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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form 20-F

(Mark One)

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended December 31, 2013.**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**Date of event requiring this shell company report**
**For the transition period from to**

**Commission file number: 001-33107**

# CANADIAN SOLAR INC.

*(Exact name of Registrant as specified in its charter)*

**N/A**

*(Translation of Registrant's name into English)*

**Canada**

*(Jurisdiction of incorporation or organization)*

**545 Speedvale Avenue West**
**Guelph, Ontario, Canada N1K 1E6**

*(Address of principal executive offices)*

**Michael G. Potter, Chief Financial Officer**
**545 Speedvale Avenue West**
**Guelph, Ontario, Canada N1K 1E6**
**Tel: (1-519) 837-1881**
**Fax: (1-519) 837-2550**

*(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)*

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common shares with no par value | The NASDAQ Stock Market LLC<br>(The NASDAQ Global Select Market) |

**Securities registered or to be registered pursuant to Section 12(g) of the Act:**
**None**

*(Title of Class)*

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**
**None**

*(Title of Class)*

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

**51,034,343** common shares issued and outstanding which were not subject to restrictions on voting, dividend rights and transferability, as of December 31, 2013.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing: U.S. GAAP ☒ International Financial Reporting Standards as issued by the International Accounting Standards Board ☐ Other ☐

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☐ No ☐

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## INTRODUCTION

Unless otherwise indicated, references in this annual report on Form 20-F to:

- "CSI," "we," "us," "our company" and "our" are to Canadian Solar Inc., a Canadian company, its predecessor entities and its consolidated subsidiaries;
- "$," "US$" and "U.S. dollars" are to the legal currency of the United States;
- "RMB" and "Renminbi" are to the legal currency of China;
- "C$," "CAD" and "Canadian dollars" are to the legal currency of Canada;
- "€" and "Euro" are to the legal currency of the European Economic and Monetary Union;
- "W," "kW," "MW" and "GW" are to watts, kilowatts, megawatts and gigawatts, respectively;
- "AC" and "DC" are to alternating current and direct current, respectively;
- "PV" is to photovoltaic. The photovoltaic effect is a process by which sunlight is converted into electricity;
- "shares" refers to common shares, with no par value, of Canadian Solar Inc.;
- "China" and the "PRC" are to the People's Republic of China, excluding, for the purposes of this annual report on Form 20-F, Taiwan and the special administrative regions of Hong Kong and Macau; and
- "EU" refers to the European Union.

This annual report on Form 20-F includes our audited consolidated financial statements for the years ended December 31, 2011, 2012 and 2013 and as of December 31, 2012 and 2013.

We use the noon buying rate in The City of New York for cable transfers in Renminbi, Euros and Canadian dollars per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York to translate Renminbi, Euros and Canadian dollars to U.S. dollars not otherwise recorded in our consolidated financial statements and included elsewhere in this annual report. Unless otherwise stated, the translation of Renminbi, Euros and Canadian dollars into U.S. dollars was made by the noon buying rate in effect on December 31, 2013, which was RMB6.0537 to $1.00, €0.7257 to $1.00, and C$1.0637 to $1.00. We make no representation that the Renminbi, Euro, Canadian dollar, or U.S. dollar amounts referred to in this annual report on Form 20-F could have been or could be converted into U.S. dollars, Euros, Canadian dollars or Renminbi, as the case may be, at any particular rate or at all. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Company and Our Industry—Fluctuations in exchar rates could adversely affect our business, including our financial condition and results of operations."

## FORWARD-LOOKING INFORMATION

This annual report on Form 20-F contains forward-looking statements that relate to future events, including our future operating results, our prospects and our future financial performance and condition, results of operations, business strategy and financial needs, all of which are largely based on our current expectations and projections. These forward-looking statements are made under the "safe harbor" provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these statements by terminology such as "may," "will," "expect," "anticipate," "future," "intend," "plan," "believe," "estimate," "is/are likely to" or similar expressions. Forward-looking statements involve inherent risks and uncertainties. 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 the importance of environmentally friendly power generation;
- our expectations regarding governmental support for solar power;
- our beliefs regarding the rate at which solar power technologies will be adopted and the continued growth of the solar power industry;
- our beliefs regarding the competitiveness of our solar power products;
- our expectations with respect to increased revenue growth and improved profitability;
- our expectations regarding the benefits to be derived from our supply chain management and vertical integration manufacturing strategy;
- our ability to continue developing our in-house solar components production capabilities and our expectations regarding the timing and production capacity of our internal manufacturing programs;
- our ability to secure adequate volume of silicon, solar wafers and cells at competitive cost to support our solar module production;
- our beliefs regarding the effects of environmental regulation;
- our future business development, results of operations and financial condition;
- competition from other manufacturers of solar power products and conventional energy suppliers;
- our ability to expand our products and business lines, including the total solutions business;
- our ability to develop, build and sell solar power projects in Canada, the U.S., Japan, China and elsewhere; and
- our beliefs with respect to the outcomes of the investigations and litigations to which we are a party.

Known and unknown risks, uncertainties and other factors may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by forward-looking statements. See "Item 3. Key Information—D. 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 annual report may include additional factors that could adversely influence our business and financial performance. Moreover, because we operate in an emerging and evolving industry, new risk factors may emerge from time to time. We cannot 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 results to differ materially from those expressed or implied in any forward-looking statement. We do not undertake any obligation to update or revise the forward-looking statements except as required under applicable law.

## PART I

### ITEM 1. *IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS*

Not applicable.

### ITEM 2. *OFFER STATISTICS AND EXPECTED TIMETABLE*

Not applicable.

### ITEM 3. *KEY INFORMATION*

#### A. Selected Financial Data

***Selected Consolidated Financial and Operating Data***

The following selected statement of operations data for the years ended December 31, 2011, 2012 and 2013 and balance sheet data as of December 31, 2012 and 2013 have been derived from our consolidated financial statements, which are included elsewhere in this annual report on Form 20-F. You should read the selected consolidated financial and operating data in conjunction with those financial statements and the related notes and "Item 5. Operating and Financial Review and Prospects" included elsewhere in this annual report on Form 20-F.

Our selected consolidated statement of operations data for the years ended December 31, 2009 and 2010 and our consolidated balance sheet data as of December 31, 2009, 2010 and 2011 were derived from our consolidated financial statements that are not included in this annual report.

All of our financial statements are prepared and presented in accordance with U.S. generally accepted accounting principles, or U.S. GAAP. Our historical results are not necessarily indicative of results for any future periods.

| | For the years ended, or as of, December 31, | | | | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 |
| | (In thousands of $, except share and per share data, and operating data and percentages) | | | | |
| **Statement of operations data:** | | | | | |
| Net revenues | 630,961 | 1,495,509 | 1,898,922 | 1,294,829 | 1,654,356 |
| Income (loss) from operations | 6,512 | 120,299 | 6,833 | (142,516) | 130,816 |
| Net income (loss) | 22,778 | 50,828 | (90,903) | (195,155) | 45,565 |
| Net income (loss) attributable to Canadian Solar Inc. | 22,646 | 50,569 | (90,804) | (195,469) | 31,659 |
| Earnings (loss) per share, basic | 0.61 | 1.18 | (2.11) | (4.53) | 0.68 |
| Shares used in computation, basic | 37,137,004 | 42,839,356 | 43,076,489 | 43,190,778 | 46,306,739 |
| Earnings (loss) per share, diluted | 0.60 | 1.16 | (2.11) | (4.53) | 0.63 |
| Shares used in | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| computation, diluted | 37,727,138 | 43,678,208 | 43,076,489 | 43,190,778 | 50,388,284 |
| **Other financial data:** | | | | | |
| Gross margin | 12.4% | 15.3% | 9.6% | 7.0% | 16.7% |
| Operating margin | 1.0% | 8.0% | 0.4% | (11.0)% | 7.9% |
| Net margin | 3.6% | 3.4% | (4.8)% | (15.1)% | 2.8% |

| | For the years ended, or as of, December 31, | | | | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 |
| | (In thousands of $, except share and per share data, and operating data and percentages) | | | | |
| Selected operating data: | | | | | |
| Solar power products sold (in MW) | | | | | |
| —Solar module business | 296.6 | 779.1 | 1,265.6 | 1,490.1 | 1,736.1 |
| —Total solutions business[1] | 0.6 | 24.4 | 56.9 | 53.0 | 157.9 |
| Total | 297.2 | 803.5 | 1,322.5 | 1,543.1 | 1,894.0 |
| Average selling price (in $ per watt) | | | | | |
| —Solar module business | 2.13 | 1.80 | 1.34 | 0.77 | 0.67 |
| **Balance Sheet Data:** | | | | | |
| Net current assets (liabilities) | 239,047 | 259,332 | 59,131 | (98,046) | (59,003) |
| Total assets | 1,038,703 | 1,423,367 | 1,879,809 | 2,259,313 | 1,719,356 |
| Net assets | 466,001 | 534,984 | 466,978 | 301,583 | 401,498 |
| Long-term borrowings | 29,290 | 69,458 | 88,249 | 214,563 | 151,392 |
| Convertible notes | 866 | 906 | 950 | — | — |
| Common shares | 500,322 | 501,146 | 502,403 | 502,562 | |
| Number of shares outstanding | 42,745,360[2] | 42,893,044 | 43,155,767 | 43,242,426 | 51,034,343 |

(1) Total solutions business consists primarily of solar power project development, engineering, procurement and construction, or EPC, services, operating and maintenance, or O&M, services and sales of solar system kits.

(2) Excludes 29,125 restricted shares, which were subject to restrictions on voting and dividend rights and transferability as of December 31, 2009, respectively.

## B. Capitalization and Indebtedness

Not applicable.

## C. Reasons for the Offer and Use of Proceeds

Not applicable.

## D. Risk Factors

### Risks Related to Our Company and Our Industry

***We may be adversely affected by volatile solar power market and industry conditions; in particular, the demand for our solar power products may decline, which may reduce our revenues and earnings.***

We are influenced by conditions in the solar power market and industry. In 2010, demand for solar power products increased and many manufacturers increased their production capacity accordingly as the effects of the global financial crisis subsided. In 2011, a decrease in payments to solar power producers in the form of feed-in tariffs and other reimbursements, a reduction in available financing and an excess supply of solar modules worldwide put severe downward pressure on solar module prices in European and other markets. As a result, many solar power project developers, solar system installers and solar power product distributors that purchase solar power products, including solar modules from manufacturers like us, were adversely affected and their financial condition weakened. Although our shipments increased year-over-year in 2012 and 2013, average selling prices for our solar modules continued to decline. In 2012, oversupply conditions across the value chain, difficult economic

conditions in Europe as well as escalating foreign trade disputes in the U.S., Europe, India and China affected industry-wide demand and put continued pressure on average selling prices, resulting in lower revenue for many industry participants. If the supply of solar modules grows faster than demand, and if governments continue to reduce financial support for the solar industry and impose trade barriers, demand for our products as well as our average selling price could be materially and adversely affected.

The challenging industry environment in 2012 caused many solar product manufacturers to reduce production or shut down capacity across the value chain, which has helped to stabilize and more recently strengthen average selling prices for solar modules in many markets. However, we cannot assure you that, as average selling prices stabilize and strengthen, solar product manufacturers will not again increase production, which could potentially further reduce prices.

Demand in Europe generally remains weak as a result of reductions in feed-in-tariffs in Germany and the elimination of feed-in-tariffs in Italy, the two largest European markets over the past several years. Although demand in other regions, including China, Japan, the U.S. and India, as well as many other emerging markets in Asia, the Middle East and Africa, is expected to offset the decline in European demand, we cannot assure you that this demand will occur or, if it does, will be sustainable or that any recent positive trends in supply or demand balance will persist.

The demand for solar power products is influenced by macroeconomic factors, such as global economic conditions, demand for electricity, the supply and prices of other energy products, such as oil, coal and natural gas, as well as government regulations and policies concerning the electric utility industry, the solar and other alternative energy industries and the environment. For example, a reduction in oil and coal prices may reduce the demand for alternative energy. During 2011, 2012 and 2013, a decrease in solar power tariffs and a difficult financing environment put downward pressure on the price of solar systems in most regions. Solar power prices decreased as governments, forced by the global economic crisis to implement austerity measures, reduced subsidies, such as feed-in tariffs. We may be adversely affected by volatile solar power market and industry conditions. Our growth and profitability depend on the demand for and the prices of solar power products.

***If the supply of solar wafers and cells increases in line with increases in the supply of polysilicon, then the corresponding oversupply of solar cells and modules may cause substantial downward pressure on the prices of our products and reduce our revenues and earnings.***

Silicon production capacity has expanded rapidly in recent years. As a result of this expansion, coupled with the global economic downturn, the solar industry experienced an oversupply of high-purity silicon beginning in 2009, which contributed to an oversupply of solar wafers, cells and modules and resulted in substantial downward pressure on prices throughout the value chain. Demand for solar power products remained soft through 2012 but began to pick up in the second half of 2013. The average selling price of our solar modules decreased from $1.80 per watt in 2010 to $1.34 per watt in 2011, $0.77 per watt in 2012 and $0.67 per watt in 2013, in large part because the increase in the supply of solar cells and modules was greater than the increase in the demand thus putting pressure on solar power products across all stages of the value chain. As a result of the decline in our solar module selling prices, our revenue declined in 2012, even though our solar module shipment volume for the year increased. In addition, because solar module selling prices declined at a rapid rate, we suffered losses in the form of inventory write-downs, as the market price of modules consistently fell below the carrying cost of our inventory. Lower price realizations and inventory write-downs in 2012 put downward pressure on our gross profit and operating margins. Continued increases in solar module production in excess of market demand may result in further downward pressure on the price of solar wafers, cells and modules, including our products. Increasing competition could also result in us losing sales or market share. Moreover, due to fluctuations in the supply and price of solar power products throughout the value chain, we cannot assure you that we will be able, on an ongoing basis, to procure silicon, wafers and cells at reasonable costs if any of the above risks materializes. If we are unable, on

an ongoing basis, to procure silicon, solar wafers and solar cells at reasonable prices or mark up the price of our solar modules to cover our manufacturing and operating costs, our revenues and margins will continue to be adversely impacted, either due to higher costs compared to our competitors or due to further write-downs of inventory, or both. In addition, our market share could decline if our competitors are able to price their products more competitively.

***The execution of our growth strategy depends upon the continued availability of third-party financing arrangements for our customers, which is affected by general economic conditions. Tight credit markets could depress demand or prices for solar power products, hamper our expansion and materially affect our results of operations.***

General economic conditions, liquidity and the availability and cost of capital could materially and adversely affect our business and results of operations. Most solar power projects, including our own, require financing for development and construction with a mixture of equity and third party funding. The cost of capital affects both the demand and price of solar power systems. A high cost of capital may materially reduce the internal rate of return for solar power projects and therefore put downward pressure on the prices of both solar systems and solar modules, which typically comprise a major part of the cost of solar power projects.

Furthermore, solar power projects compete for capital with other forms of fixed income investments such as government and corporate bonds. Some classes of investors compare the returns of solar power projects with bond yields and expect a similar or higher internal rate of return, adjusted for risk and liquidity. Higher interest rates could render existing funding more expensive and present an obstacle for potential funding that would otherwise spur the growth of the solar power industry. In addition, higher bond yields could result in increased yield expectations for solar power projects, which would result in lower system prices. In the event that suitable funding is unavailable, our customers may be unable to pay for products they have agreed to purchase. It may also be difficult to collect payments from customers facing liquidity challenges due to either customer defaults or financial institution defaults on project loans. Constricted credit markets may impede our expansion and materially and adversely affect our results of operations. Concerns about government deficits and debt in the EU have increased bond spreads in certain solar markets, such as Greece, Spain, Italy and Portugal. The cash flow of a solar power project is often derived from government-funded or government-backed feed-in tariffs. Consequently, the availability and cost of funding solar power projects is determined in part based on the perceived sovereign credit risk of the country where a particular project is located. Therefore, credit agency downgrades of nations in the EU could decrease the credit available for solar power projects, increase the expected rate of return compared to bond yields, and increase the cost of debt financing for solar power projects in countries with a higher perceived sovereign credit risk.

As a result, many downstream purchasers of solar power products were unable to secure sufficient financing for their solar power projects and thus many purchasers of solar power products were unable or unwilling to expand their operations. In light of the uncertainty in the global credit and lending environment, we cannot make assurances that financial institutions will continue to offer funding to solar power project developers at reasonable costs. An increase in interest rates or a decrease in funding of capital projects within the global financial market could make it difficult to fund solar power systems and potentially reduce the demand for solar modules and/or reduce the average selling prices for solar modules, which may materially and adversely affect our business, results of operations, financial condition and prospects.

***Our future success depends partly on our ability to expand the pipeline of our total solutions business in several key markets, which exposes us to a number of risks and uncertainties.***

Historically, the solar module business has accounted for the majority of our net revenues—89.1%, 88.5% and 71.4% in 2012, 2013, and 2014, respectively. However, we have, in recent years, increased investment in, and management attention on our total solutions business, which consists primarily of solar power project development, EPC services, O&M services and sales of solar system kits. As we continue to expand our business into the downstream segment of the industry, we expect that, in 2014, our total solutions business will account for approximately 50% of our net revenues, an increase from 28.6% in 2013 and 11.5% in 2012.

As a greater portion of our net revenues is derived from out total solutions business, we will be increasingly exposed to the risks associated with this business. Further, our future success largely depends on our ability to expand our solar power project pipelines. The risks and uncertainties associated with our total solutions business and our ability to expand our solar power project pipelines include:

- the uncertainty of being able to sell the projects, receive full payment for them upon completion, or receive payment in a timely manner;
- the need to raise significant additional funds to develop greenfield or purchase late-stage solar power projects, which we may be unable to obtain on commercially reasonable terms or at all;
- delays and cost overruns as a result of a number of factors, many of which are beyond our control, including delays in regulatory approvals, construction, grid-connection and customer acceptance testing;
- delays or denial of required regulatory approvals by relevant government authorities;
- diversion of significant management attention and other resources; and
- failure to execute our project pipeline expansion plan effectively.

If we are unable to successfully expand our total solutions business, and in particular, our solar power project pipelines, we may be unable to expand our business, maintain our competitive position, improve our profitability, and generate the cash flows we have currently forecasted.

***Governments may revise, reduce or eliminate subsidies and economic incentives for solar energy, which could cause demand for our products to decline.***

The market for on-grid applications, where solar power supplements the electricity a customer purchases from the utility network or sells to a utility under a feed-in tariff, depends largely on the availability and size of government subsidy programs and economic incentives. At present, the cost of solar power exceeds retail electricity rates in many locations. Government incentives vary by geographic market. Government bodies in many countries, most notably Germany, Italy, the Czech Republic, the United States, Japan, Canada (Ontario), South Korea, Greece, France, Australia and Spain, have provided incentives in the form of feed-in tariffs, rebates, tax credits, renewable portfolio standards and other incentives. These governments have implemented mandates to end-users, distributors, system integrators and manufacturers of solar power products to promote the use of solar energy in on-grid applications and to reduce dependency on other forms of energy. Some of these government mandates and economic incentives, such as the German Renewable Energy Law, are scheduled to be reduced and could be altered or eliminated altogether through new legislation. Beginning in July 2013, Italy, an important market for solar power products over the past several years, stopped paying feed-in-tariffs on new solar power systems. Many other countries in Europe have also reduced or eliminated their solar energy subsidies in the past few years and it is likely that this trend will continue, possibly until subsidies for solar energy are phased out completely.

While solar power projects may continue to offer attractive internal rates of return, it is unlikely internal rates of return will be as high as they were in the past. If internal rates of return fall below an acceptable rate for project investors, and governments continue to reduce or eliminate subsidies, this may cause a decrease in demand and considerable downward pressure on solar systems and therefore negatively impact both solar module prices and the value of our solar power projects. The reduction, modification or elimination of government mandates and economic incentives in one or more of our markets could therefore materially and adversely affect the growth of such markets or result in increased price competition, either of which could cause our revenues to decline and harm our financial results.

***Long-term supply agreements may make it difficult for us to adjust our raw material costs should prices decrease. Also, if we terminate any of these agreements, we may not be able to recover all or any part of the advance payments we have made to these suppliers and we may be subject to litigation.***

In 2007 and 2008, we entered into a number of long-term supply agreements with several silicon and wafer suppliers in order to secure a stable supply of raw materials to meet our production requirements. These suppliers included GCL-Poly Energy Holdings Limited, or GCL, Neo Solar Power Corp., or Neo Solar, Deutsche Solar AG, or Deutsche Solar, Jiangxi LDK Solar Hi-Tech Co., Ltd., or LDK, and a UMG-Si supplier.

Under our supply agreements with certain silicon wafer suppliers, and consistent with historical industry practice, we make advance payments prior to scheduled delivery dates. These advance payments are made without collateral and are credited against the purchase prices payable by us. As of December 31, 2013, the balance of advance payments that we have made to GCL, Deutsche Solar, LDK and the UMG-Si supplier totaled $47.7 million.

We purchased the contracted volume for 2009 under our 12-year supply agreement with Deutsche Solar, but did not purchase the contracted volumes for 2010 and 2011. The agreement containsa provision stating that, if we do not order the contracted volume in a given year, Deutsche Solar can invoice us for the difference at the full contract price. We believe that the take-or-pay provisions of the agreement are void under German law. In December 2011, Deutsche Solar gave notice to us to terminate the 12-year wafer supply agreement with immediate effect. Deutsche Solar stated that the reason for the termination was an alleged breach of the agreement by us. In the notice, Deutsche Solar reserved its right to claim damages of €148.6 million in court. As aresult of the termination, we reclassified the accrued loss on firm purchase commitments reserve of $27.9 million as of December 31, 2011 to loss contingency accruals. In addition, we made a full bad debt allowance of $17.4 million against the balance of advance payments to Deutsche Solar. The accrued amount of $27.9 million represents our best estimate for our loss contingency. Deutsche Solar did not specify the basis for its claimed damages of €148.6 million in the notice.

In 2007, we entered into a three-year agreement with LDK under which we purchased specified quantities of silicon wafers and LDK converted our reclaimed silicon feedstock into wafers. In June 2008, we entered into two 10-year wafer supply agreements with LDK, under which we agreed to purchase specified volumes of wafers at pre-determined prices each year, commencing January 1, 2009. In April 2010, we gave LDK a termination notice for these supply agreements on the grounds that they refused to deduct from the selling price the deposits paid by us previously. We also initiated arbitration proceedings against LDK under the agreements, seeking a refund of the initial deposits that we paid to them. In December 2012, the Shanghai Branch of the China International Economic and Trade Arbitration Commission, or CIETAC Shanghai Branch, awarded RMB248.9 million plus RMB2.2 million in arbitration expenses in favor of LDK, including RMB60.0 million of previously paid deposits. In May 2013, the Suzhou Intermediate Court dismissed a request by LDK to enforce this arbitration award. However, the Jiangsu Provincial High Court has ordered that this dismissal by the Suzhou Intermediate Court be subject to a retrial which we expect will occur in May 2014. See "Item 8.

Financial Information—A. Consolidated Statements and Other Financial Information—Legal and Administrative Proceedings." We recorded a full ba debt allowance against this initial deposit in 2009. We made a loss provision totaling RMB188.9 million in 2012 following the arbitration award in favor of LDK but reversed this provision following the Suzhou Intermediate Court's May 2013 decision to dismiss a request by LDK to enforce the arbitration award against us. Although we dispute the merits of the proceedings brought against us by LDK and will defend ourselves vigorously against these claims, if the Suzhou Intermediate Court reverses its May 2013 decision, we would be liable for a payment of RMB191.2 million ($31.6 million) to LDK and we currently do not have any provision in our accounts for this amount. We cannot assure you that the courts will find in our favor or that LDK will not attempt to bring additional claims against us, the outcomes of which could potentially have an adverse effect on our results of operations and financial condition. In March 2014, LDK filed an application for arbitration with the China International Economic and Trade Arbitration Commission, or CIETAC, in Shanghai, seeking (1) compensation of RMB530.0 million ($87.5 million) for economic losses (including losses of potential profits) caused by the alleged breach of the June 2008 agreements; (2) attorney fees of RMB1.2 million ($0.2 million); and (3) arbitration expenses. CIETAC sent the Notice of Arbitration to us on April 8, 2014 to which we plan to make a timely response. The claims stated in the new application for arbitration overlap with the previous action that CIETAC Shanghai Branch has already decided upon, and which the Suzhou Intermediate Court refused to enforce. We believe that we will succeed in persuading CIETAC to postpone consideration of the new application for arbitration until the Suzhou Intermediate Court issues its decision.

Due to the default of a UMG-Si supplier in delivering its contracted volumes for 2010 and concerns regarding its financial position, we concluded that we were not likely to purchase any significant quantity of UMG-Si from this supplier in the future and made a full bad debt allowance against the advance payments of RMB64 million to the UMG-Si supplier in 2010.

In the future, we may enter into additional long-term supply agreements for silicon wafers or solar cells with fixed price and quantity terms. If, during the term of these agreements, the price of materials decreases significantly and we are unable to renegotiate favorable terms with our suppliers, we may be placed at a competitive disadvantage compared to our competitors, and our earnings could decline. In addition, if demand for our solar power products decreases, yet our supply agreements require us to purchase more polysilicon than required to meet customer demand, we may incur costs associated with carrying excess inventory. To the extent that we are not able to pass these increased costs on to our customers, our business, cash flows, financial condition and results of operations may be materially and adversely affected. If our suppliers file lawsuits against us for early termination of these contracts, such events could be costly, may divert management's attention and other resources away from our business, and could have a material and adverse effect on our reputation, business, financial condition, results of operations and prospects.

***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 and services.***

The market for electricity generation products in the countries where we sell our products is heavily influenced by federal, state and local government regulations and policies concerning the electric utility industry, as well as policies disseminated by electric utilities. These regulations and policies often relate to electricity pricing and technical interconnection of customer-owned electricity generation, and could deter further investment in the research and development of alternative energy sources as well as customer purchases of solar power technology, which could result in a significant reduction in the potential demand for our solar power products. We expect that our solar power products and installation will continue to be subject to federal, state and local regulations and policies relating to safety, utility interconnection and metering, construction, environmental protection, and

other related matters. Any new regulations or policies pertaining to our solar power products may result in significant additional expenses to us, our resellers and customers, which could cause a significant reduction in demand for our solar power products.

***Because the markets in which we compete are highly competitive and many of our competitors have greater resources than we do, we may not be able to compete successfully and we may not be able to maintain or increase our market share.***

We have a large number of competitors, including non-China-based competitors such as First Solar, Inc., or First Solar, and Sharp Solar Corporation, or Sharp Solar, and China-based competitors such as Yingli Green Energy Holding Company Limited, or Yingli, Trina Solar Limited, or Trina, and JinkoSolar Holding Co., Limited, or Jinko. Some of our competitors are developing or are currently producing products based on new solar power technologies that may ultimately have costs similar to or lower than our projected costs. These include products based on thin film PV technology, which requires either no silicon or significantly less silicon to produce than crystalline silicon solar modules, such as the ones that we produce, and is less susceptible to increases in silicon costs. Some of our competitors have longer operating histories, greater name and brand recognition, access to larger customer bases, greater resources and significantly greater economies of scale than we do. In addition, some of 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 demands or devote greater resources to the development, promotion and sales of their products. Some of our competitors have more diversified product offerings, which may better position them to withstand a decline in demand for solar power products. Some of our competitors are more vertically integrated than we are, from upstream silicon wafer manufacturing to solar power system integration. This may allow them to capture higher margins or have lower costs. In addition, new competitors or alliances among existing competitors could emerge and rapidly acquire significant market share. If we fail to compete successfully, our business will suffer and we may not be able to maintain or increase our market share.

***If sufficient demand for solar power products does not develop or takes longer to develop than we anticipate, our revenues may not increase or may continue to decline, and we may be unable to sustain our profitability.***

The solar power market is still at a relatively early stage of development and future demand for solar power products is uncertain. Market data for the solar power industry is not as readily available as for more established industries, where trends are more reliably assessed from data gathered over a longer period of time. In addition, demand for solar power products in our targeted markets, including Germany, the U.S., Japan, China, Canada, Spain, Korea, the United Kingdom, Italy, India and France may not develop or may develop to a lesser extent than we anticipate. Many factors may affect the viability of solar power technology and the demand for solar power products, including:

- the cost-effectiveness, performance and reliability of solar power products, including our solar power projects, compared to conventional and other renewable energy sources and products;
- the availability of government subsidies and incentives to support the development of the solar power industry;
- the availability and cost of capital, including long-term debt and tax equity, for solar power projects;
- the success of other alternative energy technologies, such as wind power, hydroelectric power, geothermal power and biomass fuel;

- fluctuations in economic and market conditions that affect the viability of conventional and other renewable energy sources, such as increases or decreases in the prices of oil, gas and other fossil fuels;
- capital expenditures by end users of solar power products, which tend to decrease when the economy slows; and
- the availability of favorable regulation for solar power within the electric power industry and the broader energy industry.

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

***We face risks associated with the marketing, distribution and sale of our solar power products internationally.***

The international marketing, distribution and sale of our products expose us to a number of risks, including:

- fluctuating sources of revenues;
- the difficulties staffing and managing overseas operations;
- fluctuations in foreign currency exchange rates;
- differing regulatory and tax regimes across different markets;
- the increased cost of understanding local markets and trends and developing and maintaining an effective marketing and distribution presence in various countries;
- the difficulty of providing customer service and support in various countries;
- the difficulty of managing our sales channels effectively as we expand beyond distributors to include direct sales to systems integrators, end users and installers;
- the difficulty of managing the development, construction and sale of our solar power projects on a timely and profitable basis as a result of technical difficulties, commercial disputes with our customers, changes in regulations among other factors;
- the difficulties and costs of complying with the different commercial, legal and regulatory requirements in the overseas markets in which we operate;
- any failure to develop appropriate risk management and internal control structures tailored to overseas operations;
- any inability to obtain, maintain or enforce intellectual property rights;
- any unanticipated changes in prevailing economic conditions and regulatory requirements; and
- any 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.

If we are unable to effectively manage these risks, our ability to expand our business abroad could suffer.

Our revenue sources have fluctuated significantly over recent years. For example, in 2008, 89.5% of our revenues were attributable to Europe, while only 4.6% and 5.9% were attributable to the Americas and Asia and others, respectively. However, in 2013, Europe contributed only 10.9% of our revenues, while the Americas contributed 35.6% and Asia and others contributed 53.5%. As we shift the focus of our operations between different regions of the world, we have limited time to prepare for and address the risks identified above. Furthermore, some of these risks, such as currency fluctuations, will increase as our revenue contribution from certain global regions become more prominent. This may adversely influence our financial

performance.

***Our significant international operations expose us to a number of risks, including unfavorable political, regulatory, labor and tax conditions in the countries where we operate.***

We intend to continue to extend our global reach and capture market share in key global markets. In doing so, we could be exposed to various risks, including political, regulatory, labor and tax risks. Furthermore, we may need to make substantial investments in our overseas operations, both initially and on an ongoing basis, in order to attain longer-term sustainable returns. These investments could negatively impact our financial performance before sustainable profitability is recognized.

***Imposition of anti-dumping and countervailing orders in one or more markets may result in additional costs to our customers, which could materially or adversely affect our business, results of operations, financial conditions and future prospects.***

In October 2011, a trade action was filed with the U.S. Department of Commerce, or USDOC, and the U.S. International Trade Commission, or USITC, by the U.S. unit of SolarWorld AG and six other U.S. firms, accusing Chinese producers of crystalline silicon photovoltaic cells, or CSPV cells, whether or not incorporated into modules, of selling their products (i.e., CSPV cells or modules incorporating these cells) into the United States at less than fair value, or dumping, and of receiving countervailable subsidies from the Chinese authorities. These firms asked the U.S. government to impose anti-dumping and countervailing duties on CSPV cells imported from China. The USDOC and the USITC investigated the validity of these claims. We were identified as one of a number of Chinese exporting producers of the subject goods to the U.S. market. We also have affiliated U.S. operations that import the subject goods from China.

On October 9, 2012, the USDOC issued final affirmative determinations in the anti-dumping and countervailing duty investigations. On November 7, 2012, the USITC ruled that imports of CSPV cells had caused material injury to the U.S. CSPV industry. As a result of these rulings, we are required to pay cash deposits on CSPV cells imported into the U.S. from China, whether alone or incorporated into modules. The announced cash deposit rates applicable to us were 13.94% (anti-dumping duty) and 15.24% (countervailing duty). We paid all the cash deposits due under these determinations. The rates at which duties will be assessed and payable are subject to ongoing administrative review pursuant to a request by SolarWorld AG and may differ from the announced deposit rates. These duties could materially and adversely affect our affiliated U.S. import operations and increase our cost of selling into the United States, thus adversely affecting our export sales to the United States, which is one of our growing markets. A number of parties have challenged the rulings of the USDOC and the USITC in appeals to the U.S. Court of International Trade. Decisions on those appeals are not expected before the end of 2014.

On December 31, 2013, the U.S. unit of SolarWorld AG filed a new trade action with the USDOC and the USITC accusing Chinese producers of certain CSPV cells and modules of dumping their products into the United States and of receiving countervailable subsidies from the Chinese authorities. This trade action also accuses Taiwanese producers of certain CSPV cells and modules of dumping their products into the United States. Excluded from these new actions are those Chinese-origin solar products covered by the 2012 rulings detailed in the prior paragraphs. The USDOC and the USITC are investigating the validity of these claims. The USITC completed its preliminary phase investigation on February 14, 2014, and the USDOC's preliminary phase investigations are ongoing, with decisions currently expected in June. We were identified as one of a number of Chinese producers exporting subject goods to the U.S. market. We also have affiliated U.S. operations that import goods subject to these new investigations.

On September 6, 2012, following a complaint lodged by EU ProSun, an ad-hoc industry association including SolarWorld AG, the European Commission initiated an anti-dumping investigation concerning imports into the EU of CSPV modules and key components (i.e., cells and wafers) originating in China. On November 8, 2012, following a complaint lodged by the same parties, the European Commission

initiated an anti-subsidy investigation on these products. In each investigation, we were identified as one of a number of Chinese exporting producers of these products to the EU market. We also have affiliated EU operations that import these products from China.

Definitive anti-dumping duties and definitive countervailing measures were imposed on December 6, 2013. However, under the terms of an undertaking entered into with the European Commission, duties are not payable on our products sold into the EU, so long as we respect a volume ceiling and minimum price arrangement set forth in that undertaking, and until the measures expire or the European Commission withdraws the undertaking.

In November 2012, India initiated an anti-dumping investigation on imported solar products from China, Taiwan, the United States and Malaysia. The scope of the Indian complaint includes thin-film and CSPV cells and modules, as well as "glass and other suitable substrates." The period of investigation is from January 1, 2011 to June 30, 2012. Wecompleted and submitted a "sampling questionnaire" and were chosen by the Indian authorities to be a sampled company. We submitted the data and our submitted data was subject to on-site verification by the Indian authorities from March 22, 2014 to March 26, 2014. The last stage of the investigation is the issuance of the final findings, which are due by the end of May 2014. This document will set forth its conclusions on product, dumping, injury and causal link, along with recommendations for any anti-dumping duties.

On January 20, 2014, China's Ministry of Commerce announced definitive anti-dumping and countervailing duties on imports of solar-grade polysilicon from the United States and South Korea. The anti-dumping duty rates are as high as 57% for U.S. suppliers and 48.7% for South Korean suppliers, while the countervailing duty rate is as high as 2.1% for certain U.S. suppliers. These duties did not materially increase our cost of production in 2013, and we will continue to evaluate whether to source any significant amount of our polysilicon from the United States or South Korea during 2014.

We cannot guarantee that these duties will not have a material and adverse effect in the event we begin to source a significant amount of polysilicon from these countries.

The U.S. and Europe are important markets for us, and we view India as a promising emerging market. Europe contributed 65.0%, 50.7% and 10.9% of our revenues for the years ended December 31, 2011, 2012 and 2013, respectively. The United States contributed 10.1%, 19.6% and 13.0% of our revenues for the years ended December 31, 2011, 2012 and 2013, respectively. Imposition of anti-dumping and countervailing duties in these markets may result in additional costs to us and/or our customers, which may materially and adversely affect our business, results of operations, financial conditions and future prospects.

***We face risks related to an ongoing SEC investigation.***

In 2010, we received two subpoenas from the SEC requesting documents relating to, among other things, certain sales transactions in 2009 and whether those transactions potentially impacted the guidance issued by us in advance of our follow-on offering in October 2009. As part of its investigation, the SEC requested that we voluntarily provide certain documents and other information. We have been fully cooperating with the SEC and are in ongoing, and recent, communications with the SEC regarding its investigation into potential violations of U.S. securities laws, including any potential claims the SEC might bring under Rule 10b-5 under the Exchange Act. We cannot predict the outcome of the SEC's investigation. If we are unable to agree to a satisfactory resolution with the SEC, the SEC could issue a Wells notice to us and one or more of our officers asking us and one or more of our officers to provide a submission detailing why we believe an enforcement action should not be pursued. Furthermore, the SEC could pursue various actions, including enforcement actions alleging violations of a broad array of securities laws against us or any of our officers and directors, and seeking remedies, including disgorgements, penalties, fines, injunctive relief, a cease and desist order, limitations or a bar on the service of directors or officers, and other sanctions under U.S. securities laws. The conduct and

resolution of the SEC investigation could be time-consuming and expensive and distracting to our business and management. The findings and outcome of the SEC investigation may also affect lawsuits that are pending and any future litigation that we may face. In the event that the investigation results in an adversarial action or proceeding being brought against us or any of our officers or directors, our business, reputation and the trading price of our common shares may be adversely affected.

***We face risks related to private securities litigation.***

Our company and certain of our directors and executive officers have been named as defendants in class action lawsuits in the United States and Canada alleging that our financial disclosures during 2009 and early 2010 were false or misleading and in violation of U.S. federal securities laws and Ontario securities laws, respectively. The lawsuits in the United States were consolidated into one class action, which was dismissed with prejudice by the district court in March 2013, and subsequently affirmed by the circuit court in December 2013. The lawsuit in Canada continues. As a preliminary matter, we challenged the Ontario Court's jurisdiction to hear the plaintiff's claim, but this motion was unsuccessful. The plaintiff has filed motions for class certification and for court approval to assert the statutory cause of action under the Ontario Securities Act, but these motions have not yet been heard. The plaintiff's motions have now been scheduled for hearing in July 2014. There is no guarantee that we will not become party to additional lawsuits. If the case goes to trial, the Canadian action could require significant management time and attention and result in significant legal expenses. In addition, we are generally obligated, to the extent permitted by law, to indemnify our directors and officers who are named defendants in these lawsuits. If we were to lose a class action suit, we may be required to pay judgments or settlements and incur expenses in aggregate amounts that could have a material and adverse effect on our financial condition or results of operations.

***Our quarterly operating results may fluctuate from period to period.***

Our quarterly operating results may fluctuate from period to period based on a number of factors, including:

- the average selling prices of our solar power products;
- the timing of completion of construction of our solar power projects;
- the rate and cost at which we are able to expand our internal production capacity;
- the availability and cost of solar cells and wafers from our suppliers and toll manufacturers;
- the availability and cost of raw materials, particularly high-purity silicon;
- changes in government incentive programs and regulations, particularly in our key and target markets;
- the unpredictable volume and timing of customer orders;
- the loss of one or more key customers or the significant reduction or postponement of orders;
- the availability and cost of external financing for on-grid and off-grid solar power applications;
- acquisition and investment costs;
- the timing of successful completion of customer acceptance testing of our solar power projects;
- geopolitical turmoil and natural disasters within any of the countries in which we operate;
- foreign currency fluctuations, particularly in the U.S. dollar, Euro, RMB and Canadian dollar;
- our ability to establish and expand customer relationships;
- changes in our manufacturing costs;

- the timing of new products or technology introduced or announced by our competitors;
- fluctuations in electricity rates due to changes in fossil fuel prices or other factors;
- allowances for doubtful accounts and advances to suppliers;
- inventory write-downs;
- long-lived asset impairment;
- depreciation charges relating to under-utilized assets;
- loss on firm purchase commitments under long-term supply agreements; and
- construction progress of solar power projects and related revenue recognition.

We base our planned operating expenses in part on our expectations of future revenues. A significant portion of our expenses will be fixed in the short-term. If our revenues for a particular quarter are lower than we expect, we may not be able to reduce our operating expenses proportionately, which would harm our operating results for the quarter. This may cause us to miss analysts' estimates or any guidance announced by us. If we fail to meet or exceed analysts' estimates, investor expectations or our own future guidance, even by a small amount, our share price could fluctuate and decline, perhaps substantially.

***Fluctuations in exchange rates could adversely affect our business, including our financial condition and results of operations.***

The majority of our sales in 2013 are denominated in Japanese yen, U.S. dollars and Canadian dollars, with the remainder in other currencies such as Renminbi, Euros and British pounds. Our Renminbi costs and expenses are primarily related to the sourcing of solar cells, silicon wafers and silicon, other raw materials, toll manufacturing fees, labor costs and local overhead expenses within the PRC. From time to time, we enter into loan arrangements with Chinese commercial banks that are denominated primarily in Renminbi or U.S. dollars. Most of our cash and cash equivalents are denominated in Renminbi. Fluctuations in exchange rates, particularly between the U.S. dollar, Euro, Renminbi, Canadian dollar and Japanese yen, may result in fluctuations in foreign exchange gains or losses. We recorded foreign exchange losses of $40.0 million, $10.7 million and $51.5 million in 2011, 2012 and 2013, respectively.

The 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 and China's foreign exchange policies. In late 2005, China amended its policy of tracking the value of the Renminbi to the U.S. dollar. The new policy permitted the Renminbi to fluctuate against a basket of foreign currencies, which caused the Renminbi to appreciate by approximately 21.5% against the U.S. dollar over the following three years. Since 2008, the Renminbi has fluctuated against other freely traded currencies. In June 2010, the PRC government announced that it would allow greater flexibility for the Renminbi to fluctuate against the U.S. dollar, which resulted in further appreciation of the Renminbi. Between June 30, 2010 and December 31, 2013, the value of the Renminbi appreciated by approximately 12.0% against the U.S. dollar. We cannot provide any assurances that the policy of the PRC government will not affect or the manner in which it may affect the exchange rate between the Renminbi and the U.S. dollar in the future.

Since 2008, we have hedged part of our foreign currency exposures against the U.S. dollar using foreign currency forward or option contracts in order to limit our exposure to fluctuations in foreign exchange rates.

Apart from collateral requirements to enter into hedging contracts, there are also notional limits on the size of the hedging transactions that we may enter into with any particular counterparty at any

given time. The effectiveness of our hedging program may be limited due to cost effectiveness, cash management, exchange rate visibility and downside protection. We recorded a loss on change in foreign currency derivatives of $5.8 million and $4.4 million in 2011 and 2012, respectively, and a gain on change in foreign currency derivatives of $10.8 million in 2013. The gains or losses on change in foreign currency derivatives are related to our hedging program.

Volatility in foreign exchange rates will hamper, to some extent, our ability to plan our pricing strategy. To the extent that we are unable to pass along increased costs resulting from exchange rate fluctuations to our customers, our profitability may be adversely impacted. As a result, fluctuations in foreign currency exchange rates could have a material and adverse effect on our financial condition and results of operations.

***A change in our effective tax rate can have a significant adverse impact on our business.***

A number of factors may adversely impact our future effective tax rates, such as the jurisdictions in which our profits are determined to be earned and taxed; changes in the valuation of our deferred tax assets and liabilities; adjustments to provisional taxes upon finalization of various tax returns; adjustments to the interpretation of transfer pricing standards; changes in available tax credits; changes in stock-based compensation expenses; changes in tax laws or the interpretation of such tax laws (for example, proposals for fundamental U.S. international tax reform); changes in U.S. GAAP; expiration or the inability to renew tax rulings or tax holiday incentives; and the repatriation of non-U.S. earnings for which we have not previously provided for U.S. taxes. A change in our effective tax rate due to any of these factors may adversely influence our future results of operations.

***Seasonal variations in demand linked to construction cycles and weather conditions may influence our results of operations.***

Our business is subject to seasonal variations in demand linked to construction cycles and weather conditions. Purchases of solar power products tend to decrease during the winter months in our key markets, such as Canada, due to adverse weather conditions that can complicate the installation of solar power systems and negatively impact the construction schedules of our solar power projects. Demand from other countries, such as the U.S., Germany, China and South Korea, may also be subject to significant seasonality. Seasonal variations could adversely affect our results of operations and make them more volatile and unpredictable.

***Our future success depends partly on our ability to maintain and expand our solar components manufacturing capacity, which exposes us to a number of risks and uncertainties.***

Our future success depends partly on our ability to maintain and expand our solar components manufacturing capacity. If we are unable to do so, we may be unable to expand our business, maintain our competitive position, and improve our profitability. Our ability to expand our solar components production capacity is subject to risks and uncertainties, including:

- the need to raise significant additional funds to purchase raw materials and to build additional manufacturing facilities, which we may be unable to obtain on commercially reasonable terms or at all;
- delays and cost overruns as a result of a number of factors, many of which are beyond our control, including delays in equipment delivery by vendors;
- delays or denial of required regulatory approvals by relevant government authorities;
- diversion of significant management attention and other resources; and
- failure to execute our expansion plan effectively.

If we are unable to maintain and expand our internal production capacity, we may be unable to expand our business as planned. Moreover, even if we do maintain and expand our production capacity, we might still not be able to generate sufficient customer demand for our solar power products to support the increased production levels.

***We may be unable to generate sufficient cash flows or have access to external financing necessary to fund planned operations and make adequate capital investments.***

We anticipate that our operating and capital expenditures requirements may increase. To develop new products, support future growth, achieve operating efficiencies and maintain product quality, we may need to make significant capital investments in manufacturing technology, facilities and capital equipment, research and development, and product and process technology. We also anticipate that our operating costs may increase as we expand our manufacturing operations, hire additional personnel, increase our sales and marketing efforts, invest in joint ventures and acquisitions, and continue our research and development efforts with respect to our products and manufacturing technologies.

Our operations are capital intensive. We rely on working capital financing primarily from PRC commercial banks for our daily operations. Although we are currently able to obtain new working capital financing from PRC commercial banks, we cannot guarantee that we will continue to be able to do so on commercially reasonable terms or at all. See "—Our dependence on Chinese banks to extend our existing loans and provide additional loans exposes us to funding risks, which may materially and adversely affect our operations." Also, even though we are a publicly-traded company, we may not be able to raise capital via public equity and debt issuances due to market conditions and other factors, many of which are beyond our control. Our ability to obtain external financing is subject to a variety of uncertainties, including:

- our future financial condition, results of operations and cash flows;
- general market conditions for financing activities by manufacturers of solar power products; and
- economic, political and other conditions in the PRC and elsewhere.

If we are unable to obtain funding in a timely manner and on commercially acceptable terms, our growth prospects and future profitability may be adversely affected.

Our construction of solar power projects may require us to obtain project financing. There can be no assurance that we will be able to obtain project financing on terms acceptable to us or at all. If we are unable to obtain project financing, or if it is only available on terms which are not acceptable to us, we may be unable to fully execute our business plan. In addition, we generally expect to sell our projects to tax-oriented, strategic industry and other investors. Such investors may not be available or may only have limited resources, in which case our ability to sell our projects may be hindered or delayed and our business, financial condition, and results of operations may be adversely affected. There can be no assurance that we will be able to generate sufficient cash flows, find other sources of capital to fund our operations and solar power projects, make adequate capital investments to remain competitive in terms of technology development and cost efficiency required by our projects. If adequate funds and alternative resources are not available on acceptable terms, our ability to fund our operations, develop and construct solar power projects, develop and expand our manufacturing operations and distribution network, maintain our research and development efforts or otherwise respond to competitive pressures would be significantly impaired. Our inability to do the foregoing could have a material and adverse effect on our business and results of operations.

***Our dependence on Chinese banks to extend our existing loans and provide additional loans exposes us to funding risks, which may materially and adversely affect our operations.***

We require significant cash flow and funding to support our operations. As a result, we rely on short-term borrowings to provide working capital for our daily operations. Since the majority of our short-term borrowings come from Chinese banks, we are exposed to lending policy changes by the Chinese banks. In 2012 and 2013, we successfully extended our short-term borrowings and, as of December 31, 2013, we had outstanding short-term borrowings of $599.7 million with Chinese banks. Between January 1, 2014 and March 31, 2014, we obtained new borrowings of approximately $228.5 million from Chinese banks, including $65.2 million with due dates beyond December 31, 2014. Also, between January 1, 2014 and March 31, 2014, we renewed existing bank facilities of approximately $273.2 million from Chinese banks with due dates beyond December 31, 2014.

If the Chinese government changes its macroeconomic policies and forces Chinese banks to tighten their lending practices, or if Chinese banks are no longer willing to provide financing to solar power companies, including us, we may not be able to extend our short-term borrowings or make additional borrowings in the future. As a result, we may not be able to fund our operations to the same extent as in previous years, which may have a material and adverse effect on our operations.

***Our project development and construction activities may not be successful; projects under development may not receive required permits, property rights, power purchase agreements, interconnection and transmission arrangements; or financing or construction of projects may not commence or continue as scheduled, all of which could increase our costs, delay or cancel a project, and have a material adverse effect on our revenue and profitability.***

The development and construction of solar power projects involve known and unknown risks. We may be required to invest significant amounts of money for land and interconnection rights, preliminary engineering, permitting, legal and other expenses before we can determine whether a project is feasible. Success in developing a particular project is contingent upon, among other things:

- securing land rights and related permits, including satisfactory environmental assessments;
- receipt of required land use and construction permits and approvals;
- receipt of rights to interconnect to the electric grid;
- availability of transmission capacity, potential upgrade costs to the transmission grid and other system constraints;
- payment of interconnection and other deposits (some of which are non-refundable);
- negotiation of satisfactory EPC agreements; and
- obtaining construction financing, including debt, equity and tax credits.

In addition, successful completion of a particular project may be adversely affected by numerous factors, including:

- delays in obtaining and maintaining required governmental permits and approvals;
- potential challenges from local residents, environmental organizations, and others who may not support the project;
- unforeseen engineering problems; subsurface land conditions; construction delays; cost over-runs; labor, equipment and materials supply shortages or disruptions (including labor strikes);
- additional complexities when conducting project development or construction activities in foreign jurisdictions, including compliance with the U.S. Foreign Corrupt Practices Act and other applicable local laws and customs; and

- force majeure events, including adverse weather conditions and other events beyond our control.

If we are unable to complete the development of a solar power project or we fail to meet any agreed upon system-level capacity or energy output guarantees or warranties (including 25 year power output performance guarantees) or other contract terms, or our projects cause grid interference or other damage, the EPC or other agreements related to the project may be terminated and/or we may be subject to significant damages, penalties and other obligations relating to the project, including obligations to repair, replace or supplement materials for the project.

We may enter into fixed-price EPC agreements in which we act as the general contractor for our customers in connection with the installation of their solar power systems. All essential costs are estimated at the time of entering into the EPC agreement for a particular project, and these costs are reflected in the overall fixed price that we charge our customers for the project. These cost estimates are preliminary and may or may not be covered by contracts between us and the subcontractors, suppliers and other parties involved in the project. In addition, we require qualified, licensed subcontractors to install most of our solar power systems. Shortages of skilled labor could significantly delay a project or otherwise increase our costs. Should miscalculations in planning a project occur, including those due to unexpected increases in commodity prices or labor costs, or delays in execution occur and we are unable to increase the EPC sales price commensurately, we may not achieve our expected margins or our results of operations may be adversely affected.

***Developing solar power projects exposes us to different risks than producing solar modules.***

In recent years, we have placed a greater focus on developing our total solutions business which includes solar power project development. These projects can take many months or years to complete and may be delayed for reasons beyond our control. These projects often require us to make significant upfront payments for, among other things, land rights and permitting in advance of commencing construction, and revenue from these projects may not be recognized for several additional months following contract signing. Any inability to enter into sales contracts with customers after making such upfront payments could adversely affect our business and results of operations. Furthermore, we may become constrained in our ability to simultaneously fund our other business operations and the investment in these solar power projects.

In contrast to developing solar modules, developing solar power projects requires more management attention to negotiate the terms of our engagement and monitor the progress of the solar power project which may divert management's attention from other matters.

Our revenue and liquidity may be adversely affected to the extent the project sale market weakens or we are not able to successfully complete the customer acceptance testing due to technical difficulties, equipment failure, or adverse weather, and we are unable to sell our solar power projects at prices and on terms and timing that are acceptable to us.

***Cancellations of customer orders may make us unable to recoup any prepayments made to suppliers.***

In the past, we were required to make prepayments to certain suppliers of silicon wafers and cells and silicon raw materials. Although we require certain customers to make partial prepayments, there is generally a lag between the due date for the prepayment of purchased silicon wafers and cells and silicon raw materials and the time that our customers make prepayments. In the event our customers cancel their orders, we may not be able to recoup prepayments made to suppliers, which could adversely influence our financial condition and results of operations.

***Credit terms offered to some of our customers expose us to the credit risks of such customers and may increase our costs and expenses, which could in turn materially and adversely affect our revenues, liquidity and results of operations.***

We offer some customers unsecured short-term or medium-term credit based on their creditworthiness and market conditions. As a result, our claims for payments and sales credits rank as unsecured claims, which would expose us to credit risk if our customers become insolvent or bankrupt.

From time to time, we sell our products to high credit risk customers in order to gain early access to emerging or promising markets, increase our market share in existing key markets or because of the prospects of future sales with a rapidly growing customer. There are high credit risks in doing business with these customers because they are often small, young and high-growth companies with significant unfunded working capital, inadequate balance sheets and credit metrics and limited operating histories. If these customers are not able to obtain satisfactory working capital, maintain adequate cash flow, or obtain construction financing for the projects where our solar products are used, they may be unable to pay for the products for which they have ordered or of which they have taken delivery. Our legal recourse under such circumstances may be limited if the customer's financial resources are already constrained or if we wish to continue to do business with that customer. Revenue recognition for this type of customer is deferred until cash is received. If more customers to whom we extend credit are unable to pay for our products, our revenues, liquidity and results of operations could be materially and adversely affected.

***Our dependence on a limited number of suppliers of silicon wafers, cells and silicon, and the limited number of suppliers for certain other components, such as silver metallization paste, solar module back-sheet, and ethylene vinyl acetate encapsulant, could prevent us from delivering our products to our customers in the required quantities or in a timely manner, which could result in order cancellations and decreased revenues.***

We purchase silicon raw materials, which include solar grade silicon, silicon wafers and solar cells, from a limited number of third-party suppliers. Our largest supplier of raw materials by dollar amount of purchases accounted for approximately 20.5%, 18.1% and 23.8% of our total raw materials purchases in 2011, 2012 and2013, respectively.

In 2013, our major suppliers of silicon wafers include GCL, Konca Solar Cell., Ltd, or Konca, and Suzhou Dongtai Solar Energy Technology Co., Ltd., or Dongtai. Our major suppliers of solar cells in 2013 include Topcell Solar International Co., Ltd, or Topcell, Neo Solar and Motech Industries, Inc., or Motech. These suppliers may not always be able to meet our quantity requirements, or keep pace with the price reductions or quality improvements, necessary for us to price our products competitively. Supply may also be interrupted by accidents, disasters or other unforeseen events beyond our control. The failure of a supplier, for whatever reason, to supply silicon wafers, solar cells, silicon raw materials or other essential components that meet our quality, quantity and cost requirements in a timely manner could impair our ability to manufacture our products or increase our costs. The impact could be more severe if we are unable to access alternative sources on a timely basis or on commercially reasonable terms, and could prevent us from delivering our products to our customers in the required quantities and at prices that are profitable. Problems of this kind could cause order cancellations, reduce our market share, harm our reputation and cause legal disputes with our customers.

***We are developing and commercializing higher conversion efficiency cells, such as metal wrap-through cells, but we may not be able to mass-produce these cells in a cost effective way, if at all.***

Higher efficiency cell structures are becoming an increasingly important factor in cost competitiveness and brand recognition in the solar power industry. Such cells may yield higher power outputs at the same cost to produce as lower efficiency cells, thereby lowering the manufactured cost per watt. The ability to manufacture and sell solar modules made from such cells may also be an important competitive advantage because solar system owners can obtain a higher yield of electricity

from the modules that have a similar infrastructure, footprint and system cost compared to systems with modules using lower efficiency cells. Higher conversion efficiency solar cells and the resulting higher output solar modules are also one of the considerations in maintaining a price premium over thin-film products. However, while we are making the necessary investments to develop higher conversion efficiency solar power products, there is no assurance that we will be able to commercialize some or any of these products in a cost effective way, or at all. In the near term, such products may command a modest premium. In the longer term, if our competitors are able to manufacture such products and we cannot do the same at all or in a cost efficient manner, we will be at a competitive disadvantage, which will likely influence our product pricing and our financial performance.

***We may be subject to unexpected warranty expense that may not be adequately covered by our insurance policies.***

Before June 2009, we typically sold our standard solar modules 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% and 20%, respectively, from the initial minimum power generation capacity at the time of delivery. In June 2009, we increased our warranty against defects in materials and workmanship to six years. Effective August 1, 2011, we increased our warranty against defects in materials and workmanship to ten years and we guarantee that, for a period of 25 years, our standard solar modules will maintain the following performance levels:

- during the first year, the actual power output of the module will be no less than 97% of the labeled power output;
- from year 2 to year 24, the actual annual power output decline will be no more than 0.7%; and
- by the end of year 25, the actual power output of the module will be no less than 80% of the labeled power output.

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 products in 2002 and began selling standard solar modules in 2004. Any increase in the defect rate of our products would require us to increase our warranty reserves and would have a corresponding negative impact on our results of operations. 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. In particular, unknown issues may surface after extended use. These issues could potentially affect our market reputation and adversely affect our revenues, giving rise to potential warranty claims by our customers. As a result, we may be subject to unexpected warranty costs and associated harm to our financial results as long as 25 years after the sale of our products. In addition, for utility-scale solar power projects built by us, we provide a limited workmanship or balance of system warranty against defects in engineering, design, installation and construction under normal use, operation and service conditions for a period of up to five years following the energizing of the solar power plant. In resolving claims under the workmanship or balance of system warranty, we have the option of remedying through repair, refurbishment or replacement of equipment. We have also entered into similar workmanship warranties with our suppliers to back up our warranties. See "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Critical Accounting Policies —Warranty Cost."

As part of our total solutions business, before energizing solar power plants, we conduct performance testing to confirm that they meet the operational and capacity expectations set forth in the agreements. In limited cases, we also provide an energy generation performance test designed to demonstrate that the actual energy generation for up to the first three years meets or exceeds the

modeled energy expectation. In the event that the energy generation performance test performs below expectations, we may incur liquidated damages capped at a percentage of the contract price.

In April 2010, we began entering into agreements with a group of insurance companies with high credit ratings to back up our warranties. Under the terms of the insurance policies, which are designed to match the terms of our PV module product warranty policy, the insurance companies are obliged to reimburse us, subject to certain maximum claim limits and certain deductibles, for the actual product warranty costs that we incur under the terms of our PV module product warranty policy. We record the insurance premiums initially as prepaid expenses and amortize them over the respective policy period of one year. Each prepaid policy provides insurance against warranty costs for panels sold within that policy year. However, potential warranty claims may exceed the scope or amount of coverage under this insurance and, if they do, they could materially and adversely affect our business.

***We may not continue to be successful in developing and maintaining a cost-effective solar cell manufacturing capability.***

We plan to continue expanding our in-house solar cell manufacturing capabilities to support our solar module manufacturing business. Our annual solar cell production capacity was at 1.5 GW as of December 31, 2013. To remain competitive going forward, we intend to expand our annual solar cell production capacity to meet expected growth in demand for our solar modules. However, we only have limited and recent operating experience in this area and may face significant product development challenges in our solar cell operations. Manufacturing solar cells is a 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 no yield output or production to be suspended. 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. Any failure to successfully develop and maintain cost-effective solar cell manufacturing capability may have a material and adverse effect on our business and prospects. For example, we have in the past purchased a large percentage of solar cells from third parties. This negatively affected our margins compared with those of our competitors since it is less expensive to produce cells internally than to purchase them from third parties. Because third party solar cell purchases are usually made in a period of high demand, prices tend to be higher and availability reduced.

Although we intend to continue direct purchasing of solar cells and toll manufacturing arrangements through a limited number of strategic partners, our relationships with our solar cell suppliers may be disrupted if we engage in the large-scale production of solar cells ourselves. If solar cell suppliers discontinue or reduce the supply of solar cells to us, through direct sales or through toll manufacturing arrangements, and we are not able to compensate for the loss or reduction by manufacturing our own solar cells, our business and results of operations may be adversely affected.

***It may be difficult to develop our internal production capabilities for silicon ingots and wafers or to achieve acceptable yields and product performance as a result of manufacturing problems.***

We completed the initial phase of our silicon ingot and wafer plant in the third quarter of 2008 and reached a capacity of approximately 216 MW as of December 31, 2013. We have limited prior operational experience in ingot and silicon wafer production and will face significant challenges in further increasing our internal production capabilities. The technology is complex and will require costly equipment and hiring of highly skilled personnel. In addition, we may experience delays in further developing these capabilities and in obtaining the governmental permits required to carry on these operations.

In addition, we will need to continuously enhance and modify these capabilities in order to improve yields and product performance. Microscopic impurities such as dust and other contaminants,

difficulties in the manufacturing process, disruptions in the supply of utilities or defects in the key materials and tools used to manufacture silicon wafers can cause a percentage of the silicon wafers to be rejected, which would negatively affect our yields. We may experience manufacturing difficulties that cause production delays and lower than expected yields.

Problems in our facilities, including but not limited to production failures, human errors, weather conditions, equipment malfunction or process contamination, may limit our ability to manufacture products, which could seriously harm our operations. We are also susceptible to floods, droughts, power losses and similar events beyond our control that would affect our facilities. A disruption in any step of the manufacturing process will require us to repeat each step and recycle the silicon debris, which would adversely affect our yields and manufacturing cost.

***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 and adverse effect on our market penetration and revenue growth.***

We may acquire other businesses, make strategic investments or establish strategic relationships with third parties to improve our market position or expand our products and services. Investments, strategic acquisitions 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, it could be expensive to make strategic acquisitions, investments and establish and maintain relationships, and we may be subject 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 cannot assure you that we will be able to successfully make strategic acquisitions and investments or establish strategic relationships with third parties that will prove to be effective for our business. Our inability to do so could materially and adversely affect our market penetration, our revenue growth and our profitability.

***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 sufficient technical personnel. If we are unable to attract and retain qualified employees, our business may be materially and adversely affected.

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

We sell a substantial portion of our solar module products to a limited number of customers, including distributors, system integrators, project developers and installers/EPC companies. Our top five customers by revenues collectively accounted for approximately 29.2%, 21.6% and 38.3% of our net revenues in 2011, 2012 and2013, respectively. We anticipate that our dependence on a limited number of customers will continue for the foreseeable future. Consequently, any of the following events may cause material fluctuations or declines in our revenues:

- reduced, delayed or cancelled orders from one or more of our significant customers;
- the loss of one or more of our significant customers;
- a significant customer's failure to pay for our products on time; and
- a significant customer's financial difficulties or insolvency.

As we continue to expand our business and operations, our top customers continue to change. We cannot assure that we will be able to develop a consistent customer base.

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

We, along with other solar power product manufacturers, are exposed to risks associated with product liability claims if the use of our solar power products results in injury. Since our products generate electricity, it is possible that users could be injured or killed by our products due to product malfunctions, defects, improper installation or other causes. 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 founder, Dr. Shawn Qu, has substantial influence over our company and his interests may not be aligned with the interests of our other shareholders.***

As of March 31, 2014, Dr. Shawn Qu, our founder, chairman, president and chief executive officer, beneficially owned13,308,159 common shares, or 24.2% of our outstanding common shares. As a result, Dr. Shawn Qu has substantial influence over our business, including decisions regarding mergers and acquisition, consolidations and the sale of all or substantially all of our assets, the 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 other 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.

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

Our success depends on our ability to develop and use our technology and know-how and sell our solar power products without infringing the intellectual property or other rights of third parties. The validity and scope of claims relating to solar power technology patents involve complex scientific, legal and factual questions and analyses and are therefore highly uncertain. We may be subject to litigation involving claims of patent infringement or the violation of intellectual property rights of third parties. Defending 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. Additionally, we use both imported and China-made equipment in our production lines, sometimes without sufficient supplier guarantees that our use of such equipment does not infringe third-party intellectual property rights. This creates a potential source of litigation or infringement claims. 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 or require us to seek licenses from third parties, pay ongoing royalties, 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 defer customers or potential customers or limit their purchase or use of our products until such litigation is resolved.

***Compliance with environmental laws and regulations can be expensive, and noncompliance with these regulations may result in adverse publicity and potentially significant monetary damages, fines and the suspension or even termination of our business operations.***

We are required to comply with all national and local environmental regulations. As we expanded our silicon reclamation program and research and development activities and moved into ingot, wafer

and cell manufacturing, we began to generate material levels of noise, wastewater, gaseous wastes and other industrial waste in our business operations. Additionally, as we expanded our internal solar components production capacity, our risk of facility incidents with a potential environmental impact also increased. We believe that we comply with all relevant environmental laws and regulations 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 complying with these new regulations could be substantial. If we fail to comply with present or future environmental regulations, we may be required to pay substantial fines, suspend production or cease operations.

Our solar power products must comply with the environmental regulations of the jurisdictions in which they are installed, and we may incur expenses to design and manufacture our products to comply with such regulations. For example, we increased our expenditures to comply with the EU's Restriction of Hazardous Substances Directive, which took effect in July 2006, by reducing the amount of lead and other restricted substances in our solar module products. Furthermore, we may need to comply with the EU's Waste Electrical and Electronic Equipment Directive if solar power products are re-classified as consumer electronics under the directive or if our customers located in other markets demand that they comply with this directive. This would require us to implement manufacturing process changes, such as changing the soldering materials used in module manufacturing, in order to continue to sell our products in these markets. If compliance is unduly expensive or unduly difficult, we may lose market share and our financial results may be adversely affected. Any failure by us to control our use or to restrict adequately the discharge, of hazardous substances could subject us to potentially significant monetary damages, fines or suspensions of our business operations.

***We may not be successful in establishing our brand name in important markets and the products we sell under our brand name may compete with the products we manufacture on an original equipment manufacturer, or OEM, basis for our customers.***

We sell our products primarily under our own brand name but also on an OEM basis. In certain markets, our brand may not be as prominent as other more established solar power product vendors, and there can be no assurance that the brand names "Canadian Solar", or "CSI" or any of our possible future brand names will gain acceptance among customers. Moreover, because the range of products that we sell under our own brands and those we manufacture for our OEM customers may be substantially similar, we may end up directly or indirectly competing with our OEM customers, which could negatively affect our relationship with them.

***Failure to protect our intellectual property rights in connection with new solar power products may undermine our competitive position.***

As we develop and bring to market new solar power products, we may need to increase our expenditures to protect our intellectual property. Our failure to protect our intellectual property rights may undermine our competitive position. As of March 31, 2014, we had 208 patents and 139 patent applications pending in the PRC for products that contribute a relatively small percentage of our net revenues. We have two United States patents, issued in November 2009 and February 2010. We also have three patent applications pending in Europe. We have registered the "Canadian Solar" trademark in the United States, Australia, Canada, Europe, South Korea, Japan, the United Arab Emirates, Hong Kong and Peru and we have applied for registration of the "Canadian Solar" trademark in a number of other countries. As of March 31, 2014, we had 52 registered trademarks and 11 trademark applications pending in the PRC, and 31 registered trademarks and 42 trademark applications pending outside of China. These intellectual property rights afford only limited protection and the actions we take to protect our rights as we develop new solar power products may not be adequate. Policing the unauthorized use of proprietary technology can be difficult and expensive. In addition, 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 have limited insurance coverage and may incur significant losses resulting from operating hazards, product liability claims or business interruptions.***

Our operations involve the use, handling, generation, processing, storage, transportation and disposal of hazardous materials, which may result in fires, explosions, spills and other unexpected or dangerous accidents causing personal injuries or death, property damages, environmental damages and business interruption. Although we currently carry third-party liability insurance against property damages, the policies for this insurance are limited in scope and may not cover all claims relating to personal injury, property or environmental damage arising from incidents on our properties or relating to our operations. See "Item 4. Information on the Company—B. Business Overview—Insurance." Any occurrence of these or other incidents which are not insured under our existing insurance policies could have a material adverse effect on our business, financial condition or results of operations.

We are also exposed to risks associated with product liability claims in the event that the use of our solar power products results in injury. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Company and Our Industry—Product liability claims against us could result in adverse publicity and potentially significant monetary damages." 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.

In addition, the normal operation of our manufacturing facilities may be interrupted by accidents caused by operating hazards, power supply disruptions, equipment failure, as well as natural disasters. While our manufacturing plants in China and elsewhere are covered by business interruption insurance, any significant damage or interruption to these plants could still have a material and adverse effect on our results of operations.

***If our internal control over financial reporting or disclosure controls and procedures are not effective, investors may lose confidence in our reported financial information, which could lead to a decline in our share price.***

We are subject to the reporting obligations under U.S. securities laws. The Securities and Exchange Commission, or SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, has adopted rules requiring every public company to include a management report on its internal control over financial reporting in its annual report, which contains management's assessment of the effectiveness of its internal control over financial reporting. In addition, an independent registered public accounting firm must report on the effectiveness of the company's internal controls over financial reporting. As of December 31, 2013, our management concluded that our internal control over financial reporting was effective. However, we cannot assure you that material weaknesses in our internal controls over financial reporting will not be identified in the future. Any material weaknesses in our internal controls could cause us not to meet our periodic reporting obligations in a timely manner or result in material misstatements in our financial statements. Material weaknesses in our internal controls over financial reporting could also cause investors to lose confidence in our reported financial information, leading to a decline in our share price.

***The audit report included in this annual report on Form 20-F was prepared by auditors who are not inspected by the Public Company Accounting Oversight Board and, as a result, you are deprived of the benefits of such inspection.***

The independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as auditors of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or the PCAOB, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards. Because our auditors are located in the PRC, a jurisdiction where the PCAOB is currently

unable to conduct inspections without the approval of the PRC authorities, our auditors are not currently inspected by the PCAOB.

Inspections of other firms that the PCAOB has conducted outside China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. This lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating our auditor's audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

***Proceedings instituted by the SEC against five PRC-based accounting firms, including our independent registered public accounting firm, could result in our financial statements being determined to not be in compliance with the requirements of the Exchange Act.***

In late 2012, the SEC commenced administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the Chinese affiliates of the "big four" accounting firms, (including our auditors) and also against Dahua (the former BDO affiliate in China). The Rule 102(e) proceedings initiated by the SEC relate to the firms' failure to produce documents, including audit work papers, in response to the request of the SEC pursuant to Section 106 of the Sarbanes-Oxley Act of 2002, as the auditors located in the PRC are not in a position lawfully to produce documents directly to the SEC because of restrictions under PRC law and specific directives issued by the China Securities Regulatory Commission. The issues raised by the proceedings are not specific to our auditors or to us, but affect equally all audit firms based in China and all China-based businesses with securities listed in the United States.

In January 2014, the judge in these administrative proceedings reached an initial decision that the "big four" accounting firms should be barred from practicing before the SEC for six months. It is currently impossible to determine the impact of this decision as the accounting firms have filed a Petition for Review of the decision and, pending that review, the effect of the decision is suspended. The SEC Commissioners will review the decision, determine whether there has been any violation and, if so, determine the appropriate remedy to be placed on these audit firms. If any such order is made, the accounting firms would have a further right to appeal to the US Federal courts, and the effect of the order might be further stayed pending the outcome of that appeal.

While we cannot predict the outcome of the SEC's proceedings, if the accounting firms, including our independent registered public accounting firm, were denied, temporarily or permanently, the ability to practice before the SEC, and we were unable to find, in a timely manner, another registered public accounting firm to audit and issue a report on our financial statements, we would not be able to meet the reporting requirements under the Securities Exchange Act of 1934, as amended, or the Exchange Act, which may ultimately result in our deregistration by the SEC and delisting from the Nasdaq. Moreover, any negative publicity about the SEC's proceedings against the accounting firms may erode investor confidence in China-based, United States listed companies in general and the trading price of our common shares may be adversely affected.

***You may have difficulty enforcing judgments obtained against us.***

We are a corporation organized under the laws of Canada and a substantial portion of our assets is located outside of the United States. A substantial portion of our current business operations is conducted in the PRC. In addition, a majority of our directors and officers are nationals and residents of countries other than the United States. A substantial portion of the assets of these persons is 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. court 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, many of whom are not residents of the United States and whose assets are located in significant part outside of the United States. In addition, there is uncertainty as to whether the courts of Canada or 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 Canadian or PRC courts would be competent to hear original actions brought in Canada or the PRC against us or such persons predicated upon the securities laws of the United States or any state.

**Risks Related to Doing Business in China**

***The enforcement of the labor contract law and increases in labor costs in the PRC may adversely affect our business and our profitability.***

The Labor Contract Law came into effect on January 1, 2008, and was later revised on December 28, 2012; the Implementation Rules and the amendment thereunder became effective on September 18, 2008 and July 1, 2013, respectively. The Labor Contract Law and the Implementation Rules imposed stringent requirements on employers with regard to executing written employment contracts, hiring temporary employees, dismissing employees, consultation with the labor union and employee assembly, compensation upon termination and overtime work, collective bargaining and labor dispatch business. In addition, under the Regulations on Paid Annual Leave for Employees, which came into effect on January 1, 2008, and their Implementation Measures, which were promulgated and became effective on September 18, 2008, employees who have served for more than one year with an employer are entitled to a paid vacation ranging from 5 to 15 days, depending on their length of service. Employees who waive such vacation time at the request of the employer must be compensated for each vacation day waived at a rate equal to three times their normal daily salary. According to the Interim Provisions on Labor Dispatching, which came into effect on January 3, 2014, where the number of dispatched workers used by an employer prior to the implementation hereof exceeds 10% of its total number of workers, the employer shall formulate a plan to adjust its worker employment situations, and reduce the said percentage to within the required range within two years from the effective date. Our labor costs are expected to continue to increase due to these new laws and regulations. Higher labor costs and labor disputes with our employees stemming from these new rules and regulations could adversely affect our business, financial condition, and results of operations.

***In recent years, our subsidiaries have lost certain tax benefits and we expect to pay additional PRC taxes as a result, which could have a material and adverse impact on our financial condition and results of operations.***

On January 1, 2008, the Enterprise Income Tax Law, or the EIT Law, came into effect in China. Under the EIT Law, both foreign-invested enterprises and domestic enterprises are subject to a uniform enterprise income tax rate of 25%. There is a transition period for enterprises that were established prior to March 16, 2007 (the promulgation date of the EIT Law) and were given preferential tax treatment under the previous tax law. Enterprises that were entitled to exemptions or reductions from the standard enterprise income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires, subject to certain limitations. The EIT Law provides for preferential tax treatment for certain categories of industries and projects that are strongly supported and encouraged by the state. For example, enterprises classified as a "High and New Technology Enterprise," or HNTE, are entitled to a 15% enterprise income tax rate provided that such HNTE satisfies other applicable statutory requirements.

Although our subsidiary, CSI Solartronics (Changshu) Co., Ltd., or CSI Solartronics, was recognized as an HNTE for the three years from 2008 to 2010, because it did not satisfy certain requirements for the reduced 15% enterprise income tax rate, it was unable to utilize the preferential enterprise income tax rate of 15% and is still subject to an enterprise income tax rate of 25%. CSI

Solar Manufacture Inc., or CSI Manufacturing, was subject to a reduced enterprise income tax rate of 12.5% to the end of 2009, when its tax holiday expired. CSI Cells Co. Ltd., or CSI Cells and Canadian Solar Manufacturing (Luoyang) Inc., or CSI Luoyang Manufacturing, were subject to a reduced enterprise income tax rate of 12.5% until the end of 2011, when their tax holidays expired. Currently, CSI Cells is recognized as a HNTE for the three years from 2012 to 2014, and could enjoy the preferential enterprise income tax rate of 15% provided that it satisfies the applicable statutory requirements on an annual basis. Canadian Solar Manufacturing (Changshu) Inc. (formerly known as Changshu CSI Advanced Solar Inc.), or CSI Changshu Manufacturing, was exempt from enterprise income tax for 2009 and was subject to a reduced enterprise income tax rate of 12.5% for 2010, 2011 and 2012, at which time its tax holiday expired as well. CSI Changshu Manufacturing is recognized as a HNTE for the three years from 2011 to 2013, and could enjoy the preferential enterprise income tax rate of 15% after the expiration of the above-mentioned tax holiday provided that it satisfied the applicable statutory requirements for 2013. As the preferential tax benefits enjoyed by our PRC subsidiaries expired, their effective tax rates increased significantly.

***There are significant uncertainties in our tax liabilities regarding our income under the EIT Law.***

We are a Canadian company with substantially all of our manufacturing operations in China. Under the EIT Law and its implementation regulations, both of which became effective on January 1, 2008, enterprises established outside China whose "de facto management body" is located in China are considered PRC tax residents and will generally be subject to the uniform 25% enterprise income tax rate on their global income. Under the implementation regulations, the term "de facto management body" is defined as substantial and overall management and control over aspects such as the production and business, personnel, accounts and properties of an enterprise. The Circular on Identification of China-controlled Overseas-registered Enterprises as Resident Enterprises on the Basis of Actual Management Organization, or Circular 82, further provides certain specific criteria for determining whether the "de facto management body" of a PRC-controlled offshore incorporated enterprise is located in the PRC. The criteria include whether (i) the premises where the senior management and the senior management bodies responsible for the routine production and business management of the enterprise perform their functions are mainly located within the PRC, (ii) decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organizations or personnel in the PRC, (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholders' meeting minutes are located or maintained in the PRC and (iv) 50% or more of voting board members or senior executives of the enterprise habitually reside in the PRC. Although the Circular 82 only applies to offshore enterprises controlled by enterprises or enterprise group located within the PRC, the determining criteria set forth in the Circular 82 may reflect the tax authorities' general position on how the "de facto management body" test may be applied in determining the tax resident status of offshore enterprises. As the tax resident status of an enterprise is subject to the determination by the PRC tax authorities, uncertainties remain with respect to the interpretation of the term "de facto management body" as applicable to our offshore entities. As a substantial number of the members of our management team are located in China, we may be considered as a PRC tax resident under the EIT Law and, therefore, subject to the uniform 25% enterprise income tax rate on our global income. If our global income is subject to PRC enterprise income tax at the rate of 25%, our financial condition and results of operation may be materially and adversely affected.

***Dividends paid by us to our non-Chinese shareholders and gains on the sale of our common shares may be subject to PRC enterprise income tax liabilities or individual income tax liabilities.***

The implementation regulations of the EIT Law provide that (i) if the enterprise that distributes dividends is domiciled in the PRC or (ii) if gains are realized from transferring equity interests of enterprises domiciled in the PRC, then such dividends and capital gains will be treated as China-sourced income. Also, income sourced within China is determined based on the following principles:

(x) for income from transfers of equity interests, source is determined in accordance with the place where the invested enterprise is located; and (y) for income from dividends, source is determined in accordance with the place of the enterprise which makes the payment.

Currently there are no detailed rules governing the procedures and specific criteria for determining what it means to be domiciled in the PRC. As a result, it is not clear how the concept of "China domicile" will be interpreted under the EIT Law. The concept of domicile may be interpreted as the jurisdiction where the enterprise is a tax resident. Therefore, if we are considered a PRC tax resident enterprise for tax purposes, any dividends we pay to our overseas shareholders as well as any gains realized by such holders from the transfer of our common shares may be regarded as China-sourced income and, consequently, be subject to PRC withholding tax at a rate of up to 10% or a lower treaty rate for enterprises.

Under the Law of the People's Republic of China on Individual Income, or IIT Law, individual income tax is payable on PRC-source dividend income. The implementation regulations of the IIT Law provide that income from dividends derived from companies, enterprises and other economic organizations in China is considered derived from sources inside China, regardless of whether the place of payment was inside China. Therefore, if we are treated as a PRC resident enterprise for tax purposes, any dividends we pay to our overseas individual shareholders as well as any gains realized by such holders from the transfer of our notes or common shares may be regarded as China-sourced income and, consequently, be subject to PRC individual income tax at a rate of up to 20% or a lower treaty rate for individuals. The investment returns of our overseas investors, and the value of their investments in us, may be materially and adversely affected if any interest or dividends we pay to them, or any gains realized by them on the transfer of our common shares, are subject to PRC tax.

***We face uncertainty from the PRC's Circular on Strengthening the Management of Enterprise Income Tax Collection of Income Derived by Non-resident Enterprises from Equity Transfers.***

The PRC State Administration of Taxation, or the SAT, issued the Circular on Strengthening the Management of Enterprise Income Tax Collection of Income Derived by Non-resident Enterprises from Equity Transfers, or Circular 698, on December 10, 2009, that addresses the transfer of equity by non-PRC tax resident enterprises. Under Circular 698, the overseas investor (actual controlling party) "indirectly transfers" the equity of such PRC resident enterprise, is required to report such transfer to the PRC tax authority if the intermediate holding company is located in a foreign jurisdiction that has an effective tax rate of less than 12.5% or does not levy tax on such foreign-sourced capital gains of its residents. If the intermediate holding company mainly serves as tax avoidance vehicle and does not have any reasonable business purpose, the PRC in-charge tax authority may, upon verification of the SAT, disregard the intermediate holding company and re-characterize the equity transfer by referring to its economic essence, and as a result, the overseas investor (actual controlling party) may be subject to a 10% PRC tax for the capital gains realized from the equity transfer. In addition, where the non-resident enterprise transfers the equity in PRC resident enterprise to a related party, the taxable income is lesser due to its transfer price not being in line with the principle of arm's-length transaction, the tax authorities have the authority to make adjustment on reasonable basis.

There is uncertainty as to the application of SAT Circular 698. For example, while the term "Indirect Transfer" is not clearly defined, it is understood that the relevant PRC tax authorities have jurisdiction regarding requests for information over a wide range of foreign entities having no direct contact with China. Moreover, the relevant authority has not yet promulgated any formal provisions or formally declared or stated how to calculate the effective tax rates in foreign tax jurisdictions, and the process and format of the reporting of an Indirect Transfer to the competent tax authority of the relevant PRC tax resident enterprise. In addition, there are not any formal declarations with regard to how to determine whether a foreign investor has adopted an abusive arrangement in order to avoid PRC tax. As a result, we may become at risk of being taxed under SAT Circular 698 and we may be required to expend valuable resources to comply with SAT Circular 698 or to establish that we should

not be taxed under SAT Circular 698, which may materially adversely affect our financial condition and results of operations.

Further, we do not believe that the transfer of our common shares or the notes by our non-PRC shareholders would be treated as an indirect transfer of equity in our PRC subsidiaries subject to Circular 698, as the equity transfer is not carried out for the main purposes of avoiding PRC taxes. However, there is uncertainty as to the interpretation and application of Circular 698 by the PRC tax authorities in practice. If you are required to pay PRC tax on the transfer of our common shares or the notes, your investment in us may be materially and adversely affected. In addition, we cannot predict how Circular 698 will affect our financial condition or results of operations.

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

Certain of our revenues and expenses are denominated in Renminbi. If our revenues denominated in Renminbi increase or our 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, 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 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, certain government authorities, including the Ministry of Commerce or its local counterparts, must approve these capital contributions. These limitations could affect the ability of our PRC subsidiaries to obtain foreign exchange through equity financing.

***Uncertainties with respect to the Chinese legal system could materially and adversely affect 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 and joint venture companies. 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 is still developing, the implementation and enforcement of many laws, regulations and rules may be inconsistent, which may limit legal protections available to us. In addition, any litigation in China may be protracted and may result in substantial costs and divert our resources and the attention of our management.

**Risks Related to Our Common Shares**

***We may issue additional common shares, other equity or equity-linked or debt securities, which may materially and adversely affect the price of our common shares. Hedging activities may depress the trading price of our common shares.***

We may issue additional equity, equity-linked or debt securities for a number of reasons, including to finance our operations and business strategy (including in connection with acquisitions, strategic collaborations or other transactions), to satisfy our obligations for the repayment of existing indebtedness, to adjust our ratio of debt to equity, to satisfy our obligations upon the exercise of outstanding warrants or options or for other reasons. Any future issuances of equity securities or

equity-linked securities could substantially dilute the interests of our existing shareholders and may materially and adversely affect the price of our common shares. We cannot predict the timing or size of any future issuances or sales of equity, equity-linked or debt securities, or the effect, if any, that such issuances or sales, may have on the market price of our common shares. Market conditions could require us to accept less favorable terms for the issuance of our securities in the future.

***The market price for our common shares may be volatile.***

The market price for our common shares has been highly volatile and subject to wide fluctuations. During the period from November 9, 2006, the first day on which our common shares were listed on the Nasdaq, until December 31, 2013, the market price of our common shares ranged from $1.95 to $51.80 per share. The closing market price of our common shares on December 31, 2013 was $29.82 per share. From January 1, 2014 to April 25, 2014, the market price of our common shares ranged from $23.01 to $44.50 per share. The closing market price of our common shares on April 25, 2014 was $30.15. The market price of our common shares may continue to be volatile and subject to wide fluctuations in response to a wide variety of 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;
- the departure of executive officers and key research personnel;
- patent litigation and other intellectual property disputes;
- litigation and other disputes with our long-term suppliers;
- fluctuations in the exchange rates between the U.S. dollar, Japanese yen, the RMB, the Canadian dollar and the Euro;
- SEC investigation or private securities litigation;
- the release or expiration of lock-up or other transfer restrictions on our outstanding common shares; and
- sales or anticipated 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 and adverse effect on the price of our common shares.

***Substantial future sales of our common shares in the public market, or the perception that such sales could occur, could cause the price of our common shares to decline.***

Sales of our common shares in the public market, or the perception that such sales could occur, could cause the market price of our common shares to decline. As of December 31, 2013, we had 51,034,343 common shares outstanding. The number of common shares outstanding and available for sale will increase when our employees and former employees who are holders of restricted share units and options to acquire our common shares become entitled to the underlying shares under the terms of their units or options. To the extent 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 these rights available 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 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.***

The following provisions in our amended articles of continuance may deprive our shareholders of the opportunity to sell their shares at a premium over the prevailing market price by delaying or preventing a change of control of our company:

- Our board of directors has the authority, without approval from 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 is entitled to 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 to 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.

