Financial Reports and Other Public Communications" and "Compliance with Laws and Regulations," as applied to the Company's principal financial officers, shall be our "code of ethics" within the

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meaning of Section 406 of the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder.

This Code and the matters contained herein are neither a contract of employment nor a guarantee of continuing Company policy. We reserve the right to amend, supplement or discontinue this Code and the matters addressed herein, without prior notice, at any time.

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