***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 the current and anticipated value of our assets and the composition of our income and assets, we do not believe we were a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for our taxable year ended December 31, 2013. A non-U.S. corporation such as ourselves will be treated as a PFIC for U.S. federal income tax purposes for any taxable year if applying applicable look-through rules, either (i) at least 75% of its gross income for such year is passive income or (ii) at least 50% of the value of its assets (determined based on a quarterly average) during such year is attributable to assets that produce or are held for the production of passive income. However, the determination of PFIC status is based on an annual determination that cannot be made until the close of a taxable year, involves extensive factual investigation, including ascertaining the fair market value of all of our assets on a quarterly basis and the character of each item of income that we earn, and is subject to uncertainty in several respects. Accordingly, we cannot assure you that we will not be a PFIC for any taxable year or that the U.S. Internal Revenue Service will not take a contrary position. If we are a PFIC for any taxable year during which a U.S. Holder (as defined in "Item 10. Additional Information—E. Taxation—U.S. Federal Income Taxation") holds a common share, certain adverse U.S. federal income tax consequences could apply to such U.S. Holder. See "Item 10. Additional Information—E. Taxation—U.S. Federal Income Taxation—Passive Foreign Investment Company."

## ITEM 4. *INFORMATION ON THE COMPANY*

### A. History and Development of the Company

Our legal and commercial name is Canadian Solar Inc. We were incorporated under the laws of the Province of Ontario, Canada 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. See "Item 4. Information on the Company—C. Organizational Structure" for additional information on our corporate structure, including a list of our major subsidiaries.

Our principal executive office is located at 545 Speedvale Avenue West, Guelph, Ontario, Canada N1K 1E6. Our telephone number at this address is (1-519) 837-1881 andour fax number is (1-519) 837-2550.

Our principal place of business is located at No. 199 Lushan Road, Suzhou New District, Suzhou, Jiangsu 215129, People's Republic of China.

All inquiries to us should be directed at the address and telephone number of our principal executive offices set forth above. Our website is www.canadiansolar.com. The information contained on or accessible through our website does not form part of this annual report.

### B. Business Overview

***Overview***

We are one of the world's largest and foremost solar power companies. We are a leading vertically integrated provider of solar power products and system solutions with operations in North America, South America, Europe, Africa, the Middle East, Australia and Asia.

We design, develop, and manufacture solar wafers, cells and solar power products. Our solar power products include standard solar modules and specialty solar products. We are incorporated in Canada and conduct most of our manufacturing operations in China. Our products include a range of solar modules built to general specifications for use in a wide range of residential, commercial and industrial solar power generation systems. Specialty solar products consist of customized solar modules that our customers incorporate into their own products and complete specialty products, such as portable solar home systems. We sell our products primarily under our "Canadian Solar" brand name.

In recent years, we have increased investment in, and management attention on our total solutions business, which consists primarily of solar power project development, EPC services, O&M services and sales of solar system kits. As we continue to expand our business into the downstream segment of the industry, we expect that, in 2014, our total solutions business will account for approximately 50% of our net revenues, an increase from 28.6% in 2013 and 11.5% in 2012. As of January 31, 2014, we had a late-stage project pipeline, comprising self-owned and joint ventureprojects and EPC contracts, in Canada, Japan, the U.S. and China, totaling approximately 1.3 GW (DC). We expect to complete these projects and contracts within two years. We also had an early to mid-stage project pipeline, comprising projects under assessment for co-development and acquisition and projects being self-developed where the land has been identified or secured and an energy off-take agreement was in place or there was a reasonable probability that an energy off-take agreement could be secured, totaling approximately 3.2 GW (DC).

We believe we offer one of the broadest crystalline silicon solar power product lines in the industry. Our product lines range from modules of medium power, to high efficiency, high-power output mono-crystalline modules, as well as a range of specialty products. We currently sell our products to a diverse customer base in various markets worldwide, including China, Japan, the U.S., Germany, Spain, Italy, France, the Czech Republic, Canada and India, among other countries. Our

customers primarily include distributors, system integrators, project developers and installers/EPC companies.

We employ a flexible vertically integrated business model that combines internal manufacturing capacity with direct material purchases of both cells and wafers. We believe this approach has benefited us by lowering the cost of materials of our solar module products. We also believe that this approach provides us with greater flexibility to respond to short-term demand increases.

As of December 31, 2013, we had:

- 2.4 GW of total annual solar module manufacturing capacity, 330 MW of which is located in Ontario, Canada with the balance located in China;
- 1.5 GW of total annual solar cell manufacturing capacity; and
- 216 MW of total annual ingot and wafer manufacturing capacity.

We intend to use substantially all of the silicon wafers that we manufacture to supply our own solar cell plant and to use substantially all of the solar cells that we manufacture to produce our own solar module products. We also intend to use our solar module products in our total solutions business. Our total manufacturing costs in China, including purchased polysilicon, wafers and cells, decreased from $0.55 per W for the year ended December 31, 2012, to $0.52 per W for the year ended December 31, 2013. We expect to continue to decrease the manufacturing costsfor our production of wafers, cells and modules.

We continue to focus on reducing our manufacturing costs by improving solar cell conversion efficiency, enhancing manufacturing yields and reducing raw material costs. In January 2009, we established a new solar cell efficiency research center to develop more efficient cell structures, and we have been making ongoing improvements in solar cell conversion efficiency and product cost control. We began shipping new products, such as higher efficiency modules, in late 2011 and expect to increase the sales volumes of these products in the future.

In the third quarter of 2011, we began converting our cell lines to Efficient Long-Term Photovoltaic Solution, or ELPS, production. We began shipping ELPS-based modules in November 2011 and our capacity for ELPS-based cells and modules was 72 MW by the end of 2013.

***Our Products and Services***

Our solar power products include standard solar modules and specialty solar products. In recent years, we have increasingly focused on our total solutions business, which consists primarily of solar power project development, EPC services, O&M services and sales of solar system kits.

*Standard Solar Modules*

Our standard solar modules are arrays of interconnected solar cells encapsulated in weatherproof frames. We produce a wide variety of standard solar modules, ranging from 3 W to in excess of 300 W in power and using multi-crystalline or mono-crystalline cells in several different formats, including general purpose 60 pieces 6" cell and 72 pieces 5" cell formats, larger formats of 72 pieces 6" cell for ground-mounted projects and small modules for specialty products (see below). In 2013, most of the modules that we shipped were assembled with 6" multi-crystalline cells.

We have applied for and received quality and safety certifications for modules with improved frames for rail-less mounting systems, an AC module and higher-powered modules in standard formats, such as a 60 pieces 6" cell, 260 W module. We expect such modules to be substantially cheaper to install because they require less labor and materials, especially in rooftop applications. In the third quarter of 2011, we began assembling modules using ELPS, a wrap-through cell architecture, on a

commercial basis. These modules can achieve module conversion efficiencies in excess of 19%. In 2013, our research and development team continued to improve the cell efficiency of ELPS, bringing the efficiency under laboratory conditions to 21.4%.

We successfully launched high powered ELPS modules in Japan at the beginning of 2012. ELPS modules in 48 cells with 215 W power output are used in residential solar power systems, and ELPS modules in 60 cells with 270 W power output are mainly used in commercial PV systems. In 2013, a total of 40 MW of our ELPS modules were used in residential and commercial solar systems in Japan. We also began developing Quartech modules using 4 bus bar solar cell technology, which improves module reliability and efficiency. Quartech modules in 6 × 10 cell arrays have module power output of between 250 W and 265 W. With this cell technology improvement, we will be able to offer customers higher module wattages. We launched new Quartech modules in March 2013. In 2012, we also developed and began offering to customers a Residential AC module that addresses some of the limitations of the first generation micro inverters. These products are built to general specifications for a wide range of residential, commercial and industrial solar power generation systems.

We design our standard solar modules to be durable under harsh weather conditions and easy to transport and install. We sell our standard solar modules primarily under our brand name. Since we began selling our solar module products in March 2002, we have increased our annual module production capacity from 2.0 MW to 2.4 GW as of December 31, 2013.

*Specialty Solar Products*

Our specialty solar products mainly include Andes Solar Home System and Maple Solar System.

Andes Solar Home System, or Andes SHS, is an off-grid solar system, designed to provide an economical source of electricity to homes and communities without access to grid electricity or where electricity supply is scarce. The Andes SHS is portable, light-weight, and easy to set-up, making it ideal for situations where emergency power is required.

Maple Solar System is an economical, safe and clean energy solution for families who burn kerosene for lighting when darkness falls. It is a very convenient mobile power source for outdoor activities, such as camping, boating and hiking. Maple Solar System includes a solar panel, energy-efficient LED lights, Li-ion batteries and multiple cell phone charger plugs.

*Solar Power Project Development*

We develop, build and sell solar power projects. Our solar power project development activities have grown over the past several years through a combination of organic growth and acquisitions. Our global solar power project business develops projects primarily in Canada, Japan, the United States and China. Our team of experts specializes in project development, evaluations, system designs, engineering, managing project coordination and organizing financing. See "Item 4. Information on the Company—BBusiness Overview—Sales and Marketing—Solar Power Project Development" for a description of the status of our solar power projects.

*EPC Services*

In late 2010, we began entering into EPC contracting arrangements in Canada and China. Under these arrangements, the solar power project developer owns the project and we are contracted to perform the engineering, procurement and construction work for the project. The EPC contracts in China were completed through our affiliated company, Gaochuangte, in which we own a 40% equity interest.

*O&M Services*

In the second half of 2012, we started to provide O&M services for solar power projects in commercial operation. Depending on the terms of our O&M service contracts, our O&M services include inspections, repair and replacement of plant equipment, site management and administrative support services.

*Solar System Kits*

A solar system kit is a ready-to-install package consisting of solar modules produced by us and components, such as inverters, racking system and other accessories, supplied by third parties. We began selling solar system kits in 2010, and today we sell them primarily to the Japanese and Canadian markets.

***Supply Chain Management***

Our business depends on our ability to obtain a stable and cost-effective supply of polysilicon, silicon wafers and solar cells. Our major suppliers of silicon wafers in 2013 include GCL, Konca and Dongtai. Our major suppliers of solar cells in 2013 include Topcell, Neo Solar and Motech.

In the third quarter of 2010, supply of silicon wafer and polysilicon tightened compared to previous years. However, these raw materials began to decrease in price during the fourth quarter of 2010 and moved back into an oversupply environment in 2011. The oversupply environment continued into 2012 and 2013 across the entire solar supply chain, particularly at the polysilicon production stage. See "Item 3. Key Information—D. Risk Factor —Risks Related to Our Company and Our Industry—Long-term supply agreements may make difficult for us to adjust our raw material costs should prices decrease. Also, if we terminate any of these agreements, we may not be able to recover all or any part of the advance payments we have made to these suppliers and we may be subject to litigation."

Through the third quarter of 2010, polysilicon remained relatively inexpensive at $45 to $55 per kilogram. In late 2010, polysilicon increased to approximately $80 to $90 per kilogram but decreased to $24.66 per kilogram by December 31, 2012 due to oversupply and further decreased to approximately $17.89 per kilogram by December 31, 2013 due to continued oversupply. In 2014, we expect that there will be a modest oversupply of polysilicon materials and that polysilicon prices will remain low. We plan to continue purchasing most of our silicon wafers and all of our polysilicon requirements externally. We are currently diversifying our wafer and polysilicon suppliers, particularly with top tier international suppliers.

*Silicon Raw Materials and Solar Wafers*

Silicon feedstock, which consists of high-purity solar grade silicon, is the starting point of the silicon based solar PV module supply chain.

Our silicon wafer agreements set forth price and quantity information, delivery terms and technical specifications. While the contracts set forth specific price terms, most of them also include mechanisms to change the price, either upwards or downwards, based on market conditions.

In 2007 and 2008, we entered into a number of long-term supply agreements with several silicon and wafer suppliers in order to secure a stable supply of raw materials to meet our production requirements. These suppliers included GCL, Neo Solar, Deutsche Solar, LDK and a UMG-Si supplier. In 2009 and thereafter, we amended our agreements with certain of these suppliers to adjust the purchase price to prevailing market prices at the time we place a purchase order and to reduce the quantity of products that we are required to purchase. Under our agreements with certain suppliers, and consistent with historical industry practice, we made advance payments prior to scheduled delivery

dates. The advance payments were made without collateral and were to be credited against the purchase prices payable by us.

See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Company and Our Industry—Long-term supply agreements may mak difficult for us to adjust our raw material costs should prices decrease. Also, if we terminate any of these agreements, we may not be able to recover all or any part of the advance payments we have made to these suppliers and we may be subject to litigation."

*Solar Cells*

In addition to manufacturing our own solar cells and toll manufacturing arrangements with our solar cell suppliers, we purchase solar cells from a number of international and local suppliers.

Our solar cell agreements set forth price and quantity information, delivery terms and technical specifications. These contracts generally provide for a period of time during which we can inspect the product and request the seller to make replacements for damaged goods. We generally require the seller to bear the costs and risks of transporting solar cells until they have been delivered to the location specified in the contract. We currently do not have any long-term supply contracts for solar cells with fixed price or quantity terms.

As we expand our business, we expect to increase our solar cell manufacturing capacity and diversify our solar cell supply channel to ensure we have the flexibility to adapt to future changes in the supply of, and demand for, solar cells.

***Solar Module Manufacturing***

We assemble our solar modules by interconnecting multiple solar cells by tabbing and stringing them into a desired electrical configuration. We lay the interconnected cells, laminate them in a vacuum, cure them by heating and package them in a protective lightweight anodized aluminum frame. We seal and weatherproof our solar modules to withstand high levels of ultraviolet radiation, moisture and extreme temperatures.

We selectively use automation to enhance the quality and consistency of our finished products and to improve the efficiency of our manufacturing processes. Key equipment in our manufacturing process includes automatic laminators, simulators and solar cell testers. The design of our assembly lines provides flexibility to adjust the ratio of automated equipment to skilled labor in order to maximize quality and efficiency.

***Quality Control and Certifications***

We have registered our quality control system according to the requirements of ISO 9001:2008 and ISO/TS 16949 standards. TUV Rheinland Group, a leading international service company that documents the safety and quality of products, systems and services, audits our quality systems. We inspect and test incoming raw materials to ensure their quality. We monitor our manufacturing processes to ensure quality control and we inspect finished products by conducting reliability and other tests.

We have obtained IEC 61215 and IEC 61730 (previously TUV Class II safety) European standards for sales in Europe. We have also obtained certifications of CAN ORD-UL 1703 and UL 1703, which allow us to sell products in North America. In 2009, we obtained the necessary certifications to sell our modules in Japan, South Korea and Great Britain and to several of the Chinese solar programs, including Golden Sun. In 2011, we completed IEC61215/61730 and UL1703 certification for modules designed to be assembled from metal wrap-through cells. We also completed DLG ammoniac resistance testing and obtained the salt mist certification for our leading module CS6P-P in 2011. In 2012, we

achieved the highest ratings possible in the two most significant standard tests for ammonia resistance of solar modules, which were the IEC62716 draft C ammonia corrosion test and the DLG standard test. In 2013, we extended the salt mist certification under IEC 61701 ed.2 Severity 1 to all of our standard PV modules at VDE. In addition, we were able to register more key module types at JET for Japan; enhanced the maximum system voltage up to 1000V for our CSA certification (North America), allowing significant cost reduction for our EPC partners; and again raised the ranking of CEC PTC ratings. In 2013, we extended our IEC and UL certifications to cover higher-power modules, up to 275 W for 60 cell models and 330 W for 72 cell models, through key technology improvements such as introduction of 4 bus bar cell design. We also again improved our CEC PTC ratings for the spearhead CS6P-P model, and have demonstrated suitability of our product portfolio for reliable long-term operation under various climates, through SGS IEC60068-2-68 sand blowing certification and extensive PID (Potential Induced Degradation) resistance testing at respected laboratories (such as Fraunhofer ISE, VDE, TUV SUD).

Gaochuangte, the EPC company in which we hold a 40% equity interest, received the first PV plant certificate from TUV SUD in China under the IEC 62446 standard. The new half-cell module designed by our R&D team was fully certified by CSA and VDE, two worldwide recognized certification bodies, in 2012. We also started providing our customers with third-party-approved PAN files (testing per IEC61853-1) for all our key module series, allowing more accurate energy yield simulation and better return-on-investment analysis for their projects. In 2013, we obtained certifications for double glasses and DC-to-AC module designs. We will continue our efforts for general improvements in module and component designs and seek to obtain corresponding certifications. With the emergence of new markets that we are expanding into, we have made and expect to make efforts to comply with new certification schemes that apply to us, such as INMETRO for Brazil and the UNI9177 fire test for Italy that we have now complied with. We also increased the number of models certified under JET scheme, with the introduction of our new residential roof module CS6V in early 2014.

Our PV test laboratory is registered with the ISO 17025 quality improvement program, and has been accepted for the Mutual Data Acceptance Program by the CSA in Canada, VDE in Germany, Intertek in the U.S. and CGC in China. The PV test laboratory allows us to conduct some product certification testing in-house, which should decrease time-to-market and certification costs.

***Markets and Customers***

Our primary customers are distributors, system integrators, project developers and installers/EPC companies.

A small number of customers have historically accounted for a major portion of our net revenues. In 2011, 2012 and 2013, our top five customers by net revenues collectively accounted for approximately 29.2%, 25.5% and 38.3%, respectively, of our total net revenues. Sales to our largest customer in those years accounted for 6.6%, 8.4%, 13.3%, respectively, of our total net revenues.

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

| | Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | |
| Region | Total Net Revenues | % | Total Net Revenues | % | Total Net Revenues | % |
| | (In thousands of $, except for percentages) | | | | | |
| Asia and others | 330,803 | 17.4 | 296,117 | 22.9 | 885,741 | 53.5 |
| Americas | 334,918 | 17.6 | 342,252 | 26.4 | 588,279 | 35.6 |
| Europe | 1,233,201 | 65.0 | 656,460 | 50.7 | 180,336 | 10.9 |
| **Total** | **1,898,922** | **100.0** | **1,294,829** | **100.0** | **1,654,356** | **100.0** |

As we expand our manufacturing capacity and enhance our brand name, we continue to develop new customer relationships in a wider range of geographic markets to decrease our market concentration. In 2013, we significantly increased our total number of customers and achieved a leading market share in Canada, Japan, India, Thailand, Pakistan and the Middle East. In 2014, we will seek to maintain a leading market share in these markets and, at the same time, explore several emerging solar markets, including Southeast Asia, Africa, Central Asia and South America. While we expect to expand into new markets, we expect that our near term major markets will be North America and the Asia Pacific region.

- *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's surpassing Japan in 2004 as the leading solar power market in terms of annual installation growth. According to Solarbuzz, following years of strong growth in solar power installations, the German government amended the Renewable Energy Act, effective on April 1, 2012, to implement staged reductions to the feed-in-tariff and to exclude new PV systems above 10 MW from being eligible for the feed-in tariff. A "Market Integration Model" was also introduced, which allows for systems above 10 kW and up to 1 MW to be paid a feed-in tariff for only 90% of electricity produced with the remaining electricity being either self-consumed or sold on the free market. Between December 2012 and December 2013, the feed-in-tariff for PV declined by 20% in monthly steps of between 1.4% and 2.5%. The German government also introduced a subsidy for battery storage devices for PV systems, which came into effect on May 1, 2013. The subsidy covers up to 30% of fundable costs of systems of up to 30 kW. In late 2013, the German government announced that it would pursue a fundamental revision of the EEG. As a result of the reductions to the feed-in tariff, the German market has declined by more than 50% in 2013, from 7.50 GW in 2012 to 3.40 GW in 2013, and is no longer the largest single-country market in the world.

- *Spain.* According to Solarbuzz, the Spanish market shrunk by 77.5% from 258 MW in 2012 to 58 MW in 2013. In Spain, the feed-in tariff for solar power energy is fully guaranteed for the first 25 years of system operation and 80% thereafter. The Spanish feed-in tariff for applications of less than 100 kWh was initially €0.4404 per kWh for the first 25 years of system operation and €0.3523 per kWh thereafter for systems installed until September 2008. Funding for the national PV program during 2010 was regulated by Royal Decree RD1578/2008. The quarterly quota calls allocate awards and modify feed-in tariff rates according to fulfillment of quota. In

February 2013, the annual feed-in tariff revision to the consumer price index was modified, resulting in negative feed-in tariff movement. The National Renewable Energy Action Plan (2012-2020) of Spain reduced significantly the renewable energy content planned for 2020 from previous plans. Current plan contemplates further reducing the 2020 PV target from 8.5 GW as set forth in the National Renewable Energy Action Plan to 7 GW. In December 2013, a draft was published for a new renewable energy regulation that planned to introduce a new renewable energy auction mechanism based on reasonable profitability, which is expected to be unfavorable by Spain's solar association.

- *Czech Republic.* According to Solarbuzz, the Czech Republic market decreased by approximately 9% from 121 MW in 2012 to 110 MW in 2013. The roof mount system segment contributed strongly to the Czech Republic market in 2013. The country's initial legal basis for establishing feed-in tariff rates for electricity from renewable energy sources was set by the Renewable Energy Law on August 1, 2005. The respective remuneration rates became effective on January 1, 2006. The PV funding scheme in the Czech Republic is based on two alternative funding mechanisms, a feed-in tariff system and a green bonus scheme. The feed-in tariffs (and green premium rates) for the next calendar year are determined by the Energy Regulatory Office in November each year. The feed-in tariff rate for existing installations increases each year typically between 2% and 4%, depending on the consumer price index. There is no fixed annual reduction of tariffs for newly installed systems. As with the feed-in tariffs, the green bonus rates are also paid over 20-year duration, and the tariffs for already existing systems are adjusted annually. The green bonus remuneration has also depended on the system size from 2009. In March 2010, the government enacted a law that allowed a reduction of the incentive tariffs for newly installed systems to exceed 5% per year. In addition, it implemented a third system size category. In February 2013, the government indicated it might further decrease funding for PV with the focus shifting towards "more efficient renewable energy."

- *Italy.* According to Solarbuzz, the Italian market shrunk by 61% from 3.35 GW in 2012 to 1.32 GW in 2013. At the end of 2011, the Italian feed-in tariff for systems ranged from €0.172 per kWh, for larger ground-mountedsystems, to €0.298 per kWh for smaller building integrated photovoltaic, or BIPV systems, a relatively modest decline from the previous year's rates. System owners may also benefit from self-consumption with a reduced electrical bill. The Italian market saw an enormous boost in large installations in 2009, 2010 and 2011. In August 2012, the funding scheme ContoEnergia V, or CE V, became effective, and it ended on July 6, 2013 without any replacement. The new scheme put a strong focus on roof systems and self-consumption. Moreover, an additional budget of €74.6 million was added when the second register of the PV funding scheme CE V was open. On December 13, 2013, a long-awaited resolution for the simplification of power purchase agreement for renewable energy systems was published (578/2013/R/eel), which is expected to result in the growth of the respective market segments. On February 22, 2014, the Italian Senate abolished the minimum prices for "ritiro dedicato" for PV systems above 100 kW. This became effective on January 1, 2014. Ritiro dedicato required that the sale of PV electricity on the free market be subject to certain minimum prices. PV operators benefited from this policy in addition to receiving incentive tariffs under CE V. The abolition of the minimum price means a reduction of the profitability of most systems under *ritiro dedicato* in most of Italy. Only in Sicily is the market price above the formerly guaranteed minimum price, which was €0.0806/kWh in 2013.

- *North America.* The North American market comprises the United States and Canada. According to Solarbuzz, the North American market increased by 31.5% from 3.49 GW in 2012 to 4.59 GW in 2013.

  In the United States, over 10 states 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 subsidizes solar power systems by $2.80 per watt. Due to excessive demand, this subsidy was reduced to $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 until 2016 and is expected to dramatically increase the use of solar power for on-grid applications in California. Incentives in other U.S. states include state renewable energy credits, capital subsidies and in some states, such as Vermont, feed-in tariff. Many states and various federal departments are also subject to renewable energy portfolio standards that mandate minimum percentages of renewable energy production by utilities. These provisions were further expanded in 2010 to include a cash grant in lieu of the investment tax credit and were uncapped with respect to system size (the previous maximum rebate was $2,000) to allow larger organizations such as utilities to take advantage of the tax credit or cash in-lieu of the grant for large scale projects. The constrained appetite for tax equity may limit the effectiveness of some of these provisions, such as accelerated depreciation. This federal cash grant program was closed to new applications at the end of 2011, and during 2012, over $2 billion project funds were awarded to renewable energy projects. Despite the decline in PV incentives during the year, separate renewable energy portfolio standards of various states kept demand strong for PV systems in the U.S. market. During 2013, there were disputes between utilities and pro-solar groups over net-metering policies in several states, including California and Arizona. California passed new legislation that will allow the California Public Utilities Commission (CPUC) to increase Renewable Portfolio Standard targets without further legislative approval. It also passed legislation that will allow net-metering to continue until July 1, 2017 or until a utility reaches 5% of generation via net-metering, at which point the CPUC will determine a new program.

The primary driver of PV demand in Canada is the province of Ontario, which, through its standard offer and feed-in tariff programs, has created a strong downstream end-market which was the fourth largest state/provincial market in North America during 2013. The Ontario market was once driven by Renewable Energy Standard Offer Program, a program that offered renewable energy projects of up to 10 MW a guaranteed tariff of C$0.42/kWh for 20 years. The program closed in May 2008 due to overwhelming uptake and projects in the pipeline were frozen until May 2009 when Ontario passed the Green Energy Act and with it a new feed-in tariff program. Both programs were administered by the Ontario Power Authority, or OPA, which is responsible for setting rates, regulations, and monitoring all feed-in tariff activity. During 2013, the Ontario feed-in tariff program continued to undergo changes, with applications for the latest round of systems limiting system size to 500 kW and reducing rates for PV systems. The Ontario government also reduced local content requirements (LCRs) in its 2013 feed-in tariff round and announced it would remove all LCRs for future application rounds.

- *China.* According to Solarbuzz, the China market increased sharply with a year-over-year growth of 139.6%, from 4.8 GW in 2012 to 11.5 GW in 2013, due to the revision of its feed-in-tariff. China's Renewable Energy Law, which went into effect on January 1, 2006, authorizes the relevant authorities to set favorable prices for the purchase of on-grid electricity generated by solar power and provides other financial incentives for the development of renewable energy projects. China's top-level controlling agency on energy policy has been the government's central planning agency, National Development and Reform Commission of the PRC, or the NDRC, with the ancillary National Energy Administration specifically focusing on energy supply and production. The National Energy Commission, a new ministerial level regulatory organization headed by Premier Wen, was established in January 2010 to oversee all energy related sectors in China.

  On March 23, 2009, China's Ministry of Finance promulgated the Interim Measures for Administration of Government Subsidy Funds for Application of Solar Photovoltaic Technology

in Building Construction, or Interim Measures, to support the development of solar PV technology in China. Local governments are encouraged to issue and implement supporting policies. Under the Interim Measures, a subsidy, which is set at RMB20 per watt, peaked in 2009, which covers solar PV technology integrated into building construction.

China finances its off-grid solar installations through the now-completed township program and the current village program. The five-year plan from 2006 to 2010 was targeted to provide electricity to 29,000 villages, mainly in western China. The Ministry of Housing and Urban-Rural Development (formerly, the Ministry of Construction) has promulgated directives encouraging the development and use of solar power in urban and rural areas. Various local authorities have also introduced initiatives to encourage the adoption of renewable energy, including solar power.

Beginning in March 2009, several policy initiatives were announced, including open bidding for a 20-year operating license for a 10 MW solar power project in Gansu Province of China and the "Golden Sun" program, which subsidizes the capital expenses of solar projects by approximately $2.00 per watt. A number of provincial incentives were announced as well. However, the central government has not approved a definitive implementation scheme or any of the provincial schemes.

The 2010 "Golden Sun" project list was released in November 2010 with 120 new projects totaling 272 MW. The subsidies provided by the government will cover 50% of the total PV project cost.

The release of the feed-in tariff in 2011 greatly stimulated the Chinese market. During 2012, the national feed-in tariff was revised from RMB1.15 per kWh to RMB1 per kWh, with provincial feed-in tariff revised to levels ranging from RMB1.2 per kWh to RMB1.3 per kWh across different provinces. The rebate level of the "Golden Sun" project was decreased to RMB8 per watt and then to RMB5.5 per watt during 2012, while the rebate level of the Solar Rooftop project was decreased to RMB7 per watt and RMB5.5 per watt for BIPV and building-applied photovoltaic, or BAPV, projects respectively during the year. In 2013, the Ministry of Finance and several local governments announced further policy initiatives to support the development of solar PV. On August 26, 2013, the NDRC released details of the new national feed-in-tariff and Distributed PV Generation feed-in-tariff programs. Based on different solar radiation levels, the national (excluding Tibet) feed-in-tariff has been revised to three categories: RMB0.90, RMB0.95 and RMB1.00/kWh. Only those projects approved before September 2013, and grid-connected before 2014, can receive the previous feed-in-tariff level of RMB1.00/kWh. To help companies fund solar projects, the NDRC has also decided to increase the level of the Renewable Energy Tariff Addition Fund from RMB 0.008/kWh to RMB0.015/kWh, effective from September 25, 2013.

- *Japan.* According to Solarbuzz, the Japanese market grew strongly in 2013, increasing from 1.84 GW in 2012 to 6.44 GW in 2013, a year-over-year growth of 250%. During 2013, the residential segment continued to lead the market, with Japan being the most space-constrained global PV market. The growth in 2013 was primarily a direct result of government policy initiatives following the decommissioning of nuclear power plants after the Fukushima disaster. The Japanese government has announced a long-term goal of increasing installed solar power capacity by between 20 and 55 times, which would require 28 GW or more of solar power capacity by 2020. Japan is a signatory to the Kyoto Protocol, which requires it to reduce greenhouse gas emissions by 6% from the 1990 baseline level by 2012 and by 20% by 2020. Japan currently funds a number of programs supporting domestic solar power installations and has announced a plan to begin installing solar power systems on federal buildings through 2012. As Japan will not likely reach its renewable energy (including solar) targets, Japan is increasing its incentives for solar power installations. To refuel the declining domestic market, the federal

government brought back the nationwide residential subsidy in 2009. The residential program was re-launched in January 2009 under a fiscal year 2008 supplemental budget of Japanese yen 9.0 billion. Besides the upfront cash incentives, the federal government crafted a net feed-in tariff policy, requiring electric power utilities to buy excess electricity generated by PV systems at a premium rate. In 2012, residential systems continue to be eligible for a 10-year net feed-in tariff, with electricity exported by the system compensated at Japanese yen 42 per kWh for systems less than 10 kW in total capacity. A feed-in tariff program was also launched in July 2012 for non-residential systems, which served as one of the key factors driving demand in Japan during the year. This program was launched as a gross feed-in tariff, whereby all electricity produced receives Japanese yen 42 per kWh for 20 years. Despite a lack of land, the outlook for PV demand in Japan remains strong.

- *Australia.* According to Solarbuzz, the Australian market shrunk from 0.78 GW in 2012 to 0.61 GW in 2013, or a year-over-year decrease of 21.2%, due mainly to policy uncertainties following the change in the Australian government. The Australian market has been dominated by the residential segment since 2008, as a result of incentive policies that favored small-scale rooftop systems. Although the residential segment is expected to continue to lead the market, the ground-mount segment will also increase due to the start of some large-scale ground-mount applications now in the pipeline. The main federal incentive active during 2010 was the Solar Credits program, which provided a renewable energy credit multiplier for the first 1.5 kW of small-scale renewable energy systems. The result of the program was an upfront rebate of between 4,000 Australian dollars and 6,200 Australian dollars for 1.5 kW systems depending on location. The Solar Credits program was the successor of the Solar Homes and Communities Program, or SHCP, which offered an Australian dollar 8 per watt rebate on the first 1,000 W of a solar PV system. The SHCP was cancelled in June 2009 but continued to impact 2010 market size due to the significant backlog of installations. The Solar Credits Program is part of the Renewable Energy Target, which is set to ensure that Australia will generate 45,000 GWh (20%) of its energy from renewable sources by 2020. Due to the uncertain nature of federal incentive programs, the states/territories have launched their own programs to drive PV demand. The programs that drive the vast majority of systems are feed-in tariffs. These feed-in tariffs mainly affected the residential segment as each program has different eligibility requirements that work to minimize system sizes or specify directly that the rates are only accessible by residential customers. Along with changes to programs affecting small-scale residential systems, the past year also brought news of funding changes for utility-scale projects. The biggest news came in January 2011 and concerned the Solar Flagships program. The Australia government revised its Solar Flagships program, which was originally scheduled to install 150 MW of utility-scale solar PV and 250 MW of concentrating solar power plants by 2016. As well, every region intends to have a PV specific feed-in tariff or net-metering policy in 2010. During 2012, a number of state-level policies were revised downwards or expired. The Queensland Government reduced the state's feed-in tariff from Australian Dollar 0.44 per kWh to Australian Dollar 0.08 per kWh for all applications after July 9, 2012. The state of Victoria reduced the state's feed-in tariff from Australian Dollar 0.25 per kWh to just Australian Dollar 0.08 per kWh for all systems installed after September 30, 2012, despite that the rate will be re-adjusted annually based on the wholesale electricity price. After the change of government in 2013, the new Prime Minister announced an intention to scrap the carbon tax and to dissolve the Clean Energy Corporation. State-level policies are also in flux, but discussion surrounding retroactive policy cuts have been met with widespread protest and as such have not proceeded. The removal of the carbon tax and trading scheme have changed the economics of planned PV projects, thereby making project financing more difficult. A change to the rate at which PV electricity is credited could further reduce average system size or could spur an on-grid load-shifting storage market.

***Sales and Marketing***

*Standard Solar Modules*

We market and sell our standard solar modules worldwide, primarily through a direct sales force and market-focused sales agents. Our direct sales personnel and sales agent representatives cover our markets in Europe, the Americas and the Asia Pacific region. Our marketing activities include trade shows, conferences, sales training, product launch events, advertising and public relations campaigns. Working closely with our sales and product development teams, our marketing team is also responsible for collecting market intelligence and supporting our sales team's lead generation efforts. We have marketing staff in the U.S., China, Europe, Canada, Japan, Australia and South Korea.

We sell our products primarily under three types of arrangements: (i) sales contracts to distributors; (ii) sales to systems integrators, installers/EPC companies and project developers; and (iii) OEM/tolling manufacturing arrangements.

*Specialty Solar Products*

We target our sales and marketing efforts for our specialty solar products at companies in selected industry sectors, including the automotive, telecommunications and light-emitting diode, or LED, lighting sectors. As standard solar modules increasingly become commoditized and technology advancements allow solar power to be used in more off-grid applications, we will expand our sales and marketing focus on our specialty solar products and capabilities. Our sales and marketing team works with our specialty solar products development team to take into account changing customer preferences and demands to ensure that our sales and marketing team is able to effectively communicate to customers our product development changes and innovations. We intend to establish additional relationships in other market sectors as the specialty solar products market expands.

*Solar Power Project Development*

At the end of January 2014, we had a geographically diverse pipeline of late stage solar power projects totaling approximately 1.1 GW (DC), which consisted of approximately 311 MW (DC) in Canada, 329 MW (DC) in Japan, 164 MW (DC) in the U.S. and 290 MW (DC) in China.

In Canada

During 2013, we completed the construction of, and sold four solar power projects totaling approximately 49.6 MW. Also during 2013, we sold two solar power projects totaling approximately 28 MW and simultaneously entered into EPC contracts to complete their construction.

The following table summarizes the status of our project pipeline in Canada as of January 31, 2014:

| Project Pipeline | MW (DC) | Status | COD[1] or Expected COD | End Buyer |
|---|---|---|---|---|
| Liskeard 1, 3 and 4 | 39.6 | In Construction | 2014 Q2 | TransCanada |
| William Rutley | 13.9 | Commercial Operation | 2012 Q4 | TransCanada |
| Alfred | 13.6 | Permitting | 2015 Q2 | TransCanada |
| Foto Light LP | 14.0 | Engineering | 2014 Q4 | TBD[2] |
| Illumination LP | 14.0 | Engineering | 2014 Q4 | DIF |
| Little Creek[3] | 11.9 | In Construction | 2014 Q1 | BluEarth |
| Gold Light LP | 14.0 | Engineering | 2014 Q4 | DIF |
| Beam Light LP | 14.0 | Engineering | 2014 Q4 | DIF |
| Earth Light LP | 14.0 | Permitting | 2015 Q1 | Concord |
| Lunar Light LP | 14.0 | Permitting | 2015 Q2 | BluEarth |
| Discovery Light LP | 11.6 | Engineering | 2014 Q4 | TBD |
| Sparkle Light LP | 14.0 | In Construction | 2014 Q3 | BluEarth |
| GlenArm LP | 14.0 | Engineering | 2014 Q4 | DIF |
| Good Light LP | 14.0 | In Construction | 2014 Q2 | BluEarth |
| Aria LP | 12.6 | Permitting | 2015 Q1 | Concord |
| Ray Light LP | 14.0 | In Construction | 2014 Q3 | Concord |
| Mighty Solar LP | 14.0 | In Construction | 2014 Q2 | Concord |
| City Lights LP | 14.0 | Permitting | 2014 Q4 | TBD |
| Highlight (Val Caron) | 14.0 | In Construction | 2014 Q2 | Concord |
| Oro-Medonte 4[4] | 11.5 | Engineering | 2014 Q4 | BlackRock |
| Westbrook[4] | 14.0 | In Construction | 2014 Q2 | BlackRock |
| **Total** | **310.7** | | | |

(1) Commercial Operation Date.

(2) To Be Determined.

(3) The sale of this project was completed in the first quarter of 2014.

(4) These projects were sold to BlackRock in the first quarter of 2014. Simultaneously, we entered into EPC contracts to complete these projects.

In Japan

We expect to begin construction of our first Japanese solar power project in the first half of 2014.

As of January 31, 2014, we had 26 projects totaling approximately 329 MW with COD or expected COD from 2014 to 2016, and with feed-in tariffs in the range of Japanese yen 36 to Japanese yen 40 per kWh.

In the U.S.

The following table summarizes the status of our project pipeline in the U.S. as of January 31, 2014:

| Project Pipeline | MW (DC) | State | Status | COD or Expected COD |
|---|---|---|---|---|
| TA Acacia LLC | 28.4 | CA | Construction | 2014 Q3 |
| Gasna 31P LLC | 19.5 | CA | Design and Permitting | 2015 Q2 |
| Indigo Ranch Project LLC | 5.6 | CA | Design and Permitting | 2014 Q3 |
| New Bern Farm LLC | 6.2 | NC | Construction | 2014 Q2 |
| Mile Farm LLC | 6.2 | NC | Design and Permitting | 2014 Q2 |
| Roxboro Farm LLC | 6.2 | NC | Construction | 2014 Q1 |
| Vickers Farm LLC | 2.5 | NC | Design and Permitting | 2014 Q3 |
| CSI Project Holdco LLC—P4 | 6.5 | NC | Construction | 2014 Q2 |
| CSI Project Holdco LLC—P1 | 6.5 | NC | Construction | 2014 Q1 |
| CSI Project Holdco LLC—P3 | 6.5 | NC | Construction | 2014 Q4 |
| CSI Project Holdco LLC—P2 | 6.5 | NC | Design and Permitting | 2014 Q3 |
| SE Solarne 2, 4, 7 | 4 | Various | Design and Permitting | 2014 Q3 |
| SH Solarne 2, 3, 4, 6, 7 | 5.5 | Various | Design and Permitting | 2014 Q3 |
| Other Projects | 54 | Various | Design and Permitting | 2014 ~2015 |
| **Total** | **164.1** | | | |

In China

During 2013, we completed the construction of solar power projects totaling approximately 70 MW in the China.

As of January 31, 2014, we had project pipelines in 7 provinces totaling approximately 290 MW with feed-in tariffs in the range of RMB0.9 to RMB1.2 per kWh.

*EPC Services*

Beginning in late 2010, we have entered into a number of EPC contracting arrangements in Canada and China. Under these arrangements, the solar power project developer owns the projects and we are contracted to perform the EPC work. We completed the EPC contracts in China through our affiliated company, Gaochuangte, in which we own a 40% equity interest.

In 2011, we completed approximately 23 MW (DC) of solar system EPC contracts in China, and approximately 31 MW (DC) of solar system EPC contracts in Ontario, Canada. In 2012, we completed approximately 0.3 MW (DC) of solar system EPC contracts in Ontario, Canada. In 2013, we completed approximately 30.2 MW (DC) of solar system EPC contracts in Ontario, Canada.

The following table summarizes the status of our EPC project pipeline in Canada as of January 31, 2014:

| Project Pipeline | MW (DC) | Status | COD or Expected COD | End Buyer |
|---|---|---|---|---|
| Penn Energy | 39.0 | In Construction | 2014 Q2/3 | Penn Energy |
| Demorestville | 14.0 | In Construction | 2014 Q1 | BlackRock |
| Taylor Kidd | 14.0 | In Construction | 2014 Q2 | BlackRock |
| Grand Renewable Ph. I (Samsung) | 129.8 | In Construction | 2015 Q1 | GRSP |
| **Gross Total** | **196.8** | | | |
| Recognized using the percentage-of-completion method in 2013 | 30.2 | | | |
| **Net Total** | **166.6** | | | |

*O&M Services*

In the second half of 2012, we started to provide O&M services for solar power projects in commercial operations. Depending on the terms of our O&M service contracts, our O&M services include inspections, repair and replacement of plant equipment, site management and administrative support services.

*Solar System Kits*

In 2010, we commenced the sale of solar system kits. A solar system kit is a ready-to-install package consisting of solar modules produced by us and components, such as inverters, racking system and other accessories, supplied by third parties. In 2013, we sold approximately 71.1 MW of system kits primarily in Japan and Canada.

***Customer Support and Service***

We typically sell our standard solar modules with a ten-year warranty against defects in materials and workmanship and a linear power performance warranty that guarantees that the actual power output of our modules will be no less than 97% of the labeled power output during the first year and will decline by no more than 0.7% annually so that, by the end of year 25, the actual power output will be no less than 80% of the labeled power output.

For utility-scale solar power projects built by us, we provide a limited workmanship or balance of system warranty against defects in engineering, design, installation and construction under normal use, operation and service conditions for a period of up to five years following the energizing of the solar power plant. In resolving claims under the workmanship or balance of system warranty, we have the option of remedying through repair, refurbishment or replacement of equipment. We have also entered into similar workmanship warranties with our suppliers to back up our warranties.

As part of our total solutions business, before energizing solar power plants, we conduct performance testing to confirm that they meet the operational and capacity expectations set forth in the agreements. In limited cases, we also provide an energy generation performance test designed to demonstrate that the actual energy generation for up to the first three years meets or exceeds the modeled energy expectation. In the event that the energy generation performance test performs below expectation, we may incur liquidated damages capped at a percentage of the contract price. In addition, a bonus payment may be received if the energy generation performance test results in over performance.

Our customer support and service handles technical inquiries and warranty-related issues. In 2013, we expanded our capacity in these areas to better enable us to handle our customer's questions and concerns in a timely and professional manner.

For 2014, we have renewed our product warranty insurance coverage to provide additional security to our customers. See "—Insurance" below. The customer support and service function will continue to expand and to improve services to our customers.

***Competition***

The market for solar power products is competitive and evolving. We compete with international companies such as First Solar and Sharp Solar, and China-based companies such as Yingli, Trina and Jinko. Some of our competitors are developing or producing products based on alternative solar technologies, such as thin film PV materials, that may ultimately have costs similar to, or lower than, our projected costs. Solar modules produced using thin film materials, such as cadmium telluride and copper indium gallium selenide technology, are generally less efficient 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 polysilicon manufacturing to solar system integration. In addition, the solar power market in general competes with other sources of renewable and alternative energy and conventional power generation.

We believe that the key competitive factors in the market for solar power products include:

- price;
- the ability to deliver products to customers on time and in the required volumes;
- product quality and associated service issues;
- nameplate power and other performance parameters of the module, such as power tolerances;
- value-added services such as system design and installation;
- value-added features such as those that make a module easier or cheaper to install;
- additional system components such as mounting systems, delivered as a package or bundle;
- brand equity and any good reputation resulting from the above items, including the willingness of banks to finance projects using modules produced by a particular supplier;
- customer relationships and distribution channels; and
- the aesthetic appearance of solar power products.

In the immediate future, we believe that our ability to compete depends on delivering a cost-effective product in a timely manner and developing and maintaining a strong brand name based on high quality products and strong relationships with downstream customers. Our competiveness also depends on our ability to effectively manage our cash flow and balance sheet and to maintain our relationships with the financial institutions that fund solar power projects. Consolidation of the solar industry is already occurring and is expected to continue in the near future. We believe that such consolidation will benefit our company in the long-term. We believe that the key to competing successfully in the long-term is to produce innovative, high quality products at competitive prices and develop an integrated sales approach that includes services, ancillary products, such as mounting systems and inverters, and value-added product features. We believe that a good marketing program and the strong relationships that we are building with customers and suppliers will support us in this competitive environment.

***Insurance***

We maintain property risk insurance policies with reputable insurance companies to cover our equipment, facilities, buildings and inventories. The coverage of these insurance policies includes losses due to natural hazards and losses arising from unforeseen accidents. Our manufacturing plants in China and elsewhere are covered by business interruption insurance. However, significant damage or interruption to any of our manufacturing plants, whether as a result of fire or other causes, could still have a material and adverse effect on our results of operations. We also maintain commercial general liability (including product liability) coverage. We have been actively working with China Export & Credit Insurance Corporation, or Sinosure. Credit insurance is designed to offset the collection risk of our account receivables for certain customers within the credit limits approved by Sinosure. Risks related to marine, air and inland transit for the export of our products and domestic transportation of materials and products are covered under cargo transportation insurance. We also maintain director and officer liability insurance.

In April 2010, we began entering into agreements with a group of insurance companies to reduce some of the risks associated with our warranties. Under the terms of the insurance policies, the insurance companies are obliged to reimburse us, subject to certain maximum claim limits and certain deductibles, for the actual product warranty costs that we incur under the terms of our warranty against defects in workmanship and material and our warranty relating to power output. The warranty insurance is renewable annually. We believe that our warranty improves the marketability of our products and our customers are willing to pay more for products with warranties backed by insurance.

***Environmental Matters***

Except for as disclosed in the "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China," we believe we have obtained the environmental permits necessary to conduct the business currently carried on by us at our existing manufacturing facilities. We have also conducted environmental studies in conjunction with our solar power projects to assess and reduce the environmental impact of such projects.

Our products must comply with the environmental regulations of the jurisdictions in which they are installed. We make efforts to ensure that our products comply with the EU'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.

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 cessation of operations.

***Government Regulations***

This section sets forth a summary of certain 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 and was revised in December 2009. The revised Renewable Energy Law, which became effective on April 1, 2010, sets forth policies to encourage the development and use of solar energy and other non-fossil energy and their 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 systems, solar energy heating and cooling systems, solar PV systems 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 subject to certain regulations of the relevant authorities.

In November 2005, the NDRC promulgated the Renewable Energy Industry Development Guidance Catalogue, in which solar power figured prominently. In January 2006, the NDRC promulgated two implementation directives with respect to the Renewable Energy Law. In January 2007, the NDRC promulgated another related implementation directive. These directives set forth specific measures for setting the price of electricity generated by solar and other renewable power generation systems, for sharing additional expenses, and for allocating administrative and supervisory authority among different government agencies at the national and provincial levels. They also stipulate the responsibilities of electricity grid companies and power generation companies with respect to the implementation of the Renewable Energy Law.

In August 2007, the NDRC promulgated the Medium and Long-Term Development Plan for the Renewable Energy Industry. This plan sets forth national policy to provide financial allowance and preferential tax regulations for the renewable energy industry. A similar demonstration of the PRC government's commitment to renewable energy was also stipulated in the Eleventh Five-Year Plan for Renewable Energy Development, which was promulgated by the NDRC in March 2008. The Outline of the Twelfth Five-Year Plan for National Economic and Social Development of the PRC, which was approved by the National People's Congress in March 2011, and the Twelfth Five-Year Plan for Renewable Energy Development, which was promulgated by the National Energy Administration in August 2012 also demonstrates a commitment to promote the development of renewable energy to enhance the competitiveness of the renewable energy industry.

China's Ministry of Housing and Urban-Rural Development (formerly, the 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. Similarly, China's State Council promulgated a directive in July 2005, which sets forth specific measures to conserve energy resources. In November 2005, China's Ministry of Housing and Urban-Rural Development promulgated the Administrative Provisions on Energy Conservation for Civil Constructions which encourages the development of solar energy. In August 2006, the State Council issued the Decision on Strengthening the Work of Energy Conservation which encourages the great development of the solar energy and other renewable energy. In addition, on April 1, 2008, the PRC Energy Conservation Law came into effect. Among other objectives, this law encourages the installation of solar power facilities in buildings to improve energy efficiency. In July 2009, China's Ministry of Finance and Ministry of Housing and Urban-Rural Development jointly promulgated "the Urban Demonstration Implementation Program of the Renewable Energy Building Construction" and "the Implementation Program of Acceleration in Rural Application of the Renewable Energy Building Construction" to support the development of the new energy industry and the new energy-saving industry.

In March 2009, China's Ministry of Finance promulgated the Interim Measures for Administration of Government Subsidy Funds for Application of Solar Photovoltaic Technology in Building Construction, or the Interim Measures, to support the development of solar PV technology in China. Local governments are encouraged to issue and implement supporting policies. Under the Interim Measures, a subsidy, which is set at RMB20 per Watt-peak for 2009, will cover solar PV technology integrated into building construction. The Interim Measures do not apply to projects completed before the promulgation date of the Interim Measures. Also in March 2009, China's Ministry of Finance and Ministry of Housing and Urban-Rural Development jointly promulgated the Implementation Opinion on Acceleration in the Application of Solar Photovoltaic Technology in Building Construction. On

March 8, 2011, China's Ministry of Finance and Ministry of Housing and Urban-Rural Development jointly promulgated the Notice on Further Application of Renewable Energy in Building Construction, which aims to raise the percentage of renewable energy used in buildings.

In July 2009, China's Ministry of Finance and Ministry of Science and Technology and the National Energy Administration jointly published an announcement containing the guidelines for the "Golden Sun" demonstration program. Under the program, the PRC government will provide a 50%-70% subsidy for the capital costs of PV systems and the relevant power transmission and distribution systems for up to 20 MW of PV system projects in each province, with the aim to industrialize and expand the scale of China's solar power industry. The program requires that each PV project must have a minimum capacity of 300 kW, be completed within one year and have an operational term of not less than 20 years. On September 21, 2010 and November 19, 2010, China's Ministry of Finance, Ministry of Science and Technology, Ministry of Housing and Urban-Rural Development and the National Energy Administration published two announcements regarding the "Golden Sun" demonstration program to specify the terms for bid solicitation for key equipment and the standards for subsidies and supervision and management of projects.

In September 2009, the PRC State Council approved and circulated the Opinions of the National Development and Reform Commission and other Nine Governmental Authorities on Restraining the Production Capacity Surplus and Duplicate Construction in Certain Industries and Guiding the Industries for Healthy Development. These opinions concluded that polysilicon production capacity in China has exceeded the demand and adopted the policy of imposing more stringent requirements on the construction of new polysilicon manufacturing projects in China. These opinions also stated in general terms that the government should encourage polysilicon manufacturers to enhance cooperation and affiliation with downstream solar product manufacturers to extend their product lines. However, these opinions do not provide any detailed measures for the implementation of this policy. As we are not a polysilicon manufacturer and do not expect to manufacture polysilicon in the future, we believe the issuance and circulation of these opinions will not have any material impact on our business or our silicon wafer, solar cell and solar module capacity expansion plans.

In July 2011, the NDRC issued the Circular on Improving the On-Grid Price Policy for Photovoltaic Power, which aims to stimulate the PV power industry by regulating the price of PV power. On August 21, 2012, China's Ministry of Finance and Ministry of Housing and Urban-Rural Development jointly promulgated the Notice on Improving Policies for Application of Renewal Energy in Building and Adjusting Fund Allocation and Management Method, which aims to promote the use of solar energy and other new energy products in public facilities and residences, further amplifying the effect of the policies for application of renewable energy in buildings.

*Environmental Regulations*

As we have expanded our ingot, silicon wafer and solar cell manufacturing capacities, we have begun to generate material levels of noise, wastewater, gaseous wastes and other industrial waste. Additionally, as we expand our internal solar components production capacity, our risk of facility incidents that would negatively affect the environment also increases. We are subject to a variety of governmental regulations related to the storage, use and disposal of hazardous materials. The major environmental laws and regulations applicable to us include the PRC Environmental Protection Law, which became effective in 1989, as amended and promulgated in 2008, the PRC Law on the Prevention and Control of Noise Pollution, which became effective in 1997, the PRC Law on the Prevention and Control of Air Pollution, which became effective in 1988, as amended and promulgated in 1995 and 2000, the PRC Law on the Prevention and Control of Water Pollution, which became effective in 1984, as amended and promulgated in 1996 and 2008, the PRC Law on the Prevention and Control of Solid Waste Pollution, which became effective in 1996, as amended and promulgated in 2004 and 2013, the PRC Law on Evaluation of Environmental Affects, which became effective in 2003, the PRC Law on

Promotion of Clean Production, which became effective in 2003, as amended and promulgated in 2012, and the Regulations on the Administration of Construction Project Environmental Protection, which became effective in 1998.

Further, some of our PRC subsidiaries are located in Suzhou, China, which is adjacent to Taihu Lake, a nationally renowned and protected body of water. As a result, production at these subsidiaries is subject to the Regulations on the Administration of Taihu Basin, which became effective on 2011, the Regulation of Jiangsu Province on Preventing Water Pollution in Taihu Lake, which became effective in 1996 and was further revised and promulgated in 2007, 2010 and 2012, and the Implementation Plan of Jiangsu Province on Comprehensive Treatment of Water Environment in Taihu Lake Basin, which was promulgated in February 2009. Because of these two new regulations, the environmental protection requirements imposed on nearby manufacturing projects, especially new projects, have increased noticeably, and Jiangsu Province has stopped approving construction of new manufacturing projects that increase the amount of nitrogen and phosphorus released into Taihu Lake.

*Admission of Foreign Investment*

The principal regulation governing foreign ownership of solar power businesses in the PRC is the Foreign Investment Industrial Guidance Catalogue. Under the current catalogue, which was amended in 2011 and became effective on January 30, 2012, the solar power related business is classified as an "encouraged foreign investment industry." Companies that operate in encouraged foreign investment industries and satisfy applicable statutory requirements are eligible for preferential treatment, including exemption from customs and input value added taxes, or VAT, of certain self-used equipment and priority consideration in obtaining land use rights provided by certain local governments.

While the 2004 catalogue only applied to the construction and operation of solar power stations, the 2007 catalogue expanded its application also applies to the production of solar cell manufacturing machines, the production of solar powered air conditioning, heating and drying systems and the manufacture of solar cells, and the current 2011 catalogue also covers the manufacture of solar battery, solar light collector glass and etc.

*Administration of Foreign Invested Companies*

The establishment, approval, registered capital requirement and day-to-day operational matters of wholly foreign-owned enterprises, are regulated by the Wholly Foreign-Owned Enterprise Law of the PRC, effective in 1986 and amended in 2000, and the Implementation Rules of the Wholly Foreign-owned Enterprise Law of the PRC, effective in 1990 and amended in 2001. The establishment, operation and management of corporate entities in China are governed by the Company Law of the PRC, or the Company Law, effective in 1994 and amended in 1999, 2004, 2005 and 2013. The Company Law is applicable to our PRC subsidiaries unless PRC laws on foreign investment stipulate otherwise.

*Income and VAT Taxes*

PRC enterprise income tax is calculated based on taxable income determined under PRC accounting principles. Our major operating subsidiaries, CSI Solartronics, CSI Manufacturing, CSI Cells, CSI Technologies, CSI Changshu Manufacturing and CSI Luoyang Manufacturing, are governed by the EIT Law, which became effective on January 1, 2008.

Under the EIT Law, both foreign-invested enterprises and domestic enterprises are subject to a uniform enterprise income tax rate of 25%. There is a transition period for enterprises that were given preferential tax treatment under the previous tax law. Enterprises that were entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires, subject to certain limitations.

The EIT Law provides for preferential tax treatment for certain categories of industries and projects that are strongly supported and encouraged by the state. For example, enterprises classified as HNTEs are entitled to a 15% enterprise income tax rate, provided that such HNTEs satisfy other applicable statutory requirements.

Although our subsidiary, CSI Solartronics, was recognized as an HNTE for the three years from 2008 to 2010, because it did not meet certain requirements for the reduced 15% enterprise income tax rate, it was unable to utilize the preferential enterprise income tax rate of 15% and is still subject to a 25% enterprise income tax rate. CSI Manufacturing was subject to a reduced enterprise income tax rate of 12.5% until the end of 2009, when its tax holiday expired. CSI Cells and CSI Luoyang Manufacturing were subject to a reduced enterprise income tax rate of 12.5% until the end of 2011, when their tax holidays expired. Currently, CSI Cells is recognized as a HNTE for the three years from 2012 to 2014, and could enjoy the a preferential enterprise income tax rate of 15% provided that it satisfies the applicable statutory requirements on an annual basis. CSI Changshu Manufacturing is recognized as a HNTE for the three years from 2011 to 2013, and can enjoy the preferential enterprise income tax rate of 15% after the expiration of the above-mentioned tax holiday provided that it satisfied the applicable statutory requirements for 2013. As the preferential tax benefits enjoyed by our PRC subsidiaries expired, their effective tax rates increased significantly.

The EIT Law also provides that enterprises established outside China whose "de facto management body" is located in China are considered PRC tax residents and will generally be subject to the uniform 25% enterprise income tax rate on their global income. Under the implementation regulations, the term "de facto management body" is defined as substantial and overall management and control over such aspects as the production and business, personnel, accounts and properties of an enterprise. Circular 82 further provides certain specific criteria for determining whether the "de facto management body" of a PRC-controlled offshore incorporated enterprise is located in the PRC. The criteria include whether (i) the premises where the senior management and the senior management bodies responsible for the routine production and business management of the enterprise perform their functions are mainly located within the PRC, (ii) decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organizations or personnel in the PRC, (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholders' meeting minutes are located or maintained in the PRC and (iv) 50% or more of voting board members or senior executives of the enterprise habitually reside in the PRC. Although the Circular 82 only applies to offshore enterprises controlled by enterprises or enterprise group located within the PRC, the determining criteria set forth in the Circular 82 may reflect the tax authorities' general position on how the "de facto management body" test may be applied in determining the tax resident status of offshore enterprises. As the tax resident status of an enterprise is subject to the determination by the PRC tax authorities, uncertainties remain with respect to the interpretation of the term "de facto management body" as applicable to our offshore entities. As a substantial number of the members of our management team are located in China, we may be considered a PRC tax resident under the EIT Law and, therefore, subject to the uniform 25% enterprise income tax rate on our global income.

Under the EIT Law and implementing regulations issued by the State Council, PRC withholding tax at the rate of 10% is applicable to interest and dividends payable to investors from companies that are not "resident enterprises" in the PRC, to the extent such interest or dividends have their sources within the PRC. If our Canadian parent entity is deemed a PRC tax resident under the EIT Law based on the location of our "de facto management body," dividends distributed from our PRC subsidiaries to our Canadian parent entity could be exempt from Chinese dividend withholding tax. However, in that case, dividends from us to our shareholders may be regarded as China-sourced income and, consequently, be subject to Chinese withholding tax at the rate of 10%, or at a lower treaty rate if applicable. Similarly, if we are considered a PRC tax resident, any gain realized by our shareholders

from the transfer of our common shares is also subject to Chinese withholding tax at the rate of 10% if such gain is regarded as income derived from sources within the PRC. It is unclear whether any dividends that we pay on our common shares or any gains that our shareholders may realize from the transfer of our common shares would be treated as income derived from sources within the PRC and subject to PRC tax.

In addition, Circular 698 addresses the transfer of equity by non-PRC tax resident enterprises. Under Circular 698, the overseas investor (actual controlling party) that "indirectly transfers" the equity of such PRC resident enterprise, is required to report such transfer to the PRC tax authority if the intermediate holding company is located in a foreign jurisdiction that has an effective tax rate of less than 12.5% or does not levy tax on such foreign-sourced capital gains of its residents. If the intermediate holding company mainly serves as tax avoidance vehicle and does not have any reasonable business purpose, the PRC in-charge tax authority may, upon verification of the SAT, disregard the intermediate holding company and re-characterize the equity transfer by referring to its economic essence, and as a result, the overseas investor (actual controlling party) may be subject to a 10% PRC tax for the capital gains realized from the equity transfer. In addition, where the non-resident enterprise transfers the equity in PRC resident enterprise to a related party, the taxable income is lesser due to its transfer price not being in line with the principle of arm's-length transaction, the tax authorities have the authority to make adjustment on reasonable basis.

There is uncertainty as to the application of SAT Circular 698. For example, while the term "indirect transfer" is not clearly defined, it is understood that the relevant PRC tax authorities have jurisdiction regarding requests for information over a wide range of foreign entities having no direct contact with China. Moreover, the relevant authority has not yet promulgated any formal provisions or formally declared or stated how to calculate the effective tax rates in foreign tax jurisdictions, and the process and format of the reporting of an Indirect Transfer to the competent tax authority of the relevant PRC tax resident enterprise. In addition, there are not any formal declarations with regard to how to determine whether a foreign investor has adopted an abusive arrangement in order to avoid PRC tax. As a result, we may become at risk of being taxed under SAT Circular 698 and we may be required to expend valuable resources to comply with SAT Circular 698 or to establish that we should not be taxed under SAT Circular 698, which may materially adversely affect our financial condition and results of operations.

Pursuant to a November 2008 amendment to the Provisional Regulation of the PRC on Value Added Tax issued by the PRC State Council, 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 required to pay VAT. Gross proceeds from sales and importation of goods and provision of services are generally subject to VAT at a rate of 17%, with exceptions for certain categories of goods that are taxed at a rate of 13%. When exporting goods, the exporter is entitled to a refund of a portion or all of the VAT that it has already paid or borne.

Under the amended Provisional Regulation of the PRC on Value Added Tax and its implementation rules, which became effective in 2009 and were amended in 2011, and relevant regulations, fixed assets (mainly including equipment and manufacturing facilities) are now eligible for credit for input VAT. Previously, input VAT on fixed assets purchases was not deductible from the currentperiod's output VAT derived from the sales of goods, but had to be included in the cost of the assets. The new rule permits this deduction except in the case of equipment purchased for non-taxable projects or tax-exempted projects where the deduction of input VAT is not allowed. However, the qualified fixed assets could also be eligible for input VAT if the fixed assets are used for both taxable projects and non-taxable projects or tax-exempted projects. Presently, no further detailed rules clarify under what circumstance the fixed assets are considered as being used for both taxable and non-taxable or tax exempt projects. Because of the new VAT rules, our PRC subsidiaries may benefit from future input VAT credit on our capital expenditures.

Under the former rules, equipment imported for qualified projects was entitled to an import VAT exemption and domestic equipment purchased for qualified projects were entitled to a VAT refund. However, such exemption and refund were both eliminated as of January 1, 2009.

*Foreign Currency Exchange*

Foreign currency exchange regulation in China is primarily governed by the Foreign Currency Administration Rules, which became effective on 1996 and were amended in 1997 and 2008, and the Settlement, Sale and Payment of Foreign Exchange Administration Rules (1996), or the Settlement 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 the Renminbi for most capital account items, such as direct investment, security investment and repatriation of investment, however, is still subject to the approval of SAFE.

Under the Settlement 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 SAFE. Capital investments by foreign-invested enterprises outside of China are also subject to limitations, which include approvals by the Ministry of Commerce, SAFE and the State Reform and Development Commission.

*Dividend Distribution*

The principal regulations governing distribution of dividends paid by wholly foreign owned enterprises include the Wholly Foreign-Owned Enterprise Law of the PRC, effective in 1986 and amended in 2000, the Implementation Rules of the Wholly Foreign-Owned Enterprise Law of the PRC, effective in 1990 and amended in 2001, the Company Law effective in 1994 and amended in 1999, 2004, 2005 and 2013 and the New EIT Law and its implementation rules, both effective in 2008.

Under these laws, 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% of its after-tax profits determined in accordance with PRC accounting standards each year to its general reserves until the accumulative amount of such reserves reach 50% 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.

*Employment*

The major laws and regulations governing the employment relationship, including wage and hour requirements, working and safety conditions, social insurance, housing funds and other welfare. The PRC Labor Law which became effective on January 1, 1995 and amended on August 27, 2009, the Labor Contract Law of the People's Republic of China, which became effective on January 1, 2008, and was later revised on December 28, 2012, its Implementing Rules and the amendment thereunder, which became effective on September 18, 2008 and July 1, 2013, respectively, permit workers in both state-owned and private enterprises in the PRC to bargain collectively. The PRC Labor Law and the PRC Labor Contract Law provide for collective contracts to be developed through collaboration between the labor unions (or worker representatives in the absence of a union) and management that specify such matters as working conditions, wage scales, and hours of work. The PRC Labor Contract Law and its Implementing Regulation impose certain requirements with respect to human resources management, including, among other things, signing labor contracts with employees, terminating labor contracts,

paying remuneration and compensation and making social insurance contributions. In addition, the PRC Labor Contract Law requires employers to provide remuneration packages that meet the relevant local minimum standards. The PRC Labor Contract Law has enhanced rights for the nation's workers, including permitting open-ended labor contracts and severance payments. It requires employers to provide written contracts to their workers, restricts the use of temporary labor and makes it harder for employers to lay off employees. It also requires that employees with fixed-term contracts be entitled to an indefinite-term contract after a fixed-term contract is renewed twice or the employee has worked for the employer for a consecutive ten-year period. According to the Interim Provisions on Labor Dispatching, which came into effect on January 3, 2014, where the number of dispatched workers used by an employer prior to the implementation hereof exceeds 10% of its total number of workers, the employer shall formulate a plan to adjust its worker employment situations, and reduce the said percentage to within the required range within two years from the effective date.

Under applicable PRC laws, rules and regulations, including the Social Insurance Law promulgated by the Standing Committee of the National People's Congress and effective as of July 1, 2011, the Rules on Implementing the Social Insurance Law issued by Ministry of Human Resource and Social Security and effective as of July 1, 2011, the Interim Regulations on the Collection and Payment of Social Security Funds promulgated by the State Council and effective as of January 22, 1999, the Interim Measures Concerning Maternity Insurance promulgated by the Ministry of Labor and effective as of January 1, 1995, the Regulations on Occupational Injury Insurance promulgated by the State Council and effective as of January 1, 2004 and amended on December 20, 2010, and the Regulations on the Administration of Housing Accumulation Funds promulgated by the State Council and effective as of April 3, 1999 and amended on March 24, 2002, employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity leave insurance, and to housing accumulation funds. These payments are made to local administrative authorities and any employer who fails to contribute may be fined and ordered to remediate on payments within a stipulated time period.

## C. Organizational Structure

The following table sets out our major subsidiaries, including their place of incorporation and our ownership interest, as of March 31, 2014.

| Name of entity | Place of incorporation | Ownership interest |
|---|---|---|
| CSI Solartronics (Changshu) Co., Ltd. | PRC | 100% |
| CSI Solar Technologies Inc. | PRC | 100% |
| CSI Solar Manufacture Inc. | PRC | 100% |
| Canadian Solar Manufacturing (Luoyang) Inc. | PRC | 100% |
| Canadian Solar Manufacturing (Changshu) Inc. | PRC | 100% |
| CSI Cells Co., Ltd. | PRC | 100% |
| Canadian Solar (USA) Inc. | USA | 100% |
| CSI Project Consulting GmbH | Germany | 70% |
| Canadian Solar Japan K.K. | Japan | 90.67% |
| Canadian Solar Solutions Inc. | Canada | 100% |
| CSI Solar Power (China) Inc. | PRC | 100% |
| Canadian Solar EMEA GmbH | Germany | 100% |
| Canadian Solar (Australia) Pty., Ltd. | Australia | 100% |
| Canadian Solar International Ltd. | Hong Kong | 100% |
| Canadian Solar O&M (Ontario) Inc. | Canada | 100% |
| Suzhou Sanysolar Materials Technology Co., Ltd. | PRC | 80% |
| Canadian Solar South East Asia Pte., Ltd. | Singapore | 100% |
| Canadian Solar Manufacturing (Suzhou) Inc. | PRC | 61% |
| Canadian Solar South Africa Pty., Ltd. | South Africa | 100% |
| Canadian Solar Brasil Servicos De Consultoria EM Energia Solar Ltda. | Brazil | 100% |
| Canadian Solar Middle East Ltd. | United Arab Emirates | 100% |
| Canadian Solartronics (Suzhou) Co., Ltd. | PRC | 100% |
| Canadian Solar (Thailand) Ltd. | Thailand | 100% |

## D. Property, Plant and Equipment

The following is a summary of our material properties, including information on our manufacturing facilities and office buildings as of the date of this annual report:

- CSI Changshu Manufacturing holds a land use rights certificate for approximately 40,000 square meters of land in Changshu, on which we have built manufacturing facilities of approximately 23,559 square meters. Production in these facilities began in April 2008. We also constructed a canteen, a dormitory for employees and a liquefied gas station in September 2010 with a total floor area of 11,316 square meters. The property ownership certificates were granted in 2011.

- CSI Changshu Manufacturing also holds a land use rights certificate for approximately 180,000 square meters of land in Changshu, on which we have built two module manufacturing facilities, two warehouses and other buildings with a total floor area of approximately 60,576 square meters. Construction of the central warehouses was completed in April 2010. We also completed the construction of a module manufacturing facility with an additional warehouse and three other buildings, which have approximately 46,539 square meters of floor area, in the first half of 2011.

- CSI Luoyang Manufacturing holds a land use rights certificate for approximately 35,345 square meters of land in Luoyang (Phase I), on which we have constructed manufacturing facilities. The floor area of Phase I is approximately 6,761 square meters. The property ownership certificates

were granted in June 2008. In 2008, CSI Luoyang Manufacturing obtained the land use rights for approximately 79,685 square meters of adjacent land (Phase II), on which we have constructed manufacturing facilities. The floor area of Phase II is approximately 29,811 square meters. The property ownership certificates were granted in September 2013.

- CSI Cells holds a land use rights certificate for approximately 65,661 square meters of land in Suzhou. We completed the construction of our first solar cell manufacturing facilities on this site in the first quarter of 2007. The Phase I manufacturing facilities have 14,077 square meters, for which we obtained the property ownership certificate. The Phase II cell manufacturing facilities, with 30,102 square meters of workshop space, were completed in 2009. The Phase III cell manufacturing facilities, with a total floor area of approximately 21,448 square meters of manufacturing and office space, were completed in August 2011. We havepassed the required inspection and are in the process of obtaining property ownership certificate from the competent government authority. In addition, CSI Cells merged with CSI Solar New Energy (Suzhou) Co., Ltd. in 2012. CSI Solar New Energy (Suzhou) Co., Ltd. has a land use rights certificate for approximately 10,000 square meters of land in Suzhou which is in the process of recertification.

- Canadian Solar Manufacturing (Suzhou) Inc. holds a parcel of land of approximately 96,249 square meters which it purchased in 2012.

- In Ontario, we lease approximately 14,851 square meters of manufacturing facilities in Guelph, Ontario, Canada for a term of 10 years commencing August 1, 2010 and approximately 8,685 square meters of manufacturing facilities in London, Ontario, Canada for a term of 5 years commencing October 1, 2013. We also lease a warehouse of 7,912 square meters and an office building of 1,146 square meters on the same premises as the Guelph, Ontario, Canada manufacturing facilities for the same term.

## ITEM 4A. *UNRESOLVED STAFF COMMENTS*

None.

## ITEM 5. *OPERATING AND FINANCIAL REVIEW AND PROSPECTS*

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes thereto included elsewhere in this annual report on Form 20-F. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Item 3. Key Information—D. Risk Factors" or in other parts of this annual report on Form 20-F.*

### A. Operating Results

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

- government subsidies and the availability of financing for solar projects;
- industry and seasonal demand;
- solar power products pricing;
- solar wafers and cells and silicon raw materials costs relative to the selling prices of modules;
- impact of certain of our long-term purchase commitments;
- solar power project development and EPC services; and
- foreign exchange.

***Government Subsidies and the Availability of Financing for Solar Projects***

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 and the availability and size of financing for solar projects.

For a detailed discussion of the impact of government subsidies and incentives, possible changes in government policy and associated risks to our business, see "Item 3. Key Information—D. Risk Factors—Risks Related to Our Company and Our Industry—Governments may revise, reduce o eliminate subsidies and economic incentives for solar power, which could cause demand for our products to decline." and "Item 4. Information on the Company—B. Business Overview—Markets and Customers."

For a detailed discussion of the impact of the continuing weak global economy and uncertain global economic outlook, especially in Europe, and associated risks to the availability and cost of debt or equity for solar power projects and our customers' ability to finance the purchase of our products or to construct solar power projects, see "Item 3. Key Information—D. Risk Factors—Risks Related to Our Company and Our Industry—The execution of our growth strategy depends upon the continued availability of third-party financing arrangements for our customers, which is affected by general economic conditions. Tight credit markets could depress demand or prices for solar power products, hamper our expansion and materially affect our results of operations."

***Industry and Seasonal Demand***

Our business and revenue growth depend on the demand for solar power. Although solar power technology has been used for several decades, the solar power market has only started to grow significantly in the past few years. See "Item 3. Key Information—D. Risk Factors—Risks Related to O Company and Our Industry—If sufficient demand for solar power 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."

Industry demand is affected by seasonality. Demand tends to be lower in winter, particularly in Europe, where adverse weather conditions can complicate the installation of solar power systems, thereby decreasing demand for solar modules. Seasonal changes can also significantly impact the construction schedules of our solar power projects in countries such as Canada, the U.S. and China thereby also decreasing demand. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Company and Our Industry—Seasonal variations in demand linked to construction cycles and weather conditions may influence our results of operations."

***Solar Power Products Pricing***

Before 2004, all of our net revenues were generated from sales of specialty solar modules and products. We began selling standard solar modules in 2004. In 2011, we generated net revenues of 89.1% from our solar module business, which primarily comprises sales of standard solar modules and specialty solar modules, with the remainder coming from our total solutions business, which comprises primarily solar power project development, EPC services, O&M services and sales of solar system kits. In 2012 and 2013, we generated 88.5% and 71.4%, respectively of our net revenues from our solar module business with 11.5% and 28.6%, respectively, coming from our total solutions business.

Our standard solar modules are priced based on either the actual flash test result or the nameplate capacity of our panels, expressed in Watts-peak. The actual price per watt is affected by overall demand in the solar power industry and increasingly also by the total power of the module. Higher-powered modules usually command slightly higher prices per watt. 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 silicon wafer, solar cell and silicon raw materials costs. During the first few years of our operations, the average selling prices for standard solar modules rose year-to-year across the industry, primarily because of high demand. Correspondingly, the average selling price of our standard solar module products ranged from $3.62 to $4.23 during the period from 2004 to 2008. Following a peak in the third quarter of 2008, the industry-wide average selling price of solar modules has declined sharply, as market demand has declined and competition increased due to the worldwide credit crisis, reduction in subsidies in certain solar markets, and increased manufacturing output. In 2009, the average selling price of our standard solar modules continued to fall, with an average selling price of $1.93 per watt in the fourth quarter of 2009. Thereafter, the average selling price of our standard solar modules has generally continued to fall due to an oversupply of solar modules and, in the fourth quarter of 2012, the average selling price was $0.67 per watt. In 2013, the average selling price of our standard solar modules was $0.67 per watt. Industry solar module average selling prices have begun to show signs of stabilization in several markets after a long period of significant decline but remain low relative to the prior five-year period.

***Solar Wafers and Cells and Silicon Raw Materials Costs Relative to the Pricing of Modules***

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 of solar modules. Our solar cells are currently made from mono-crystalline and multi-crystalline silicon wafers through multiple manufacturing steps. Silicon wafers are the most important material for making solar cells. If we are unable to procure silicon, wafers and cells at prices that decline in line with our solar module pricing, our revenues and margins could be adversely impacted, either due to relatively high costs compared to our competitors or further write-downs of inventory, or both. Our market share could decline if competitors are able to offer better pricing than we are.

***Impact of Certain of Our Long-term Purchase Commitments***

Currently, we acquire a large percentage of our requirements of solar wafers through purchasing arrangements. We also acquire a large portion of our requirements of solar cells through purchase arrangements. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Company and Our Industry—Long-term supply agreements may make it difficult for us to adjust our raw material costs should prices decrease. Also, if we terminate any of these agreements, we may not be able to recover all or any part of the advance payments we have made to these suppliers and we may be subject to litigation."

***Solar Power Project Development and EPC Services***

In 2013, 28.6% of our total net revenues were generated from our total solutions business. The majority of these revenues came from the sale of solar power projects and the provision of EPC services. Our solar power project development activities have grown over the past several years through a combination of organic growth and acquisitions.

Solar power project development and EPC services involve numerous risks and uncertainties. For a detailed discussion of these risks and uncertainties, see "Item 3. Key Information—D. Risk Factors—Risks Related to Our Company and Our Industry—Our future success depends par on our ability to expand the pipeline of our total solutions business in several key markets, which exposes us to a number of risks and uncertainties" and "Item 3. Key Information—D. Risk Factors—Risks Related to Our Company and Our Industry—Our project development and construction activities may not be successful; projects under development may not receive required permits, property rights, power purchase agreements, interconnection and transmission arrangements; or financing or construction of projects may not commence or continue as scheduled, all of which could increase our costs, delay or cancel a project, and have a material adverse effect on our revenue and profitability."

In 2013, we recognized $321.9 million of revenues from the sale of solar power projects and the provision of EPC services. At the end of January 2014, we had a geographically diverse pipeline of late stage solar power projects and EPC contracts totaling approximately 1.3 GW (DC), which consisted of approximately 477 MW (DC) in Canada, 329 MW (DC) in Japan, 164 MW (DC) in the U.S. and 290 MW (DC) in China. We expect to complete these projects and contracts within two years. See "Item 4. Information on the Company—B. Business Overview" for additional information on our solar power project development and EPC services.

***Foreign Exchange***

The majority of our sales in 2013 are denominated in Japanese yen, U.S. dollars and Canadian dollars, with the remainder in other currencies such as Renminbi, Euros and British pounds. Our Renminbi costs and expenses are primarily related to the sourcing of solar cells, silicon wafers and silicon, other raw materials, toll manufacturing fees, labor costs and local overhead expenses within the PRC. From time to time, we enter into loan arrangements with Chinese commercial banks that are denominated primarily in Renminbi or U.S. dollars. The greater part of our cash and cash equivalents are denominated in Renminbi. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Company and Our Industry—Fluctuations in exchange rates could adversely affect our business, including our financial condition and results of operations."

***Overview of Financial Results***

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

*Net Revenues*

Revenues generated from our solar module business, which comprises primarily sales of standard solar modules and specialty solar modules, accounted for 89.1%, 88.5% and 71.4% of our net revenues in 2011, 2012 and 2013, respectively. Revenues generated from our total solutions business, which consists primarily of solar power project development, EPC services, O&M services and sales of solar system kits, represented 10.9%, 11.5% and 28.6% of our net revenues in 2011, 2012 and 2013, respectively. As we continue to expand our business into the downstream segment of the industry, we expect that approximately 50% of our net revenues will be generated from our total solutions business in 2014, primarily from our utility-scale solar power project pipelines in Canada and the U.S., as well as our residential system kits business in Japan. We believe this strategy of focusing on the downstream segment of the business will help to put us in a good competitive position and possibly increase our margins and overall profitability.

The main factors affecting our net revenues from our solar module business include average selling prices per watt and unit volumes shipped, both of which depend on product supply and demand.

Our revenues are also affected by the timing of the completion of solar power projects. See "Item 4. Information on the Company—B. Business Overview—Sales and Marketing—Solar Power Project Development" for a description of the status of our solar power projects.

In addition, revenue recognition for our solar power projects are, in many cases, not linear in nature due to the timing of when all relevant revenue recognition criteria have been met. During 2013, we recognized $211.0 million and $81.0 million of revenue from the sale of solar power projects using the full accrual method and percentage-of-completion method, respectively. Our revenue recognition policies for the solar power project development are described in "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Critical Account Policies—Revenue Recognition."

Our revenues from sales to customers are recorded net of estimated returns.

*Cost of Revenues*

Our cost of revenues consists primarily of the costs of:

- solar cells;
- silicon wafers;
- high purity and solar grade silicon materials;
- materials used in solar cell production, such as metallic pastes;
- installation components in solar system kits, such as inverters and racking systems;
- other materials for the production of solar modules such as glass, aluminum frames, EVA (ethylene vinyl acetate, an encapsulant used to seal the module), junction boxes and polymer back sheets;
- production labor, including salaries and benefits for manufacturing personnel;
- warranty costs;
- overhead, including utilities, production equipment maintenance, share-based compensation expenses for options granted to employees in our manufacturing department and other support expenses associated with the manufacture of our solar power products;
- depreciation and amortization of manufacturing equipment and facilities, which are increasing as we expand our manufacturing capabilities;
- inventory write-downs;
- depreciation charges relating to under-utilized assets;
- acquisition costs of solar power projects;
- development costs (including interconnection fees and permitting costs) of solar power projects;
- project management and engineering costs;
- EPC costs (consisting of costs of the components of solar power system other than solar modules, such as inverters, electrical and mounting hardware, trackers, grid interconnection equipment, wiring and other devices);
- interest costs capitalized for solar power projects during construction period; and
- site-specific costs.

Our cost of revenues increased in 2011, decreased in 2012 and increased in 2013, in each instance in line with our change in net revenues for the year.

Before June 2009, we typically sold our standard solar modules 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% and 20%, respectively, from the initial minimum power generation capacity at the time of delivery. In June 2009, we increased our warranty against defects in materials and workmanship to six years. Effective August 1, 2011, we increased our warranty against defects in materials and workmanship to ten years and we guarantee that for a period of 25 years, our standard solar modules will

maintain the following performance levels:

- during the first year, the actual power output of the module will be no less than 97% of the labeled power output;
- from year 2 to year 24, the actual annual power output decline of the module will be no more than 0.7%; and

- by the end of year 25, the actual power output of the module will be no less than 80% of the labeled power output.

In resolving claims under the workmanship warranty, we have the option of remedying through repair, refurbishment or replacement of equipment.

In resolving claims under the performance warranty, we have the right to repair or replace solar modules at our option.

For utility-scale solar power projects built by us, we provide a limited workmanship or balance of system warranty against defects in engineering design, installation and construction under normal use, operation and service conditions for a period of up to five years following the energizing of the solar power plant. In resolving claims under the workmanship or balance of system warranty, we have the option of remedying through repair, refurbishment or replacement of equipment. We have entered into similar workmanship warranties with our suppliers to back up our warranties.

We maintain warranty reserves to cover potential liabilities that could arise under these guarantees and warranties. We currently take a 1% warranty provision against our revenue for sales of solar power products.

In April 2010, we began entering into agreements with a group of insurance companies with high credit ratings to back up our warranties. Under the terms of the insurance policies, which are designed to match the terms of our PV module product warranty policy, the insurance companies are obliged to reimburse us, subject to certain maximum claim limits and certain deductibles, for the actual product warranty costs that we incur under the terms of our PV module product warranty policy. We record the insurance premiums initially as prepaid expenses and amortize them over the respective policy period of one year. Each prepaid policy provides insurance against warranty costs for panels sold within that policy year. The warranty insurance is renewable annually.

See "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Critical Accounting Policies—Warranty Cost."

Write-downs of inventory included in our cost of revenue were $8.5 million, $3.1 million and $0.7 million in 2011, 2012 and 2013, respectively.

On occasion, we enter into firm purchase commitments to acquire materials from its suppliers. A firm purchase commitment represents an agreement that specifies all significant terms, including the price and timing of the transactions, and includes a disincentive for non-performance that is sufficiently large to make performance probable. This disincentive is generally in the form of a take-or-pay provision, which requires us to pay for committed volumes regardless of whether we actually acquire the materials. We evaluate these agreements and record a loss, if any, on firm purchase commitments using the same lower of cost or market approach as that used to value inventory. We record the expected loss only as it relates to the succeeding year, as we are unable to reasonably estimate future market prices beyond one year, in cost of revenues in the consolidated statements of operations. As a result, changes in the cost of materials or sales price of modules will directly affect the computation of the estimated loss on firm purchase commitments and our consolidated financial statements in the following years. We recorded a loss on firm purchase commitments of $10.6 million, nil and nil for the years ended December 31, 2011, 2012 and 2013, respectively. The losses were computed using the lower of cost or market method.

In addition, see "Item 3. Key Information—D. Risk Factors—Risks Related to Our Company and Our Industry—Long-term supply agreemen may make it difficult for us to adjust our raw material costs should prices decrease. Also, if we terminate any of these agreements, we may not be able to recover all or any part of the advance payments we have made to these suppliers and we may be subject to litigation."

*Gross Profit/Gross Margin*

Our gross profit is affected by a number of factors, including the success of and contribution from our total solutions business, the average selling price of our solar power products, our product mix, loss on firm purchase commitments under long-term supply agreements, and our ability to cost-effectively manage our supply chain.

*Operating Expenses*

Our operating expenses include selling expenses, general and administrative expenses, and research development expenses. Our operating expenses increased in 2011 and 2012 and decreased in 2013. We expect our operating expenses to increase as our net revenues grow in the future. On a percentage basis, however, we expect our operating expenses to decline or remain constant with the growth of our operations.

*Selling Expenses*

Selling expenses consist primarily of salaries and benefits, transportation and customs expenses for delivery of our products, sales commissions for our sales personnel and sales agents, advertising, promotional and trade show expenses, and other sales and marketing expenses. Our selling expenses increased in 2011 and 2012 and decreased in 2013. We expect as we increase our sales volume in the future, our selling expenses will increase as we hire additional sales personnel, target more markets and initiate additional marketing programs to reach our goal of continuing to be a leading global brand.

*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 and insurance fees. Our general and administrative expenses increased in 2011 and 2012 and decreased in 2013. We expect our general and administrative expenses to increase to support the anticipated growth of our business.

*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 our silicon reclamation program. In 2011, 2012 and 2013, our research and development expenses accounted for 1.0%, 1.0% and 0.7% of our total net revenues. We expect that our research and development expenses will increase as we devote more efforts to research and development in the future.

*Share-based Compensation Expenses*

Under our share incentive plan, as of December 31, 2013, we had outstanding:

- 1,176,860 stock options;
- 2,077,640 restricted share units; and
- 349,500 restricted shares.

For a description of the stock options, restricted shares, and restricted share units granted, including the exercise prices and vesting periods, see "Item 6. Directors, Senior Management and Employees—B. Compensation of Directors and Executive Officers—Share-based Compensation—Sh Incentive Plan." We recognize share-based compensation to employees as expenses in our statement of

operations based on the fair value of the equity awarded on the date of the grant. The compensation expense is recognized over the period in which the recipient is required to provide service in exchange for the equity award.

We have made an estimate of expected forfeitures and are recognizing compensation costs only for those equity awards that we expect to vest. We estimate our forfeitures based on past employee retention rates and our expectations of future retention rates. We will prospectively revise our forfeiture rates based on actual history. Our share-based compensation expenses may change based on changes to our actual forfeitures.

For the year ended December 31, 2013, we recorded share-based compensation expenses of approximately $4.5 million, compared to approximately $5.2 million for the year ended December 31, 2012. We have categorized these share-based compensation expenses in our:

- cost of revenues;
- selling expenses;
- general and administrative expenses; and
- research and development expenses,

depending on the job functions of the individuals to whom we granted the options, restricted shares and restricted share units. The following table sets forth, for the periods indicated, the allocation of our share-based compensation expenses both in absolute amounts and as a percentage of total share-based compensation expenses.

| | Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | |
| | (In thousands of $, except for percentages) | | | | | |
| Share-based compensation expenses included in: | | | | | | |
| Cost of revenues | 686 | 16.9% | 870 | 16.8% | 740 | 16.4% |
| Selling expenses | 683 | 16.8 | 964 | 18.6 | 760 | 16.9 |
| General and administrative expenses | 2,442 | 60.1 | 3,037 | 58.5 | 2,661 | 59.0 |
| Research and development expenses | 250 | 6.2 | 315 | 6.1 | 347 | 7.7 |
| Total share-based compensation expenses | 4,061 | 100.0% | 5,186 | 100.0% | 4,508 | 100.0% |

We expect to incur additional share-based compensation expenses as we expand our operations.

*Interest Expense*

Interest expense consists primarily of interest incurred with respect to our short and long-term borrowings from Chinese commercial banks.

*Gain (Loss) on Change in Fair Value of Derivatives*

The loss on change in fair value of derivatives in our 2011 and 2012 financial statements and the gain on change in fair value of derivatives in our 2013 financial statements were associated with hedging part of our expected cash flows and balances denominated in foreign currencies, mainly in Euro, Renminbi, Canadian dollar and Japanese yen.

*Income Tax Expense*

We recognize deferred tax assets and liabilities for temporary differences between the 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 deferred tax assets will be realized.

We are governed by the CBCA, a federal statute of Canada and are registered to carry on business in Ontario. This subjects us to both Canadian federal and Ontario provincial corporate income taxes. Our combined tax rates were 28.25%, 26.5% and 26.5% for the years ended 2011, 2012 and 2013, respectively.

PRC enterprise income tax is calculated based on taxable income determined under PRC accounting principles with a uniform enterprise income tax rate of 25%. Our major operating subsidiaries, CSI Solartronics, CSI Manufacturing, CSI Cells, CSI Luoyang Manufacturing, CSI Technologies and CSI Changshu Manufacturing, are subject to taxation in China. Although CSI Solartronics was recognized as an HNTE for the three years from 2008 to 2010, because it did not meet certain requirements for the reduced 15% enterprise income tax rate, it was unable to utilize the preferential enterprise income tax rate of 15% and is still subject to a 25% enterprise income tax rate. CSI Cells and CSI Luoyang Manufacturing were subject to a reduced enterprise income tax rate of 12.5% until the end of 2011, when their tax holidays expired. Currently, CSI Cells is recognized as a HNTE for the three years from 2012 to 2014, and could enjoy the preferential enterprise income tax rate of 15% provided that it satisfies the applicable statutory requirements on an annual basis. CSI Technologies and CSI Changshu Manufacturing were subject to a reduced enterprise income tax rate of 12.5% until the end of 2012, when their tax holidays expired. CSI Manufacturing is subject to a standard 25% enterprise income tax rate. When the preferential tax benefits enjoyed by our PRC subsidiaries expired, their effective tax rates increased significantly.

The EIT Law provides that enterprises established outside China whose "de facto management body" is located in China are considered PRC tax residents and will generally be subject to the uniform 25% enterprise income tax rate on their global income. Under the implementation regulations, the term "de facto management body" is defined as substantial and overall management and control over such aspects as the production and business, personnel, accounts and properties of an enterprise. Circular 82 further provides certain specific criteria for determining whether the "de facto management body" of a PRC-controlled offshore incorporated enterprise is located in the PRC. The criteria include whether (i) the premises where the senior management and the senior management bodies responsible for the routine production and business management of the enterprise perform their functions are mainly located within the PRC, (ii) decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organizations or personnel in the PRC, (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholders' meeting minutes are located or maintained in the PRC and (iv) 50% or more of voting board members or senior executives of the enterprise habitually reside in the PRC. Although the Circular 82 only applies to offshore enterprises controlled by enterprises or enterprise group located within the PRC, the determining criteria set forth in the Circular 82 may reflect the tax authorities' general position on how the "de facto management body" test may be applied in determining the tax resident status of offshore enterprises. As the tax resident status of an enterprise is subject to the determination by the PRC tax authorities, uncertainties remain with respect to the interpretation of the term "de facto management body" as applicable to our offshore entities. As a substantial number of the members of our management team are located in China, we may be considered a PRC tax resident under the EIT Law and, therefore, subject to the uniform 25% enterprise income tax rate as it relates to our global income.

Under the EIT Law and implementing regulations issued by the State Council, the PRC withholding tax rate of 10% is generally applicable to interest and dividends payable to investors that are not "resident enterprises" in the PRC, to the extent such interest or dividends have their sources within the PRC. We consider the undistributed earnings of our PRC subsidiaries (approximately

$114.6 million at December 31, 2013) to be indefinitely reinvested in China, and, consequently, we have made no provision for withholding taxes for those amounts.

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

*Revenue Recognition*

We recognize revenues for solar product sales when persuasive evidence of an arrangement exists, delivery of the product has occurred and title and risk of loss has passed to the customers, the sales price is fixed or determinable and the collectability of the resulting receivable is reasonably assured. If collectability is not reasonably assured, we recognize revenue only upon collection of cash. Revenues also include reimbursements received from customers for shipping and handling costs. Sales agreements typically contain customary product warranties but do not contain any post-shipment obligations or any return or credit provisions.

A majority of our contracts provide that products are shipped under the terms of free on board, or FOB, ex-works or cost, insurance and freight, or CIF, and delivered duty paid, or DDP. Under FOB, we fulfill our 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, we fulfill our obligation to deliver when we have made the goods available at our premises to the customer. The customer bears all costs and risks involved in taking the goods from our premises to the 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 in the port of shipment. Under DDP, we are responsible for making a safe delivery of goods to a named destination, paying all transportation expenses and the duty. We bear the risks and costs associated with supplying the goods to the delivery location.

We use the percentage-of-completion method to recognize revenues for which we provide EPC services, unless we cannot make reasonably dependable estimates of the costs to complete the contract, in which case we would use the completed contract method. The percentage-of-completion method is considered appropriate in circumstances in which reasonably dependable estimates can be made and in which all the following conditions exist: (i) contracts executed by the parties normally include provisions that clearly specify the enforceable rights regarding goods or services to be provided and received by the parties, the consideration to be exchanged, and the manner and terms of settlement; (ii) the buyer can be expected to satisfy all obligations under the contract; and (iii) the contractor can be expected to

perform all contractual obligations. We use the cost-to-cost method to measure the percentage of completion and recognize revenue based on the estimated progress to completion. We periodically revise our profit estimates based on changes in facts, and immediately recognize any losses that are identified on contracts. Incurred costs include all direct material, labor, subcontractor cost, and other associated costs. We recognize job material costs as incurred costs when the job materials have been permanently attached or fitted to the solar power projects as required by the engineering design. The construction periods normally extend beyond six months and less than one year.

We recognize revenue from the sale of project assets in accordance with ASC 360-20, Real Estate Sales. For these transactions, we determined that the project assets, which represent the costs of constructing solar power projects, represent "integral" equipment and as such, the entire transaction is in substance the sale of real estate and subject to the revenue recognition guidance under ASC 360-20 Real Estate Sales. We record the sale as revenue using one of the following revenue recognition methods, based upon evaluation of the substance and form of the terms and conditions of such real estate sales arrangements: (i) Full accrual method. We record revenue for certain sales arrangements after construction of discrete portions of a project or after the entire project is substantially complete. We recognize revenue and profit using the full accrual method when all of the following requirements are met: (a) the sales are consummated; (b) the buyer's initial and continuing investments are adequate to demonstrate its commitment to pay; (c) the receivable is not subject to any future subordination; and (d) we have transferred the usual risk and rewards of ownership to the buyer. Specifically, we consider the following factors in determining whether the sales have been consummated: (a) the parties are bound by the terms of a contract; (b) all consideration has been exchanged; (c) permanent financing for which the seller is responsible has been arranged; and (d) all conditions precedent to closing have been performed, and we do not have any substantial continuing involvement with the project. (ii) Percentage-of-completion method. We apply the percentage-of-completion method, as further described below, to certain real estate sales arrangements where we convey control of land or land rights, (a) when a sale has been consummated; (b) we have transferred the usual risks and rewards of ownership to the buyer; (c) the initial and continuing investment criteria have been met; (d) we have the ability to estimate its costs and progress toward completion, and (e) all other revenue recognition criteria have been met. The initial and continuing investment requirements, which demonstrate a buyer's commitment to honor their obligations for the sales arrangement, can typically be met through the receipt of cash or an irrevocable letter of credit from a highly creditworthy lending institution. When evaluating whether the usual risks and rewards of ownership have transferred to the buyer, we consider whether we have or may be contingently required to have any prohibited forms of continuing involvement with the project. Prohibited forms of continuing involvement in a real estate sales arrangement may include us retaining risks or rewards associated with the project that are not customary with the range of risks or rewards that an EPC contractor may assume. (iii) Installment method. Depending on whether the initial and continuing investment requirements have been met, and whether collectability from the buyer is reasonably assured, we may align our revenue recognition and release of project assets or deferred project costs to cost of sales with the receipt of payment from the buyer if the sale has been consummated and we have transferred the usual risks and rewards of ownership to the buyer.

During 2013, we recognized $211.0 million and $81.0 million of revenue from the sale of solar power projects using the full accrual method and percentage-of-completion method, respectively.

We allocate revenue for transactions involving multiple-element arrangements to each unit of accounting on a relative fair value basis. We estimate fair value on each unit of accounting on the following basis (i) vendor-specific objective evidence of selling price, if it exists, otherwise, (ii) third-party evidence of selling price. If neither (i) nor (ii) exists, management's best estimate of the selling price for that unit of accounting is used. We recognize revenue for each unit of accounting when the revenue recognition criteria have been met.

Our revenues from sales to customers are recorded net of estimated returns.

We enter into toll manufacturing arrangements in which we receive cells and returns finished modules. In those cases, the title of the cells received and risk of loss remains with the seller. As a result, we do not recognize inventory on the consolidated balance sheets. We recognize a service fee as revenue when the processed modules are delivered. During the years ended December 31, 2011, 2012 and 2013, we recognized revenue of $24.7 million, $7.9 million and $14.0 million, respectively, under the toll manufacturing arrangements.

We enter into buy-and-sell arrangements with certain raw material vendors pursuant to which we sell finished goods, comprising either solar cells or solar modules, in exchange for raw materials, typically silicon wafers. These arrangements are made with counterparties in the same line of business as us and are executed as a means of securing a stable supply of raw materials. The transactions are recorded in revenues and cost of revenues at fair value on a gross basis. During the years ended December 31, 2011, 2012 and 2013, we purchased $21.5 million, nil andnil of raw materials, respectively, and sold $43.9 million, nil and nil of finished goods under these buy-and-sell arrangements, respectively.

As of December 31, 2011, 2012 and 2013, we had inventories of $23.2 million, $18.4 million and $8.2 million, respectively, relating to sales to customers where revenues were not recognized because the collection of payment was not reasonably assured. The delivered product remains as inventories on our consolidated balance sheets, regardless of whether title has been transferred. In such cases, we recognize revenues, relieve inventories and recognize cost of revenues when payment is collected from customers.

*Warranty Cost*

Before June 2009, we typically sold our standard solar modules 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% and 20%, respectively, from the initial minimum power generation capacity at the time of delivery. In June 2009, we increased our warranty against defects in materials and workmanship to six years. Effective August 1, 2011, we increased our warranty against defects in materials and workmanship to ten years and we guarantee that for a period of 25 years, our standard solar modules will maintain the following performance levels:

- during the first year, the actual power output of the module will be no less than 97% of the labeled power output;
- from year 2 to year 24, the actual annual power output decline of the module will be no more than 0.7%; and
- by the end of year 25, the actual power output of the module will be no less than 80% of the labeled power output.

In resolving claims under the workmanship warranty, we have the option of remedying through repair, refurbishment or replacement of equipment.

In resolving claims under the performance warranty, we have the right to repair or replace solar modules at our option.

For utility-scale solar power projects built by us, we provide a limited workmanship or balance of system warranty against defects in engineering design, installation and construction under normal use, operation and service conditions for a period of up to five years following the energizing of the solar power plant. In resolving claims under the workmanship or balance of system warranty, we have the option of remedying through repair, refurbishment or replacement of equipment. We have entered into similar workmanship warranties with our suppliers to back up our warranties.

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' and our own actual claim 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. Actual warranty costs are accumulated and charged against the accrued warranty liability. To the extent that accrual for warranty costs differs from the estimates, we will prospectively revise our accrual rate. We currently take a 1% warranty provision against our revenue for sales of solar power products.

In April 2010, we began entering into agreements with a group of insurance companies with high credit ratings to back up our warranties. Under the terms of the insurance policies, which are designed to match the terms of our PV module product warranty policy, the insurance companies are obliged to reimburse us, subject to certain maximum claim limits and certain deductibles, for the actual product warranty costs that we incur under the terms of our PV module product warranty policy. We record the insurance premiums initially as prepaid expenses and amortize them over the respective policy period of one year. Each prepaid policy provides insurance against warranty costs for panels sold within that policy year.

The warranty obligations we record relate to defects that existed when the product was sold to the customer. The event which we are insured against through our insurance policies is the sale of products with these defects. Accordingly, we view the insured losses attributable to the shipment of defective products covered under its warranty as analogous to potential claims, or claims that have been incurred as of the product ship date, but not yet reported. We expect to recover all or a portion of its obligation through insurance claims. Therefore, our accounting policy is to record an asset for the amount determined to be probable of recovery from the insurance claims (not to exceed the amount of the total losses incurred), consistent with the guidance set forth at ASC 410-30.

We consider the following factors in determining whether an insurance receivable that is probable and recoverability can be reasonably estimated:

- reputation and credit rating of the insurance company;
- comparison of the PV module product warranty policy against the terms of the insurance policies, to ensure valid warranty claims submitted by customers will be covered by the policy and therefore reimbursed by the insurance companies; and
- with respect to specific claims submitted, written communications from the insurance company are monitored to ensure the claim has been promptly submitted to and accepted by the insurance company, and reimbursements have been subsequently collected. The successfully processed claims provides further evidence that the insurance policies are functioning as anticipated.

To the extent uncertainties regarding the solvency of insurance carriers or the legal sufficiency of insurance claims (including if they became subject to litigation) were to arise, we would establish a provision for uncollectible amounts based on the specific facts and circumstances. To date, no provision had been determined to be necessary. In addition, to the extent that accrual for warranty costs differs from the estimates and we prospectively revise our accrual rate, this change may result in a change to the amount expected to be recovered from insurance.

As the warranty obligation and related recovery asset do not meet the criteria for offsetting, the gross amounts are reported in our consolidated balance sheets. The asset is expected to be realized over the life of the warranty obligation, which is 25 years and is treated as a non-current asset consistent with the underlying warranty obligation. When a specific claim is submitted and the corresponding insurance proceeds will be collected within twelve months of the balance sheet date, we will reclassify that portion of the receivable as being current. We review the recoverability of warranty

insurance receivables at each period end. As of December 31, 2013, the insurance receivable amounts were $27.9 million, and were included as a component of other non-current assets.

We made downward adjustments to accrued warranty costs by $31.4 million and other non-current assets by $17.7 million, for the year ended December 31, 2013, to reflect the general declining trend of the average selling price of solar modules, which is a primary input into the estimated warranty costs. The warranty costs (net effect of adjustment) of $18.3 million, $12.5 million and $(16.5) million are included in cost of revenues for the years ended December 31, 2011, 2012 and 2013, respectively.

*Impairment of Long-lived Assets*

We assess the recoverability of the carrying value of long-lived assets when an indicator of impairment has been identified. We review the long-lived assets each reporting period to assess whether impairment indicators are present. For purposes of recognition and measurement of an impairment loss, a long-lived asset or assets is grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. For long-lived assets, when impairment indicators are present, we compare undiscounted future cash flows, including the eventual disposition of the asset group at market value, to the asset group's carrying value to determine if the asset group is recoverable. Assessments also consider changes in asset group utilization, including the temporary idling of capacity and the expected timing of placing this capacity back into production. If the sum of the expected undiscounted cash flows is less than the carrying amount of the assets, we would recognize an impairment loss based on the fair value of the assets. No impairment charge was recorded during the years ended December 31, 2011 and 2012. We recorded an impairment charge of $3.7 million related to the write-down of our mono-crystalline ingot furnaces during the year ended December 31, 2013.

*Allowance for Doubtful Accounts*

We conduct credit evaluations of our customers and generally do not require collateral or other security from them. We establish allowances for doubtful accounts primarily based upon the age of our receivables and factors surrounding the credit risk of specific customers. As of December 31, 2011, 2012 and 2013, anallowance for doubtful accounts receivable of $9.5 million, $47.6 million and $38.5 million, respectively, was established for certain customers for whom management sees a credit risk on the collection of accounts receivable balances. The allowance for doubtful accounts receivable as of December 31, 2012 and 2013 included $18.7 million and $19.2 million, respectively relating to one customer in China with severe liquidity issues. From mid-2009, we started to purchase insurance from Sinosure for accounts receivable to mitigate collection risks from certain customers. We establish allowances for all doubtful accounts according to our allowance policy regardless of whether such accounts are covered by Sinosure insurance. For the amounts recoverable from Sinosure, we recorded $5.3 million, $9.5 million and $0.5 million in prepaid expenses and other current assets as of December 31, 2011, 2012 and 2013, respectively.

With respect to advances to suppliers, primarily suppliers of solar cells, solar wafers and silicon raw materials, we perform ongoing credit evaluations of their financial condition. We generally do not require collateral or security against advances to suppliers, as they tend to be recurring supply partners. However, we maintained a reserve for potential credit losses for advances to suppliers as of December 31, 2011, 2012 and 2013 of $38.1 million, $38.5 million and $40.0 million, respectively. The reserves as of December 31, 2013 include allowances on advances to LDK of $9.8 million, allowances on advances to a UMG-Si supplier of $10.5 million, and allowances on advances to Deutsche Solar of $18.5 million.

*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 and, where applicable, direct labor costs, tolling costs and those overhead costs 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 inventories to the estimated market value based on historical and forecast demand. The write-down of inventories for the years ended December 31, 2011, 2012 and 2013 were $8.5 million, $3.1 million and $0.7 million, respectively.

We outsource portions of our manufacturing process to various third-party manufacturers. These outsourcing arrangements may or may not include the transfer of title of the raw material inventory to 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 consolidated balance sheets as raw materials inventory while it is in the physical possession of the third-party manufacturer. Upon receipt of the processed inventory, it is reclassified as work-in-process inventory and a processing fee is paid to the third-party manufacturer.

For those outsourcing arrangements, characterized as sales, where title (including risk of loss) is transferred to the third-party manufacturer, through raw materials sales contracts and processed inventory purchase contracts that were entered into simultaneously, we are constructively obligated to repurchase the inventory once it has been processed. In this case, the raw material inventory is classified as raw material inventory while in physical possession of the third-party manufacturer. The cash received is classified as "advances from customers" on the consolidated balance sheets and not as revenue or deferred revenue. Outsourcing arrangements, which require prepayment for repurchase of the processed inventory, are classified as "advances to suppliers" on the consolidated balance sheets. There is no right of offset for these arrangements and accordingly, "advances from customers" and "advances to suppliers" remain on the consolidated balance sheets until the processed inventory is repurchased.

On occasion, we enter into firm purchase commitments to acquire materials from its suppliers. A firm purchase commitment represents an agreement that specifies all significant terms, including the price and timing of the transactions, and includes a disincentive for non-performance that is sufficiently large to make performance probable. This disincentive is generally in the form of a take-or-pay provision, which requires us to pay for committed volumes regardless of whether we actually acquire the materials. We evaluate these agreements and record a loss, if any, on firm purchase commitments using the same lower of cost or market approach as that used to value inventory. We record the expected loss only as it relates to the succeeding year, as we are unable to reasonably estimate future market prices beyond one year, in cost of revenues in the consolidated statements of operations. As a result, changes in the cost of materials or sales price of modules will directly affect the computation of the estimated loss on firm purchase commitments and our consolidated financial statements in the following years. We purchased the minimum contracted volume for year 2009 under our 12-year supply agreement with Deutsche Solar. We did not, however, purchase the minimum contracted volumes for years 2010 and 2011. The agreement contains a provision stating that if we do not order the contracted volume in a given year, Deutsche Solar can invoice us for the difference at the full contract price. We believe that the take-or-pay provisions of the agreement are void under German law. In December 2011, Deutsche Solar gave notice to us to terminate the 12-year wafer supply agreement with immediate effect. Deutsche Solar stated that the reason for the termination was an alleged breach of the agreement by us. In the notice, Deutsche Solar reserved its right to claim damages of €148.6 million ($204.8 million) in court. As a result of the termination, we reclassified the accrued loss on firm purchase commitments reserve of $27.9 million as of December 31, 2011 to loss contingency

accruals. In addition, we made a full bad debt allowance of $17.4 million against the balance of our advance payments to Deutsche Solar. The accrued amount of $27.9 million represents our best estimate for our loss contingency. Deutsche Solar did not specify the basis for its claimed damage of €148.6 million ($204.8 million) in the notice. Finally, webelieve that the supply agreement was terminated in 2011 and, as a result, we are no longer obligated to purchase (and pay for) wafers for year 2012 and thereafter.

*Project Assets*

Project assets consist primarily of direct costs relating to solar power projects in various stages of development that are capitalized prior to the sale of the solar power projects. A project asset is initially recorded at the actual cost. For a self-developed project asset, the actual cost capitalized is the amount of the expenditure incurred for the application of the feed-in tariff or other similar contracts, permits, consents, construction costs, interest costs capitalized, and other costs. For a project asset acquired from third parties, the initial cost is the acquisition cost which includes the consideration transferred and certain direct acquisition costs.

We review project assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. We consider a project commercially viable or recoverable if it is anticipated to be sold for a profit once it is either fully developed or fully constructed. We consider a partially developed or partially constructed project commercially viable or recoverable if the anticipated selling price is higher than the carrying value of the related project assets. We examine a number of factors to determine if the project will be recoverable, the most notable of which include whether there are any changes in environmental, ecological, permitting, market pricing or regulatory conditions that impact the project. Such changes could cause the costs of the project to increase or the selling price of the project to decrease. If a project is not considered recoverable, we impair the respective project assets and adjust the carrying value to the estimated recoverable amount, with the resulting impairment recorded within operations. We recorded impairment charges for project assets of nil, nil and $1.6 million for the years ended December 31, 2011, 2012 and 2013, respectively.

Project assets expected to be sold within twelve months as of each balance sheet date are recorded as current assets and project assets expected to be sold after twelve months are recorded as non-current assets on our consolidated balance sheets. The cash flows associated with the acquisition, construction, and sale of projects assets are classified as operating activities on our consolidated statements of cash flows. Project assets are often held in separate legal entities which are formed for the special purpose of constructing the project assets, which we refer to as "project companies". We consolidate project companies as described in Note 2 "Summary of Principal Accounting Policies—(b) Basis of consolidation" to our consolidated financial statements for the year ended December 31, 2013 included in this annual report on Form 20-F. In 2013, the cash paid to the non-controlling interest in connection with disposal of such project companies was recorded as a financing activity in the consolidated statement of cash flows.

We did not depreciate the project assets. If circumstances change, and we begin to operate the project assets for the purpose of generating income from the sale of electricity, the project assets will be reclassified to property, plant and equipment.

*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 tax loss carry forward and credits by applying enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. In 2013, we established a valuation allowance in the amount of

$57.2 million against deferred tax assets which were primarily attributable to the portion of the accumulated operating losses generated by certain of our subsidiaries in China and Hong Kong for which no tax benefit could be recorded.

Current income taxes are provided for in accordance with the laws of the relevant taxing jurisdictions. 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, or the expected timing of their use when they do not relate to a specific asset or liability.

Income tax expense includes (i) deferred tax expense, which generally represents the net change in the deferred tax asset or liability balance during the year plus any change in valuation allowances; (ii) current tax expense, which represents the amount of tax currently payable to or receivable from a taxing authority; and (iii) non-current tax expense, which represents the increases and decreases in amounts related to uncertain tax positions from prior periods and not settled with cash or other tax attributes. We only recognize tax benefits related to uncertain tax positions when such positions are more likely than not of being sustained upon examination. For such positions, the amount of tax benefit that we recognize is the largest amount of tax benefit that is more than fifty percent likely of being sustained upon the ultimate settlement of such uncertain tax position. We record penalties and interest associated with the uncertain tax positions as a component of income tax expense.

***Recently Issued Accounting Pronouncements***

In March 2013, the FASB issued ASU 2013-05, an authoritative pronouncement related to parent's accounting for the cumulative translation adjustment upon de-recognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. Under the guidance, the cumulative translation adjustment should be released into net income when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. A pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of an equity method investment which is a foreign entity. The amendments are effective prospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted. The adoption of the amendments will not have a material impact on our consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11 which provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The ASU requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This ASU applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of this guidance is not expected to have a significant effect on our consolidated financial statements.

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***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.

| | For the years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | |
| | (in thousands of $, except percentages) | | | | | |
| Net revenues | $ 1,898,922 | 100.0% | $ 1,294,829 | 100.0% | $ 1,654,356 | 100.0% |
| Cost of revenues | 1,716,640 | 90.4% | 1,204,468 | 93.0% | 1,378,661 | 83.3% |
| Gross profit | 182,282 | 9.6% | 90,361 | 7.0% | 275,695 | 16.7% |
| Operating expenses: | | | | | | |
| Selling expenses | 69,341 | 3.7% | 91,053 | 7.0% | 88,426 | 5.3% |
| General and administrative expenses | 86,269 | 4.5% | 128,826 | 9.9% | 44,768 | 2.7% |
| Research and development expenses | 19,839 | 1.0% | 12,998 | 1.0% | 11,685 | 0.7% |
| Total operating expenses | 175,449 | 9.2% | 232,877 | 18.0% | 144,879 | 8.8% |
| Income from continuing operations | 6,833 | 0.4% | (142,516) | (11.0)% | 130,816 | 7.9% |
| Other income (expenses) | | | | | | |
| Interest expense | (43,844) | (2.3)% | (53,304) | (4.1)% | (46,244) | (2.8)% |
| Interest income | 8,447 | 0.4% | 13,360 | 1.0% | 11,973 | 0.7% |
| Gain (loss) on change in fair value of derivatives | (5,751) | (0.3)% | (4,369) | (0.34)% | 10,764 | 0.7% |
| Investment loss | — | (0.0)% | (1,082) | (0.08)% | — | —% |
| Foreign exchange gain (loss) | (40,007) | (2.1)% | (10,708) | (0.83)% | (51,469) | (3.1)% |
| Others | — | (—)% | — | (—)% | 428 | 0.03% |
| Income (loss) before income taxes | (74,322) | (3.9)% | (198,619) | (15.3)% | 56,268 | 3.4% |
| Income tax (expense) benefit | (16,540) | (0.9)% | 5,433 | 4.2% | (7,639) | (0.5)% |
| Equity in earnings (loss) of unconsolidated investees | (41) | (0.0)% | (1,969) | (0.2)% | (3,064) | (0.2)% |
| Net income (loss) | (90,903) | (4.8)% | (195,155) | (15.1)% | 45,565 | 2.8% |
| Less: Net income attributable to non-controlling interest | (99) | (0.0)% | 314 | 0.0% | 13,906 | 0.8% |
| Net income (loss) attributable to Canadian Solar Inc. | (90,804) | (4.8)% | (195,469) | (15.1)% | 31,659 | 1.9% |

***Year Ended December 31, 2013 Compared to Year Ended December 31, 2012***

*Net Revenues.* Our total net revenues increased by $359.5 million, or 27.8%, from $1,294.8 million in 2012 to $1,654.4 million in 2013. The increase in our net revenues was primarily due to an increase in revenue contribution from our total solutions business and increased shipments from our solar module business from 1,490 MW in 2012 to 1,736 MW in 2013, partially offset by a decrease in average selling price of our solar modules from $0.77 per watt in 2012 to $0.67 per watt in 2013.

Revenues generated from our solar module business increased by $35.7 million, or 3.1%, from $1,146.0 million in 2012 to $1,181.7 million in 2013. The increase was primarily due to an increase of $205.3 million attributed to the 16.5% increase of shipments of our solar modules, partially offset by a decrease of $169.6 million attributed to the 13.0% decline in average selling price of our solar modules.

Our total solar module shipments were 1,894 MW in 2013, an increase of 22.7% from 1,543 MW in 2012. Our shipments to non-European markets increased by 961.6 MW from 643.6 MW in 2012 to 1,605.2 MW in 2013. The increase in shipments to non-European markets primarily came from Japan and Canada among others. Our shipments to European markets decreased by 610.5 MW from

899.5 MW in 2012 to 289.0 MW in 2013, primarily due to the provisional anti-dumping duties imposed by the EU, the subsequent undertaking agreement that fixed the price of Chinese made modules at a relatively high level, and overall decline in the demand for solar modules in the EU countries.

Our average selling price of our solar modules declined from $0.77 in 2012 to $0.67 in 2013, primarily due to the fact that the supply of solar products was generally greater than demand. This adversely affected the prices of solar products across the entire value chain.

Revenues generated from our total solutions business increased by $323.8 million, or 217.5%, from $148.9 million in 2012 to $472.7 million in 2013. $266.2 million of the increase was attributable to increased sales of solar power projects and provision of EPC services and $57.1 million was attributable to increased sales of solar system kits.

We periodically make estimates of our sales returns based on historical experience and record those estimates as a reduction of revenues. As of December 31, 2012 and 2013, we hada sales return reserve of $1.0 million and $0.2 million, respectively. Actual returns could differ from these estimates.

*Cost of Revenues.* Our cost of revenues increased by $174.2 million, or 14.5%, from $1,204.5 million in 2012 to $1,378.7 million in 2013. The increase in our cost of revenues was primarily due to growth of our total solutions business and increased shipments from our solar module business, partially offset by lower manufacturing costs of solar modules. Cost of revenues as a percentage of total net revenues decreased from 93.0% in 2012 to 83.3%.

In 2013, we made downward adjustments of accrued warranty costs and insurance receivable amounts to reflect the general declining trend of the average selling price of solar modules, which is a primary input into the estimated warranty costs. The net effect of the downward adjustments was $13.7 million.

Our inventory write-downs for 2012 and 2013 were $3.1 million and $0.7 million, respectively. The decrease in inventory write-downs was primarily due to the stabilization of the prices of solar modules and continued lowering of our manufacturing costs, which decreased at a steeper rate than the decline in the market prices during 2013, as compared with 2012.

*Gross Profit.* As a result of the foregoing, our gross profit increased by $185.3 million, or 205.1%, from $90.4 million in 2012 to $275.7 million in 2013. Our gross profit margin increased from 7.0% in 2012 to 16.7% in 2013, primarily due to contribution from our higher margin total solutions business, lower manufacturing costs as well as the net effect of the above-mentioned downward adjustments, partially offset by a decline in average selling price of our solar modules during the period.

*Operating Expenses.* Our operating expenses decreased by $88.0 million, or 37.8%, from $232.9 million in 2012 to $144.9 million in 2013. Operating expenses as a percentage of our total net revenues decreased from 18.0% in 2012 to 8.8% in 2013.

*Selling Expenses.* Our selling expenses decreased by $2.6 million, or 2.9%, from $91.1 million in 2012 to $88.4 million in 2013. The decrease in our selling expenses was primarily due to a $8.0 million decrease in shipping and handling expenses and a $7.2 million decrease in marketing expenses, partially offset by a $5.2 million increase in salary expenses, a $2.0 million increase in sales commission, a $1.6 million increase in rental expenses and a $1.1 million increase in insurance expenses. Selling expenses as a percentage of our net total revenues decreased from 7.0% in 2012 to 5.3% in 2013.

*General and Administrative Expenses.* Our general and administrative expenses decreased by $84.1 million, or 65.2%, from $128.8 million in 2012 to $44.8 million in 2013. The decrease in our general and administrative expenses was primarily due to the reversal of a $30.0 million provision related to the arbitration decision against us by the CIETAC Shanghai Branch in favor of LDK and a

$32.9 million decrease in bad debt expense. General and administrative expenses as a percentage of our total net revenues decreased from 9.9% in 2012 to 2.7% in 2013.

*Research and Development Expenses.* Our research and development expenses decreased by $1.3 million, or 10.1%, from $13.0 million in 2012 to $11.7 million in 2013. Research and development expenses as a percentage of our total net revenues were 1.0% in 2012 and 0.7% in 2013.

*Interest Expense, Net.* Our interest expense, net decreased by $5.7 million, or 14.2%, from $39.9 million in 2012 to $34.3 million in 2013. Interest expense decreased from $53.3 million in 2012 to $46.2 million in 2013, or 13.2%, primarily due to an increase in interest expense capitalized for our solar power projects and a decrease in bank borrowings, partially offset by an increase in discount charges. Interest income decreased from $13.4 million in 2012 to $12.0 million in 2013, or 10.4%.

*Gain/(Loss) On Change in Fair Value of Derivatives.* In 2013, we recorded a gain on change in fair value of derivatives of $10.8 million, compared to a loss on change in fair value of derivatives of $4.4 million in 2012. The gain or loss on change in fair value of derivatives represents gain or loss on the foreign currency hedges that we employed to hedge against part of our exposure to the fluctuation of exchange rates of foreign currencies, mainly in Euro, Renminbi, Canadian dollar and Japanese yen, by means of foreign currency forward or option contracts.

*Foreign Exchange Loss.* We recorded a foreign exchange loss of $51.5 million in 2013, compared to a foreign exchange loss of$10.7 million in 2012. The foreign exchange loss in 2013 was mainly due to the appreciation of the Renminbi against the U.S. dollar as well as the depreciation of the Japanese yen and Canadian dollar against the U.S. dollar.

*Income Tax Benefit (Expense).* Our income tax expense was $7.6 million in 2013, compared to an income tax benefit of $5.4 million in 2012. The income tax expense in 2013 was primarily due to our return to profitability.

*Equity in Earnings (Loss) of Unconsolidated Investees.* Our equity in earnings of unconsolidated investees was a net loss of $3.1 million in 2013, compared to a net loss of $2.0 million in 2012.

*Net Income Attributable To Non-Controlling Interest.* The net income attributable to non-controlling interest was related to the share of net income by the non-controlling shareholders in certain of our subsidiaries or project companies in Canada, China, Germany, Japan and the U.S. As part of negotiating the acquisition of project assets, we often acquire or set up project companies for the purpose of holding the project assets which are partially held by third parties which are reported as non-controlling interests in our consolidated financial statements. When these projects assets are sold to third parties, we allocate the percentage attributable to non-controlling interests accordingly. The amounts of net income generated in connection with the sale of project assets which was attributable to minority interests was nil and $12.2 million, for the years ended December 31, 2012 and 2013, respectively.

*Net Income (Loss) Attributable To Canadian Solar Inc.* As a result of the foregoing, we recorded a net income of $31.7 million in 2013, which was a $227.1 million increase over our net loss of $195.5 million in 2012.

***Year Ended December 31, 2012 Compared to Year Ended December 31, 2011***

*Net Revenues.* Our total net revenues decreased by $604.1 million, or 31.8%, from $1,898.9 million in 2011 to$1,294.8 million in 2012. The decrease in our net revenues was primarily due to a decrease in the average selling price of our solar modules from $1.34 per watt in 2011 to $0.77 per watt in 2012, partially offset by increased shipments from 1,323 MW in 2011 to 1,543 MW in 2012. The decrease in the average selling price of our solar modules in 2012 was primarily due to changes in

government subsidies and economic incentives in many markets, and continued oversupply across the entire PV supply chain.

Total solar module shipments were 1,543 MW in 2012, an increase of 16.6%, from 1,323 MW in 2011. Our shipments to non-European markets increased by 203.3 MW from 440.3 MW in 2011 to 643.6 MW in 2012. The increase in shipments to non-European markets primarily came from the U.S. and Japan among others. Our shipments to European markets increased by 17.2 MW from 882.3 MW in 2011 to 899.5 MW in 2012.

We periodically make estimates of our sales returns based on historical experience and record those estimates as a reduction of revenues. As of December 31, 2011 and 2012, we hada sales return reserve of $6.2 million and $1.0 million, respectively. Actual returns could differ from these estimates.

*Cost of Revenues.* Our cost of revenues decreased by $512.2 million, or 29.8%, from $1,716.6 million in 2011 to$1,204.5 million in 2012. The decrease in our cost of revenues was primarily due to a decrease in raw material costs for the year resulting from market competition among suppliers of solar wafers and cells. The decrease in our cost of revenues was in line with the decrease in our net revenues for the year. Cost of revenues as a percentage of total net revenues increased from 90.4% in 2011 to 93.0% in 2012.

Our inventory write-downs for 2011 and 2012 were $8.5 million and $3.1 million, respectively. The decrease in inventory write-downs was primarily due to continued decrease in our manufacturing costs. In 2012, our manufacturing costs decreased (approximately 43.0%) more rapidly than market prices (approximately 31.8%).

*Gross Profit.* As a result of the foregoing, our gross profit decreased by $91.9 million, or 50.4%, from $182.3 million in 2011 to $90.4 million in 2012. Our gross profit margin decreased from 9.6% in 2011 to 7.0% in 2012, primarily due to a decrease in the average selling price of our solar modules, partially offset by lower manufacturing costs.

*Operating Expenses.* Our operating expenses increased by $57.4 million, or 32.7%, from $175.4 million in 2011 to $232.9 million in 2012. Operating expenses as a percentage of our total net revenues increased from 9.2% in 2011 to 18.0% in 2012.

*Selling Expenses.* Our selling expenses increased by $21.7 million, or 31.3%, from $69.3 million in 2011 to $91.1 millionin 2012. The increase in our selling expenses was primarily due to an increase of $9.8 million in our shipping and handling costs resulting from increased shipment volume accompanied by higher unit costs for shipping and handling, an increase of $5.2 million in our sales commissions and payroll costs due to increased personnel requirements for our project business as well as an increase of $2.3 million in our marketing costs. Selling expenses as a percentage of our total net revenues increased from 3.7% in 2011 to 7.0% in 2012.

*General and Administrative Expenses.* Our general and administrative expenses increased by $42.6 million, or 49.3%, from $86.3 million in 2011 to $128.8 million in 2012. The increase in our general and administrative expenses was primarily due to the provision for an arbitration decision and the increase in the bad debt allowance for doubtful accounts. We made a provision totaling $30.3 million for the arbitration decision against us by the CIETAC Shanghai Branch in favor of LDK. In addition, allowance for doubtful accounts receivable and advances to suppliers increased by 74.4% from $23.2 million in 2011 to $40.4 million in 2012, including $18.6 million relating to one customer in China with severe liquidity issues.

*Research and Development Expenses.* Our research and development expenses decreased by $6.8 million, or 34.5%, from $19.8 million in 2011 to $13.0 million in 2012. The decrease in research and development expenses was primarily due to the successful completion of several key research and

development projects at the end of 2011. Research and development expenses as a percentage of our total net revenues were approximately 1.0% in each of 2011 and 2012.

*Interest Expense, Net.* Our interest expense, net increased by $4.5 million, or 12.8%, from $35.4 million in 2011 to $39.9 million in 2012. Interest expense increased from $43.8 million in 2011 to $53.3 million in 2012, or 21.6%, primarily due to a significant increase in bank borrowings in 2012, partially offset by the interest costs capitalized to project assets relating to construction of our solar power projects. Interest income increased from $8.4 million in 2011 to $13.4 million in 2012, or 58.2%, mainly due to an increased restricted cash balance.

*Gain/(Loss) On Change in Fair Value of Derivatives.* In 2012, we recorded a loss on change in fair value of derivatives of $4.4 million, compared to a loss on change in fair value of derivatives of $5.8 million in 2011. The loss on change in fair value of derivatives represents a loss on the foreign currency hedges that we employed to hedge against part of our expected cash flows and balances denominated in foreign currencies, mainly in Euros and Canadian dollars, by means of foreign currency forward or option contracts.

*Investment Loss.* We recorded an investment loss of $1.1 million in 2012, compared to an investment loss of nil in 2011. In 2012,we concluded that our $1.1 million investment in Nernst New Energy (Suzhou) Co., Ltd., a joint venture in which we own a 50% interest, was fully impaired.

*Foreign Exchange Loss.* We recorded a foreign exchange loss of $10.7 million in 2012, compared to a foreign exchange loss of$40.0 million in 2011. These foreign exchange losses were mainly due to the depreciation of the Euro and Japanese yen and the appreciation of the Renminbi against the U.S. dollar.

*Income Tax Benefit (Expense).* Our income tax benefit was $5.4 million in 2012, compared to tax expense of $16.5 million in 2011. The income tax benefit in 2012 was primarily due to recognition of deferred tax assets associated with the net operating losses recorded by certain of our subsidiaries in China.

*Equity in Earnings (Loss) of Unconsolidated Investees.* Our equity in earnings of unconsolidated investees was a net loss of $2.0 million in 2012, compared to a net loss of $0.4 million in 2011.

*Net Income Attributable To Non-Controlling Interest.* The net income attributable to non-controlling interest was related to the share of net income by the non-controlling shareholders in certain of our subsidiaries in China, Germany, Japan and the U.S.

*Net Income (Loss) Attributable To Canadian Solar Inc.* As a result of the foregoing, the net loss attributable to Canadian Solar Inc. increased by $104.7 million, or 115.3%, from negative $90.8 million in 2011 to negative $195.5 million in 2012.

## B. Liquidity and Capital Resources

### *Cash Flows and Working Capital*

We are generally required to make prepayments to suppliers of silicon wafers and cells and silicon raw materials. Even though we require some customers to make partial prepayments, there is typically a lag between the time we make our prepayments for silicon wafers and cells and silicon raw materials and the time our customers make their prepayments. The purchase of solar wafers and cells and silicon raw materials through toll manufacturing arrangements has required, and will continue to require, us to make significant commitments of working capital beyond that generated from our cash flows from operations to support our estimated production output.

In addition, our total solutions business required increased funding and use of working capital in 2013 and is expected to continue to require significant funding and use of working capital in the future. The time cycles of our solar power project development can vary substantially and can take up to many years to mature. As a result, we may need to make significant up-front investments of resources before the collection of any cash from the sale of these projects. These investments include payment of interconnection and other deposits, posting of letters of credit, and incurring engineering, permitting, legal, and other expenses. In addition, we may have to use our existing bank facilities to finance the construction of these solar power projects. Depending on the size and number of solar power projects that we are developing and self-financing, our liquidity requirements could be significant. Delays in constructing or completing the sale of any of our projects which we are self-financing could also impact our liquidity.

In 2013, we reversed the provision related to the arbitration decision against us by the CIETAC Shanghai Branch in favor of LDK and we currently do not have any provision in our accounts for this amount. We dispute the merits of the proceedings brought against us by LDK and will defend ourselves vigorously against these claims. However, if we do not succeed, payment of the award to LDK could have an adverse effect on our liquidity. See "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal and Administrative Proceedings."

In 2013, we financed our operations primarily through cash flows from operations, short-term and long-term borrowings and proceeds from offering of common shares. As of December 31, 2013, we had $228.2 million in cash and cash equivalents. Our cash and cash equivalents consist primarily of cash on hand, bank balances and demand deposits, which are unrestricted as to withdrawal and use, and have original maturities of three months or less.

As of March 31, 2014, we had contractual bank credit lines with an aggregate limit of approximately $1,136.2 million, of which $175.5 million had been drawn down with due dates beyond December 31, 2014 and $482.7 million had been drawn down with due dates before December 31, 2014. In addition, we had non-binding bank credit lines of approximately $472.1 million, of which $188.7 million had been drawn down with the due date before December 31, 2014, $133.2 million had been drawn down with due dates beyond December 31, 2014 and $150.2 million was subject to the banks' discretion upon request for additional drawn down. Non-binding bank lines represent non-legally binding facility limits granted by banks, which can be changed unilaterally by the banks. As of March 31, 2014, we had approximately $163.4 million of long-term borrowings (non-current portion), of which $72.7 million was secured by project assets. As of March 31, 2014, we had approximately $159.4 million of long-term borrowings (current portion), of which $87.1 million was secured by land use rights, property, plant and equipment and project assets. As of the same date, we had approximately $642.4 million of short-term borrowings, of which $274.9 million was secured by restricted cash, bank notes, inventory, land use rights, project assets and property, plant and equipment. The long-term borrowings, non-current portion, mature at various times during the period from the second quarter of 2015 to the second quarter of 2028 and bear interest at rates ranging from nil to 12.5% per annum. The long-term borrowings, current portion, and the short-term borrowings mature at various times during 2014 and the first quarter of 2015 and bear interest at rates ranging from 0.68% to 10.0% per annum. Our bank lines contain no specific extension terms but, historically, we have been able to obtain new short-term loans on terms similar to those of the maturing short-term loans shortly before they mature. As of December 31, 2013, we also had short-term borrowings from non-banking financial institutions of $53.3 million.

On January 30, 2013, we entered into a loan agreement with an affiliate of Credit Suisse Securities (USA) LLC, pursuant to which the affiliate of Credit Suisse Securities (USA) LLC has agreed to provide up to $40.0 million of one year tenure loan. This loan, which was fully repaid in January 2014, was used to finance four projects with a total capacity of approximately 46.5 MW (DC) in Ontario, Canada.

On May 20, 2013, we entered into a RMB270 million ($44.1 million) loan agreement with China Development Bank. The loan facility has a fifteen-year maturity, including a one year grace period and was used to finance the construction of a 30 MW solar power project and its ancillary facility in the western part of China.

On October 16, 2013, we entered into a financing agreement with Deutsche Bank AG, Canada Branch, or Deutsche Bank, pursuant to which Deutsche Bank agreed to provide C$104.0 million ($101.1 million) in non-recourse, short-term construction financing to us for the construction of solar power projects in Ontario, Canada. The loans are expected to be repaid with the proceeds of the sale of the financed projects.

On September 11, 2013, we completed our at-the-market offering of common shares announced on August 15, 2013. In the offering, we sold 3,772,254 common shares at an average price of $13.25 per share, raising approximately $50.0 million in gross proceeds. The proceeds have been and will be used for general corporate purposes, which include solar power project development expenses and working capital.

On November 28, 2013, we entered into a financing agreement with National Bank of Canada, pursuant to which National Bank of Canada agreed to provide C$35.0 million ($34.0 million) in short-term construction financing to us for the construction of solar power projects in Ontario, Canada.

On December 4, 2013, we entered into a $40 million loan agreement with Harvest North Star Capital. The loan facility will be used to finance the development of several ground-mounted solar power projects in Japan totaling around 145.1 MW, with construction expected to commence for the first 40 MW to 50 MW of the projects during the first half of 2014.

In February 2014, we completed an offering of our common shares and convertible senior notes. Pursuant to the offering, we sold 3,194,700 common shares at a price of $36.00 per share and sold $150 million aggregate principal amount of 4.25% convertible senior notes. We received aggregate net proceeds of approximately $255.7 million from these offerings, after deducting discounts and commissions, but before offering expenses. The proceeds have been and will be used for general corporate purposes, which may include expanding manufacturing capacity, the development of solar power projects and working capital.

In February 2014, we signed a C$52 million loan agreement with Natixis, New York Branch/Norddeutsche Landesbank Girozentrale, New York Branch/Cooperative Centrale Raiffeisen-Boerenleenbank B.A., New York Branch. The loan facility has a maturity term of construction plus 10 years and will be used to finance the 10 MW (AC) Glenarm utility-scale solar power project which is being acquired by DIF Infra 3 RE Canada (Ltd). This solar power plant is expected to be in commercial operation by the fourth quarter of 2014. The project has been awarded a 20-year power purchase contract by the Ontario Power Authority under the Ontario's Feed-In-Tariff Program.

In February 2014, we signed a C$48 million loan agreement with Manufacturer's Life Insurance Company, or Manulife. The loan facility will be used to finance our Val Caron solar power project located in Ontario, Canada which we expect to complete in 2014. The Val Caron project is being acquired by Concord Green Energy Inc.

In March 2014, we signed another loan agreement with Manulife for a C$50.5 million loan facility which will be used to finance our Mighty Solar power project located in Ontario, Canada. We expect to complete this project in 2014. The Mighty Solar project will be acquired by Concord Green Energy Inc. after it reaches commercial operation.

Although no assurance can be given, we believe that we will be able to fully execute our business plans and to renew substantially all our existing bank borrowings as they become due if needed. We believe that adequate sources of liquidity will exist to fund our working capital and capital expenditures

requirements and to meet our short-term debt obligations and other liabilities and commitments as they become due. As of the date of this annual report, we were in compliance with all material terms of our borrowing agreements.

We expect that our accounts receivable, inventories and project assets, three of the principal components of our current assets, will increase in line with increases in our net revenues. Due to market competition, in many cases, we offer credit terms to our customers ranging from 30 days up to 120 days with small advance payments ranging from 5% to 20% of the sale prices. The prepayments are recorded as current liabilities under advances from customers, and amounted to $18.6 million as of December 31, 2012 and $75.3 million as of December 31, 2013. As the market demand for our products has changed and as we have diversified our geographical markets, we have increased and may continue to increase credit term sales to certain creditworthy customers after careful review of their credit standings and acceptance of export credit insurance by Sinosure, or other risk mitigation channels such as local credit insurance or factoring.

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

| | As of December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (in thousands of $) | | |
| Net cash provided by (used in) operating activities | 60,124 | (147,759) | 229,549 |
| Net cash used in investing activities | (193,577) | (306,491) | (37,509) |
| Net cash provided by (used in) financing activities | 177,748 | 249,576 | (104,900) |
| Net increase (decrease) in cash and cash equivalents | 55,343 | (202,027) | 86,282 |
| Cash and cash equivalents at the beginning of the year | 288,652 | 343,995 | 141,968 |
| Cash and cash equivalents at the end of the year | 343,995 | 141,968 | 228,250 |

***Operating Activities***

Net cash provided by operating activities was $229.5 million in 2013, compared to net cash used in operating activities of $147.8 million in 2012. The change was primarily due to a net income in 2013 compared to a net loss in 2012 and overall improved working capital management.

Net cash used in operating activities was $147.8 million in 2012 compared to net cash provided by operating activities of $60.1 million in 2011. The change was primarily due to the increased use of cash to expand our total solutions business. The net cash used in operating activities in 2012 included payments of $162.3 million relating to the acquisition of solar power projects. The decrease in operating cash flow in 2012 was partially offset by the effect of continued improvement in our working capital management.

***Investing Activities***

Net cash used in investing activities was $37.5 million in 2013, compared to $306.5 million in 2012. The decrease in net cash used in investing activities for 2013 was primarily due to a less increase in restricted cash used as collateral to secure our bank acceptances and borrowings as well as a decrease in payments to acquire property, plant and equipment, partially offset by an increase in cash investment in affiliates.

Net cash used in investing activities increased from $193.6 million in 2011 to $306.5 million in 2012. The increase in net cash used in investing activities in 2012 was due to an increase in restricted cash as collateral to secure our bank acceptances and bank borrowings, partially offset by decreased payments to acquire property, plant and equipment.

***Financing Activities***

Net cash used in financing activities was $104.9 million in 2013, compared to net cash provided by $249.6 million in 2012. The change was primarily due to the net decrease of bank borrowings during 2013, partially offset by the net proceeds of $47.9 million from our at-the-market offering.

Net cash provided by financing activities increased from $177.7 million in 2011 to $249.6 million in 2012. The increase in net cash provided by financing activities in 2012 was primarily due to a net increase in bank borrowings.

We believe that our current cash and cash equivalents, anticipated cash flow from operations and existing banking facilities will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditures, for the 12 months ending December 31, 2014. 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. The availability of commercial loans from Chinese commercial banks may be affected by administrative policies of the PRC government, which in turn may affect our plans for business expansion. If our existing cash or the availability of commercial bank borrowings is insufficient to meet our requirements, we may seek to sell additional equity securities or debt securities or borrow from other sources. We cannot assure that financing will be available in the amounts we need or on terms acceptable to us, if at all. The issuance of additional equity securities, including convertible debt securities, would dilute the holdings 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 $205.4 million, $60.5 million and $23.1 million in 2011, 2012 and 2013, respectively. Our capital expenditures were used primarily to maintain our manufacturing capacity for ingots, wafers, solar cells and solar modules. As of December 31, 2013, our short-term commitments for the purchase of property, plant and equipment were $11.6 million.

***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, 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. Our board of directors determines the staff welfare and bonus reserve. 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 decreasing and distributing any registered share capital to their shareholders. Accordingly, both the appropriations to general reserve and the registered share capital of our PRC subsidiaries are considered as restricted net assets. These restricted net assets amounted to $354.0 million, $360.0 million and $365.0 million as of December 31, 2011, 2012 and 2013, respectively.

Our operations in China are subject to certain restrictions on the transfer and use of cash within the Company. Transfers of cash between our PRC subsidiaries and the Canadian parent company are restricted to normal trade business payments and any further capital contribution from the Canadian parent company only under China's existing foreign currency regulations. 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, certain government authorities, including the Ministry of Commerce or its local counterparts, must approve these capital contributions. These limitations could affect the ability of our Chinese subsidiaries to obtain foreign exchange through equity financing.

As of December 31, 2013, $114.6 million of undistributed earnings in our PRC subsidiaries are considered to be indefinitely reinvested so that no provision of withholding taxes has been provided in our consolidated financial statements. Our PRC subsidiaries are required to make appropriations of at least 10% of net income, as determined under accounting principles generally accepted in the PRC, to a non-distributable general reserve. After making this appropriation, the balance of the $114.6 million of undistributed earnings is distributable. Should our PRC subsidiaries subsequently distribute the distributable earnings, they are subject to applicable withholding taxes to the PRC State Administration of Tax.

## C. Research and Development

We have significantly expanded our research and development activities since 2009. We have two new research and development centers with state-of-the-art equipment—the Center for Solar Cell Research and the Center for Photovoltaic Testing and Reliability Analysis. The Center for Solar Cell Research is focused on developing new high efficiency solar cells and advanced solar cell processing technologies. The Center for Photovoltaic Testing and Reliability Analysis is focused on PV module testing, photovoltaic module components testing and qualifications, and PV module performance and reliability testing and analysis. As of December 31, 2013, we had approximately 163 employees in research, product development and engineering.

Our research and development activities have generally focused on the following areas:

- improving the conversion efficiency of solar cells and developing new cell structures and technologies for high conversion efficiency;
- developing modules with improved design and assembly methods employing back contact technology, such as metal wrap-through cells. Such modules will employ new structures and produce higher power output;
- improving manufacturing yield and reliability of solar modules and reducing manufacturing costs;
- developing modules with improved power conversion devices integrated into the construction of the module including a variety of micro-inverters and DC-to-DC power converters;
- testing, data tracing and analysis for module performance and reliability;
- designing and developing more efficient specialty solar modules and products to meet customer requirements;
- developing new methods and equipment for analysis and quality control of incoming materials (such as polysilicon, wafers and cells);
- developing new technologies in ingot growth and characterization, wafering, cell processing and module manufacturing that make use of low-cost alternative silicon materials such as solar grade silicon; and
- improving the wafer quality and production yield for both conventional wafer and e-wafer processing.

Our research and development team works closely with our manufacturing teams and our suppliers, partners and customers. We have also established collaborative research and development relationships with a number of companies, universities and research institutes, including DuPont, Shanghai Jiaotong University and the University of Toronto.

Going forward, we will focus on the following research and development initiatives that we believe will enhance our competitiveness:

- *High efficiency cells.* We have begun commercializing our improved metal wrap-through cells. We expect the efficiency of the P-type wafers in our next generation of ELPS technology to reach approximately 21%. We also expect that our black silicon technology, which uses nano-technology, will significantly increase our solar cell efficiency because of increased light absorption properties. This technology, which we developed internally, will not require an increase in cost on a per-watt basis. We have developed new processes for developing PERC (passivated emitter and rear contact) solar cells in order to improve cell efficiency. These cells will begin mass production in the near future. We are focusing our current research and development on N-type, heterojunction intrinsic thin-layer, IBC and other high efficiency cell designs. On a test basis, we have produced an N-type bi-facial cell; however, we do not plan to commercially produce this product until a later date. Such cell structures are believed to lower the overall cost of manufacturing solar modules, making the resulting modules cheaper to install. Higher-powered modules might also command a modest premium.

- *Solar module manufacturing technologies.* Since the opening of our Center for Photovoltaic Testing and Reliability Analysis in 2006, we have focused on developing state-of-the-art testing and diagnostic techniques that improve solar module production yield, efficiency, performance and durability. We are the first company to begin using four busbars in mass production. This allows our products to generate higher power output with the same size. We have developed a new technology for PID (Potential Induced Degradation)-resistant modules, which were certified by TUV SUD and VDE.

- *Power system integration and solar application products.* We recently began to explore power system integration products and expanded our research and development efforts in solar application products.

- *Solar power system development, energy storage system, off-grid power system, micro grid system and smart grid system.* As we continue our business into the downstream total solutions business, we plan to hire additional engineering staff and increase investment in these areas.

## D. Trend Information

Other than as disclosed elsewhere in this annual report on Form 20-F, we are not aware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

## E. Off Balance Sheet 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.

## F. Tabular Disclosure of Contractual Obligations

***Contractual Obligations and Commercial Commitments***

The following table sets forth our contractual obligations and commercial commitments as of December 31, 2013:

| | Payment Due by Period | | | | |
|---|---|---|---|---|---|
| | Total | Less Than 1 Year | 1-3 Years | 3-5 Years | More Than 5 Years |
| | (In thousands of $) | | | | |
| Short-term debt obligations | 778,513 | 778,513 | — | — | — |
| Interest related to short-term debt obligations [1] | 14,831 | 14,831 | — | — | — |
| Operating lease obligations | 14,934 | 3,999 | 4,510 | 3,424 | 3,001 |
| Purchase obligations [2] | 609,389 | 263,129 | 346,260 | — | — |
| Long-term debt obligations | 151,392 | — | 91,643 | 31,373 | 28,376 |
| Interest related to long-term debt obligations [3] | 36,238 | 9,151 | 13,035 | 5,159 | 8,893 |
| Total | 1,605,297 | 1,069,623 | 455,448 | 39,956 | 40,270 |

(1) Interest rates range from 0.68% to 12.5% per annum for short-term debt obligations.

(2) Includes commitments to purchase $11.6 million of production equipment and $597.8 million of raw materials.

(3) Interest rates range from nil to 12.5% per annum for long-term debt obligations.

The table above excludes uncertain tax liabilities of $17.2 million, as we are unable to reasonably estimate the timing of future payments due to uncertainties in the timing of the effective settlement of these tax positions. For additional information, see the notes to our consolidated financial statements, included herein.

In April 2012, we entered into a purchase agreement with SkyPower to acquire a majority interest in 16 solar projects for a total consideration of approximately C$185 million, of which C$139.6 million and C$29.1 million were paid in 2013, respectively, and the balance will be paid as the solar projects reach certain milestones. As of December 31, 2013, the outstanding balance was approximately $16.4 million.

Other than the contractual obligations and commercial commitments set forth above, we did not have any long-term debt obligations, operating lease obligations, purchase obligations or other long-term liabilities as of December 31, 2013.

## G. Safe Harbor

This annual report on Form 20-F contains forward-looking statements that relate to future events, including our future operating results, our prospects and our future financial performance and condition, results of operations, business strategy and financial needs, all of which are largely based on our current expectations and projections. These statements are made under the "safe harbor" provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terminology such as "may," "will," "expect," "anticipate," "future," "intend," "plan," "believe," "estimate," "is/are likely to" or similar expressions. Forward-looking statements

involve inherent risks and uncertainties. These forward-looking statements include, among other things, statements relating to:

- our expectations regarding the worldwide supply and demand for solar power products and the market demand for our products;
- our beliefs regarding the importance of environmentally friendly power generation;
- our expectations regarding governmental support for solar power;
- our beliefs regarding the fluctuation in availability of silicon, solar wafers and solar cells;
- our beliefs regarding our ability to resolve our disputes with suppliers with respect to our long-term supply agreements;
- our beliefs regarding the continued growth of the solar power industry;
- our beliefs regarding the competitiveness of our solar module products;
- our expectations with respect to increased revenue growth and improved profitability;
- our expectations regarding the benefits to be derived from our supply chain management and vertical integration manufacturing strategy;
- our beliefs and expectations regarding the use of UMG-Si and solar power products made of this material;
- our ability to continue developing our in-house solar components production capabilities and our expectations regarding the timing and production capacity of our internal manufacturing programs;
- our ability to secure adequate silicon and solar cells to support our solar module production;
- our beliefs regarding the effects of environmental regulation;
- our beliefs regarding the changing competitive landscape 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.

Known and unknown risks, uncertainties and other factors may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by forward-looking statements. See "Item 3. Key Information—D. 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 annual report may include additional factors that could adversely influence our business and financial performance. Moreover, because we operate in an emerging and evolving industry, new risk factors may emerge from time to time. We cannot 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. We do not undertake any obligation to update or revise the forward-looking statements except as required under applicable law.

## ITEM 6. *DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES*

### A. Directors and Senior Management

The following table sets forth information regarding our directors and executive officers as of the date of this annual report on Form 20-F.

| Name | Age | Position/Title |
|---|---|---|
| Shawn (Xiaohua) Qu | 50 | Chairman of the Board, President and Chief Executive Officer |
| Robert McDermott | 72 | Lead Independent Director |
| Lars-Eric Johansson | 67 | Independent Director |
| Harry E. Ruda | 55 | Independent Director |
| Michael G. Potter | 47 | Senior Vice President and Chief Financial Officer |
| Guangchun Zhang | 56 | Chief Operations Officer |
| Yan Zhuang | 50 | Senior Vice President and Chief Commercial Officer |
| Charles (Xiaoshu) Bai | 52 | Senior Vice President, Global Head of Project Business |

* Charlotte Xi Klein resigned from the position of Senior Vice President, Global Operations, in March 2013 and resigned from the Company in June 2013. Guangchun Zhang was appointed our Chief Operations Officer in December 2012.

***Directors***

*Dr. Shawn (Xiaohua) Qu* has served as our chairman, president and chief executive officer since founding our company in October 2001. Through his leadership, we became a public listed company on NASDAQ in 2006 and have since firmly established ourselves among the top ranked manufacturers of solar PV products globally. Prior to founding Canadian Solar, Dr. Shawn Qu held various positions in product engineering, business development and strategic planning at ATS Automation Tooling Systems, Inc., or ATS, and its solar subsidiary Photowatt International S.A. Prior to ATS, Dr. Shawn Qu was a research scientist at Ontario Power Generation where he worked as a process leader in its solar product commercialization team. In 2011, Dr. Shawn Qu became a visiting professor at Tsinghua University, one of the most prestigious universities in China. Dr. Shawn Qu has published research articles in academic journals including IEEE Quantum Electronics, Applied Physics Letter and Physical Review. He received a Ph.D. in material sciences in 1995 from the University of Toronto, focusing on semiconductor super lattice and optical effects. He also holds a Master of Science in physics from University of Manitoba and a Bachelor of Science in applied physics from Tsinghua University in Beijing.

*Mr. Robert McDermott* has served as lead independent director of our Company since August 2006. Mr. McDermott is a corporate director and consultant. Before July 2011, he was a partner with McMillan LLP, a business law firm based in Canada, where he practiced business law, with an emphasis on mergers and acquisitions, securities and corporate finance, and advised boards and special committees of public companies on corporate governance matters. He is now a counsel to the firm. Mr. McDermott was admitted to the Ontario Bar in Canada in 1968. He has a Juris Doctor degree from the University of Toronto in 1966 and a Bachelor of Arts degree from the University of Western Ontario in 1963.

*Mr. Lars-Eric Johansson* has served as an independent director of our Company since August 2006. Mr. Johansson has worked in finance and controls positions for more than thirty years in Sweden and Canada. He has been the president and chief executive officer of Ivanplats Mines Limited (formerly known as Ivanhoe Nickel & Platinum Ltd.), a Canadian public mining company since May 1, 2007. From 2004 to 2007, Mr. Johansson was a director and chairperson of the audit committee of Harry Winston Diamond Corporation, a specialist diamond company with assets in the mining and retail

segments of the diamond industry. From May 2004 to April 2006, he was an executive vice president and the chief financial officer of Kinross Gold Corporation, a gold mining company dually listed on the Toronto Stock Exchange and the New York Stock Exchange. Between June 2002 and November 2003, Mr. Johansson was an executive vice president and chief financial officer of Noranda Inc., a Canadian mining company dually listed on the Toronto Stock Exchange and the New York Stock Exchange. Until May 2004, Mr. Johanssonserved as a special advisor at Noranda Inc. From 1989 to May 2002, he was the chief financial officer of Falconbridge Limited, a mining and metals company in Canada listed on the Toronto Stock Exchange. He has chaired the audit committee of Golden Star Resources Ltd., a gold mining company dually listed on the Toronto Stock Exchange and American Stock Exchange, from 2006 to 2010. From 2002 to 2003, he was also a director of Novicor Inc., a company listed on the Toronto Stock Exchange. Mr. Johansson holds an MBA, with a major in finance and accounting, from Gothenburg School of Economics in Sweden.

*Dr. Harry E. Ruda* has served as an independent director since July 2011. He is the Director of the Centre for Advanced Nanotechnology, the Stanley Meek Chair in Nanotechnology and Professor of Applied Science and Engineering at the University of Toronto, Canada. From 1982 to 1984, he developed one of the first theories for electron transport in selectively doped two dimensional electron gas heterostructures, while working as an IBM post-doctoral fellow. From 1984 to 1989, he was a senior scientist at 3M Corporation, developing some of the first models for electronic transport and optical properties of wide bandgap II-VI semiconductors. Dr. Ruda joined the faculty of the University of Toronto in 1989 in the Material Science and Engineering and Electrical and Computer Engineering Departments. His research interests focus on the fabrication and modeling of semiconductor nanostructures with applications in the fields of optoelectronics and sensing. Dr. Ruda is one of the founders of a Canadian National Centre of Excellence in Photonics. He has served on the National Science and Engineering Council of Canada and on other government panels, including those of the DOE, EPA and NSF in the United States and the RAE and EPSRC in the UK. Dr. Ruda is a Fellow of the Royal Society of Canada. He obtained his PhD in semiconductor physics from the Massachusetts Institute of Technology in 1982.

***Executive Officers***

*Mr. Michael G. Potter* served as an independent director of our Company from September 2007 until he was appointed our senior vice president and chief financial officer in July 2011. He continued as a director until his resignation on November 11, 2013. Mr. Potter has worked in finance, controlling and audit positions with a variety of multinational companies for over 20 years. From February 2009 to April 2011, he served as the corporate vice president and chief financial officer of Lattice Semiconductor Corporation, a Nasdaq-listed semiconductor device company. Prior to that, he was senior vice president and chief financial officer of NYSE-listed NeoPhotonics Corporation, a leading provider of photonic integrated circuit-based modules, components and subsystems for use in optical communications networks with extensive operations in Shenzhen, China. Before joining NeoPhotonics Corporation in May 2007, he was the senior vice president and chief financial officer of STATS ChipPAC, a semiconductor assembly and test services company based in Singapore and listed on the Singapore Stock Exchange. Before that, he held a variety of executive positions at NYSE-listed Honeywell Inc. Mr. Potter is a Chartered Accountant and holds a Bachelor of Commerce degree from Concordia University, Canada and a Diploma of Accountancy from McGill University, Canada.

*Mr. Guangchun Zhang* has served as our chief operations officer since December 2012 and has over 18 years of experience in the PV industry. Prior to joining us, Mr. Zhang worked for Suntech Power Holdings Co., Ltd, most recently as senior vice president for research and development and industrialization of manufacturing technology since December 2005. Prior to joining Suntech, Mr. Zhang previously worked at the Centre for Photovoltaic Engineering at the University of New South Wales in Australia and Pacific Solar Pty. Limited from June 1994 to November 2005.

Mr. Zhang was an associate professor in Shandong Technology University in China from February 1982 to May 1994. Mr. Zhang received his bachelor degree in 1982 from the School of Electronic Engineering at Shandong Industrial Institute.

*Mr. Yan Zhuang* has served as our chief commercial officer since May 2012. He also served as our senior vice president of global sales and marketing since July 2011, and prior to that as our vice president of global sales and marketing since June 2009. He was an independent director of our Company from September 2007 to June 2009. Mr. Zhuang has worked in corporate branding, sales and marketing positions with, or provided consulting services to, a variety of multinational companies for over 15 years. In 2008, he founded and became a director of INS Research and Consulting. Mr. Zhuang was the head of Asia for Hands-on Mobile, Inc., a global media and entertainment company with operations in China, South Korea and India, from 2006 to 2007. He previously served as our senior vice president of business operations and marketing in Asia. Before joining Hands-on Mobile, Inc., he held various marketing and business operation positions with Motorola Inc., including as its Asia Pacific regional director of marketing planning and consumer insight. Prior to that, he was a marketing consultant in Canada and China. Mr. Zhuang holds a bachelor's degree in electrical engineering from Northern Jiaotong University, China, a Master of Science degree in applied statistics from the University of Alberta, Canada and a Master of Science degree in marketing management from the University of Guelph, Canada.

*Mr. Charles (Xiaoshu) Bai* has served as our senior vice president and global head of project business since September 2013. Prior to joining us, Mr. Bai served in ReneSola Ltd. as the chief strategy officer from April 2010 to May 2012 and the chief financial officer from May 2006 to March 2010. Mr. Bai worked for over 16 years with investment banks and multinational companies. From 2003 to 2005, he worked as the chief financial officer of Fenet Software. From 2001 to 2002, he worked as a vice president of Tractebel Asia Co., Ltd., (presently known as GDF Suez International) an energy company based in Thailand. From 1997 to 2001, Mr. Bai worked as a finance director of Ogden Energy Asia Pacific Co., Ltd., (presently known as Covanta Holding Corp.) an energy company based in Hong Kong. At Tractebel and Ogden, Mr. Bai successfully completed a number of cross border mergers and acquisitions and project finance transactions. He was an associate director of Deutsche Bank in Hong Kong from 1995 to 1997 specializing in project and export finance. Mr. Bai received his bachelor's degree in economics from China Southwestern University of Finance and Economics in 1983 and his MBA degree from International Institute for Management Development in Switzerland in 1989.

***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. They 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 shareholder meetings and reporting to shareholders at such meetings;
- declaring dividends and authorizing other distributions to shareholders;
- 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.

## B. Compensation of Directors and Executive Officers

***Cash Compensation***

We paid our directors and executive officers aggregate cash remuneration, including salaries, bonuses and benefits in kind, of approximately $2.3 million for 2013. Of this amount, we paid $174,000 to our three independent directors and approximately $2.1 million to our executive officers.

***Share-based Compensation***

*Share Incentive Plan*

In March 2006, we adopted a share incentive plan, or the Plan.

The purpose of the Plan is to promote the success and enhance the value of the Company by linking the personal interests of the directors, employees and consultants to those of the shareholders and providing the directors, employees and consultants with an incentive for outstanding performance to generate superior returns to the shareholders. The Plan is also intended to motivate, attract and retain the services of the directors, employees and consultants upon whose judgment, interest and effort the successful conduct of the Company's operations is largely dependent.

In September 2010, the shareholders approved an amendment to the Plan to increase the maximum number of common shares which may be issued pursuant to all awards of restricted shares, options and restricted share units under the Plan to the sum of (i) 2,330,000 plus (ii) the sum of (a) 1% of the number of our outstanding common shares on the first day of each of 2007, 2008 and 2009 plus (b) 2.5% of our outstanding common shares on the first day of each calendar year after 2009. As at March 31, 2014, the maximum number of common shares which may be issued pursuant to all awards of restricted shares, options and restricted share units under the Plan was 8,805,000 common shares, of which 566,190 restricted shares, 3,394,091 options, and 2,721,179 restricted share units (in each case net of forfeitures) have been awarded, leaving 2,123,540 common shares available to be issued.

The following describes the principal terms of the Plan.

*Types of Awards.* We may make the following types of awards under the Plan:

- restricted shares, which are common shares that are subject to certain restrictions and may be subject to risk of forfeiture or repurchase;
- options, which entitle the holder to purchase our common shares; and
- restricted share units, which entitle the holder to receive our common shares.

*Plan Administration.* The Compensation Committee of our board of directors administers the Plan, except with respect to awards made to our non-employee directors, where the entire board of directors administers the Plan. The Compensation Committee or the full board of directors, as appropriate, determines the provisions, terms, and conditions of each award.

*Award Agreement.* Awards are evidenced by an award agreement that sets forth the terms, conditions and limitations for each award.

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

*Acceleration of Awards upon Corporate Transactions.* Outstanding awards will accelerate upon a change-of-control where the successor entity does not assume our outstanding awards. In such event,

each outstanding award will become fully vested and immediately exercisable, 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 Options.* In general, the Compensation Committee determines the exercise price of an option and sets out 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 an award may not exceed ten years from the date of the grant.

*Vesting Schedule.* In general, the Compensation Committee determines the vesting schedule.

***Restricted Shares***

The following table summarizes, as of March 31, 2014, the restricted shares granted under the Plan to our executive officers and to other individuals, individually and each as a group. We have not granted any restricted shares to our directors. The restricted shares granted in May 2006 vested over a two-year period beginning in March 2006. The vesting periods for all other restricted shares are indicated in the notes below.

| Name | Restricted Shares Granted | Restricted Shares Vested | Restricted Shares Forfeited | Date of Grant | Expiration |
|---|---|---|---|---|---|
| **Employees** | | | | | |
| Twelve individuals as a group | 330,860 | 330,860 | — | May 30, 2006 | May 29, 2016 |
| Hanbing Zhang[3] | 116,500[4] | 116,500 | — | July 28, 2006 | July 27, 2016 |
| **Employees as a group** | **447,360** | **447,360** | — | | |
| **Other Individuals** | | | | | |
| One individual | 2,330[1] | 2,330 | — | May 30, 2006 | May 29, 2016 |
| One individual | 116,500[2] | 116,500 | — | June 30, 2006 | June 29, 2016 |
| **Other Individuals as a group** | **118,830** | **118,830** | — | | |
| **Total Restricted Shares** | **566,190** | **566,190** | — | | |

(1) Vest on accelerated termination.

(2) Vest over a two-year period from the date of grant.

(3) The wife of Dr. Shawn Qu, our founder, chairman, president and chief executive officer.

(4) Vest over a four-year period from the date of grant.

***Options***

The following table summarizes, as of March 31, 2014, the options granted under the Plan to our directors and executive officers and to other individuals, individually and 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 (one-quarter on each anniversary date) from the date of grant, and exercise prices are equal to the average of the trading prices of the common shares for the five trading days preceding the date of grant.

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| Name | Common Shares Underlying Options Granted | Common Shares Underlying Options Exercised | Common Shares Underlying Options Forfeited | Common Shares Underlying Options Outstanding | Exercise Price ($ per Share) | Date of Grant | Date of Expiration |
|---|---|---|---|---|---|---|---|
| **Directors:** | | | | | | | |
| Shawn (Xiaohua) Qu | 20,000 | — | — | 20,000 | 3.18 | March 12, 2009 | March 11, 2019 |
| | 25,000 | — | — | 25,000 | 11.33 | August 27, 2010 | August 26, 2020 |
| | 18,779 | — | — | 18,779 | 9.33 | May 20, 2011 | May 19, 2021 |
| Robert McDermott | 46,600(1) | 46,600 | — | — | 15.00(3) | August 8, 2006 | August 7, 2016 |
| | 23,300(2) | 23,300 | — | — | 9.88 | July 1, 2007 | June 30, 2017 |
| | 23,300(2) | — | — | 23,300 | 41.75(4) | June 26, 2008 | June 25, 2018 |
| | 23,300(2) | — | — | 23,300 | 13.75(4) | June 29, 2009 | June 28, 2019 |
| | 23,300(2) | — | — | 23,300 | 12.09(4) | September 20, 2010 | September 19, 2020 |
| | 23,300(2) | — | — | 23,300 | 9.81(4) | June 27, 2011 | June 26, 2021 |
| | 23,300(2) | 23,300 | — | — | 3.03(4) | June 11, 2012 | June 10, 2022 |
| | 23,300(2) | — | — | 23,300 | 8.29(4) | June 7, 2013 | June 6, 2023 |
| Lars-Eric Johansson | 46,600(2) | 46,600 | — | — | 15.00(3) | August 8, 2006 | August 7, 2016 |
| | 23,300(2) | 23,300 | — | — | 9.88(4) | July 1, 2007 | June 30, 2017 |
| | 23,300(2) | — | — | 23,300 | 41.75(4) | June 26, 2008 | June 25, 2018 |
| | 23,300(2) | 23,300 | — | — | 13.75(4) | June 29, 2009 | June 28, 2019 |
| | 23,300(2) | 23,300 | — | — | 12.09(4) | September 20, 2010 | September 19, 2020 |
| | 23,300(2) | 23,300 | — | — | 9.81(4) | June 27, 2011 | June 26, 2021 |
| | 23,300(2) | 23,300 | — | — | 3.03(4) | June 11, 2012 | June 10, 2022 |
| | 23,300(2) | — | — | 23,300 | 8.29(4) | June 7, 2013 | June 6, 2023 |
| Harry E. Ruda | 23,300(2) | 23,300 | — | — | 8.31(4) | August 14, 2011 | August 13, 2021 |
| | 23,300(2) | 23,300 | — | — | 3.03(4) | June 11, 2012 | June 10, 2022 |
| | 23,300(2) | — | — | 23,300 | 8.29(4) | June 7, 2013 | June 6, 2023 |
| **Directors as a Group** | **553,079** | **302,900** | — | **250,179** | | | |
| **Executive Officers:** | | | | | | | |
| Michael G. Potter | 23,300(2) | — | — | 23,300 | 7.36(4) | September 24, 2007 | September 23, 2017 |
| | 23,300(2) | — | — | 23,300 | 41.75(4) | June 26, 2008 | June 25, 2018 |
| | 23,300(2) | — | — | 23,300 | 13.75(4) | June 29, 2009 | June 28, 2019 |
| | 23,300(2) | — | — | 23,300 | 12.09(4) | September 20, 2010 | September 19, 2020 |
| | 23,300(2) | 23,300 | — | — | 9.81(4) | June 27, 2011 | June 26, 2021 |
| | 60,688 | 30,344 | — | 30,344 | 9.52 | July 20, 2011 | July 19, 2021 |
| Yan Zhuang | 23,300(2) | 23,300 | — | — | 7.36 | September 24, 2007 | September 23, 2017 |
| | 23,300(2) | — | — | 23,300 | 41.75 | June 26, 2008 | June 25, 2018 |
| | 80,000 | 80,000 | — | — | 9.37 | May 23, 2009 | May 22, 2019 |
| | 15,000 | 11,250 | — | 3,750 | 11.33 | August 27, 2010 | August 26, 2010 |
| | 11,268 | 5,634 | — | 5,634 | 9.33 | May 20, 2011 | May 19, 2021 |
| **Executive Officers as a Group** | **330,056** | **173,828** | — | **156,228** | | | |
| **Employees:** | | | | | | | |
| Ten employees as a group | 791,035 | 553,375 | 121,160 | 116,500 | 2.12 | May 30, 2006 | May 29, 2016 |
| Twenty-eight employees as a group | 126,170 | 86,561 | 33,202 | 6,407 | 4.29 | May 30, 2006 | May 29, 2016 |
| One employee | 2,330(6) | 2,330 | — | — | 4.29 | May 30, 2006 | May 29, 2016 |
| Two employees | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| as a group | 51,260 | 49,765 | — | 1,495 | 4.29 | June 30, 2006 | June 29, 2016 |
| One employee | 64,075 | 64,075 | — | — | 4.29 | July 17, 2006 | July 16, 2016 |
| Hanbing Zhang[7] | 46,600 | — | — | 46,600 | 4.29 | July 28, 2006 | July 27, 2016 |
| One employee | 46,600[1] | 46,600 | — | — | 4.29 | August 8, 2006 | August 7, 2016 |
| One employee | 58,250 | 14,563 | — | 43,687 | 12.00[8] | August 8, 2006 | August 7, 2016 |
| Three employees as a group | 11,650 | 9,903 | 1,747 | — | 12.00[8] | August 31, 2006 | August 30, 2016 |
| Three employees as a group | 79,900 | 58,250 | 21,650 | — | 12.10 | March 1, 2007 | February 28, 2017 |
| One employee | 6,990 | 1,748 | 5,242 | — | 12.10 | March 1, 2007 | February 28, 2017 |
| One employee | 23,300[2] | 23,300 | — | — | 9.88[4] | July 1, 2007 | June 30, 2017 |
| Five employees as a group | 52,280 | 5,413 | 46,867 | — | 8.21 | August 17, 2007 | August 16, 2017 |
| Eight employees as a group | 39,208 | 34,376 | 4,832 | — | 7.36 | September 24, 2007 | September 23, 2017 |
| Thirteen employees as a group | 216,745 | 148,554 | 64,982 | 3,209 | 7.36 | September 24, 2007 | September 23, 2017 |

| Name | Common Shares Underlying Options Granted | Common Shares Underlying Options Exercised | Common Shares Underlying Options Forfeited | Common Shares Underlying Options Outstanding | Exercise Price ($ per Share) | Date of Grant | Date of Expiration |
|---|---|---|---|---|---|---|---|
| Six employees as a group | 36,136 | 15,000 | 11,136 | 10,000 | 19.55 | February 28, 2008 | February 27, 2018 |
| One employee | 10,000 | — | 10,000 | — | 19.40 | March 3, 2008 | March 2, 2018 |
| Two employees as a group | 18,000 | — | 18,000 | — | 20.67 | March 31, 2008 | March 30, 2018 |
| One employee | 30,000 | — | 30,000 | — | 46.28 | June 26, 2008 | June 25, 2018 |
| Four employees as a group | 30,000 | — | 25,000 | 5,000 | 27.88 | August 7, 2008 | August 6, 2018 |
| Seventy-nine employees as a group | 420,200 | 227,690 | 147,110 | 45,400 | 3.18 | March 12, 2009 | March 11, 2019 |
| Hanbing Zhang[7] | 6,000 | — | — | 6,000 | 3.18 | March 12, 2009 | March 11, 2019 |
| One employee | 20,000 | 20,000 | — | — | 5.26 | March 30, 2009 | March 29, 2019 |
| Eighteen employees as a group | 59,400 | 30,600 | 18,800 | 10,000 | 9.37 | May 23, 2009 | May 22, 2019 |
| One employee | 10,000 | — | 10,000 | — | 11.58 | May 31, 2009 | May 30, 2019 |
| Seven employees as a group | 30,800 | 6,700 | 17,600 | 6,500 | 15.18 | August 6, 2009 | August 5, 2019 |
| Fourteen employees as a group | 82,600 | 58,200 | 22,000 | 2,400 | 16.10 | November 8, 2009 | November 7, 2019 |
| One hundred and thirty-two employees as a group | 498,600 | 118,325 | 249,250 | 131,025 | 11.33 | August 27, 2010 | August 26, 2020 |
| Hanbing Zhang[7] | 12,000 | — | — | 12,000 | 11.33 | August 27, 2010 | August 26, 2020 |
| One employee | 100,000 | — | 100,000 | — | 15 | October 8, 2010 | October 7, 2020 |
| One hundred and fifty-three employees as a group | 236,000 | 78,400 | 92,500 | 65,100 | 15.24 | November 14, 2010 | November 13, 2020 |
| Five employees as a group | 32,900 | 14,350 | 4,200 | 14,350 | 13.99 | March 5, 2011 | March 4, 2021 |
| Seventy-three employees as a group | 353,064 | 82,571 | 130,521 | 139,972 | 9.33 | May 20, 2011 | May 19, 2021 |
| Hanbing Zhang[7] | 7,512 | — | — | 7,512 | 9.33 | May 20, 2011 | May 19, 2021 |
| Five employees as a group | 150,000 | 11,250 | 105,000 | 33,750 | 8.94 | June 1, 2011 | May 31, 2021 |
| Twenty employees as a group | 74,000 | 17,950 | 43,500 | 12,550 | 3.03 | November 14, 2011 | November 13, 2021 |
| **Employees as a group** | **3,833,605** | **1,779,849** | **1,334,299** | **719,457** | | | |
| Two individuals as a group | 11,650 | 11,650 | — | — | 15.00[3] | April 13, 2007 | April 12, 2017 |
| **Individuals as a group** | **11,650** | **11,650** | — | — | | | |
| **Total Options** | **4,728,390** | **2,268,227** | **1,334,299** | **1,125,864** | | | |

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

(2) Vest immediately upon the date of grant.

(3) The initial public offering price of the common shares.

(4) Exercise price equal to the average of the trading prices of the common shares for the 20 trading days preceding the date of grant.

(5) Vest one year after the date of grant.

(6) Vesting accelerated on termination.

(7) The wife of Dr. Shawn Qu, our founder, chairman, president and chief executive officer.

(8) 80% of the initial public offering price of the common shares.

We have agreed to grant each of our independent directors, Robert McDermott, Lars-Eric Johansson and Harry E. Ruda, options to purchase 23,300 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.

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***Restricted Share Units***

The following table summarizes, as of March 31, 2014, the restricted share units granted under the Plan to our executive officers and to other individuals, individually and each as a group. We have not granted any restricted share units to our independent directors. The restricted share units granted on May 8, 2011 vested on the anniversary of the date of grant. The other restricted share units granted vest over a four-year period (one-quarter on each anniversary date) from the date of grant.

| Name | Restricted Share Units Granted | Restricted Share Units Vested | Restricted Share Units Forfeited | Date of Grant | Expiration |
|---|---|---|---|---|---|
| **Directors:** | | | | | |
| Shawn (Xiaohua) Qu | 6,154[1] | 6,154 | — | May 8, 2011 | May 7, 2021 |
| | 13,706[2] | 6,853 | — | May 20, 2011 | May 19, 2021 |
| | 75,075[2] | 37,537 | — | March 16, 2012 | March 15, 2022 |
| | 67,024[2] | 16,756 | — | March 9, 2013 | March 8, 2023 |
| **Directors as a group** | **161,959** | **67,300** | — | | |
| **Executive Officers** | | | | | |
| Michael G. Potter | 42,868[2] | 21,434 | — | July 20, 2011 | July 19, 2021 |
| | 45,045[2] | 22,522 | — | March 16, 2012 | March 15, 2022 |
| | 40,214[2] | 10,053 | — | March 9, 2013 | March 8, 2023 |
| Guangchun Zhang | 80,000[2] | 20,000 | — | March 9, 2013 | March 8, 2023 |
| Yan Zhuang | 2,564[1] | 2,564 | — | May 8, 2011 | May 7, 2021 |
| | 8,224[2] | 4,112 | — | May 20, 2011 | May 19, 2021 |
| | 45,045[2] | 22,522 | — | March 16, 2012 | March 15, 2022 |
| | 40,214[2] | 10,053 | — | March 9, 2013 | March 8, 2023 |
| Charles (Xiaoshu) Bai | 20,000 | — | — | September 9, 2013 | September 8, 2023 |
| **Executive Officers as a group** | **324,174** | **113,260** | — | | |
| **Employees** | | | | | |
| Nine employees as a group | 13,844[1] | 10,768 | 3,076 | May 8, 2011 | May 7, 2021 |
| One hundred and seventy-four employees as a group | 423,801[2] | 170,167 | 123,372 | May 20, 2011 | May 19, 2021 |
| One hundred and forty-seven employees as a group | 1,125,044[2] | 452,628 | 290,513 | March 16, 2012 | March 15, 2022 |
| Four employees as a group | 43,000[2] | 4,500 | 25,000 | May 6, 2012 | May 5, 2022 |
| Three employees as a group | 30,000[2] | 7,500 | — | Aug 16, 2012 | Aug 15, 2022 |
| Two employees as a group | 16,006[2] | 4,001 | — | Aug 17, 2012 | Aug 16, 2022 |
| One hundred and thirty-eight employees as a group | 916,223[2] | 199,390 | 118,580 | March 9, 2013 | March 8, 2023 |
| One employee | 20,000[2] | — | — | June 16, 2013 | June 15, 2023 |
| Thirteen employees | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| as a group | 19,655[2] | — | 756 | August 10, 2013 | August 9, 2023 |
| seven hundred and forty-eight employees as a group | 126,036[4] | 126,036 | — | August 11, 2013 | August 10, 2023 |
| One employee | 10,000[2] | 2,500 | — | August 17, 2013 | August 16, 2023 |
| Four employees as a group | 5,933[2] | — | 1,047 | November 8, 2013 | November 7, 2023 |
| One employee | 1,040[2] | — | — | November 25, 2013 | November 24, 2023 |
| Hanbing Zhang[3] | 1,538[1] | 1,538 | — | May 8, 2011 | May 7, 2021 |
| | 5,482[2] | 2,741 | — | May 20, 2011 | May 19, 2021 |
| | 21,021[2] | 10,510 | — | March 16, 2012 | March 15, 2022 |
| | 18,767[2] | 4,692 | — | March 9, 2013 | March 8, 2023 |
| **Employees as a group** | **2,797,390** | **996,971** | **562,344** | | |
| **Total Restricted Share Units** | **3,283,523** | **1,177,531** | **562,344** | | |

(1) Vest over a one-year period from the date of grant.

(2) Vest over a four-year period from the date of grant.

(3) The wife of Dr. Shawn Qu, our founder, chairman, president and chief executive officer.

(4) Vest immediately upon the date of grant.

## C. Board Practices

In 2013, our board of directors held six meetings and passed 13 resolutions by unanimous written consent.

***Terms of Directors and Executive Officers***

Our officers are appointed by and serve at the discretion of our board of directors. Our current directors have not been elected to serve for a specific term and, unless re-elected, hold office until the close of our next annual meeting of shareholders or until such time as their successors are elected or appointed.

***Committees of the Board of Directors***

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

*Audit Committee*

Our audit committee comprises Messrs. Lars-Eric Johansson, Robert McDermott and Harry E. Ruda, and is chaired by Mr. Johansson. Mr. Johansson qualifies as an "audit committee financial expert" as required by the SEC. Each of Messrs. Johansson, McDermott and Ruda satisfies the "independence" requirements of the NASDAQ corporate governance rules and is "financially literate" as required by the NASDAQ 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 responses;
- 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.

In 2013, our audit committee held seven meetings, and passed one resolution by unanimous written consent.

*Compensation Committee*

Our compensation committee consists of Messrs. Lars-Eric Johansson, Robert McDermott and Harry E. Ruda and is chaired by Mr. McDermott. Each of Messrs. Johansson, McDermott and Ruda satisfies the "independence" requirements of the NASDAQ corporate governance rules. The compensation committee assists the board in reviewing and approving the compensation structure for

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:

- 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;
- reviewing and approving the compensation arrangements for our other executive officers and our directors; and
- overseeing and periodically reviewing the operation of our employee benefits plans, including bonus, incentive compensation, stock option, pension and welfare plans.

In 2013, our compensation committee held six meetings and passed five resolutions by unanimous written consent.

*Nominating and Corporate Governance Committee*

Our nominating and corporate governance committee consists of Messrs. Lars-Eric Johansson, Robert McDermott and Harry E. Ruda and is chaired by Mr. McDermott. Each of Messrs. Johansson, McDermott and Ruda satisfies the "independence" requirements of the NASDAQ corporate governance rules. The nominating and corporate governance 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 nominating and corporate governance 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.

In 2013, our nominating and corporate governance committee held four meetings and passed no resolution by unanimous written consent.

***Interested Transactions***

Under the CBCA, a director or officer of a 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 to the corporation in writing or request to have entered into the minutes of meetings of directors the nature and extent of his or her interest in accordance with the requirements of the CBCA. A director may vote on any resolution in respect of such contract or transaction only if the contract or transaction is: (i) one relating primarily to remuneration as a director, officer, employee or

agent of the corporation or an affiliate; (ii) one for indemnity or insurance in favor of directors and officers; or (iii) one with an affiliate. In 2013, we did not enter into any interested transactions other than those described in this "Item 6. Directors, Senior Management and Employees" and "Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions."

***Remuneration and Borrowing***

Our directors may determine the remuneration to be paid to them. The compensation committee will assist the directors in reviewing and approving the compensation structure for our directors. Our directors may, without authorization of the shareholders (i) borrow money on our credit, (ii) issue, reissue, sell, pledge or hypothecate debt obligations of ours, (iii) give a guarantee on our behalf to secure performance of an obligation of any person, and (iv) mortgage, hypothecate, pledge or otherwise create a security interest in all or any property of ours, owned or subsequently acquired, to secure any obligation of ours.

***Qualification***

There is no shareholding qualification for directors.

***Employment Agreements***

We have entered into employment agreements with each of our executive officers.

All of the employment agreements with our executive officers are for an indefinite term. Under the employment agreements, we may terminate an executive officer's employment at any time for cause without notice and for any other reason by giving written notice of termination to the executive officer. An executive officer may terminate his employment at any time by giving 30 or 60 days' notice of termination to us. If we terminate an executive officer's employment for any reason other than cause, or the executive officer terminates his employment for good reason, the executive officer is entitled to continue to receive his salary for a period of six or twelve months following the termination of his employment provided that he continues to comply with his confidentiality, inventions and non-competition obligations described below.

Each executive officer has agreed not to disclose or use, directly or indirectly, any of our confidential information, including trade secrets and information concerning our finances, employees, technology, processes, facilities, products, suppliers, customers and markets, except in the performance of his duties and responsibilities or as required pursuant to applicable law. Each executive officer has also agreed to disclose in confidence to us all inventions, designs and trade secrets which he may conceive, develop or reduce to practice during his employment and to assign all right, title and interest in them to us. Finally, each executive officer has agreed that he will not, directly or indirectly, during and within one year after the termination of his employment:

- communicate or have any dealings with our customers or suppliers that would be likely to harm the our business relationship with them;
- provide services, whether as a director, officer, employee, independent contractor or otherwise, to a competitor or acquire or hold any interest in, whether as a shareholder, partner or otherwise, in a competitor provided that the executive officer may hold up to 5% of the outstanding shares or other securities of a competitor that is listed on a securities exchange or recognized securities market; and
- approach solicit, whether by offer of employment or otherwise, the services of any of our employees.

Our compensation committee is required to approve all employment agreements entered into by us with any officer whose base salary is equal to or greater than $150,000.

***Director Agreements***

We have entered into director agreements with our independent directors, pursuant to which we make payments in the form of an annual retainer and meeting fees and option grants to our independent directors for their services. See "Item 6. Directors, Senior Management and Employees—B. Compensation of Directors and Executive Officers."

***Indemnification of Directors and Officers***

Under the CBCA and pursuant to our by-laws, we may indemnify any present or former director or officer or an individual who acts or has acted at our request as a director or officer, or an individual acting in a similar capacity, of another corporation or 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 us or other entity, provided that the director or officer acted honestly and in good faith with a view to our best interests, or, as the case may be, to the best interests of the other entity for which he or she acted as a director or officer or in a similar capacity at our request, 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 the court or other competent authority has judged that he or she has not committed any fault or omitted to do anything that the individual ought to have done and fulfilled the conditions set forth above.

We have entered into indemnity agreements with each of our directors agreeing to indemnify them, to the fullest extent permitted by law, against all liability, loss, harm damage cost or expense, reasonably incurred by the director in respect of any threatened, pending, ongoing or completed claim or civil, criminal, administrative, investigative or other action or proceeding made or commenced against him or in which he is or was involved by reason of the fact that he is or was a director of the Company.

Our directors and officers are covered by directors' and officers' insurance policies.

## D. Employees

As of December 31, 2011, 2012 and 2013, we had 9,087, 7,020 and 7,736 full-time employees, respectively. 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 December 31, 2013.

| | As of December 31, 2013 | |
|---|---|---|
| | Number of Employees | Percentage of Total |
| Manufacturing | 6,385 | 82.5% |
| General and administrative | 906 | 11.8% |
| Research and development | 163 | 2.1% |
| Sales and marketing | 282 | 3.6% |
| Total | 7,736 | 100% |

As of December 31, 2013, we had 3,140 employees at our facilities in Suzhou, 2,933 employees at our facilities in Changshu, 856 employees at our facilities in Luoyang, and 807 employees based in our facilities and offices in Canada, Japan, Australia, Singapore, South Korea, Hong Kong, India, the Philippines, the Americas and the EU (which includes Germany, Italy and France). Our employees are not covered by any collective bargaining agreement. 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.

## E. Share Ownership

The following table sets forth information with respect to the beneficial ownership of our common shares as of March 31, 2014, the latest practicable date, by:

- each of our directors and executive officers; and
- each person known to us to own beneficially more than 5% of our common shares.

The calculations in the table below are based on the 54,770,160 common shares outstanding, as of March 31, 2014.

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 from March 31, 2014, 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.

| | Shares Beneficially Owned[1] | |
|---|---|---|
| | Number | % |
| **Directors and Executive Officers:[2]** | | |
| Shawn (Xiaohua) Qu[3] | 13,308,159 | 24.2% |
| Robert McDermott[4] | 120,500 | * |
| Lars-Eric Johansson[5] | 51,600 | * |
| Harry E. Ruda[6] | 23,300 | * |
| Michael G. Potter[7] | 154,813 | * |
| Guangchun Zhang[8] | 10,861 | * |
| Yan Zhuang[9] | 250,173 | * |
| Charles (Xiaoshu) Bai[10] | 6,500 | * |
| All Directors and Executive Officers as a Group | 13,925,906 | 25.2% |

* The person beneficially owns less than 1% of our outstanding shares.

(1) Beneficial ownership is determined in accordance with Rule 13d-3 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended, or Exchange Act, and includes voting or investment power with respect to the securities.

(2) The business address of our directors and executive officers is 199 Lushan Road, Suzhou New District, Suzhou, Jiangsu 215129, People's Republic of China.

(3) Includes 13,189,867 common shares directly held by Dr. Shawn Qu and Hanbing Zhang, the wife of Dr. Shawn Qu, 113,496 common shares issuable upon the exercise of options held by Dr. Shawn Qu and Ms. Zhang within 60 days from March 31, 2014, 4,796 shares issuable upon vesting of restricted share units held by Dr. Shawn Qu and Ms. Zhang within 60 days from March 31, 2014.

(4) Includes 4,000 common shares directly held by Mr. McDermott and 116,500 common shares issuable upon exercise of options held by Mr. McDermott within 60 days from March 31, 2014.

(5) Includes 5,000 common shares directly held by Mr. Johansson and 46,600 common shares issuable upon exercise of options held by Mr. Johansson within 60 days from March 31, 2014.

(6) Includes 23,300 common shares issuable upon exercise of options held by Mr. Ruda within 60 days from March 31, 2014.

(7) Includes 61,613 common shares directly held by Mr. Potter and 93,200 common shares issuable upon exercise of options held by Mr. Potter within 60 days from March 31, 2014.

(8) Includes 10,861 common shares directly held by Mr. Zhang.

(9) Includes 222,000 common shares directly held by Mr. Zhuang, 26,117 common shares issuable upon exercise of options held by Mr. Zhuang within 60 days from March 31, 2014 and 2,056 shares issuable upon vesting of restricted share units within 60 days from March 31, 2014.

(10) Includes 6,500 common shares directly held by Mr. Bai.

None of our shareholders have different voting rights from other shareholders as of the date of this annual report on Form 20-F. We are currently not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

## ITEM 7. *MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS*

### A. Major Shareholders

Please refer to "Item 6. Directors, Senior Management and Employees—E. Share Ownership."

### B. Related Party Transactions

***Guarantees and Loans***

Dr. Shawn Qu fully guaranteed a one-year RMB1,520 million, RMB1,001 million and RMB 1,866 million (US$308.2 million) loan facilities from Chinese commercial banks in 2011, 2012 and 2013, respectively. Amounts drawn down from the facilities as at December 31,2012 and 2013 were $66,349,563 and $30,167,927, respectively. As at December 31, 2013, Dr. Shawn Qu also full guaranteed a one-year RMB25 million loan facility fron a financial institution.

In May, June and August 2013, Dr. Shawn Qu, our chairman, president and chief executive officer, loaned our company an aggregate of $13.0 million at an interest rate of 4.27%. The purpose of the loans was to fund the operations of Canadian Solar International Ltd. We repaid the loans, including interest of approximately $0.2 million, in November and December, 2013. As of December 31, 2013, we had no outstanding borrowings from Dr. Shawn Qu.

***Sales and purchase contracts with affiliates***

In 2013, we sold solar modules to Gaochuangte, a company in which we own a 40% interest, in the amount of RMB100.9 million ($16.4 million).

In 2013, we paid RMB448.8 million ($72.5 million) to Gaochuangte for EPC services related to our solar power projects. These amounts were recorded in project assets.

***Employment Agreements***

See "Item 6. Directors, Senior Management and Employees—C. Board Practices—Employment Agreements."

***Share Incentive Plan***

See "Item 6. Directors, Senior Management and Employees—B. Compensation of Directors and Executive Officers—Share-based Compensation —Share Incentive Plan."

### C. Interests of Experts and Counsel

Not applicable.

## ITEM 8. *FINANCIAL INFORMATION*

### A. Consolidated Statements and Other Financial Information

We have appended audited consolidated financial statements filed as part of this annual report.

***Legal and Administrative Proceedings***

*SEC subpoenas*

In 2010, we received two subpoenas from the SEC requesting documents relating to, among other things, certain sales transactions in 2009 and whether those transactions potentially impacted the guidance issued by us in advance of our follow-on offering in October 2009. As part of its investigation, the SEC requested that we voluntarily provide certain documents and other information. We have been fully cooperating with the SEC and are in ongoing, and recent, communications with the SEC regarding its investigation into potential violations of U.S. securities laws, including any potential claims the SEC might bring under Rule 10b-5 under the Securities Exchange Act of 1934, as amended, or the Exchange Act. We cannot predict the outcome of the SEC's investigation. If we are unable to agree to a satisfactory resolution with the SEC, the SEC could issue a Wells notice to us and one or more of our officers asking us and one or more of our officers to provide a submission detailing why we believe an enforcement action should not be pursued. Furthermore, the SEC could pursue various actions, including enforcement actions alleging violations of a broad array of securities laws against us or any of our officers and directors, and seeking remedies, including disgorgements, penalties, fines, injunctive relief, a cease and desist order, limitations or a bar on the service of directors or officers, and other sanctions under U.S. securities laws. See "Risk Factors—Risks Related to Our Company and Our Industry—We face risks related to an ongoing SEC investigation."

*Class Action Lawsuits*

Following the two subpoenas from the SEC in 2010, six class action lawsuits were filed in the United States District Court for the Southern District of New York, or the New York cases, and another class action lawsuit was filed in the United States District Court for the Northern District of California, or the California case. The New York cases were consolidated into a single action in December 2010. On January 5, 2011, the California case was dismissed by the plaintiff, who became a member of the lead plaintiff group in the New York action. On March 11, 2011, a Consolidated Complaint was filed with respect to the New York action. The Consolidated Complaint alleges generally that our financial disclosures during 2009 and early 2010 were false or misleading; asserts claims under Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 thereunder; and names us, our chief executive officer and our former chief financial officer as defendants. We filed our motion to dismiss in May 2011, which was taken under submission by the Court in July 2011. On March 30, 2012, the Court dismissed the Consolidated Complaint with leave to amend, and the plaintiffs filed an Amended Consolidated Complaint against the same defendants on April 19, 2012. On March 29, 2013, the Court dismissed with prejudice a class action lawsuit filed against us and certain named defendants alleging that our financial disclosures during 2009 and early 2010 were false or misleading and in violation of federal securities law. The court found that the plaintiffs failed to adequately allege a securities law violation and granted our motion to dismiss all claims against all defendants with prejudice. On December 20, 2013, the U.S. Court of Appeals for the Second Circuit affirmed the district court's order dismissing such class action lawsuit.

In addition, a similar class action lawsuit was filed against us and certain of our executive officers in the Ontario Superior Court of Justice on August 10, 2010. The lawsuitalleges generally that our financial disclosures during 2009 and 2010 were false or misleading and brings claims under the shareholders' relief provisions of the Canada Business Corporations Act, Part XXIII.1 of the Ontario Securities Act as well as claims based on negligent misrepresentation. In December 2010, we filed a motion to dismiss the Ontario action on the basis that the Ontario Court has no jurisdiction over the

claims and potential claims advanced by the plaintiff. The court dismissed our motion on August 29, 2011. On March 30, 2012, the Ontario Court of Appeal denied our appeal with regard to our jurisdictional motion. On November 29, 2012, the Supreme Court of Canada denied our application for leave to appeal the order of the Ontario Court of Appeal. The plaintiff's motions for class certification and leave to assert the statutory cause of action under the Ontario Securities Act were served in January 2013 and initially scheduled for argument in the Ontario Superior Court of Justice in June 2013. However, the plaintiff's motions were adjourned in view of the plaintiff's decision to seek an order compelling us to file additional evidence on the motions. On July 29, 2013 the Court dismissed the plaintiff's motion to compel evidence. On September 24, 2013, the plaintiff's application for leave to appeal from the July 29 order was dismissed. The plaintiff has yet to apply for new court dates for the argument of its motions. The plaintiff's motions have now been scheduled for hearing in July 2014. We believe the Ontario action is without merit and we are defending it vigorously.

*LDK*

In July 2010, CSI Cells filed a request for arbitration against LDK with the CIETAC Shanghai Branch. In its arbitration request, CSI Cells asked that LDK refund (1) an advance payment of RMB10.0 million that it had made to LDK pursuant to a three-year wafer supply agreement between CSI Cells and LDK entered into in October 2007 and (2) two advance payments totaling RMB50.0 million that CSI Cells had made to LDK pursuant to two ten-year supply agreements between CSI Cells and LDK entered into in June 2008. The first hearing was held in October 2010, during which CSI Cells and LDK exchanged and reviewed the evidence. After the first hearing, LDK counterclaimed against CSI Cells, seeking (1) forfeiture of the three advance payments totaling RMB60.0 million that CSI Cells had made to LDK pursuant to the October 2007 and June 2008 agreements; (2) compensation of approximately RMB377.0 million or the loss due to the alleged breach of the June 2008 agreements by CSI Cells; (3) a penalty of approximately RMB15.2 million due to the alleged breach of the June 2008 agreements by CSI Cells; and (4) arbitration expenses up to RMB4.7 million. The second hearing was held on March 9, 2011, during which the parties presented arguments to the arbitration commission. The arbitration commission hosted a settlement discussion between the parties on May 13, 2011. In December of 2012, CIETAC Shanghai Branch awarded RMB248.9 million plus RMB2.2 million in arbitration expenses in favor of LDK in relation to the wafer supply contracts we entered into with LDK, including RMB60.0 million previously paid deposits. CIETAC Shanghai Branch determined that we had no legal grounds to cancel the long-term supply agreements. In February 2013, LDK filed for enforcement proceedings against us with the Jiangsu Suzhou Intermediate People's Court, or the Suzhou Intermediate Court. In May 2013, the Suzhou Intermediate Court dismissed a request by LDK to enforce this arbitration award, after which LDK initiated additional proceedings against us in the Xinyu Intermediate People's Court, Jiangxi Province, or the Xinyu Intermediate Court, claiming that our rights to the initial deposits had been forfeited. On November 29, 2013, the Suzhou Intermediate Court vacated its decision of May 2013, or the May Decision, to dismiss a request by LDK, to enforce an arbitration award against us made by the former Shanghai branch of the China International Economic and Trade Arbitration Commission in favor of LDK in the amount of RMB248.9 million ($41.1 million) relating to certain wafer supply contracts entered into between us and LDK in October 2007 and June 2008, and ruled that the case be re-adjudicated. This decision followed a request for re-adjudication issued by the Jiangsu Provincial High Court, which reviewed the May Decision and ordered the Suzhou Intermediate Court to retry the case on the grounds that its May Decision was based on insufficient legal grounds. We expect the Suzhou Intermediate Court to retry this case in May 2014. If the Suzhou Intermediate Court reverses the May Decision, we may be liable for a payment of RMB191.2 million ($31.6 million) to LDK. We have not made a provision for this amount. Xinyu Intermediate Court, on October 18, 2013, postponed a related proceeding demanding we forfeit deposits of RMB25 million and RMB35 million paid to LDK in conjunction with the 2007 and 2008 supply contracts. The Xinyu Intermediate Court suspended

its proceedings pending the outcome of the Suzhou Intermediate Court's re-examination of the May Decision.

In March 2014, LDK filed an application for arbitration with CIETAC, seeking (1) compensation of RMB530.0 million ($87.5 million) for economic losses (including losses of potential profits) caused by the alleged breach of the June 2008 agreements; (2) attorney fees of RMB1.2 million ($0.2 million); and (3) arbitration expenses. CIETAC sent the Notice of Arbitration to us on April 8, 2014 to which we plan to make a timely response. The claims stated in the new application for arbitration overlap with the previous action that CIETAC Shanghai Branch has already decided upon, and which the Suzhou Intermediate Court refused to enforce. We believe that we will succeed in persuading CIETAC to postpone consideration of the new application for arbitration until the Suzhou Intermediate Court issues its decision.

We dispute the merits of the proceedings brought against us by LDK and will defend ourselves vigorously against these claims.

*U.S. Anti-dumping and Countervailing Duty Investigation*

In October 2011, a trade action was filed with the USDOC and the USITC by the U.S. unit of SolarWorld AG and six other U.S. firms, accusing Chinese producers of CSPV cells, whether or not incorporated into modules, of selling their products (i.e., CSPV cells or modules incorporating these cells) into the United States at less than fair value, or dumping, and of receiving countervailable subsidies from the Chinese authorities. These firms asked the U.S. government to impose anti-dumping and countervailing duties on CSPV cells imported from China. The USDOC and the USITC investigated the validity of these claims. We were identified as one of a number of Chinese exporting producers of the subject goods to the U.S. market. We also have affiliated U.S. operations that import the subject goods from China.

On October 9, 2012, the USDOC issued final affirmative determinations in the anti-dumping and countervailing duty investigations. On November 7, 2012, the USITC ruled that imports of CSPV cells had caused material injury to the U.S. CSPV industry. As a result of these rulings, we are required to pay cash deposits on CSPV cells imported into the U.S. from China, whether alone or incorporated into modules. The announced cash deposit rates applicable to us were 13.94% (anti-dumping duty) and 15.24% (countervailing duty). We paid all cash deposits due as a result of these determinations. The rates at which duties will be assessed and payable is subject to ongoing administrative reviews pursuant to a request by SolarWorld AG and may differ from the announced deposit rates. These duties could materially and adversely affect our affiliated U.S. import operations and increase our cost of selling into the United States, thus adversely affecting our export sales to the United States, which is one of our growing markets. A number of parties have challenged rulings of the USDOC and the USITC in appeals to the U.S. Court of International Trade. Decisions on those appeals are not expected before the end of 2014.

On December 31, 2013, the U.S. unit of SolarWorld AG filed a new trade action at the USDOC and the USITC accusing Chinese producers of certain CSPV cells and modules of dumping their products into the United States and of receiving countervailable subsidies from the Chinese authorities. This trade action also accuses Taiwanese producers of certain CSPV cells and modules of dumping their products into the United States. Excluded from these new actions are those Chinese-origin solar products covered by the 2012 rulings detailed in the prior paragraphs. The USDOC and the USITC are investigating the validity of these claims. The USITC completed its preliminary phase investigation on February 14, 2014, and the USDOC's preliminary phase investigations are ongoing, with decisions currently expected in June. We were identified as one of a number of Chinese producers exporting subject goods to the U.S. market. We also have affiliated U.S. operations that import goods subject to these new investigations.

*European Anti-dumping and Anti-Subsidy Investigations*

On September 6, 2012, following a complaint lodged by EU ProSun, an ad-hoc industry association including SolarWorld AG, the European Commission initiated an anti-dumping investigation concerning imports into the EU of CSPV modules and key components (i.e., cells and wafers) originating in China. On November 8, 2012, following a complaint lodged by the same parties, the European Commission initiated an anti-subsidy investigation on these products. In each investigation, we were identified as one of a number of Chinese exporting producers of these products to the EU market. We also have affiliated EU operations that import these products from China.

Definitive anti-dumping duties and definitive countervailing measures were imposed on December 6, 2013. However, under the terms of an undertaking entered into with the European Commission, duties are not payable on our products sold into the EU, so long as we respect a volume ceiling and minimum price arrangement set forth in that undertaking, and until the measures expire or the European Commission withdraws the undertaking.

*Indian Anti-dumping Investigation*

In November 2012, India initiated an anti-dumping investigation on imported solar products from China, Taiwan, the United States and Malaysia. The scope of the Indian complaint includes thin-film and CSPV cells and modules, as well as "glass and other suitable substrates." The period of investigation is from January 1, 2011 to June 30, 2012. We completed and submitted a "sampling questionnaire" and were chosen by the Indian authorities to be a sampled company. We submitted the data and our submitted data was subject to on-site verification by the Indian authorities from March 22, 2014 to March 26, 2014. The last stage of the investigation is the issuance of the final findings, which are due by the end of May 2014. This document will set forth its conclusions on product, dumping, injury and causal link, along with recommendations for any anti-dumping duties.

***Dividend Policy***

We have never declared or paid any dividends on our common shares, nor do we have any present plan to declare or pay any dividends on our common shares in the foreseeable future. We currently intend to retain 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, subject only to the requirements of the CBCA. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations, earnings, capital requirements, surplus, general financial condition, contractual restrictions, and other factors that our board of directors may deem relevant.

## B. Significant Changes

Between January 1, 2014 and March 31, 2014, an additional 7,175 options and 500,877 restricted share units granted under the Plan vested.

Except as described above, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

## ITEM 9. *THE OFFER AND LISTING*

### A. Offering and Listing Details

Our common shares have been listed on NASDAQ under the symbol "CSIQ" since November 9, 2006. The following table sets forth the high and low trading prices for our common shares on the NASDAQ for the periods indicated.

| | Trading Price | |
|---|---|---|
| | High | Low |
| | $ | $ |
| **Annual Highs and Lows** | | |
| 2009 | 30.51 | 3.00 |
| 2010 | 33.68 | 8.99 |
| 2011 | 16.79 | 2.07 |
| 2012 | 4.74 | 1.95 |
| 2013 | 33.25 | 3.12 |
| | | |
| **Quarterly Highs and Lows** | | |
| First Quarter 2012 | 4.74 | 2.68 |
| Second Quarter 2012 | 3.84 | 2.61 |
| Third Quarter 2012 | 4.05 | 2.47 |
| Fourth Quarter 2012 | 3.59 | 1.95 |
| First Quarter 2013 | 5.15 | 3.12 |
| Second Quarter 2013 | 11.61 | 3.16 |
| Third Quarter 2013 | 17.71 | 10.55 |
| Fourth Quarter 2013 | 33.25 | 16.76 |
| First Quarter 2014 | 44.50 | 29.52 |
| | | |
| **Monthly Highs and Lows** | | |
| **2013** | | |
| October | 25.56 | 16.76 |
| November | 33.25 | 23.92 |
| December | 31.82 | 26.10 |
| | | |
| **2014** | | |
| January | 43.60 | 29.60 |
| February | 44.50 | 33.80 |
| March | 43.80 | 29.52 |
| April (through April 25) | 34.38 | 23.01 |

### B. Plan of Distribution

Not applicable.

### C. Markets

Our common shares have been listed on the Nasdaq since November 9, 2006 under the symbol "CSIQ."

### D. Selling Shareholders

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

## ITEM 10. ADDITIONAL INFORMATION

**A. Share Capital**

Not applicable.

**B. Memorandum and Articles of Association**

We incorporate by reference into this annual report the description of our Amended Articles of Continuance, as amended, contained in our F-1 registration statement (File No. 333-138144), as amended, initially filed with the SEC on October 23, 2006.

**C. Material Contracts**

We have not entered into any material contracts other than in the ordinary course of business and other than those described in "Item 4. Information on the Company" or elsewhere in this annual report on Form 20-F.

**D. Exchange Controls**

See "Item 4. Information on the Company—B. Business Overview—Government Regulation—Foreign Currency Exchange" and Item 4. Information on the Company—B. Business Overview—Government Regulation—Dividend Distribution."

**E. Taxation**

***Material Canadian Federal Tax Considerations***

*General*

The following summary is of the material Canadian federal tax implications applicable to a holder, or a U.S. Holder, who holds our common shares and who, at all relevant times, for purposes of the Income Tax Act (Canada), or 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 U.S. Holder has held or holds the common shares; (ii) holds the common shares as capital property and as beneficial owner; (iii) deals at arm's length with and is not affiliated with us; (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) did not acquire the common shares as part of a transaction or event or series of transaction or events so as to cause the foreign affiliate dumping rules in section 212.3 of the Canadian Tax Act to apply; (vii) is not a "specified shareholder" of the company as defined in subsection 18(5) of the Canadian Tax Act; (viii) is not a financial institution, specified financial institution, partnership or trust as defined in the Canadian Tax Act; (ix) is a resident of the United States for purposes of the Canada-United States Income Tax Convention (1980), as amended, or the Convention, who is fully entitled to the benefits of the Convention; and (x) 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 U.S. Holder has held or holds the common shares. Special rules, which are not addressed in this summary, may apply to a

U.S. 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.

This summary assumes that the Company is a resident of Canada for purposes of the Canadian Tax Act. Should it be determined that the Company is not a resident of Canada for purposes of the Canadian Tax Act by virtue of being resident in another country (such as the PRC) by virtue of the application of an income tax convention between Canada and that other country, the Canadian income tax consequences to a U.S. Holder will differ from those described herein and U.S. Holders should consult their own tax advisors.

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 annual report on Form 20-F. This summary is not exhaustive of all potential Canadian federal tax consequences to a U.S. Holder and does not take into account or anticipate any 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 HOLDER OR PROSPECTIVE PURCHASER OF COMMON SHARES. ACCORDINGLY, HOLDERS OR PROSPECTIVE PURCHASERS OF COMMON SHARES SHOULD CONSULT THEIR OWN TAX ADVISORS FOR ADVICE WITH RESPECT TO THE CANADIAN FEDERAL TAX CONSEQUENCES 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, on account or in lieu of payment, or in satisfaction of, dividends to a U.S. Holder that has provided the requisite documentation regarding its entitlement to benefits under the Convention 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 U.S. Holder that is a company for purposes of the Convention that owns at least 10% of our voting shares 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 U.S. Holder will not be liable to income 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 U.S. Holder for the purposes of the Canadian Tax Act and the U.S. Holder is not otherwise entitled to an exemption under the Convention.

Under the Canadian Tax Act, if the common shares are not otherwise deemed under the Canadian Tax Act to be "taxable Canadian property," the common shares will constitute "taxable Canadian

property" to a U.S. Holder at the time of a disposition only if (i) the common shares derive within the previous 60 months more than 50% of their value from Canadian real or immovable property (including options or interests therein), or the real property threshold. Where the common shares meet the real property threshold and are also listed on a designated stock exchange for purposes of the Canadian Tax Act (which currently includes Nasdaq), then the common shares will be taxable Canadian property only if an additional ownership test is met, i.e. within the previous 60 month period immediately preceding the disposition of the common shares the U.S. Holder, persons with whom the U.S. Holder did not deal at arm's length, or the U.S. Holder together with such persons, own 25% or more of the issued shares of any class or series of our capital stock (the "ownership threshold"). Where the common shares constitute "taxable Canadian property" under the Canadian Tax Act, capital gains on their disposition may still be exempt from Canadian income tax by virtue of the Convention unless, at the time of the disposition, the common shares derive their value principally from real property situated in Canada within the meaning of the Convention.

***U.S. Federal Income Taxation***

The following discussion describes material U.S. federal income tax consequences to U.S. Holders (as defined below) under present law of an investment in our common shares. This discussion applies only to U.S. Holders that hold our common shares as capital assets (generally, property held for investment) and that have the U.S. dollar as their functional currency. This discussion is based on the tax laws of the United States as of the date of this annual report and on U.S. Treasury regulations in effect or, in some cases, proposed, as of the date of this annual report, 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 neither deals with the tax consequences to any particular investor nor describes all of the tax consequences applicable to persons in special tax situations such as:

- banks;
- certain financial institutions;
- insurance companies;
- regulated investment companies;
- real estate investment trusts;
- broker-dealers;
- traders that elect to mark to market;
- U.S. expatriates or entities covered by the U.S. anti-inversion rules;
- tax-exempt entities;
- persons liable for alternative minimum tax;
- persons who are not U.S. Holders;
- persons holding a common share through a bank, financial institution or other entity, or a branch thereof, located, organized or resident outside the United States;
- persons holding a common share as part of a straddle, hedging, conversion or integrated transaction;
- persons that actually or constructively own 10% or more of the total combined voting power of all classes of our voting stock;

- persons who acquired common shares pursuant to the exercise of any employee share option or otherwise as compensation; or

- partnerships or other pass-through entities, or persons holding common shares through such entities.

In addition, the discussion below does not describe any tax consequences arising out of the Medicare tax on certain "net investment income."

**INVESTORS 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, LOCAL, NON-U.S. AND OTHER 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 to you if you are the 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) created or organized in the United States or under the laws of the United States, any State thereof or the District of Columbia;

- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or

- a trust that (1) is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons for all substantial decisions 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 generally will depend on your status and the partner and the activities of the partnership. If you are a partner in such a partnership holding common shares, or a partner in such partnership, you should consult your tax advisor.

*Taxation of Dividends and Other Distributions on the Common Shares*

Subject to the PFIC rules discussed below, the gross amount of any distributions we make to you with respect to the common shares (including the amount of any taxes withheld therefrom) generally will be includible in your gross income as dividend income on the date of receipt by you, but only to the extent the distribution is paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Any such dividends will not be eligible for the dividends received deduction allowed to corporations in respect of dividends received from other U.S. corporations. To the extent the amount of the distribution exceeds our current and accumulated earnings and profits (as determined under U.S. federal income tax principles), such excess amount will be treated first as a tax-free return of your tax basis in your common shares, and then, to the extent such excess amount exceeds your tax basis in your common shares, capital gain. We currently do not, and 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 generally will be reported as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above.

With respect to certain non-corporate U.S. Holders, including individual U.S. Holders, any dividends may be taxed at the lower capital gains rate applicable to "qualified dividend income," provided (1) either (a) the common shares are readily tradable on an established securities market in

the United States or (b) we are eligible for the benefits of a qualifying income tax treaty with the United States that includes an exchange of information program, (2) we are neither a PFIC nor treated as such with respect to you (as discussed below) for the taxable year in which the dividend was paid and the preceding taxable year, and (3) certain holding period and other requirements are met. Under U.S. Internal Revenue Service authority, common shares will be considered for purposes of clause (1) above to be readily tradable on an established securities market in the United States if they are listed on the Nasdaq, as are our common shares. You should consult your tax advisors regarding the availability of the lower capital gains rate applicable to qualified dividend income for any dividends paid with respect to our common shares.

Any dividends generally will constitute foreign source income for foreign tax credit limitation purposes. If the dividends are taxed as 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 tax rate applicable to qualified dividend income and divided by the highest tax rate 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 the common shares generally will constitute "passive category income" but could, in the case of certain U.S. Holders, constitute "general category income."

If Canadian or PRC withholding taxes apply to any dividends paid to you with respect to our common shares, the amount of the dividend would include withheld Canadian and PRC taxes and, subject to certain conditions and limitations, such Canadian and PRC withholdings taxes may be treated as foreign taxes eligible for credit against your U.S. federal income tax liability. The rules relating to the determination of the foreign tax credit are complex, and you should consult your tax advisors regarding the availability of a foreign tax credit in your particular circumstances, including the effects of any applicable income tax treaties.

*Taxation of Disposition of Common Shares*

Subject to the PFIC 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, and such gain or loss generally will be capital gain or loss. If you are a non-corporate U.S. Holder, including an individual U.S. Holder, that has held the common shares for more than one year, you may be eligible for reduced tax rates on any such gain, subject to the PFIC rules discussed below. The deductibility of capital losses is subject to limitations. Any gain or loss you recognize on a disposition of common shares generally will be treated as U.S. source income or loss for foreign tax credit limitation purposes. However, if we are treated as a "resident enterprise" for PRC tax purposes, we may be eligible for the benefits of the income tax treaty between the United States and the PRC. In such event, if PRC tax were to be imposed on any gain from the disposition of the common shares, a U.S. Holder that is eligible for the benefits of the income tax treaty between the United States and the PRC may elect to treat the gain as PRC source income for foreign tax credit purposes. You should consult your tax advisors regarding the proper treatment of gain or loss in your particular circumstances, including the effects of any applicable income tax treaties.

*Passive Foreign Investment Company*

Based on the market price of our common shares, the value of our assets, and the composition of our income and assets, we do not believe we were a PFIC for U.S. federal income tax purposes for our taxable year ended December 31, 2013. However, the application of the PFIC rules is subject to uncertainty in several respects, and we cannot assure you that the U.S. Internal Revenue Service will

not take a contrary position. A non-U.S. corporation will be a PFIC for U.S. federal income tax purposes for any taxable year if either:

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

For this purpose, 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.

A separate determination must be made after the close of each taxable year as to whether we were a PFIC for that year. Accordingly, we cannot assure you that we will not be a PFIC for our current taxable year ending December 31, 2014 or any future taxable year. Because the value of our assets for purposes of the PFIC test generally will be determined by reference to the market price of our common shares, fluctuations in the market price of the common shares may cause us to become a PFIC. In addition, changes in the composition of our income or assets may cause us to become a PFIC.

If we are a PFIC for any taxable year during which you hold common shares, we generally will continue to be treated as a PFIC with respect to you for all succeeding years during which you hold common shares, unless we cease to be a PFIC and you make a "deemed sale" election with respect to the common shares. If such election is made, you will be deemed to have sold common shares you hold at their fair market value on the last day of the last taxable year in which we qualified as a PFIC, and any gain from such deemed sale would be subject to the consequences described in the following two paragraphs. After the deemed sale election, your common shares with respect to which the deemed sale election was made will not be treated as shares in a PFIC unless we subsequently become a PFIC.

For each taxable year we are treated as a PFIC with respect to you, you will be subject to special tax rules with respect to any "excess distribution" you receive and any gain you recognize 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 recognized gain will be allocated ratably over your holding period for the common shares;
- the amount allocated to the current taxable year, and any taxable years in your holding period prior to the first taxable year in which we were a PFIC, will be treated as ordinary income; and
- the amount allocated to each other taxable year will be subject to the highest tax rate in effect for individuals or corporations, as applicable, for each such 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 taxable 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 or other disposition of the common shares cannot be treated as capital, even if you hold the common shares as capital assets.

If we are treated as a PFIC with respect to you for any taxable year, to the extent any of our subsidiaries are also PFICs or we make direct or indirect equity investments in other entities that are PFICs, you may be deemed to own shares in such lower-tier PFICs that are directly or indirectly owned

by us in that proportion which the value of the common shares you own bears to the value of all of our common shares, and you may be subject to the adverse tax consequences described in the preceding two paragraphs with respect to the shares of such lower-tier PFICs that you would be deemed to own. You should consult your tax advisors regarding the application of the PFIC rules to any of our subsidiaries.

A U.S. Holder of "marketable stock" (as defined below) in a PFIC may make a mark-to-market election for such stock to elect out of the PFIC rules described above regarding excess distributions and recognized gains. If you make a mark-to-market election for the common shares, you will include in income for each year we are a PFIC 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 will be 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 will be 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 will be treated as ordinary income. Ordinary loss treatment will also apply 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 other disposition of the common shares, to the extent 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 a mark-to-market election, any distributions we make generally would be subject to the rules discussed above under "—Taxation of Dividends and Other Distributions on the Common Shares," except the lower rate applicable to qualified dividend income would not apply.

The mark-to-market election is available only for "marketable stock," which is stock that is regularly traded on a qualified exchange or other market, as defined in applicable U.S. Treasury regulations. Our common shares are listed on the Nasdaq, which is a qualified exchange or other market for these purposes. Consequently, if the common shares continue to be listed on the Nasdaq and are regularly traded, and you are a holder of common shares, we expect the mark-to-market election would be available to you if we were to become a PFIC. Because a mark-to-market election cannot be made for equity interests in any lower-tier PFICs that we own, a U.S. Holder may continue to be subject to the PFIC rules with respect to its indirect interest in any investments held by us that are treated as an equity interest in a PFIC for U.S. federal income tax purposes. You should consult your tax advisors as to the availability and desirability of a mark-to-market election, as well as the impact of such election on interests in any lower-tier PFICs.

Alternatively, if a non-U.S. corporation is a PFIC, a holder of shares in that corporation may avoid taxation under the PFIC rules described above regarding excess distributions and recognized gains by making a "qualified electing fund" election to include in income its share of the corporation's income on a current basis. However, you may make a qualified electing fund election with respect to your common shares only if we agree to furnish you annually with certain tax information, and we currently do not intend to prepare or provide such information.

Unless otherwise provided by the U.S. Treasury, each U.S. Holder of a PFIC is required to file an annual report containing such information as the U.S. Treasury may require. If we are or become a PFIC, you should consult your tax advisor regarding any reporting requirements that may apply to you.

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

*Information Reporting and Backup Withholding*

Any 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 U.S. Internal Revenue Service and possible U.S. backup withholding. Backup withholding will not apply, however, to a U.S. Holder that furnishes a correct taxpayer identification number and makes any other required certification or that is otherwise exempt from backup withholding. U.S. Holders that are required to establish their exempt status generally must provide such certification on U.S. 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 filing the appropriate claim for refund with the U.S. Internal Revenue Service and furnishing any required information in a timely manner.

*Additional Reporting Requirements*

Certain U.S. Holders who are individuals are required to report information relating to an interest in our common shares, subject to certain exceptions (including an exception for common shares held in accounts maintained by certain financial institutions). U.S. Holders should consult their tax advisors regarding the effect, if any, of these rules on their ownership and disposition of the common shares.

## F. Dividends and Paying Agents

Not applicable.

## G. Statement by Experts

Not applicable.

## H. Documents on Display

We previously filed with the SEC our registration statements on Form F-1 (File Number 333-138144), initially filed on October 23, 2006, and registration statements on Form F-3 (File Number 333-189895), initially filed on July 11, 2013.

We are subject to the periodic reporting and other informational requirements of the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F within four months after the end of each fiscal year for fiscal years ending on or after December 15, 2011. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the Securities and Exchange Commission at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the Commission at 1-800-SEC-0330. The SEC also maintains a web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

Our financial statements have been prepared in accordance with U.S. GAAP.

We will furnish our shareholders with annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP.

**I. Subsidiary Information**

For a listing of our subsidiaries, see "Item 4. Information on the Company—C. Organizational Structure."

## ITEM 11. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

***Foreign Exchange Risk***

The majority of our sales in 2013 are denominated in Japanese yen, U.S. dollars and Canadian dollars, with the remainder in other currencies such as Renminbi, Euros and British pounds, while a substantial portion of our costs and expenses is denominated in Renminbi and U.S. dollars. From time to time, we enter into loan arrangements with Chinese commercial banks that are denominated primarily in Renminbi or U.S. dollars. Most of our cash and cash equivalents are denominated in Renminbi. Therefore, fluctuations in currency exchange rates could have a significant impact on our financial stability. Fluctuations in exchange rates, particularly between the U.S. dollar, Euro, Renminbi, Canadian dollar and Japanese yen, may result in fluctuations in foreign exchange gains or losses. As of December 31, 2013, we held $280.7 million in accounts receivable, of which $98.5 million were denominated in Japanese yen. Had we converted all Japanese yen denominated accounts receivable into Japanese yen at Japanese yen 105.2757 for $1.00, the exchange rate as of December 31, 2013, our Japanese yen denominated accounts receivable would have been Japanese yen 10,369.7 million as of December 31, 2013. Assuming the Japanese yen depreciates by a rate of 10.0% to an exchange rate of Japanese yen 115.8033 for $1.00, we would record a loss in fair value of accounts receivable of $9.0 million.

Since 2008, we have hedged part of our foreign currency exposures against the U.S. dollar using foreign currency forward or option contracts in order to limit our exposure to fluctuations in foreign exchange rates. We incurred a loss on change in foreign currency derivatives of $5.8 million and $4.4 million in 2011 and 2012, respectively, while we recorded again on change in foreign currency derivatives of $10.8 million in 2013. The gains or losses on change in foreign currency derivatives are related to our hedging program. We incurred a foreign exchange loss of $40.0 million, $10.7 million and $51.5 million in 2011, 2012 and 2013, respectively. We cannot predict the impact of future exchange rate fluctuations on ourresults of operations and may incur net foreign currency losses in the future.

As of December 31, 2013, we had forward contracts of the U.S. dollar against the Renminbi with notional amount of $251.0 million outstanding. Assuming a 10.0% appreciation of the U.S. dollar against the Renminbi, the mark-to-market gain of our outstanding forward contracts of the U.S. dollar against the Renminbi would have decreased by approximately $25.1 million as of December 31, 2013.

Our financial statements are expressed in U.S. dollars, while some of our subsidiaries use different functional currencies, such as the Renminbi, Euro, Canadian dollar and Japanese yen. The value of your investment in our common shares will be affected by the foreign exchange rate between the U.S. dollar and other currencies used by our subsidiaries. To the extent we hold assets denominated in currencies other than U.S. dollars, any appreciation of such currencies against the U.S. dollars will likely result in an exchange gain while any depreciation will likely result in an exchange loss when we convert the value of these assets into U.S. dollar equivalent amounts. On the other hand, to the extent we have liabilities denominated in currencies other than U.S. dollars, any appreciation of such currencies against the U.S. dollar will likely result in an exchange loss while any depreciation will likely result in an exchange gain when we convert the value of these liabilities into U.S. dollar equivalent amounts. These and other effects on our financial conditions resulting from the unfavorable changes in

foreign currency exchange rates could have a material adverse effect on the market price of our common shares, the dividends we may pay in the future, and your investment.

***Interest Rate Risk***

Our exposure to interest rate risk primarily relates to interest expense under our short-term and long-term bank 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 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.

## ITEM 12. *DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES*

Not applicable.

## PART II

### ITEM 13. *DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES*

None of these events occurred in any of the years ended December 31, 2011, 2012 and 2013.

### ITEM 14. *MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS*

The following "use of proceeds" information relates to the registration statement on Form F-3 (File number: 333-189895) for our registration of common shares, preferred shares, debt securities and warrants for a maximum aggregate offering price of $200 million. This registration statement was declared effective by the SEC on August 13, 2013. Between August 15, 2013 and September 11, 2013, we sold 3,772,254 of our common shares at an average price of $13.25 per share through an at-the-market offering, raising approximately $50.0 million in gross proceeds. We completed the at-the-market offering on September 11, 2013. The common shares were offered through Credit Suisse as sales agent. We received net proceeds of approximately $48.0 million from the offering after deducting the sales agent's commissions and offering expenses.

In February 2014, we completed an offering of our common shares and convertible senior notes. Pursuant to the offering, we sold 3,194,700 common shares at a price of $36.00 per share and sold $150 million aggregate principal amount of 4.25% convertible senior notes. We received aggregate net proceeds of approximately $255.7 million from these offerings, after deducting discounts and commissions, but before offering expenses. Credit Suisse Securities (USA) LLC, J.P. Morgan Securities LLC, and Nomura Securities International, Inc. acted as joint book-running managers for the common shares offering.

As of March 31, 2014, approximately $134 million of the net offering proceeds from the sale of our common shares had been applied for the uses outlined in the registration statement and prospectuses.

### ITEM 15. *CONTROLS AND PROCEDURES*

***Disclosure Controls and Procedures***

Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we conducted an evaluation of our disclosure controls and procedures; as such, term is defined in Rule 13a-15(e) under the Exchange Act. Based on that evaluation, our chief executive officer and chief financial officer have concluded that as of the end of the period covered by this annual report, our disclosure controls and procedures over financial reporting were effective.

***Management's Annual Report on Internal Control over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended, for our company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding

prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation and may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules promulgated by the Securities and Exchange Commission, management assessed the effectiveness of our internal control over financial reporting as of December 31, 2013 using criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2013.

Deloitte Touche Tohmatsu Certified Public Accountants LLP, an independent registered public accounting firm, who audited our consolidated financial statements for the year ended December 31, 2013, has also audited the effectiveness of internal control over financial reporting as of December 31, 2013.

***Report of the Independent Registered Public Accounting Firm***

To the Board of Directors and Shareholders of Canadian Solar Inc.

We have audited the internal control over financial reporting of Canadian Solar Inc. and subsidiaries (the "Company") as of December 31, 2013, based on the criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

(3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2013 of the Company and our report dated April 28, 2014 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP
Shanghai China
April 28, 2014

***Changes in Internal Controls***

There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 16A.** ***AUDIT COMMITTEE FINANCIAL EXPERT***

Our board of directors has determined that Lars-Eric Johansson qualifies as an "audit committee financial expert" as defined in Item 16A of Form 20-F. Each of the members of the audit committee is an "independent director" as defined in the Nasdaq Marketplace Rules.

**ITEM 16B.** ***CODE OF ETHICS***

Our board of directors has adopted a code of ethics that applies to our directors, officers, employees and agents, including certain provisions that specifically apply to our chief executive officer, chief financial officer, chief operations officer, chief technology officer, vice presidents and any other persons who perform similar functions for us. We have posted our code of business conduct on our website www.canadiansolar.com. We hereby undertake to provide to any person without charge, a copy of our code of business conduct and ethics within ten working days after we receive such person's written request.

**ITEM 16C.** ***PRINCIPAL ACCOUNTANT FEES AND SERVICES***

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Deloitte Touche Tohmatsu Certified Public Accountants LLP,

our principal external auditors, for the periods indicated. We did not pay any other fees to our auditors during the periods indicated below.

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| Audit fees[1] | $ 1,516,000 | $ 1,483,000 | $ 1,593,000 |
| Audit related fees[2] | — | — | $ 285,000 |
| All other fees[3] | $ 95,640 | $ 65,450 | $ 39,364 |

(1) "Audit fees" means the aggregate fees billed for professional services rendered by our principal auditors for the annual audit of our consolidated financial statements, assurance and related services. In 2011, 2012 and 2013, these were mainly for the review and audit of our consolidated financial statements.

(2) "Audit related fees" represents the aggregate fees billed for assurance and related services by our principal auditors that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported as audit fees.

(3) "All other fees" represents aggregate fees billed for professional services rendered by our principal auditors for the statutory audit of our subsidiary's financial statements, consultations and related services.

The policy of our audit committee is to pre-approve all audit and non-audit services provided by Deloitte Touche Tohmatsu Certified Public Accountants LLP, including audit services, audit-related services, tax services and other services as described above, other than those for *de minimis* services which are approved by the Audit Committee prior to the completion of the audit. We have a written policy on the engagement of an external auditor.

**ITEM 16D.** ***EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES***

Not applicable.

**ITEM 16E.** ***PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS***

None.

**ITEM 16F.** ***CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT***

Not applicable.

**ITEM 16G.** ***CORPORATE GOVERNANCE***

None.

## PART III

### ITEM 17. *FINANCIAL STATEMENTS*

We have elected to provide financial statements pursuant to Item 18.

### ITEM 18. *FINANCIAL STATEMENTS*

The consolidated financial statements of Canadian Solar Inc. are included at the end of this annual report.

### ITEM 19. *EXHIBITS*

| Exhibit Number | Description of Document |
|---|---|
| 1.1 | Amended Articles of Continuance (incorporated by reference to Exhibit 3.2 of our registration statement on Form F-1 (File No. 333-138144), as amended, initially filed with the SEC on October 23, 2006) |
| 2.1 | Registrant's Specimen Certificate for Common Shares (incorporated by reference to Exhibit 4.11 from our F-1 registration statement (File No. 333-138144), as amended, initially filed with the Commission on October 23, 2006) |
| 4.1 | Amended and Restated Share Incentive Plan of the Registrant, dated September 20, 2010 (incorporated by reference to Exhibit 4.5 of our annual report on Form 20-F for the year ended December 31, 2010 (File No. 001-33107), as amended, initially filed with the SEC on May 17, 2011) |
| 4.2 | Form of Director Indemnity Agreement (incorporated by reference to Exhibit 4.1 of our annual report on Form 20-F for the year ended December 31, 2008 (File No. 001-33107), as amended, initially filed with the SEC on June 8, 2009) |
| 4.3 | Employment Agreement between the Registrant and Dr. Shawn Qu (incorporated by reference to Exhibit 10.2 of our registration statement on Form F-1 (File No. 333-138144), as amended, initially filed with the SEC on October 23, 2006) |
| 4.4 | Form of Employment Agreement between the Registrant and its executive officers (incorporated by reference to Exhibit 4.7 of our annual report on Form 20-F for the year ended December 31, 2010 (File No. 001-33107), as amended, initially filed with the SEC on May 17, 2011) |
| 4.5* | Indenture, dated as of February 18, 2014, between the Registrant and The Bank of New York Mellon, as the trustee |
| 8.1* | List of Subsidiaries |
| 12.1* | CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 12.2* | CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 13.1** | CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 13.2** | CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 15.1* | Consent of Deloitte Touche Tohmatsu Certified Public Accountants LLP |
| 101*** | Financial information from registrant for the year ended December 31, 2013 formatted in eXtensible Business Reporting Language (XBRL): |

(i) Consolidated Balance Sheets as of December 31, 2012 and 2013; (ii) Consolidated Statements of Operations for the Years Ended December 31, 2011, 2012 and 2013; (iii) Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2011, 2012 and 2013; (iv) Consolidated Statements of Changes in Equity for the Years Ended December 31, 2011, 2012 and 2013; (v) Consolidated Statements of Cash Flows for the Years Ended December 31, 2011, 2012 and 2013; (vi) Notes to Consolidated Financial Statements; and (vii) Additional Information—Financial Statements Schedule I

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* Filed herewith.

** Furnished herewith.

*** XBRL-related documents are not deemed filed for purposes of section 11 of the Securities Act, or section 18 of the Exchange Act, or otherwise subject to the liabilities of these sections; are not part of any registration statement to which they relate; are not deemed incorporated by reference; are subject to all other liability and anti-fraud provisions of these Act; and are deemed filed for purposes of Item 103 of Regulation S-T.

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

CANADIAN SOLAR INC.

By: /s/ Shawn (Xiaohua) Qu

Name: Shawn (Xiaohua) Qu
Title: Chairman, President and
Chief Executive Officer

By: /s/ Michael G. Potter

Name: Michael G. Potter
Title: Senior Vice President and
Chief Financial Officer

Date: April 28, 2014

**CANADIAN SOLAR INC.**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**


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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Canadian Solar Inc.

We have audited the accompanying consolidated balance sheets of Canadian Solar Inc. and subsidiaries (the "Company") as of December 31, 2012 and 2013, and the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for each of the three years in the period ended December 31, 2013, and the related financial statement schedule included in Schedule I. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 consolidated financial statements present fairly, in all material respects, the financial position of Canadian Solar Inc. and subsidiaries as of December 31, 2012 and 2013 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 28, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP

Shanghai China
April 28, 2014

# CANADIAN SOLAR INC.

## CONSOLIDATED BALANCE SHEETS

| | December 31, 2012 | December 31, 2013 |
|---|---|---|
| | (In U.S. dollars, except share and per share data) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | 141,968,182 | 228,249,512 |
| Restricted cash | 422,356,794 | 451,153,156 |
| Accounts receivable trade, net of allowance of $47,582,217 and $38,482,827 as of December 31, 2012 and 2013, respectively | 254,906,498 | 280,693,762 |
| Accounts receivable, unbilled | 5,229,760 | 13,947,396 |
| Amounts due from related parties | 9,977,177 | 4,688,692 |
| Inventories | 274,455,798 | 231,157,811 |
| Value added tax recoverable | 14,483,487 | 15,704,949 |
| Advances to suppliers—current, net of allowance of $9,639,629 and $10,086,278 as of December 31, 2012 and 2013, respectively | 28,997,522 | 42,028,270 |
| Foreign currency derivative assets | 1,350,657 | 7,323,422 |
| Project assets—current | 180,436,619 | 344,161,805 |
| Prepaid expenses and other current assets | 108,041,633 | 100,246,831 |
| Total current assets | 1,442,204,127 | 1,719,355,606 |
| Property, plant and equipment, net | 469,642,822 | 407,604,979 |
| Deferred tax assets, net | 39,082,498 | 62,950,243 |
| Advances to suppliers—non-current, net of allowance of $28,905,858 and $29,960,552 as of December 31, 2012 and 2013, respectively | 478,359 | 506,441 |
| Prepaid land use rights | 18,628,710 | 18,776,110 |
| Investments in affiliates | 26,727,589 | 34,070,488 |
| Intangible assets, net | 4,327,604 | 5,656,933 |
| Project assets—non-current | 218,710,405 | 160,835,796 |
| Other non-current assets | 39,510,967 | 43,978,760 |
| TOTAL ASSETS | 2,259,313,081 | 2,453,735,356 |
| **LIABILITIES, REDEEMABLE NON-CONTROLLING INTERESTS AND EQUITY** | | |
| Current liabilities: | | |
| Short-term borrowings | 858,926,732 | 778,512,504 |
| Accounts payable | 230,495,398 | 280,806,420 |
| Short-term notes payable | 231,135,928 | 358,570,263 |
| Amounts due to related parties | 5,036,642 | 19,871,718 |
| Other payables | 104,782,551 | 101,265,606 |
| Advances from customers | 18,659,296 | 75,327,543 |
| Foreign currency derivative liabilities | 365,226 | 597,089 |
| Other current liabilities | 90,847,957 | 163,407,721 |
| Total current liabilities | 1,540,249,730 | 1,778,358,864 |
| Accrued warranty costs | 58,334,424 | 40,604,652 |
| Long-term borrowings | 214,562,973 | 151,391,572 |
| Liability for uncertain tax positions | 14,803,732 | 17,191,672 |
| Deferred tax liabilities—non-current | 56,151,575 | 24,043,648 |
| Loss contingency accruals | 28,461,085 | 29,698,844 |
| TOTAL LIABILITIES | 1,912,563,519 | 2,041,289,252 |
| Commitments and contingencies (Note 17) | | |
| Redeemable non-controlling interests | 45,166,131 | 10,947,783 |
| Equity: | | |
| Common shares—no par value: unlimited authorized shares, 43,242,426 and 51,034,343 shares issued and outstanding at December 31, 2012 and 2013, respectively | 502,561,705 | 561,241,785 |
| Additional paid-in capital | (38,296,275) | (32,121,269) |
| Accumulated deficit | (224,162,124) | (192,502,848) |
| Accumulated other comprehensive income | 50,795,529 | 53,911,113 |
| Total Canadian Solar Inc. shareholders' equity | 290,898,835 | 390,528,781 |
| Non-controlling interests in subsidiaries | 10,684,596 | 10,969,540 |
| TOTAL EQUITY | 301,583,431 | 401,498,321 |

| | | |
|---|---|---|
| TOTAL EQUITY | 301,383,431 | 401,498,321 |
| TOTAL LIABILITIES, REDEEMABLE NON-CONTROLLING INTERESTS AND EQUITY | 2,259,313,081 | 2,453,735,356 |

See notes to consolidated financial statements.

**CANADIAN SOLAR INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (In U.S. dollars, except share and per share data) | | |
| Net revenues: | | | |
| —Non-related parties | 1,879,247,942 | 1,284,316,201 | 1,637,966,032 |
| —Related parties | 19,674,164 | 10,513,212 | 16,390,032 |
| Total net revenues | 1,898,922,106 | 1,294,829,413 | 1,654,356,064 |
| Cost of revenues | | | |
| —Non-related parties | 1,696,421,523 | 1,193,507,964 | 1,363,048,060 |
| —Related parties | 20,218,969 | 10,960,019 | 15,613,033 |
| Total cost of revenues | 1,716,640,492 | 1,204,467,983 | 1,378,661,093 |
| Gross profit | 182,281,614 | 90,361,430 | 275,694,971 |
| Operating expenses: | | | |
| Selling expenses | 69,341,229 | 91,052,729 | 88,426,136 |
| General and administrative expenses | 86,268,786 | 128,826,340 | 44,767,586 |
| Research and development expenses | 19,838,547 | 12,998,122 | 11,684,993 |
| Total operating expenses | 175,448,562 | 232,877,191 | 144,878,715 |
| Income (loss) from operations | 6,833,052 | (142,515,761) | 130,816,256 |
| Other income (expenses): | | | |
| Interest expense | (43,843,586) | (53,304,640) | (46,244,456) |
| Interest income | 8,446,647 | 13,359,962 | 11,972,758 |
| Gain (loss) on change in foreign currency derivatives | (5,750,981) | (4,369,173) | 10,764,226 |
| Foreign exchange loss | (40,007,403) | (10,707,889) | (51,468,616) |
| Investment loss | — | (1,081,700) | — |
| Others | — | — | 427,560 |
| Other expenses, net | (81,155,323) | (56,103,440) | (74,548,528) |
| Income (loss) before income taxes and equity in loss of unconsolidated investees | (74,322,271) | (198,619,201) | 56,267,728 |
| Income tax (expense) benefit | (16,539,940) | 5,433,410 | (7,638,786) |
| Equity in loss of unconsolidated investees | (41,163) | (1,969,306) | (3,064,006) |
| Net income (loss) | (90,903,374) | (195,155,097) | 45,564,936 |
| Less: net income (loss) attributable to non-controlling interests | (99,174) | 313,594 | 13,905,660 |
| Net income (loss) attributable to Canadian Solar Inc. | (90,804,200) | (195,468,691) | 31,659,276 |
| Earnings (loss) per share—basic | $ (2.11) | $ (4.53) | $ 0.68 |
| Shares used in computation—basic | 43,076,489 | 43,190,778 | 46,306,739 |
| Earnings (loss) per share—diluted | $ (2.11) | $ (4.53) | $ 0.63 |
| Shares used in computation—diluted | 43,076,489 | 43,190,778 | 50,388,284 |

See notes to consolidated financial statements.

**CANADIAN SOLAR INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | | (In U.S. dollars) | |
| Net income (loss) | (90,903,374) | (195,155,097) | 45,564,936 |
| Other comprehensive income (net of tax of nil): | | | |
| Foreign currency translation adjustment | 17,111,083 | 5,505,067 | 1,877,848 |
| Comprehensive income (loss) | (73,792,291) | (189,650,030) | 47,442,784 |
| Less: comprehensive income (loss) attributable to non-controlling interests | (81,857) | 578,842 | 12,667,924 |
| Comprehensive income (loss) attributable to Canadian Solar Inc. | (73,710,434) | (190,228,872) | 34,774,860 |

See notes to consolidated financial statements.

## CANADIAN SOLAR INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Common Shares | | Additional Paid-in Capital | Retained Earnings (Accumulated Deficit) | Accumulated Other Comprehensive Income | Equity (Deficits) Attribute to Canadian Solar Inc. | Non-Controlling Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|
| | Number | $ | $ | $ | $ | $ | $ | $ |
| | (In U.S. dollars, except share and per share data) | | | | | | | |
| Balance at January 1, 2011 | 42,893,044 | 501,145,991 | (57,392,283) | 62,110,767 | 28,461,944 | 534,326,419 | 658,058 | 534,984,477 |
| Net loss | — | — | — | (90,804,200) | — | (90,804,200) | (99,174) | (90,903,374) |
| Foreign currency translation adjustment | — | — | — | — | 17,093,766 | 17,093,766 | 17,317 | 17,111,083 |
| Share-based compensation | — | — | 4,060,838 | — | — | 4,060,838 | — | 4,060,838 |
| Exercise of share options | 262,723 | 1,256,948 | — | — | — | 1,256,948 | — | 1,256,948 |
| Paid-in capital from non-controlling interests | — | — | — | — | — | — | 467,720 | 467,720 |
| Balance at December 31, 2011 | 43,155,767 | 502,402,939 | (53,331,445) | (28,693,433) | 45,555,710 | 465,933,771 | 1,043,921 | 466, 977,692 |
| Net income (loss) | — | — | — | (195,468,691) | — | (195,468,691) | 313,594 | (195,155,097) |
| Foreign currency translation adjustment | — | — | — | — | 5,239,819 | 5,239,819 | 265,248 | 5,505,067 |
| Acquisition of subsidiaries | — | — | — | — | — | — | 4,635,298 | 4,635,298 |
| Issuance of warrant | — | — | 9,849,928 | — | — | 9,849,928 | — | 9,849,928 |
| Share-based compensation | — | — | 5,185,242 | — | — | 5,185,242 | — | 5,185,242 |
| Exercise of share options | 86,659 | 158,766 | — | — | — | 158,766 | — | 158,766 |
| Paid-in capital from non-controlling interests | — | — | — | — | — | — | 4,426,535 | 4,426,535 |
| Balance at December 31, 2012 | 43,242,426 | 502,561,705 | (38,296,275) | (224,162,124) | 50,795,529 | 290,898,835 | 10,684,596 | 301,583,431 |
| Net income | — | — | — | 31,659,276 | — | 31,659,276 | 13,905,660 | 45,564,936 |
| Foreign currency translation adjustment | — | — | — | — | 3,115,584 | 3,115,584 | (1,237,736) | 1,877,848 |
| Profit distribution to a non-controlling interest | — | — | — | — | — | — | (219,464) | (219,464) |
| Issuance of ordinary shares, net of issuance costs | 3,772,254 | 47,887,377 | — | — | — | 47,887,377 | — | 47,887,377 |
| Share-based compensation | — | — | 6,175,006 | — | — | 6,175,006 | — | 6,175,006 |
| Exercise of share options | 4,019,663 | 10,792,703 | — | — | — | 10,792,703 | — | 10,792,703 |
| Disposal of | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| project companies | — | — | — | — | — | — | (12,163,516) | (12,163,516) |
| Balance at December 31, 2013 | 51,034,343 | 561,241,785 | (32,121,269) | (192,502,848) | 53,911,113 | 390,528,781 | 10,969,540 | 401,498,321 |

See notes to consolidated financial statements.

**CANADIAN SOLAR INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (In U.S. dollars) | | |
| Operating activities: | | | |
| Net income (loss) | (90,903,374) | (195,155,097) | 45,564,936 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 56,117,280 | 81,398,470 | 80,821,241 |
| Loss on disposal of property, plant and equipment | 1,223,163 | 1,991,098 | 3,612,581 |
| Impairment loss of property, plant and equipment | — | — | 3,664,556 |
| (Gain) loss on change in fair value of derivatives | 5,750,981 | 4,369,173 | (10,764,226) |
| Investment loss | — | 1,081,700 | — |
| Equity in loss of unconsolidated investees | 41,163 | 1,969,306 | 3,064,006 |
| Allowance for doubtful accounts | 23,156,857 | 43,611,217 | (975,083) |
| Write-down of inventories | 8,456,260 | 3,085,529 | 714,558 |
| Impairment loss of project assets | — | — | 1,557,734 |
| Provision for firm purchase commitment | 10,610,410 | — | — |
| Amortization of discount on debt | 44,485 | 49,699 | — |
| Share-based compensation | 4,060,838 | 5,185,242 | 6,175,006 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable trade | (103,748,565) | (6,983,739) | (11,813,937) |
| Accounts receivable, unbilled | (51,370,820) | 46,425,858 | (9,167,246) |
| Amounts due from related parties | (18,135,684) | 9,904,520 | 5,288,485 |
| Inventories | (28,798,943) | 3,960,749 | 34,666,540 |
| Value added tax recoverable | 28,508,062 | 2,303,949 | (1,404,821) |
| Advances to suppliers | 13,458,006 | (17,898,461) | (5,747,309) |
| Project assets | (37,133,068) | (300,679,763) | (152,870,686) |
| Prepaid expenses and other current assets | (2,969,210) | (70,614,891) | (2,333,059) |
| Other non-current assets | (9,257,048) | (24,406,669) | (4,420,130) |
| Accounts payable | 52,435,834 | 56,238,301 | 44,231,082 |
| Short-term notes payable | 118,154,508 | 99,114,001 | 117,707,136 |
| Amounts due to related parties | 484,649 | 2,015,133 | 14,492,053 |
| Other payables | 20,699,554 | 36,910,195 | (2,602,763) |
| Advances from customers | 56,706,824 | (46,127,125) | 51,356,621 |
| Other current liabilities | (744,073) | 59,188,516 | 14,748,130 |
| Accrued warranty costs | 15,737,987 | 11,334,395 | (19,199,011) |
| Provision for firm purchase commitment | (27,862,017) | — | — |
| Prepaid land use rights | 229,241 | (4,760,904) | 396,642 |
| Liability for uncertain tax positions | 840,611 | 2,502,791 | 2,494,913 |
| Deferred taxes | (4,632,976) | 48,851,188 | 15,142,480 |
| Loss contingency accruals | 27,862,017 | — | — |
| Settlement of foreign currency derivatives | (8,898,838) | (2,623,318) | 5,148,195 |
| Net cash provided by (used in) operating activities | 60,124,114 | (147,758,937) | 229,548,624 |

**CANADIAN SOLAR INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | | (In U.S. dollars) | |
| Investing activities: | | | |
| Decrease (increase) in restricted cash | 23,614,897 | (243,137,142) | (10,098,916) |
| Payment to acquire subsidiaries | (6,104,823) | — | — |
| Investment in affiliates | (5,667,627) | (3,428,751) | (4,278,361) |
| Proceeds from disposal of investment | — | 555,475 | — |
| Purchase of property, plant and equipment | (205,419,189) | (60,481,021) | (23,131,549) |
| Net cash used in investing activities | (193,576,742) | (306,491,439) | (37,508,826) |
| Financing activities: | | | |
| Proceeds from short-term borrowings | 1,808,463,199 | 791,596,176 | 768,381,191 |
| Repayment of short-term borrowings | (1,721,463,494) | (692,071,052) | (1,073,502,793) |
| Proceeds from long-term borrowings | 89,023,852 | 143,965,319 | 149,831,368 |
| Profit distribution to a non-controlling interest | — | — | (219,464) |
| Payment to non-controlling interests for sales of project companies | — | — | (8,070,699) |
| Gross proceeds from issuance of common shares | — | — | 50,000,000 |
| Issuance costs paid for common shares offering | — | — | (2,112,623) |
| Capital contribution from non-controlling interests | 467,720 | 4,426,535 | — |
| Payment for repurchase of convertible senior notes | — | (1,000,000) | — |
| Proceeds from issuance of warrant | — | 2,500,000 | — |
| Proceeds from exercise of stock options | 1,256,948 | 158,766 | 10,792,703 |
| Net cash provided by (used in) financing activities | 177,748,225 | 249,575,744 | (104,900,317) |
| Effect of exchange rate changes | 11,047,381 | 2,648,135 | (858,151) |
| Net increase (decrease) in cash and cash equivalents | 55,342,978 | (202,026,497) | 86,281,330 |
| Cash and cash equivalents at the beginning of the year | 288,651,701 | 343,994,679 | 141,968,182 |
| Cash and cash equivalents at the end of the year | 343,994,679 | 141,968,182 | 228,249,512 |
| Supplemental disclosure of cash flow information: | | | |
| Interest paid | 46,345,299 | 57,914,890 | 64,984,287 |
| Income taxes paid | 30,929,617 | 9,698,512 | 23,812,986 |
| Supplemental schedule of non-cash activities: | | | |
| Amounts due from disposal of subsidiaries or affiliates included in prepaid expenses and other current assets | 714,182 | 715,934 | 136,917 |
| Amounts due to non-controlling interests for sales of project companies included in payables | — | — | 4,092,817 |
| Property, plant and equipment costs included in other payables | 36,495,522 | 16,814,481 | 14,056,550 |
| Module contribution in exchange for non-controlling interests in affiliates | — | 15,874,847 | 5,791,202 |

See notes to consolidated financial statements.

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

**(In U.S. dollars)**

## 1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Canadian Solar Inc. ("CSI") was incorporated pursuant to the laws of the Province of Ontario in October 2001, and changed its jurisdiction by continuing under the Canadian federal corporate statute, the Canada Business Corporations Act, or CBCA, effective June 1, 2006.

CSI and its subsidiaries (collectively, the "Company") design, develop, and manufacture solar wafers, cells and solar power products. In recent years, the Company has increased investment in, and management attention on its total solutions business, which consists primarily of solar power project development, EPC services, O&M services and sales of solar system kits. As of December 31, 2013, major subsidiaries of CSI are included in Appendix 1.

## 2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

### *(a) Basis of presentation*

The consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP").

The accompanying consolidated financial statements contemplate the realization of assets and the satisfaction of liabilities in the normal course of business. The realization of assets and the satisfaction of liabilities in the normal course of business are dependent on, among other things, the Company's ability to operate profitably, to generate cash flows from operations and to arrange adequate financing to support its working capital requirements.

As of December 31, 2013, the Company had cash and cash equivalents of $228,249,512, restricted cash of $451,153,156 and bank borrowings due within one year of $778,512,504. The Company's current liabilities exceeded current assets by $59,003,258. For the year ended December 31, 2013, the Company experienced positive operating cash flow of $229,548,624. In February 2014, the Company closed an offering of 3,194,700 common shares and a concurrent offering of $150 million in convertible senior notes. The Company received net proceeds of approximately $255.7 million from these offerings, after deducting discounts and commissions but before offering expenses. The Company has carried out a review of its cash flow forecast of the year ended December 31, 2014. Although no assurance can be given, the Company believes that it will be able to fully execute its business plans and to renew substantially all its existing bank borrowings as they become due if needed. Based on the above factors, the Company believes that adequate sources of liquidity will exist to fund its working capital and capital expenditures requirements and to meet its short-term debt obligations and other liabilities and commitments as they become due.

### *(b) Basis of consolidation*

The consolidated financial statements include the financial statements of the Company and its subsidiaries in which it has a controlling financial interest. A controlling financial interest is typically determined when a company holds a majority of the voting equity interest in an entity. The Company evaluates each of its interest in private companies to determine whether or not the investee is a variable interest entity ("VIE"). If the Company demonstrates it both has (i) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

**(In U.S. dollars)**

**2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

significant to the VIE, then the entity is consolidated. The Company has not consolidated any VIEs as of or during any of the periods presented. All intercompany balances and transactions between the Company and its subsidiaries have been eliminated in consolidation.

***(c) Use of estimates***

The preparation of consolidated financial statements in conformity with U.S. GAAP requires the Company 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 consolidated 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 consolidated financial statements include revenue recognition for sales of solar power projects and EPC services accounted for under the percentage-of-completion method, estimated sales returns, allowance for doubtful accounts receivable and advances to suppliers, valuation of inventories and provision for firm purchase commitments, provision for contingent liability, impairment of long-lived assets and project assets, the estimated useful lives of long-lived assets, accrual for warranty and the recognition of the benefit from the purchased warranty insurance, fair value of foreign currency derivatives, accrual for uncertain tax positions, tax valuation allowances, and the grant-date fair value of share-based compensation awards and related forfeiture rates.

***(d) Cash and cash equivalents and restricted cash***

Cash and cash equivalents are stated at cost, which approximates fair value. Cash and cash equivalents consist of cash on hand and demand deposits, which are unrestricted as to withdrawal and use, and have original maturities of three months or less when acquired.

Restricted cash represents amounts held by banks, which are not available for the Company's general use, as security for issuance of letters of credit, short term notes payable and bank borrowings. Upon maturity of the letters of credit, repayment of short-term notes payable or bank borrowings which generally occur within one year, the deposits are released by the bank and become available for general use by the Company.

***(e) Accounts receivable, unbilled***

Accounts receivable, unbilled represents revenue that has been recognized in advance of billing the customer. The Company uses the percentage-of-completion method to recognize revenue from EPC services and sales of solar power projects when all relevant revenue recognition criteria have been met. Under this accounting method, revenue may be recognized in advance of billing the customer, which results in the recording of accounts receivable, unbilled. Once the Company meets the billing criteria under such contract, it bills the customer and reclassifies the unbilled balance to accounts receivable trade. Billing requirements vary by contract, but are generally structured around completion of certain construction milestones.

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

**(In U.S. dollars)**

## 2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

***(f) Allowance for doubtful receivables***

The Company began purchasing insurance from China Export & Credit Insurance Corporation ("Sinosure") since 2009 for certain of its accounts receivable trade in order to reduce its exposure to bad debt loss. The Company provides an allowance for accounts receivable, trade using primarily a specific identification methodology. An allowance is recorded based on the likelihood of collection from the specific customer regardless whether such account is covered by Sinosure. At the time the claim is made to Sinosure, the Company records a receivable from Sinosure equal to the expected recovery up to the amount of the specific allowance. The Company had recorded a receivable from Sinosure in prepaid expenses and other current assets of $5,337,282, $9,515,899 and $451,898 as of December 31, 2011, 2012 and 2013, respectively and a corresponding reduction in bad debt expense.

***(g) Advances to suppliers***

The Company makes prepayments to certain suppliers and such amounts are recorded in advances to suppliers in the consolidated balance sheets. Advances to suppliers expected to be utilized within twelve months as of each balance sheet date are recorded as current assets and the portion expected to be utilized after twelve months are classified as non-current assets in the consolidated balance sheets.

***(h) Inventories***

Inventories are stated at the lower of cost or market. Cost is determined by the weighted-average method. Cost is comprised of direct materials and, where applicable, direct labor costs, tolling costs and those overhead costs 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. These outsourcing arrangements may or may not include transfer of title of the raw material inventory 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 consolidated balance sheets as raw materials inventory while it is in physical possession of the third-party manufacturer. Upon receipt, processed inventory 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 customers" on the consolidated balance sheets and not as revenue or deferred revenue. Cash payments for outsourcing arrangements, which require prepayment for repurchase of the processed inventory, are

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

**(In U.S. dollars)**

**2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

classified as "advances to suppliers" on the consolidated balance sheets. There is no right of offset for these arrangements and accordingly, "advances from customers" and "advances to suppliers" remain on the consolidated balance sheets until the processed inventory is repurchased.

On occasion, the Company enters into firm purchase commitments to acquire materials from its suppliers. A firm purchase commitment represents an agreement that specifies all significant terms, including the price and timing of the transactions, and includes a disincentive for non-performance that is sufficiently large to make performance probable. This disincentive is generally in the form of a take-or-pay provision, which requires the Company to pay for committed volumes regardless of whether the Company actually acquires the materials. The Company evaluates these agreements and records a loss, if any, on firm purchase commitments using the same lower of cost or market approach as that used to value inventory. The Company records the expected loss only as it relates to the succeeding year, as it is unable to reasonably estimate future market prices beyond one year, in cost of revenues in the consolidated statements of operations.

***(i) Project assets***

Project assets consist primarily of direct costs relating to solar power projects in various stages of development that are capitalized prior to the sale of the solar power projects. A project asset is initially recorded at the actual cost. For a self-developed project asset, the actual cost capitalized is the amount of the expenditure incurred for the application of the feed-in tariff ("FIT") or other similar contracts, permits, consents, construction costs, interest costs capitalized, and other costs. For a project asset acquired from external parties, the initial cost is the acquisition cost which includes the consideration transferred and certain direct acquisition costs. Project assets consist of the following at December 31, 2012 and 2013, respectively:

| | At December 31, 2012 | At December 31, 2013 |
|---|---|---|
| | $ | $ |
| Project assets—Acquisition cost | 275,423,447 | 244,636,069 |
| Project assets—EPC and other cost | 123,723,577 | 260,361,532 |
| Total project assets | 399,147,024 | 504,997,601 |
| Current portion | 180,436,619 | 344,161,805 |
| Non-current portion | 218,710,405 | 160,835,796 |

The Company reviews project assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company considers a project commercially viable or recoverable if it is anticipated to be sold for a profit once it is either fully developed or fully constructed. The Company considers a partially developed or partially constructed project commercially viable or recoverable if the anticipated selling price is higher than the carrying value of the related project assets. The Company examines a number of factors to determine if the project will be recoverable, the most notable of which include whether there are any changes in environmental, ecological, permitting, market pricing or regulatory conditions that impact the project. Such changes could cause the costs of the project to increase or the selling price of the project to

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

**(In U.S. dollars)**

**2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

decrease. If a project is not considered recoverable, the Company impairs the respective project assets and adjusts the carrying value to the estimated recoverable amount, with the resulting impairment recorded within operations. The Company recorded impairment charges for project assets of nil, nil and $1,557,734 for the years ended December 31, 2011, 2012 and 2013, respectively.

Project assets expected to be sold within twelve months as of each balance sheet date are recorded as current assets and project assets expected to be sold after twelve months are recorded as non-current assets in the consolidated balance sheets. The cash flows associated with the acquisition, construction, and sale of projects assets are classified as operating activities in the consolidated statements of cash flows. Project assets are often held in separate legal entities which are formed for the special purpose of constructing the project assets, which the Company refers to as "project companies". The Company consolidates project companies as described in note (b) above. In 2013, the cash paid to the non-controlling interest in connection with disposal of such project companies was recorded as a financing activity in the consolidated statement of cash flows.

The Company did not depreciate the project assets. If circumstances change, and the Company begins to operate the project assets for the purpose of generating income from the sale of electricity, the project assets will be reclassified to property, plant and equipment.

***(j) Business combination***

Business combinations are recorded using the purchase method of accounting and, accordingly, the acquired assets and liabilities are recorded at their fair market value at the date of acquisition. Any excess of acquisition cost over the fair value of the acquired assets and liabilities, including identifiable intangible assets, is recorded as goodwill.

***(k) Assets acquisition***

When the Company acquires other entities, if the assets acquired and liabilities assumed do not constitute a business, the transaction is accounted for as an asset acquisition. Assets are recognized based on the cost, which generally includes the transaction costs of the asset acquisition, and no gain or loss is recognized unless the fair value of noncash assets given as consideration differs from the assets' carrying amounts on the Company's books. The costs of asset acquisitions generally include the direct transaction costs of the asset acquisition. If the consideration given is not in the form of cash (that is, in the form of noncash assets, liabilities incurred, or equity interests issued), measurement is based on either the cost to the acquiring entity or the fair value of the assets (or net assets) acquired, whichever is more clearly evident and, thus, more reliably measurable. The cost of a group of assets acquired in an asset acquisition is allocated to the individual assets acquired or liabilities assumed based on their relative fair value and does not give rise to goodwill.

***(l) Property, plant and equipment***

Property, plant and equipment is recorded at cost less accumulated depreciation. The cost of property, plant and equipment comprises its purchase price and any directly attributable costs, including

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

**(In U.S. dollars)**

**2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

interest costs capitalized during the period the asset is brought to its working condition and location for its intended use. The Company expenses repair and maintenance costs as incurred.

Depreciation is computed on a straight-line basis over the following estimated useful lives:

| | |
|---|---|
| Buildings | 20 years |
| Leasehold improvements | Over the shorter of the lease term or their estimated useful lives |
| Machinery | 5-10 years |
| Furniture, fixtures and equipment | 5 years |
| Motor vehicles | 5 years |

Costs incurred in constructing new facilities, including progress payments, capitalized interests and other costs relating to the construction, are capitalized and transferred to property, plant and equipment on completion and depreciation commences from that time.

For property, plant and equipment that has been placed into service, but is subsequently idled temporarily, the Company continues to record depreciation expense during the idle period. The Company adjusts the estimated useful life of the idled assets if the estimated useful life has changed.

***(m) Intangible assets***

Intangible assets primarily represent the technical know-how and computer software purchased from third parties. Intangible assets are recorded at fair value at the time of acquisition less accumulated amortization, if applicable. Amortization is recorded according to the following table on a straight-line basis for all intangible assets:

| | |
|---|---|
| Technical know-how | 10 years |
| Computer software | 1-10 years |

***(n) Prepaid land use rights***

Prepaid land use rights represent amounts paid for the Company's lease for the use right of lands located in Changshu City, Suzhou City, and Luoyang City of People's Republic of China ("PRC"). Amounts are charged to earnings ratably over the term of the lease of 50 years.

***(o) Investments in affiliates***

The Company holds equity investments in affiliates, for which it does not have a controlling financial interest but has the ability to exercise significant influence over the operating and financial policies of the investee. These investments are accounted for under equity method of accounting wherein the Company records its proportionate share of the investees' income or loss in its consolidated financial statements.

Investments are evaluated for impairment when facts or circumstances indicate that the fair value of the investment is less than its carrying value. An impairment is recognized when a decline in fair value is determined to be other-than-temporary. The Company reviews several factors to determine

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

**(In U.S. dollars)**

**2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

whether a loss is other-than-temporary. These factors include, but are not limited to, the: (i) nature of the investment; (ii) cause and duration of the impairment; (iii) extent to which fair value is less than cost; (iv) financial conditions and near term prospects of the affiliates; and (v) ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. During the years ended December 31, 2011, 2012 and 2013, the Company recorded impairment charges on its investments of nil, $1.1 million and nil, respectively.

***(p) Impairment of long-lived assets***

The Company assesses the recoverability of the carrying value of long-lived assets when an indicator of impairment has been identified. The Company reviews the long-lived assets each reporting period to assess whether impairment indicators are present. For purposes of recognition and measurement of an impairment loss, a long-lived asset or assets is grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. For long-lived assets, when impairment indicators are present, the Company compares undiscounted future cash flows, including the eventual disposition of the asset group at market value, to the asset group's carrying value to determine if the asset group is recoverable. Assessments also consider changes in asset group utilization, including the temporary idling of capacity and the expected timing of placing this capacity back into production. If the sum of the expected undiscounted cash flows is less than the carrying amount of the assets, the Company would recognize an impairment loss based on the fair value of the assets. The Company recorded impairment charges for property, plant and equipment of nil, nil and $3,675,254 for the years ended December 31, 2011, 2012 and 2013, respectively.

***(q) Interest capitalization***

The Company capitalizes interest costs as part of the historical costs of acquiring or constructing certain assets during the period of time required to get the assets ready for their intended use or sell the asset to a customer. Interest capitalized for property, plant and equipment is depreciated over the estimated useful life of the related asset, as the qualifying asset is placed into service. The Company capitalizes interest costs to the extent that expenditures to acquire, construct, or develop an asset have occurred and interest costs have been incurred. The interest capitalized forms part of the cost of revenues when such project assets are sold. Interest capitalization ceases once a project is substantially complete or no longer undergoing construction activities to prepare it for its intended use.

***(r) Contingencies***

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. If a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. Legal costs incurred in connection with loss contingencies are expensed as incurred.

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

**(In U.S. dollars)**

## 2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

***(s) 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 tax loss carry-forwards and credits using the enacted tax rates expected to apply to taxable income in the periods in which the deferred tax liability or asset is expected to be settled or realized. Deferred tax assets are reduced by a valuation allowance when 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, or the expected timing of their use when they do not relate to a specific asset or liability.

Income tax expense includes (i) deferred tax expense, which generally represents the net change in the deferred tax asset or liability balance during the year plus any change in valuation allowances; (ii) current tax expense, which represents the amount of tax currently payable to or receivable from a taxing authority; and (iii) noncurrent tax expense, which represents the increases and decreases in amounts related to uncertain tax positions from prior period and not settled with cash or other tax attributes. The Company only recognizes tax benefits related to uncertain tax positions when such positions are more likely than not of being sustained upon examination. For such positions, the amount of tax benefit that the Company recognizes is the largest amount of tax benefit that is more than fifty percent likely of being sustained upon the ultimate settlement of such uncertain tax position. The Company records penalties and interest associated with the uncertain tax positions as a component of income tax expense.

***(t) Revenue recognition***

The Company recognizes revenues for solar product sales when persuasive evidence of an arrangement exists, delivery of the product has occurred and title and risk of loss has passed to the customers, the sales price is fixed or determinable and the collectability of the resulting receivable is reasonably assured. If collectability is not reasonably assured, the Company recognizes revenue only upon collection of cash. Revenues also include reimbursements received from customers for shipping and handling costs. 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") and delivered duty paid ("DDP"). Under FOB, the Company fulfills 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 fulfills 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

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

**(In U.S. dollars)**

**2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

customer when the goods pass the ship's rail in the port of shipment. Under DDP, the Company is responsible for making a safe delivery of goods to a named destination, paying all transportation expenses and the duty. The Company bears the risks and costs associated with supplying the good to the delivery location.

The Company uses the percentage-of-completion method to recognize revenues for which the Company provides EPC services, unless the Company cannot make reasonably dependable estimates of the costs to complete the contract, in which case the Company would use the completed contract method. The percentage-of-completion method is considered appropriate in circumstances in which reasonably dependable estimates can be made and in which all the following conditions exist: (i) contracts executed by the parties normally include provisions that clearly specify the enforceable rights regarding goods or services to be provided and received by the parties, the consideration to be exchanged, and the manner and terms of settlement; (ii) the buyer can be expected to satisfy all obligations under the contract; and (iii) the contractor can be expected to perform all contractual obligations. The Company uses the cost-to-cost method to measure the percentage of completion and recognize revenue based on the estimated progress to completion. The Company periodically revises its profit estimates based on changes in facts, and immediately recognizes any losses that are identified on contracts. Incurred costs include all direct material, labor, subcontractor cost, and other associated costs. The Company recognizes job material costs as incurred costs when the job materials have been permanently attached or fitted to the solar power projects as required by the engineering design. The construction periods normally extend beyond six months and less than one year.

The Company recognizes revenue from the sale of project assets in accordance with ASC 360-20, Real Estate Sales. For these transactions, the Company has determined that the project assets, which represent the costs of constructing solar power projects, represent "integral" equipment and as such, the entire transaction is in substance the sale of real estate and subject to the revenue recognition guidance under ASC 360-20 Real Estate Sales. The Company records the sale as revenue using one of the following revenue recognition methods, based upon evaluation of the substance and form of the terms and conditions of such real estate sales arrangements: (i) Full accrual method. The Company records revenue for certain sales arrangements after construction of discrete portions of a project or after the entire project is substantially complete, The Company recognizes revenue and profit using the full accrual method when all of the following requirements are met: (a) the sales are consummated; (b) the buyer's initial and continuing investments are adequate to demonstrate its commitment to pay; (c) the receivable is not subject to any future subordination; and (d) the Company has transferred the usual risk and rewards of ownership to the buyer. Specifically, the Company considers the following factors in determining whether the sales have been consummated: (a) the parties are bound by the terms of a contract; (b) all consideration has been exchanged; (c) permanent financing for which the seller is responsible has been arranged; and (d) all conditions precedent to closing have been performed, and the Company does not have any substantial continuing involvement with the project. (ii) Percentage-of-completion method. The Company applies the percentage-of-completion method, as further described below, to certain real estate sales arrangements where the Company conveys control of land or land rights, (a) when a sale has been consummated; (b) the Company has transferred the usual risks and rewards of ownership to the buyer; (c) the initial and continuing investment criteria

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

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**2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

have been met; (d) the Company has the ability to estimate its costs and progress toward completion, and (e) all other revenue recognition criteria have been met. The initial and continuing investment requirements, which demonstrate a buyer's commitment to honor their obligations for the sales arrangement, can typically be met through the receipt of cash or an irrevocable letter of credit from a highly creditworthy lending institution. When evaluating whether the usual risks and rewards of ownership have transferred to the buyer, the Company considers whether it has or may be contingently required to have any prohibited forms of continuing involvement with the project. Prohibited forms of continuing involvement in a real estate sales arrangement may include the Company retaining risks or rewards associated with the project that are not customary with the range of risks or rewards that an EPC contractor may assume. (iii) Installment method. Depending on whether the initial and continuing investment requirements have been met, and whether collectability from the buyer is reasonably assured, the Company may align its revenue recognition and release of project assets or deferred project costs to cost of sales with the receipt of payment from the buyer if the sale has been consummated and the Company has transferred the usual risks and rewards of ownership to the buyer.

During 2013, the Company recognized $210,980,356 and $81,043,786 of revenue from the sale of solar power projects using the full accrual method and percentage-of-completion method, respectively.

The Company allocates revenue for transactions involving multiple-element arrangements to each unit of accounting on a relative fair value basis. The Company estimates fair value on each unit of accounting on the following basis (i) vendor-specific objective evidence of selling price, if it exists, otherwise, (ii) third-party evidence of selling price. If neither (i) nor (ii) exists, management's best estimate of the selling price for that unit of accounting is used. The Company recognizes revenue for each unit of accounting when the revenue recognition criteria have been met.

Revenues from sales to customers are recorded net of estimated returns.

The Company enters into toll manufacturing arrangements in which the Company receives cells and returns finished modules. In those cases, the title of the cells received and risk of loss remains with the seller. As a result, the Company does not recognize inventory on the consolidated balance sheets. The Company recognizes a service fee as revenue when the processed modules are delivered. During the years ended December 31, 2011, 2012 and 2013, the Company recognized $24,709,792, $7,911,733 and $13,952,550 of revenue, respectively, under toll manufacturingarrangements.

The Company enters into buy-and-sell arrangements with certain raw material vendors pursuant to which the Company sells finished goods, comprising either solar cells or solar modules, in exchange for raw materials, typically silicon wafers. These arrangements are made with counterparties in the same line of business and are executed as a means of securing a stable supply of raw materials. The transactions are recorded in revenues and cost of revenues at fair value on a gross basis. During the years ended December 31, 2011, 2012, and 2013, the Company purchased$21,463,337, nil and nil of raw materials and sold $43,883,871, nil and nil of finished goods under these buy-and-sell arrangements, respectively.

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

**(In U.S. dollars)**

**2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

As of December 31, 2011, 2012 and 2013, the Company had inventories of $23.2 million, $18.4 million and $8.2 million, respectively, relating to sales to customers where revenues were not recognized because the collection of payment was not reasonably assured. The delivered products remain in inventories on consolidated balance sheets, regardless of whether title has been transferred. In such cases, the Company recognizes revenue, relieves inventories and recognizes cost of revenues when payment is collected from customers.

***(u) Shipping and handling costs***

Payments received from customers for shipping and handling costs are included in net revenues. Shipping and handling costs relating to sales of $31,785,077,$41,902,327 and $33,937,727, are included in selling expenses for the years ended December 31, 2011, 2012 and 2013, respectively.

***(v) Research and development***

Research and development costs are expensed when incurred and amounted to $19,838,547, $12,998,122 and $11,684,993 for the years ended December 31, 2011,2012 and 2013, respectively.

***(w) Advertising expenses***

Advertising expenses are expensed when incurred and amounted to $11,194,027, $11,874,452 and $4,669,237 for the years ended December 31, 2011, 2012 and2013, respectively.

***(x) Warranty cost***

Before June 2009, the Company typically sold its standard solar modules 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% and 20%, respectively, from the initial minimum power generation capacity at the time of delivery. In June 2009, the Company increased its warranty against defects in materials and workmanship to six years. Effective August 1, 2011,the Company increased its warranty against defects in materials and workmanship to ten years and the Company guarantee that, for a period of 25 years, its standard solar modules will maintain the following performance levels: (i) during the first year, the actual power output of the module will be no less than 97% of the labeled power output; (ii) from year 2 to year 24, the actual annual power output decline of the module will be no more than 0.7%; and (iii) by the end of year 25, the actual power output of the module will be no less than 80% of the labeled power output.

In resolving claims under the workmanship warranty, the Company has the option of remedying through repair, refurbishment or replacement of equipment.

In resolving claims under the performance warranty, the Company has the right to repair or replace solar modules, at the Company's option.

For utility-scale solar power projects built by the Company, the Company provides a limited workmanship or balance of system warranty against defects in engineering design, installation and construction under normal use, operation and service conditions for a period of up to five years

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

**(In U.S. dollars)**

**2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

following the energizing of the solar power plant. In resolving claims under the workmanship or balance of system warranty, the Company has the option of remedying through repair, refurbishment or replacement of equipment. The Company has entered into similar workmanship warranties with its suppliers to back up its warranties.

The Company maintains warranty reserves to cover potential liabilities that could arise under these guarantees and warranties. Due to limited warranty claims to date, the Company accrues the estimated costs of warranties based on an assessment of its competitors' and its own actual claim history, industry-standard accelerated testing, estimates of failure rates from the Company's quality review, and other assumptions that the Company believes to be reasonable under the circumstances. Actual warranty costs are accumulated and charged against the accrued warranty liability. To the extent that accrual for warranty costs differs from the estimates, the Company will prospectively revise its accrual rate. The Company currently records a 1% warranty provision against the revenue for sales of solar power products.

In April 2010, the Company began entering into agreements with a group of insurance companies with high credit ratings to back up its warranties. Under the terms of the insurance policies, which are designed to match the terms of its PV module product warranty policy, the insurance companies are obliged to reimburse the Company, subject to certain maximum claim limits and certain deductibles, for the actual product warranty costs that the Company incurs under the terms of its PV module product warranty policy. The Company records the insurance premiums initially as prepaid expenses and amortizes them over the respective policy period of one year. Each prepaid policy provides insurance against warranty costs for panels sold within that policy year. The unamortized carrying amount is $14,719,807, $3,061,879 and $1,082,500 as of December 31, 2011, 2012 and 2013, respectively and was included as a component of prepaid expenses and other current assets.

The warranty obligations the Company records relate to defects that existed when the product was sold to the customer. The event which the Company is insured against through its insurance policies is the sale of products with these defects. Accordingly, the Company views the insured losses attributable to the shipment of defective products covered under its warranty as analogous to potential claims, or claims that have been incurred as of the product ship date, but not yet reported. The Company expects to recover all or a portion of its obligation through insurance claims. Therefore, the Company's accounting policy is to record an asset for the amount determined to be probable of recovery from the insurance claims (not to exceed the amount of the total losses incurred), consistent with the guidance set forth at ASC 410-30.

The Company considers the following factors in determining whether an insurance receivable that is probable and recoverability can be reasonably estimated: (i) reputation and credit rating of the insurance company; (ii) comparison of the PV module product warranty policy against the terms of the insurance policies, to ensure valid warranty claims submitted by customers will be covered by the policy and therefore reimbursed by the insurance companies; and (iii) with respect to specific claims submitted, written communications from the insurance company are monitored to ensure the claim has been promptly submitted to and accepted by the insurance company, and reimbursements have been

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

**(In U.S. dollars)**

**2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

subsequently collected. The successfully processed claims provide further evidence that the insurance policies are functioning as anticipated.

To the extent uncertainties regarding the solvency of insurance carriers or the legal sufficiency of insurance claims (including if they became subject to litigation) were to arise, the Company would establish a provision for uncollectible amounts based on the specific facts and circumstances. To date, no provision had been determined to be necessary. In addition, to the extent that accrual for warranty costs differs from the estimates and the Company prospectively revises its accrual rate, this change may result in a change to the amount expected to be recovered from insurance.

As the warranty obligation and related recovery asset do not meet the criteria for offsetting, the gross amounts are reported in the Company's consolidated balance sheets. The asset is expected to be realized over the life of the warranty obligation, which is 25 years and is treated as a non-current asset consistent with the underlying warranty obligation. When a specific claim is submitted, and the corresponding insurance proceeds will be collected within twelve months of the balance sheet date, the Company will reclassify that portion of the receivable as being current. The Company reviews the recoverability of warranty insurance receivables at each period end. As of December 31, 2013, the insurance receivable amounts were $27,942,735, and were included as a component of other non-current assets.

The Company made downward adjustments of accrued warranty costs by $31,413,301 and other non-current assets by $17,691,653, for the year ended December 31, 2013, to reflect the general declining trend of the average selling price of solar modules, which is a primary input into the estimated warranty costs. The warranty costs (net effect of adjustment) of $18,347,272, $12,516,349 and $(16,464,540) are included in cost of revenues for the years ended December 31, 2011, 2012 and 2013, respectively.

***(y) Redeemable non-controlling interests***

Redeemable non-controlling interests are equity interests in common stock of consolidated subsidiaries that have redemption features that are not solely within the Company's control. These interests are classified as temporary equity because their redemption is considered probable. These interests are measured at the greater of estimated redemption value at the end of each reporting period or the initial carrying amount of the redeemable non-controlling interests adjusted for cumulative earnings allocations.

***(z) Foreign currency translation***

The United States dollar ("U.S. dollar" or "$"), the currency in which a 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. dollars 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 transaction date. Transaction gains and losses are recognized in the consolidated statements of operations. Gains and losses on intra-entity foreign currency transactions

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

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**2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

that are of a long-term-investment nature (that is, settlement is not planned or anticipated in the foreseeable future) between consolidated entities are not recognized in earnings, but are included as a component of other comprehensive income.

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"), Euro, Canadian dollar ("CAD") and Japanese yen, 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 in the statements of comprehensive income.

***(aa) Comprehensive income***

Comprehensive income includes all changes in equity except those resulting from investments by owners and distributions to owners. For the years presented, total comprehensive income included (i) net income, (ii) foreign currency translation adjustments and (iii) gains and losses on intra-entity foreign currency transactions that are of a long-term-investment nature (that is, settlement is not planned or anticipated in the foreseeable future) between consolidated entities. The consolidated financial statements have been adjusted for the retrospective application of the authoritative guidance regarding presentation of comprehensive income, which was adopted by the Company on January 1, 2012.

***(ab) 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 denominated in RMB amounted to $363,647,327, $491,288,121 and $497,510,242 as of December 31, 2011, 2012 and 2013, respectively.

***(ac) 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 advances to suppliers.

All of the Company's cash and cash equivalents are held with financial institutions that Company management believes to have high credit quality.

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

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

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**2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

materials. The Company performs ongoing credit evaluations of its suppliers' financial conditions. The Company generally does not require collateral or security against advances to suppliers, however, it maintains a reserve for potential credit losses and such losses have historically been within management's expectation.

The prepayments made by the Company are unsecured and expose the Company to supplier credit risk. As of December 31, 2012 and 2013, gross prepayments made to individual suppliers in excess of 10% of total advances to suppliers are as follows:

| | At December 31, 2012 | At December 31, 2013 |
|---|---|---|
| | $ | $ |
| Supplier A | 17,712,192 | 18,506,251 |
| Supplier B | 10,182,165 | 10,497,138 |
| Supplier C | 9,545,172 | 9,840,223 |
| Supplier D | 7,954,817 | 8,889,764 |
| Supplier E | 18,999,361 | 7,745,714 |

***(ad) Fair value of derivatives and financial instruments***

The Company estimates fair value of financial assets and liabilities as the price that would be received from the sale of an asset or paid to transfer a liability (i.e., an exit price) on the measurement date in an orderly transaction between market participants. The fair value measurement guidance establishes a three-level fair value hierarchy that prioritizes the inputs into the valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority, Level 1, to measurements based on unadjusted quoted prices in active markets for identical assets or liabilities and lowest priority, Level 3, to measurements based on unobservable inputs and classifies assets and liabilities with limited observable inputs or observable inputs for similar assets or liabilities as Level 2 measurement. When available, the Company uses quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, the Company measures fair value using valuation techniques that use when possible, current market-based or independently sourced market parameters, such as interest rates and currency rates.

***(ae) Earnings(loss) per share***

Basic earnings (loss) per share is computed by dividing income (loss) attributable to holders of common shares by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) 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. Common share equivalents are not included in the calculation of dilutive earnings per share if their effects are anti-dilutive.

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

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## 2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

***(af) Share-based compensation***

The Company's share-based compensation with employees, such as share options, restricted shares and restricted share units ("RSUs"), is measured at the grant date, based on the fair value of the award, and is recognized as compensation expense, net of estimated forfeitures, over the period during which an employee is required to provide service in exchange for the award, which is generally the vesting period.

***(ag) Recently issued accounting pronouncements***

In March 2013, the FASB issued ASU 2013-05, an authoritative pronouncement related to parent's accounting for the cumulative translation adjustment upon de-recognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. Under the guidance, the cumulative translation adjustment should be released into net income when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. A pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of an equity method investment which is a foreign entity. The amendments are effective prospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted. The adoption of the amendments will not have a material impact on the Company's consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11 which provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The ASU requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This ASU applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of this guidance is not expected to have a significant effect on the Company's consolidated financial statements.

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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## 3. ACQUISITION

*Acquisition of Projects 16*

On April 17, 2012, the Company entered into a purchase agreement with a group of sellers ("Seller") under which the Company acquired 97% of the common shares and non-voting tracking shares in 16 solar power projects ("Projects 16") representing approximately 190-200 MW (DC) from Seller. Each of these projects was awarded a 20-year power purchase contract by the Ontario Power Authority. Fifteen of these contracts were issued under Ontario's FIT program, and one was issued as part of Ontario's Renewable Energy Standard Offer Program. The following table summarized the total consideration the Company paid as at the closing date.

| | |
|---|---|
| Cash consideration | 186,716,547 |
| Fair value of the issuance of warrant, net of cash received | 7,774,990 |
| Total consideration paid | $ 194,491,537 |

The Company has allocated the total consideration between the tangible assets and project assets on the consolidated balance sheets.

As a part of the consideration, CSI issued a warrant (the "Warrant") which entitled the Seller to acquire 9.90% of CSI's outstanding common shares. The Warrant will not be exercisable until the expiry of one year from the closing date (June 15, 2012), and will expire on the fifth anniversary of the closing date. The exercise price of the warrant is $5.0. The exercise price is subject to standard anti-dilution adjustments.

The fair market value of warrants was determined on the grant date through the binomial option pricing model using the following assumptions:

| | As of June 15, 2012 |
|---|---|
| Risk free rate | 1.76% |
| Volatility ratio | 93.50% |
| Dividend yield | — |

In June 2013, the Seller exercised the Warrant in accordance with the terms contained therein.

As the non-voting tracking shares issued by the solar power projects were still held by the Seller on the Closing Date, and 97% of them are redeemable by the Company upon satisfaction of certain conditions, the non-voting tracking shares are considered puttable equity instruments with a redemption feature that is not solely within the Company's control, and accordingly presented as redeemable non-controlling interests on the consolidated balance sheets.

*Acquisition of SunEdison Projects*

On February 8, 2013, the Company acquired 100% interest in a utility-scale solar power project in Ontario, Canada with a total capacity of approximately 10.5 MW (DC) from SunEdison with consideration of $8.8 million. On June 28, 2013, the Company acquired 100% interest in another utility-scale solar power project in Ontario, Canada with a total capacity of approximately 12 MW (DC)

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

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## 3. ACQUISITION (Continued)

from SunEdison for consideration of $9.1million. The Company recorded them as project assets on the consolidated balance sheets.

*Acquisition of Projects in Japan*

In June and November of 2013, the Company acquired 100% interest in six project companies in Japan, each constituting one solar power project, with a total capacity of approximately 116.0 MW (DC) from a seller in Japan. The total consideration was Japanese yen 2,035.8 million ($19.3 million) based on certain millstones. As of December 31, 2013, Japanese yen 139.6 million ($1.3 million) was paid and recorded as project assets on the consolidated balance sheets.

## 4. ALLOWANCE FOR DOUBTFUL ACCOUNTS

Allowance for doubtful accounts are comprised of allowances for accounts receivable trade and advances to suppliers.

An analysis of allowances for accounts receivable, trade for the years ended December 31, 2011, 2012 and 2013 is as follows:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | $ | $ | $ |
| Beginning of the year | 7,956,036 | 9,505,481 | 47,582,217 |
| Allowances made (reversed) during the year, net | 6,552,926 | 43,240,595 | (1,897,423) |
| Accounts written-off against allowances | (5,053,538) | (5,325,908) | (7,877,676) |
| Foreign exchange effect | 50,057 | 162,049 | 675,709 |
| Closing balance | 9,505,481 | 47,582,217 | 38,482,827 |

An analysis of allowances for advances to suppliers for the years ended December 31, 2011, 2012 and 2013 is as follows:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | $ | $ | $ |
| Beginning of the year | 19,389,542 | 38,123,721 | 38,545,487 |
| Allowances made during the year, net | 17,728,681 | 370,622 | 855,066 |
| Foreign exchange effect | 1,005,498 | 51,144 | 646,277 |
| Closing balance | 38,123,721 | 38,545,487 | 40,046,830 |

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

**(In U.S. dollars)**

## 5. INVENTORIES

Inventories consist of the following:

| | At December 31, 2012 | At December 31, 2013 |
|---|---|---|
| | $ | $ |
| Raw materials | 40,197,952 | 52,610,348 |
| Work-in-process | 16,739,907 | 25,181,639 |
| Finished goods | 217,517,939 | 153,365,824 |
| | 274,455,798 | 231,157,811 |

In 2011, 2012 and 2013, inventory was written down by $8,456,260, $3,085,529 and $714,558, respectively, to reflect the lower of cost or marke measurement.

## 6. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consist of the following:

| | At December 31, 2012 | At December 31, 2013 |
|---|---|---|
| | $ | $ |
| Buildings | 166,300,361 | 179,807,928 |
| Leasehold improvements | 4,873,232 | 5,790,852 |
| Machinery | 422,895,433 | 452,673,833 |
| Furniture, fixtures and equipment | 34,611,247 | 36,549,260 |
| Motor vehicles | 3,023,309 | 2,954,325 |
| | 631,703,582 | 677,776,198 |
| Less: Accumulated depreciation | (202,390,860) | (283,885,686) |
| | 429,312,722 | 393,890,512 |
| Construction in process | 40,330,100 | 13,714,467 |
| Property, plant and equipment, net | 469,642,822 | 407,604,979 |

Depreciation expense of property, plant and equipment was $55,104,656, $80,644,322 and $79,726,604 for the years ended December 31, 2011, 2012 and 2013, respectively. Constructionin process primarily represents production facilities under construction and the machinery under installation.

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

**(In U.S. dollars)**

## 7. INTANGIBLE ASSETS, NET

The following summarizes the Company's intangible assets:

| As of December 31, 2013 | Gross Carrying Amount | Accumulated Amortization | Net |
|---|---|---|---|
| | $ | $ | $ |
| Technical know-how | 1,627,777 | (1,004,715) | 623,062 |
| Computer software | 7,490,070 | (2,456,199) | 5,033,871 |
| Total intangible assets, net | 9,117,847 | (3,460,914) | 5,656,933 |

| As of December 31, 2012 | Gross Carrying Amount | Accumulated Amortization | Net |
|---|---|---|---|
| | $ | $ | $ |
| Technical know-how | 1,025,861 | (341,954) | 683,907 |
| Computer software | 5,634,986 | (1,991,289) | 3,643,697 |
| Total intangible assets, net | 6,660,847 | (2,333,243) | 4,327,604 |

Amortization expense for the years ended December 31, 2011, 2012 and 2013 were $1,012,624, $754,148 and $1,094,637, respectively.

Amortization expenses of the above intangible assets is expected to be approximately $1.3 million, $1.2 million, $0.9 million, $0.7 million and $0.5 million for the years ended December 31, 2014, 2015, 2016, 2017 and 2018, respectively.

## 8. FAIR VALUE MEASUREMENT

As of December 31, 2012 and 2013, information about inputs into the fair value measurements of the Company's assets or liabilities that are measured at fair value on a recurring basis in periods subsequent to their initial recognition is as follows:

| | Fair Value Measurements at Reporting Date Using | | | |
|---|---|---|---|---|
| As of December 31, 2013 | Total Fair Value and Carrying Value on the Balance Sheets | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| | $ | $ | $ | $ |
| Assets: | | | | |
| Foreign exchange forward contracts | 7,323,422 | — | 7,323,422 | — |
| Liabilities: | | | | |
| Foreign exchange forward contracts | 597,089 | — | 597,089 | — |

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

**(In U.S. dollars)**

## 8. FAIR VALUE MEASUREMENT (Continued)

| | Fair Value Measurements at Reporting Date Using | | | |
|---|---|---|---|---|
| As of December 31, 2012 | Total Fair Value and Carrying Value on the Balance Sheets | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| | $ | $ | $ | $ |
| Assets: | | | | |
| Foreign exchange option contracts | 100,837 | — | 100,837 | — |
| Foreign exchange forward contracts | 1,249,820 | — | 1,249,820 | — |
| Total Assets | 1,350,657 | — | 1,350,657 | — |
| Liabilities: | | | | |
| Foreign exchange forward contracts | 365,226 | — | 365,226 | — |

The Company's foreign currency derivative instruments relate to foreign exchange option or forward contracts involving major currencies such as Euro, Renminbi, Canadian dollar and Japanese yen. Since its derivative instruments are not traded on an exchange, the Company values them using valuation models. Interest rate yield curves and foreign exchange rates are the significant inputs into these valuation models. These inputs are observable in active markets over the terms of the instruments the Company holds, and accordingly, the fair value measurements are classified as Level 2 in the hierarchy. The Company considers the effect of its own credit standing and that of its counterparties in valuations of its derivative financial instruments.

The Company measures certain long-lived assets or long-term investments at fair value on a non-recurring basis in periods after initial measurement in circumstances when the fair value of such assets is below its recorded cost and impairment is required.

In accordance with ASC 360, the Company's mono-crystalline ingot furnaces with a carrying value of $5.8 million was written down to its fair value $2.2 million, resulting an impairment charge of $3.6 million included in general and administrative expenses in the consolidated statements of operations for the year ended December 31, 2013. The fair value of the investment was measured based on prices offered by unrelated third-party willing buyers and classified as level 3 fair value measurements as the offering prices are not observable.

In accordance with the provision of ASC 323, investment in Nernst New Energy (Suzhou) Co., Ltd. was fully impaired, with the resulting impairment charge of $1.1 million recognized as investment loss in the consolidated statements of operations for the year ended December 31, 2012. The fair value measurement was estimated using a discounted cash flow approach involving significant inputs including forecasted cash flows and discount rate and is classified as Level 3.

The Company also holds financial instruments that are not recorded at fair value in the consolidated balance sheets, but whose fair value is required to be disclosed under U.S. GAAP.

The carrying value of cash and cash equivalents, trade receivables, billed and unbilled, amount due from a related party, accounts and short-term notes payable, due to related parties, and short-term borrowings approximate their fair value due to the short-term maturity of these instruments. Long-term

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

**(In U.S. dollars)**

## 8. FAIR VALUE MEASUREMENT (Continued)

bank borrowings of $214,562,973 and $151,391,572 as of December 31, 2012 and 2013 respectively, which approximate their fair value since these borrowings contain variable interest rates. The fair value of long-term borrowings was measured based on discounted cash flow approach, which is classified as level 2 as the key input can be corroborated with market data.

Depending on the terms of the specific derivative instruments and market conditions, some of the Company's derivative instruments may be assets and others liabilities at any particular point in time.

The Company's primary objective for holding derivative financial instruments is to manage currency risk. The recognition of gains or losses resulting from changes in fair value of those derivative instruments is based on the use of each derivative instrument and whether it qualifies for hedge accounting.

The Company entered into certain foreign currency derivative contracts to protect against volatility of future cash flows caused by the changes in foreign exchange rates. The foreign currency derivative contracts do not qualify for hedge accounting and, as a result, the changes in fair value of the foreign currency derivative contracts are recognized in the consolidated statements of operations. The Company recorded a gain (loss) on foreign currency derivative contracts of $(5,750,981), $(4,369,173) and $10,764,226 for the years ended December 31, 2011, 2012 and 2013respectively.

The effect of fair value of derivative instruments on the consolidated balance sheets as of December 31, 2012 and 2013 and the effect of derivative instruments on consolidated statements of operations for the years ended December 31, 2012 and 2013 are as follows:

| | Fair Value of Derivatives Asset | | | |
|---|---|---|---|---|
| | At December 31, 2012 | | At December 31, 2013 | |
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| | | $ | | $ |
| Foreign exchange option contracts | Foreign currency derivative assets | 100,837 | Foreign currency derivative assets | — |
| Foreign exchange forward contracts | Foreign currency derivative assets | 1,249,820 | Foreign currency derivative assets | 7,323,422 |
| Total derivatives | | 1,350,657 | | 7,323,422 |

| | Fair Value of Derivatives Liability | | | |
|---|---|---|---|---|
| | At December 31, 2012 | | At December 31, 2013 | |
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| | | $ | | $ |
| Foreign exchange forward contracts | Foreign currency derivative liabilities | 365,226 | Foreign currency derivative liabilities | 597,089 |

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

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## 8. FAIR VALUE MEASUREMENT (Continued)

| | Location of Gain (Loss) Recognized in Income on Derivatives | Amount of Gain (Loss) Recognized in Income on Derivatives — Years Ended December 31 | | |
|---|---|---|---|---|
| | | 2011 | 2012 | 2013 |
| | | $ | $ | $ |
| Foreign exchange option contracts | Gain(Loss) on change in foreign currency derivatives | (6,933,353) | 428,340 | 304,582 |
| Foreign exchange forward contracts | Gain(Loss) on change in foreign currency derivatives | 1,182,372 | (4,797,513) | 10,459,644 |
| Total | | (5,750,981) | (4,369,173) | 10,764,226 |

## 9. INVESTMENTS IN AFFILIATES

Investments in affiliates consist of the following:

| | At December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2013 | |
| | Carrying Value | Ownership Percentage | Carrying Value | Ownership Percentage |
| | $ | (%) | $ | (%) |
| Suzhou Gaochuangte New Energy Co., Ltd. | 6,453,371 | 40 | 7,123,976 | 40 |
| CSI SkyPower | 2,565,075 | 50 | 3,813,133 | 50 |
| GCL-CSI (Suzhou) Photovoltaic Technology Co., Ltd. | 1,834,296 | 10 | 2,584,143 | 10 |
| Nernst New Energy (Suzhou) Co., Ltd. | — | 50 | — | 50 |
| Others | 15,874,847 | 21-30 | 20,549,236 | 21-30 |
| Total | 26,727,589 | | 34,070,488 | |

On December 17, 2009, CSI Cells Co., Ltd. ("SZCC", or "CSI Cells") established a joint venture, Suzhou Gaochuangte New Energy Co., Ltd., for total cash consideration of $2,929,020. SZCC holds a 40% voting interests and one of the three board members is designated by SZCC and, as such, SZCC is considered to have significant influence over the investee. On July 4, 2011, Suzhou Gaochuangte New Energy Co., Ltd. increased its share capital, and SZCC paid $3,118,800 in proportion to its ownership percentage.

On November 30, 2010, SZCC acquired a 50% interests in a joint venture, Nernst New Energy (Suzhou) Co., Ltd., for cash consideration of $1,503,531. The chairman of the board, who is designated by the other investor, has veto rights over all the operating and financial proposals from SZCC and, as such SZCC is not considered to have control, but does exercise significant influence, over the investee. As at December 31, 2012, due to the deterioration of the investee's financial position, the Company concluded that the investment was fully impaired.

On July 4, 2011, CSI Solar Power (China) Inc. ("SZSP") acquired a 10% interests in a joint venture, GCL-CSI (Suzhou) Photovoltaic Technology Co., Ltd, for cash consideration of $2,548,827. SZSP is able to exercise significant influence over the investee through its representative in the board.

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

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## 9. INVESTMENTS IN AFFILIATES (Continued)

On May 23, 2012, CSI established a joint venture, CSI SkyPower, for cash consideration of $3,428,751. In August 2013, CSI SkyPower increased its share capital, and CSI paid $4,000,045 in proportion to its ownership percentage. CSI holds a 50% voting interests and two of four board members are designated by CSI and, as such, CSI is considered to have significant influence over the investee.

On September 25, 2012, CSI Project Holdco, LLC ("USPH") acquired 21% equity interests in 9 separate utility-scale solar power projects from a third party by contribution of solar modules with an aggregate book value of $2,122,225. These equity interests were recorded at the carrying value of the modules contributed.

On September 27, 2012, USPH acquired equity interests of 30.3% and 28.3% in 2 separate utility-scale solar power projects, respectively, from a third party, by contribution of solar modules with an aggregate book value of $2,204,008. These equity interests were recorded at the carrying value of the modules contributed.

In September, 2012, USPH also acquired 21% equity interests in 12 separate utility-scale solar power projects and 30% equity interests in 3 separate utility-scale solar power projects from a third party by contribution of solar modules with an aggregate book value of $11,548,614. In the second quarter of 2013, 5 solar power projects increased their share capital, and USPH contributed solar modules with an aggregate book value of $5,791,202 in proportion to its ownership percentage. These equity interests were recorded at the carrying value of the modules contributed.

Equity in loss of unconsolidated investees was $41,163, $1,969,306 and $3,064,006 for the years ended December 31, 2011, 2012 and 2013, respectively.

## 10. BORROWINGS

| | At December 31, 2012 | At December 31, 2013 |
|---|---|---|
| | $ | $ |
| Bank borrowings | 1,073,489,705 | 929,904,076 |
| Analysis as: | | |
| Short-term | 800,808,595 | 588,765,154 |
| Long-term, current portion | 17,481,257 | 136,449,641 |
| Subtotal for short-term | 818,289,852 | 725,214,795 |
| Long-term, non-current portion | 214,562,973 | 142,653,448 |
| Borrowings from non-banking financial institutions | 40,636,880 | 62,035,833 |
| Analysis as: | | |
| Short-term | 40,636,880 | 53,297,709 |
| Long-term | — | 8,738,124 |
| Total | 1,073,489,705 | 929,904,076 |

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

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**10. BORROWINGS (Continued)**

As of December 31, 2013, the Company had contractual bank credit facilities of $1,036,308,271, of which $100,858,186 has been drawn down with the due dates beyond December 31, 2014, $537,824,419 has been drawn down with the due dates before December 31, 2014 and $397,625,666 was available for draw down upon demand. In addition, as of December 31, 2013, the Company also had non-binding bank credit facilities of $406,058,541, of which $350,654,625 has been drawn down with the due dates before December 31, 2014 and$55,403,916 was subject to banks' discretion upon request for additional drawn down.

As of December 31, 2013, short-term borrowings of $247,855,632 and long-term borrowings of $68,179,417 were secured by bank notes and property, plant and equipment with carrying amounts of $126,314,168, inventories of $63,371,549, prepaid land use rights of $12,880,278 and project assets of $288,974,166.

***a) Short-term***

The Company's short-term borrowings consist of the following:

| | At December 31, 2012 | At December 31, 2013 |
|---|---|---|
| | $ | $ |
| Bank borrowings | | |
| Short-term bank borrowings secured by restricted cash | 175,289,355 | 69,840,000 |
| Short-term bank borrowings secured by inventories | 79,548,166 | 32,905,247 |
| Short-term bank borrowings guaranteed by Dr. Shawn Qu | 66,349,563 | 30,161,927 |
| Short-term bank borrowings secured by prepaid land use rights and property, plant and equipment | 231,676,935 | 108,781,908 |
| Short-term bank borrowings secured by project assets | — | 28,035,954 |
| Short-term bank borrowings secured by bank notes | 21,825,595 | 36,420,800 |
| Unsecured short-term borrowings | 226,118,981 | 282,619,318 |
| Long-term borrowings due within one year | | |
| Long-term borrowings due within one year secured by prepaid land use rights and property, plant and equipment | 13,523,188 | 19,926,520 |
| Long-term borrowings due within one year secured by project assets | — | 49,821,157 |
| Unsecured long-term borrowings due within one year | 3,958,069 | 66,701,964 |
| Subtotal | 818,289,852 | 725,214,795 |
| Borrowings from non-banking financial institutions | | |
| Unsecured short-term borrowings | 40,636,880 | 53,297,709 |
| Total | 858,926,732 | 778,512,504 |

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

**(In U.S. dollars)**

**10. BORROWINGS (Continued)**

The average interest rate on short-term borrowings was 4.60% and 4.67% per annum for the years ended December 31, 2012 and 2013, respectively. The short-term borrowings are repayable within one year.

***b) Long-term***

The Company's long-term borrowings consist of the following:

| | At December 31, 2012 | At December 31, 2013 |
|---|---|---|
| | $ | $ |
| Bank borrowings | | |
| Unsecured long-term bank borrowings | 142,969,791 | 62,664,031 |
| Long-term bank borrowings secured by project assets | — | 60,589,417 |
| Long-term bank borrowings secured by restricted cash | — | 19,400,000 |
| Long-term bank borrowings secured by prepaid land use rights and property, plant and equipment | 71,593,182 | — |
| Borrowings from non-banking institutions | | |
| Long-term borrowings secured by project assets | — | 7,590,000 |
| Unsecured long-term borrowings | — | 1,148,124 |
| Total | 214,562,973 | 151,391,572 |

The average interest rate on long-term borrowings was 6.68% and 6.15% per annum for the years ended December 31, 2012 and 2013, respectively.

Future principal repayment on the long-term borrowings are as follows:

| | |
|---|---|
| 2014 | 136,449,641 |
| 2015 | 57,857,360 |
| 2016 | 33,785,817 |
| 2017 and thereafter | 59,748,395 |
| Total | 287,841,213 |
| Less: future principal repayment related to long-term borrowings, current portion | (136,449,641) |
| Total long-term portion | $ 151,391,572 |

On June 25, 2009, CSI Solar Power Inc. entered into several loan agreements with a local Chinese commercial bank for the construction of solar wafer production lines. The total credit facility under those agreements is $14,761,607, which requires repayment of $4,920,523, $4,920,523, $3,280,383 and $1,640,178 in 2011, 2012, 2013 and 2014, respectively. Interest is due quarterly in arrears. The outstanding balance as of December 31, 2013 was $ 1,640,178 and was guaranteed by CSI Cells Co., Ltd. The borrowing bears a floating base interest rate published by People's Bank of China

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

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**10. BORROWINGS (Continued)**

for borrowings with the same maturities and does not contain any financial covenants or restrictions. On January 20, 2010, CSI Solar Power Inc. was merged into Canadian Solar Manufacturing (Changshu) Inc., and the loan was transferred to Canadian Solar Manufacturing(Changshu) Inc.

On May 31, 2010, CSI Cells Co., Ltd. entered into a syndicated loan agreement with local Chinese commercial banks for the expansion of solar cell production capacity. The total credit facility under this agreement is $145,630,940, or an equivalent RMB amounts, with two tranches. The first tranche has a credit limit of $71,478,730, which requires repayment within one year. The second tranche has a credit limit of $74,152,210. As of December 31, 2013, CSI Cells Co., Ltd. has drawn $72,340,041 from the second tranche in RMB. Both tranches bear the base interest rate published by People's Bank of China for the same maturity for RMB denominated borrowings. Interest under both tranches is due quarterly in arrears. Outstanding borrowings under this agreement were $72,340,041 at December 31, 2013, which requires repayment of $72,340,041 in 2014. The borrowing under the agreement is guaranteed by CSI Solar Power (China) Inc., Canadian Solar Manufacturing (Luoyang) Inc., and Canadian Solar Manufacturing (Changshu) Inc. The agreement does not contain any financial covenants or restrictions.

On October 29, 2011, CSI Cells Co., Ltd. entered into a syndicated loan agreement with local Chinese commercial banks. The total credit facility under this agreement is $134,494,298, or an equivalent RMB amount, with two tranches. The first tranche has a credit limit of $27,882,964, which requires repayment within one year and was for working capital purposes. The second tranche has a credit limit of $106,611,334 for the expansion of solar cell production capacity of CSI Cell Co., Ltd. As of December 31, 2013, CSI Cells Co., Ltd. has drawn $73,430,760 from the second tranche in RMB. Both tranches bear the base interest rate published by People's Bank of China for the same maturity for RMB denominated borrowings. Interest under both tranches is due quarterly in arrears. Outstanding borrowings under this agreement were $73,430,760 at December 31, 2013, which requires repayment of $11,566,534, $11,566,534, $25,321,065 and $24,976,627 in 2014, 2015, 2016 and 2017 respectively. The borrowing under the agreement is guaranteed by CSI Solar Power (China) Inc., Canadian Solar Manufacturing (Luoyang) Inc. and Canadian Solar Manufacturing (Changshu) Inc. The agreement does not contain any financial covenants or restrictions.

On June 26, 2012, Canadian Solar Japan K.K. entered into a loan agreement with a Japanese bank for working capital. The total credit facility under the agreement is $1,580,284 or an equivalent Japanese yen amount, which has a maturity of 36 months. Outstanding borrowings under this agreement were $942,288 at December 31, 2013, which requires the repayment of $638,324 and $303,964 in 2014 and 2015 respectively. The borrowing bears a fixed rate of 0.9% and does not contain any financial covenants or restrictions.

On August 13, 2012, CSI entered into a loan agreement with a local Chinese bank for the acquisition of Projects 16. The total credit facility under the agreement is $87,472,117, or an equivalent Canadian dollar amount, which has a maturity of 60 months. Interest is due quarterly in arrears. The outstanding balance as of December 31, 2013 was $28,639,956, which requires repayment of $12,246,050, $12,246,050 and $4,147,856 in 2014, 2015 and 2016 respectively. The loan was guaranteed by CSI Solar Project 16 Inc., CSI Solar Power(China) Inc. and Canadian Solar Solutions Inc. The borrowing bears a floating interest rate equal to LIBOR+4.9%. The borrowing contains financial

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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**10. BORROWINGS (Continued)**

covenants which require that for any period ended Jun 30 and December 31 in the following three years, the ratio of liabilities to assets of the Company shall be no higher than 88%. As at December 31, 2013, the Company met the requirements of the financial covenants.

On November 29, 2012, CSI Solar Project 5 Inc., the Company's 100% owned subsidiary, entered into a loan agreement with Deutsche Bank AG, Canada Branch, or Deutsche Bank. The total facility under this agreement is $130,733,831 or an equivalent Canadian dollar amount for the construction of solar power projects in Ontario, Canada. Outstanding borrowings under this agreement were $34,376,760 at December 31, 2013, which requires repayment in 2014. The contract maturity date is the earlier to occur of (i) October 31, 2014, and (ii) the date the projects are sold. As at December 31, 2013, since the projects are expected to be sold in one year, the loan was reported in the current portion in the financial statements. The borrowing was secured by project assets and contained financial covenants that the aggregate amount of loans in respect of any Project shall not exceed 75% of the Project Costs for the Project. As at December 31, 2013, the Company met the requirements of the financial covenants.

On February 28 2013, Canadian Solar Japan K.K. entered into a loan agreement with a Japanese bank for working capital. The total credit facility under this agreement is $1,234,852, or an equivalent Japanese yen amount, with two tranches. The first tranche has a credit limit of $949,886, which requires repayment of $28,497 each month in the following three years and the borrowing of first tranche bears a fixed rate of 1.45% per year. The second tranche has a credit limit of $284,966, which requires repayment of $8,454 each month in the following three years and the borrowing of second tranche bears a fixed rate of 2.3% per year. Outstanding borrowings under this agreement were $939,248 at December 31, 2013, which requires repayment of $443,307, $443,307 and $52,434 in 2014, 2015 and 2016 respectively. The agreement does not contain any financial covenants or restrictions.

On May 20, 2013, CSI Solar Manufacture Inc. and Tumushuke CSI New Energy Development Co., Ltd., the Company's 100% owned subsidiaries, entered into a loan agreement with a local Chinese bank for construction of a solar power project in China. The total credit facility under this agreement is $44,284,800, or an equivalent RMB amount, which requires repayment of $3,198,347, $3,198,347, $3,116,338 and $34,771,768 in 2014, 2015, 2016, 2017 and thereafter, respectively. Interest is due quarterly in arrears. The outstanding balance as ofDecember 31, 2013 was $44,284,800, which was guaranteed by CSI Solar Power (China) Inc. and secured by the project assets of Tumushuke CSI New Energy Development Co., Ltd. The borrowing bears a floating rate equal to the base interest rate published by People's Bank of China with the same maturities, which was 6.55% as of December 31, 2013 for loans of more than 5 years. The borrowing also contains financial covenants which require that the ratio of liabilities to assets of CSI Solar Manufacture Inc. and Tumushuke CSI New Energy Development Co., Ltd. shall not exceed 75%. As at December 31, 2013, the Company met all the requirements of the financial covenants.

On October 16, 2013, CSI Solar Project 3 Inc., the Company's 100% owned subsidiary, entered into a loan agreement with Deutsche Bank AG, Canada Branch, or Deutsche Bank. The construction financing facility under this agreement is $97,866,969 or an equivalent Canadian dollar amount for the construction of solar power projects in Ontario, Canada. Outstanding borrowings under this agreement

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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**10. BORROWINGS (Continued)**

were $3,109,058 at December 31, 2013, which requires repayment of $3,109,058 in 2015. The contract maturity date is the earlier of (i) July 31, 2015, or (ii) the date the projects are sold. As at December 31, 2013, the projects are expected to be sold beyond one year and as such, the company considered the maturity date to be July 31, 2015. The borrowing was secured by project assets and does not contain any financial covenants or restrictions.

On October 28, 2013, CSI Cells Co., Ltd., entered into a loan agreement with a state-owned trust company about research of Solar Photovoltaic Technology. The total credit facility under this agreement is $1,148,124, or an equivalent RMB amount, which requires repayment of $1,148,124 in 2016. The loan is free of interest and does not contain any financial covenants or restrictions.

On November 25, 2013, Canadian Solar International Limited entered into a loan agreement with a Chinese commercial bank overseas branch. The total credit facility under this agreement is $30,000,000 for general working capital purposes. Outstanding borrowings under this agreement were $19,400,000 at December 31, 2013, which requires repayment in 2015. The borrowing bears a floating interest rate equal to LIBOR+1.8% and the agreement does not contain any financial covenants or restrictions.

On December 4, 2013, Canadian Solar International Project 1 Limited, the Company's 100% owned subsidiary, entered into a loan agreement with Harvest North Star Capital. The total credit facility under this agreement is $40,000,000 and will be used to finance the development of several ground-mounted solar power projects in Japan. Outstanding borrowings under this agreement were $7,590,000 at December 31, 2013, which requires repayment in 2015. The loan is secured by project assets and guaranteed by Canadian Solar Inc. and bears 12.5% per annum rate. The agreement does not contain any financial covenants or restrictions.

***c) Interest expense***

The Company capitalized interest costs incurred into the Company's project assets or property, plant and equipment as follows during the years ended December 31, 2011, 2012 and 2013:

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | $ | $ | $ |
| Interest capitalized—project assets | — | 4,631,569 | 17,292,847 |
| Interest capitalized—property, plant and equipment | 4,099,815 | 670,374 | 347,791 |
| Interest expense | 43,843,586 | 53,304,640 | 46,244,456 |
| Total interest incurred | 47,943,401 | 58,606,583 | 63,885,094 |

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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## 11. SHORT-TERM NOTES PAYABLE

The Company enters into arrangements with banks wherein the banks issue notes to the Company's vendors, which effectively serve to extend the payment date of the associated accounts payable. Vendors may present the notes for payment to a bank, including the bank issuing the note, prior to the stated maturity date, but generally at a discount from the face amount of the note. The Company is generally required to deposit restricted cash balances with the issuing bank, which are utilized to immediately repay the bank upon the banks' settlement of the notes. Given the purpose of these arrangements is to extend the payment dates of accounts payable, the Company has recorded such amounts as short-term notes payable. As payments by the bank are immediately repaid by the Company's restricted cash balances and other deposits with that same bank, the notes payable do not represent cash borrowings from the bank and, as such, the associated cash payments have been recorded by the Company as an operating activity in the consolidated statements of cash flows. As of December 31, 2012 and 2013, short-term notes payable was $231,135,928 and $358,570,263, respectively.

## 12. ACCRUED WARRANTY COSTS

The Company's warranty activity is summarized below:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | $ | $ | $ |
| Beginning balance | 31,224,906 | 47,021,352 | 58,334,424 |
| Warranty provision | 18,347,272 | 12,516,349 | (16,464,540) |
| Warranty costs incurred | (2,550,826) | (1,203,277) | (1,265,232) |
| Ending balance | 47,021,352 | 58,334,424 | 40,604,652 |

## 13. 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 staff welfare and bonus reserve. The 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 board of directors determines the staff welfare and bonus reserve.

The general reserve is used to offset future 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

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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## 13. RESTRICTED NET ASSETS (Continued)

appropriations to general reserve and the registered share capital of the Company's PRC subsidiaries are considered as restricted net assets amounting to $364,991,380 as of December 31, 2013.

## 14. INCOME TAXES

The provision for income taxes is comprised of the following:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | $ | $ | $ |
| Income (Loss) before Income Tax | | | |
| Canada | (23,378,980) | 2,616,980 | 41,700,153 |
| Other | (50,984,454) | (203,205,487) | 11,503,569 |
| | (74,363,434) | (200,588,507) | 53,203,722 |
| Current Tax | | | |
| Canada | 8,047,733 | 2,447,930 | 1,694,557 |
| Other | 13,078,893 | 13,249,752 | 9,989,086 |
| | 21,126,626 | 15,697,682 | 11,683,643 |
| Deferred Tax | | | |
| Canada | 2,577,854 | 1,713,862 | 11,493,561 |
| Other | (7,164,540) | (22,844,954) | (15,538,418) |
| | (4,586,686) | (21,131,092) | (4,044,857) |
| Total Income Tax (Benefit) Expense | | | |
| Canada | 10,625,587 | 4,161,792 | 13,188,118 |
| Other | 5,914,353 | (9,595,202) | (5,549,332) |
| | 16,539,940 | (5,433,410) | 7,638,786 |

The Company mainly operates in Canada, PRC, Japan, Germany, the United States and Hong Kong.

**Canada**

The Company was incorporated in Ontario, Canada and is subject to both federal and Ontario provincial corporate income taxes at a rate of 28.25%, 26.5% and 26.5% for the years ended December 31, 2011, 2012 and 2013, respectively.

Canadian Solar Solutions Inc. was incorporated in Ontario, Canada and is subject to both federal and Ontario provincial corporate income taxes at a rate of 28.25%, 26.5% and 26.5% for the years ended December 31, 2011, 2012 and 2013, respectively.

Canadian Solar Manufacturing (Ontario) Inc. was a manufacturing entity incorporated in Ontario, Canada, and was subject to both federal and Ontario provincial corporate income taxes at a rate of

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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**(In U.S. dollars)**

**14. INCOME TAXES (Continued)**

26.5% and 25% for the years ended December 31, 2011 and 2012, respectively. Canadian Solar Manufacturing (Ontario) Inc. was amalgamated with Canadian Solar Solutions Inc. on December 4, 2013.

**United States**

Canadian Solar (USA) Inc. was incorporated in Delaware, USA and is subject to federal, California, and other states' corporate income taxes at a rate of 40.03%, 35.55% and 38.10% for the years ended December 31, 2011, 2012 and 2013, respectively.

**Japan**

Canadian Solar Japan K.K. was incorporated in Japan and is subject to Japanese corporate income taxes at a normal statutory rate of approximately 40.69% for the years ended December 31, 2011 and 2012, 38.01% for December 31, 2013.

**Germany**

Canadian Solar EMEA GmbH was incorporated in Munich, Germany and is subject to German corporate income tax at a rate of approximately 33% for the years ended December 31, 2011, 2012 and 2013, respectively.

**Hong Kong**

Canadian Solar International Ltd. ("HKSI") was incorporated in Hong Kong, China, and is subject to Hong Kong profits tax at a rate of 16.5% for the years ended December 31, 2011, 2012 and 2013, respectively.

**PRC**

The other major operating subsidiaries, including CSI Solartronics (Changshu) Co., Ltd., CSI Solar Technologies Inc., CSI Cells Co., Ltd., Canadian Solar Manufacturing (Luoyang) Inc., CSI Solar Power (China) Inc. and Canadian Solar Manufacturing (Changshu) Inc., were governed by the PRC Enterprise Income Tax Law ("new EIT Law").

Under the new EIT Law, both foreign-invested enterprises and domestic enterprises are subject to a uniform enterprise income tax rate of 25%. The new EIT Law also provides a five-year transition period for those enterprises established before the promulgation date of the new EIT Law and were entitled to preferential tax treatment under the previous tax law. Enterprises that were subject to an enterprise income tax rate lower than 25% will have the new uniform enterprise income tax rate of 25% phased in over a five-year period from the effective date of the EIT Law. Enterprises that were entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires, subject to certain limitations.

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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**14. INCOME TAXES (Continued)**

Accordingly, the enterprise income tax rates applicable to the Company's major operating subsidiaries in China are summarized as follows:

| Company | Applicable enterprise income tax rate under the new EIT Law |
|---|---|
| CSI Solartronics (Changshu) Co., Ltd. | 25% |
| CSI Solar Technologies Inc. | 25% for 2013 and onwards; exempted for 2008 and 2009, and 12.5% for 2010, 2011 and 2012 (half reduction of 25%) |
| CSI Cells Co., Ltd. | 25% for 2013 and onwards; 15% for 2012 resulting from its High and New Technology Enterprise ("HNTE") status; exempted for 2008, 12.5% for 2009, 2010 and 2011 (half reduction of 25%) |
| Canadian Solar Manufacturing (Luoyang) Inc. | 25% for 2012 and onwards; exempted for 2008, 12.5% for 2009, 2010 and 2011 (half reduction of 25%) |
| Canadian Solar Manufacturing (Changshu) Inc. | 25% for 2013 and onwards; exempted for 2008 and 2009, 12.5% for 2010, 2011 and 2012 (half reduction of 25%) |
| CSI Solar Power (China) Inc. | 25% |

The Company makes an assessment of the level of authority for each of its uncertain tax positions (including the potential application of interest and penalties) based on their technical merits, and has measured the unrecognized benefits associated with such tax positions. This liability is recorded as liability for uncertain tax positions in the consolidated balance sheets. In accordance with its policies, the Company accrues and classifies interest and penalties associated with such unrecognized tax benefits as a component of its income tax provision. The amount of interest and penalties accrued as of December 31 2012 and 2013 was $3,561,524 and $4,191,070, respectively. The Company does not anticipate any significant changes to its liability for unrecognized tax positions within the next 12 months.

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

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## 14. INCOME TAXES (Continued)

The following table illustrates the movement and balance of the Company's liability for uncertain tax positions (excluding interest and penalties) for the years ended December 31, 2011, 2012 and 2013, respectively.

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | $ | $ | $ |
| Beginning balance | 9,191,281 | 9,453,041 | 11,242,208 |
| Addition for tax positions related to the current year | 736,707 | 1,789,167 | 1,806,512 |
| Reductions for tax positions from prior years/Statute of limitations expirations | (474,947) | — | (48,119) |
| Ending balance | 9,453,041 | 11,242,208 | 13,000,601 |

The Company is subject to taxation in various jurisdictions where it operates, mainly including Canada and China. Generally, the Company's taxation years from 2006 to 2012 are open for reassessment to the Canadian tax authorities. The Company's taxation years from 2003 through 2013 are subject to examination by the Chinese tax authorities due to its permanent establishment in China.

According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of income taxes has resulted from the computational errors of the taxpayer. The statute of limitations could be extended to five years under special circumstances. Though not being clearly defined, a special circumstance would suffice where any underpayment of income taxes exceeds RMB100,000. For income tax adjustments relating to transfer pricing matters, the statute of limitations is ten years. Therefore, the Company's Chinese subsidiaries might be subject to reexamination by the Chinese tax authorities on non-transfer pricing matters for taxation years up to 2008 retrospectively, and on transfer pricing matters for taxation years up to 2003 retrospectively. There is no statute of limitations in case of tax evasion in China.

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

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## 14. INCOME TAXES (Continued)

The components of the deferred tax assets and liabilities are presented as follows:

| | At December 31, 2012 | At December 31, 2013 |
|---|---|---|
| | $ | $ |
| Deferred tax assets: | | |
| Accrued warranty costs | 9,208,666 | 9,249,470 |
| Bad debt allowance | 12,113,049 | 13,418,947 |
| Issuance costs | 339,267 | 491,570 |
| Inventory write-down | 6,649,004 | 4,451,285 |
| Depreciation difference of property, plant and equipment | 17,920,711 | 23,431,856 |
| Contingent liabilities | 4,508,086 | — |
| Net operating losses carry-forward | 69,189,405 | 93,376,674 |
| Others | 3,158,341 | 4,858,010 |
| Total deferred tax assets | 123,086,529 | 149,277,812 |
| Valuation allowance | (54,140,359) | (57,189,659) |
| Total deferred tax assets, net of valuation allowance | 68,946,170 | 92,088,153 |
| Analysis as: | | |
| Current | 29,863,672 | 29,137,910 |
| Non-current | 39,082,498 | 62,950,243 |
| | 68,946,170 | 92,088,153 |
| Deferred tax liabilities: | | |
| Foreign currency derivative assets | 700,184 | 1,538,914 |
| Depreciation difference of property, plant and equipment | 4,644,722 | 5,598,193 |
| Basis difference related to SkyPower acquisition | 62,572,569 | 73,901,868 |
| Others | 709,052 | 922,772 |
| Total deferred tax liabilities | 68,626,527 | 81,961,747 |
| Analysis as: | | |
| Current | 12,474,952 | 57,918,099 |
| Non-current | 56,151,575 | 24,043,648 |
| | 68,626,527 | 81,961,747 |

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

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**14. INCOME TAXES (Continued)**

Movement of the valuation allowance is as follows:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | $ | $ | $ |
| Beginning balance | 2,082,609 | 39,745,271 | 54,140,359 |
| Additions | 37,769,025 | 14,530,536 | 4,670,785 |
| Foreign exchange effect | (106,363) | (135,448) | (1,621,485) |
| Ending balance | 39,745,271 | 54,140,359 | 57,189,659 |

As of December 31, 2013, the Company has accumulated net operating losses of $380,232,049, of which $167,890,855 will expire between 2015 and 2032, and the remaining can be carried forward indefinitely.

The Company considers positive and negative evidence to determine whether some portion or all of the deferred tax assets will not be realized. This assessment considers, among other matters, the nature, frequency and severity of recent losses, forecasts of future profitability, the duration of statutory carry-forward periods, the Company's experience with tax attributes expiring unused and tax planning alternatives. The Company has considered the following possible sources of taxable income when assessing the realization of deferred tax assets:

- Tax planning strategies;
- Future reversals of existing taxable temporary differences;
- Further taxable income exclusive of reversing temporary differences and carry-forwards;

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible for tax purposes. As a result, the Company has recognized a valuation allowance of $54,140,359 and $57,189,659 as at December 31, 2012 and 2013, respectively.

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

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## 14. INCOME TAXES (Continued)

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 and benefit for income taxes is as follows:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| Combined federal and provincial income tax rate | 28% | 27% | 27% |
| Expenses not deductible for tax purpose | (19%) | (1%) | — |
| Tax exemption and tax relief granted to the Company | 25% | — | — |
| Effect of different tax rate of subsidiary operations in other jurisdiction | (3%) | (7%) | 1% |
| Unrecognized tax benefits | (1%) | (1%) | 5% |
| Valuation allowance | (51%) | (14%) | 5% |
| Change of tax rates in subsequent years | — | — | (23%) |
| Exchange gain (loss) | (1%) | (1%) | — |
| | (22%) | 3% | 15% |

The effect of a change of tax rates in subsequent years of 23% is resulted from the change of CSI Cell Co., Ltd.'s income tax rate. Specifically, beginning in 2013, as a result in a change in business practice, CSI Cell Co., Ltd. no longer met all criteria to qualify as a HNTE and therefore lost its eligibility for the preferential 15% tax rate. The income tax rate for CSI Cell Co., Ltd. is 25% for 2013 and onwards.

The aggregate amount and per share effect of the tax holiday are as follows:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | $ | $ | $ |
| The aggregate dollar effect | 18,162,641 | — | — |
| Per share effect—basic | 0.42 | — | — |
| Per share effect—diluted | 0.42 | — | — |

There is no preferential tax rate in 2013. The aggregate amount and per share effect of the preferential tax rate of 12.5% for CSI Solar Technologies Inc. and the rate of 15% for CSI Cells resulting from its HNTE status for year 2012 were not disclosed in the table above as the effect was negative and the effect is disclosed in the rate reconciliation table.

In accordance with the EIT Law, dividends, which arise from profits of foreign invested enterprises ("FIEs") earned after January 1, 2008, are subject to a 10% withholding income tax. Under applicable accounting principles, a deferred tax liability should be recorded for taxable temporary difference attributable to excess of financial reporting basis over tax basis in the investment in a foreign subsidiary. However, a deferred tax liability is not recognized if the basis difference is not expected to reverse in the foreseeable future and is expected to be permanent in duration. As of December 31,

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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## 14. INCOME TAXES (Continued)

2013, all of the undistributed earnings of approximately $114.6 million attributable to the Company's PRC subsidiaries and affiliates are considered to be permanently reinvested, and no provision for PRC withholding income tax on dividend has been made thereon accordingly. Upon distribution of those earnings generated after January 1, 2008, in the form of dividends or otherwise, the Company would be subject to the then applicable PRC tax laws and regulations. Distributions of earnings generated before January 1, 2008 are exempt from PRC dividend withholding tax. The amounts of unrecognized deferred tax liabilities for these earnings are in the range of $5.6 million to $11.2 million, as the withholding tax rate of the profit distribution will be 5% or 10% depends on whether the immediate offshore companies can enjoy the preferential withholding tax rate of 5%.

## 15. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings (loss) per share for the years indicated:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (In U.S. dollars, except share and per share data) | | |
| Net income (loss) attributable to Canadian Solar Inc. —basic and diluted | $ (90,804,200) | $ (195,468,691) | $ 31,659,276 |
| Weighted average number of common shares —basic | 43,076,489 | 43,190,778 | 46,306,739 |
| Diluted share number from share options and RSUs | — | — | 4,081,545 |
| Weighted average number of common shares —diluted | 43,076,489 | 43,190,778 | 50,388,284 |
| Basic earnings (loss) per share | $ (2.11) | $ (4.53) | $ $0.68 |
| Diluted earnings (loss) per share | $ (2.11) | $ (4.53) | $ $0.63 |

The following table sets forth anti-dilutive shares excluded from the computation of diluted earnings (loss) per share for the years indicated.

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| Convertible senior notes | 50,607 | — | — |
| Share options and RSUs | 1,871,147 | 4,288,008 | 434,529 |
| Warrant | — | 4,273,102 | — |
| | 1,921,754 | 8,561,110 | 434,529 |

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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## 16. RELATED PARTY BALANCES AND TRANSACTIONS

***Related party balances:***

The amount due from related party of $4,688,692 as of December 31, 2013 is a trade receivable from the affiliate Suzhou Gaochuangte New Energy Co. Ltd ("Gaochuangte"), the Company's 40% owned affiliate, for module products sold.

The amount due from related party of $9,977,177 as of December 31, 2012 is a trade receivable from the affiliate Gaochuangte, the Company's 40% owned affiliate, for module products sold.

The amount due to related party of $19,871,718 as of December 31, 2013 consists of (i) a government award of $360,839, payable to Dr. Shawn Qu, Chairman, President, Chief Executive Officer, and major shareholder of the Company, which was initially paid to the Company, (ii) a trade payable of $19,510,879 to Gaochuangte for the EPC service fees.

The amount due to related party of $5,036,642 as of December 31, 2012 consists of (i) a government award of $283,191, payable to Dr. Shawn Qu, Chairman, President, Chief Executive Officer, and major shareholder of the Company, which was initially paid to the Company, and (ii) a trade payable of $4,753,451 to Gaochuangte for the EPC service fees.

***Related party transactions:***

**Guarantees and loans**

Dr. Shawn Qu fully guaranteed a one-year RMB1,520 million, RMB1,001 million and RMB1,866 million (US$308.2 million) loan facilities from Chinese commercial banks in 2011, 2012 and 2013, respectively. Amounts drawn down from the facilities as at December 31, 2012 and 2013 were $66,349,563 and $30,167,927, respectively. As at December 31, 2013, Dr. Shawn Qu also fully guaranteed a one-year RMB25 million loan facility from a financial institution.

In May, June and August 2013, Dr. Shawn Qu loaned the Company an aggregate of $13.0 million at an interest rate of 4.27%. The purpose of the loans was to fund the operations of Canadian Solar International Ltd. The Company repaid the loans, including interest of $241,729 in November and December 2013. As of December 31, 2013, the Company had no outstanding borrowings with Dr. Shawn Qu.

**Sales and purchase contracts with affiliates**

In 2013, the Company sold solar modules to Gaochuangte in the amount of RMB100,879,336 ($16,390,032).

In 2012, the Company sold solar modules to Gaochuangte in the amount of RMB66,520,343 ($10,513,212).

In 2013, the Company paid RMB448,791,858 ($72,488,671) to Gaochuangte for EPC services related to the Company's solar power projects. These amounts were recorded in project assets.

In 2012, the Company paid RMB12,987,653 ($2,066,288) to Gaochuangte for EPC services related to the Company's solar power projects. Since the solar power project is for the Company's internal use, these amounts were recorded in construction in progress.

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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## 17. COMMITMENTS AND CONTINGENCIES

***a) Operating lease commitments***

The Company has operating lease agreements principally for its office properties in the PRC, Canada, Japan and the United States. Such leases have remaining terms ranging from 1 to 229 months and are renewable upon negotiation. Rental expenses were $5,444,078, $8,618,436 and $9,603,086 for the years ended December 31, 2011,2012 and 2013, respectively.

Future minimum lease payments under non-cancelable operating lease agreements at December 31, 2013 were as follows:

| Year Ending December 31: | $ |
|---|---|
| 2014 | 3,999,182 |
| 2015 | 2,655,233 |
| 2016 | 1,854,330 |
| 2017 | 1,765,696 |
| Thereafter | 4,659,064 |
| Total | 14,933,505 |

***b) Property, plant and equipment purchase commitments***

As of December 31, 2013, short-term commitments for the purchase of property, plant and equipment were $11,635,064.

***c) Supply purchase commitments***

In order to secure future solar wafers supply, the Company has entered into long-term supply agreements with suppliers in the past several years. Under such agreements, the suppliers agreed to provide the Company with specified quantities of solar wafers, and the Company has made prepayments to the suppliers in accordance with the supply contracts.

Total purchases under the long-term agreements were approximately $190,901,780, $143,109,363 and $213,833,248 during the years ended December 31, 2011, 2012 and 2013,respectively.

The following is a schedule, by year, of future minimum obligation, using market prices as of December 31, 2013, under all supply agreements as of December 31, 2013:

| Year Ending December 31: | $ |
|---|---|
| 2014 | 251,493,929 |
| 2015 | 346,259,757 |
| Total | 597,753,686 |

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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**17. COMMITMENTS AND CONTINGENCIES (Continued)**

***d) Contingencies***

*Deutsche Solar AG*

In 2007, the Company entered into a twelve-year wafer supply agreement with Deutsche Solar AG, under which the Company is required to purchase a contracted minimum volume of wafers at pre-determined fixed prices and in accordance with a pre-determined schedule, commencing January 1, 2009. The fixed prices may be adjusted annually at the beginning of each calendar year by Deutsche Solar AG to reflect certain changes in their material costs. The agreement also contains a take-or-pay provision, which requires the Company to pay the contracted amount regardless of whether the Company acquires the contracted annual minimum volumes. In 2009, the Company did not meet the minimum volume requirements under the agreement. Deutsche Solar AG agreed that the Company could fulfill its fiscal 2009 purchase obligation in fiscal 2010. In 2010, the Company fulfilled its 2009 purchase commitment under the agreement but did not meet the minimum purchase obligation for 2010. In 2011, the Company did not meet its purchase commitment for the year. The Company believes that the take-or-pay provisions of the agreement are void under German law and, accordingly, as of December 31, 2010 had not accrued for the full $21,143,853 that would otherwise be due under the take-or-pay provision of the agreement. Rather, the Company assumed that it would be permitted to purchase its 2010 contracted quantity, in addition to its 2011 contracted quantity, in fiscal 2011 and had included the purchase obligation for both years in its evaluation of the loss on the long-term purchase commitments. The Company recorded a loss on firm purchase commitments of $10,610,419, nil and nil for the years ended December 31, 2011,2012 and 2013, respectively.

In December 2011, Deutsche Solar AG gave notice to the Company to terminate the twelve-year wafer supply agreement with immediate effect. Deutsche Solar AG justified the termination with alleged breach of the agreement by the Company. In the notice, Deutsche Solar AG also reserved its right to claim damage of Euro148.6 million in court. The agreement was terminated in 2011. As a result, the Company reclassified the accrued loss on firm purchase commitments reserve of $27,862,017 as of December 31, 2011 to loss contingency accruals. In addition, the Company made a full bad debt allowance of $17,408,593 against the balance of its advance payments to Deutsche Solar as a result of the termination of the long-term supply contract. The accrued amount of $27,862,017 represents the Company's best estimate for its loss contingency. Deutsche Solar did not specify the basis for its claimed damage of Euro 148.6 million in the notice.

*LDK*

In 2007, the Company entered into a three-year agreement with Jiangxi LDK Solar Hi-Tech Co., Ltd., or LDK, under which the Company purchased specified quantities of silicon wafers and LDK converted the Company's reclaimed silicon feedstock into wafers. In June 2008, the Company entered into two long-term supply purchase agreements with LDK in which the Company was required to purchase a contracted minimum volume of wafers at pre-determined fixed prices and in accordance with a pre-determined schedule. In April 2010, the Company sent notice to LDK and announced termination of these two contracts. In July 2010, the Company filed a request for arbitration against LDK with the Shanghai Branch of the China International Economic and Trade Arbitration

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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**17. COMMITMENTS AND CONTINGENCIES (Continued)**

Commission, or CIETAC Shanghai Branch. In its arbitration request, the Company asked LDK to refund (1) an advance payment of RMB10.0 million that it had made to LDK pursuant to a three-year wafer supply agreement between CSI Cells and LDK entered into in October 2007 and (2) two advance payments totaling RMB50.0 million that CSI Cells had made to LDK pursuant to two ten-year supply agreements between CSI Cells and LDK entered into in June 2008. The first hearing was held in October 2010, during which the Company and LDK exchanged and reviewed the evidence. After the first hearing, LDK counterclaimed against the Company, seeking ((1) forfeiture of the three advance payments totaling RMB60.0 million that CSI Cells had made to LDK pursuant to the October 2007 and June 2008 agreements; (2) compensation of approximately RMB377.0 million or the loss due to the alleged breach of the June 2008 agreements by CSI Cells; (3) a penalty of approximately RMB15.2 million due to the alleged breach of the June 2008 agreements by CSI Cells; and (4) arbitration expenses up to RMB4.7 million. The second hearing was held on March 9, 2011, during which the parties presented arguments to the arbitration commission. The arbitration commission hosted a settlement discussion between the parties on May 13, 2011. In December of 2012, CIETAC Shanghai Branch awarded RMB248.9 million plus RMB2.2 million in arbitration expenses in favor of LDK in relation to the wafer supply contracts the Company entered into with LDK, including RMB60.0 million previously paid deposits. CIETAC Shanghai Branch determined that the Company had no legal grounds to cancel the long-term supply agreements. As of December 31, 2012 and 2013, the Company had provided a full allowance against the advance to LDK of $9,538,172 and $9,840,223, respectively due to the uncertainty of recovery. In December 2012, the Company made a non-cash provision totaling $30.0 million following an arbitration award made against the Company by CIETAC Shanghai Branch in favor of LDK.

In February 2013, LDK filed for enforcement proceedings against the Company with the Jiangsu Suzhou Intermediate People's Court, or the Suzhou Intermediate Court. In May 2013, the Suzhou Intermediate Court dismissed a request by LDK to enforce this arbitration award, after which LDK initiated additional proceedings against the Company in the Xinyu Intermediate People's Court, Jiangxi Province, or the Xinyu Intermediate Court, claiming that the Company's rights to the initial deposits had been forfeited. Accordingly, the Company reversed the provision of $30.0 million in the first quarter of 2013. On November 29, 2013, the Suzhou Intermediate Court vacated its decision of May 2013, or the May Decision, to dismiss a request by LDK, to enforce an arbitration award against the Company made by the former Shanghai branch of the China International Economic and Trade Arbitration Commission in favor of LDK in the amount of RMB248.9 million ($41.1 million) relating to certain wafer supply contracts entered into between the Company and LDK in October 2007 and June 2008, and ruled that the case be re-adjudicated. This decision followed a request for re-adjudication issued by the Jiangsu Provincial High Court, which reviewed the May Decision and ordered the Suzhou Intermediate Court to retry the case on the grounds that its May Decision was based on insufficient legal grounds. The Company expects the Suzhou Intermediate Court to retry this case in May 2014. If the Suzhou Intermediate Court reverses the May Decision, the Company may be liable for a payment of RMB191.2 million ($31.6 million) to LDK. The Company has not made a provision for this amount. Xinyu Intermediate Court, on October 18, 2013, postponed a related proceeding demanding the Company forfeit deposits of RMB25 million and RMB35 million paid to LDK in conjunction with the 2007 and 2008 supply contracts. The Xinyu Intermediate Court suspended

**CANADIAN SOLAR INC.**

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**17. COMMITMENTS AND CONTINGENCIES (Continued)**

its proceedings pending the outcome of the Suzhou Intermediate Court's re-examination of the May Decision.

In March 2014, LDK filed an application for arbitration with the China International Economic and Trade Arbitration Commission, or CIETAC, in Shanghai, seeking (1) compensation of RMB530.0 million ($87.5 million) for economic losses (including losses of potential profits) caused by the alleged breach of the June 2008 agreements; (2) attorney fees of RMB1.2 million ($0.2 million); and (3) arbitration expenses. CIETAC sent the Notice of Arbitration to the Company on April 8, 2014 to which the Company plans to make a timely response. The claims stated in the new application for arbitration overlap with the previous action that CIETAC Shanghai Branch has already decided upon, and which the Suzhou Intermediate Court refused to enforce. The Company believes that it will succeed in persuading CIETAC to postpone consideration of the new application for arbitration until the Suzhou Intermediate Court issues its decision.

The Company disputes the merits of the proceedings brought against it by LDK and will defend itself vigorously against these claims. No provision has been provided as of December 31, 2013.

*Class Action Lawsuits*

Following the two subpoenas from the SEC in 2010, six class action lawsuits were filed in the United States District Court for the Southern District of New York, or the New York cases, and another class action lawsuit was filed in the United States District Court for the Northern District of California, or the California case. The New York cases were consolidated into a single action in December 2010. On January 5, 2011, the California case was dismissed by the plaintiff, who became a member of the lead plaintiff group in the New York action. On March 11, 2011, a Consolidated Complaint was filed with respect to the New York action. The Consolidated Complaint alleges generally that the Company's financial disclosures during 2009 and early 2010 were false or misleading; asserts claims under Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 thereunder; and names the Company, its chief executive officer and its former chief financial officer as defendants. The Company filed its motion to dismiss in May 2011, which was taken under submission by the Court in July 2011. On March 30, 2012, the Court dismissed the Consolidated Complaint with leave to amend, and the plaintiffs filed an Amended Consolidated Complaint against the same defendants on April 19, 2012. On March 29, 2013, the Court dismissed with prejudice a class action lawsuit filed against us and certain named defendants alleging that our financial disclosures during 2009 and early 2010 were false or misleading and in violation of federal securities law. The court found that the plaintiffs failed to adequately allege a securities law violation and granted the Company's motion to dismiss all claims against all defendants with prejudice. On December 20, 2013, the United States Court of Appeals for the Second Circuit affirmed the district court's order dismissing such class action lawsuit.

In addition, a similar class action lawsuit was filed against the Company and certain of its executive officers in the Ontario Superior Court of Justice on August 10, 2010. The lawsuit alleges generally that the Company's financial disclosures during 2009 and 2010 were false or misleading and brings claims under the shareholders' relief provisions of the Canada Business Corporations Act, Part XXIII.1 of the Ontario Securities Act as well as claims based on negligent misrepresentation. In December 2010, the

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

**(In U.S. dollars)**

**17. COMMITMENTS AND CONTINGENCIES (Continued)**

Company filed a motion to dismiss the Ontario action on the basis that the Ontario Court has no jurisdiction over the claims and potential claims advanced by the plaintiff. The court dismissed the Company's motion on August 29, 2011. On March 30, 2012, the Ontario Court of Appeal denied the Company's appeal with regard to its jurisdictional motion. On November 29, 2012, the Supreme Court of Canada denied the Company's application for leave to appeal the order of the Ontario Court of Appeal. The plaintiff's motions for class certification and leave to assert the statutory cause of action under the Ontario Securities Act were served in January 2013 and initially scheduled for argument in the Ontario Superior Court of Justice in June 2013.However, theplaintiff's motions were adjourned in view of the plaintiff's decision to seek an order compelling the Company to file additional evidence on the motions. On July 29, 2013 the Court dismissed the plaintiff's motion to compel evidence. On September 24, 2013 the plaintiff's application for leave to appeal from the July 29 order was dismissed. The plaintiff has yet to apply for new court dates for the argument of its motions. The plaintiff's motions have now been scheduled for hearing in July 2014. The Company believes the Ontario action is without merit and the Company is defending it vigorously.

*Countervailing and anti-dumping duties*

In October 2011, a trade action was filed with the U.S. Department of Commerce, or USDOC, and the U.S. International Trade Commission, or USITC, by the U.S. unit of SolarWorld AG and six other U.S. firms, accusing Chinese producers of crystalline silicon photovoltaic cells, or CSPV cells, whether or not incorporated into modules, of selling their products (i.e., CSPV cells or modules incorporating these cells) into the United States at less than fair value, or dumping, and of receiving countervailable subsidies from the Chinese authorities. These firms asked the U.S. government to impose anti-dumping and countervailing duties on CSPV cells imported from China. The USDOC and the USITC investigated the validity of these claims. The Company was identified as one of a number of Chinese exporting producers of the subject goods to the U.S. market. The Company also has affiliated U.S. operations that import the subject goods from China.

On October 9, 2012, the USDOC issued final affirmative determinations in the anti-dumping and countervailing duty investigations. On November 7, 2012, the USITCruled that imports of CSPV cells had caused material injury to the U.S. CSPV industry. As a result of these rulings, the Company is required to pay cash deposits on CSPV cells imported into the U.S. from China, whether alone or incorporated into modules. The announced cash deposit rates applicable to the Company were 13.94% (anti-dumping duty) and 15.24% (countervailing duty). The Company paid all cash deposits due as a result of these determinations. The rates at which duties will be assessed and payable is subject to ongoing administrative reviews pursuant to a request by SolarWorld AG and may differ from the announced deposit rates. These duties could materially and adversely affect the Company's affiliated U.S. import operations and increase the Company's cost of selling into the United States, thus adversely affecting the Company's export sales to the United States, which is one of the Company's growing markets. A number of parties have challenged rulings of the USDOC and the USITC in appeals to the U.S. Court of International Trade. Decisions on those appeals are not expected before the end of 2014.

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

**(In U.S. dollars)**

## 17. COMMITMENTS AND CONTINGENCIES (Continued)

On December 31, 2013, the U.S. unit of SolarWorld AG filed a new trade action at the USDOC and the USITC accusing Chinese producers of certain CSPV cells and modules of dumping their products into the United States and of receiving countervailable subsidies from the Chinese authorities. This trade action also accuses Taiwanese producers of certain CSPV cells and modules of dumping their products into the United States. Excluded from these new actions are those Chinese-origin solar products covered by the 2012 rulings detailed in the prior paragraphs. The USDOC and the USITC are investigating the validity of these claims. The USITC completed its preliminary phase investigation on February 14, 2014, and the USDOC's preliminary phase investigations are ongoing, with decisions currently expected in June. The Company was identified as one of a number of Chinese producers exporting subject goods to the U.S. market. The Company also has affiliated U.S. operations that import goods subject to these new investigations.

On September 6, 2012, following a complaint lodged by EU ProSun, an ad-hoc industry association including SolarWorld AG, the European Commission initiated an anti-dumping investigation concerning imports into the EU of CSPV modules and key components (i.e., cells and wafers) originating in China. On November 8, 2012, following a complaint lodged by the same parties, the European Commission initiated an anti-subsidy investigation on these products. In each investigation, the Company was identified as one of a number of Chinese exporting producers of these products to the EU market. The Company also has affiliated EU operations that import these products from China.

Definitive anti-dumping duties and definitive countervailing measures were imposed on December 6, 2013. However, under the terms of an undertaking entered into with the European Commission, duties are not payable on the Company's products sold into the EU, so long as the Company respects a volume ceiling and minimum price arrangement set forth in that undertaking and until the measures expire or the European Commission withdraws the undertaking.

In November 2012, India initiated an anti-dumping investigation on imported solar products from China, Taiwan, the United States and Malaysia. The scope of the Indian complaint includes thin-film and CSPV cells and modules, as well as "glass and other suitable substrates." The period of investigation is from January 1, 2011 to June 30, 2012. TheCompany completed and submitted a "sampling questionnaire" and was chosen by the Indian authorities to be a sampled company. The Company submitted the data and its submitted data was subject to on-site verification by the Indian authorities from March 22, 2014 to March 26, 2014. The last stage of the investigation is the issuance of the final findings, which are due by the end of May 2014. This document will set forth its conclusions on product, dumping, injury and causal link, along with recommendations for any anti-dumping duties.

## 18. SEGMENT INFORMATION

The Company uses the management approach to determine operating segments. The management approach considers the internal organization and reporting used by the Company's chief operating decision maker for making decisions, allocating resources and assessing performance. The Group's chief operating decision maker ("CODM") has been identified as the Chief Executive Officer of the

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

**(In U.S. dollars)**

**18. SEGMENT INFORMATION (Continued)**

Company, who reviews consolidated and segment results when making decisions about allocating resources and assessing performance of the Company.

The Company operates its business in two principal reportable business segments, i.e., module segment and project segment. The module segment primarily involves design, development, manufacture and sales of solar power products and solar system kits to third parties. The project segment involves solar power project development, EPC services and O&M services. Prior year information has been recast to be consistent with the current segment presentation. The Company's CODM reviews net revenue and gross profit and does not review balance sheet information by segment.

The following table summarizes the Company's revenues and gross profit generated from each segment:

| | Years Ended December 31, 2013 | | |
|---|---|---|---|
| | Module Segment | Project Segment | Total |
| | $ | $ | $ |
| Net revenues | 1,331,428,929 | 322,927,135 | 1,654,356,064 |
| Cost of revenues | 1,152,320,216 | 226,340,877 | 1,378,661,093 |
| Gross profit | 179,108,713 | 96,586,258 | 275,694,971 |

| | Years Ended December 31, 2012 | | |
|---|---|---|---|
| | Module Segment | Project Segment | Total |
| | $ | $ | $ |
| Net revenues | 1,238,590,548 | 56,238,865 | 1,294,829,413 |
| Cost of revenues | 1,164,839,667 | 39,628,316 | 1,204,467,983 |
| Gross profit | 73,750,881 | 16,610,549 | 90,361,430 |

| | Years Ended December 31, 2011 | | |
|---|---|---|---|
| | Module Segment | Project Segment | Total |
| | $ | $ | $ |
| Net revenues | 1,787,929,364 | 110,992,742 | 1,898,922,106 |
| Cost of revenues | 1,623,402,007 | 93,238,485 | 1,716,640,492 |
| Gross profit | 164,527,357 | 17,754,257 | 182,281,614 |

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

**(In U.S. dollars)**

**18. SEGMENT INFORMATION (Continued)**

The following table summarizes the Company's net revenues generated from different geographic locations. The information presented below is based on the location of customer's headquarters:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | $ | $ | $ |
| Europe: | | | |
| —Germany | 795,265,303 | 422,038,906 | 72,186,472 |
| —Spain | 203,266,238 | 71,982,482 | 16,135,229 |
| —Czech | 8,421,667 | 8,059,076 | 1,681,169 |
| —Italy | 126,607,507 | 26,275,635 | 2,495,061 |
| —Britain | 20,341,272 | 28,266,410 | 32,901,446 |
| —Others | 79,298,703 | 99,837,219 | 54,937,272 |
| Europe Total | 1,233,200,690 | 656,459,728 | 180,336,649 |
| The Americas: | | | |
| —United States | 192,380,838 | 254,096,258 | 215,262,233 |
| —Canada | 142,537,868 | 86,327,618 | 371,840,958 |
| —Others | — | 1,828,736 | 1,175,485 |
| The Americas Total | 334,918,706 | 342,252,612 | 588,278,676 |
| Asia and other regions: | | | |
| — P R C | 128,856,693 | 89,120,632 | 199,663,742 |
| —India | 59,809,538 | 22,523,243 | 68,731,110 |
| —Japan | 97,550,677 | 120,248,386 | 483,787,914 |
| —Others | 44,585,802 | 64,224,812 | 133,557,973 |
| Asia Total | 330,802,710 | 296,117,073 | 885,740,739 |
| Total net revenues | 1,898,922,106 | 1,294,829,413 | 1,654,356,064 |

The following table summarizes the Company's long-lived assets, including property, plant and equipment and project assets at December 31, 2012 and 2013 by geographic region, based on the physical location of the assets:

| | At December 31, 2012 | At December 31, 2013 |
|---|---|---|
| | $ | $ |
| PRC | 419,473,243 | 441,711,646 |
| Canada | 258,515,880 | 115,404,304 |
| Others | 10,364,104 | 11,324,825 |
| Total long-lived assets | 688,353,227 | 568,440,775 |

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

**(In U.S. dollars)**

## 18. SEGMENT INFORMATION (Continued)

The following table summarizes the Company's revenues generated from each product or service:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | $ | $ | $ |
| Solar power products | 1,683,121,020 | 1,132,767,404 | 1,143,246,845 |
| Solar system kits | 95,787,118 | 92,624,999 | 149,767,825 |
| Solar power projects | — | 55,050,856 | 292,024,142 |
| EPC services | 110,992,742 | 658,927 | 29,878,653 |
| O&M services | — | 529,082 | 1,024,340 |
| Others | 9,021,226 | 13,198,145 | 38,414,259 |
| Total net revenues | 1,898,922,106 | 1,294,829,413 | 1,654,356,064 |

## 19. MAJOR CUSTOMERS

Details of customers accounting for 10% or more of total net revenues are as follows:

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | $ | $ | $ |
| Company A | 43,259,305 | 56,430,779 | 220,566,017 |
| Company B | — | — | 196,538,334 |

The accounts receivable from the three customers with the largest receivable balances represents 15%, 7% and 6% of the balance of the account at December 31, 2013, and 10%, 8% and8% of the balance of the account at December 31, 2012, respectively. The balance from the customer with the largest receivable balance is $42,655,751 and $25,276,990 as of December 31, 2013 and at December 31, 2012 respectively.

## 20. 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 20% of the applicable payroll cost in 2013. The expense paid by the Company to these defined contributions schemes was $3,825,278, $5,880,203 and $4,740,434 for the years ended December 31, 2011, 2012 and 2013, respectively.

In addition, in 2013, the Company is required by PRC law to contribute approximately 10%, 8%, 2% and 2% of applicable salaries for medical insurance benefits, housing funds, unemployment and other statutory benefits, respectively. The PRC government is directly responsible for the payment of the benefits to these employees. The amounts contributed for these benefits were $4,067,355, $6,012,889 and $5,461,137 for the years ended December 31, 2011, 2012 and 2013, respectively.

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

**(In U.S. dollars)**

## 21. SHARE-BASED COMPENSATION

In March 2006, the Company adopted a share incentive plan, or the Plan. The purpose of the Plan is to promote the success and enhance the value of the Company by linking the personal interests of the directors, employees and consultants to those of the shareholders and providing the directors, employees and consultants with an incentive for outstanding performance to generate superior returns to the shareholders. The Plan is also intended to motivate, attract and retain the services of the directors, employees and consultants upon whose judgment, interest and effort the successful conduct of the Company's operations is largely dependent. In September 2010, the shareholders approved an amendment to the Plan to increase the maximum number of common shares which may be issued pursuant to all awards of options, restricted shares and RSUs under the Plan to the sum of (i) 2,330,000 plus (ii) the sum of (a) 1% of the number of outstanding common shares of the Company on the first day of each of 2007, 2008 and 2009 and (b) 2.5% of the number of outstanding common shares of the Company outstanding on the first day of each calendar year after 2009. The Plan will expire on, and no awards may be granted after, May 8, 2021. Under the terms of the Plan, options are generally granted with an exercise price equal to the fair market value of the Company's ordinary shares and expire ten years from the date of grant.

***Options to Employees***

As of December 31, 2013, there was $1,887,721 in total unrecognized compensation expense related to share-based compensation awards, which is expected to be recognized over a weighted-average period of 1.3 years. During the years ended December 31, 2011, 2012 and 2013, $3,382,786, $3,433,077 and $2,186,407 was recognized as compensation expense, respectively. There is no income tax benefit recognized in the income statement for the share-based compensation arrangements in 2011, 2012 and 2013.

The Company utilizes the Binomial option-pricing model to estimate the fair value of stock options.

The following assumptions were used to estimate the fair value of stock options granted in 2011, 2012 and 2013:

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| Risk free rate | 2.76%~3.46% | 3.15% | 2.47% |
| Volatility ratio | 77%~79% | 78.79% | 89.60% |
| Dividend yield | — | — | — |
| Annual exit rate | 3.07%~4.37% | 3.49% | 3.58% |
| Exercise multiple | 4.40-4.70 | 4.40 | 4.10 |

The Company used the market yield of U.S. dollar dominated Chinese International government bonds with maturity periods that can cover the contractual life of the shares option for the risk-free rates. In 2011 and 2012, the expected volatility of the future ordinary share price was based on the price volatility of the Company and the shares of comparable companies in the industry, which are listed and publicly traded over the most recent period, equal to the expected maturity period of the issued options. Volatility is estimated based on annualized standard deviation of daily stock price return

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

**(In U.S. dollars)**

**21. SHARE-BASED COMPENSATION (Continued)**

of the Company and the comparable companies. In 2013, since the Company has been listed for approximately 7 years and its share price history is more comparable to the life of the issued options, the Company estimated the expected volatility based on the annualized standard deviation of its daily stock price return from the date of listing to the valuation date. The Company's dividend policy is to retain earnings for reinvestment purpose and the Company does not intend to distribute dividends, thus the dividend yield is assumed to be zero. The Company estimated the annual exit rates based on the historical general exit rate of staff at different levels. The Company estimated the exercise multiple based on the historical exercise pattern of prior employee stock options granted by the Company.

A summary of the option activity is as follows:

| | Number of Options | Weighted Average Exercise Price | Weighted Average Remaining Contract Terms | Aggregate Intrinsic Value |
|---|---|---|---|---|
| | | $ | | $ |
| Options outstanding at January 1, 2013 | 2,605,827 | 10.25 | | |
| Granted | 69,900 | 8.29 | | |
| Exercised | (1,198,749) | 8.57 | | |
| Forfeited | (300,118) | 10.73 | | |
| Options outstanding at December 31, 2013 | 1,176,860 | 11.73 | 6 years | 22,405,886 |
| Options vested or expected to be vested at December 31, 2013 | 1,110,301 | 11.79 | 6 years | 21,133,838 |
| Options exercisable at December 31, 2013 | 855,172 | 12.24 | 5 years | 16,144,800 |

The weighted average grant-date fair value of options granted in 2011, 2012 and 2013 was $6.50, $2.22 and $6.07, respectively. The total intrinsic value of options exercised during the years ended December 31, 2011, 2012 and 2013 was $1,760,500, $38,958 and $20,439,470, respectively.

***RSUs to Employees***

The Company granted 518,181, 1,400,237 and 1,361,623 RSUs to employees in 2011, 2012 and 2013, respectively. The RSUs entitle the holders to receive the Company's common shares upon vesting. The RSUs were granted for free and generally vest over periods from one to four years based on the specific terms of the grants. The fair market value of the Company's ordinary shares at the date of grant resulted in total compensation cost of approximately $3.6 million, $3.7 million and $4.9 million that will be recognized ratably over the vesting period for the RSUs granted in 2011, 2012 and 2013, respectively. In the years ended December 31, 2011, 2012 and 2013, the Company recognized nil, nil and $2,321,143 in compensation expense associated with these awards, respectively.

As of December 31, 2013, there was $7,385,579 of total unrecognized share-based compensation related to unvested RSUs, which is expected to be recognized over a weighted-average period of 2.7 years.

**CANADIAN SOLAR INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**

**(In U.S. dollars)**

## 21. SHARE-BASED COMPENSATION (Continued)

A summary of the RSU activity is as follows:

| | Number of Shares | Weighted Average Grant-Date Fair Value |
|---|---|---|
| | | $ |
| Unvested at January 1, 2013 | 1,670,531 | 4.40 |
| Granted | 1,358,456 | 5.07 |
| Vested | (542,420) | 6.58 |
| Forfeited | (408,927) | 4.10 |
| Unvested at December 31, 2013 | 2,077,640 | 4.32 |

The total fair value of RSUs vested during the years ended December 31, 2011, 2012 and 2013 was nil, $1,007,340 and $1,944,483, respectively.

## 22. SUBSEQUENT EVENTS

In February 2014, the Company closed an offering of 3,194,700 common shares and a concurrent offering of $150 million convertible senior notes. The Company received net proceeds of approximately $255.7 million from these offerings, after deducting discounts and commissions but before offering expenses.

Between January 1 and March 31, 2014, the Company obtained new bank borrowings of $339.0 million, of which $220.9 million have due dates before December 31, 2014, and $118.1 million have due dates beyond December 31, 2014.

Between January 1 and March 31, 2014, the Company renewed $371.3 million bank facilities with due dates beyond December 31, 2014.

**Additional Information—Financial Statement Schedule I**

**Canadian Solar Inc.**

Schedule I has been provided pursuant to the requirements of Rule 12-04(a) and 4-08(e)(3) of Regulation S-X, which require condensed financial information as to financial position, changes in financial position and results of operations of a parent company as of the same dates and for the same periods for which audited consolidated financial statements have been presented as the restricted net assets of Canadian Solar Inc.'s consolidated and unconsolidated subsidiaries not available for distribution to Canadian Solar Inc. as of December 31, 2013 of $364,991,380, exceeded the 25% threshold.

The condensed financial information has been prepared using the same accounting policies as set out in the consolidated financial statements, except that the equity method has been used to account for investments in subsidiaries.

## FINANCIAL INFORMATION OF PARENT COMPANY

### BALANCE SHEETS

| | December 31, 2012 | December 31, 2013 |
|---|---|---|
| | (In U.S. dollars, except share and per share data) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | 11,247,306 | 29,585,498 |
| Accounts receivable trade, net of allowance for doubtful accounts of $8,946,661 and $5,209,909 at December 31, 2012 and 2013, respectively | 2,567,756 | 351,207 |
| Inventories | 2,984,075 | 156,179 |
| Amounts due from related parties—current | 214,254,589 | 128,261,643 |
| Prepaid expenses and other current assets | 10,552,409 | 2,240,692 |
| Total current assets | 241,606,135 | 160,595,219 |
| Investment in subsidiaries | 209,194,706 | 252,177,589 |
| Deferred tax assets, net | 5,269,609 | 4,863,395 |
| Amount due from related parties—non-current | 150,000,000 | 150,000,000 |
| Other non-current assets | 35,356,421 | 28,491,395 |
| TOTAL ASSETS | 641,426,871 | 596,127,598 |
| **LIABILITIES AND EQUITY** | | |
| Current liabilities: | | |
| Short-term borrowings | 68,000,000 | 12,246,050 |
| Accounts payable | 4,104 | 13,127 |
| Amounts due to related parties | 159,471,359 | 141,139,539 |
| Other current liabilities | 6,616,028 | 3,936,495 |
| Total current liabilities | 234,091,491 | 157,335,211 |
| Accrued warranty costs | 32,833,031 | 18,188,694 |
| Long-term borrowings | 70,063,488 | 16,393,089 |
| Liability for uncertain tax positions | 13,540,026 | 13,681,821 |
| TOTAL LIABILITIES | 350,528,036 | 205,598,815 |
| Equity: | | |
| Common shares—no par value: unlimited authorized shares, 43,242,426 and 51,034,343 shares issued and outstanding at December 31, 2012 and 2013, respectively | 502,561,705 | 561,241,785 |
| Additional paid-in capital | (38,296,275) | (32,121,269) |
| Accumulated deficit | (224,162,124) | (192,502,847) |
| Accumulated other comprehensive income | 50,795,529 | 53,911,114 |
| TOTAL EQUITY | 290,898,835 | 390,528,783 |
| TOTAL LIABILITIES AND EQUITY | 641,426,871 | 596,127,598 |

## FINANCIAL INFORMATION OF PARENT COMPANY

## STATEMENTS OF OPERATIONS

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (In U.S. dollars) | | |
| Net revenues | 829,016,524 | 111,414,327 | 11,802,218 |
| Cost of revenues | 792,643,306 | 80,190,744 | 5,282,597 |
| Gross profit | 36,373,218 | 31,223,583 | 6,519,621 |
| Operating expenses: | | | |
| Selling expenses | 10,411,256 | 3,649,131 | 3,520,618 |
| General and administrative expenses | 13,461,891 | 11,955,578 | 5,724,288 |
| Research and development expenses | 1,255,945 | 764,145 | 714,980 |
| Total operating expenses | 25,129,092 | 16,368,854 | 9,959,886 |
| Income (loss) from operations | 11,244,126 | 14,854,729 | (3,440,265) |
| Other income (expenses): | | | |
| Interest expense | (267,979) | (255,502) | — |
| Interest income | 474,886 | 1,559,207 | 12,021,534 |
| Foreign exchange gain (loss) | 3,261,933 | (622,816) | (8,454,989) |
| Others | — | — | 427,560 |
| Other income, net: | 3,468,840 | 680,889 | 3,994,105 |
| Profit before income taxes and equity in earnings of subsidiaries and unconsolidated investees | 14,712,966 | 15,535,618 | 553,840 |
| Income tax expense | (6,742,827) | (7,441,590) | (1,275,114) |
| Equity in earnings (loss) of subsidiaries | (98,774,339) | (202,699,044) | 35,132,523 |
| Equity in earnings (loss) of unconsolidated investees | — | (863,675) | (2,751,973) |
| Net Income (loss) | (90,804,200) | (195,468,691) | 31,659,276 |

## FINANCIAL INFORMATION OF PARENT COMPANY

## STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (In U.S. dollars) | | |
| Net income (loss) | (90,804,200) | (195,468,691) | 31,659,276 |
| Other comprehensive income (net of tax of nil): | | | |
| Foreign currency translation adjustment | 17,093,766 | 5,239,819 | 3,115,584 |
| Comprehensive income (loss) attributable to Canadian Solar Inc. | (73,710,434) | (190,228,872) | 34,774,860 |

## FINANCIAL INFORMATION OF PARENT COMPANY

## STATEMENTS OF CASH FLOWS

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | | (In U.S. dollars) | |
| Operating activities: | | | |
| Net Income (loss) | (90,804,200) | (195,468,691) | 31,659,276 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 5,864 | 6,950 | 5,092 |
| Allowance for doubtful debts | 5,829,275 | 8,369,187 | 1,872,247 |
| Amortization of discount on debt | 44,485 | 49,699 | — |
| Equity in earnings (loss) of subsidiaries | 98,774,339 | 202,699,044 | (35,132,523) |
| Equity in earnings (loss) of unconsolidated investees | — | 863,675 | 2,751,973 |
| Share-based compensation | 4,060,838 | 5,185,242 | 6,175,006 |
| Changes in operating assets and liabilities: | | | |
| Inventories | 17,598,617 | 9,840,507 | 2,827,896 |
| Accounts receivable trade | 99,826,223 | (1,317,532) | 627,106 |
| Amounts due from related parties | (126,832,013) | (121,173,334) | 85,992,946 |
| Advances to suppliers | 11,973,762 | (293,911) | (282,804) |
| Other current assets | 6,399,566 | (7,540,414) | 8,311,717 |
| Other non-current assets | (9,177,091) | (20,387,009) | 6,860,201 |
| Accounts payable | (10,083,933) | 79 | 9,023 |
| Advances from customers | (216,370) | (452,417) | (121,511) |
| Amounts due to related parties | 17,530,108 | (18,298,349) | (18,331,820) |
| Accrued warranty costs | 5,416,935 | 431,138 | (14,644,337) |
| Other current liabilities | (9,034,605) | (4,255,036) | (2,558,022) |
| Liability for uncertain tax positions | 103,902 | 1,975,793 | 141,795 |
| Deferred taxes | 384,345 | 5,718,014 | 406,214 |
| Net cash provided by (used in) operating activities | 21,800,047 | (134,047,365) | 76,569,475 |
| Investing activities: | | | |
| Decrease (increase) in restricted cash | 25,894,969 | 5,731,365 | — |
| Investment in subsidiaries | (75,955,691) | (13,319,864) | (10,602,333) |
| Purchases of property, plant and equipment | — | (3,589) | (266) |
| Net cash used in investing activities | (50,060,722) | (7,592,088) | (10,602,599) |
| Financing activities: | | | |
| Proceeds from short-term borrowings | — | 68,000,000 | — |
| Repayment of short-term borrowings | — | — | (55,753,950) |
| Proceeds from long-term borrowings | — | 70,063,488 | — |
| Repayment of long-term borrowings | — | — | (53,670,399) |
| Payment for repurchase of convertible senior notes | — | (1,000,000) | — |
| Proceeds from issuance of warrants | — | 2,500,000 | — |
| Proceeds from issuance of common shares offering | — | — | 50,000,000 |
| Issuance costs paid for common shares offering | — | — | (2,112,623) |
| Proceeds from exercise of stock options | 1,256,948 | 158,766 | 10,792,703 |
| Net cash provided by financing activities | 1,256,948 | 139,722,254 | (50,744,269) |
| Effect of exchange rate changes | 17,093,770 | 5,239,819 | 3,115,585 |
| Net increase (decrease) in cash and cash equivalents | (9,909,957) | 3,322,620 | 18,338,192 |

| | | | |
|---|---|---|---|
| Cash and cash equivalents at the beginning of the year | 17,834,643 | 7,924,686 | 11,247,306 |
| Cash and cash equivalents at the end of the year | 7,924,686 | 11,247,306 | 29,585,498 |
| Supplemental disclosure of cash flow information: | | | |
| Interest paid | 223,495 | 255,502 | — |
| Income taxes paid | 13,575,821 | 290,813 | 297,643 |

## Appendix 1

### Major Subsidiaries of CSI

The following table sets forth information concerning CSI's major subsidiaries:

| Subsidiary | Place and date of Incorporation | Attributable Equity Interest Held | Principal Activity |
|---|---|---|---|
| CSI Solartronics (Changshu) Co., Ltd. | PRC November 23, 2001 | 100% | Developing solar power project |
| CSI Solar Technologies Inc. | PRC August 8, 2003 | 100% | Research and developing solar modules |
| CSI Solar Manufacture Inc. | PRC January 7, 2005 | 100% | Production of solar modules |
| Canadian Solar Manufacturing (Luoyang) Inc. | PRC February 24, 2006 | 100% | Manufacture of solar modules, ingots and wafers |
| Canadian Solar Manufacturing (Changshu) Inc. | PRC August 1, 2006 | 100% | Production of solar modules |
| CSI Cells Co., Ltd. | PRC August 23, 2006 | 100% | Manufacture of solar cells |
| Canadian Solar (USA) Inc. | USA June 8, 2007 | 100% | Sales and marketing of modules |
| CSI Project Consulting GmbH | Germany May 26, 2009 | 70% | Developing solar power project |
| Canadian Solar Japan K.K. | Japan June 21, 2009 | 90.67% | Sales and marketing of modules |
| Canadian Solar Solutions Inc. | Canada June 22, 2009 | 100% | Developing solar power project |
| CSI Solar Power (China) Inc. | PRC July 7, 2009 | 100% | Investment holding |
| Canadian Solar EMEA GmbH | Germany August 21, 2009 | 100% | Sales and marketing of modules |
| Canadian Solar (Australia) Pty., Ltd. | Australia February 3, 2011 | 100% | Sales and marketing of modules |
| Canadian Solar International Ltd. | Hong Kong March 25, 2011 | 100% | Sales and marketing of modules |
| Canadian Solar O&M (Ontario) Inc. | Canada May 10, 2011 | 100% | Developing solar power project |
| Suzhou Sanysolar Materials Technology Co., Ltd. | PRC August 17, 2011 | 80% | Production of solar module materials |
| Canadian Solar South East Asia Pte., Ltd. | Singapore September 19, 2011 | 100% | Sales and marketing of modules |
| Canadian Solar Manufacturing (Suzhou) Inc. | PRC February 13, 2012 | 61% | Manufacture of solar modules, cells |
| Canadian Solar South Africa Pty., Ltd. | South Africa June 22,2012 | 100% | Sales and marketing modules |
| Canadian Solar Brasil Servicos De Consultoria EM Energia Solar Ltda. | Brazil November 14, 2012 | 100% | Consulting services in energy solutions, certification and importation of photovoltaic modules |
| Canadian Solar Middle East Limited | United Arab Emirates December 10, 2012 | 100% | Energy generation and distribution |
| Canadian Solartronics (Suzhou) Co., Ltd. | PRC March 14, 2013 | 100% | Developing solar power project |
| Canadian Solar (Thailand) Ltd. | Thailand March 29, 2013 | 100% | Developing solar power project |
| | Canada | | |

| | | | |
|---|---|---|---|
| Canadian Solar Component Corporation | August 2, 2013 | 100% | Manufacture of solar modules, cells, and components |

**EXHIBIT 4.5**

CANADIAN SOLAR INC.

AND

THE BANK OF NEW YORK MELLON,

as Trustee

INDENTURE

Dated as of February 18, 2014

4.25% Convertible Senior Notes due 2019

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**EXHIBIT**


| | | |
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INDENTURE dated as of February 18, 2014 between CANADIAN SOLAR INC., a Canadian Business Corporations Act corporation, as issuer (the "**Company**," as more fully set forth in Section 1.01) and THE BANK OF NEW YORK MELLON, a New York banking corporation, as trustee (the "**Trustee**," as more fully set forth in Section 1.01).

W I T N E S S E T H:

WHEREAS, for its lawful corporate purposes, the Company has duly authorized the issuance of its 4.25% Convertible Senior Notes due 2019 (the "**Notes**"), initially in an aggregate principal amount not to exceed $150,000,000, and in order to provide the terms and conditions upon which the Notes are to be authenticated, issued and delivered, the Company has duly authorized the execution and delivery of this Indenture; and

WHEREAS, the Form of Note, the certificate of authentication to be borne by each Note, the Form of Notice of Conversion, the Form of Fundamental Change Repurchase Notice and the Form of Assignment and Transfer to be borne by the Notes are to be substantially in the forms hereinafter provided; and

WHEREAS, all acts and things necessary to make the Notes, when executed by the Company and authenticated and delivered by the Trustee or a duly authorized authenticating agent, as in this Indenture provided, the valid, binding and legal obligations of the Company, and this Indenture a valid agreement according to its terms, have been done and performed, and the execution of this Indenture and the issuance hereunder of the Notes have in all respects been duly authorized,

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

That in order to declare the terms and conditions upon which the Notes are, and are to be, authenticated, issued and delivered, and in consideration of the premises and of the purchase and acceptance of the Notes by the Holders thereof, the Company covenants and agrees with the Trustee for the equal and proportionate benefit of the respective Holders from time to time of the Notes (except as otherwise provided below), as follows:

## ARTICLE 1
## DEFINITIONS

Section 1.01. *Definitions.* The terms defined in this Section 1.01 for all purposes of this Indenture and of any indenture supplemental hereto (except as herein or therein otherwise expressly provided or unless the context otherwise requires) shall have the respective meanings specified in this Section 1.01. All other terms used in this Indenture that are defined in the Trust Indenture Act of 1939 or the definitions of which in the Securities Act of 1933 are referred to in the Trust Indenture Act of 1933 (except as herein otherwise expressly provided or unless the context otherwise clearly requires), shall have the meanings assigned to such terms in said Trust Indenture Act and in said Securities Act as in force at the date of this Indenture. The words

"herein," "hereof," "hereunder" and words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision. The terms defined in this Article include the plural as well as the singular.

"**Additional Amounts**" shall have the meaning specified in Section 4.07(a).

"**Additional Interest**" means all amounts, if any, payable pursuant to Section 4.06(d), Section 4.06(e) and Section 6.03, as applicable.

"**Additional Shares**" shall have the meaning specified in Section 14.03(a).

"**Affiliate**" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control," when used with respect to any specified Person means the power to direct or cause the direction of the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"**Board of Directors**" means the board of directors of the Company or a committee of such board duly authorized to act for it hereunder.

"**Board Resolution**" means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors, and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"**Business Day**" means, with respect to any Note, any day other than a Saturday, a Sunday or a day on which banks in New York City are authorized or required by law or executive order to close or be closed.

"**Capital Stock**" means, for any entity, any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) stock issued by that entity.

"**Clause A Distribution**" shall have the meaning specified in Section 14.04(c).

"**Clause B Distribution**" shall have the meaning specified in Section 14.04(c).

"**Clause C Distribution**" shall have the meaning specified in Section 14.04(c).

"**close of business**" means 5:00 p.m. (New York City time).

"**Commission**" means the U.S. Securities and Exchange Commission, as from time to time constituted, created under the Securities Exchange Act of 1934, or if at any time after the execution and delivery of this Indenture such Commission is not existing and performing the duties assigned to it under the Trust Indenture Act of 1939, then the body performing such duties on such date.

"**Common Equity**" of any Person means Capital Stock of such Person that is generally entitled (a) to vote in the election of directors of such Person or (b) if such Person is not a corporation, to vote or otherwise participate in the selection of the governing body, partners, managers or others that will control the management or policies of such Person.

"**Common Shares**" means the common shares of the Company, no par value, at the date of this Indenture, subject to Section 14.07.

"**Company**" shall have the meaning specified in the first paragraph of this Indenture, and subject to the provisions of Article 11, shall include its successors and assigns.

"**Company Order**" means a written order of the Company, signed by the Company's Chief Executive Officer, President, Executive or Senior Vice President or any Vice President (whether or not designated by a number or numbers or word or words added before or after the title "Vice President") and delivered to the Trustee.

"**Conversion Agent**" shall have the meaning specified in Section 4.02.

"**Conversion Date**" shall have the meaning specified in Section 14.02(c).

"**Conversion Obligation**" shall have the meaning specified in Section 14.01.

"**Conversion Price**" means as of any date, $1,000, *divided by* the Conversion Rate as of such date.

"**Conversion Rate**" shall have the meaning specified in Section 14.01.

"**Corporate Trust Office**" means the principal office of the Trustee at which at any time its corporate trust business shall be administered, which office at the date hereof is located at 101 Barclay Street, Floor 7E, New York, NY 10286, Attention: International Corporate Trust, or such other address as the Trustee may designate from time to time by notice to the Holders and the Company, or the principal corporate trust office of any successor trustee (or such other address as such successor trustee may designate from time to time by notice to the Holders and the Company).

"**Custodian**" means the Trustee, as custodian for The Depository Trust Company, with respect to the Global Notes, or any successor entity thereto.

"**Default**" means any event that is, or after notice or passage of time, or both, would be, an Event of Default.

"**Defaulted Amounts**" means any amounts on any Note (including, without limitation, the Redemption Price, the Fundamental Change Repurchase Price, principal and interest) that are payable but are not punctually paid or duly provided for.

"**Depositary**" means, with respect to each Global Note, the Person specified in Section 2.05(c) as the Depositary with respect to such Notes, until a successor shall have been appointed

and become such pursuant to the applicable provisions of this Indenture, and thereafter, " **Depositary**" shall mean or include such successor.

"**Distributed Property**" shall have the meaning specified in Section 14.04(c).

"**Effective Date**" shall have the meaning specified in Section 14.03(c), except that, as used in Section 14.04, " **Effective Date**" means the first date on which Common Shares trade on the applicable exchange or in the applicable market, regular way, reflecting the relevant share split or share combination, as applicable.

"**Event of Default**" shall have the meaning specified in Section 6.01.

"**Ex-Dividend Date**" means, with respect to any issuance, dividend or distribution to holders of Common Shares, the first date on which Common Shares trade on the applicable exchange or in the applicable market, regular way, without the right to receive the issuance, dividend or distribution in question, from the Company or, if applicable, from the seller of Common Shares on such exchange or market (in the form of due bills or otherwise) as determined by such exchange or market.

"**Exchange Act**" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"**Form of Assignment and Transfer**" means the "Form of Assignment and Transfer" attached as Attachment 3 to the Form of Note attached hereto as Exhibit A.

"**Form of Fundamental Change Repurchase Notice**" means the "Form of Fundamental Change Repurchase Notice" attached as Attachment 2 to the Form of Note attached hereto as Exhibit A.

"**Form of Note**" means the "Form of Note" attached hereto as Exhibit A.

"**Form of Notice of Conversion**" means the "Form of Notice of Conversion" attached as Attachment 1 to the Form of Note attached hereto as Exhibit A.

A "**Fundamental Change**" shall be deemed to have occurred at the time after the Notes are originally issued that any of the following occurs:

(a) a "person" or "group" within the meaning of Section 13(d) of the Exchange Act, other than the Company, its Wholly Owned Subsidiaries and the employee benefit plans of the Company and its Wholly Owned Subsidiaries, has become the direct or indirect "beneficial owner," as defined in Rule 13d-3 under the Exchange Act, of the Company's Common Equity representing more than 50% of the voting power of the Company's Common Equity;

(b) the consummation of (A) any recapitalization, reclassification or change of the Common Shares (other than changes resulting from a subdivision or combination) as a result of which the Common Shares would be converted into, or exchanged for, stock, other securities, other property or assets; (B) any share exchange, consolidation, merger



or similar transaction involving the Company pursuant to which the Common Shares will be converted into cash, securities or other property; or (C) any sale, lease or other transfer in one transaction or a series of transactions of all or substantially all of the consolidated assets of the Company and its Subsidiaries, taken as a whole, to any Person other than one of the Company's Wholly Owned Subsidiaries; *provided, however*, that a transaction of the type set forth in clause (B) in which the holders of all classes of the Company's Common Equity immediately prior to such transaction (each such holder, a "**Pre-Transaction Holder**") own, directly or indirectly, more than 50% of all classes of Common Equity of the continuing or surviving corporation or transferee or the parent thereof immediately after such event shall not be a Fundamental Change pursuant to this clause (b), so long as the proportion of the respective ownership of each Pre-Transaction Holder remains substantially the same relative to all other Pre-Transaction Holders;

(c) the shareholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company; or

(d) the Common Shares (or other common stock underlying the Notes) ceases to be listed or quoted on any of The New York Stock Exchange, The NASDAQ Global Select Market or The NASDAQ Global Market (or any of their respective successors) (any such exchange, a "**Permitted Exchange**");

*provided*, *however*, that a transaction or transactions that constitute a Fundamental Change as a result of solely clause (b) above, or both of clauses (a) and (b) above, shall not be deemed to have occurred for purposes of this Fundamental Change definition if at least 90% of the consideration received or to be received by the common stockholders of the Company, excluding cash payments for fractional shares and cash payments made pursuant to dissenters' appraisal rights, in connection with such transaction or transactions consists of shares of common stock that are listed or quoted on any Permitted Exchange or will be so listed or quoted when issued or exchanged in connection with such transaction or transactions and as a result of such transaction or transactions the Notes become convertible into such consideration, excluding cash payments for fractional shares.

"**Fundamental Change Company Notice**" shall have the meaning specified in Section 15.02(c).

"**Fundamental Change Repurchase Date**" shall have the meaning specified in Section 15.02(a).

"**Fundamental Change Repurchase Notice**" shall have the meaning specified in Section 15.02(b)(i).

"**Fundamental Change Repurchase Price**" shall have the meaning specified in Section 15.02(a).

"**Global Note**" shall have the meaning specified in Section 2.05(b).

"**Holder**," as applied to any Note, or other similar terms (but excluding the term "beneficial holder"), means any Person in whose name at the time a particular Note is registered on the Note Register.

"**Indenture**" means this instrument as originally executed or, if amended or supplemented as herein provided, as so amended or supplemented.

"**Interest Payment Date**" means each February 15 and August 15 of each year, beginning on August 15, 2014.

The "**Last Reported Sale Price**" of the Common Shares on any date means the closing sale price per share (or if no closing sale price is reported, the average of the bid and ask prices or, if more than one in either case, the average of the average bid and the average ask prices) on that date as reported in composite transactions for the Relevant Stock Exchange. If the Common Shares are not listed or quoted on any U.S. securities exchange or other market on the relevant date, the "**Last Reported Sale Price**" shall be the average of the mid-point of the last bid and ask prices for the Common Shares on the relevant date from each of at least three nationally recognized independent investment banking firms selected by the Company for this purpose.

"**Make-Whole Fundamental Change**" means any transaction or event that constitutes a Fundamental Change (as defined above and determined after giving effect to any exceptions to or exclusions from such definition, but without regard to the *proviso* in clause (b) of the definition thereof).

"**Maturity Date**" means February 15, 2019.

"**Merger Event**" shall have the meaning specified in Section 14.07(a).

"**Note**" or "**Notes**" shall have the meaning specified in the first paragraph of the recitals of this Indenture.

"**Notes Fungibility Date**" means the date, if any, following the Resale Restriction Termination Date on which all of the Rule 144A Notes and all of the Regulation S Notes (excluding any such Notes held by Persons who are, or during the three months immediately preceding have been, Affiliates of the Company) are no longer Restricted Securities, do not bear the restrictive legend required by Section 2.05(c), are fungible for U.S. securities law purposes and are assigned an identical, unrestricted CUSIP number.

"**Note Register**" shall have the meaning specified in Section 2.05(a).

"**Notice of Conversion**" shall have the meaning specified in Section 14.02(b).

"**Offering Memorandum**" means the offering memorandum dated February 11, 2014, relating to the offering and sale of the Notes.

"**Officer**" means, with respect to the Company, the President, the Chief Executive Officer, the Treasurer, the Secretary, any Executive or Senior Vice President or any Vice

President (whether or not designated by a number or numbers or word or words added before or after the title "Vice President").

"**Officers' Certificate**," when used with respect to the Company, means a certificate that is delivered to the Trustee and that is signed by (a) two Officers of the Company or (b) one Officer of the Company and one of the Treasurer, any Assistant Treasurer, the Secretary, any Assistant Secretary or the Controller of the Company. Each such certificate shall comply with Section 314 of the Trust Indenture Act of 1939 and, except to the extent provided herein, shall include the statements provided for in Section 18.06. One of the Officers giving an Officers' Certificate pursuant to Section 4.09 shall be the principal executive, financial or accounting officer of the Company.

"**open of business**" means 9:00 a.m. (New York City time).

"**Opinion of Counsel**" means an opinion in writing signed by legal counsel, who may be an employee of or counsel to the Company, or other counsel and such opinion shall be acceptable to the Trustee, that is delivered to the Trustee. Each such opinion shall comply with Section 314 of the Trust Indenture Act of 1939 and shall include the statements provided for in Section 18.07 if and to the extent required by the provisions of such Section 18.07.

"**Optional Redemption**" shall have the meaning specified in Section 16.01.

"**Optional Redemption Date**" shall have the meaning specified in Section 16.02.

"**Optional Redemption Notice**" shall have the meaning specified in Section 16.02.

"**outstanding**," when used with reference to Notes, shall, subject to the provisions of Section 8.04, mean, as of any particular time, all Notes authenticated and delivered by the Trustee under this Indenture, except:

(a) Notes theretofore canceled by the Trustee or accepted by the Trustee for cancellation;

(b) Notes, or portions thereof, that have become due and payable and in respect of which monies in the necessary amount shall have been deposited in trust with the Trustee or with any Paying Agent (other than the Company) or shall have been set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent);

(c) Notes that have been paid pursuant to Section 2.06 or Notes in lieu of which, or in substitution for which, other Notes shall have been authenticated and delivered pursuant to the terms of Section 2.06 unless proof satisfactory to the Trustee is presented that any such Notes are held by protected purchasers in due course;

(d) Notes converted pursuant to Article 14 and required to be cancelled pursuant to Section 2.08; and

(e) Notes repurchased by the Company pursuant to the penultimate sentence of Section 2.10.

"**Paying Agent**" shall have the meaning specified in Section 4.02.

"**Person**" means an individual, a corporation, a limited liability company, an association, a partnership, a joint venture, a joint stock company, a trust, an unincorporated organization or a government or an agency or a political subdivision thereof.

"**Physical Notes**" means permanent certificated Notes in registered form issued in denominations of $1,000 principal amount and integral multiples thereof.

"**Predecessor Note**" of any particular Note means every previous Note evidencing all or a portion of the same debt as that evidenced by such particular Note; and, for the purposes of this definition, any Note authenticated and delivered under Section 2.06 in lieu of or in exchange for a mutilated, lost, destroyed or stolen Note shall be deemed to evidence the same debt as the mutilated, lost, destroyed or stolen Note that it replaces.

"**QIB**" means a "qualified institutional buyer" (as defined in Rule 144A).

"**Record Date**" means, with respect to any dividend, distribution or other transaction or event in which the holders of Common Shares have the right to receive any cash, securities or other property or in which the Common Shares are exchanged for or converted into any combination of cash, securities or other property, the date fixed for determination of shareholders entitled to receive such cash, securities or other property (whether such date is fixed by the Board of Directors, statute, contract or otherwise).

"**Redemption Price**" means, for any Notes to be redeemed pursuant to Section 16.01 or Section 17.01, 100% of the principal amount of such Notes, *plus* accrued and unpaid interest (including any Additional Amounts), if any, to, but excluding, the Optional Redemption Date or the Tax Redemption Date, as the case may be (unless the Optional Redemption Date or Tax Redemption Date, as the case may be, falls after a Regular Record Date but on or prior to the immediately succeeding Interest Payment Date, in which case the Redemption Price will be equal to 100% of the principal amount of such Notes).

"**Reference Property**" shall have the meaning specified in Section 14.07(a).

"**Regular Record Date**," with respect to any Interest Payment Date, means the February 1 or August 1 (whether or not such day is a Business Day) immediately preceding the applicable February 15 or August 15 Interest Payment Date, respectively.

"**Regulation S**" means Regulation S under the Securities Act or any successor to such regulation.

"**Regulation S Notes**" means (i) the Notes initially offered and sold outside the United States pursuant to Regulation S and (ii) Rule 144A Notes that have been exchanged for Notes bearing the legend applicable to Regulation S Notes in accordance with Section 2.05(a), in each case, for as long as such Notes bear the restrictive legend set forth in Section 2.05(c).

"**Relevant Stock Exchange**" means The NASDAQ Global Select Market or, if the Common Shares are not then listed on The NASDAQ Global Select Market, the principal other United States national or regional securities exchange on which the Common Shares are then listed or, if the Common Shares are not then listed on a United States national or regional securities exchange, the principal other market on which the Common Shares are then traded.

"**Relevant Taxing Jurisdiction**" shall have the meaning set forth in Section 4.07(a).

"**Resale Restriction Termination Date**" shall have the meaning specified in Section 2.05(c).

"**Responsible Officer**" means, when used with respect to the Trustee, any officer within the Corporate Trust Office of the Trustee, including any director, vice president, assistant vice president, assistant secretary, assistant treasurer, trust officer or any other officer of the Trustee who customarily performs functions similar to those performed by the Persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of such person's knowledge of and familiarity with the particular subject and who shall have direct responsibility for the administration of this Indenture.

"**Restricted Securities**" shall have the meaning specified in Section 2.05(c).

"**Rule 144A**" means Rule 144A as promulgated under the Securities Act.

"**Rule 144A Notes"** means (i) the Notes initially offered and sold to QIBs in reliance on Rule 144A and (ii) Regulation S Notes that have been exchanged for Notes bearing the legend applicable to Rule 144A Notes in accordance with Section 2.05(a), in each case, for as long as such Notes bear the restrictive legend set forth in Section 2.05(c)

"**Securities Act**" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

"**Significant Subsidiary**" means a Subsidiary of the Company that meets the definition of "significant subsidiary" in Article 1, Rule 1-02 of Regulation S-X under the Exchange Act.

"**Significant Subsidiary Group**" shall have the meaning specified in Section 6.01(j).

"**Spin-Off**" shall have the meaning specified in Section 14.04(c).

"**Stock Price**" shall have the meaning specified in Section 14.03(c).

"**Subsidiary**" means, with respect to any Person, any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers, general partners or trustees thereof is at the time owned or controlled, directly or indirectly, by (i) such Person; (ii) such Person and one or more Subsidiaries of such Person; or (iii) one or more Subsidiaries of such Person.

"**Successor Company**" shall have the meaning specified in Section 11.01(a).

"**Tax Redemption**" shall have the meaning specified in Section 17.01.

"**Tax Redemption Date**" shall have the meaning specified in Section 17.02(a).

"**Tax Redemption Notice**" shall have the meaning specified in Section 17.02(a).

"**Trading Day**" means a day on which (i) trading in the Common Shares (or other security for which a closing sale price must be determined) generally occurs on the Relevant Stock Exchange and (ii) a Last Reported Sale Price for the Common Shares is available on the Relevant Stock Exchange; *provided* that if the Common Shares are not so listed or traded, "**Trading Day**" means a Business Day.

"**transfer**" shall have the meaning specified in Section 2.05(c).

"**Transfer Agent**" shall have the meaning specified in Section 4.02.

"**Trigger Event**" shall have the meaning specified in Section 14.04(c).

"**Trust Indenture Act**" means the Trust Indenture Act of 1939, as amended, as it was in force at the date of execution of this Indenture; *provided*, *however*, that in the event the Trust Indenture Act of 1939 is amended after the date hereof, the term "Trust Indenture Act" shall mean, to the extent required by such amendment, the Trust Indenture Act of 1939, as so amended.

"**Trustee**" means the Person named as the "**Trustee**" in the first paragraph of this Indenture until a successor trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "**Trustee**" shall mean or include each Person who is then a Trustee hereunder.

"**unit of Reference Property**" shall have the meaning specified in Section 14.07(a).

"**Valuation Period**" shall have the meaning specified in Section 14.04(c).

"**Wholly Owned Subsidiary**" means, with respect to any Person, any Subsidiary of such Person, except that, solely for purposes of this definition, the reference to "50%" in the definition of "Subsidiary" shall be deemed replaced by a reference to "100%".

Section 1.02. *References to Interest.* Unless the context otherwise requires, any reference to interest on, or in respect of, any Note in this Indenture shall be deemed to include Additional Interest if, in such context, Additional Interest is, was or would be payable pursuant to any of Section 4.06(d), Section 4.06(e) and Section 6.03. Unless the context otherwise requires, any express mention of Additional Interest in any provision hereof shall not be construed as excluding Additional Interest in those provisions hereof where such express mention is not made.

ARTICLE 2
ISSUE, DESCRIPTION, EXECUTION, REGISTRATION AND EXCHANGE OF NOTES

Section 2.01. *Designation and Amount.* The Notes shall be designated as the "4.25% Convertible Senior Notes due 2019." The aggregate principal amount of Notes that may be authenticated and delivered under this Indenture is initially limited to $150,000,000, subject to Section 2.10 and except for Notes authenticated and delivered upon registration or transfer of, or in exchange for, or in lieu of other Notes pursuant to any express provision hereof.

Section 2.02. *Form of Notes.* The Notes and the Trustee's certificate of authentication to be borne by such Notes shall be substantially in the respective forms set forth in Exhibit A, the terms and provisions of which shall constitute, and are hereby expressly incorporated in and made a part of this Indenture. To the extent applicable, the Company and the Trustee, by their execution and delivery of this Indenture, expressly agree to such terms and provisions and to be bound thereby.

Any Global Note may be endorsed with or have incorporated in the text thereof such legends or recitals or changes not inconsistent with the provisions of this Indenture as may be required by the Custodian or the Depositary, or as may be required to comply with any applicable law or any regulation thereunder or with the rules and regulations of any securities exchange or automated quotation system upon which the Notes may be listed or traded or designated for issuance or to conform with any usage with respect thereto, or to indicate any special limitations or restrictions to which any particular Notes are subject.

Any of the Notes may have such letters, numbers or other marks of identification and such notations, legends or endorsements as the Officers executing the same may approve (execution thereof to be conclusive evidence of such approval) and as are not inconsistent with the provisions of this Indenture, or as may be required to comply with any law or with any rule or regulation made pursuant thereto or with any rule or regulation of any securities exchange or automated quotation system on which the Notes may be listed or designated for issuance, or to conform to usage or to indicate any special limitations or restrictions to which any particular Notes are subject.

Each Global Note shall represent such principal amount of the outstanding Notes as shall be specified therein and shall provide that it shall represent the aggregate principal amount of outstanding Notes from time to time endorsed thereon and that the aggregate principal amount of outstanding Notes represented thereby may from time to time be increased or reduced to reflect repurchases, redemptions, cancellations, conversions, transfers or exchanges permitted hereby. Any endorsement of a Global Note to reflect the amount of any increase or decrease in the amount of outstanding Notes represented thereby shall be made by the Trustee or the Custodian, at the direction of the Trustee, in such manner and upon instructions given by the Holder of such Notes in accordance with this Indenture. Payment of principal (including the Redemption Price and the Fundamental Change Repurchase Price, if applicable) of, and accrued and unpaid interest on, a Global Note shall be made to the Holder of such Note on the date of payment, unless a record date or other means of determining Holders eligible to receive payment is provided for herein.

Section 2.03. *Date and Denomination of Notes; Payments of Interest and Defaulted Amounts.* (a) The Notes shall be issuable in registered form without coupons in denominations of $1,000 principal amount and integral multiples thereof. Each Note shall be dated the date of its authentication and shall bear interest from the date specified on the face of such Note. Accrued interest on the Notes shall be computed on the basis of a 360-day year composed of twelve 30-day months and, for partial months, on the basis of actual days elapsed over a 30-day month.

(b) The Person in whose name any Note (or its Predecessor Note) is registered on the Note Register at the close of business on any Regular Record Date with respect to any Interest Payment Date shall be entitled to receive the interest payable semi-annually in arrears on such Interest Payment Date. The principal amount of Physical Notes shall be payable upon presentation of the Physical Note at the office or agency of the Company maintained by the Company for such purposes in the Borough of Manhattan, The City of New York, which shall initially be the Corporate Trust Office. The Company shall pay (i) interest on any Physical Notes (A) to Holders holding Physical Notes having an aggregate principal amount of $1,000,000 or less, by check mailed to the Holders of these Notes at their address as it appears in the Note Register and (B) to Holders holding Physical Notes having an aggregate principal amount of more than $1,000,000, either by check mailed to each Holder or, upon application by such a Holder to the Note Registrar not later than the relevant Regular Record Date, by wire transfer in immediately available funds to that Holder's account within the United States, which application shall remain in effect until the Holder notifies, in writing, the Note Registrar to the contrary or (ii) the principal of, or interest on, any Global Note by wire transfer of immediately available funds to the account of the Depositary or its nominee.

(c) Any Defaulted Amounts shall forthwith cease to be payable to the Holder on the relevant payment date but shall accrue interest per annum at the rate borne by the Notes *plus* 0.50% subject to the enforceability thereof under applicable law, from, and including, such relevant payment date, and such Defaulted Amounts together with such interest thereon shall be paid by the Company, at its election in each case, as provided in clause (i) or (ii) below:

(i) The Company may elect to make payment of any Defaulted Amounts to the Persons in whose names the Notes (or their respective Predecessor Notes) are registered at the close of business on a special record date for the payment of such Defaulted Amounts, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of the Defaulted Amounts proposed to be paid on each Note and the date of the proposed payment (which shall be not less than 25 days after the receipt by the Trustee of such notice, unless the Trustee shall consent to an earlier date), and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount to be paid in respect of such Defaulted Amounts or shall make arrangements satisfactory to the Trustee for such deposit on or prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Amounts as in this clause provided. Thereupon the Company shall fix a special record date for the payment of such Defaulted Amounts which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment, and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Company shall promptly notify the Trustee of such

special record date and the Trustee, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Amounts and the special record date therefor to be mailed, first-class postage prepaid, to each Holder at its address as it appears in the Note Register, not less than 10 days prior to such special record date. Notice of the proposed payment of such Defaulted Amounts and the special record date therefor having been so mailed, such Defaulted Amounts shall be paid to the Persons in whose names the Notes (or their respective Predecessor Notes) are registered at the close of business on such special record date and shall no longer be payable pursuant to the following clause (ii) of this Section 2.03(c).

(ii) The Company may make payment of any Defaulted Amounts in any other lawful manner not inconsistent with the requirements of any securities exchange or automated quotation system on which the Notes may be listed or designated for issuance, and upon such notice as may be required by such exchange or automated quotation system, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Trustee.

Section 2.04. *Execution, Authentication and Delivery of Notes.* The Notes shall be signed in the name and on behalf of the Company by the manual or facsimile signature of its Chief Executive Officer, President, Chief Financial Officer, Treasurer, Secretary or any of its Executive or Senior Vice Presidents.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Notes executed by the Company to the Trustee for authentication, together with a Company Order for the authentication and delivery of such Notes, and the Trustee in accordance with such Company Order shall authenticate and deliver such Notes, without any further action by the Company hereunder.

Only such Notes as shall bear thereon a certificate of authentication substantially in the form set forth on the form of Note attached as Exhibit A hereto, executed manually or by facsimile by an authorized officer of the Trustee (or an authenticating agent appointed by the Trustee as provided by Section 18.12), shall be entitled to the benefits of this Indenture or be valid or obligatory for any purpose. Such certificate by the Trustee (or such an authenticating agent) upon any Note executed by the Company shall be conclusive evidence that the Note so authenticated has been duly authenticated and delivered hereunder and that the Holder is entitled to the benefits of this Indenture.

In case any Officer of the Company who shall have signed any of the Notes shall cease to be such Officer before the Notes so signed shall have been authenticated and delivered by the Trustee, or disposed of by the Company, such Notes nevertheless may be authenticated and delivered or disposed of as though the person who signed such Notes had not ceased to be such Officer of the Company; and any Note may be signed on behalf of the Company by such persons as, at the actual date of the execution of such Note, shall be the Officers of the Company, although at the date of the execution of this Indenture any such person was not such an Officer.

Section 2.05. *Exchange and Registration of Transfer of Notes; Restrictions on Transfer; Depositary.* (a) The Company shall cause to be kept at the Corporate Trust Office a register (the register maintained in such office or in any other office or agency of the Company designated pursuant to Section 4.02, the "**Note Register**") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Notes and of transfers of Notes. Such register shall be in written form or in any form capable of being converted into written form within a reasonable period of time. The Trustee is hereby initially appointed the "**Note Registrar**" for the purpose of registering Notes and transfers of Notes as herein provided. The Company may appoint one or more co-Note Registrars in accordance with Section 4.02.

Upon surrender for registration of transfer of any Note to the Note Registrar or any co-Note Registrar, and satisfaction of the requirements for such transfer set forth in this Section 2.05, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Notes of any authorized denominations and of a like aggregate principal amount and bearing such restrictive legends as may be required by this Indenture.

Prior to the Notes Fungibility Date, Rule 144A Notes and Regulation S Notes, as the case may be, may be exchanged for other Rule 144A Notes or Regulation S Notes, respectively, of any authorized denominations and of a like aggregate principal amount, upon surrender of the Rule 144A Notes or Regulation S Notes, as the case may be, to be exchanged at any such office or agency maintained by the Company pursuant to Section 4.02. Prior to the Notes Fungibility Date, (A) Regulation S Notes (or beneficial interests therein) may be exchanged for Rule 144A Notes (or an increase in the aggregate principal amount represented by a Global Note that constitutes a Rule 144A Note) only if (1) such exchange occurs in connection with a transfer of the Notes (or a beneficial interest therein) under Rule 144A and (2) the transferor first delivers to the Trustee a written certificate, in the form attached to such Note, to the effect that the Notes (or such beneficial interest) are being transferred to a Person (a) who the transferor reasonably believes to be a QIB; (b) purchasing for its own account or the account of a QIB in a transaction meeting the requirements of Rule 144A; and (c) in accordance with all applicable securities laws of the states of the United States and other jurisdictions and (B) Rule 144A Notes (or beneficial interests therein) may only be exchanged for Regulation S Notes (or an increase in the aggregate principal amount represented by a Global Note that constitutes a Regulation S Note) if the transferor first delivers to the Trustee a written certificate, in the form attached to such Note, to the effect that such transfer is being made in accordance with Rule 903 or 904 of Regulation S. Whenever any Rule 144A Notes or Regulation S Notes, as the case may be, are so surrendered for exchange pursuant to either of the two preceding sentences, the Company shall execute, and the Trustee shall authenticate and deliver, the Rule 144A Notes or Regulation S Notes, as the case may be, that the Holder making the exchange is entitled to receive, bearing registration numbers not contemporaneously outstanding. Following the Notes Fungibility Date, Notes may be exchanged for other Notes of any authorized denominations and of a like aggregate principal amount but not bearing the restrictive legend required by Section 2.05(c), upon surrender of the Notes to be exchanged at any such office or agency maintained by the Company pursuant to Section 4.02. Whenever any Notes are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Notes that the Holder making the exchange is entitled to receive, bearing registration numbers not contemporaneously outstanding.



All Notes presented or surrendered for registration of transfer or for exchange, repurchase or conversion shall (if so required by the Company, the Trustee, the Note Registrar or any co-Note Registrar) be duly endorsed, or be accompanied by a written instrument or instruments of transfer in form satisfactory to the Company and duly executed, by the Holder thereof or its attorney-in-fact duly authorized in writing.

No service charge shall be imposed by the Company, the Trustee, the Note Registrar, any co-Note Registrar or the Paying Agent for any exchange or registration of transfer of Notes, but the Company may require a Holder to pay a sum sufficient to cover any documentary, stamp or similar issue or transfer tax required in connection therewith as a result of the name of the Holder of new Notes issued upon such exchange or registration of transfer being different from the name of the Holder of the old Notes surrendered for exchange or registration of transfer.

None of the Company, the Trustee, the Note Registrar or any co-Note Registrar shall be required to exchange or register a transfer of (i) any Notes surrendered for conversion or, if a portion of any Note is surrendered for conversion, such portion thereof surrendered for conversion, (ii) any Notes, or a portion of any Note, surrendered for repurchase (and not withdrawn) in accordance with Article 15 or (iii) in the event of any Optional Redemption in part of the Notes pursuant to Article 16, any Note so selected for redemption, except the unredeemed portion thereof, if applicable.

All Notes issued upon any registration of transfer or exchange of Notes in accordance with this Indenture shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture as the Notes surrendered upon such registration of transfer or exchange.

(b) So long as the Notes are eligible for book-entry settlement with the Depositary, unless otherwise required by law, subject to the fourth paragraph from the end of Section 2.05(c), all Notes shall be represented by one or more Notes in global form (each, a " **Global Note**") registered in the name of the Depositary or the nominee of the Depositary. The transfer and exchange of beneficial interests in a Global Note that does not involve the issuance of a Physical Note shall be effected through the Depositary in accordance with this Indenture (including the restrictions on transfer set forth herein) and the procedures of the Depositary therefor. Prior to the Notes Fungibility Date, the Rule 144A Notes shall be represented by one or more Global Notes and the Regulation S Notes shall be represented by one or more separate Global Notes. Following the Notes Fungibility Date, the Rule 144A Notes and the Regulation S Notes may be represented by one or more of the same Global Notes.

(c) Every Note that bears or is required under this Section 2.05(c) to bear any legend set forth in this Section 2.05(c) (together with any Common Shares issued upon conversion of the Notes that is required to bear any legend set forth in Section 2.05(d), collectively, the " **Restricted Securities**") shall be subject to the restrictions on transfer set forth in this Section 2.05(c) (including the legend set forth below), unless such restrictions on transfer shall be eliminated or otherwise waived by written consent of the Company, and the Holder of each such Restricted Security, by such Holder's acceptance thereof, agrees to be bound by all such restrictions on transfer. As used in this Section 2.05(c) and Section 2.05(d), the term " **transfer**" encompasses any sale, pledge, transfer or other disposition whatsoever of any Restricted Security.

Until the date (the "**Resale Restriction Termination Date**") that is the later of (1) the date that is one year after the last date of original issuance of the Notes, or such shorter period of time as permitted by Rule 144 under the Securities Act or any successor provision thereto, and (2) such later date, if any, as may be required by applicable law, any certificate evidencing a Rule 144A Note (and all securities issued in exchange therefor or substitution thereof, other than Common Shares, if any, issued upon conversion thereof, which shall bear the applicable legend set forth in Section 2.05(d), if applicable) shall bear a legend in substantially the following form (unless such Notes have been transferred pursuant to a registration statement that has become or been declared effective under the Securities Act and that continues to be effective at the time of such transfer, or sold pursuant to the exemption from registration provided by Rule 144 or any similar provision then in force under the Securities Act, or unless otherwise agreed by the Company in writing, with notice thereof to the Trustee):

THIS SECURITY AND THE COMMON SHARES DELIVERABLE UPON CONVERSION OF THIS SECURITY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE ACQUIRER:

(1) REPRESENTS THAT IT AND ANY ACCOUNT FOR WHICH IT IS ACTING IS (A) A "QUALIFIED INSTITUTIONAL BUYER" (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) OR (B) IS NOT A U.S. PERSON (WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT) AND THAT IT EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT TO EACH SUCH ACCOUNT AND THAT IT AND ANY SUCH ACCOUNT IS NOT AN AFFILIATE OF THE COMPANY, AND

(2) AGREES FOR THE BENEFIT OF CANADIAN SOLAR INC. (THE "**COMPANY**") THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS SECURITY OR ANY BENEFICIAL INTEREST HEREIN PRIOR TO THE DATE THAT IS THE LATER OF (X) ONE YEAR AFTER THE LAST ORIGINAL ISSUE DATE HEREOF OR SUCH SHORTER PERIOD OF TIME AS PERMITTED BY RULE 144 UNDER THE SECURITIES ACT OR ANY SUCCESSOR PROVISION THERETO AND (Y) SUCH LATER DATE, IF ANY, AS MAY BE REQUIRED BY APPLICABLE LAW, EXCEPT:

(A) TO THE COMPANY OR ANY SUBSIDIARY THEREOF, OR

(B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT, OR

(C) TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, OR

(D) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT, OR

(E) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE).

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH CLAUSE 2(D) ABOVE, THE TRANSFEROR SHALL FIRST DELIVER TO THE TRUSTEE A WRITTEN CERTIFICATE STATING THAT SUCH TRANSFER IS BEING MADE IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S.

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH CLAUSE (2)(E) ABOVE, THE COMPANY AND THE TRUSTEE RESERVE THE RIGHT TO REQUIRE THE DELIVERY OF SUCH LEGAL OPINIONS, CERTIFICATIONS OR OTHER EVIDENCE AS MAY REASONABLY BE REQUIRED IN ORDER TO DETERMINE THAT THE PROPOSED TRANSFER IS BEING MADE IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. NO REPRESENTATION IS MADE AS TO THE AVAILABILITY OF ANY EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

NO AFFILIATE (AS DEFINED IN RULE 144 UNDER THE SECURITIES ACT) OF THE COMPANY OR PERSON THAT HAS BEEN AN AFFILIATE (AS DEFINED IN RULE 144 UNDER THE SECURITIES ACT) OF THE COMPANY DURING THE THREE IMMEDIATELY PRECEDING MONTHS MAY PURCHASE, OTHERWISE ACQUIRE OR OWN THIS NOTE OR A BENEFICIAL INTEREST HEREIN.

Until the Resale Restriction Termination Date, any certificate evidencing a Regulation S Note (and all securities issued in exchange therefor or substitution thereof, other than Common Shares, if any, issued upon conversion thereof, which shall bear the applicable legend set forth in Section 2.05(d), if applicable) shall bear a legend in substantially the following form (unless such Notes have been transferred pursuant to a registration statement that has become or been declared effective under the Securities Act and that continues to be effective at the time of such transfer, or sold pursuant to the exemption from registration provided by Rule 144 or any similar provision then in force under the Securities Act, or unless otherwise agreed by the Company in writing, with notice thereof to the Trustee):

THIS SECURITY AND THE COMMON SHARES DELIVERABLE UPON CONVERSION OF THIS SECURITY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE ACQUIRER:

(1) REPRESENTS THAT IT AND ANY ACCOUNT FOR WHICH IT IS ACTING IS (A) A "QUALIFIED INSTITUTIONAL BUYER" (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) OR (B) IS NOT A U.S. PERSON (WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT) AND THAT IT EXERCISES SOLE INVESTMENT DISCRETION

WITH RESPECT TO EACH SUCH ACCOUNT AND THAT IT AND ANY SUCH ACCOUNT IS NOT AN AFFILIATE OF THE COMPANY, AND

(2) AGREES FOR THE BENEFIT OF CANADIAN SOLAR INC. (THE "**COMPANY**") THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS SECURITY OR ANY BENEFICIAL INTEREST HEREIN PRIOR TO THE DATE THAT IS THE LATER OF (X) ONE YEAR AFTER THE LAST ORIGINAL ISSUE DATE HEREOF OR SUCH SHORTER PERIOD OF TIME AS PERMITTED BY RULE 144 UNDER THE SECURITIES ACT OR ANY SUCCESSOR PROVISION THERETO AND (Y) SUCH LATER DATE, IF ANY, AS MAY BE REQUIRED BY APPLICABLE LAW, EXCEPT:

(A) TO THE COMPANY OR ANY SUBSIDIARY THEREOF, OR

(B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT, OR

(C) TO A QUALIFIED INSTITUTIONAL BUYER (A "QIB") IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, OR

(D) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT, OR

(E) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE).

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH CLAUSE 2(C) ABOVE, THE TRANSFEROR SHALL FIRST DELIVER TO THE TRUSTEE A WRITTEN CERTIFICATE STATING THAT THE NOTES ARE BEING TRANSFERRED TO A PERSON (1) WHO THE TRANSFEROR REASONABLY BELIEVES TO BE A QIB, (2) PURCHASING FOR ITS OWN ACCOUNT OR THE ACCOUNT OF A QIB IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A AND (3) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS.

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH CLAUSE (2)(E) ABOVE, THE COMPANY AND THE TRUSTEE RESERVE THE RIGHT TO REQUIRE THE DELIVERY OF SUCH LEGAL OPINIONS, CERTIFICATIONS OR OTHER EVIDENCE AS MAY REASONABLY BE REQUIRED IN ORDER TO DETERMINE THAT THE PROPOSED TRANSFER IS BEING MADE IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. NO REPRESENTATION IS MADE AS TO THE AVAILABILITY OF ANY EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

NO AFFILIATE (AS DEFINED IN RULE 144 UNDER THE SECURITIES ACT) OF THE COMPANY OR PERSON THAT HAS BEEN AN AFFILIATE (AS DEFINED IN RULE 144 UNDER THE SECURITIES ACT) OF THE COMPANY DURING THE THREE

IMMEDIATELY PRECEDING MONTHS MAY PURCHASE, OTHERWISE ACQUIRE OR OWN THIS NOTE OR A BENEFICIAL INTEREST HEREIN.

No transfer of any Rule 144A Note or any Regulation S Note prior to the Resale Restriction Termination Date will be registered by the Note Registrar unless the applicable box on the Form of Assignment and Transfer has been checked.

Any Rule 144A Note or Regulation S Note (or security issued in exchange or substitution therefor) as to which such restrictions on transfer shall have expired in accordance with their terms may, upon surrender of such Note for exchange to the Note Registrar in accordance with the provisions of this Section 2.05, be exchanged for a new Note or Notes, of like tenor and aggregate principal amount, which shall not bear the restrictive legend required by this Section 2.05(c) and shall not be assigned a restricted CUSIP number. The Company shall be entitled to instruct the Custodian in writing to so surrender any Global Note as to which such restrictions on transfer shall have expired in accordance with their terms for exchange, and, upon such instruction, the Custodian shall so surrender such Global Note for exchange; and any new Global Note so exchanged therefor shall not bear the restrictive legend specified in this Section 2.05(c) and shall not be assigned a restricted CUSIP number. The Company shall promptly notify the Trustee upon the occurrence of the Resale Restriction Termination Date and promptly after a registration statement, if any, with respect to the Notes or any Common Shares issued upon conversion of the Notes has been declared effective under the Securities Act.

Notwithstanding any other provisions of this Indenture (other than the provisions set forth in this Section 2.05(c)), a Global Note may not be transferred as a whole or in part except (i) by the Depositary to a nominee of the Depositary or by a nominee of the Depositary to the Depositary or another nominee of the Depositary or by the Depositary or any such nominee to a successor Depositary or a nominee of such successor Depositary and (ii) for transfers of portions of a Global Note in certificated form made upon request of a member of, or a participant in, the Depositary (for itself or on behalf of a beneficial owner) by written notice given to the Trustee by or on behalf of the Depositary in accordance with customary procedures of the Depositary and in compliance with this Section 2.05(c).

The Depositary shall be a clearing agency registered under the Exchange Act. The Company initially appoints The Depository Trust Company to act as Depositary with respect to each Global Note. Initially, each Global Note shall be issued to the Depositary, registered in the name of Cede & Co., as the nominee of the Depositary, and deposited with the Trustee as custodian for Cede & Co.

If (i) the Depositary notifies the Company at any time that the Depositary is unwilling or unable to continue as depositary for the Global Notes and a successor depositary is not appointed within 60 days, (ii) the Depositary ceases to be registered as a clearing agency under the Exchange Act and a successor depositary is not appointed within 60 days or (iii) an Event of Default with respect to the Notes has occurred and is continuing and a beneficial owner of any Note requests that its beneficial interest therein be issued as a Physical Note, the Company shall execute, and the Trustee, upon receipt of an Officers' Certificate and a Company Order for the authentication and delivery of Notes, shall authenticate and deliver (x) in the case of clause (iii), a Physical Note to such beneficial owner in a principal amount equal to the principal amount of

such Note corresponding to such beneficial owner's beneficial interest and (y) in the case of clause (i) or (ii), Physical Notes to each beneficial owner of the related Global Notes (or a portion thereof) in an aggregate principal amount equal to the aggregate principal amount of such Global Notes in exchange for such Global Notes, and upon delivery of the Global Notes to the Trustee such Global Notes shall be canceled.

Physical Notes issued in exchange for all or a part of the Global Note pursuant to this Section 2.05(c) shall be registered in such names and in such authorized denominations as the Depositary, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Trustee. Upon execution and authentication, the Trustee shall deliver such Physical Notes to the Persons in whose names such Physical Notes are so registered.

At such time as all interests in a Global Note have been converted, canceled, repurchased or transferred, such Global Note shall be, upon receipt thereof, canceled by the Trustee in accordance with standing procedures and existing instructions between the Depositary and the Custodian. At any time prior to such cancellation, if any interest in a Global Note is exchanged for Physical Notes, converted, canceled, repurchased, redeemed or transferred to a transferee who receives Physical Notes therefor or any Physical Note is exchanged or transferred for part of such Global Note, the principal amount of such Global Note shall, in accordance with the standing procedures and instructions existing between the Depositary and the Custodian, be appropriately reduced or increased, as the case may be, and an endorsement shall be made on such Global Note, by the Trustee or the Custodian, at the direction of the Trustee, to reflect such reduction or increase.

None of the Company, the Trustee or any agent of the Company or the Trustee shall have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests of a Global Note or maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

(d) Until the Resale Restriction Termination Date, any stock certificate representing Common Shares issued upon conversion of a Rule 144A Note shall bear a legend in substantially the following form (unless the Note or such Common Shares have been transferred pursuant to a registration statement that has become or been declared effective under the Securities Act and that continues to be effective at the time of such transfer, or pursuant to the exemption from registration provided by Rule 144 or any similar provision then in force under the Securities Act, or such Common Shares have been issued upon conversion of Notes that have been transferred pursuant to a registration statement that has become or been declared effective under the Securities Act and that continues to be effective at the time of such transfer, or pursuant to the exemption from registration provided by Rule 144 or any similar provision then in force under the Securities Act, or unless otherwise agreed by the Company with written notice thereof to the Trustee and any transfer agent for the Common Shares):

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE " **SECURITIES ACT**"), AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE ACQUIRER:

(1) REPRESENTS THAT IT AND ANY ACCOUNT FOR WHICH IT IS ACTING (A) IS A "QUALIFIED INSTITUTIONAL BUYER" (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) OR (B) IS NOT A U.S. PERSON (WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT) AND THAT IT EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT TO EACH SUCH ACCOUNT AND THAT IT AND ANY SUCH ACCOUNT IS NOT AN AFFILIATE OF CANADIAN SOLAR INC. (THE "**COMPANY**"), AND

(2) AGREES FOR THE BENEFIT OF THE COMPANY THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS SECURITY OR ANY BENEFICIAL INTEREST HEREIN PRIOR TO THE DATE THAT IS THE LATER OF (X) ONE YEAR AFTER THE LAST ORIGINAL ISSUE DATE OF THE SERIES OF NOTES UPON THE CONVERSION OF WHICH THIS SECURITY WAS ISSUED OR SUCH SHORTER PERIOD OF TIME AS PERMITTED BY RULE 144 UNDER THE SECURITIES ACT OR ANY SUCCESSOR PROVISION THERETO AND (Y) SUCH LATER DATE, IF ANY, AS MAY BE REQUIRED BY APPLICABLE LAW, EXCEPT:

(A) TO THE COMPANY OR ANY SUBSIDIARY THEREOF, OR

(B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT, OR

(C) TO A QUALIFIED INSTITUTIONAL BUYER (A "QIB") IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, OR

(D) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT, OR

(E) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE).

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH CLAUSE 2(D) ABOVE, THE TRANSFEROR SHALL FIRST DELIVER TO THE TRANSFER AGENT FOR THE COMMON SHARES A WRITTEN CERTIFICATE STATING THAT SUCH TRANSFER IS BEING MADE IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S.

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH CLAUSE (2)(E) ABOVE, THE COMPANY AND THE TRANSFER AGENT FOR THE COMMON SHARES RESERVE THE RIGHT TO REQUIRE THE DELIVERY OF SUCH LEGAL OPINIONS, CERTIFICATIONS OR OTHER EVIDENCE AS MAY REASONABLY BE REQUIRED IN ORDER TO DETERMINE THAT THE PROPOSED TRANSFER IS BEING MADE IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. NO REPRESENTATION IS MADE AS TO THE AVAILABILITY OF ANY EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

NO AFFILIATE (AS DEFINED IN RULE 144 UNDER THE SECURITIES ACT) OF THE COMPANY OR PERSON THAT HAS BEEN AN AFFILIATE (AS DEFINED IN RULE 144 UNDER THE SECURITIES ACT) OF THE COMPANY DURING THE THREE IMMEDIATELY PRECEDING MONTHS MAY PURCHASE, OTHERWISE ACQUIRE OR OWN THIS NOTE OR A BENEFICIAL INTEREST HEREIN.

Until the Resale Restriction Termination Date, any stock certificate representing Common Shares issued upon conversion of a Regulation S Note shall bear a legend in substantially the following form (unless the Note or such Common Shares have been transferred pursuant to a registration statement that has become or been declared effective under the Securities Act and that continues to be effective at the time of such transfer, or pursuant to the exemption from registration provided by Rule 144 or any similar provision then in force under the Securities Act, or such Common Shares have been issued upon conversion of Notes that have been transferred pursuant to a registration statement that has become or been declared effective under the Securities Act and that continues to be effective at the time of such transfer, or pursuant to the exemption from registration provided by Rule 144 or any similar provision then in force under the Securities Act, or unless otherwise agreed by the Company with written notice thereof to the Trustee and any transfer agent for the Common Shares):

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE " **SECURITIES ACT**"), AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE ACQUIRER:

(1) REPRESENTS THAT IT AND ANY ACCOUNT FOR WHICH IT IS ACTING (A) IS A "QUALIFIED INSTITUTIONAL BUYER" (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) OR (B) IS NOT A U.S. PERSON (WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT) AND THAT IT EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT TO EACH SUCH ACCOUNT AND THAT IT AND ANY SUCH ACCOUNT IS NOT AN AFFILIATE OF CANADIAN SOLAR INC. (THE "**COMPANY**"), AND

(2) AGREES FOR THE BENEFIT OF THE COMPANY THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS SECURITY OR ANY BENEFICIAL INTEREST HEREIN PRIOR TO THE DATE THAT IS THE LATER OF (X) ONE YEAR AFTER THE LAST ORIGINAL ISSUE DATE OF THE SERIES OF NOTES UPON THE CONVERSION OF WHICH THIS SECURITY WAS ISSUED OR SUCH SHORTER PERIOD OF TIME AS PERMITTED BY RULE 144 UNDER THE SECURITIES ACT OR ANY SUCCESSOR PROVISION THERETO AND (Y) SUCH LATER DATE, IF ANY, AS MAY BE REQUIRED BY APPLICABLE LAW, EXCEPT:

(A) TO THE COMPANY OR ANY SUBSIDIARY THEREOF, OR

(B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT, OR

(C) TO A QUALIFIED INSTITUTIONAL BUYER (A "QIB") IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, OR

(D) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT, OR

(E) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE).

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH CLAUSE 2(C) ABOVE, THE TRANSFEROR SHALL FIRST DELIVER TO THE TRANSFER AGENT FOR THE COMMON SHARES A WRITTEN CERTIFICATE STATING THAT THE NOTES ARE BEING TRANSFERRED TO A PERSON (1) WHO THE TRANSFEROR REASONABLY BELIEVES TO BE A QIB, (2) PURCHASING FOR ITS OWN ACCOUNT OR THE ACCOUNT OF A QIB IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, AND (3) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS.

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH CLAUSE (2)(E) ABOVE, THE COMPANY AND THE TRANSFER AGENT FOR THE COMMON SHARES RESERVE THE RIGHT TO REQUIRE THE DELIVERY OF SUCH LEGAL OPINIONS, CERTIFICATIONS OR OTHER EVIDENCE AS MAY REASONABLY BE REQUIRED IN ORDER TO DETERMINE THAT THE PROPOSED TRANSFER IS BEING MADE IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. NO REPRESENTATION IS MADE AS TO THE AVAILABILITY OF ANY EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

NO AFFILIATE (AS DEFINED IN RULE 144 UNDER THE SECURITIES ACT) OF THE COMPANY OR PERSON THAT HAS BEEN AN AFFILIATE (AS DEFINED IN RULE 144 UNDER THE SECURITIES ACT) OF THE COMPANY DURING THE THREE IMMEDIATELY PRECEDING MONTHS MAY PURCHASE, OTHERWISE ACQUIRE OR OWN THIS NOTE OR A BENEFICIAL INTEREST HEREIN.

Any such Common Shares as to which such restrictions on transfer shall have expired in accordance with their terms may, upon surrender of the certificates representing such Common Shares for exchange in accordance with the procedures of the transfer agent for the Common Shares, be exchanged for a new certificate or certificates for a like aggregate number of Common Shares, which shall not bear the restrictive legend required by this Section 2.05(d).

Any Note or Common Shares issued upon the conversion or exchange of a Note that is repurchased or owned by any Affiliate of the Company (or any Person who was an Affiliate of the Company at any time during the three months preceding) may not be

resold by such Affiliate (or such Person, as the case may be) unless registered under the Securities Act or resold pursuant to an exemption from the registration requirements of the Securities Act in a transaction that results in such Note or Common Shares, as the case may be, no longer being a "restricted security" (as defined under Rule 144 under the Securities Act). The Company shall cause any Note that is repurchased or owned by it to be surrendered to the Trustee for cancellation in accordance with Section 2.08.

Section 2.06. *Mutilated, Destroyed, Lost or Stolen Notes.* In case any Note shall become mutilated or be destroyed, lost or stolen, the Company in its discretion may execute, and upon its written request the Trustee or an authenticating agent appointed by the Trustee shall authenticate and deliver, a new Note, bearing a registration number not contemporaneously outstanding, in exchange and substitution for the mutilated Note, or in lieu of and in substitution for the Note so destroyed, lost or stolen. In every case the applicant for a substituted Note shall furnish to the Company, to the Trustee and, if applicable, to such authenticating agent such security or indemnity as may be required by them to save each of them harmless from any loss, liability, cost or expense caused by or connected with such substitution, and, in every case of destruction, loss or theft, the applicant shall also furnish to the Company, to the Trustee and, if applicable, to such authenticating agent evidence to their satisfaction of the destruction, loss or theft of such Note and of the ownership thereof.

The Trustee or such authenticating agent may authenticate any such substituted Note and deliver the same upon the receipt of such security or indemnity as the Trustee, the Company and, if applicable, such authenticating agent may require. No service charge shall be imposed by the Company, the Trustee, the Note Registrar, any co-Note Registrar or the Paying Agent upon the issuance of any substitute Note, but the Company may require a Holder to pay a sum sufficient to cover any documentary, stamp or similar issue or transfer tax required in connection therewith as a result of the name of the Holder of the new substitute Note being different from the name of the Holder of the old Note that became mutilated or was destroyed, lost or stolen. In case any Note that has matured or as to which a Notice of Conversion or Fundamental Change Repurchase Notice has been duly delivered shall become mutilated or be destroyed, lost or stolen, the Company may, in its sole discretion, instead of issuing a substitute Note, pay or authorize the payment of or convert or authorize the conversion of the same (without surrender thereof except in the case of a mutilated Note), as the case may be, if the applicant for such payment or conversion shall furnish to the Company, to the Trustee and, if applicable, to such authenticating agent such security or indemnity as may be required by them to save each of them harmless for any loss, liability, cost or expense caused by or connected with such substitution, and, in every case of destruction, loss or theft, evidence satisfactory to the Company, the Trustee and, if applicable, any Paying Agent or Conversion Agent evidence of their satisfaction of the destruction, loss or theft of such Note and of the ownership thereof.

Every substitute Note issued pursuant to the provisions of this Section 2.06 by virtue of the fact that any Note is destroyed, lost or stolen shall constitute an additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Note shall be found at any time, and shall be entitled to all the benefits of (but shall be subject to all the limitations set forth in) this Indenture equally and proportionately with any and all other Notes duly issued hereunder. To the extent permitted by law, all Notes shall be held and owned upon the express



condition that the foregoing provisions are exclusive with respect to the replacement, payment, redemption, conversion or repurchase of mutilated, destroyed, lost or stolen Notes and shall preclude any and all other rights or remedies notwithstanding any law or statute existing or hereafter enacted to the contrary with respect to the replacement, payment, redemption, conversion or repurchase of negotiable instruments or other securities without their surrender.

Section 2.07. *Temporary Notes.* Pending the preparation of Physical Notes, the Company may execute and the Trustee or an authenticating agent appointed by the Trustee shall, upon written request of the Company, authenticate and deliver temporary Notes (printed or lithographed). Temporary Notes shall be issuable in any authorized denomination, and substantially in the form of the Physical Notes but with such omissions, insertions and variations as may be appropriate for temporary Notes, all as may be determined by the Company. Every such temporary Note shall be executed by the Company and authenticated by the Trustee or such authenticating agent upon the same conditions and in substantially the same manner, and with the same effect, as the Physical Notes. Without unreasonable delay, the Company shall execute and deliver to the Trustee or such authenticating agent Physical Notes (other than any Global Note) and thereupon any or all temporary Notes (other than any Global Note) may be surrendered in exchange therefor, at each office or agency maintained by the Company pursuant to Section 4.02 and the Trustee or such authenticating agent shall authenticate and deliver in exchange for such temporary Notes an equal aggregate principal amount of Physical Notes. Such exchange shall be made by the Company at its own expense and without any charge therefor. Until so exchanged, the temporary Notes shall in all respects be entitled to the same benefits and subject to the same limitations under this Indenture as Physical Notes authenticated and delivered hereunder.

Section 2.08. *Cancellation of Notes Paid, Converted, Etc.* The Company shall cause all Notes surrendered for the purpose of payment, repurchase, redemption, registration of transfer or exchange or conversion, if surrendered to any Person other than the Trustee (including any of the Company's Agents, Subsidiaries or Affiliates), to be surrendered to the Trustee for cancellation. All Notes delivered to the Trustee shall be canceled promptly by it, and no Notes shall be authenticated in exchange thereof except as expressly permitted by any of the provisions of this Indenture. The Trustee shall dispose of canceled Notes in accordance with its customary procedures and, after such disposition, shall deliver a certificate of such disposition to the Company, at the Company's written request in a Company Order.

Section 2.09. *CUSIP Numbers.* The Company in issuing the Notes may use "CUSIP" numbers (if then generally in use), and, if so, the Trustee shall use "CUSIP" numbers in all notices issued to Holders as a convenience to such Holders; *provided* that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Notes or on such notice and that reliance may be placed only on the other identification numbers printed on the Notes. The Company shall promptly notify the Trustee in writing of any change in the "CUSIP" numbers. Prior to the Notes Fungibility Date, the Rule 144A Notes and the Regulation S Notes shall have different "CUSIP" numbers. Following the Notes Fungibility Date, the Rule 144A Notes and the Regulation S Notes shall have the same "CUSIP" number.

Section 2.10. *Additional Notes; Repurchases.* The Company may, without the consent of the Holders and notwithstanding Section 2.01, reopen this Indenture and issue additional

Notes hereunder with the same terms as the Notes initially issued hereunder (other than differences in the issue price and interest accrued prior to the issue date of such additional Notes) in an unlimited aggregate principal amount; *provided* that if any such additional Notes are not fungible with the Notes initially issued hereunder for U.S. federal securities law or income tax purposes, such additional Notes shall have a separate CUSIP number from both the Rule 144A Notes and the Regulation S Notes. Prior to the issuance of any such additional Notes, the Company shall deliver to the Trustee a Company Order, an Officers' Certificate and an Opinion of Counsel, such Officers' Certificate and Opinion of Counsel to cover such matters, in addition to those required by Section 18.06, as the Trustee shall reasonably request. In addition, the Company may from time to time itself or through its Subsidiaries and directly or indirectly repurchase Notes in open market repurchases, private or public tender or exchange offers or other negotiated transactions, including by cash-settled swaps or other derivatives, without prior notice to Holders. The Company shall cause any Notes so repurchased (other than any Notes repurchased pursuant to cash-settled swaps or other derivatives) to be surrendered to the Trustee for cancellation in accordance with Section 2.08.

## ARTICLE 3
## SATISFACTION AND DISCHARGE

Section 3.01. *Satisfaction and Discharge.* This Indenture shall upon request of the Company contained in an Officers' Certificate cease to be of further effect, and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when (a) (i) all Notes theretofore authenticated and delivered (other than (x) Notes which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 2.06 and (y) Notes for which payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from trust as provided in Section 4.04) have been delivered to the Trustee for cancellation; or (ii) the Company has deposited with the Trustee or delivered to Holders, as applicable, after the Notes have become due and payable, whether on the Maturity Date, any Fundamental Change Repurchase Date or upon redemption or conversion or otherwise, cash or Common Shares, if any (solely to satisfy the Company's Conversion Obligation, if applicable), sufficient to pay all of the outstanding Notes or to satisfy the Company's Conversion Obligation, as the case may be, and to pay all other sums due and payable under this Indenture by the Company; and (b) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with. Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee under Section 7.08 shall survive.

## ARTICLE 4
## PARTICULAR COVENANTS OF THE COMPANY

Section 4.01. *Payment of Principal and Interest.* The Company covenants and agrees that it will cause to be paid the principal (including the Redemption Price and the Fundamental

Change Repurchase Price, if applicable) of, and accrued and unpaid interest on, each of the Notes at the places, at the respective times and in the manner provided herein and in the Notes.

Section 4.02. *Maintenance of Office or Agency.* The Company will maintain in the Borough of Manhattan, The City of New York, an office or agency where the Notes may be surrendered for registration of transfer or exchange (" **Transfer Agent**") or for presentation for payment or repurchase ( "**Paying Agent**") or for conversion ("**Conversion Agent**") and where notices and demands to or upon the Company in respect of the Notes and this Indenture may be served. The Company will give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office or the office or agency of the Trustee in the Borough of Manhattan, The City of New York.

The Company may also from time to time designate as co-Note Registrars one or more other offices or agencies where the Notes may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; *provided* that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in the Borough of Manhattan, The City of New York, for such purposes. The Company will give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency. The terms "**Paying Agent**" and "**Conversion Agent**" include any such additional or other offices or agencies, as applicable.

The Company hereby initially designates the Trustee as the Paying Agent, Note Registrar, Custodian, Conversion Agent, and Transfer Agent and the Corporate Trust Office as the office or agency in the Borough of Manhattan, The City of New York, where Notes may be surrendered for registration of transfer or exchange or for presentation for payment, redemption or repurchase or for conversion and where notices and demands to or upon the Company in respect of the Notes and this Indenture may be served.

Section 4.03. *Appointments to Fill Vacancies in Trustee's Office.* The Company, whenever necessary to avoid or fill a vacancy in the office of Trustee, will appoint, in the manner provided in Section 7.12, a Trustee, so that there shall at all times be a Trustee hereunder.

Section 4.04. *Provisions as to Paying Agent.* (a) If the Company shall appoint a Paying Agent other than the Trustee, the Company will cause such Paying Agent to execute and deliver to the Trustee an instrument in which such agent shall agree with the Trustee, subject to the provisions of this Section 4.04:

(i) that it will hold all sums held by it as such agent for the payment of the principal (including the Redemption Price and the Fundamental Change Repurchase Price, if applicable) of, and accrued and unpaid interest on, the Notes in trust for the benefit of the Holders of the Notes;

(ii) that it will give the Trustee prompt notice of any failure by the Company to make any payment of the principal (including the Redemption Price and the

Fundamental Change Repurchase Price, if applicable) of, and accrued and unpaid interest on, the Notes when the same shall be due and payable; and

(iii) that at any time during the continuance of an Event of Default, upon request of the Trustee, it will forthwith pay to the Trustee all sums so held in trust.

The Company shall, on or before 10 a.m. New York City time one Business Day prior to each due date of the principal (including the Redemption Price and the Fundamental Change Repurchase Price, if applicable) of, or accrued and unpaid interest on, the Notes, deposit with the Paying Agent a sum in U.S. Dollars in immediately available funds sufficient to pay such principal (including the Redemption Price and the Fundamental Change Repurchase Price, if applicable) or accrued and unpaid interest, and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of any failure to take such action; *provided* that if such deposit is made on the due date, such deposit must be received by the Paying Agent by 11:00 a.m., New York City time, on such date.

(b) If the Company shall act as its own Paying Agent, it will, on or before each due date of the principal (including the Redemption Price and the Fundamental Change Repurchase Price, if applicable) of, and accrued and unpaid interest on, the Notes, set aside, segregate and hold in trust for the benefit of the Holders of the Notes a sum sufficient to pay such principal (including the Redemption Price and the Fundamental Change Repurchase Price, if applicable) and accrued and unpaid interest so becoming due and will promptly notify the Trustee in writing of any failure to take such action and of any failure by the Company to make any payment of the principal (including the Redemption Price and the Fundamental Change Repurchase Price, if applicable) of, or accrued and unpaid interest on, the Notes when the same shall become due and payable.

(c) Anything in this Section 4.04 to the contrary notwithstanding, the Company may, at any time, for the purpose of obtaining a satisfaction and discharge of this Indenture, or for any other reason, pay, cause to be paid or deliver to the Trustee all sums or amounts held in trust by the Company or any Paying Agent hereunder as required by this Section 4.04, such sums or amounts to be held by the Trustee upon the trusts herein contained and upon such payment or delivery by the Company or any Paying Agent to the Trustee, the Company or such Paying Agent shall be released from all further liability but only with respect to such sums or amounts.

(d) Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal (including the Redemption Price and the Fundamental Change Repurchase Price, if applicable) of, and accrued and unpaid interest on, any Note and remaining unclaimed for two years after such principal (including the Redemption Price and Fundamental Change Repurchase Price, if applicable) or interest has become due and payable shall be paid to the Company on request of the Company contained in an Officers' Certificate, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Note shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; *provided*, *however*, that the Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Company cause to be published once, in a newspaper

published in the English language, customarily published on each Business Day and of general circulation in The Borough of Manhattan, The City of New York, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company.

Section 4.05. *Existence.* Subject to Article 11, the Company shall do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence.

Section 4.06. *Rule 144A Information Requirement and Annual Reports.* (a) The Company covenants to comply with Section 314(a) of the Trust Indenture Act insofar as it relates to information, documentations, and other reports which the Issuer may be required to file with the Commission pursuant to Section 13 or 15(d) of the Exchange Act. At any time the Company is not subject to Section 13 or 15(d) of the Exchange Act, the Company shall, so long as any of the Notes or any Common Shares issuable upon conversion thereof shall, at such time, constitute "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, promptly provide to the Trustee and, upon written request, any Holder, beneficial owner or prospective purchaser of such Notes or any Common Shares issuable upon conversion of such Notes, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act to facilitate the resale of such Notes or Common Shares pursuant to Rule 144A. The Company shall take such further action as any Holder or beneficial owner of such Notes or such Common Shares may reasonably request to the extent from time to time required to enable such Holder or beneficial owner to sell such Notes or Common Shares in accordance with Rule 144A, as such rule may be amended from time to time.

(b) The Company shall file with the Trustee, within 15 days after the same are required to be filed with the Commission, copies of any documents or reports that the Company is required to file with the Commission pursuant to Section 13 or 15(d) of the Exchange Act (giving effect to any grace period provided by Rule 12b-25 under the Exchange Act). Any such document or report that the Company files with the Commission via the Commission's EDGAR system shall be deemed to be filed with the Trustee for purposes of this Section 4.06(b) at the time such documents are filed via the EDGAR system.

(c) Delivery of the reports and documents described in subsection (b) above to the Trustee is for informational purposes only, and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of its covenants hereunder (as to which the Trustee is entitled to conclusively rely on an Officers' Certificate).

(d) If, at any time during the six-month period beginning on, and including, the date that is six months after the last date of original issuance of the Notes, the Company fails to timely file any document or report that it is required to file with the Commission pursuant to Section 13 or 15(d) of the Exchange Act, as applicable (after giving effect to all applicable grace periods thereunder and other than reports on Form 6-K), or the Notes are not otherwise freely tradable by Holders other than the Company's Affiliates or Persons that were the Company's Affiliates at any time during the three immediately preceding months (as a result of restrictions pursuant to U.S. securities laws or the terms of this Indenture or the Notes), the Company shall

pay Additional Interest on the Notes. Such Additional Interest shall accrue on the Notes at the rate of 0.50% per annum of the principal amount of the Notes outstanding for each day during such period for which the Company's failure to file has occurred and is continuing or the Notes are not otherwise so freely tradable. As used in this Section 4.06(d), documents or reports that the Company is required to "file" with the Commission pursuant to Section 13 or 15(d) of the Exchange Act does not include documents or reports that the Company furnishes to the Commission pursuant to Section 13 or 15(d) of the Exchange Act.

(e) If, and for so long as, the restrictive legend on the Notes specified in Section 2.05(c) has not been removed, the Notes are assigned a restricted CUSIP or the Notes are not otherwise freely tradable by Holders other than the Company's Affiliates or Persons that were the Company's Affiliates at any time during the three immediately preceding months (without restrictions pursuant to U.S. securities laws or the terms of this Indenture or the Notes) as of the 365th day after the last date of original issuance of the Notes, the Company shall pay Additional Interest on the Notes at a rate equal to 0.50% per annum of the principal amount of Notes outstanding until the restrictive legend on the Notes has been removed in accordance with Section 2.05(c), the Notes are assigned an unrestricted CUSIP and the Notes are freely tradable by Holders other than the Company's Affiliates (or Holders that were the Company's Affiliates at any time during the three immediately preceding months) (without restrictions pursuant to U.S. securities laws or the terms of this Indenture or the Notes).

(f) Additional Interest will be payable in arrears on each Interest Payment Date following accrual in the same manner as regular interest on the Notes.

(g) The Additional Interest that is payable in accordance with Section 4.06(d) or Section 4.06(e) shall be in addition to, and not in lieu of, any Additional Interest that may be payable as a result of the Company's election pursuant to Section 6.03.

(h) If Additional Interest is payable by the Company pursuant to Section 4.06(d) or Section 4.06(e), the Company shall deliver to the Trustee an Officers' Certificate to that effect stating (i) the amount of such Additional Interest that is payable and (ii) the date on which such Additional Interest is payable. Unless and until a Responsible Officer of the Trustee receives at the Corporate Trust Office such a certificate, the Trustee may assume without inquiry that no such Additional Interest is payable. If the Company has paid Additional Interest directly to the Persons entitled to it, the Company shall deliver to the Trustee an Officers' Certificate setting forth the particulars of such payment.

Section 4.07. *Additional Amounts*. (a) All payments and deliveries made by the Company or any Successor Company under or with respect to the Notes, including, but not limited to, payments of principal (including, if applicable, the Fundamental Change Repurchase Price or the Redemption Price), payments of interest and deliveries of Common Shares or other Reference Property (together with payment of cash in lieu of any fractional Common Shares) upon conversion, will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Company or any Successor Company is, for tax purposes, organized or resident or doing business or through which payment is made (or any political subdivision or taxing authority thereof or therein) (each, as applicable, a "**Relevant**

**Taxing Jurisdiction**"), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company or any Successor Company will pay to the Holder of each Note such additional amounts (the "**Additional Amounts**") as may be necessary to ensure that the net amount received by the beneficial owner after such withholding or deduction (and after deducting any taxes on the Additional Amounts) will equal the amounts that would have been received by such beneficial owner had no such withholding or deduction been required; provided that no Additional Amounts will be payable:

(i) for or on account of:

(A) any tax, duty, assessment or other governmental charge that would not have been imposed but for:

(1) the existence of any present or former connection between the Holder or beneficial owner of such Note and the Relevant Taxing Jurisdiction, other than merely holding such Note or the receipt of payments thereunder, including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Taxing Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;

(2) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of (including the Fundamental Change Repurchase Price or the Redemption Price, in each case, if applicable) and interest on, such Note or the delivery of Common Shares and other Reference Property (together with payment of cash in lieu of any fractional Common Shares) upon conversion of such Note became due and payable pursuant to the terms thereof or was made or duly provided for; or

(3) the failure of the Holder or beneficial owner to comply with a timely request from the Company or any successor of the Company, addressed to the Holder, to provide certification, information, documents or other evidence concerning such Holder's or beneficial owner's nationality, residence, identity or connection with the Relevant Taxing Jurisdiction, or to make any declaration or satisfy any other reporting requirement relating to such matters, if and to the extent that due and timely compliance with such request is required by statute, regulation or administrative practice of the Relevant Taxing Jurisdiction in order to reduce or eliminate any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder or beneficial owner;

(B) any estate, inheritance, gift, sale, transfer, excise, personal property or similar tax, assessment or other governmental charge;

(C) any tax, duty, assessment or other governmental charge that is payable otherwise than by withholding from payments under or with respect to the Notes;

(D) any tax, assessment, withholding or deduction required by sections 1471 through 1474 of the United States Internal Revenue Code of 1986, as amended ("**FATCA**"), any current or future Treasury Regulations or rulings promulgated thereunder, any law, regulation or other official guidance enacted in any jurisdiction implementing FATCA, any intergovernmental agreement between the United States and any other jurisdiction to implement FATCA or any law enacted by such other jurisdiction to give effect to such agreement, or any agreement with the U.S. Internal Revenue Service under FATCA;

(E) any withholding or deduction that is imposed or levied on a payment date to an individual pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusion of the ECOFIN Council Meeting of November 26 — 27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(F) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (A), (B), (C), (D) or (E); or

(ii) with respect to any payment of the principal of (including the Fundamental Change Repurchase Price or the Redemption Price, in each case, if applicable) and interest on, such Note or the delivery of Common Shares or other Reference Property (together with payment of cash in lieu of any fractional Common Shares) upon conversion of such Note to a Holder, if the Holder is a fiduciary, partnership or person other than the sole beneficial owner of that payment to the extent that such payment would be required to be included in the income under the laws of the Relevant Taxing Jurisdiction, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, a partner or member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner, member or beneficial owner been the Holder thereof.

(b) If the Company or any Successor Company is required to make any deduction or withholding from any payments with respect to the Notes, the Company or such successor shall deliver to the Trustee official tax receipts evidencing the remittance to the relevant tax authorities of the amounts so withheld or deducted.

The Company hereby covenants with the Trustee that it will provide the Trustee with sufficient information about the source and character for U.S. federal tax purposes of any payment to be made by it pursuant to the Indenture and the Notes so as to enable the Trustee to

determine whether any payment to be made by it pursuant to the Indenture and the Notes are withholdable payments as defined in Section 1473(1) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise defined in Sections 1471 through 1474 of the Code and any regulations or agreements thereunder or official interpretation thereof or any intergovernmental agreemetn between the United States and other jurisdiction facilitating the implementation thereof (or any law implementing such an intergovernmental agreement).

For the purposes of this covenant, sufficient information means:

(i) its Global Intermediary Identification Number (GIIN) if the Company determines that it is a Foreign Financial Institution (FFI) and has registered with the IRS to establish its exemption from FATCA;

(ii) its "Passthru" rate or equivalent if the Company is required under its obligations it assumed by registering with the IRS or under an Inter-governmental Agreement to determine what portion of the payments made by it pursuant to the Indenture and the Notes are deemed to be "US source" and therefore subject to FATCA withholding;

(iii) if the Company is required to determine what portion of the payments made by pursuant to the Indenture and the Notes are deemed to be "US Source" and therefore subject to FATCA withholding details of any securities which do not qualify as grandfathered obligations;

(iv) details of any modification to the terms and conditions of any grandfathered obligations that are regarded as "material modifications".

(c) Any reference in this Indenture or the Notes in any context to the delivery of Common Shares or other Reference Property (together with payments of cash in lieu of any fractional Common Shares) upon conversion of the Notes or the payment of principal of (including the Fundamental Change Repurchase Price or the Redemption Price, in each case, if applicable) and interest on, any Note or any other amount payable with respect to such Note, shall be deemed to include payment of Additional Amounts provided for in this Section 4.07 to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

(d) The foregoing obligations shall survive termination or discharge of this Indenture.

Section 4.08. *Stay, Extension and Usury Laws.* The Company covenants (to the extent that it may lawfully do so) that it shall not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law or other law that would prohibit or forgive the Company from paying all or any portion of the principal of or interest on the Notes as contemplated herein, wherever enacted, now or at any time hereafter in force, or that may affect the covenants or the performance of this Indenture; and the Company (to the extent it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

Section 4.09. *Compliance Certificate; Statements as to Defaults.* The Company shall deliver to the Trustee (i) within 120 days after the end of each fiscal year of the Company (beginning with the fiscal year ending on December 31, 2014) and (ii) promptly after receiving a written request from the Trustee, an Officers' Certificate stating whether the signers thereof have knowledge of any Default that occurred during the previous year and, if so, specifying each such Default and the nature thereof.

In addition, the Company shall deliver to the Trustee, as soon as possible, and in any event within 30 days after the occurrence of any Event of Default or Default, an Officers' Certificate setting forth the details of such Event of Default or Default, its status and the action that the Company is taking or proposing to take in respect thereof.

Section 4.10. *Further Instruments and Acts.* Upon request of the Trustee, the Company will execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purposes of this Indenture.

## ARTICLE 5
## LISTS OF HOLDERS AND REPORTS BY THE COMPANY AND THE TRUSTEE

Section 5.01. *Lists of Holders.* The Company covenants and agrees that it will furnish or cause to be furnished to the Trustee a list in such form as the Trustee may reasonably require of the names and addresses of the Holders of the Notes pursuant to Section 312 of the Trust Indenture Act:

(a) semiannually and not more than 15 days after the Regular Record Date for any Interest Payment Date; and

(b) at such other times as the Trustee may request in writing, within 30 days after receipt by the Company of any such request (or such lesser time as the Trustee may reasonably request in order to enable it to timely provide any notice to be provided by it hereunder) as of a date not more than 15 days (or such other date as the Trustee may reasonably request in order to so provide any such notices) prior to the time such information is furnished, *provided*, that if and so long as the Trustee shall be the Note Registrar, such list shall not be required to be furnished.

Section 5.02. *Preservation and Disclosure of Lists.* The Trustee shall preserve, in as current a form as is reasonably practicable, all information as to the names and addresses of the Holders contained in the most recent list furnished to it as provided in Section 5.01 or maintained by the Trustee in its capacity as Note Registrar, if so acting. The Trustee may destroy any list furnished to it as provided in Section 5.01 upon receipt of a new list so furnished.

## ARTICLE 6
## DEFAULTS AND REMEDIES

Section 6.01. *Events of Default.* Each of the following events shall be an "**Event of Default**" with respect to the Notes:



(a) default in any payment of interest on any Note when due and payable if the default continues for a period of 30 days;

(b) default in the payment of principal of any Note when due and payable on the Maturity Date, upon redemption, upon any required repurchase in connection with a Fundamental Change, upon declaration of acceleration or otherwise;

(c) failure by the Company to comply with its obligation to convert the Notes in accordance with this Indenture upon exercise of a Holder's conversion right and such failure continues for five Business Days or more;

(d) failure by the Company to comply with its obligations under Article 11;

(e) failure by the Company to issue a Fundamental Change Company Notice in accordance with Section 15.02(c) when due;

(f) failure by the Company for 60 days after written notice from the Trustee or the Holders of at least 25% in principal amount of the Notes then outstanding has been received by the Company to comply with any of its other agreements contained in the Notes or this Indenture;

(g) default by the Company or any Subsidiary of the Company with respect to any mortgage, agreement or other instrument under which there may be outstanding, or by which there may be secured or evidenced, any indebtedness for money borrowed in excess of $20 million (or its foreign currency equivalent) in the aggregate of the Company and/or any such Subsidiary, whether such indebtedness now exists or shall hereafter be created (i) resulting in such indebtedness becoming or being declared due and payable or (ii) constituting a failure to pay the principal of, or interest on, any such indebtedness when due and payable at its stated maturity, upon required repurchase, upon declaration of acceleration or otherwise, in each case of (i) and (ii) above, where such indebtedness is not discharged or such acceleration is not rescinded or annulled within a period of 30 days;

(h) a final judgment for the payment of $20 million (or its foreign currency equivalent) or more rendered against the Company or any Subsidiary of the Company if such amount is not covered by insurance or an indemnity and such judgment is not discharged or stayed within 30 days after (i) the date on which the right to appeal thereof has expired if no such appeal has commenced, or (ii) the date on which all rights to appeal have been extinguished;

(i) the Company or any Significant Subsidiary or any group of Subsidiaries that in the aggregate would constitute a Significant Subsidiary shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to the Company or any such Significant Subsidiary or any such group or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a

trustee, receiver, liquidator, custodian or other similar official of the Company or any such Significant Subsidiary or any such group or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due; or

(j) a court of competent jurisdiction enters an order or decree under any bankruptcy, insolvency or similar law that:

(i) is for relief with respect to the Company or any of its Significant Subsidiaries or any group of Subsidiaries that in the aggregate would constitute a Significant Subsidiary of the Company (the "Significant Subsidiary Goup") in an involuntary case or other proceeding, or adjudicates the Company or any of its Significant Subsidiary or Significant Subsidiary Group bankrupt or insolvent;

(ii) appoints a trustee, receiver, liquidator, custodian or similar official for the Company or any of its Significant Subsidiaries or Significant Subsidiary Group for all or substantially all of the property of the Company or any Significant Subsidiary or any Significant Subsidiary Group;

(iii) related to the winding up or liquidation of the Company or any of its Significant Subsidiaries or any Significant Subsidiary Group;

(iv) and in the case of each of the foregoing clauses (i), (ii) and (iii) of this Section 6.01(j), the order or decree remains unstayed and in effect for at least 60 consecutive days.

Section 6.02. *Acceleration; Rescission and Annulment*. If one or more Events of Default shall have occurred and be continuing (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body), then, and in each and every such case (other than an Event of Default specified in Section 6.01(i) or Section 6.01(j) with respect to the Company), unless the principal of all of the Notes shall have already become due and payable, either the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding determined in accordance with Section 8.04, by notice in writing to the Company (and to the Trustee if given by Holders), may, and the Trustee at the request of such Holders shall, declare 100% of the principal of, and accrued and unpaid interest on, all the Notes to be due and payable immediately, and upon any such declaration the same shall become and shall automatically be immediately due and payable, anything contained in this Indenture or in the Notes to the contrary notwithstanding. If an Event of Default specified in Section 6.01(i) or Section 6.01(j) with respect to the Company occurs and is continuing, 100% of the principal of, and accrued and unpaid interest, if any, on, all Notes shall become and shall automatically be immediately due and payable.

The immediately preceding paragraph, however, is subject to the conditions that if, at any time after the principal of the Notes shall have been so declared due and payable, and before any judgment or decree for the payment of the monies due shall have been obtained or entered as hereinafter provided, the Company shall pay or shall deposit with the Trustee a sum sufficient to pay installments of accrued and unpaid interest upon all Notes and the principal of any and all Notes that shall have become due otherwise than by acceleration (with interest on overdue installments of accrued and unpaid interest to the extent that payment of such interest is enforceable under applicable law, and on such principal at the rate borne by the Notes *plus*

0.50% at such time) and amounts due to the Trustee pursuant to Section 7.08, and if (1) rescission would not conflict with any judgment or decree of a court of competent jurisdiction and (2) any and all existing Events of Default under this Indenture, other than the nonpayment of the principal of and accrued and unpaid interest, if any, on Notes that shall have become due solely by such acceleration, shall have been cured or waived pursuant to Section 6.09, then and in every such case the Holders of a majority in aggregate principal amount of the Notes then outstanding, by written notice to the Company and to the Trustee, may rescind and annul such declaration and its consequences, and any Event of Default arising therefrom shall be deemed to have been cured for every purpose of this Indenture; but no such rescission and annulment shall extend to or shall affect any subsequent Default or Event of Default, or shall impair any right consequent thereon.

Section 6.03. *Additional Interest*. Notwithstanding anything in this Indenture or in the Notes to the contrary, if the Company so elects, the sole remedy for an Event of Default relating to the Company's failure to comply with its obligations as set forth in Section 4.06(b) shall during the first 360 days following the occurrence of such an Event of Default consist exclusively of the right to receive Additional Interest on the Notes at a rate equal to(i) 0.25% per annum of the principal amount of the Notes outstanding for each day (x) during the 180-day period beginning on, and including, the date on which such an Event of Default first occurs and (y) on which such Event of Default is continuing and (ii) 0.50% per annum of the principal amount of the Notes outstanding for each day (x) during the 180-day period beginning on, and including, the 181st day following the date on which such an Event of Default first occurs and (y) on which such Event of Default is continuing. Additional Interest payable pursuant to this Section 6.03 shall be in addition to, not in lieu of, any Additional Interest payable pursuant to Section 4.06(d) or Section 4.06(e). If the Company so elects, such Additional Interest shall be payable in the same manner and on the same dates as the stated interest payable on the Notes. On the 361st day after such Event of Default (if the Event of Default relating to the Company's failure to file is not cured or waived prior to such 361st day), the Notes shall be immediately subject to acceleration as provided in Section 6.02. The provisions set forth in this Section 6.03 shall not affect the rights of Holders of the Notes in the event of the occurrence of any other Event of Default. In the event the Company does not elect to pay Additional Interest following an Event of Default in accordance with this Section 6.03 or the Company elected to make such payment but does not pay the Additional Interest when due, the Notes shall be immediately subject to acceleration as provided in Section 6.02.

In order to elect to pay Additional Interest as the sole remedy during the first 360 days after the occurrence of any Event of Default described in the immediately preceding paragraph, the Company must notify all Holders of the Notes, the Trustee and the Paying Agent of such election prior to the beginning of such 360-day period. Upon the failure to timely give such notice, the Notes shall be immediately subject to acceleration as provided in Section 6.02.

Section 6.04. *Payments of Notes on Default; Suit Therefor*. If an Event of Default described in clause (a) or (b) of Section 6.01 shall have occurred, the Company shall, upon demand of the Trustee, pay to the Trustee, for the benefit of the Holders of the Notes, the whole amount then due and payable on the Notes for principal and interest, if any, with interest on any overdue principal and interest, if any, at the rate borne by the Notes *plus* 0.50% at such time, and, in addition thereto, such further amount as shall be sufficient to cover any amounts due to the

Trustee under Section 7.08. If the Company shall fail to pay such amounts forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid, may prosecute such proceeding to judgment or final decree and may enforce the same against the Company or any other obligor upon the Notes and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Company or any other obligor upon the Notes, wherever situated.

In the event there shall be pending proceedings for the bankruptcy or for the reorganization of the Company or any other obligor on the Notes under Title 11 of the United States Code, or any other applicable law, or in case a receiver, assignee or trustee in bankruptcy or reorganization, liquidator, sequestrator or similar official shall have been appointed for or taken possession of the Company or such other obligor, the property of the Company or such other obligor, or in the event of any other judicial proceedings relative to the Company or such other obligor upon the Notes, or to the creditors or property of the Company or such other obligor, the Trustee, irrespective of whether the principal of the Notes shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand pursuant to the provisions of this Section 6.04, shall be entitled and empowered, by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount of principal and accrued and unpaid interest, if any, in respect of the Notes, and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents and to take such other actions as it may deem necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and of the Holders allowed in such judicial proceedings relative to the Company or any other obligor on the Notes, its or their creditors, or its or their property, and to collect and receive any monies or other property payable or deliverable on any such claims, and to distribute the same after the deduction of any amounts due to the Trustee under Section 7.08; and any receiver, assignee or trustee in bankruptcy or reorganization, liquidator, custodian or similar official is hereby authorized by each of the Holders to make such payments to the Trustee, as administrative expenses, and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due it for reasonable compensation, expenses, advances and disbursements, including agents and counsel fees, and including any other amounts due to the Trustee under Section 7.08, incurred by it up to the date of such distribution. To the extent that such payment of reasonable compensation, expenses, advances and disbursements out of the estate in any such proceedings shall be denied for any reason, payment of the same shall be secured by a lien on, and shall be paid out of, any and all distributions, dividends, monies, securities and other property that the Holders of the Notes may be entitled to receive in such proceedings, whether in liquidation or under any plan of reorganization or arrangement or otherwise.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting such Holder or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

All rights of action and of asserting claims under this Indenture, or under any of the Notes, may be enforced by the Trustee without the possession of any of the Notes, or the production thereof at any trial or other proceeding relative thereto, and any such suit or proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Notes.

In any proceedings brought by the Trustee (and in any proceedings involving the interpretation of any provision of this Indenture to which the Trustee shall be a party) the Trustee shall be held to represent all the Holders of the Notes, and it shall not be necessary to make any Holders of the Notes parties to any such proceedings.

In case the Trustee shall have proceeded to enforce any right under this Indenture and such proceedings shall have been discontinued or abandoned because of any waiver pursuant to Section 6.09 or any rescission and annulment pursuant to Section 6.02 or for any other reason or shall have been determined adversely to the Trustee, then and in every such case the Company, the Holders and the Trustee shall, subject to any determination in such proceeding, be restored respectively to their several positions and rights hereunder, and all rights, remedies and powers of the Company, the Holders and the Trustee shall continue as though no such proceeding had been instituted.

Section 6.05. *Application of Monies Collected by Trustee.* Any monies collected by the Trustee pursuant to this Article 6 with respect to the Notes shall be applied in the following order, at the date or dates fixed by the Trustee for the distribution of such monies, upon presentation of the several Notes, and stamping thereon the payment, if only partially paid, and upon surrender thereof, if fully paid:

**First**, to the payment of all amounts due the Trustee under Section 7.08;

**Second**, in case the principal of the outstanding Notes shall not have become due and be unpaid, to the payment of interest on the Notes in default in the order of the date due of the payments of such interest with interest (to the extent that such interest has been collected by the Trustee) upon such overdue payments at the rate borne by the Notes at such time (including the additional 0.50% interest that accrues on Defaulted Amounts), such payments to be made ratably to the Persons entitled thereto;

**Third**, in case the principal of the outstanding Notes shall have become due, by declaration or otherwise, and be unpaid to the payment of the whole amount (including, if applicable, the payment of the Redemption Price, the Fundamental Change Repurchase Price and any cash in lieu of fractional Common Shares upon conversion) then owing and unpaid upon the Notes for principal and interest, if any, with interest on the overdue principal and, to the extent that such interest has been collected by the Trustee, upon overdue installments of interest at the rate borne by the Notes at such time (including the additional 0.50% interest that accrues on Defaulted Amounts), and in case such monies shall be insufficient to pay in full the whole amounts so due and unpaid upon the Notes, then to the payment of such principal (including, if applicable, the Redemption Price, the Fundamental Change Repurchase Price and any cash in

lieu of fractional Common Shares upon conversion) and interest without preference or priority of principal over interest, or of interest over principal or of any installment of interest over any other installment of interest, or of any Note over any other Note, ratably to the aggregate of such principal (including, if applicable, the Redemption Price and the Fundamental Change Repurchase Price) and accrued and unpaid interest; and

**Fourth**, to the payment of the remainder, if any, to the Company.

Section 6.06. *Proceedings by Holders.* Except to enforce the right to receive payment of principal (including, if applicable, the Fundamental Change Repurchase Price and the Redemption Price) or interest when due, or to enforce the right to receive delivery of the consideration due upon conversion, no Holder of any Note shall have any right by virtue of or by availing of any provision of this Indenture to institute any suit, action or proceeding in equity or at law upon or under or with respect to this Indenture, or for the appointment of a receiver, trustee, liquidator, custodian or other similar official, or for any other remedy hereunder, unless:

(a) such Holder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof, as herein provided;

(b) Holders of at least 25% in aggregate principal amount of the Notes then outstanding shall have made written request upon the Trustee to institute such action, suit or proceeding or pursue such other remedy in its own name as Trustee hereunder;

(c) such Holders shall have offered to the Trustee such security and/or indemnity reasonably satisfactory to it against any loss, liability or expense to be incurred therein or thereby;

(d) the Trustee for 60 days after its receipt of such notice, request and offer of security or indemnity, shall have neglected or refused to institute any such action, suit or proceeding; and

(e) no direction that, in the opinion of the Trustee, is inconsistent with such written request shall have been given to the Trustee by the Holders of a majority of the aggregate principal amount of the Notes then outstanding within such 60-day period pursuant to Section 6.09,

it being understood and intended, and being expressly covenanted by the taker and Holder of every Note with every other taker and Holder and the Trustee that no one or more Holders shall have any right in any manner whatever by virtue of or by availing of any provision of this Indenture to affect, disturb or prejudice the rights of any other Holder, or to obtain or seek to obtain priority over or preference to any other such Holder, or to enforce any right under this Indenture, except in the manner herein provided and for the equal, ratable and common benefit of all Holders (except as otherwise provided herein). For the protection and enforcement of this Section 6.06, each and every Holder and the Trustee shall be entitled to such relief as can be given either at law or in equity.

Notwithstanding any other provision of this Indenture and any provision of any Note, the right of any Holder to receive payment or delivery, as the case may be, of (x) the principal (including the Redemption Price and the Fundamental Change Repurchase Price, if applicable) of, (y) accrued and unpaid interest, if any, on, and (z) the consideration due upon conversion of,

such Note, on or after the respective due dates expressed or provided for in such Note or in this Indenture, or to institute suit for the enforcement of any such payment or delivery, as the case may be, on or after such respective dates against the Company shall not be impaired or affected without the consent of such Holder.

Section 6.07. *Proceedings by Trustee.* In case of an Event of Default, the Trustee may in its discretion proceed to protect and enforce the rights vested in it by this Indenture by such appropriate judicial proceedings as are necessary to protect and enforce any of such rights, either by suit in equity or by action at law or by proceeding in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement contained in this Indenture or in aid of the exercise of any power granted in this Indenture, or to enforce any other legal or equitable right vested in the Trustee by this Indenture or by law.

Section 6.08. *Remedies Cumulative and Continuing.* Except as provided in the last paragraph of Section 2.06, all powers and remedies given by this Article 6 to the Trustee or to the Holders shall, to the extent permitted by law, be deemed cumulative and not exclusive of any thereof or of any other powers and remedies available to the Trustee or the Holders of the Notes, by judicial proceedings or otherwise, to enforce the performance or observance of the covenants and agreements contained in this Indenture, and no delay or omission of the Trustee or of any Holder of any of the Notes to exercise any right or power accruing upon any Default or Event of Default shall impair any such right or power, or shall be construed to be a waiver of any such Default or Event of Default or any acquiescence therein; and, subject to the provisions of Section 6.06, every power and remedy given by this Article 6 or by law to the Trustee or to the Holders may be exercised from time to time, and as often as shall be deemed expedient, by the Trustee or by the Holders.

Section 6.09. *Direction of Proceedings and Waiver of Defaults by Majority of Holders.* The Holders of a majority of the aggregate principal amount of the Notes at the time outstanding determined in accordance with Section 8.04 shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to the Notes; *provided*, *however*, that (a) such direction shall not be in conflict with any rule of law or with this Indenture, (b) the Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such direction, and (c) prior to taking any action under this Indenture upon any such direction from Holders of the Notes, the Trustee shall be entitled to indemnification reasonably satisfactory to it against all losses and expenses caused by taking such action. The Trustee may refuse to follow any direction that it determines is unduly prejudicial to the rights of any other Holder or that would involve the Trustee in personal liability. The Holders of a majority in aggregate principal amount of the Notes at the time outstanding determined in accordance with Section 8.04 may on behalf of the Holders of all of the Notes waive any past Default or Event of Default hereunder and its consequences, other than a Default or Event of Default (i) in the payment of principal of, or interest on, any Note or, if applicable, in the payment of the Fundamental Change Repurchase Price or the Redemption Price that has not been cured pursuant to Section 6.01, (ii) arising from a failure by the Company to deliver the consideration due upon conversion of the Notes in accordance with this Indenture or (iii) in respect of any provision hereof which under Article 10 cannot be modified or amended without the consent of each Holder of an outstanding Note affected. Upon any such waiver the Company, the Trustee and the Holders of the Notes shall be

restored to their former positions and rights hereunder; but no such waiver shall extend to any subsequent or other Default or Event of Default or impair any right consequent thereon. Whenever any Default or Event of Default hereunder shall have been waived as permitted by this Section 6.09, said Default or Event of Default shall for all purposes of the Notes and this Indenture be deemed to have been cured and to be not continuing; but no such waiver shall extend to any subsequent or other Default or Event of Default or impair any right consequent thereon.

Section 6.10. *Notice of Defaults.* The Trustee shall, within 90 days after the occurrence, and during the continuance, of a Default or Event of Default of which a Responsible Officer has actual knowledge, deliver to all Holders as the names and addresses of such Holders appear upon the Note Register, notice of all Defaults or Events of Default known to a Responsible Officer, unless such Defaults or Events of Default shall have been cured or waived before the giving of such notice; *provided* that, except in the case of a Default or Event of Default in the payment of the principal of (including the Fundamental Change Repurchase Price or the Redemption Price, if applicable), or accrued and unpaid interest on, any of the Notes or a Default or Event of Default in the delivery of the consideration due upon conversion, the Trustee shall be protected in withholding such notice if and so long as a committee of Responsible Officers of the Trustee in good faith determines that the withholding of such notice is in the interests of the Holders.

Section 6.11. *Undertaking to Pay Costs.* All parties to this Indenture agree, and each Holder of any Note by its acceptance thereof shall be deemed to have agreed, that any court may, in its discretion, require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; *provided* that the provisions of this Section 6.11 (to the extent permitted by law) shall not apply to any suit instituted by the Trustee, to any suit instituted by any Holder, or group of Holders, holding in the aggregate more than 10% in principal amount of the Notes at the time outstanding determined in accordance with Section 8.04, or to any suit instituted by any Holder for the enforcement of the payment of the principal of or accrued and unpaid interest, if any, on any Note (including, but not limited to, the Redemption Price and the Fundamental Change Repurchase Price, if applicable) on or after the due date expressed or provided for in such Note or to any suit for the enforcement of the right to convert any Note, or receive the consideration due upon conversion, in accordance with the provisions of Article 14.

## ARTICLE 7
## CONCERNING THE TRUSTEE

Section 7.01. *Duties and Responsibilities of Trustee.* The Trustee, prior to the occurrence of an Event of Default and after the curing or waiver of all Events of Default that may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. In the event an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the

same degree of care and skill in its exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

No provision of this Indenture shall be construed to relieve the Trustee from liability for its own grossly negligent action, its own grossly negligent failure to act or its own willful misconduct, except that:

(a) prior to the occurrence of an Event of Default and after the curing or waiving of all Events of Default that may have occurred:

(i) the duties and obligations of the Trustee shall be determined solely by the express provisions of this Indenture, and the Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Indenture and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(ii) in the absence of bad faith and willful misconduct on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but, in the case of any such certificates or opinions that by any provisions hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture (but need not confirm or investigate the accuracy of any mathematical calculations or other facts stated therein);

(b) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer or Officers of the Trustee, unless it shall be proved that the Trustee was grossly negligent in ascertaining the pertinent facts;

(c) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than a majority of the aggregate principal amount of the Notes at the time outstanding determined as provided in Section 8.04 relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture;

(d) whether or not therein provided, every provision of this Indenture relating to the conduct or affecting the liability of, or affording protection to, the Trustee (including in any agency role) shall be subject to the provisions of this Section;

(e) the Trustee shall not be liable in respect of any payment (as to the correctness of amount, entitlement to receive or any other matters relating to payment) or notice effected by the Company or any Paying Agent or any records maintained by any co-Note Registrar with respect to the Notes;

(f) if any party fails to deliver a notice relating to an event the fact of which, pursuant to this Indenture, requires notice to be sent to the Trustee, the Trustee may conclusively rely on

its failure to receive such notice as reason to act as if no such event occurred, unless a Responsible Officer of the Trustee had actual knowledge of such event;

(g) all cash received by the Trustee shall be placed in a non-interest bearing trust account and the Trustee shall have no liability for interest in the absence of a written executed agreement between the parties; and

(h) in the event that the Trustee is also acting as Custodian, Note Registrar, Paying Agent, Conversion Agent or transfer agent hereunder, the rights and protections afforded to the Trustee pursuant to this Article 7 shall also be afforded to such Custodian, Note Registrar, Paying Agent, Conversion Agent or transfer agent.

None of the provisions contained in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

Section 7.02. *Reliance on Documents, Opinions, Etc.* In furtherance of and subject to the Trust Indenture Act of 1939, the mandatory provisions of which are incorporated herein in their entirety, and except as otherwise provided in Section 7.01:

(a) the Trustee may conclusively rely and shall be fully protected in acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, note, coupon or other paper or document believed by it in good faith to be genuine and to have been signed or presented by the proper party or parties;

(b) any request, direction, order or demand of the Company mentioned herein shall be sufficiently evidenced by an Officers' Certificate (unless other evidence in respect thereof be herein specifically prescribed); and any Board Resolution may be evidenced to the Trustee by a copy thereof certified by the Secretary or an Assistant Secretary of the Company;

(c) the Trustee may consult with counsel and require an Opinion of Counsel and any advice of such counsel or Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken or omitted by it hereunder in good faith and in accordance with such advice or Opinion of Counsel;

(d) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney at the expense of the Company and shall incur no liability of any kind by reason of such inquiry or investigation;

(e) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents, custodians, nominees or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent, custodian, nominee or attorney appointed by it with due care hereunder; and



(f) the permissive rights of the Trustee enumerated herein shall not be construed as duties.

In no event shall the Trustee be liable for any consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action other than any such loss or damage caused by the Trustee's willful misconduct or gross negligence. The Trustee shall not be charged with knowledge of any Default or Event of Default with respect to the Notes, unless either (1) in the case of a payment default pursuant to Section 6.01(a) or (b) herein, a Responsible Officer shall have actual knowledge of such Default or Event of Default or (2) written notice of such Default or Event of Default shall have been given to the Trustee by the Company or by any Holder of the Notes.

Section 7.03. *No Responsibility for Recitals, Etc.* The recitals contained herein and in the Notes (except in the Trustee's certificate of authentication) shall be taken as the statements of the Company, and the Trustee assumes no responsibility for the correctness of the same. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Notes. The Trustee shall not be accountable for the use or application by the Company of any Notes or the proceeds of any Notes authenticated and delivered by the Trustee in conformity with the provisions of this Indenture.

Section 7.04. *Reports by the Trustee.* Any Trustee's report required under Section 313(a) of the Trust Indenture Act of 1939 shall be transmitted on or before February 18 in each year (beginning in 2015) following the date hereof, so long as any Notes are outstanding hereunder, and shall be dated as of a date convenient to the Trustee but no more than 60 nor less than 45 days prior thereto. The Trustee shall comply with Sections 313(b), 313(c) and 313(d) of the Trust Indenture Act.

Section 7.05. *Preservation of Information; Communication with Holders.* (a) The Trustee shall preserve, in as current a form as is reasonably practicable, all information as to the names and addresses of the Holders contained in the most recent list furnished to it as provided in Section 4.06 and as to the names and addresses of Holders received by the Trustee in its capacity as Notes Registrar (if acting in such capacity).

(b) The Trustee may destroy any list furnished to it a provided in Section 4.06 upon receipt of a new list so furnished.

(c) Holders may communicate as provided in Section 312(b) of the Trust Indenture Act with other Holders with respect to their rights under this

Indenture or under the Notes. The Company, the Trustee, the Notes Registrar and any other Person shall have the protection of Section 312(c) of the Trust Indenture Act.

Section 7.06. *Trustee, Paying Agents, Conversion Agents or Note Registrar May Own Notes.* The Trustee, any Paying Agent, any Conversion Agent or Note Registrar, in its individual or any other capacity, may become the owner or pledgee of Notes with the same rights it would have if it were not the Trustee, Paying Agent, Conversion Agent or Note Registrar.

Section 7.07. *Monies to Be Held in Trust.* All monies received by the Trustee shall, until used or applied as herein provided, be held in trust for the purposes for which they were received. Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any money received by it hereunder except as may be agreed from time to time by the Company and the Trustee.

Section 7.08. *Compensation and Expenses of Trustee.* The Company covenants and agrees to pay to the Trustee from time to time, and the Trustee shall be entitled to, reasonable compensation for all services rendered by it hereunder in any capacity (which shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust) and supplemental fees and reimbursement if extraordinary services are provided, including following a Default or Event of Default, as mutually agreed to in writing between the Trustee and the Company, and the Company will pay or reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances reasonably incurred or made by the Trustee in accordance with any of the provisions of this Indenture in any capacity thereunder (including the reasonable compensation and the expenses and disbursements of its agents and counsel and of all Persons not regularly in its employ) except any such expense, disbursement or advance as shall have been caused by its gross negligence or willful misconduct. The Company also covenants to indemnify the Trustee in any capacity under this Indenture and any other document or transaction entered into in connection herewith for, and to hold them harmless against, any loss, claim, damage, liability or expense incurred without gross negligence or willful misconduct on the part of the Trustee, its officers, directors, agents or employees, as the case may be, and arising out of or in connection with the acceptance or administration of this Indenture or in any other capacity hereunder, including the costs and expenses of defending themselves against any claim of liability in the premises. The obligations of the Company under this Section 7.08 to compensate or indemnify the Trustee and to pay or reimburse the Trustee for expenses, disbursements and advances shall be secured by a senior claim to which the Notes are hereby made subordinate on all money or property held or collected by the Trustee, except, subject to the effect of Section 6.05, funds held in trust herewith for the benefit of the Holders of particular Notes. The Trustee's right to receive payment of any amounts due under this Section 7.08 shall not be subordinate to any other liability or indebtedness of the Company. The obligation of the Company under this Section 7.08 shall survive the satisfaction and discharge of this Indenture and the earlier resignation or removal or the Trustee. The Company need not pay for any settlement made without its consent, which consent shall not be unreasonably withheld. The indemnification provided in this Section 7.08 shall extend to the officers, directors, agents and employees of the Trustee.

Without prejudice to any other rights available to the Trustee under applicable law, when the Trustee and its agents and any authenticating agent incur expenses or render services after an Event of Default specified in Section 6.01(i) or Section 6.01(j) occurs, the expenses and the compensation for the services are intended to constitute expenses of administration under any bankruptcy, insolvency or similar laws.

Section 7.09. *Officers' Certificate as Evidence.* Except as otherwise provided in Section 7.01, whenever in the administration of the provisions of this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or omitting any

action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of gross negligence, willful misconduct and bad faith on the part of the Trustee, be deemed to be conclusively proved and established by an Officers' Certificate delivered to the Trustee, and such Officers' Certificate, in the absence of gross negligence, willful misconduct and bad faith on the part of the Trustee, shall be full warrant to the Trustee for any action taken or omitted by it under the provisions of this Indenture upon the faith thereof.

Section 7.10. *Disqualification of Trustee.* If the Trustee has or shall acquire any "conflicting interest" within the meaning of Section 310(b) of the Trust Indenture Act, the Trustee and the Company shall in all respects comply with the provisions of Section 310(b) of the Trust Indenture Act.

Section 7.11. *Eligibility of Trustee.* There shall at all times be a Trustee hereunder which shall be a Person that is eligible pursuant to the Trust Indenture Act to act as such and has a combined capital and surplus of at least $50,000,000 and shall be eligible in accordance with the provisions of Section 310(a) of the Trust Indenture Act of 1939. If such Person publishes reports of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

Section 7.12. *Resignation or Removal of Trustee.* (a) The Trustee may at any time resign by giving written notice of such resignation to the Company and by mailing notice thereof to the Holders at their addresses as they shall appear on the Note Register. Upon receiving such notice of resignation, the Company shall promptly appoint a successor trustee by written instrument, in duplicate, executed by order of the Board of Directors, one copy of which instrument shall be delivered to the resigning Trustee and one copy to the successor trustee. If no successor trustee shall have been so appointed and have accepted appointment within 60 days after the mailing of such notice of resignation to the Holders, the resigning Trustee may, upon ten Business Days' notice to the Company and the Holders, petition any court of competent jurisdiction for the appointment of a successor trustee, or any Holder who has been a bona fide holder of a Note or Notes for at least six months may, subject to the provisions of Section 6.11, on behalf of himself or herself and all others similarly situated, petition any such court for the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor trustee.

(b) In case at any time any of the following shall occur:

(i) the Trustee shall cease to be eligible in accordance with the provisions of Section 7.10 and shall fail to resign after written request therefor by the Company or by any such Holder, or

(ii) the Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed, or

any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in either case, the Company may by a Board Resolution remove the Trustee and appoint a successor trustee by written instrument, in duplicate, executed by order of the Board of Directors, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the successor trustee, or, subject to the provisions of Section 6.11, any Holder who has been a bona fide holder of a Note or Notes for at least six months may, on behalf of himself or herself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, remove the Trustee and appoint a successor trustee.

(c) The Holders of a majority in aggregate principal amount of the Notes at the time outstanding, as determined in accordance with Section 8.04, may at any time remove the Trustee and nominate a successor trustee that shall be deemed appointed as successor trustee unless within ten days after notice to the Company of such nomination the Company objects thereto, in which case the Trustee so removed or any Holder, upon the terms and conditions and otherwise as in Section 7.12(a) provided, may petition any court of competent jurisdiction for an appointment of a successor trustee.

(d) Any resignation or removal of the Trustee and appointment of a successor trustee pursuant to any of the provisions of this Section 7.12 shall become effective upon acceptance of appointment by the successor trustee as provided in Section 7.13.

Section 7.13. *Acceptance by Successor Trustee.* Any successor trustee appointed as provided in Section 7.12 shall execute, acknowledge and deliver to the Company and to its predecessor trustee an instrument accepting such appointment hereunder, and thereupon the resignation or removal of the predecessor trustee shall become effective and such successor trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, duties and obligations of its predecessor hereunder, with like effect as if originally named as Trustee herein; but, nevertheless, on the written request of the Company or of the successor trustee, the trustee ceasing to act shall, upon payment of any amounts then due it pursuant to the provisions of Section 7.08, execute and deliver an instrument transferring to such successor trustee all the rights and powers of the trustee so ceasing to act. Upon request of any such successor trustee, the Company shall execute any and all instruments in writing for more fully and certainly vesting in and confirming to such successor trustee all such rights and powers. Any trustee ceasing to act shall, nevertheless, retain a senior claim to which the Notes are hereby made subordinate on all money or property held or collected by such trustee as such, except for funds held in trust for the benefit of Holders of particular Notes, to secure any amounts then due it pursuant to the provisions of Section 7.08.

No successor trustee shall accept appointment as provided in this Section 7.13 unless at the time of such acceptance such successor trustee shall be eligible under the provisions of Section 7.10.

Upon acceptance of appointment by a successor trustee as provided in this Section 7.13, each of the Company and the successor trustee, at the written direction and at the expense of the

Company shall mail or cause to be mailed notice of the succession of such trustee hereunder to the Holders at their addresses as they shall appear on the Note Register. If the Company fails to mail such notice within ten days after acceptance of appointment by the successor trustee, the successor trustee shall cause such notice to be mailed at the expense of the Company.

Section 7.14. *Succession by Merger, Etc.* Any corporation or other entity into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation or other entity resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation or other entity succeeding to all or substantially all of the corporate trust business of the Trustee (including the administration of this Indenture), shall be the successor to the Trustee hereunder without the execution or filing of any paper or any further act on the part of any of the parties hereto; *provided* that in the case of any corporation or other entity succeeding to all or substantially all of the corporate trust business of the Trustee such corporation or other entity shall be eligible under the provisions of Section 7.10.

In case at the time such successor to the Trustee shall succeed to the trusts created by this Indenture, any of the Notes shall have been authenticated but not delivered, any such successor to the Trustee may adopt the certificate of authentication of any predecessor trustee or authenticating agent appointed by such predecessor trustee, and deliver such Notes so authenticated; and in case at that time any of the Notes shall not have been authenticated, any successor to the Trustee or an authenticating agent appointed by such successor trustee may authenticate such Notes either in the name of any predecessor trustee hereunder or in the name of the successor trustee; and in all such cases such certificates shall have the full force which it is anywhere in the Notes or in this Indenture provided that the certificate of the Trustee shall have; *provided*, *however*, that the right to adopt the certificate of authentication of any predecessor trustee or to authenticate Notes in the name of any predecessor trustee shall apply only to its successor or successors by merger, conversion or consolidation.

Section 7.15. *Trustee's Application for Instructions from the Company.* Any application by the Trustee for written instructions from the Company (other than with regard to any action proposed to be taken or omitted to be taken by the Trustee that affects the rights of the Holders of the Notes under this Indenture) may, at the option of the Trustee, set forth in writing any action proposed to be taken or omitted by the Trustee under this Indenture and the date on and/or after which such action shall be taken or such omission shall be effective. The Trustee shall not be liable for any action taken by, or omission of, the Trustee in accordance with a proposal included in such application on or after the date specified in such application (which date shall not be less than three Business Days after the date any officer that the Company has indicated to the Trustee should receive such application actually receives such application, unless any such officer shall have consented in writing to any earlier date), unless, prior to taking any such action (or the effective date in the case of any omission), the Trustee shall have received written instructions in accordance with this Indenture in response to such application specifying the action to be taken or omitted.

ARTICLE 8
CONCERNING THE HOLDERS

Section 8.01. *Action by Holders.* Whenever in this Indenture it is provided that the Holders of a specified percentage of the aggregate principal amount of the Notes may take any action (including the making of any demand or request, the giving of any notice, consent or waiver or the taking of any other action), the fact that at the time of taking any such action, the Holders of such specified percentage have joined therein may be evidenced (a) by any instrument or any number of instruments of similar tenor executed by Holders in person or by agent or proxy appointed in writing, or (b) by the record of the Holders voting in favor thereof at any meeting of Holders duly called and held in accordance with the provisions of Article 9, or (c) by a combination of such instrument or instruments and any such record of such a meeting of Holders. Whenever the Company or the Trustee solicits the taking of any action by the Holders of the Notes, the Company or the Trustee may, but shall not be required to, fix in advance of such solicitation, a date as the record date for determining Holders entitled to take such action. The record date if one is selected shall be not more than fifteen days prior to the date of commencement of solicitation of such action.

Section 8.02. *Proof of Execution by Holders.* Subject to the provisions of Section 7.01, Section 7.02 and Section 9.05, proof of the execution of any instrument by a Holder or its agent or proxy shall be sufficient if made in accordance with such reasonable rules and regulations as may be prescribed by the Trustee or in such manner as shall be satisfactory to the Trustee. The holding of Notes shall be proved by the Note Register or by a certificate of the Note Registrar. The record of any Holders' meeting shall be proved in the manner provided in Section 9.06.

Section 8.03. *Who Are Deemed Absolute Owners.* The Company, the Trustee, any authenticating agent, any Paying Agent, any Conversion Agent and any Note Registrar may deem the Person in whose name a Note shall be registered upon the Note Register to be, and may treat it as, the absolute owner of such Note (whether or not such Note shall be overdue and notwithstanding any notation of ownership or other writing thereon made by any Person other than the Company or any Note Registrar) for the purpose of receiving payment of or on account of the principal of and (subject to Section 2.03) accrued and unpaid interest on such Note, for conversion of such Note and for all other purposes; and neither the Company nor the Trustee nor any Paying Agent nor any Conversion Agent nor any Note Registrar shall be affected by any notice to the contrary. All such payments or deliveries so made to any Holder for the time being, or upon its order, shall be valid, and, to the extent of the sums or shares of Common Shares so paid or delivered, effectual to satisfy and discharge the liability for monies payable or shares deliverable upon any such Note. Notwithstanding anything to the contrary in this Indenture or the Notes following an Event of Default, any Holder of a beneficial interest in a Global Note may directly enforce against the Company, without the consent, solicitation, proxy, authorization or any other action of the Depositary or any other Person, such Holder's right to exchange such beneficial interest for a Note in certificated form in accordance with the provisions of this Indenture.

Section 8.04. *Company-Owned Notes Disregarded.* In determining whether the Holders of the requisite aggregate principal amount of Notes have concurred in any direction, consent, waiver or other action under this Indenture, Notes that are owned by the Company or any

Affiliate of the Company shall be disregarded and deemed not to be outstanding for the purpose of any such determination; *provided* that for the purposes of determining whether the Trustee shall be protected in relying on any such direction, consent, waiver or other action only Notes that a Responsible Officer knows are so owned shall be so disregarded. Notes so owned that have been pledged in good faith may be regarded as outstanding for the purposes of this Section 8.04 if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to so act with respect to such Notes and that the pledgee is not the Company or any Affiliate of the Company. In the case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee. Upon request of the Trustee, the Company shall furnish to the Trustee promptly an Officers' Certificate listing and identifying all Notes, if any, known by the Company to be owned or held by or for the account of any of the above described Persons; and, subject to Section 7.01, the Trustee shall be entitled to accept such Officers' Certificate as conclusive evidence of the facts therein set forth and of the fact that all Notes not listed therein are outstanding for the purpose of any such determination.

Section 8.05. *Revocation of Consents; Future Holders Bound.* At any time prior to (but not after) the evidencing to the Trustee, as provided in Section 8.01, of the taking of any action by the Holders of the percentage of the aggregate principal amount of the Notes specified in this Indenture in connection with such action, any Holder of a Note that is shown by the evidence to be included in the Notes the Holders of which have consented to such action may, by filing written notice with the Trustee at its Corporate Trust Office and upon proof of holding as provided in Section 8.02, revoke such action so far as concerns such Note. Except as aforesaid, any such action taken by the Holder of any Note shall be conclusive and binding upon such Holder and upon all future Holders and owners of such Note and of any Notes issued in exchange or substitution therefor or upon registration of transfer thereof, irrespective of whether any notation in regard thereto is made upon such Note or any Note issued in exchange or substitution therefor or upon registration of transfer thereof.

## ARTICLE 9
## HOLDERS' MEETINGS

Section 9.01. *Purpose of Meetings.* A meeting of Holders may be called at any time and from time to time pursuant to the provisions of this Article 9 for any of the following purposes:

(a) to give any notice to the Company or to the Trustee or to give any directions to the Trustee permitted under this Indenture, or to consent to the waiving of any Default or Event of Default hereunder (in each case, as permitted under this Indenture) and its consequences, or to take any other action authorized to be taken by Holders pursuant to any of the provisions of Article 6;

(b) to remove the Trustee and nominate a successor trustee pursuant to the provisions of Article 7;

(c) to consent to the execution of an indenture or indentures supplemental hereto pursuant to the provisions of Section 10.02; or

(d) to take any other action authorized to be taken by or on behalf of the Holders of any specified aggregate principal amount of the Notes under any other provision of this Indenture or under applicable law.

Section 9.02. *Call of Meetings by Trustee.* The Trustee may at any time call a meeting of Holders to take any action specified in Section 9.01, to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of the Holders, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting and the establishment of any record date pursuant to Section 8.01, shall be mailed to Holders of such Notes at their addresses as they shall appear on the Note Register. Such notice shall also be mailed to the Company. Such notices shall be mailed not less than 20 nor more than 90 days prior to the date fixed for the meeting.

Any meeting of Holders shall be valid without notice if the Holders of all Notes then outstanding are present in person or by proxy or if notice is waived before or after the meeting by the Holders of all Notes then outstanding, and if the Company and the Trustee are either present by duly authorized representatives or have, before or after the meeting, waived notice.

Section 9.03. *Call of Meetings by Company or Holders.* In case at any time the Company, pursuant to a Board Resolution, or the Holders of at least 10% of the aggregate principal amount of the Notes then outstanding, shall have requested the Trustee to call a meeting of Holders, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, and the Trustee shall not have mailed the notice of such meeting within 20 days after receipt of such request, then the Company or such Holders may determine the time and the place for such meeting and may call such meeting to take any action authorized in Section 9.01, by mailing notice thereof as provided in Section 9.02.

Section 9.04. *Qualifications for Voting.* To be entitled to vote at any meeting of Holders a Person shall (a) be a Holder of one or more Notes on the record date pertaining to such meeting or (b) be a Person appointed by an instrument in writing as proxy by a Holder of one or more Notes on the record date pertaining to such meeting. The only Persons who shall be entitled to be present or to speak at any meeting of Holders shall be the Persons entitled to vote at such meeting and their counsel and any representatives of the Trustee and its counsel and any representatives of the Company and its counsel.

Section 9.05. *Regulations.* Notwithstanding any other provisions of this Indenture, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of Holders, in regard to proof of the holding of Notes and of the appointment of proxies, and in regard to the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall think fit.

The Trustee shall, by an instrument in writing, appoint a temporary chairman of the meeting, unless the meeting shall have been called by the Company or by Holders as provided in Section 9.03, in which case the Company or the Holders calling the meeting, as the case may be, shall in like manner appoint a temporary chairman. A permanent chairman and a permanent

secretary of the meeting shall be elected by vote of the Holders of a majority in aggregate principal amount of the Notes represented at the meeting and entitled to vote at the meeting.

Subject to the provisions of Section 8.04, at any meeting of Holders each Holder or proxyholder shall be entitled to one vote for each $1,000 principal amount of Notes held or represented by him or her; *provided*, *however*, that no vote shall be cast or counted at any meeting in respect of any Note challenged as not outstanding and ruled by the chairman of the meeting to be not outstanding. The chairman of the meeting shall have no right to vote other than by virtue of Notes held by it or instruments in writing as aforesaid duly designating it as the proxy to vote on behalf of other Holders. Any meeting of Holders duly called pursuant to the provisions of Section 9.02 or Section 9.03 may be adjourned from time to time by the Holders of a majority of the aggregate principal amount of Notes represented at the meeting, whether or not constituting a quorum, and the meeting may be held as so adjourned without further notice.

Section 9.06. *Voting.* The vote upon any resolution submitted to any meeting of Holders shall be by written ballot on which shall be subscribed the signatures of the Holders or of their representatives by proxy and the outstanding aggregate principal amount of the Notes held or represented by them. The permanent chairman of the meeting shall appoint two inspectors of votes who shall count all votes cast at the meeting for or against any resolution and who shall make and file with the secretary of the meeting their verified written reports in duplicate of all votes cast at the meeting. A record in duplicate of the proceedings of each meeting of Holders shall be prepared by the secretary of the meeting and there shall be attached to said record the original reports of the inspectors of votes on any vote by ballot taken thereat and affidavits by one or more Persons having knowledge of the facts setting forth a copy of the notice of the meeting and showing that said notice was mailed as provided in Section 9.02. The record shall show the aggregate principal amount of the Notes voting in favor of or against any resolution. The record shall be signed and verified by the affidavits of the permanent chairman and secretary of the meeting and one of the duplicates shall be delivered to the Company and the other to the Trustee to be preserved by the Trustee, the latter to have attached thereto the ballots voted at the meeting.

Any record so signed and verified shall be conclusive evidence of the matters therein stated.

Section 9.07. *No Delay of Rights by Meeting.* Nothing contained in this Article 9 shall be deemed or construed to authorize or permit, by reason of any call of a meeting of Holders or any rights expressly or impliedly conferred hereunder to make such call, any hindrance or delay in the exercise of any right or rights conferred upon or reserved to the Trustee or to the Holders under any of the provisions of this Indenture or of the Notes.

Section 9.08. *Depositary Procedures.* For the avoidance of doubt, for as long as the Notes are in global form, consents may be obtained through applicable procedures of the Depositary.

ARTICLE 10
SUPPLEMENTAL INDENTURES

Section 10.01. *Supplemental Indentures Without Consent of Holders.* The Company, when authorized by the resolutions of the Board of Directors and the Trustee, at the Company's expense, may from time to time and at any time enter into an indenture or indentures supplemental hereto for one or more of the following purposes:

(a) to cure any ambiguity, omission, defect or inconsistency in a manner that does not individually or in the aggregate adversely affect the rights of any Holder of the Notes in any respect;

(b) to provide for the assumption by a Successor Company of the obligations of the Company under this Indenture pursuant to Article 11;

(c) to add guarantees with respect to the Notes;

(d) to secure the Notes;

(e) to add to the covenants or Events of Default of the Company for the benefit of the Holders or surrender any right or power conferred upon the Company;

(f) to make any change that does not adversely affect the rights of any Holder;

(g) in connection with any Merger Event, provide that the notes are convertible into Reference Property, subject to the provisions of Section 14.02, and make related changes to the terms of the Notes, in each case to the extent expressly required by Section 14.07; or

(h) to conform the provisions of this Indenture or the Notes to the "Description of Notes" section of the Offering Memorandum.

Upon the written request of the Company, the Trustee is hereby authorized to join with the Company in the execution of any such supplemental indenture, to make any further appropriate agreements and stipulations that may be therein contained, but the Trustee shall not be obligated to, but may in its discretion, enter into any supplemental indenture that affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

Any supplemental indenture authorized by the provisions of this Section 10.01 may be executed by the Company and the Trustee without the consent of the Holders of any of the Notes at the time outstanding, notwithstanding any of the provisions of Section 10.02.

Section 10.02. *Supplemental Indentures with Consent of Holders.* With the consent (evidenced as provided in Article 8) of the Holders of at least a majority of the aggregate principal amount of the Notes then outstanding (determined in accordance with Article 8 and including, without limitation, consents obtained in connection with a repurchase of, or tender or exchange offer for, Notes), the Company, when authorized by the resolutions of the Board of Directors and the Trustee, at the Company's expense, may from time to time and at any time enter into an indenture or indentures supplemental hereto for the purpose of adding any



provisions to or changing in any manner or eliminating any of the provisions of this Indenture or any supplemental indenture or of modifying in any manner the rights of the Holders; *provided*, *however*, that, without the consent of each Holder of an outstanding Note affected, no such supplemental indenture shall:

(a) reduce the percentage in aggregate principal amount of Notes whose Holders must consent to an amendment of the Indenture or to waive any past Default;

(b) reduce the rate of or change the stated time for payment of interest on any Note;

(c) reduce the principal of or extend the Maturity Date of any Note;

(d) make any change that impairs or adversely affects the conversion rights of any Notes;

(e) reduce the Fundamental Change Repurchase Price of any Note or amend or modify in any manner adverse to the Holders the Company's obligation to make such payments, whether through an amendment or waiver of provisions in the covenants, definitions or otherwise;

(f) make any Note payable in a currency other than that stated in the Note;

(g) change the ranking of the Notes in a manner that is adverse to the Holders of the Notes;

(h) impair the right of any Holder to receive payment of principal of and interest on such Holder's Notes on or after the due dates therefor (including the Redemption Price, if applicable) or to institute suit for the enforcement of any payment on or with respect to such Holder's Notes;

(i) make any change to the provisions in Section 4.07; or

(j) make any change in this *proviso* or in the waiver provisions in Section 6.09.

Upon the written request of the Company, and upon the filing with the Trustee of evidence of the consent of Holders as aforesaid and subject to Section 10.05, the Trustee shall join with the Company in the execution of such supplemental indenture unless such supplemental indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such supplemental indenture.

Holders do not need under this Section 10.02 to approve the particular form of any proposed supplemental indenture. It shall be sufficient if such Holders approve the substance thereof. After any such supplemental indenture becomes effective, the Company shall mail to the Holders a notice briefly describing such supplemental indenture. However, the failure to give such notice to all the Holders, or any defect in the notice, will not impair or affect the validity of the supplemental indenture.

Section 10.03. *Effect of Supplemental Indentures.* Upon the execution of any supplemental indenture pursuant to the provisions of this Article 10, this Indenture shall be and be deemed to be modified and amended in accordance therewith and the respective rights, limitation of rights, obligations, duties and immunities under this Indenture of the Trustee, the Company and the Holders shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments and all the terms and conditions of any such supplemental indenture shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

Section 10.04. *Notation on Notes.* Notes authenticated and delivered after the execution of any supplemental indenture pursuant to the provisions of this Article 10 may, at the Company's expense, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company or the Trustee shall so determine, new Notes so modified as to conform, in the opinion of the Trustee and the Board of Directors, to any modification of this Indenture contained in any such supplemental indenture may, at the Company's expense, be prepared and executed by the Company, authenticated by the Trustee (or an authenticating agent duly appointed by the Trustee pursuant to Section 18.07) and delivered in exchange for the Notes then outstanding, upon surrender of such Notes then outstanding.

Section 10.05. *Evidence of Compliance of Supplemental Indenture to Be Furnished Trustee.* In addition to the documents required bySection 18.07, the Trustee shall receive an Officers' Certificate and an Opinion of Counsel as conclusive evidence that any supplemental indenture executed pursuant hereto complies with the requirements of this Article 10, is legal, valid, binding and enforceable against the Company, that all conditions precedent for entering into a supplemental indenture have been satisfied and it is permitted or authorized by this Indenture.

## ARTICLE 11
## CONSOLIDATION, MERGER, SALE, CONVEYANCE AND LEASE

Section 11.01. *Company May Consolidate, Etc. on Certain Terms.* Subject to the provisions of Section 11.02, the Company shall not consolidate with or merge with or into, or sell, convey, transfer or lease all or substantially all of its properties and assets to another Person, unless:

(a) if the Company is not the resulting, surviving or transferee Person (the " **Successor Company**"), the Successor Company shall be a corporation or similar entity organized and existing under the laws of Canada or any province or territory thereof, the United States of America or any state thereof or the District of Columbia, or the Cayman Islands, and the Successor Company (if not the Company) shall expressly assume, by supplemental indenture all of the obligations of the Company under the Notes and this Indenture (including, for the avoidance of doubt, the obligation to pay Additional Amounts pursuant to Section 4.07); and

(b) immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing under this Indenture.

For purposes of this Section 11.01, the sale, conveyance, transfer or lease of all or substantially all of the properties and assets of one or more Subsidiaries of the Company to another Person, which properties and assets, if held by the Company instead of such Subsidiaries, would constitute all or substantially all of the properties and assets of the Company on a consolidated basis, shall be deemed to be the sale, conveyance, transfer or lease of all or substantially all of the properties and assets of the Company to another Person.

Section 11.02. *Successor Corporation to Be Substituted.* In case of any such consolidation, merger, sale, conveyance, transfer or lease and upon the assumption by the Successor Company, by supplemental indenture, executed and delivered to the Trustee and satisfactory in form to the Trustee, of the due and punctual payment of the principal of and accrued and unpaid interest on all of the Notes, the due and punctual delivery of any consideration due upon conversion of the Notes and the due and punctual performance of all of the covenants and conditions of this Indenture to be performed by the Company, such Successor Company (if not the Company) shall succeed to and, except in the case of a lease of all or substantially all of the Company's properties and assets, shall be substituted for the Company, with the same effect as if it had been named herein as the party of the first part. Such Successor Company thereupon may cause to be signed, and may issue either in its own name or in the name of the Company any or all of the Notes issuable hereunder which theretofore shall not have been signed by the Company and delivered to the Trustee; and, upon the order of such Successor Company instead of the Company and subject to all the terms, conditions and limitations in this Indenture prescribed, the Trustee shall authenticate and shall deliver, or cause to be authenticated and delivered, any Notes that previously shall have been signed and delivered by the Officers of the Company to the Trustee for authentication, and any Notes that such Successor Company thereafter shall cause to be signed and delivered to the Trustee for that purpose. All the Notes so issued shall in all respects have the same legal rank and benefit under this Indenture as the Notes theretofore or thereafter issued in accordance with the terms of this Indenture as though all of such Notes had been issued at the date of the execution hereof. In the event of any such consolidation, merger, sale, conveyance or transfer (but not in the case of a lease), upon compliance with this Article 11 the Person named as the "Company" in the first paragraph of this Indenture (or any successor that shall thereafter have become such in the manner prescribed in this Article 11) may be dissolved, wound up and liquidated at any time thereafter and, except in the case of a lease, such Person shall be released from its liabilities as obligor and maker of the Notes and from its obligations under this Indenture and the Notes.

In case of any such consolidation, merger, sale, conveyance, transfer or lease, such changes in phraseology and form (but not in substance) may be made in the Notes thereafter to be issued as may be appropriate.

Section 11.03. *Opinion of Counsel to Be Given to Trustee.* No such consolidation, merger, sale, conveyance, transfer or lease shall be effective unless the Trustee shall receive an Officers' Certificate and an Opinion of Counsel as conclusive evidence that any such consolidation, merger, sale, conveyance, transfer or lease and any such assumption and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture, complies with the provisions of this Article 11.

ARTICLE 12
IMMUNITY OF INCORPORATORS, STOCKHOLDERS, OFFICERS AND DIRECTORS

Section 12.01. *Indenture and Notes Solely Corporate Obligations.* No recourse for the payment of the principal of or accrued and unpaid interest on any Note, nor for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company in this Indenture or in any supplemental indenture or in any Note, nor because of the creation of any indebtedness represented thereby, shall be had against any incorporator, stockholder, employee, agent, Officer or director or Subsidiary, as such, past, present or future, of the Company or of any successor corporation, either directly or through the Company or any successor corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that all such liability is hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Indenture and the issue of the Notes.

ARTICLE 13
INTENTIONALLY OMITTED

ARTICLE 14
CONVERSION OF NOTES

Section 14.01. *Conversion Privilege.* Subject to and upon compliance with the provisions of this Article 14, each Holder of a Note shall have the right, at such Holder's option, to convert all or any portion (if the portion to be converted is $1,000 principal amount or an integral multiple thereof) of such Note at any time prior to the close of business on the second Business Day immediately preceding the Maturity Date at an initial conversion rate of 22.2222 Common Shares (subject to adjustment as provided in this Article 14, the "**Conversion Rate**") per $1,000 principal amount of Notes (subject to, and in accordance with, the settlement provisions of Section 14.02, the "**Conversion Obligation**").

Section 14.02. *Conversion Procedure; Settlement Upon Conversion.*

(a)

Upon conversion of any Note, the Company shall deliver to the converting Holder, in respect of each $1,000 principal amount of Notes being converted, a number of Common Shares equal to the Conversion Rate as in effect on the Conversion Date, together with a cash payment, if applicable, in lieu of delivering any fractional Common Share in accordance with subsection (j) of this Section 14.02, on the third Business Day immediately following the relevant Conversion Date.

(b) Subject to Section 14.02(e), before any Holder of a Note shall be entitled to convert a Note as set forth above, such Holder shall (i) in the case of a Global Note, comply with the procedures of the Depositary in effect at that time and, if required, pay funds equal to interest payable on the next Interest Payment Date to which such Holder is not entitled as set forth in

Section 14.02(h) and, if required, pay all documentary, stamp or similar issue or transfer tax, if any, and (ii) in the case of a Physical Note (1) complete, manually sign and deliver an irrevocable notice to the Conversion Agent as set forth in the Form of Notice of Conversion (or a facsimile thereof) (a " **Notice of Conversion**") at the office of the Conversion Agent and state in writing therein the principal amount of Notes to be converted and the name or names (with addresses) in which such Holder wishes the certificate or certificates for any Common Shares to be delivered upon settlement of the Conversion Obligation to be registered, (2) surrender such Notes, duly endorsed to the Company or in blank (and accompanied by appropriate endorsement and transfer documents), at the office of the Conversion Agent, (3) if required, furnish appropriate endorsements and transfer documents, (4) if required, pay all documentary, stamp or similar issue or transfer taxes and (5) if required, pay funds equal to interest payable on the next Interest Payment Date to which such Holder is not entitled as set forth in Section 14.02(h). The Trustee (and if different, the Conversion Agent) shall notify the Company of any conversion pursuant to this Article 14 on the Conversion Date for such conversion. No Notice of Conversion with respect to any Notes may be surrendered by a Holder thereof if such Holder has also delivered a Fundamental Change Repurchase Notice to the Company in respect of such Notes and has not validly withdrawn such Fundamental Change Repurchase Notice in accordance with Section 15.03. If a Holder submits Notes for repurchase, such Holder's rights to withdraw the Fundamental Change Repurchase Notice and convert the Notes subject to repurchase will terminate at the close of business on the second Business Day immediately preceding the relevant Fundamental Change Repurchase Date.

If more than one Note shall be surrendered for conversion at one time by the same Holder, the Conversion Obligation with respect to such Notes shall be computed on the basis of the aggregate principal amount of the Notes (or specified portions thereof to the extent permitted thereby) so surrendered.

(c) A Note shall be deemed to have been converted immediately prior to the close of business on the date (the " **Conversion Date**") that the Holder has complied with the requirements set forth in subsection (b) above. The Company shall issue or cause to be issued, and deliver to such Holder, or such Holder's nominee or nominees, certificates or a book-entry transfer through the Depositary for the full number of Common Shares to which such Holder shall be entitled in satisfaction of the Company's Conversion Obligation.

(d) In case any Note shall be surrendered for partial conversion, the Company shall execute and the Trustee shall authenticate and deliver to or upon the written order of the Holder of the Note so surrendered a new Note or Notes in authorized denominations in an aggregate principal amount equal to the unconverted portion of the surrendered Note, without payment of any service charge by the converting Holder but, if required by the Company or Trustee, with payment of a sum sufficient to cover any documentary, stamp or similar issue or transfer tax or similar governmental charge required by law or that may be imposed in connection therewith as a result of the name of the Holder of the new Notes issued upon such conversion being different from the name of the Holder of the old Notes surrendered for such conversion.

(e) If a Holder submits a Note for conversion, the Company shall pay any documentary, stamp or similar issue or transfer tax due on the issue of the Common Shares upon conversion, unless the tax is due because the Holder requests such shares to be issued in a name other than

the Holder's name, in which case the Holder shall pay that tax. The Conversion Agent may refuse to deliver the certificates representing the Common Shares being issued in a name other than the Holder's name until the Trustee receives a sum sufficient to pay any tax that is due by such Holder in accordance with the immediately preceding sentence.

(f) Except as provided in Section 14.04, no adjustment shall be made for dividends on any Common Shares issued upon the conversion of any Note as provided in this Article 14.

(g) Upon the conversion of an interest in a Global Note, the Trustee, or the Custodian at the direction of the Trustee, shall make a notation on such Global Note as to the reduction in the principal amount represented thereby. The Company shall notify the Trustee in writing of any conversion of Notes effected through any Conversion Agent other than the Trustee.

(h) Upon conversion, a converting Holder shall not receive any additional cash payment or additional shares representing accrued and unpaid interest, if any, except as set forth below. The Company's settlement of the full Conversion Obligation shall be deemed to satisfy in full its obligation to pay the principal amount of the Note and accrued and unpaid interest, if any, to, but not including, the relevant Conversion Date. As a result, accrued and unpaid interest, if any, to, but not including, the relevant Conversion Date shall be deemed to be paid in full rather than cancelled, extinguished or forfeited. Notwithstanding the foregoing, if Notes are converted after the close of business on a Regular Record Date, Holders of such Notes as of the close of business on such Regular Record Date will receive the full amount of interest payable on such Notes on the corresponding Interest Payment Date notwithstanding the conversion. However, Notes surrendered for conversion during the period from the close of business on any Regular Record Date to the open of business on the immediately following Interest Payment Date must be accompanied by funds equal to the amount of interest payable on the Notes so converted; *provided* that no such payment shall be required (1) if the Notes are surrendered for conversion after 5:00 p.m., New York City time on the Regular Record Date immediately preceding the Maturity Date and before the close of business on the second Business Day immediately preceding the Maturity Date; (2) if the Company has delivered an Optional Redemption Notice pursuant to Article 16 and has specified therein an Optional Redemption Date that is after a Regular Record Date and on or prior to the Business Day immediately following the date on which the corresponding interest amount is paid; (3) if the Company has delivered a Tax Redemption Notice pursuant to Article 17 and has specified therein a Tax Redemption Date that is after a Regular Record Date and on or prior to the Business Day immediately following the date on which the corresponding interest amount is paid; (4) if the Company has specified a Fundamental Change Repurchase Date that is after a Regular Record Date and on or prior to the Business Day immediately following the date on which the corresponding interest amount is paid; or (5) to the extent of any Defaulted Amounts, if any Defaulted Amounts exists at the time of conversion with respect to such Note. Therefore, for the avoidance of doubt, all Holders of record on the Regular Record Date immediately preceding the Maturity Date shall receive the full interest payment due on the Maturity Date regardless of whether their Notes have been converted following such Regular Record Date.

(i) Any conversion of Notes shall be deemed to have been effected on the Conversion Date for such Notes. The Person in whose name the Common Shares shall be issuable upon conversion shall be treated as a stockholder of record as of the close of business on the relevant

Conversion Date. Upon a conversion of Notes, such Person shall no longer be a Holder of such Notes surrendered for conversion other than for purposes of receiving the consideration due upon conversion and, if such Person was the record Holder as of a Regular Record Date, receiving the related interest payment.

(j) The Company shall not issue any fractional Common Share upon conversion of the Notes and shall instead pay cash in lieu of delivering any fractional Common Share issuable upon conversion based on the Last Reported Sale Price of the Common Shares on the relevant Conversion Date.

Section 14.03. *Increased Conversion Rate Applicable to Certain Notes Surrendered in Connection with Make-Whole Fundamental Changes.* (a) If (i) a Make-Whole Fundamental Change occurs or (ii) the Company delivers a Tax Redemption Notice and, in each case, a Holder elects to convert its Notes in connection with such Make-Whole Fundamental Change or such Tax Redemption, as the case may be, the Company shall, under the circumstances described below, increase the Conversion Rate for the Notes so surrendered for conversion by a number of additional Common Shares (the " **Additional Shares**"), as described below. A conversion of Notes shall be deemed for these purposes to be "in connection with" a Make-Whole Fundamental Change if the relevant Notice of Conversion is received by the Conversion Agent from, and including, the Effective Date of the Make-Whole Fundamental Change up to, and including, the second Business Day immediately prior to the related Fundamental Change Repurchase Date (or, in the case of a Make-Whole Fundamental Change that would have been a Fundamental Change but for the *proviso* in clause (b) of the definition thereof, the 35th Trading Day immediately following the Effective Date of such Make-Whole Fundamental Change). A conversion of Notes will be deemed for these purposes to be "in connection with" a Tax Redemption if the Notice of Conversion of the Notes is received by the Conversion Agent from, and including, the date the Company delivers a Tax Redemption Notice to, and including, the second Business Date immediately prior to the related Tax Redemption Date.

(b) Upon surrender of Notes for conversion in connection with a Make-Whole Fundamental Change or a Tax Redemption, the Company shall deliver Common Shares, including the Additional Shares, in accordance with Section 14.02; *provided*, *however*, that if the consideration for the Common Shares in any Make-Whole Fundamental Change described in clause (b) of the definition of Fundamental Change is comprised entirely of cash, for any conversion of Notes following the Effective Date of such Make-Whole Fundamental Change, the Conversion Obligation shall be calculated based solely on the Stock Price for the transaction and shall be deemed to be an amount of cash per $1,000 principal amount of converted Notes equal to the Conversion Rate (including any adjustment for Additional Shares), *multiplied by* such Stock Price. The Company shall notify the Holders of Notes of the Effective Date of any Make-Whole Fundamental Change and issue a press release announcing such Effective Date no later than five Business Days after such Effective Date.

(c) The number of Additional Shares, if any, by which the Conversion Rate shall be increased shall be determined by reference to the table below, based on the date on which the Make-Whole Fundamental Change occurs or becomes effective or, in the case of a Tax Redemption, the date on which the Company delivers a Tax Redemption Notice (in each case, the "**Effective Date**") and the price paid (or deemed to be paid) per Common Share in the Make-

Whole Fundamental Change or, in the case of a Tax Redemption, the average of the Last Reported Sale Prices of the Common Shares over the five Trading Day period ending on, and including, the Trading Day immediately preceding the date the Company delivers such Tax Redemption Notice (in each case, the "**Stock Price**"). If the holders of the Common Shares receive in exchange for their Common Shares only cash in a Make-Whole Fundamental Change described in clause (b) of the definition of Fundamental Change, the Stock Price shall be the cash amount paid per share. In the case of any other Make-Whole Fundamental Change, the Stock Price shall be the average of the Last Reported Sale Prices of the Common Shares over the five Trading Day period ending on, and including, the Trading Day immediately preceding the Effective Date of the Make-Whole Fundamental Change.

(d) The Stock Prices set forth in the column headings of the table below shall be adjusted as of any date on which the Conversion Rate of the Notes is otherwise adjusted. The adjusted Stock Prices shall equal the Stock Prices applicable immediately prior to such adjustment, *multiplied by* a fraction, the numerator of which is the Conversion Rate immediately prior to such adjustment giving rise to the Stock Price adjustment and the denominator of which is the Conversion Rate as so adjusted. The number of Additional Shares set forth in the table below shall be adjusted in the same manner and at the same time as the Conversion Rate as set forth in Section 14.04.

(e) The following table sets forth the number of Additional Shares by which the Conversion Rate shall be increased per $1,000 principal amount of Notes pursuant to this Section 14.03 for each Stock Price and Effective Date set forth below:

| | Stock Price | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Effective Date** | **$36.00** | **$38.00** | **$41.50** | **$45.00** | **$50.00** | **$58.50** | **$70.00** | **$80.00** | **$90.00** | **$100.00** |
| **February 18, 2014** | 5.5555 | 4.8849 | 3.9227 | 3.1746 | 2.3714 | 1.4721 | 0.7815 | 0.4413 | 0.2337 | 0.1056 |
| **February 15, 2015** | 5.5555 | 4.9309 | 3.8834 | 3.0788 | 2.2306 | 1.3124 | 0.6470 | 0.3406 | 0.1643 | 0.0615 |
| **February 15, 2016** | 5.5555 | 4.8840 | 3.7178 | 2.8334 | 1.9240 | 0.9970 | 0.4065 | 0.1784 | 0.0658 | 0.0086 |
| **February 15, 2017** | 5.5555 | 4.8102 | 3.4934 | 2.4756 | 1.3941 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| **February 15, 2018** | 5.5555 | 4.5163 | 3.0933 | 2.0562 | 1.0418 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| **February 15, 2019** | 5.5555 | 4.0936 | 1.8742 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |

The exact Stock Prices and Effective Dates may not be set forth in the table above, in which case:

(i) if the Stock Price is between two Stock Prices in the table above or the Effective Date is between two Effective Dates in the table, the number of Additional Shares shall be determined by a straight-line interpolation between the number of Additional Shares set forth for the higher and lower Stock Prices and the earlier and later Effective Dates based on a 365-day year, as applicable;

(ii) if the Stock Price is greater than $100.00 per share (subject to adjustment in the same manner as the Stock Prices set forth in the column headings of the table above pursuant to subsection (d) above), no Additional Shares shall be added to the Conversion Rate; and

(iii) if the Stock Price is less than $36.00 per share (subject to adjustment in the same manner as the Stock Prices set forth in the column headings of the table above pursuant to subsection (d) above), no Additional Shares shall be added to the Conversion Rate.

Notwithstanding the foregoing, in no event shall the total number of Common Shares issuable upon Conversion exceed 27.7777 per $1,000 principal amount of Notes, subject to adjustment in the same manner as the Conversion Rate pursuant to Section 14.04.

(f) Nothing in this Section 14.03 shall prevent an adjustment to the Conversion Rate pursuant to Section 14.04 in respect of a Make-Whole Fundamental Change.

Section 14.04. *Adjustment of Conversion Rate.* The Conversion Rate shall be adjusted from time to time by the Company if any of the following events occurs, except that the Company shall not make any adjustments to the Conversion Rate if Holders of the Notes participate (other than in the case of a share split or share combination), at the same time and upon the same terms as holders of the Common Shares and solely as a result of holding the Notes, in any of the transactions described in this Section 14.04, without having to convert their Notes, as if they held a number of Common Shares equal to the Conversion Rate, *multiplied by* the principal amount (expressed in thousands) of Notes held by such Holder.

(a) If the Record Date occurs in respect of an issuance by the Company of Common Shares as a dividend or distribution on Common Shares, or if the Company effects a share split or share combination, the Conversion Rate shall be adjusted based on the following formula:

$$CR_1 = CR_0 \times \frac{OS_1}{OS_0}$$

where,

$CR_0$ = the Conversion Rate in effect immediately prior to the close of business on the Record Date of such dividend or distribution, or immediately prior to the open of business on the Effective Date of such share split or share combination, as applicable;

$CR_1$ = the Conversion Rate in effect immediately after the close of business on such Record Date or immediately after the open of business on such Effective Date, as applicable;

$OS_0$ = the number of Common Shares outstanding immediately prior to the close of business on such Record Date or immediately prior to the open of business on such Effective Date, as applicable; and

$OS_1$ = the number of Common Shares outstanding immediately after giving effect to such dividend, distribution, share split or share combination.

Any adjustment made under this Section 14.04(a) shall become effective immediately after the close of business on the Record Date for such dividend or distribution, or immediately after the open of business on the Effective Date for such share split or share combination, as applicable. If any dividend or distribution of the type described in this Section 14.04(a) is declared but not so paid or made, the Conversion Rate shall be immediately readjusted, effective as of the date the Board of Directors determines not to pay such dividend or distribution, to the Conversion Rate that would then be in effect if such dividend or distribution had not been declared.

(b) If the Record Date occurs in respect of an issuance by the Company to all or substantially all holders of Common Shares of any rights, options or warrants entitling such holders for a period of not more than 45 calendar days after the announcement date of such issuance to subscribe for or purchase Common Shares at a price per share less than the average of the Last Reported Sale Prices of the Company's Common Shares for the 10 consecutive Trading Day period ending on, and including, the Trading Day immediately preceding the date of announcement of such issuance, the Conversion Rate shall be increased based on the following formula:

$$CR_1 = CR_0 \times \frac{OS_0 + X}{OS_0 + Y}$$

where,

$CR_0$ = the Conversion Rate in effect immediately prior to the close of business on the Record Date for such issuance;

$CR_1$ = the Conversion Rate in effect immediately after the close of business on such Record Date;

$OS_0$ = the number of Common Shares outstanding immediately prior to the close of business on such Record Date;

X = the total number of Common Shares issuable pursuant to such rights, options or warrants; and

Y = the number of Common Shares equal to the aggregate price payable to exercise such rights, options or warrants, *divided by* the average of the Last Reported Sale Prices of the Common Shares over the 10 consecutive Trading Day period ending on, and including, the Trading Day immediately preceding the date of announcement of the issuance of such rights, options or warrants.

Any increase made under this Section 14.04(b) shall be made successively whenever any such rights, options or warrants are issued and shall become effective immediately after the close of business on the Record Date for such issuance. To the extent that Common Shares are not delivered after the expiration of such rights, options or warrants, the Conversion Rate shall be decreased, as of the date of such expiration, to the Conversion Rate that would then be in effect had the increase with respect to the issuance of such rights, options or warrants been made on the basis of delivery of only the number of Common Shares actually delivered. If such rights,



options or warrants are not so issued, the Conversion Rate shall be decreased to the Conversion Rate that would then be in effect if such Record Date for such issuance had not occurred.

For purposes of this Section 14.04(b), in determining whether any rights, options or warrants entitle the holders to subscribe for or purchase Common Shares at less than such average of the Last Reported Sale Prices of the Common Shares for the 10 consecutive Trading Day period ending on, and including, the Trading Day immediately preceding the date of announcement for such issuance, and in determining the aggregate offering price of such Common Shares, there shall be taken into account any consideration received by the Company for such rights, options or warrants and any amount payable on exercise or conversion thereof, the value of such consideration, if other than cash, to be determined by the Board of Directors.

(c) If the Record Date occurs in respect of a distribution by the Company of shares of its Capital Stock, evidences of its indebtedness, other assets or property of the Company or rights, options or warrants to acquire its Capital Stock or other securities, to all or substantially all holders of the Common Shares, excluding (i) dividends, distributions or issuances as to which an adjustment was effected pursuant to Section 14.04(a) or Section 14.04(b), (ii) dividends or distributions paid exclusively in cash, and (iii) Spin-Offs as to which the provisions set forth below in this Section 14.04(c) shall apply (any of such shares of Capital Stock, evidences of indebtedness, other assets or property or rights, options or warrants to acquire Capital Stock or other securities, the "**Distributed Property**"), then the Conversion Rate shall be increased based on the following formula:

$$CR_1 = CR_0 \times \frac{SP_0}{SP_0 - FMV}$$

where,

$CR_0$ = the Conversion Rate in effect immediately prior to the close of business on the Record Date for such distribution;

$CR_1$ = the Conversion Rate in effect immediately after the close of business on such Record Date;

$SP_0$ = the average of the Last Reported Sale Prices of the Common Shares over the 10 consecutive Trading Day period ending on, and including,

the Trading Day immediately preceding the Ex-Dividend Date for such distribution; and

FMV = the fair market value (as determined by the Board of Directors) of the Distributed Property with respect to each outstanding Common Share on the Ex-Dividend Date for such distribution.

Any increase made under the portion of this Section 14.04(c) above shall become effective immediately after the close of business on the Record Date for such distribution. If such distribution is not so paid or made, the Conversion Rate shall be decreased to the Conversion Rate that would then be in effect if such distribution had not been declared. Notwithstanding the foregoing, if "FMV" (as defined above) is equal to or greater than "$SP_0$" (as defined above), in

lieu of the foregoing increase, each Holder of a Note shall receive, in respect of each $1,000 principal amount thereof, at the same time and upon the same terms as holders of the Common Shares receive the Distributed Property, the amount and kind of Distributed Property such Holder would have received if such Holder owned a number of Common Shares equal to the Conversion Rate in effect on the Record Date for the distribution. If the Board of Directors determines the "FMV" (as defined above) of any distribution for purposes of this Section 14.04(c) by reference to the actual or when-issued trading market for any securities, it shall in doing so consider the prices in such market over the 10 consecutive Trading Day period ending on, and including, the Trading Day immediately preceding the Ex-Dividend Date for such distribution.

With respect to an adjustment pursuant to this Section 14.04(c) where the Record Date has occurred in respect of a dividend or other distribution on the Common Shares of shares of Capital Stock of any class or series, or similar equity interest, of or relating to a Subsidiary or other business unit of the Company, where such Capital Stock or similar equity interest is listed or quoted (or will be listed or quoted upon consummation of the Spin Off) on a U.S. national or regional securities exchange (a "**Spin-Off**"), the Conversion Rate shall be increased based on the following formula:

$$CR_1 = CR_0 \times \frac{FMV_0 + MP_0}{MP_0}$$

where,

$CR_0$ = the Conversion Rate in effect immediately prior to the end of the Valuation Period for such Spin-Off;

$CR_1$ = the Conversion Rate in effect immediately after the end of the Valuation Period;

$FMV_0$ = the average of the Last Reported Sale Prices of the Capital Stock or similar equity interest distributed to holders of the Common Shares applicable to one Common Share (determined by reference to the definition of Last Reported Sale Price as set forth in Section 1.01 as if references therein to Common Shares were to such Capital Stock or similar equity interest) over the first 10 consecutive Trading Day period beginning on, and including, the Ex-Dividend Date of the Spin-Off (the "**Valuation Period**"); and

$MP_0$ = the average of the Last Reported Sale Prices of the Common Shares over the Valuation Period.

The increase to the Conversion Rate under the preceding paragraph shall be determined on the last Trading Day of the Valuation Period; *provided* that in respect of any conversion of Notes during the Valuation Period, references in the portion of this Section 14.04(c) related to Spin-Offs with respect to 10 Trading Days shall be deemed to be replaced with such lesser number of Trading Days as have elapsed from, and including, the Ex-Dividend Date of such Spin-Off to, and including, the Conversion Date in determining the applicable Conversion Rate.

For purposes of this Section 14.04(c) (and subject in all respect to Section 14.11), rights, options or warrants distributed by the Company to all holders of the Common Shares entitling them to subscribe for or purchase shares of the Company's Capital Stock, including Common Shares (either initially or under certain circumstances), which rights, options or warrants, until the occurrence of a specified event or events (" **Trigger Event**"): (i) are deemed to be transferred with such Common Shares; (ii) are not exercisable; and (iii) are also issued in respect of future issuances of the Common Shares, shall be deemed not to have been distributed for purposes of this Section 14.04(c) (and no adjustment to the Conversion Rate under this Section 14.04(c) will be required) until the occurrence of the earliest Trigger Event, whereupon such rights, options or warrants shall be deemed to have been distributed and an appropriate adjustment (if any is required) to the Conversion Rate shall be made under this Section 14.04(c). If any such right, option or warrant, including any such existing rights, options or warrants distributed prior to the date of this Indenture, are subject to events, upon the occurrence of which such rights, options or warrants become exercisable to purchase different securities, evidences of indebtedness or other assets, then the date of the occurrence of any and each such event shall be deemed to be the date of distribution and Record Date with respect to new rights, options or warrants with such rights (in which case the existing rights, options or warrants shall be deemed to terminate and expire on such date without exercise by any of the holders thereof). In addition, in the event of any distribution (or deemed distribution) of rights, options or warrants, or any Trigger Event or other event (of the type described in the immediately preceding sentence) with respect thereto that was counted for purposes of calculating a distribution amount for which an adjustment to the Conversion Rate under this Section 14.04(c) was made, (1) in the case of any such rights, options or warrants that shall all have been redeemed or purchased without exercise by any holders thereof, upon such final redemption or purchase (x) the Conversion Rate shall be readjusted as if such rights, options or warrants had not been issued and (y) the Conversion Rate shall then again be readjusted to give effect to such distribution, deemed distribution or Trigger Event, as the case may be, as though it were a cash distribution, equal to the per share redemption or purchase price received by a holder or holders of Common Shares with respect to such rights, options or warrants (assuming such holder had retained such rights, options or warrants), made to all holders of Common Shares as of the date of such redemption or purchase, and (2) in the case of such rights, options or warrants that shall have expired or been terminated without exercise by any holders thereof, the Conversion Rate shall be readjusted as if such rights, options and warrants had not been issued.

For purposes of Section 14.04(a), Section 14.04(b) and this Section 14.04(c), if any dividend or distribution to which this Section 14.04(c) is applicable also includes one or both of:

(A) a dividend or distribution of Common Shares to which Section 14.04(a) is applicable (the " **Clause A Distribution**"); or

(B) a dividend or distribution of rights, options or warrants to which Section 14.04(b) is applicable (the " **Clause B Distribution**"),

then, in either case, (1) such dividend or distribution, other than the Clause A Distribution and the Clause B Distribution, shall be deemed to be a dividend or distribution to which this Section 14.04(c) is applicable (the " **Clause C Distribution**") and any Conversion Rate adjustment required by this Section 14.04(c) with respect to such Clause C Distribution shall then be made,

and (2) the Clause A Distribution and Clause B Distribution shall be deemed to immediately follow the Clause C Distribution and any Conversion Rate adjustment required by Section 14.04(a) and Section 14.04(b) with respect thereto shall then be made, except that, if determined by the Company (I) the "Record Date" of the Clause A Distribution and the Clause B Distribution shall be deemed to be the Record Date of the Clause C Distribution and (II) any shares of Common Shares included in the Clause A Distribution or Clause B Distribution shall be deemed not to be "outstanding immediately prior to the close of business on such Record Date or immediately prior to the open of business on such Effective Date, as applicable" within the meaning of Section 14.04(a) or "outstanding immediately prior to the close of business on such Record Date" within the meaning of Section 14.04(b).

(d) If the Record Date occurs in respect of any cash dividend or distribution to all or substantially all holders of the Common Shares, the Conversion Rate shall be increased based on the following formula:

$$CR_1 = CR_0 \times \frac{SP_0}{SP_0 - C}$$

where,

$CR_0$ = the Conversion Rate in effect immediately prior to the close of business on the Record Date for such dividend or distribution;

$CR_1$ = the Conversion Rate in effect immediately after the close of business on the Record Date for such dividend or distribution;

$SP_0$ = the average of the Last Reported Sale Price of the Common Shares over the consecutive three Trading Day period ending on, and including, the Trading Day immediately preceding the Ex-Dividend Date for such dividend or distribution; and

C = the amount in cash per share the Company distributes to all or substantially all holders of the Common Shares.

Any increase pursuant to this Section 14.04(d) shall become effective immediately after the close of business on the Record Date for such dividend or distribution. If such dividend or distribution is not so paid, the Conversion Rate shall be decreased to be the Conversion Rate that would then be in effect if the Record Date for such dividend or distribution had not occurred. Notwithstanding the foregoing, if "C" (as defined above) is equal to or greater than "$SP_0$" (as defined above), in lieu of the foregoing increase, each Holder of a Note shall receive, for each $1,000 principal amount of Notes, at the same time and upon the same terms as holders of Common Shares, the amount of cash that such Holder would have received if such Holder owned a number of Common Shares equal to the Conversion Rate on the Record Date for such cash dividend or distribution.

(e) If the Company or any of its Subsidiaries make a payment in respect of a tender offer or exchange offer for the Common Shares, and the cash and value of any other consideration included in the payment per Common Share exceeds the average of the Last

Reported Sale Prices of the Common Shares over the 10 consecutive Trading Day period commencing on, and including, the Trading Day next succeeding the last date on which tenders or exchanges may be made pursuant to such tender or exchange offer, the Conversion Rate shall be increased based on the following formula:

$$CR_1 = CR_0 \times \frac{AC + (SP_1 \times OS_1)}{OS_0 \times SP_1}$$

where,

$CR_0$ = the Conversion Rate in effect immediately prior to the close of business on the 10th Trading Day immediately following, and including, the Trading Day next succeeding the date such tender or exchange offer expires;

$CR_1$ = the Conversion Rate in effect immediately after the close of business on the 10th Trading Day immediately following, and including, the Trading Day next succeeding the date such tender or exchange offer expires;

AC = the aggregate value of all cash and any other consideration (as determined by the Board of Directors) paid or payable for shares purchased in such tender or exchange offer;

$OS_0$ = the number of Common Shares outstanding immediately prior to the date such tender or exchange offer expires (prior to giving effect to the purchase of all shares accepted for purchase or exchange in such tender or exchange offer);

$OS_1$ = the number of Common Shares outstanding immediately after the date such tender or exchange offer expires (after giving effect to the purchase of all shares accepted for purchase or exchange in such tender or exchange offer); and

$SP_1$ = the average of the Last Reported Sale Prices of the Common Shares over the 10 consecutive Trading Day period immediately following, and including, the Trading Day next succeeding the date such tender or exchange offer expires.

The adjustment to the Conversion Rate under this Section 14.04(e) shall be determined at the close of business on the 10th Trading Day immediately following, and including, the Trading Day next succeeding the date such tender or exchange offer expires; *provided* that in respect of any conversion of Notes within the 10 Trading Days immediately following, and including, the Trading Day next succeeding the expiration date of any tender or exchange offer, references in this Section 14.04(e) with respect to 10 Trading Days shall be deemed replaced with such lesser number of Trading Days as have elapsed from, and including, the Trading Day next succeeding the expiration date of such tender or exchange offer to, and including, the Conversion Date in determining the applicable Conversion Rate.

(f) Except as stated herein, the Company shall not adjust the Conversion Rate for the issuance of Common Shares or any securities convertible into or exchangeable for Common Shares or the right to purchase Common Shares or such convertible or exchangeable securities.

Notwithstanding anything to the contrary herein, if any Conversion Rate adjustment set forth in clauses (a), (b), (c), (d) and (e) of this Section 14.04 becomes effective as described above, and a Holder that has converted any Notes with a Conversion Date occurring on or after the date such Conversion Rate adjustment becomes effective will participate (other than in the case of a share split or combination), at the same time and upon the same terms as holders of the Common Shares and solely as a result of holding the Common Shares issuable upon conversion of such Notes, in the transaction or event giving rise to such Conversion Rate adjustment, then such Conversion Rate adjustment will not be made with respect to such Notes.

(g) In addition to those adjustments required by clauses (a), (b), (c), (d) and (e) of this Section 14.04, and to the extent permitted by applicable law and subject to the applicable rules of The NASDAQ Global Select Market or any other exchange on which any of the Company's securities are then listed, (i) the Company may increase the Conversion Rate by any amount for a period of at least 20 Business Days if the Board of Directors determines that such increase would be in the Company's best interest, which determination shall be conclusive, and (ii) the Company may (but is not required to) increase the Conversion Rate to avoid or diminish any income tax to holders of Common Shares or rights to purchase Common Shares in connection with a dividend or distribution of Common Shares (or rights to acquire Common Shares) or similar event. Whenever the Conversion Rate is increased pursuant to the preceding sentence, the Company shall mail to the Holder of each Note at its last address appearing on the Note Register a notice of the increase at least 15 days prior to the date the increased Conversion Rate takes effect, and such notice shall state the increased Conversion Rate and the period during which it will be in effect.

(h) Notwithstanding anything to the contrary in this Article 14, the Conversion Rate shall not be adjusted:

(i) upon the issuance of any Common Shares pursuant to any present or future plan providing for the reinvestment of dividends or interest payable on the Company's securities and the investment of additional optional amounts in Common Shares under any plan;

(ii) upon the issuance of any Common Shares or options or rights to purchase those shares pursuant to any present or future employee, director or consultant benefit plan or program of or assumed by the Company or any of the Company's Subsidiaries;

(iii) upon the issuance of any Common Shares pursuant to any option, warrant, right or exercisable, exchangeable or convertible security not described in clause (ii) of this subsection and outstanding as of the date the Notes were first issued;

(iv) for a change solely in the par value (or lack of par value) of the Common Shares; or

(v) for accrued and unpaid interest, if any.

(i) All calculations and other determinations under this Article 14 shall be made by the Company and shall be made to the nearest one-ten thousandth (1/10,000th) of a share. The Company shall not be required to make an adjustment to the Conversion Rate unless the

adjustment (taken together with all carried forward adjustments) would require a change of at least 1% in the Conversion Rate. However, the Company shall carry forward any adjustments that are less than 1% of the Conversion Rate and make such carried-forward adjustments, regardless of whether the aggregate adjustment is less than 1%, on (x) December 31 of each calendar year and (y) the Conversion Date for any conversion of Notes.

(j) Whenever the Conversion Rate is adjusted as herein provided, the Company shall promptly file with the Trustee (and the Conversion Agent if not the Trustee) an Officers' Certificate setting forth the Conversion Rate after such adjustment and setting forth a brief statement of the facts requiring such adjustment. Unless and until a Responsible Officer of the Trustee shall have received such Officers' Certificate, the Trustee shall not be deemed to have knowledge of any adjustment of the Conversion Rate and may assume without inquiry that the last Conversion Rate of which it has knowledge is still in effect. Promptly after delivery of such certificate, the Company shall prepare a notice of such adjustment of the Conversion Rate setting forth the adjusted Conversion Rate and the date on which each adjustment becomes effective and shall mail such notice of such adjustment of the Conversion Rate to each Holder at its last address appearing on the Note Register of this Indenture. Failure to deliver such notice shall not affect the legality or validity of any such adjustment.

(k) For purposes of this Section 14.04, the number of Common Shares at any time outstanding shall not include Common Shares held in the treasury of the Company so long as the Company does not pay any dividend or make any distribution on Common Shares held in the treasury of the Company, but shall include Common Shares issuable in respect of scrip certificates issued in lieu of fractions of Common Shares.

Section 14.05. *Adjustments of Prices.* Whenever any provision of this Indenture requires the Company to calculate the Last Reported Sale Prices over a span of multiple days (including the period for calculating the Stock Price for purposes of a Make-Whole Fundamental Change), the Board of Directors shall make appropriate adjustments to each to account for any adjustment to the Conversion Rate that becomes effective, or any event requiring an adjustment to the Conversion Rate where the Ex-Dividend Date, Effective Date or expiration date of the event occurs, at any time during the period when the Last Reported Sale Prices are to be calculated.

Section 14.06. *Shares to Be Fully Paid.* The Company shall provide, free from preemptive rights, out of its authorized but unissued shares or shares held in treasury, sufficient Common Shares to provide for conversion of the Notes from time to time as such Notes are presented for conversion (assuming that at the time of computation of such number of shares, all such Notes would be converted by a single Holder, and including the maximum number of Additional Shares that would be issuable upon conversion in connection with a Make-Whole Fundamental Change or a Tax Redemption).

Section 14.07. *Effect of Recapitalizations, Reclassifications and Changes of the Common Shares.*

(a) In the case of:

(i) any recapitalization, reclassification or change of the Common Shares (other than changes resulting from a subdivision or combination),

(ii) any consolidation, merger or combination involving the Company,

(iii) any sale, lease or other transfer to a third party of all or substantially all of the Company's property or assets; or

(iv) any statutory share exchange,

in each case, as a result of which the Common Shares would be converted into, or exchanged for, stock, other securities or other property or assets (including cash or any combination thereof) (any such event, a "**Merger Event**"), then, at and after the effective time of such Merger Event, the right to convert each $1,000 principal amount of Notes shall be changed into a right to convert such principal amount of Notes into the kind and amount of shares of stock, other securities or other property or assets (including cash or any combination thereof) that a holder of a number of Common Shares equal to the Conversion Rate immediately prior to such Merger Event would have owned or been entitled to receive (the " **Reference Property**," with each "**unit of Reference Property**" meaning the kind and amount of Reference Property that a holder of one Common Share is entitled to receive) upon such Merger Event and, prior to or at the effective time of such Merger Event, the Company or the successor or purchasing Person, as the case may be, shall execute with the Trustee a supplemental indenture permitted under Section 10.01(f) providing for such change in the right to convert each $1,000 principal amount of Notes.

If the Merger Event causes the Common Shares to be converted into, or exchanged for, the right to receive more than a single type of consideration (determined based in part upon any form of stockholder election), then (i) the Reference Property into which the Notes will be convertible shall be deemed to be (x) the weighted average of the types and amounts of consideration received by the holders of Common Shares that affirmatively make such an election or (y) if no holders of Common Shares affirmatively make such an election, the types and amounts of consideration actually received by the holders of Common Shares, and (ii) the unit of Reference Property for purposes of the immediately preceding paragraph shall refer to the consideration referred to in clause (i) attributable to one Common Share. The Company shall notify Holders, the Trustee and the Conversion Agent (if other than the Trustee) of such weighted average as soon as practicable after such determination is made.

Such supplemental indenture described in the second immediately preceding paragraph shall provide for anti-dilution and other adjustments that shall be as nearly equivalent as is possible to the adjustments provided for in this Article 14. If, in the case of any Merger Event, the Reference Property includes shares of stock, securities or other property or assets (including cash or any combination thereof) of a Person other than the successor or purchasing corporation, as the case may be, in such Merger Event, then such supplemental indenture shall also be executed by such other Person and shall contain such additional provisions to protect the interests of the Holders of the Notes as the Board of Directors shall reasonably consider necessary by reason of the foregoing, including the provisions providing for the purchase rights set forth in Article 15.

(b) When the Company executes a supplemental indenture pursuant to subsection (a) of this Section 14.07, the Company shall promptly file with the Trustee an Officers' Certificate briefly stating the reasons therefor, the kind or amount of cash, securities or property or asset that will comprise a unit of Reference Property after any such Merger Event, any adjustment to be made with respect thereto and that all conditions precedent have been complied with, and shall promptly mail notice thereof to all Holders. The Company shall cause notice of the execution of such supplemental indenture to be mailed to each Holder, at its address appearing on the Note Register provided for in this Indenture, within 20 days after execution thereof. Failure to deliver such notice shall not affect the legality or validity of such supplemental indenture.

(c) The Company shall not become a party to any Merger Event unless its terms are consistent with this Section 14.07. None of the foregoing provisions shall affect the right of a holder of Notes to convert its Notes into Common Shares as set forth in Section 14.01 and Section 14.02 prior to the effective date of such Merger Event.

(d) The above provisions of this Section shall similarly apply to successive Merger Events.

Section 14.08. *Certain Covenants.* (a) The Company covenants that all Common Shares issued upon conversion of Notes will be fully paid and non-assessable by the Company and free from all taxes, liens and charges with respect to the issue thereof.

(b) The Company covenants that, if any Common Shares to be provided for the purpose of conversion of Notes hereunder require registration with or approval of any governmental authority under any federal or state law before such Common Shares may be validly issued upon conversion, the Company will, to the extent then permitted by the rules and interpretations of the Commission, secure such registration or approval, as the case may be.

(c) The Company further covenants that if at any time the Common Shares shall be listed on any national securities exchange or automated quotation system the Company will list and keep listed, so long as the Common Shares shall be so listed on such exchange or automated quotation system, any Common Shares issuable upon conversion of the Notes.

Section 14.09. *Responsibility of Trustee.* The Trustee and any other Conversion Agent shall not at any time be under any duty or responsibility to any Holder to determine the Conversion Rate (or any adjustment thereto) or whether any facts exist that may require any adjustment (including any increase) of the Conversion Rate, or with respect to the nature or extent or calculation of any such adjustment when made, or with respect to the method employed, or herein or in any supplemental indenture provided to be employed, in making the same. The Trustee and any other Conversion Agent shall not be accountable with respect to the validity or value (or the kind or amount) of any Common Shares, or of any securities, property or cash that may at any time be issued or delivered upon the conversion of any Note; and the Trustee and any other Conversion Agent make no representations with respect thereto. Neither the Trustee nor any Conversion Agent shall be responsible for any failure of the Company to issue, transfer or deliver any Common Shares or stock certificates or other securities or property or cash upon the surrender of any Note for the purpose of conversion or to comply with any of the duties, responsibilities or covenants of the Company contained in this Article. Without limiting the

generality of the foregoing, neither the Trustee nor any Conversion Agent shall be under any responsibility to determine the correctness of any provisions contained in any supplemental indenture entered into pursuant to Section 14.07 relating either to the kind or amount of shares of stock or securities or property (including cash) receivable by Holders upon the conversion of their Notes after any event referred to in such Section 14.07 or to any adjustment to be made with respect thereto, but, subject to the provisions of Section 7.01, may accept (without any independent investigation) as conclusive evidence of the correctness of any such provisions, and shall be protected in relying upon, the Officers' Certificate (which the Company shall be obligated to file with the Trustee prior to the execution of any such supplemental indenture) with respect thereto.

Section 14.10. *Notice to Holders Prior to Certain Actions.* In case of any:

(a) action by the Company or one of its Subsidiaries that would require an adjustment in the Conversion Rate pursuant to Section 14.04 or Section 14.11;

(b) Merger Event; or

(c) voluntary or involuntary dissolution, liquidation or winding-up of the Company or any of its Subsidiaries;

then, in each case (unless prior notice of such event is otherwise required pursuant to another provision of this Indenture), the Company shall cause to be filed with the Trustee and the Conversion Agent (if other than the Trustee) and to be mailed to each Holder at its address appearing on the Note Register, as promptly as possible but in any event at least 20 days prior to the applicable date hereinafter specified, a notice stating (i) the date on which a record is to be taken for the purpose of such action by the Company or one of its Subsidiaries or, if a record is not to be taken, the date as of which the holders of Common Shares of record are to be determined for the purposes of such action by the Company or one of its Subsidiaries, or (ii) the date on which such Merger Event, dissolution, liquidation or winding-up is expected to become effective or occur, and the date as of which it is expected that holders of Common Shares of record shall be entitled to exchange their Common Shares for securities or other property deliverable upon such Merger Event, dissolution, liquidation or winding-up. Failure to give such notice, or any defect therein, shall not affect the legality or validity of such action by the Company or one of its Subsidiaries, Merger Event, dissolution, liquidation or winding-up.

Section 14.11. *Stockholder Rights Plans.* If the Company has a stockholder rights plan in effect upon conversion of the Notes, Holders of the Notes shall be entitled to receive, in addition to the Common Share issued upon such conversion, the appropriate number of rights, if any, and the certificates representing the Common Shares issued upon such conversion shall bear such legends, if any, in each case as may be provided by the terms of any such stockholder rights plan, as the same may be amended from time to time. However, if, prior to any conversion of Notes, the rights have separated from the Common Shares in accordance with the provisions of the applicable stockholder rights plan so that the Holders would not be entitled to receive any rights in respect of Common Shares issuable upon conversion of the Notes, the Conversion Rate shall be adjusted at the time of separation as if the Company distributed to all or substantially all



holders of the Common Share Distributed Property as provided in Section 14.04(c), subject to readjustment in the event of the expiration, termination or redemption of such rights.

## ARTICLE 15
## REPURCHASE OF NOTES AT OPTION OF HOLDERS

Section 15.01. *Intentionally Omitted.*

Section 15.02. *Repurchase at Option of Holders Upon a Fundamental Change.* (a) If a Fundamental Change occurs at any time, each Holder shall have the right, at such Holder's option, to require the Company to repurchase for cash all of such Holder's Notes, or any portion of the principal amount thereof that is equal to $1,000 or an integral multiple of $1,000, on the date (the " **Fundamental Change Repurchase Date**") specified by the Company that is not less than 20 calendar days or more than 35 calendar days following the date of the Fundamental Change Company Notice at a repurchase price equal to 100% of the principal amount thereof, *plus* accrued and unpaid interest thereon to, but excluding, the Fundamental Change Repurchase Date (the "**Fundamental Change Repurchase Price**"), unless the Fundamental Change Repurchase Date falls after a Regular Record Date but on or prior to the Interest Payment Date to which such Regular Record Date relates, in which case the Company shall instead pay the full amount of accrued and unpaid interest to Holders of record as of such Regular Record Date, and the Fundamental Change Repurchase Price shall be equal to 100% of the principal amount of Notes to be repurchased pursuant to this Article 15.

(b) Repurchases of Notes under this Section 15.02 shall be made, at the option of the Holder thereof, upon:

(i) delivery to the Paying Agent by a Holder of a duly completed notice (the " **Fundamental Change Repurchase Notice**") in the form set forth in Attachment 2 to the Form of Note attached hereto as Exhibit A, if the Notes are Physical Notes, or in compliance with the Depositary's procedures for surrendering interests in Global Notes, if the Notes are Global Notes, in each case on or before the close of business on the Business Day immediately preceding the Fundamental Change Repurchase Date; and

(ii) delivery of the Notes, if the Notes are Physical Notes, to the Paying Agent at any time after delivery of the Fundamental Change Repurchase Notice (together with all necessary endorsements for transfer) at the Corporate Trust Office of the Paying Agent, or book-entry transfer of the Notes, if the Notes are Global Notes, in compliance with the procedures of the Depositary, in each case such delivery being a condition to receipt by the Holder of the Fundamental Change Repurchase Price therefor.

The Fundamental Change Repurchase Notice in respect of any Notes to be repurchased shall state:

(i) in the case of Physical Notes, the certificate numbers of the Notes to be delivered for repurchase;

(ii) the portion of the principal amount of Notes to be repurchased, which must be $1,000 or an integral multiple thereof; and

(iii) that the Notes are to be repurchased by the Company pursuant to the applicable provisions of the Notes and this Indenture;

*provided*, *however*, that if the Notes are Global Notes, the Fundamental Change Repurchase Notice must comply with appropriate Depositary procedures.

Notwithstanding anything herein to the contrary, any Holder delivering to the Paying Agent the Fundamental Change Repurchase Notice contemplated by this Section 15.02 shall have the right to withdraw, in whole or in part, such Fundamental Change Repurchase Notice at any time prior to the close of business on the second Business Day immediately preceding the Fundamental Change Repurchase Date by delivery of a written notice of withdrawal to the Paying Agent in accordance with Section 15.03.

The Paying Agent shall promptly notify the Company of the receipt by it of any Fundamental Change Repurchase Notice or written notice of withdrawal thereof.

(c) On or before the 20th calendar day after the occurrence of the effective date of a Fundamental Change, the Company shall provide to all Holders of Notes and the Trustee and the Paying Agent (in the case of a Paying Agent other than the Trustee) a notice (the "**Fundamental Change Company Notice**") of the occurrence of the effective date of the Fundamental Change and of the repurchase right at the option of the Holders arising as a result thereof. In the case of Physical Notes, such notice shall be by first class mail or, in the case of Global Notes, such notice shall be delivered in accordance with the applicable procedures of the Depositary. Simultaneously with providing such notice, the Company shall publish a notice containing the information set forth in the Fundamental Change Company Notice in a newspaper of general circulation in The City of New York or publish such information on the Company's website or through such other public medium as the Company may use at that time. Each Fundamental Change Company Notice shall specify:

(i) the events causing the Fundamental Change;

(ii) the effective date of the Fundamental Change;

(iii) the last date on which a Holder may exercise the repurchase right pursuant to this Article 15;

(iv) the Fundamental Change Repurchase Price;

(v) the Fundamental Change Repurchase Date;

(vi) if applicable, the name and address of the Paying Agent and the Conversion Agent;

(vii) if applicable, the Conversion Rate and any adjustments to the Conversion Rate;

(viii) if applicable, that the Notes with respect to which a Fundamental Change Repurchase Notice has been delivered by a Holder may be converted only if the Holder withdraws the Fundamental Change Repurchase Notice in accordance with the terms of this Indenture; and

(ix) the procedures that Holders must follow to require the Company to repurchase their Notes.

No failure of the Company to give the foregoing notices and no defect therein shall limit the Holders' repurchase rights or affect the validity of the proceedings for the repurchase of the Notes pursuant to this Section 15.02.

At the Company's request, the Trustee shall give such notice in the Company's name and at the Company's expense; *provided*, *however*, that, in all cases, the text of such Fundamental Change Company Notice shall be prepared by the Company.

(d) Notwithstanding the foregoing, no Notes may be repurchased by the Company on any date at the option of the Holders upon a Fundamental Change if the principal amount of the Notes has been accelerated, and such acceleration has not been rescinded, on or prior to such date (except in the case of an acceleration resulting from a Default by the Company in the payment of the Fundamental Change Repurchase Price with respect to such Notes). The Paying Agent will promptly return to the respective Holders thereof any Physical Notes held by it during the acceleration of the Notes (except in the case of an acceleration resulting from a Default by the Company in the payment of the Fundamental Change Repurchase Price with respect to such Notes), or any instructions for book-entry transfer of the Notes in compliance with the procedures of the Depositary shall be deemed to have been cancelled, and, upon such return or cancellation, as the case may be, the Fundamental Change Repurchase Notice with respect thereto shall be deemed to have been withdrawn.

Section 15.03. *Withdrawal of Fundamental Change Repurchase Notice.* (a) A Fundamental Change Repurchase Notice may be withdrawn (in whole or in part) by means of a written notice of withdrawal delivered to the Corporate Trust Office of the Paying Agent in accordance with this Section 15.03 at any time prior to the close of business on the Business Day immediately preceding the Fundamental Change Repurchase Date, specifying:

(i) the principal amount of the Notes with respect to which such notice of withdrawal is being submitted,

(ii) if Physical Notes have been issued, the certificate number of the Note in respect of which such notice of withdrawal is being submitted, and

(iii) the principal amount, if any, of such Note that remains subject to the original Fundamental Change Repurchase Notice, which portion must be in principal amounts of $1,000 or an integral multiple of $1,000;

*provided*, *however*, that if the Notes are Global Notes, the notice must comply with appropriate procedures of the Depositary.

Section 15.04. *Deposit of Fundamental Change Repurchase Price.* (a) The Company will deposit with the Trustee (or other Paying Agent appointed by the Company, or if the Company is acting as its own Paying Agent, set aside, segregate and hold in trust as provided in Section 4.04) on or prior to 11:00 a.m., New York City time, on the Business Day immediately prior to the Fundamental Change Repurchase Date an amount of money sufficient to repurchase all of the Notes to be repurchased at the appropriate Fundamental Change Repurchase Price. Subject to receipt of funds and/or Notes by the Trustee (or other Paying Agent appointed by the Company), payment for Notes surrendered for repurchase (and not withdrawn prior to the close of business on the second Business Day immediately preceding the Fundamental Change Repurchase Date) will be made on the later of (i) the Fundamental Change Repurchase Date (*provided* the Holder has satisfied the conditions in Section 15.02) and (ii) the time of book-entry transfer or the delivery of such Note to the Trustee (or other Paying Agent appointed by the Company) by the Holder thereof in the manner required by Section 15.02 by mailing checks for the amount payable to the Holders of such Notes entitled thereto as they shall appear in the Note Register; *provided*, *however*, that payments to the Depositary shall be made by wire transfer of immediately available funds to the account of the Depositary or its nominee. The Trustee shall, promptly after such payment and upon written demand by the Company, return to the Company any funds in excess of the Fundamental Change Repurchase Price.

(b) If by 11:00 a.m. New York City time, on the Fundamental Change Repurchase Date, the Trustee (or other Paying Agent appointed by the Company) holds money sufficient to make payment on all the Notes or portions thereof that are to be repurchased on such Fundamental Change Repurchase Date, then, with respect to the Notes that have been properly surrendered for repurchase and have not been validly withdrawn, (i) such Notes will cease to be outstanding, (ii) interest will cease to accrue on such Notes (whether or not book-entry transfer of the Notes has been made or the Notes have been delivered to the Trustee or Paying Agent) and (iii) all other rights of the Holders of such Notes will terminate (other than the right to receive the Fundamental Change Repurchase Price upon delivery or transfer of the Notes and, if applicable, accrued and unpaid interest).

(c) Upon surrender of a Note that is to be repurchased in part pursuant to Section 15.02, the Company shall execute and the Trustee shall authenticate and deliver to the Holder a new Note in an authorized denomination equal in principal amount to the unrepurchased portion of the Note surrendered.

Section 15.05. *Covenant to Comply with Applicable Laws Upon Repurchase of Notes* . In connection with any repurchase offer, the Company will, if required:

(a) comply with the provisions of Rule 13e-4, Rule 14e-1 and any other tender offer rules under the Exchange Act;

(b) file a Schedule TO or any other required schedule under the Exchange Act; and

(c) otherwise comply with all federal and state securities laws in connection with any offer by the Company to repurchase the Notes;

in each case, so as to permit the rights and obligations under this Article 15 to be exercised in the time and in the manner specified in this Article 15.

## ARTICLE 16
## OPTIONAL REDEMPTION

Section 16.01. *Optional Redemption*. No sinking fund is provided for the Notes. The Notes shall not be redeemable by the Company prior to February 21, 2017, except pursuant to Section 17.01. On or after February 21, 2017, the Company may redeem (an " **Optional Redemption**") for cash all or part of the Notes, at its option, at the Redemption Price, if the Last Reported Sale Price of the Common Stock has been at least 130% of the Conversion Price then in effect for at least 20 Trading Days (whether or not consecutive) during any 30 consecutive Trading Day period (including the last Trading Day of such period) ending on, and including, the Trading Day immediately preceding the date on which the Company provides the Optional Redemption Notice in accordance with Section 16.02.

Section 16.02. *Notice of Optional Redemption; Selection of Notes*. (a) In case the Company exercises its right to redeem all or any part of the Notes pursuant to Section 16.01, it shall fix a date for redemption (each, an " **Optional Redemption Date**") and it or, at its written request received by the Trustee not less than 55 calendar days prior to the Optional Redemption Date (or such shorter period of time as may be acceptable to the Trustee), the Trustee, in the name of and at the expense of the Company, shall mail or cause to be mailed a notice of such Optional Redemption (an " **Optional Redemption Notice**") not less than 45 nor more than 60 calendar days prior to the Optional Redemption Date to each Holder of Notes so to be redeemed as a whole or in part at its last address as the same appears on the Note Register; *provided*, *however*, that, if the Company shall give such notice, it shall also give written notice of the Optional Redemption Date to the Trustee. The Optional Redemption Date must be a Business Day. For the avoidance of doubt, if the Optional Redemption Date falls after a Regular Record Date but on or prior to the immediately succeeding Interest Payment Date, interest accrued to the Interest Payment Date will be paid to Holders of record of the Notes on such Regular Record Date.

(b) The Optional Redemption Notice, if mailed in the manner herein provided, shall be conclusively presumed to have been duly given, whether or not the Holder receives such notice. In any case, failure to give such Optional Redemption Notice by mail or any defect in the Optional Redemption Notice to the Holder of any Note designated for redemption as a whole or in part shall not affect the validity of the proceedings for the redemption of any other Note.

(c) Each Optional Redemption Notice shall specify:

(i) the Optional Redemption Date;

(ii) the Redemption Price;

(iii) that on the Optional Redemption Date, the Redemption Price will become due and payable upon each Note to be redeemed, and that interest thereon, if any, shall cease to accrue on and after the Optional Redemption Date;

(iv) the place or places where such Notes are to be surrendered for payment of the Redemption Price;

(v) that Holders may surrender their Notes for conversion at any time prior to the close of business on the second Business Day immediately preceding the Optional Redemption Date;

(vi) the procedures a converting Holder must follow to convert its Notes;

(vii) the Conversion Rate;

(viii) the CUSIP, ISIN or other similar numbers, if any, assigned to such Notes; and

(ix) in case any Note is to be redeemed in part only, the portion of the principal amount thereof to be redeemed and on and after the Optional Redemption Date, upon surrender of such Note, a new Note in principal amount equal to the unredeemed portion thereof shall be issued.

An Optional Redemption Notice shall be irrevocable.

(d) If fewer than all of the outstanding Notes are to be redeemed, the Trustee shall select the Notes to be redeemed (in principal amounts of $1,000 or multiples thereof) by lot, on a *pro rata* basis or by another method the Trustee considers to be fair and appropriate. In the case of a Global Note, the beneficial interests therein to be redeemed shall be selected in accordance with applicable procedures of the Depositary. If any Note selected for partial redemption is submitted for conversion in part after such selection, the portion of the Note submitted for conversion shall be deemed (so far as may be possible) to be the portion selected for redemption. In the case of an Optional Redemption, a Holder may convert its Notes at any time until the close of business on the second Business Day preceding the Optional Redemption Date.

Section 16.03. *Payment of Notes Called for Optional Redemption*. (a) If any Optional Redemption Notice has been given in respect of the Notes in accordance with Section 16.02, the Notes shall become due and payable on the Optional Redemption Date at the place or places stated in the Optional Redemption Notice and at the applicable Redemption Price. On presentation and surrender of the Notes at the place or places stated in the Optional Redemption Notice, the Notes shall be paid and redeemed by the Company at the applicable Redemption Price.

(b) Prior to the open of business on the Business Day immediately prior to the Optional Redemption Date, the Company shall deposit with the Paying Agent or, if the Company or a Subsidiary of the Company is acting as the Paying Agent, shall segregate and hold in trust as provided in Section 7.07 an amount of cash (in immediately available funds if deposited on the Optional Redemption Date), sufficient to pay the Redemption Price of all of the Notes to be

redeemed on such Optional Redemption Date. Subject to receipt of funds by the Paying Agent, payment for the Notes to be redeemed shall be made on the Optional Redemption Date for such Notes. The Paying Agent shall, promptly after such payment and upon written demand by the Company, return to the Company any funds in excess of the Redemption Price.

Section 16.04. *Restrictions on Optional Redemption*. The Company may not redeem any Notes on any date if the principal amount of the Notes has been accelerated in accordance with the terms of this Indenture, and such acceleration has not been rescinded, on or prior to the Optional Redemption Date (except in the case of an acceleration resulting from a Default by the Company in the payment of the Redemption Price with respect to such Notes).

## ARTICLE 17
## REDEMPTION FOR TAXATION REASONS

Section 17.01. *Redemption for Taxation Reasons*.

The Notes may be redeemed, for cash, at the Company's option or at the option of any Successor Company, as a whole but not in part (a " **Tax Redemption**"), at the Redemption Price if, as a result of:

(i) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Taxing Jurisdiction affecting taxation; or

(ii) any change in the interpretation, administration, practice, enforcement or application of such laws, rules or regulations, in each case having the force of law, by any legislative body, court, governmental agency, taxing authority or regulatory or administrative authority (including the enactment of any legislation and the announcement or publication of any judicial decision or official regulatory or administrative interpretation or determination),

which change or amendment becomes effective or, in the case of a change in the interpretation, administration, practice, enforcement or application of such laws, is announced (i) with respect the Company, on or after the date hereof, or (ii) with respect to any Successor Company, on or after the date such successor becomes a Successor Company, with respect to any payment due or to become due under the Notes or this Indenture, the Company or any Successor Company is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Company or any Successor Company.

Section 17.02. *Notice of Tax Redemption.*

(a) In case the Company exercises its Tax Redemption right pursuant to Section 17.01, it shall fix a date for redemption (the " **Tax Redemption Date**") and it or, at its written request received by the Trustee not less than 55 days prior to the Tax Redemption Date (or such shorter period of time as may be acceptable to the Trustee), the Trustee, in the name of and at the expense of the Company shall mail or cause to be mailed a notice of such Tax Redemption (a

"**Tax Redemption Notice**") not less than 45 nor more than 60 calendar days prior to the Tax Redemption Date to each Holder of Notes so to be redeemed at its last address as the same appears on the Note Register; *provided, however*, that, if the Company shall give such notice, it shall also give a written notice of the Tax Redemption Date to the Trustee; *provided further* that no such Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Company or any Successor Company would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due. The Tax Redemption Date must be a Business Day. For the avoidance of doubt, if the Tax Redemption Date falls after a Regular Record Date but on or prior to the immediately succeeding Interest Payment Date, interest accrued to the Interest Payment Date will be paid to Holders of record of the Notes on such Regular Record Date.

(b) Prior to the delivery of any Tax Redemption Notice, the Company shall deliver to the Trustee (i) a certificate signed by two of the Company's Officers stating that the requirement to pay Additional Amounts as provided in Section 17.01 cannot be avoided by the taking of reasonable measures by the Company or any Successor Company and (ii) an opinion of independent legal or tax advisors of recognized standing to the effect that such change or amendment has occurred (irrespective of whether such amendment or change is then effective). The Trustee shall accept and rely upon such certificate and opinion (without further investigation or enquiry) and it shall be conclusive and binding on the Holders.

(c) The Tax Redemption Notice, if mailed in the manner herein provided, shall be conclusively presumed to have been given duly, whether or not the Holder receives such notice. In any case, failure to give such Tax Redemption Notice by mail or any defect in the Tax Redemption Notice to the Holder of any Note designated for redemption shall not affect the validity of the proceedings for the redemption of any other Note.

(d) Each Tax Redemption Notice shall specify:

(i) the Tax Redemption Date;

(ii) the Redemption Price;

(iii) the place or places where such Notes are to be surrendered for payment of the Redemption Price;

(iv) that on the Tax Redemption Date, the Redemption Price will become due and payable upon each Note to be redeemed, and that the interest thereon, if any, shall cease to accrue on and after the Tax Redemption Date;

(v) that Holders may surrender their Notes for conversion at any time prior to the close of business on the second Business Day immediately preceding the Tax Redemption Date;

(vi) the procedures a converting Holder must follow to convert its Notes;

(vii) that Holders have the right to elect not to have their Notes redeemed by delivery to the Trustee written notice to that effect not later than the 15th calendar day prior to the Tax Redemption Date;

(viii) that Holders who wish to elect not to have their Notes redeemed must satisfy the requirements set forth herein and in the Indenture;

(ix) that, at and after the Tax Redemption Date, Holders who elect not to have their Notes redeemed will not receive any Additional Amounts on any payments with respect to such Notes solely as a result of the change or amendment in the tax laws of the Relevant Taxing Jurisdiction that caused such Additional Amounts to be paid (whether upon conversion, repurchase, maturity or otherwise, and whether in cash, Common Shares or otherwise), and all future payments with respect to the Notes will be subject to the deduction or withholding of such Relevant Taxing Jurisdiction taxes required by law to be deducted or withheld as a result of such change or amendment;

(x) the Conversion Rate and, if applicable, the number of Common Shares added to the Conversion Rate in accordance with Section 14.03; and

(xi) the CUSIP, ISIN or other similar numbers, if any, assigned to such Notes.

A Tax Redemption Notice shall be irrevocable. In the case of a Tax Redemption, a Holder may convert its Notes at any time until the close of business on the second Business Day preceding the Tax Redemption Date.

Section 17.03. *Payment of Notes Called for Tax Redemption for Taxation* .

(a) If any Tax Redemption Notice has been given in respect of the Notes in accordance with Section 17.02, the Notes shall become due and payable on the Tax Redemption Date at the place or places stated in the Tax Redemption Notice and at the applicable Redemption Price. On presentation and surrender of the Notes at the place or places stated in the Tax Redemption Notice, the Notes shall be paid and redeemed by the Company and the applicable Redemption Price.

(b) Prior to the open of business on the Business Day immediately prior to the Tax Redemption Date, the Company shall deposit with the Paying Agent or, if the Company or a Subsidiary of the Company is acting as the Paying Agent, shall segregate and hold in trust as provided in Section 7.07 an amount of cash (in immediately available funds if deposited on the Tax Redemption Date), sufficient to pay the Redemption Price of all of the Notes to be redeemed on such Tax Redemption Date. Subject to receipt of funds by the Paying Agent, payment for the Notes to be redeemed shall be made on the Tax Redemption Date for such Notes.

The Trustee (or other Paying Agent appointed by the Company) shall, promptly after such payment and upon written demand by the Company, return to Company any funds in excess of the Redemption Price.

Section 17.04. *Holders' Right to Avoid Redemption*. Notwithstanding anything to the contrary in this Article 17, if the Company or any Successor Company has given a Tax

Redemption Notice as described in Section 17.02, each Holder of Notes will have the right to elect that such Holder's Notes will not be subject to Tax Redemption. If a Holder elects not to be subject to a Tax Redemption, the Company or any Successor Company will not be required to pay Additional Amounts with respect to payments made in respect of such Holder's Notes following the Tax Redemption Date, and all subsequent payments in respect of such Holder's Notes will be subject to any tax required to be withheld or deducted under the laws of a Relevant Taxing Jurisdiction, in each case, as a result of the change or amendment in the tax laws of the Relevant Taxing Jurisdiction that caused such Additional Amounts to be paid. The obligation to pay Additional Amounts to any electing Holder for periods up to the Tax Redemption Date shall remain subject to the exceptions set forth under Section 4.07. Holders must exercise their option to elect to avoid a Tax Redemption by written notice to the Trustee no later than the 15th calendar day prior to the Tax Redemption Date.

Section 17.05. *Restrictions on Tax Redemption*. The Company may not redeem any Notes on any date if the principal amount of the Notes has been accelerated in accordance with the terms of this Indenture, and such acceleration has not been rescinded, on or prior to the Tax Redemption Date (except in the case of an acceleration resulting from a Default by the Company in the payment of the Redemption Price with respect to such Notes).

## ARTICLE 18
## MISCELLANEOUS PROVISIONS

Section 18.01. *Provisions Binding on Company's Successors.* All the covenants, stipulations, promises and agreements of the Company contained in this Indenture shall bind its successors and assigns whether so expressed or not.

Section 18.02. *Official Acts by Successor Corporation.* Any act or proceeding by any provision of this Indenture authorized or required to be done or performed by any board, committee or Officer of the Company shall and may be done and performed with like force and effect by the like board, committee or officer of any corporation or other entity that shall at the time be the lawful sole successor of the Company.

Section 18.03. *Addresses for Notices, Etc.* Any notice or demand that by any provision of this Indenture is required or permitted to be given or served by the Trustee or by the Holders on the Company shall be deemed to have been sufficiently given or made, for all purposes if it is in writing, in the English language, given or served by facsimile, or by being deposited postage prepaid by registered or certified mail in a post office letter box addressed (until another address is filed by the Company with the Trustee) to Canadian Solar Inc., No. 199 Lushan Road, Suzhou New District, Suzhou, Jiangsu 215129, People's Republic of China, Attention: Chief Financial Officer, Facsimile No.: +86 (512) 6690-8087. Any notice, direction, request or demand hereunder to or upon the Trustee shall be deemed to have been sufficiently given or made, for all purposes, if given or served by being deposited postage prepaid by registered or certified mail in a post office letter box addressed to 101 Barclay Street, 7th Floor East, New York, NY 10286, USA, Facsimile No.: +1 212 815 5802 / 5803, Attention: Global Corporate Trust with a copy to The Bank of New York Mellon, Hong Kong Branch, Level 24, Three Pacific Place, 1 Queen's Road East, Hong Kong, Facsimile No.: +852-2295.3283, Attention: Global Corporate Trust.



The Trustee, by notice to the Company, may designate additional or different addresses for subsequent notices or communications.

Any notice or communication delivered to a Holder shall be mailed to it by first class mail, postage prepaid, at its address as it appears on the Note Register or, in the case of a Global Note, transmitted in accordance with the Depositary's applicable procedures, and shall be sufficiently given to it if so mailed or so transmitted within the time prescribed. Notwithstanding any provision to the contrary herein, in any instance where notice is required to be mailed to Holders, in the case of a Global Note, such notice shall instead be delivered to the Depositary in accordance with its applicable procedures.

The Trustee agrees to accept and act upon instructions or directions pursuant to this Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods; provided, however, that (a) the party providing such written instructions, subsequent to such transmission or written instruction, shall provide the originally executed instructions or directions to the Trustee in a timely manner, and (b) such originally executed instructions or directions shall be signed by an authorized representative of the party providing such instructions or direction. If the party elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions shall be deemed controlling. The Trustee shall not be liable to such party for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The party providing electronic instructions agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk or interception and misuse by third parties.

Failure to mail a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

In case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice to Holders by mail, then such notification as shall be made with the approval of the Trustee shall constitute a sufficient notification for every purpose hereunder.

Section 18.04. *Conflict of Any Provision of Indenture With Trust Indenture Act of 1939.* If and to the extent that any provision of this Indenture limits, qualifies or conflicts with any provision of the Trust Indenture Act of 1939 incorporated in this Indenture pursuant to Section 7.02, such incorporated provision shall control.

Section 18.05. *Governing Law; Jurisdiction.* THIS INDENTURE AND EACH NOTE, AND ANY CLAIM, CONTROVERSY OR DISPUTE ARISING UNDER OR RELATED TO THIS INDENTURE AND EACH NOTE, SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

Each of the parties hereto hereby submits to the non-exclusive jurisdiction of the federal and state courts in the Borough of Manhattan in The City of New York in any suit or proceeding arising out of or relating to this Indenture or the Notes or any transaction contemplated hereby or thereby. The Company irrevocably and unconditionally waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of venue of any of the aforesaid actions, suits or proceedings arising out of or in connection with this Indenture brought in the courts of the State of New York or the courts of the United States located in the Borough of Manhattan, New York City, New York and hereby further irrevocably and unconditionally waives and agrees not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.

Section 18.06. *Submission to Jurisdiction; Service of Process.* The Company irrevocably appoints CT Corporation System as its authorized agent in the Borough of Manhattan in the City of New York upon which process may be served in any such suit or proceeding, and agrees that service of process upon such agent, and written notice of said service to the Company by the person serving the same to CT Corporation System at 111 Eighth Avenue, New York, New York 10011, United States of America, shall be deemed in every respect effective service of process upon the Company in any such suit or proceeding. The Company further agrees to take any and all action as may be necessary to maintain such designation and appointment of such agent in full force and effect for a period of five and a half years from the date of this Indenture. If for any reason such agent shall cease to be such agent for service of process, the Company shall forthwith appoint a new agent of recognized standing for service of process in the State of New York and deliver to the Trustee a copy of the new agent's acceptance of that appointment within 30 days of such acceptance. Nothing herein shall affect the right of the Trustee, any agent or any Holder to serve process in any other manner permitted by law or to commence legal proceedings or otherwise proceed against the Company in any other court of competent jurisdiction.

Section 18.07. *Evidence Of Compliance With Conditions Precedent; Certificates And Opinions Of Counsel To Trustee.* Upon any application or demand by the Company to the Trustee to take any action under any of the provisions of this Indenture, the Company shall, if requested by the Trustee, furnish to the Trustee an Officers' Certificate and/or Opinion of Counsel stating that such action is permitted by the terms of this Indenture.

Each Officers' Certificate or Opinion of Counsel provided for, by or on behalf of the Company in this Indenture and delivered to the Trustee with respect to compliance with this Indenture (other than the Officers' Certificates provided for in Section 4.09) shall include (a) a statement that the person signing such certificate is familiar with the requested action and the covenants and conditions in this Indenture, including definitions; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statement contained in such certificate is based; (c) a statement that, in the judgment of such person, he or she has made such examination or investigation as is necessary to enable him or her to express an informed judgment as to whether or not such action is permitted by this Indenture and all conditions precedent have been satisfied; and (d) a statement as to whether or not, in the judgment of such person, such action is permitted by this Indenture and all conditions precedent have been satisfied.

Notwithstanding anything to the contrary in this Section 18.07, if any provision in this Indenture specifically provides that the Trustee shall or may receive an Opinion of Counsel in connection with any action to be taken by the Trustee or the Company hereunder, the Trustee shall be entitled to, or entitled to request, such Opinion of Counsel.

Section 18.08. *Legal Holidays.* In any case where any Interest Payment Date, Fundamental Change Repurchase Date, Conversion Date or Maturity Date is not a Business Day, then any action to be taken on such date need not be taken on such date, but may be taken on the next succeeding Business Day with the same force and effect as if taken on such date, and no interest shall accrue or other amounts shall be payable in respect of the delay.

Section 18.09. *No Security Interest Created.* Nothing in this Indenture or in the Notes, expressed or implied, shall be construed to constitute a security interest under the Uniform Commercial Code or similar legislation, as now or hereafter enacted and in effect, in any jurisdiction.

Section 18.10. *Benefits of Indenture.* Nothing in this Indenture or in the Notes, expressed or implied, shall give to any Person, other than the Holders (and to the extent specified in the last sentence of Section 8.03, beneficial owners of the Notes), the parties hereto, any Paying Agent, any Conversion Agent, any authenticating agent, any Note Registrar and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Indenture.

Section 18.11. *Table of Contents, Headings, Etc.* The table of contents and the titles and headings of the articles and sections of this Indenture have been inserted for convenience of reference only, are not to be considered a part hereof, and shall in no way modify or restrict any of the terms or provisions hereof.

Section 18.12. *Authenticating Agent.* The Trustee at the sole expense of the Company may appoint an authenticating agent that shall be authorized to act on its behalf and subject to its direction in the authentication and delivery of Notes in connection with the original issuance thereof and transfers and exchanges of Notes hereunder, as fully to all intents and purposes as though the authenticating agent had been expressly authorized by this Indenture to authenticate and deliver Notes. For all purposes of this Indenture, the authentication and delivery of Notes by the authenticating agent shall be deemed to be authentication and delivery of such Notes "by the Trustee" and a certificate of authentication executed on behalf of the Trustee by an authenticating agent shall be deemed to satisfy any requirement hereunder or in the Notes for the Trustee's certificate of authentication. Such authenticating agent shall at all times be a Person eligible to serve as trustee hereunder pursuant to Section 7.10.

Any corporation or other entity into which any authenticating agent may be merged or converted or with which it may be consolidated, or any corporation or other entity resulting from any merger, consolidation or conversion to which any authenticating agent shall be a party, or any corporation or other entity succeeding to the corporate trust business of any authenticating agent, shall be the successor of the authenticating agent hereunder, if such successor corporation or other entity is otherwise eligible under this Section 18.12, without the execution or filing of

any paper or any further act on the part of the parties hereto or the authenticating agent or such successor corporation or other entity.

Any authenticating agent may at any time resign by giving written notice of resignation to the Trustee and to the Company. The Trustee may at any time terminate the agency of any authenticating agent by giving written notice of termination to such authenticating agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time any authenticating agent shall cease to be eligible under this Section, the Trustee may appoint a successor authenticating agent (which may be the Trustee), shall give written notice of such appointment to the Company and shall mail notice of such appointment to all Holders as the names and addresses of such Holders appear on the Note Register.

The Company agrees to pay to the authenticating agent from time to time reasonable compensation for its services although the Company may terminate the authenticating agent, if it determines such agent's fees to be unreasonable.

The provisions of Section 7.02, Section 7.03, Section 7.04, Section 8.03 and this Section 18.12 shall be applicable to any authenticating agent.

If an authenticating agent is appointed pursuant to this Section 18.12, the Notes may have endorsed thereon, in addition to the Trustee's certificate of authentication, an alternative certificate of authentication in the following form:

,
as Authenticating Agent, certifies that this is one of the Notes described
in the within-named Indenture.

By: _____
Authorized Officer

Section 18.13. *Execution in Counterparts.* This Indenture may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute but one and the same instrument. The exchange of copies of this Indenture and of signature pages by facsimile or PDF transmission shall constitute effective execution and delivery of this Indenture as to the parties hereto and may be used in lieu of the original Indenture for all purposes. Signatures of the parties hereto transmitted by facsimile or PDF shall be deemed to be their original signatures for all purposes.

Section 18.14. *Severability.* In the event any provision of this Indenture or in the Notes shall be invalid, illegal or unenforceable, then (to the extent permitted by law) the validity, legality or enforceability of the remaining provisions shall not in any way be affected or impaired.

Section 18.15. *Waiver of Jury Trial.* EACH OF THE COMPANY AND THE TRUSTEE HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS INDENTURE, THE NOTES OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 18.16. *Force Majeure.* In no event shall the Trustee be responsible or liable for any failure or delay in the performance of its obligations hereunder arising out of or caused by, directly or indirectly, forces beyond its control, including, without limitation, strikes, work stoppages, accidents, acts of war or terrorism, civil or military disturbances, nuclear or natural catastrophes or acts of God, and interruptions, loss or malfunctions of utilities, communications or computer (software and hardware) services; it being understood that the Trustee shall use reasonable efforts that are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

Section 18.17. *Calculations*. Except as otherwise expressly provided herein, the Company shall be responsible for making all calculations called for under this Indenture and the Notes. These calculations include, but are not limited to, determinations of the Last Reported Sale Prices of the Common Shares, accrued interest payable on the Notes, the number of Additional Shares to be added to the Conversion Rate for conversions in connection with a Make-Whole Fundamental Change or a Tax Redemption (if any) and the Conversion Rate of the Notes. The Company shall make all these calculations in good faith and, absent manifest error, the Company's calculations shall be final and binding on Holders of Notes, the Trustee and the Conversion Agent. The Company shall provide a schedule of its calculations to each of the Trustee and the Conversion Agent, and each of the Trustee and Conversion Agent is entitled to rely conclusively upon the accuracy of the Company's calculations without independent verification. The Trustee will forward the Company's calculations to any Holder of Notes upon the written request of that Holder at the sole cost and expense of the Company.

Section 18.18. *USA PATRIOT Act.* The parties hereto acknowledge that in accordance with Section 326 of the USA PATRIOT Act, the Trustee, like all financial institutions and in order to help fight the funding of terrorism and money laundering, is required to obtain, verify, and record information that identifies each person or legal entity that establishes a relationship or opens an account with the Trustee. The parties to this Indenture agree that they will provide the Trustee with such information as it may request in order for the Trustee to satisfy the requirements of the USA PATRIOT Act.

Section 18.19. *Currency Indemnity.* U.S. dollars are the sole currency of account and payment for all sums payable by the Company under or in connection with the Notes or this Indenture, including damages. Any amount received or recovered in a currency other than U.S. dollars (whether as a result of, or through the enforcement of, a judgment or order of a court of any jurisdiction, in the Company's winding-up or dissolution or otherwise) by any Holder of a Note or the Trustee in respect of any sum expressed to be due to it from the Company will only constitute a discharge to the Company to the extent of the U.S. dollar amount that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so.) If that U.S. dollar amount is less than the U.S. dollar amount expressed to be due to the recipient under any Note or this Indenture, the Company will indemnify such Holder or the Trustee against any loss sustained by it as a result; and if the amount of U.S. dollars so purchased is greater than the sum originally due to such Holder or the Trustee, such Holder or the Trustee will, by accepting a Note, be deemed to have agreed to repay such excess. In any event, the Company will indemnify the recipient against the cost of making any such purchase.

For the purposes of the preceding paragraph, it will be sufficient for the Holder of a Note or the Trustee to certify in a satisfactory manner (indicating the sources of information used) that it would have suffered a loss had an actual purchase of U.S. dollars been made with the amount so received in that other currency on the date of receipt or recovery (or, if a purchase of U.S. dollars on such date had not been practicable, on the first date on which it would have been practicable, it being required that the need for a change of date be certified in the manner mentioned above). These indemnities constitute a separate and independent obligation from the Company's other obligations, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by any Holder of a Note and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note.

[*Remainder of page intentionally left blank*]

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed as of the date first written above.

CANADIAN SOLAR INC.

By: /s/ Shawn (Xiaohua) Qu
Name: Shawn (Xiaohua) Qu
Title: Chief Executive Officer

THE BANK OF NEW YORK MELLON,
as Trustee

By: /s/ Vivian Hui
Name: Vivian Hui
Title: Vice President

[*Signature page to Indenture*]

**EXHIBIT A**

[FORM OF face OF NOTE]

[INCLUDE FOLLOWING LEGEND IF A GLOBAL NOTE]

[UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT HEREUNDER IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.]

[INCLUDE FOLLOWING LEGEND IF A RULE 144A NOTE OR A REGULATION S NOTE]

[THIS SECURITY AND THE COMMON SHARES DELIVERABLE UPON CONVERSION OF THIS SECURITY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE ACQUIRER:

(1) REPRESENTS THAT IT AND ANY ACCOUNT FOR WHICH IT IS ACTING (A) IS A "QUALIFIED INSTITUTIONAL BUYER" (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) OR (B) IS NOT A U.S. PERSON (WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT) AND THAT IT EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT TO EACH SUCH ACCOUNT AND THAT IT AND ANY SUCH ACCOUNT IS NOT AN AFFILIATE OF CANADIAN SOLAR INC. ("THE COMPANY"), AND

(2) AGREES FOR THE BENEFIT OF THE COMPANY THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS SECURITY OR ANY BENEFICIAL INTEREST HEREIN PRIOR TO THE DATE THAT IS THE LATER OF (X) ONE YEAR AFTER THE LAST ORIGINAL ISSUE DATE HEREOF OR SUCH SHORTER PERIOD OF TIME AS PERMITTED BY RULE 144 UNDER THE SECURITIES ACT OR ANY SUCCESSOR PROVISION THERETO AND (Y) SUCH LATER DATE, IF ANY, AS MAY BE REQUIRED BY APPLICABLE LAW, EXCEPT:

(A) TO THE COMPANY OR ANY SUBSIDIARY THEREOF, OR

(B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT, OR

(C) TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT (A "QIB"), OR

(D) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT, OR

(E) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE).

[PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH CLAUSE 2(D) ABOVE, THE TRANSFEROR SHALL FIRST DELIVER TO THE TRUSTEE A WRITTEN CERTIFICATE STATING THAT SUCH TRANSFER IS BEING MADE IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S.](1)

[PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH CLAUSE 2(C) ABOVE, THE TRANSFEROR SHALL FIRST DELIVER TO THE TRUSTEE A WRITTEN CERTIFICATE STATING THAT THE NOTES ARE BEING TRANSFERRED TO A PERSON (1) WHO THE TRANSFEROR REASONABLY BELIEVES TO BE A QIB, (2) PURCHASING FOR ITS OWN ACCOUNT OR THE ACCOUNT OF A QIB IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A AND (3) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS.](2)

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH CLAUSE (2)(E) ABOVE, THE COMPANY AND THE TRUSTEE RESERVE THE RIGHT TO REQUIRE THE DELIVERY OF SUCH LEGAL OPINIONS, CERTIFICATIONS OR OTHER EVIDENCE AS MAY REASONABLY BE REQUIRED IN ORDER TO DETERMINE THAT THE PROPOSED TRANSFER IS BEING MADE IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. NO REPRESENTATION IS MADE AS TO THE AVAILABILITY OF ANY EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

NO AFFILIATE (AS DEFINED IN RULE 144 UNDER THE SECURITIES ACT) OF THE COMPANY OR PERSON THAT HAS BEEN AN AFFILIATE (AS DEFINED IN RULE 144 UNDER THE SECURITIES ACT) OF THE COMPANY DURING THE THREE IMMEDIATELY PRECEDING MONTHS MAY PURCHASE, OTHERWISE ACQUIRE OR OWN THIS NOTE OR A BENEFICIAL INTEREST HEREIN.]

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(1) To be included for a Rule 144A Note.

(2) To be included for a Regulation S Note.

CANADIAN SOLAR INC.

4.25% Convertible Senior Note due 2019

No. [ ] [Initially](3) $[ ]

CUSIP No. [136635 AD1](4) [C15396 AA9](5)

CANADIAN SOLAR INC., a corporation duly organized and validly existing under the Canadian Business Corporations Act (the " **Company**," which term includes any successor corporation or other entity under the Indenture referred to on the reverse hereof), for value received hereby promises to pay to [CEDE & CO.](6) [ ](7), or registered assigns, the principal sum [as set forth in the "Schedule of Exchanges of Notes" attached hereto](8) [of $[ ]](9), which amount, taken together with the principal amounts of all other outstanding Notes, shall not, unless permitted by the Indenture, exceed $150,000,000 in aggregate at any time[, in accordance with the rules and procedures of the Depositary,](10) on February 15, 2019, and interest thereon as set forth below.

This Note shall bear interest at the rate of 4.25% per year from February 18, 2014, or from the most recent date to which interest had been paid or provided for to, but excluding, the next scheduled Interest Payment Date until February 15, 2019. Interest is payable semi-annually in arrears on each February 15 and August 15, commencing on August 15, 2014, to Holders of record at the close of business on the preceding February 1 and August 1 (whether or not such day is a Business Day), respectively. Additional Interest will be payable as set forth in the within-mentioned Indenture, and any reference to interest on, or in respect of, any Note therein shall be deemed to include Additional Interest if, in such context, Additional Interest is, was or would be payable pursuant to any provision of the Indenture, and any express mention of the payment of Additional Interest in any provision therein shall not be construed as excluding Additional Interest in those provisions thereof where such express mention is not made.

Any Defaulted Amounts shall accrue interest per annum at the rate borne by the Notes *plus* 0.50%, subject to the enforceability thereof under applicable law, from, and including, the relevant payment date to, but excluding, the date on which such Defaulted Amounts shall have been paid by the Company, at its election, in accordance with the Indenture.

The Company shall pay the principal of and interest on this Note, if and so long as such Note is a Global Note, in immediately available funds to the Depositary or its nominee, as the

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(3) Include if a global note.

(4) Include for Rule 144A Note.

(5) Include for Regulation S Note.

(6) Include if a global note.

(7) Include if a physical note.

(8) Include if a global note.

(9) Include if a physical note.

(10) Include if a global note.

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case may be, as the registered Holder of such Note. As provided in and subject to the provisions of the Indenture, the Company shall pay the principal of any Notes (other than Notes that are Global Notes) at the office or agency designated by the Company for that purpose. The Company has initially designated the Trustee as its Paying Agent and Note Registrar in respect of the Notes and its agency in the Borough of Manhattan, The City of New York, as a place where Notes may be presented for payment or for registration of transfer and exchange.

Reference is made to the further provisions of this Note set forth on the reverse hereof, including, without limitation, provisions giving the Holder of this Note the right to convert this Note into Common Shares on the terms and subject to the limitations set forth in the Indenture. Such further provisions shall for all purposes have the same effect as though fully set forth at this place.

**This Note, and any claim, controversy or dispute arising under or related to this Note, shall be construed in accordance with and governed by the laws of the State of New York.**

In the case of any conflict between this Note and the Indenture, the provisions of the Indenture shall control and govern.

This Note shall not be valid or become obligatory for any purpose until the certificate of authentication hereon shall have been signed manually or by facsimile by the Trustee or a duly authorized authenticating agent under the Indenture.

[*Remainder of page intentionally left blank*]

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed.

CANADIAN SOLAR INC.

By: _____
Name:
Title:

Dated:

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

THE BANK OF NEW YORK MELLON
as Trustee, certifies that this is one of the Notes described
in the within-named Indenture.

By: _____
Authorized Signatory

[FORM OF REVERSE OF NOTE]

CANADIAN SOLAR INC.
4.25% Convertible Senior Note due 2019

This Note is one of a duly authorized issue of Notes of the Company, designated as its 4.25% Convertible Senior Notes due 2019 (the " **Notes**"), limited to the aggregate principal amount of $150,000,000 all issued or to be issued under and pursuant to an Indenture dated as of February 18, 2014 (the "**Indenture**"), between the Company and The Bank of New York Mellon (the "**Trustee**"), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Company and the Holders of the Notes. Additional Notes may be issued in an unlimited aggregate principal amount, subject to certain conditions specified in the Indenture. Capitalized terms used in this Note and not defined in this Note shall have the respective meanings set forth in the Indenture.

In case certain Events of Default shall have occurred and be continuing, the principal of, and interest on, all Notes may be declared, by either the Trustee or Holders of at least 25% in aggregate principal amount of Notes then outstanding, and upon said declaration shall become, due and payable, in the manner, with the effect and subject to the conditions and certain exceptions set forth in the Indenture. In the case of certain Events of Default relating to bankruptcy, insolvency or similar events with respect to the Company, the principal of, and interest on, all Notes shall automatically become due and payable without any notice or action by Holders or the Trustee.

Subject to the terms and conditions of the Indenture, the Company will make all payments and deliveries in respect of the Fundamental Change Repurchase Price on the Fundamental Change Repurchase Date to the Holder who surrenders a Note to a Paying Agent to collect such payments in respect of the Note. The Company will pay cash amounts in money of the United States that at the time of payment is legal tender for payment of public and private debts.

The Indenture contains provisions permitting the Company and the Trustee in certain circumstances, without the consent of the Holders of the Notes, and in certain other circumstances, with the consent of the Holders of not less than a majority in aggregate principal amount of the Notes at the time outstanding, evidenced as in the Indenture provided, to execute supplemental indentures modifying the terms of the Indenture and the Notes as described therein. It is also provided in the Indenture that, subject to certain exceptions, the Holders of a majority in aggregate principal amount of the Notes at the time outstanding may on behalf of the Holders of all of the Notes waive any past Default or Event of Default under the Indenture and its consequences.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay or deliver, as the case may be, the principal (including the Fundamental Change Repurchase Price or the Redemption Price, in each case, if applicable) of, accrued and unpaid interest on, and

the consideration due upon conversion of, this Note at the place, at the respective times, at the rate and in the lawful money herein prescribed.

The Notes are issuable in registered form without coupons in denominations of $1,000 principal amount and integral multiples thereof. At the office or agency of the Company referred to on the face hereof, and in the manner and subject to the limitations provided in the Indenture, Notes may be exchanged for a like aggregate principal amount of Notes of other authorized denominations, without payment of any service charge but, if required by the Company or Trustee, with payment of a sum sufficient to cover any transfer or similar tax that may be imposed in connection therewith as a result of the name of the Holder of the new Notes issued upon such exchange of Notes being different from the name of the Holder of the old Notes surrendered for such exchange.

No sinking fund is provided for the Notes. Under certain circumstances specified in the Indenture, the Notes will be subject to redemption by the Company at the Redemption Price.

Upon the occurrence of a Fundamental Change, the Holder has the right, at such Holder's option, to require the Company to repurchase for cash all of such Holder's Notes or any portion thereof (in principal amounts of $1,000 or integral multiples thereof) on the Fundamental Change Repurchase Date at a price equal to the Fundamental Change Repurchase Price.

Subject to the provisions of the Indenture, the Holder hereof has the right, at its option, during certain periods and upon the occurrence of certain conditions specified in the Indenture, prior to the close of business on the second Business Day immediately preceding the Maturity Date, to convert any Notes or portion thereof that is $1,000 or an integral multiple thereof, into Common Shares at the Conversion Rate specified in the Indenture, as adjusted from time to time as provided in the Indenture.

ABBREVIATIONS

The following abbreviations, when used in the inscription of the face of this Note, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM = as tenants in common

UNIF GIFT MIN ACT = Uniform Gifts to Minors Act

CUST = Custodian

TEN ENT = as tenants by the entireties

JT TEN = joint tenants with right of survivorship and not as tenants in common

Additional abbreviations may also be used though not in the above list.

**SCHEDULE A(11)**

SCHEDULE OF EXCHANGES OF NOTES

CANADIAN SOLAR INC.
4.25% Convertible Senior Notes due 2019

The initial principal amount of this Global Note is DOLLARS ($[ ]). The following increases or decreases in this Global Note have been made:

| Date of exchange | Amount of decrease in principal amount of this Global Note | Amount of increase in principal amount of this Global Note | Principal amount of this Global Note following such decrease or increase | Signature of authorized signatory of Trustee or Custodian |
|---|---|---|---|---|
| | | | | |
| | | | | |

(11) Include if a global note.

**ATTACHMENT 1**

[FORM OF NOTICE OF CONVERSION]

To: The Bank of New York Mellon
101 Barclay Street, Floor 7E
New York, New York 10286
Attention: International Corporate Trust

The undersigned registered owner of this Note hereby exercises the option to convert this Note, or the portion hereof (that is $1,000 principal amount or an integral multiple thereof) below designated, into Common Shares in accordance with the terms of the Indenture referred to in this Note, and directs that any Common Shares issuable and deliverable upon such conversion, together with any cash for any fractional share, and any Notes representing any unconverted principal amount hereof, be issued and delivered to the registered Holder hereof unless a different name has been indicated below. If any Common Shares or any portion of this Note not converted are to be issued in the name of a Person other than the undersigned, the undersigned will pay all documentary, stamp or similar issue or transfer taxes, if any in accordance with the Indenture. Any amount required to be paid to the undersigned on account of interest accompanies this Note. Capitalized terms used herein but not defined shall have the meanings ascribed to such terms in the Indenture.

In connection with the conversion of this Note, or the portion hereof below designated, the undersigned acknowledges, represents to and agrees with the Company that the undersigned is not an "affiliate" (as defined in Rule 144 under the Securities Act) of the Company and has not been an "affiliate" (as defined in Rule 144 under the Securities Act) during the three months immediately preceding the date hereof.

[The undersigned further certifies:

1. The undersigned acknowledges (and if the undersigned is acting for the account of another person, that person has confirmed that it acknowledges) that the Restricted Securities received upon conversion of this Note (or securities represented thereby) have not been and are not expected to be registered under the Securities Act.

2. The undersigned further certifies that either:

(a) The undersigned is, and at the time Common Shares are delivered upon conversion of its Notes will be, the holder of such Common Shares, and (i) the undersigned is not a U.S. person (as defined in Regulation S under the Securities Act) and is located outside the United States (within the meaning of Regulation S) and acquired, or has agreed to acquire and will acquire, the Notes being converted and the Common Shares being delivered upon conversion outside the United States and (ii) the undersigned is not in the business of buying and selling securities or, if the undersigned is in such business, the undersigned did not acquire the

Notes being converted from the Company or any affiliate thereof in the initial distribution of the Notes.

OR

(b) The undersigned is a broker-dealer acting on behalf of its customer; its customer has confirmed to the undersigned that it is, and at the time Common Shares are delivered upon conversion of the Notes will be, the holder of such Common Shares, and (i) it is not a U.S. person (as defined in Regulation S under the Act) and it is located outside the United States (within the meaning of Regulation S and acquired, or have agreed to acquire and will have acquired, the Notes being converted and the Common Shares being delivered in the conversion outside the United States and (ii) it is not in the business of buying and selling securities or, if it is in such business, it did not acquire the Notes being converted from the Company or any affiliate thereof in the initial distribution of the Notes.

OR

(c) The undersigned is a qualified institutional buyer (as defined in Rule 144A under the Securities Act) acting for its own account or for the account of one or more qualified institutional buyers and the undersigned is (or such account or accounts are) the sole beneficial owner(s) of the Common Shares to be received upon conversion of the Notes.

3. The undersigned acknowledges that the undersigned (and any such other account) may not continue to hold or retain any interest in Restricted Securities received upon conversion of this Note if the undersigned (or such other account) becomes an Affiliate of the Company.

4. The undersigned agrees (and if the undersigned is acting for the account of another person, that person has confirmed that it agrees) that, unless and until the undersigned (or such other account) is notified by the Depositary that the restrictive legend on such Restricted Security has been removed from such security, the undersigned (and such other account) will not offer, sell, pledge or otherwise transfer the Restricted Security (or securities represented by such Restricted Security) except in accordance with the restrictions set forth in that legend and any applicable securities laws of the United States and any state thereof.](12)

Dated: _____ _____

Signature(s)

(12) Include if a Restricted Security.

Signature Guarantee

Signature(s) must be guaranteed by an eligible Guarantor Institution (banks, stock brokers, savings and loan associations and credit unions) with membership in an approved signature guarantee medallion program pursuant to Securities and Exchange Commission Rule 17Ad-15 if Common Shares are to be issued, or Notes are to be delivered, other than to and in the name of the registered holder.

Fill in for registration of shares if to be issued, and Notes if to be delivered, other than to and in the name of the registered holder:

(Name)

(Street Address)

(City, State and Zip Code)
Please print name and address

Principal amount to be converted (if less than all):
$ ,000

NOTICE: The above signature(s) of the Holder(s) hereof must correspond with the name as written upon the face of the Note in every particular without alteration or enlargement or any change whatever.

Social Security or Other Taxpayer Identification Number

**ATTACHMENT 2**

[FORM OF FUNDAMENTAL CHANGE REPURCHASE NOTICE]

To: The Bank of New York Mellon
101 Barclay Street, Floor 7E
New York, New York 10286
Attention: International Corporate Trust

The undersigned registered owner of this Note hereby acknowledges receipt of a notice from Canadian Solar Inc. (the " **Company**") as to the occurrence of a Fundamental Change with respect to the Company and specifying the Fundamental Change Repurchase Date and requests and instructs the Company to pay to the registered Holder hereof in accordance with the Indenture referred to in this Note (1) the entire principal amount of this Note, or the portion thereof (that is $1,000 principal amount or an integral multiple thereof) below designated, and (2) if such Fundamental Change Repurchase Date does not fall during the period after a Regular Record Date and on or prior to the corresponding Interest Payment Date, accrued and unpaid interest, if any, thereon to, but excluding, such Fundamental Change Repurchase Date. Capitalized terms used herein but not defined shall have the meanings ascribed to such terms in the Indenture.

In the case of Physical Notes, the certificate numbers of the Notes to be repurchased are as set forth below:

Dated: _____

_____
Signature(s)

_____
Social Security or Other Taxpayer
Identification Number

Principal amount to be repaid (if less than all):
$ ,000

NOTICE: The above signature(s) of the Holder(s) hereof must correspond with the name as written upon the face of the Note in every particular without alteration or enlargement or any change whatever.



**ATTACHMENT 3**

[FORM OF ASSIGNMENT AND TRANSFER]

For value received hereby sell(s), assign(s) and transfer(s) unto (Please insert social security or Taxpayer Identification Number of assignee) the within Note, and hereby irrevocably constitutes and appoints attorney to transfer the said Note on the books of the Company, with full power of substitution in the premises.

In connection with any transfer of the within Note occurring prior to the Resale Restriction Termination Date, as defined in the Indenture governing such Note, the undersigned confirms that such Note is being transferred:

☐ To Canadian Solar Inc. or a subsidiary thereof; or

☐ Pursuant to a registration statement that has become or been declared effective under the Securities Act of 1933, as amended

☐ To a transferee that the undersigned reasonably believes is a "qualified institutional buyer" (within the meaning of Rule 144A) that is purchasing for its own account or for the account of another qualified institutional buyer and the undersigned has provided such transferee notice that the transfer is being made in reliance on Rule 144A, all in compliance with Rule 144A; or

☐ Outside the United States in accordance with Regulation S under the Securities Act of 1933, as amended; or

☐ Pursuant to and in compliance with Rule 144 under the Securities Act of 1933, as amended (if available).

Dated: _____

_____

Signature(s)

_____

Signature Guarantee

Signature(s) must be guaranteed by an eligible Guarantor Institution (banks, stock brokers, savings and loan associations and credit unions) with membership in an approved signature guarantee medallion program pursuant to Securities and Exchange Commission Rule 17Ad-15 if Notes are to be delivered, other than to and in the name of the registered holder.

NOTICE: The signature on the assignment must correspond with the name as written upon the face of the Note in every particular without alteration or enlargement or any change whatever.

**ATTACHMENT 4(13)**

[FORM OF CERTIFICATE RE: EXCHANGE FOR REGULATION S NOTE]

To: The Bank of New York Mellon
101 Barclay Street, Floor 7E
New York, New York 10286
Attention: International Corporate Trust

In connection with the requested exchange of the within Note (or a portion thereof) for a Regulation S Note with like aggregate principal amount (or an increase in the aggregate principal amount represented by a Global Note that constitutes a Regulation S Note) prior to the Notes Fungibility Date, as defined in the Indenture governing such Note, the undersigned confirms that the Note (or a beneficial interest therein) has been transferred in accordance with Rule 903 or 904 of Regulation S under the U.S. Securities Act of 1933, as amended.

(13) To be included for Rule 144A Notes.

Dated: _____

_____

_____

Signature(s)

**ATTACHMENT 4(14)**

[FORM OF CERTIFICATE RE: EXCHANGE FOR RULE 144A NOTE]

To: The Bank of New York Mellon
101 Barclay Street, Floor 7E
New York, New York 10286
Attention: International Corporate Trust

In connection with the requested exchange of the within Note (or a portion thereof) for a Rule 144A Note with like aggregate principal amount (or an increase in the aggregate principal amount represented by a Global Note that constitutes a Rule 144A Note) prior to the Notes Fungibility Date, as defined in the Indenture governing such Note, the undersigned confirms that:

(1) such exchange occurs in connection with a transfer of such Note (or a beneficial interest therein) under Rule 144A (as defined in the Indenture); and

(2) such Note (or a beneficial interest therein) is being transferred to a Person:

(a) who the undersigned reasonably believes to be a QIB (as defined in the Indenture);

(b) purchasing for its own account or the account of a QIB in a transaction meeting the requirements of Rule 144A; and

(c) in accordance with all securities laws of the states of the United States and other jurisdictions.

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(14) To be included for Regulation S Notes.

Dated: _____

_____

_____

Signature(s)

**EXHIBIT 8.1**

**LIST OF MAJOR SUBSIDIARIES**

**(As of March 31, 2014)**

| Name of Major Subsidiaries | Place of Incorporation | Ownership Interest |
|---|---|---|
| CSI Solartronics (Changshu) Co., Ltd. | People's Republic of China | 100% |
| CSI Solar Technologies Inc. | People's Republic of China | 100% |
| CSI Solar Manufacture Inc. | People's Republic of China | 100% |
| Canadian Solar Manufacturing (Luoyang) Inc., formerly known as CSI Central Solar Power Co., Ltd. | People's Republic of China | 100% |
| Canadian Solar Manufacturing (Changshu) Inc., formerly known as Changshu CSI Advanced Solar Inc. | People's Republic of China | 100% |
| CSI Cells Co., Ltd. | People's Republic of China | 100% |
| Canadian Solar (USA) Inc. | United States of America | 100% |
| CSI Project Consulting GmbH | Germany | 70% |
| Canadian Solar Japan K.K. | Japan | 90.67% |
| Canadian Solar Solutions Inc. | Canada | 100% |
| CSI Solar Power (China) Inc. | People's Republic of China | 100% |
| Canadian Solar EMEA GmbH | Germany | 100% |
| Canadian Solar (Australia) Pty, Ltd. | Australia | 100% |
| Canadian Solar International Ltd. | Hong Kong | 100% |
| Canadian Solar O&M (Ontario) Inc. | Canada | 100% |
| Suzhou Sanysolar Materials Technology Co. Ltd. | People's Republic of China | 80% |
| Canadian Solar South East Asia Pte., Ltd. | Singapore | 100% |
| Canadian Solar Manufacturing (Suzhou) Inc. | People's Republic of China | 61% |
| Canadian Solar South Africa Pty., Ltd. | South Africa | 100% |
| Canadian Solar Brasil Servicos De Consultoria EM Energia Solar Ltda. | Brazil | 100% |
| Canadian Solar Middle East Ltd. | United Arab Emirates | 100% |
| Canadian Solartronics (Suzhou) Co., Ltd. | People's Republic of China | 100% |
| Canadian Solar (Thailand) Ltd. | Thailand | 100% |

**EXHIBIT 12.1**

**Certification by the Chief Executive Officer**
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Shawn (Xiaohua) Qu, certify that:

1. I have reviewed this annual report on Form 20-F of Canadian Solar Inc. (the "Company");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 28, 2014

By: /s/ Shawn (Xiaohua) Qu
Name: Shawn (Xiaohua) Qu
Title: Chief Executive Officer

**EXHIBIT 12.2**

**Certification by the Chief Financial Officer**
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Michael G. Potter, certify that:

1. I have reviewed this annual report on Form 20-F of Canadian Solar Inc. (the "Company");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 28, 2014

By: /s/ Michael G. Potter
Name: Michael G. Potter
Title: Chief Financial Officer

**EXHIBIT 13.1**

**Certification by the Chief Executive Officer**
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Canadian Solar Inc. (the "Company") on Form 20-F for the year ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Shawn (Xiaohua) Qu, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 28, 2014

By: /s/ Shawn (Xiaohua) Qu
Name: Shawn (Xiaohua) Qu
Title: Chief Executive Officer

**EXHIBIT 13.2**

**Certification by the Chief Financial Officer**
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Canadian Solar Inc. (the "Company") on Form 20-F for the year ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael G. Potter, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 28, 2014

By: /s/ Michael G. Potter
Name: Michael G. Potter
Title: Chief Financial Officer

**EXHIBIT 15.1**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement Nos. 333-147042 and 333-178187 on Form S-8 and Registration Statement No. 333-189895 on Form F-3 of our reports dated April 28, 2014, relating to the financial statements and financial statement schedule of Canadian Solar Inc. and subsidiaries (the "Company"), and the effectiveness of the Company's internal control over financial reporting, appearing in this Annual Report on Form 20-F of the Company for the year ended December 31, 2013.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP

Shanghai, China
April 28, 2014